

# NOMURA INTERNATIONAL PLC

**ANNUAL REPORT**  
**31 March 2018**

**COMPANY REGISTRATION NUMBER 1550505**



**STRICTLY PRIVATE AND CONFIDENTIAL**

**Copyright © 2018 Nomura**

This document is the sole property of Nomura. No part of this document may be reproduced in any form or by any means – electronic, mechanical, photocopying, recording or otherwise – without the prior written permission of Nomura.

# **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 March 2018**

## **STRATEGIC REPORT**

The Directors of Nomura International plc (the "Company") present their Strategic Report, Directors' Report and the financial statements for the year ended 31 March 2018. The Company is incorporated in England and Wales and its registered office is at 1 Angel Lane, London, EC4R 3AB.

These financial statements have been prepared on a company-only basis and do not include the results and net assets of the Company's subsidiary undertakings.

## **REVIEW OF THE COMPANY'S BUSINESS, DESCRIPTION OF PRINCIPAL RISKS AND INFORMATION REGARDING BRANCHES**

### **Principal Activity**

The Company is a London-based securities broker/dealer operating company and is a wholly owned subsidiary of Nomura Europe Holdings plc ("NEHS"). The Company's ultimate parent undertaking and controlling entity is Nomura Holdings, Inc. ("NHI"), which together with the Company, NEHS, and NHI's other subsidiary undertakings, form the "Nomura Group". The Company's activities include:

- trading and sales in fixed income and equity products, including related derivatives;
- investment banking services;
- asset and principal finance business; and
- corporate finance and private equity.

The Company has branches in Madrid, Dubai, Milan, Stockholm, Doha, Helsinki, Frankfurt and Cape Town and a representative office in Vienna

The Nomura Group is one of the leading financial services groups in Japan and it operates offices in countries and regions worldwide including Japan, the U.S., the U.K., Singapore and Hong Kong Special Administrative Region. Nomura Group's business consists of Retail, Asset Management and Wholesale divisions, which provide a wide range of products and services to a large and diversified group of clients and customers, including individuals, corporations, financial institutions, governments and governmental agencies. As a key contributor to the Nomura Group's Wholesale Division, which is comprised of Global Markets and Investment Banking activity, the Company is an important member of the Nomura Group both for European-based business and for the Group's Asian and Americas businesses that leverage the Company's well developed infrastructure and wide client reach.

In April 2018, the Nomura Group established Client Financing and Solutions (CFS) business, in which we have brought together key Global Markets and Investment Banking functions under a unified structure in order to better meet the strong and growing demand from our clients for a broad range of financing, capital and hedging solutions.

### **Regulations**

The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority and PRA. The Company is regulated and has minimum capital adequacy requirements imposed on it on a standalone basis by the PRA. The Company is in compliance with these requirements which remain stringent.

## NOMURA INTERNATIONAL PLC

### YEAR ENDED 31 March 2018

### STRATEGIC REPORT (CONTINUED)

The Company's key financial indicators during the year were as follows:

	<u>Year ended</u>	<u>Year ended</u>
	<u>31 March 2018</u>	<u>31 March 2017</u>
	<u>\$'000</u>	<u>\$'000</u>
Trading Profit	1,510,860	1,779,255
Net Interest Payable	(227,076)	(320,391)
General and Administrative Expenses	(1,468,206)	(1,446,736)
Operating (Loss) / Gain	(184,422)	12,128
Loss Before Taxation	(230,370)	(26,811)
Loss For the Financial Year	(231,483)	(39,400)
Total Assets	267,651,434	291,609,539
Total Liabilities	262,551,626	286,587,757
Shareholders' funds	5,099,808	5,021,782

#### ***Income Statement:***

The Company income statement for the year is set out on page 15. The Company reported a loss before tax for the year of \$230,370,000 (March 2017: loss of \$26,811,000). The increase in losses is driven by lower trading profit which includes a one off loss of \$128,000,000 in connection with a specific margin loan during the year.

Excluding this one off loss Trading Profit for the year decreased by 8%. The Company's business is focussed primarily on Fixed Income, Credit and FX Products, post the Equity business restructuring in 2016. The year has been challenging for Fixed Income products due to reduced volatility and tightening of margins, marked by low client volumes for most of the year ended March 2018. For the year ended March 2017 Fixed Income revenue had outperformed driven by specific market events such as the U.K. Referendum, U.S. Election and expectation of interest rate increasing by Central banks which were not repeated in March 2018. Both these factors have impacted the Company's Fixed income business, mainly Interest Rate Products, resulting in a lower Trading profit for the year. This was partially offset by an increase in revenue from Credit products due to favourable market conditions, with credit spreads tightening and increased client appetite.

General and administrative expenses increased by 1% to \$1,468,206,000 compared to \$1,446,736,000 for March 2017. This increase is due to higher non-personnel expenses relating to regulatory initiatives (Brexit, MiFid Compliance).

In response to the losses reported in the current period, the Company has strengthened its capital base by issuing further ordinary shares of \$250,000,000 in December 2017.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 March 2018**

### **STRATEGIC REPORT (CONTINUED)**

#### ***Balance Sheet:***

The Nomura Group's legal entity strategy aims to enhance the focus on clients by matching local expertise, trading activities and risk management to the needs of clients in each respective region. This is to be achieved through a multi-year programme to align clients to their respective regions where possible, either through novation or other initiatives.

The Company continues to be impacted by this programme through novation of client facing trades to other entities within the Nomura Group, due to trade compression and other initiatives. This has resulted in a \$ 23,958,105,000 (8%) reduction of the Company's Total Assets to \$ 267,651,434,000.

#### **BUSINESS ENVIRONMENT**

During the fiscal year ended March 31, 2018, the global economy continued to see solid recovery, both in advanced and developing economies. In Europe, including the U.K., the underlying economy was favourable, buoyed by improving Chinese economic conditions and solid growth in the U.S. economy, both of which supported renewed acceleration in exports, and by firm capital expenditure. The U.K. economy also performed well in 2017 and U.K. real GDP growth of 1.8% exceeded the Bank of England's (BOE) forecasts made in the wake of the referendum on leaving the EU in June 2016. In order to counter faster-than-expected inflation in the U.K., the BOE raised its policy interest rate for the first time in around 10 years in November 2017.

However the Company expects that market volatility and uncertainty in the global economy will continue to provide a challenging business environment. Therefore the Company will continue to focus on delivering high value-added products and solutions to its clients for the year ending 31 March 2019. The Company will ensure a flexible and robust response to changes in the global operating environment related to financial regulations and progress in various digital initiatives; and make efforts to monitor the Geopolitical situation which is changing rapidly, so that we will be able to maintain a robust financial position and to use management resources effectively by improving capital efficiency.

The Company's Wholesale Division in addition to the needs of our clients becoming increasingly more sophisticated also faces challenges presented by the technological revolution that may result in market changes which fundamentally affect the form of our traditional business. In order to keep step with such changes, as well as to ensure our ability to provide our clients with added value, we will continue to seek the enhancement of our connectivity across Divisions as part of our sustained efforts to provide highly sought-after products and services to the markets.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 March 2018**

### **STRATEGIC REPORT (CONTINUED)**

#### **RISK MANAGEMENT**

The Company's activities involve the assumption and transfer of certain risks, including market risk, credit risk, operational risk, cross-border risk, model risk, liquidity and funding risks, and business risk. Further information on these risks and the Company's risk management is provided in note 18 to the financial statements.

These risks are managed through sub-committees of the Board of NEHS, the Company's immediate parent. These include a Prudential Risk Committee ("PRC"), having oversight of, and providing advice to, the Board on the NEHS Group's risk profile, risk appetite, future risk strategy and maintenance of an appropriate risk control framework. Additionally there are committees dedicated to overseeing cross-border risk in relation to non-Europe, Middle East and Africa ("non-EMEA") business booked into certain European entities, including the Company.

The Company's risk management framework is closely aligned to Nomura Group's risk management framework but, through its local governance, the Company determines, where deemed necessary, specific risk management controls, policies and procedures and articulates its risk appetite, which is the maximum level and types of risk that the Company is willing to assume in line with the Nomura Group's risk appetite and in pursuit of its strategic objectives and business plan.

#### **FUTURE DEVELOPMENTS**

##### **U.K. Referendum (BREXIT)**

The U.K. is due to formally leave the European Union at the end of March 2019 following the Brexit referendum held in June 2016 and triggering of Article 50 of the Treaty of the Functioning of the European Union. In the meantime, the U.K. remains a full member of the EU, although its influence over rule-making is significantly reduced. The U.K. and EU are currently in a negotiating process on the terms of exit and future relationship agreement. In March 2018 a status quo transition period was agreed meaning the U.K. will continue to be an EU member on current terms, without input into the rule-making process, until December 2020. The transition status is provisional and will need to be formally signed off by both sides which is expected in late 2018. The U.K. financial services sector currently relies on access to the EU single market to conduct business across borders within the EU. Both sides have emphasized the need for continued good access, but the terms of the future relationship will not start to become clear until detailed talks start in late 2018. The Nomura Group is currently progressing their contingency plans in order to ensure that they are able to provide continued service to clients both regionally and globally.

On May 25, 2018, Nomura Financial Products Europe GmbH, a Nomura subsidiary domiciled in Germany, has been granted a securities trading license by the German regulator (the "BaFin"). Nomura's plans are well advanced and the license represents a major step towards ensuring that all current client and counterparty relationships, and access to Nomura products and services, will continue without disruption after the U.K. leaves the EU.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 March 2018**

### **STRATEGIC REPORT (CONTINUED)**

#### **Regulatory Changes**

##### **European Financial Regulation Reform**

On November 23, 2016, the European Commission published a comprehensive package of reforms to further strengthen the resilience of EU banking sector. The reforms implement many of the remaining parts of Basel III in the EU, as well as addressing issues identified with current prudential requirements. The European Commission introduced amendments to existing legislation in the form of the Capital Requirements Directive ("CRD V"), Capital Requirements Regulation ("CRR II"), Bank Recovery and Resolution Directive ("BRRD II") and Single Resolution Mechanism Regulation ("SRMR").

CRR II includes the following amendments:

- More risk-sensitive capital requirements, in particular in the area of market risk, counterparty credit risk, and for exposures to central counterparties (CCPs);
- A binding Leverage Ratio (LR) to prevent institutions from excessive leverage;
- A binding Net Stable Funding Ratio (NSFR) to address the excessive reliance on short-term wholesale funding and to reduce long-term funding risk; and
- A requirement for Global Systemically Important Institutions (G-SIIs) to hold minimum levels of capital and other instruments which bear losses in resolution. This requirement, known as 'Total Loss-Absorbing Capacity' (or TLAC), will be integrated into the existing MREL (Minimum Requirement for own funds and Eligible Liabilities) system, which is applicable to all institutions, and will strengthen the EU's ability to resolve failing G-SIIs while protecting financial stability and minimising risks for taxpayers.

These proposals are now subject to further discussion and negotiation among European policy-makers and it is not possible to anticipate their final content. The proposals are expected to be introduced in the EU in 2019 at the earliest, with Member States implementing the new rules in 2020-21 based on current estimates. In light of these potential developments as well as the impact of the U.K.'s decision to leave the EU, there remains uncertainty as to the rules which may apply to the Company post 2019.

On December 7, 2018, the Basel Committee finalised changes to the Basel III framework which includes amendments to the standardised approaches to credit risk and operational risk and the introduction of a capital floor. These proposals will need to be transposed into national/EU law. The Basel Committee has recommended implementation commencing in 2022, however timing of implementation in the UK/EU is uncertain.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 March 2018**

### **STRATEGIC REPORT (CONTINUED)**

#### **EMPLOYEE MATTERS**

The Company operates an equal opportunities policy. We have taken steps to ensure all employees are aware of their obligations in ensuring that the Company's environment retains a culture which is conducive to good working and high performance. Internal communication and access to training and personal development opportunities are in place to support this.

The Company remains strongly committed to the principle of equal employment opportunity for all employees and to provide employees with a work environment free of discrimination and harassment regardless of age, disability, race, gender identity and gender expression, religion or belief, marriage and civil partnership, pregnancy and maternity, sex and or sexual orientation. Our recruitment, development and promotion procedures embed these principles. The Company's objective is to attract job applications from the best possible candidates and to retain the best people. We are also committed to having a diverse range of skills, values, knowledge, experience and geographical, educational and professional backgrounds amongst our employees.

The Nomura Group has an established policy of communicating with all its employees regularly, including U.K. employees, in order to provide information relevant to them about their employment and Nomura. This includes regular Nomura news bulletins circulated to all U.K. employees as well as communication and updates on the employee training programs that are available. All U.K. employees are encouraged to participate in the various employee committees and networks offered by the Nomura Group. The Company is not listed in the U.K. and therefore does not operate an employee share scheme. However employee involvement in the performance of the Company is encouraged, in a number of ways, including through the provision of a discretionary bonus scheme, which is based on the employee's individual performance as well as their division as a whole and the overall Company and Nomura Group performance. The Nomura Group's financial performance is regularly communicated to employees through quarterly town halls in which the individual Company's financial performance is discussed.

# **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 March 2018**

## **STRATEGIC REPORT (CONTINUED)**

### **ENVIRONMENT AND ENERGY**

Nomura International plc believes a healthy environment is the foundation of stable economic and social conditions for future generations. The Company is committed to acting in an environmentally responsible manner and to achieving energy performance improvement.

The Nomura Group:

- encourages investment and constructive engagement in environmentally friendly and energy efficient goods and services;
- assesses environmental risks and continually strives to minimize pollution to mitigate our effect on climate change;
- complies with relevant environmental laws and regulations and engages with external stakeholders on environmental issues;
- is committed to reducing waste and the use of natural resources in order to minimize the impact of its footprint on the environment;
- is committed to continual improvement in energy performance;
- aims to maximize the efficiency of its property portfolio through effective asset management covering utilization, maintenance, accessibility and disposals;
- promote the importance of biodiversity and a healthy ecosystem;
- communicates this policy to all its employees to raise awareness of environmental issues and encourages environmentally friendly initiatives;
- will make available the necessary resources to achieve our environmental and energy objectives and targets; and
- makes this policy available for public viewing.

**BY ORDER OF THE BOARD AT A MEETING HELD ON 19 JULY 2018**



Christopher Barlow  
Company Secretary

19 July 2018

Company Registration Number 1550505



## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 March 2018**

### **DIRECTORS' REPORT**

The Directors present their report and financial statement of the Company which comprises of the statement of comprehensive income, statement of changes in equity, statement of financial position, cash flow and related notes 1-31.

### **RESULTS AND DIVIDENDS**

The results for the year are set out on page 15. The loss transferred to reserves for the year amounted to \$ 231,483,000 (2017: loss of \$39,400,000).

No interim dividend was paid (2017: nil) and the Directors do not recommend the payment of a final dividend (2017: nil).

### **TANGIBLE ASSETS**

Movements in tangible assets are shown in Note 10 to the financial statements.

### **EVENTS SINCE THE STATEMENT OF FINANCIAL POSITION DATE**

No events to report post balance sheet date.

### **DONATIONS**

No political donations were made during the year (2017: nil).

### **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Company's risk management objectives and policies are described in Note 18 on page 64 to the financial statements. Further analysis on financial instruments is disclosed in Note 7 and 19 on page 46 and 92 respectively. The accounting policies with respect to financial instruments are described within Note 1 on page 20.

### **MATTERS DEALT WITH IN THE STRATEGIC REPORT**

An indication of the likely future developments of the Company, along with information pertaining to branches of the Company outside of the United Kingdom and employee matters have both been discussed in the Company's Strategic Report.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 March 2018**

### **DIRECTORS' REPORT (CONTINUED)**

#### **DIRECTORS**

The current Directors and those serving during all or part of the year are:

David Godfrey	Non-Executive Chairman (appointed on 07 April 2017)
	Non-Executive Director
Jonathan Lewis	Chief Executive Officer
	Executive Director
Lewis O'Donald	Executive Director
John Tierney	Executive Director
Jonathan Britton	Non-Executive Director
Rosemary Murray	Non-Executive Director
Hisato Miyashita	Non-Executive Director
Yasuo Kashiwagi	Executive Director (appointed on 12 July 2017)
Neeta Atkar	Non-Executive Director (appointed on 22 March 2018)
Maria Bentley	Non-Executive Director (appointed on 01 June 2017)
Sir Andrew Cahn	Non-Executive Director (resigned 30 June 2018)
James Leng	Non-Executive Director (resigned 07 April 2017)
	Non-Executive Chairman (resigned 07 April 2017)
David Benson	Non-Executive Director (resigned 31 December 2017)
Minoru Shinohara	Executive Director (resigned 01 June 2017)

#### **DIRECTORS' INDEMNITIES**

As at the date of this report and during the relevant financial year, indemnities are and were in force under which the Company has agreed to indemnify certain Directors of the Company, Directors of certain associated Companies to the extent permitted by law and in accordance with the Company's articles of association, in respect of certain losses and liabilities arising out of, in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company. In addition, NHI effected a global Directors and Officers liability insurance program for the benefit of the Nomura Group.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 March 2018**

### **DIRECTORS' REPORT (CONTINUED)**

#### **GOING CONCERN**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in this report. Its objectives, policies and processes for risk management, and its exposures to credit and liquidity risk, are described in Note 18 on page 64 to the financial statements. Its capital management procedures and available capital resources are described in Note 21 on page 108.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly the financial statements have been prepared on a going concern basis.

#### **DISCLOSURE OF INFORMATION TO AUDITORS**

The Directors who were members of the Board at the time of approving the Directors' report are listed on the previous page. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's Auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditors are aware of that information.

#### **AUDITORS**

The Auditors, Ernst & Young LLP, have expressed their willingness to continue in office and a resolution re-appointing them as Auditors and authorizing the Directors to determine their remuneration will be proposed at the Annual General Meeting.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 March 2018**

### **DIRECTORS' REPORT (CONTINUED)**

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing the Directors' Report, the Strategic Report and the financial statements in accordance with applicable U.K. law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable U.K. Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**BY ORDER OF THE BOARD AT A MEETING HELD ON 19 JULY 2018**



Christopher Barlow  
Company Secretary

19 July 2018

Company Registration number 1550505

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOMURA INTERNATIONAL PLC**

### **Opinion**

We have audited the financial statements of Nomura International Plc ("the Company") for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 31, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOMURA INTERNATIONAL PLC (CONTINUED)**

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOMURA INTERNATIONAL PLC (CONTINUED)**

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Ernst & Young LLP*

Maurice McCormick (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
London

*21 July 2018*

### **Notes:**

1. The maintenance and integrity of the Nomura International plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# NOMURA INTERNATIONAL PLC

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 March 2018

Notes		<u>Year ended</u> <u>31 March 2018</u> \$'000	<u>Year ended</u> <u>31 March 2017</u> \$'000
1(e),2	<b>TRADING PROFIT</b>	1,510,860	1,779,255
		<hr/> 1,510,860	<hr/> 1,779,255
1(f),3	Interest receivable and similar income	1,424,562	1,099,370
1(f),3	Interest payable and similar expenses	(1,651,638)	(1,419,761)
	Net interest payable	<hr/> (227,076)	<hr/> (320,391)
	General and administrative expenses	(1,468,206)	(1,446,736)
	<b>OPERATING PROFIT / (LOSS)</b>	<hr/> (184,422)	<hr/> 12,128
	Interest payable on subordinated borrowings	(45,948)	(38,939)
4	<b>LOSS BEFORE TAXATION</b>	<hr/> (230,370)	<hr/> (26,811)
6	Taxation on (Loss) / Gain	(1,113)	(12,589)
	<b>LOSS FOR THE FINANCIAL YEAR</b>	<hr/> (231,483)	<hr/> (39,400)
	<b>OTHER COMPREHENSIVE INCOME:</b>		
	<b>Items that can be reclassified to profit and loss</b>		
	- Gain / (Loss) on available-for-sale investments	516	(335)
	- Foreign currency Gain / (loss)	741	(2,653)
		<hr/> 1,257	<hr/> (2,988)
	Corporation tax credit / (charge) recognised in other comprehensive income	<hr/> (88)	<hr/> 110
	Other comprehensive Gain / (Loss) for the year, net of tax	<hr/> 1,169	<hr/> (2,878)
	<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<hr/> (230,314)	<hr/> (42,278)

The notes on pages 20 to 120 form part of these financial statements.

All profits and losses noted above are derived from continuing activities.

Available for sale gains and losses recognised in other comprehensive income will be reclassified into profit or loss on its disposal or impairment. The foreign currency gains and losses resulting from the translation of foreign operations will be reclassified into profit or loss on its disposal or liquidation.



# NOMURA INTERNATIONAL PLC

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 March 2018

	Called-up Share Capital \$'000	Share Premium \$'000	Other Reserve \$'000	Capital Redemption Reserve \$'000	Available For Sale Reserve \$'000	Share- based Payment Reserve \$'000	Retained Earnings \$'000	Total \$'000
At 1 April 2017	9,991,226	27,479	(20,128)	184,499	4,022	1,047,392	(6,212,708)	5,021,782
Loss for the year	-	-	-	-	-	-	(231,483)	(231,483)
Other comprehensive loss	-	-	741	-	428	-	-	1,169
Total comprehensive loss	-	-	741	-	428	-	(231,483)	(230,314)
Share based payment reserve	-	-	-	-	-	58,340	-	58,340
New share capital subscribed	250,000	-	-	-	-	-	-	250,000
At 31 March 2018	10,241,266	27,479	(19,387)	184,499	4,450	1,105,732	(6,444,191)	5,099,808

	Called-up Share Capital \$'000	Share Premium \$'000	Other Reserve \$'000	Capital Redemption Reserve \$'000	Available For Sale Reserve \$'000	Share- based Payment Reserve \$'000	Retained Earnings \$'000	Total \$'000
At 1 April 2016	9,991,226	27,479	(17,475)	184,499	4,246	1,004,216	(6,173,308)	5,020,883
Loss for the year	-	-	-	-	-	-	(39,400)	(39,400)
Other Comprehensive loss	-	-	(2,653)	-	(224)	-	-	(2,877)
Total Comprehensive loss	-	-	(2,653)	-	(224)	-	(39,400)	(42,277)
Share based payment reserve	-	-	-	-	-	43,176	-	43,176
New Share capital subscribed	-	-	-	-	-	-	-	-
At 31 March 2017	9,991,226	27,479	(20,128)	184,499	4,022	1,047,392	(6,212,708)	5,021,782

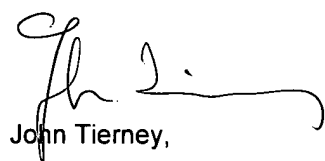
The notes on pages 20 to 120 form part of these financial statements.

# NOMURA INTERNATIONAL PLC

## STATEMENT OF FINANCIAL POSITION AT 31 March 2018

Notes		<b>Year Ended 31 March 2018</b>	<b>Year Ended 31 March 2017</b>
		<b>\$'000</b>	<b>\$'000</b>
	<b>Assets</b>		
	Cash at bank and in hand	9,864,677	5,363,858
1(c),7,18	Financial assets held for trading	158,960,781	172,777,589
7	Investment time deposit	412,850	422,336
	Current tax receivable	37,516	33,202
	Collateral posted for securities purchased		
7	under agreements to resell	71,869,929	82,547,363
7	Collateral posted for securities borrowed	8,644,494	11,963,227
9	Other Debtors	17,837,330	18,473,999
7,18	Available-for-sale Investment	5,655	5,139
10	Tangible Fixed Assets	14,670	17,263
11	Intangible Fixed Assets	3,510	5,502
12	Investment in subsidiaries	22	61
	<b>Total Assets</b>	<b>267,651,434</b>	<b>291,609,539</b>
	<b>Liabilities</b>		
1(c),7,18	Financial liabilities held for trading	151,742,166	171,512,396
13	Other creditors	38,978,115	34,891,815
	Collateral received for securities sold under		
7	agreements to repurchase	62,864,019	70,545,566
7	Collateral received for securities loaned	6,594,672	7,162,856
7,15	Creditors (amounts falling due after more than one year)	2,372,654	2,475,124
	<b>Total Liabilities</b>	<b>262,551,626</b>	<b>286,587,757</b>
	<b>Shareholders' funds</b>		
16	Called up share capital	10,241,226	9,991,226
17	Share premium	27,479	27,479
17	Other reserve	(19,387)	(20,128)
17	Capital redemption reserve	184,499	184,499
17	Available-for-sale reserve	4,450	4,022
17	Share-based payment reserve	1,105,732	1,047,392
17	Retained earnings	(6,444,191)	(6,212,708)
	<b>Total Equity</b>	<b>5,099,808</b>	<b>5,021,782</b>
	<b>Total Liabilities and Equity</b>	<b>267,651,434</b>	<b>291,609,539</b>

Approved by the board of Directors on 19 July 2018 and subsequently signed on its behalf on 19 July 2018 by



John Tierney,

Director

The notes on pages 20 to 120 form part of these financial statements.

# NOMURA INTERNATIONAL PLC

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 March 2018

	<u>Year Ended</u> <u>31 March 2018</u> \$'000	<u>Year Ended</u> <u>31 March 2017</u> \$'000
<b>Operating activities</b>		
Loss before tax	(230,370)	(26,811)
<b>Adjustments to reconcile profit before tax to net cash flows</b>		
Depreciation and amortisation	8,149	8,712
Internally generated software capitalised	50,254	60,785
Share-based payment expense	58,340	43,176
Foreign exchange loss	(291)	(1,521)
Impairment loss on investment in subsidiary	29	12,847
Reclassification of investment in subsidiary	10	-
Internally generated software written-off	581	264
Interest paid on subordinated borrowings	45,948	38,939
<b>Change in working capital adjustments</b>		
Net change in financial assets held of trading	13,816,808	88,377,266
Net change in collateral posted for securities purchased under agreements to resell	10,677,434	(3,689,053)
Net change in collateral posted for securities borrowed	3,318,734	5,602,308
Net change in other debtors	630,166	1,072,894
Net change in investments – time deposits	9,487	531,727
Net change in financial liabilities held for trading	(19,770,230)	(74,188,785)
Net change in collateral received for securities sold under agreements to repurchase	(7,681,547)	(4,617,542)
Net change in collateral received for securities loaned	(568,184)	(8,580,639)
Net change in other creditors	4,109,245	(3,449,679)
Income tax received/(paid)	(5,514)	(7,735)
<b>Net cash flow from operating activities</b>	<b>4,469,049</b>	<b>1,187,153</b>
<b>Investing activities</b>		
Purchase of fixed assets	(2,534)	(3,991)
Movement in investment in subsidiaries	-	(4)
Software generated internally	(44,331)	(48,340)
Proceeds from disposal of fixed assets	-	94
<b>Net cash used in investing activities</b>	<b>(46,865)</b>	<b>(52,241)</b>

# NOMURA INTERNATIONAL PLC

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 March 2018 (CONTINUED)

	<u>Year Ended</u> <u>31 March 2018</u> \$'000	<u>Year Ended</u> <u>31 March 2017</u> \$'000
<b>Financing activities</b>		
Share capital issued	250,000	-
Repayment in loans and other liabilities	(102,470)	(559,610)
Interest paid on subordinated borrowings	(45,948)	(38,939)
<b>Net cash generated / (used) in financing activities</b>	<b>101,582</b>	<b>(598,549)</b>
 <b>Net increase in Cash at bank and in hand</b>	 <b>4,523,766</b>	 <b>536,363</b>
 <b>Cash at 1 April</b>	 <b>5,272,099</b>	 <b>4,735,736</b>
<b>Cash at 31 March</b>	<b>9,795,865</b>	<b>5,272,099</b>
 <b>Included within operational cash flows</b>		
Interest paid	(1,709,267)	(1,450,501)
Interest received	1,401,261	1,126,343

### Reconciliation of liabilities arising from financing activities:

	<b>31 March</b> <b>2017</b> \$'000	<b>Cash flows</b> \$'000	<b>Non Cash</b> <b>Changes</b> \$'000	<b>31 March</b> <b>2018</b> \$'000
Loans and Other Liabilities	1,215,124	(102,470)	-	1,112,654
Subordinated debt	1,260,000	(45,948)	45,948	1,260,000
Share Capital	9,991,226	250,000	-	10,241,226
<b>Total liabilities from financing activities</b>	<b>12,466,350</b>	<b>101,582</b>	<b>45,948</b>	<b>12,613,880</b>

Cash balance is presented as gross on the statement of Financial Position. An overdraft of \$68,812,000 (2017: \$91,759,000) reported as 'other creditors' is considered as cash for the presentation in statement of cash flows.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018

### 1. ACCOUNTING POLICIES

#### (a) Basis of Accounting

The Company has prepared financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), and on a going concern basis.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1 regarding the reconciliation of outstanding shares, paragraph 73(e) of IAS 16 regarding the reconciliation of opening to closing balances for fixed assets and paragraph 118(e) of IAS 38 regarding the reconciliation of opening to closing balances for intangible assets;
- b) the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payments so that only the descriptions of the share-based payments, the range of exercise prices and weighted average remaining contractual life of the share options outstanding; and the weighted average share price on exercised options is required to be disclosed;
- c) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose standards that have been issued but are not yet effective;
- d) the requirements of paragraph 17 of IAS 24 Related Party Disclosures to disclose key management personnel compensation; and
- e) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and the Directors' Report. The Company's financial statements are presented in United States Dollar ("USD") and all values are rounded to the nearest thousand USD (\$'000) except when otherwise indicated. The Company has taken advantage of the exemption under section 401 of the Companies Act 2006 from having to prepare group accounts since it is a wholly owned subsidiary of NEHS, a company registered in the U.K.. The results of the Company are included in the consolidated financial statements of NHI, the ultimate parent company. See Note 31 for further details on ultimate and immediate parent companies.

#### (b) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period.

However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the accounting policies, management has made the following estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

- Where there is no active market for a financial instrument, fair value is determined using valuation techniques which could require judgment; and
- Recoverability of deferred tax assets. Carrying value disclosed in note 14.

# **NOMURA INTERNATIONAL PLC**

## **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

### **1. ACCOUNTING POLICIES (CONTINUED)**

#### **(c) Financial Instruments**

Financial instruments within the scope of IAS 39 are classified either as financial assets or liabilities at fair value through profit or loss, loans and receivables, financial liabilities at amortized cost, available-for-sale investments or held-to-maturity investments.

The Company determines the classification of its financial assets on initial recognition depending on the purpose for which the financial instruments were acquired and their characteristics. For hybrid instruments, the Company considers whether a contract contains an embedded derivative when the entity first becomes party to it, and determines the appropriate classification at this time.

In accordance with IAS 39, all financial instruments are initially measured at fair value.

#### **(i) Financial instruments at fair value through profit or loss**

Financial instruments at fair value through profit or loss includes financial instruments held for trading and financial instruments designated upon initial recognition as at fair value through profit and loss.

##### **a. Financial instruments held for trading**

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. These instruments are generally recognised as regular way transactions, on a settlement date basis. Derivatives are also classified as held for trading.

Derivative instruments, as detailed in note 18, are used for trading and risk management purposes. In accordance with IAS 39, all derivatives are recognised initially and subsequently carried at fair value, with derivatives having positive fair values carried as assets and derivatives with negative fair values carried as liabilities on the Statement of Financial Position.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. The majority of hybrid contracts are designated at fair value through profit or loss as described below. However, where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, the fair value option is not elected.

##### **b. Financial instruments designated at fair value through profit and loss**

Any financial asset or financial liability within the scope of IAS 39 may be designated when initially recognised as a financial asset or financial liability at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. The Company applies the fair value option to the following instruments:

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (c) Financial Instruments (continued)

##### b. Financial instruments designated at fair value through profit and loss (continued)

- Certain loans and receivables and repos and reverse repos which are risk managed on a fair value basis: The Company elects the fair value option to mitigate profit and loss volatility caused by the difference in measurement basis for loans and receivables and the derivatives used to risk manage those instruments;
- Structured notes held and issued: The fair value option is elected primarily as these financial instruments contain an embedded derivative that significantly modifies the cash flows resulting from the financial instrument;
- Financial liabilities associated with continuing involvement in assets derecognised under IAS 39: The fair value option is elected to mitigate profit and loss volatility which would arise between these liabilities and their related assets which are measured at fair value;
- Prepaid over-the-counter ("OTC") Contracts: These are transactions for which an initial investment of greater than 90% of the notional of the embedded derivative has been paid or received. The risk on these financial instruments, both financial assets and financial liabilities, is primarily hedged using financial instruments categorized as held for trading; and
- Other Financial Liabilities: These include financial liabilities such as those that arise as a result of continuing recognition of certain financial assets and the simultaneous recognition of an associated financial liability.

Financial instruments designated at fair value are generally recognised on a settlement date basis.

When a fair value financial asset or liability is recognised initially, the Company measures it at its fair value and transaction costs are taken directly to profit and loss. If a reliable measure becomes available for a financial asset or liability where such a measure was not previously available, and the asset is required to be measured at fair value if a reliable measure is available, the asset or liability shall be remeasured at fair value and the difference between its carrying amount and fair value recognised in profit and loss. All reliably measurable fair value financial assets and liabilities are subsequently held at fair value until derecognition.

Gains or losses on financial instruments at fair value through profit and loss, including gains and losses due to changes in fair value, are recognised in profit and loss within trading profit.

#### (ii) Available-for-sale investments

Available-for-sale investments include securities not classified as held for trading or designated at fair value through profit and loss. Available-for-sale investments are initially recognised at fair value and are subsequently held at fair value with unrealised gains or losses being recognised in other comprehensive income. Transaction costs on equity investments classified as available-for-sale are capitalised on initial recognition of the investment.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **(c) Financial Instruments (continued):**

###### **(iii) Available-for-sale investments (continued)**

Available-for-sale investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

When the investment is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit and loss under other operating income or other operating expenses. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Losses arising from the impairment of such investments are recognised within other operating income or expense, having been removed from the cumulative gain or loss previously recognised in other comprehensive income. Any foreign exchange gains or losses arising on available-for-sale financial investments are recognised in profit and loss.

###### **(iv) Financial instruments at amortised cost**

###### **a. Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised on settlement date at fair value, including any direct and incremental transaction costs. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables include collateral posted for securities purchased under agreements to resell and collateral posted for securities borrowed, described below.

###### **b. Financial instruments at amortised cost**

Financial liabilities at amortised cost include financial obligations such as cash collateral received for securities sold under agreements to repurchase, cash collateral received for securities loaned, subordinated debt, commercial paper as well as creditors. Financial liabilities at amortised cost are initially recognised on settlement date. After initial measurement, these instruments are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Collateral received for securities sold under agreements to repurchase and collateral received for securities loaned are further discussed below.



## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **(c) Financial Instruments (continued)**

###### **(iv) Financial instruments at amortised cost (continued)**

###### **c. Collateral posted for securities purchased under agreements to resell and collateral received for securities sold under agreements to repurchase**

The Company enters into agreements with counterparties for them to sell to the Company certain securities and then repurchase them at a later date. These securities are excluded from the Company's Statement of Financial Position and the cash amount paid by the Company is shown as collateral posted for securities purchased under agreements to resell.

The Company also enters into agreements to sell certain securities to counterparties and then repurchase them at a later date. Where the securities were sourced from the Company's Statement of Financial Position, they will continue to be retained on the Company's Statement of Financial Position. The cash amount received by the Company is shown as collateral received for securities sold under agreements to repurchase.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest method.

###### **d. Collateral posted for securities borrowed and collateral received for securities loaned**

The Company enters into agreements with counterparties for them to lend to the Company certain securities which are then returned to the lender at a later date. These securities are excluded from the Company's Statement of Financial Position and the cash amount paid by the Company is shown as collateral posted for securities borrowed.

The Company also enters into agreements to lend certain securities to counterparties, to be returned at a later date. These securities are retained on the Company's Statement of Financial Position. The cash amount received by the Company is shown as collateral received for securities loaned. The transfer of the securities to counterparties is only reflected on the Statement of Financial Position if the risks and rewards of ownership are also transferred.

###### **(v) Held-to-maturity investments**

As at the Statement of Financial Position date, the Company did not hold any held-to-maturity investments.

# **NOMURA INTERNATIONAL PLC**

## **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

### **1. ACCOUNTING POLICIES (CONTINUED)**

#### **(d) Fair Value of Financial Instruments**

The Company holds a significant portion of financial instruments at fair value, as described below. A description of the Company's policies with regards to its application of fair value measurements to significant financial instruments is as follows:

##### **(i) Valuation of fair value instruments**

The fair value of financial instruments is the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The best evidence of fair value is quoted prices in an active market. Therefore, the fair value of financial instruments, including exchange-traded securities and derivatives is based on quoted market prices on exchanges or other 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 contractual terms, position size, underlying asset prices, interest rates, dividend rates, time value, volatility and other statistical measurements for the relevant instruments or for instruments with similar characteristics. These models also incorporate adjustments relating to counterparty and the Company's own credit risk and market liquidity adjustments. These adjustments are fundamental components of the fair value calculation process. The valuation technique used maximises the use of market inputs and minimises the use of entity-specific inputs which are unobservable in the market.

Valuation pricing models and their underlying assumptions impact the amount and timing of unrealised gains and losses recognised, and the use of different valuation pricing models or underlying assumptions could produce different financial results. Any changes in the fixed income, equity, foreign exchange and commodity markets can impact the Company's estimates of fair value in the future, potentially affecting trading and non-trading gains and losses. The Company's estimates of fair value may involve greater subjectivity due to the lack of transparent market data available upon which to base assumptions underlying valuation pricing models.

The Company seeks to minimise market risks by entering into hedging derivatives to economically hedge the exposures of certain fair value option (FVO) elected notes. The Company applies the "portfolio exception" in IFRS 13.48 to measure the fair value of this group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

##### **(ii) Recognition of day 1 gains and losses**

The fair value of a financial instrument is normally the transaction price (i.e. the fair value of consideration given or received). In some cases, however, the fair value at inception will be based on a valuation pricing model incorporating only observable parameters in the market or on other observable current market transactions in the same instrument, without modification or repackaging. Where such valuation techniques are used to derive fair values from market observable inputs, the difference between fair value and the transaction price is recognised in profit and loss.

# **NOMURA INTERNATIONAL PLC**

## **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

### **1. ACCOUNTING POLICIES (CONTINUED)**

#### **(d) Fair Value of Financial Instruments (continued)**

##### **(ii) Recognition of day 1 gains and losses (continued)**

Valuation techniques incorporating significant unobservable parameters may also be used to determine fair value at inception. In such cases, the difference between the transaction price and model value is recognised in profit and loss over the life of the transaction on an appropriate basis, or when the inputs become observable, or when the instrument is derecognised.

##### **(iii) Fair value option**

Certain financial instruments may be designated at fair value by management when one of the following criteria is met:

- i. The financial instrument contains an embedded derivative that significantly modifies the cash flows resulting from the financial instrument; or
- ii. Fair value will eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring related financial instruments on different bases; or
- iii. The financial instrument is part of a group of financial instruments both managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Information about these financial instruments is provided internally on a fair value basis to the Company's key management personnel.

The fair value option election under i) and ii) above is undertaken on a product-by-product basis. This only applies to those instruments that meet one or more of the above criteria, where fair value would provide a fairer representation of the risks associated with those instruments. Once made, the fair value option election is irrevocable.

#### **(e) Trading Profit**

##### **(i) Principal Transactions Income and Expenses**

Principal transactions income and expenses include realised and unrealised gains and losses from customer trading activities, asset finance, private equity, profits on disposals of related party investments and proprietary trading activities. Principal transactions income and expenses are generated predominantly by financial instruments held for trading and financial instruments designated at fair value through profit or loss. Costs directly attributable to trading are treated as general and administrative expenses.

##### **(ii) Fees and Commission Income and Expenses**

Fees and commission income and expenses include: gains, losses and fees, net of syndication expenses, arising from securities offerings in which the Company acts as an underwriter or agent; fees earned from the provision of financial advisory services; and commission income from the provision of brokerage services.

Trading profit arises on a strategy basis across a range of instruments. It is presented on a net basis, even though the corresponding financial assets and liabilities may not have been offset on the Statement of Financial Position in accordance with the presentation requirements of IAS 32.

# **NOMURA INTERNATIONAL PLC**

## **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

### **1. ACCOUNTING POLICIES (CONTINUED)**

#### **(f) Interest Receivable and Interest Payable**

Interest receivable and payable includes dividends and interest paid and earned on securities positions, interest on financial instruments designated at fair value through profit or loss, instruments carried at amortised cost, including securities bought and sold under repurchase agreements, and amounts receivable and payable on bank deposits and bank borrowings.

Interest receivable and payable is recognised in profit and loss using the effective interest method for interest bearing financial assets and liabilities carried at amortised cost.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or a group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. This calculation takes into account the impact of all fees and commissions paid or received directly attributable to transaction costs, and discounts or premiums that are integral to the effective interest rate.

The Company holds a number of financial assets and liabilities which have been set with negative interest rates. Negative interest on financial assets is presented as Interest payable and similar expenses. Negative interest on financial liabilities is presented as Interest receivable and similar income.

#### **(g) Impairment**

The Company assesses at the Statement of Financial Position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Statement of Financial Position date, and that loss event has had an impact on the estimated future cash flows of the financial asset that can be reliably estimated. When estimating the potential impact of an impairment loss on a collateralised financial asset, expected future cash flows, both from the asset and the associated collateral, are assessed.

##### **(i) Financial assets at cost**

For loans and receivables, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

The amount of the loss is included in profit and loss. If in a subsequent period the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed in profit and loss.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **(g) Impairment (continued)**

###### **(ii) Financial assets at cost**

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by the delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed except on realisation.

###### **(iii) Available-for-sale investments**

For available-for-sale investments, the Company assesses at each Statement of Financial Position date whether there is objective evidence that an investment or group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses on equity instruments are not reversed through the profit and loss account; increases in their fair value after impairment are recognised directly in equity.

##### **(h) Derecognition**

Transfers of financial assets and liabilities are assessed to determine if assets can be derecognised. The Company derecognises financial assets when significantly all the risks and rewards of the asset are transferred. If significantly all the risks and rewards of the asset are retained, the Company retains the financial assets on its Statement of Financial Position with an associated liability for the consideration received. If the Company neither transfers nor retains significantly all the risks and rewards of the transferred asset, but retains control over the asset, it recognises the transferred asset and an associated liability measured on a basis that reflects the rights and obligations retained by the Company.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **(i) Offsetting financial instruments**

Financial assets and financial liabilities are presented on a gross basis unless the Company has a current legally enforceable right to set off the financial asset and financial liability and the Company intends to settle the financial asset and financial liability on a net basis.

##### **(j) Financial guarantees**

The Company issues financial guarantee contracts which require the Company to reimburse holders of such guarantees for any losses suffered due to a failure by specified debtors to make payments when due as specified by the terms of an underlying debt instrument. Such financial guarantees are initially recognised at fair value. The amount initially recognised includes an adjustment for transaction costs which are directly attributable to the issuance of the guarantee. On a subsequent measurement basis, value of the financial guarantee is adjusted to reflect the higher of the best estimate of the amount required to settle the probable obligation at the reporting date. Any amount recognised is net of cumulative amortisation previously recognised.

##### **(k) Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are as follows:

- For securities lending and repurchase transactions, cash or securities;
- For commercial lending, charges over financial and/or non-financial assets; and
- For derivatives, cash or securities.

Management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement.

The Company also makes use of master netting agreements with counterparties with whom a significant volume of transactions are undertaken. Such an arrangement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master netting arrangements do not normally result in an offset of Statement of Financial Position assets and liabilities unless certain conditions for offsetting under IAS 32 apply.

Although master netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent of the amounts due to the same counterparty; and
- The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### (l) Tangible Assets and Depreciation

Tangible assets are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. The carrying values of tangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable, and are written down to their recoverable amount. Depreciation rates are selected based on expected useful economic lives of the assets, taking into account the expected rate of technological developments, market requirements and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to the Company and its circumstances. Fixed assets are currently depreciated on a straight-line basis in order to write off their cost over their expected useful economic lives as follows:

Long leasehold property	Over the life of the lease
Furniture and equipment	Five to ten years
Certain IT Equipment	Three to Five years
	Not depreciated until completed and transferred to asset
Construction in progress	categories above

---

Tangible assets are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in profit and loss in the period of derecognition.

##### (m) Intangible Assets

Intangible assets are carried at cost less accumulated amortisation and impairment losses. Internally generated intangible assets are generally not capitalised and expenditure recognised in profit and loss as incurred, other than internally generated software development costs where the Company has technical feasibility to complete the software development, and ability to sell or use the asset and control economic benefits from it. Where internally generated software arises in intellectual property rights that are not controlled by the company, costs are classified as other debtors and amortised over the useful economic life of the software.

Costs incurred in relation to fixed-term or cancellable non-perpetual license agreements are not capitalised and are expensed in profit and loss over the period to which they relate.

Useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortised over their useful economic life on a straight-line basis and assessed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable, and are written down to their recoverable amount. Software assets are generally amortised over a useful life of between 3 and 5 years. The annual amortisation is accounted in general and administrative expenses within the statement of comprehensive income.

##### (n) Fixed Asset Investments

Investments in subsidiary undertakings are stated at original cost less amounts written off where there has been impairment in value.

# **NOMURA INTERNATIONAL PLC**

## **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

### **1. ACCOUNTING POLICIES (CONTINUED)**

#### **(o) Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. The impairment loss is determined by comparing the carrying amount with the recoverable amount of the asset. The recoverable amount is the higher of the assets or the cash-generating unit's fair value less costs to sell and value in use. Where the carrying amount exceeds the recoverable amount, the asset is deemed impaired and is written down to its recoverable amount.

#### **(p) Provisions**

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

#### **(q) Foreign Currencies**

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the Statement of Financial Position date. Income and expenses denominated in a foreign currency are retranslated using appropriate weighted average exchange rates. All differences arising from the application of closing rates of exchange, together with exchange gains/losses from trading activities, are taken to profit and loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### **(r) Taxation**

Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- (i) the initial recognition of goodwill; or
- (ii) the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax liability shall be recognised.



# **NOMURA INTERNATIONAL PLC**

## **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

### **1. ACCOUNTING POLICIES (CONTINUED)**

#### **(r) Taxation (continued)**

A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- (i) is not a business combination; and
- (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities shall not be discounted.

Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:

- (i) in other comprehensive income, shall be recognised in other comprehensive income.
- (ii) directly in equity, shall be recognised directly in equity.

#### **(s) Pension Costs**

The Company operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund. The defined benefit pension scheme was closed to further accrual in October 2005.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits at the date the plan closed to the current period to determine the present value of the defined benefit obligation and is based on actuarial advice. Past service costs are recognised in profit and loss at the earlier of when the plan amendment or curtailment occurs or when related restructuring costs are recognised. When a settlement (eliminating all obligations for benefits already accrued) occurs, the obligation and related plan assets are remeasured using actuarial assumptions at the date of the settlement and the resultant gain or loss is recognised in other comprehensive income during the period in which the settlement occurs.

The net interest income or expense is calculated by applying the discount rate on the net defined benefit liability or asset respectively and recognised in profit and loss. It is determined by applying the discount rate to the opening net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the year.

Remeasurements of the net defined benefit liability or asset comprising of actuarial gains and losses, the return on plan assets excluding amounts recognised as net interest and the effect of the asset ceiling are recognised in full in other comprehensive income.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (s) Pension Costs (continued)

The defined benefit pension asset or liability in the Statement of Financial Position comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status and broadly consistent term to the liabilities), and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the current bid price. Where the Company purchased insurance policies to cover a benefit obligation, the value of insurance policies is equal to the value of the related obligation.

Any net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

This plan is governed by the Trust Deed and Rules dated 28 May 2009. The level of benefits provided in the defined benefits section depends on the member's length of service and salary at date of leaving Pensionable Service. The fund is governed by a Trustee Company, comprising 4 directors appointed by the employer and 2 directors appointed by the members. The Board of Trustees is responsible for the administration of the scheme and setting the investment policy.

The defined benefit liability is shown on the Statement of Financial Position gross of deferred tax.

#### (t) Share-based payments

The Company and the ultimate holding company of the Nomura Group, Nomura Holdings, Inc., (NHI) grant share-based and similar deferred compensation award to Directors and employees of the Company in exchange for providing employment services to the Company. Such are classified as either equity-settled or cash-settled transactions depending on the terms of the award.

Awards such as Stock Acquisition Rights ("SARs") issued by NHI which are expected to be settled by the delivery of NHI common stock are classified as equity-settled transactions. For these awards, total compensation cost is generally fixed at grant date and measured using the grant-date fair value of the award, net of any amount the employee is obligated to pay and estimated forfeitures.

The cost of equity-settled transactions issued and settled by NHI is recognised in profit and loss, together with a corresponding increase in reserves, representing the contribution received from NHI, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the 'vesting date'). The cumulative expense recognised for equity-settled transactions at each Statement of Financial Position date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the profit and loss account for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **(t) Share-based payments (continued)**

Awards such as Notional Stock Units ("NSUs") and Collared Notional Stock Units ("CSUs") which are expected to be settled in cash are classified as cash-settled transactions. Other awards such as Notional Index Units ("NIUs") which are linked to a world stock index quoted by Morgan Stanley Capital International and which are expected to be cash settled are also effectively classified as cash-settled transactions. Cash-settled transactions are remeasured to fair value at each Statement of Financial Position date, net of estimated forfeitures with the final measurement of cumulative compensation cost equal to the settlement amount. Similar to the equity-settled transactions, compensation cost is recognised in profit and loss over the vesting period.

All awards include "Full Career Retirement" provisions which permit recipients of the awards to continue to vest in the awards upon voluntary termination if certain criteria based on corporate title and length of service within Nomura are met. The vesting period for these awards ends on the earlier of the contractual vesting date and the date that the recipient becomes eligible for Full Career Retirement.

##### **(u) Share Capital**

Share capital meeting the definition of an equity instrument under IAS 32 is disclosed within shareholders' funds. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Preference shares, that provide for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or give the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, are financial liabilities. Convertible preference share capital may be a compound financial liability. As required by IAS 32, the components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instruments as a whole the amount separately determined as the fair value of the liability component on the date of issue.

At the Statement of Financial Position date, the Company had no issued redeemable convertible participating preference share capital.

##### **(v) Operating Leases**

Rental costs under operating leases are charged to profit and loss on a straight-line basis over the period of the lease.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **(w) Cash Flow Statement**

The cash flow statement reconciles the increase or decrease in cash at bank and in hand in the period. Cash comprises of cash in hand and demand deposits denominated in foreign currencies. Cash at bank and in hand also includes cash equivalents which are short-term, highly liquid investments with an original maturity of three months or less, that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value.

##### **(x) Reserves**

The Company has the following reserve accounts:

- Capital redemption reserve: A statutory, non-distributable reserve into which amounts are transferred following the redemption of the Company's own shares.
- Share-based payment reserve: The cost of equity-settled transactions is recognised in the profit and loss account, together with a corresponding increase recorded within this reserve.
- Available-for-sale reserve: This reserve records fair value changes on available-for-sale investments.
- Profit and loss account: Represents the accumulated retained earnings of the Company.
- Other Reserve: The reserve contains the foreign currency gains and losses arising from the translation of foreign operations.

##### **(y) Changes in accounting policies and disclosures**

###### **Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative**

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). This information for current period has been provided on page 19 succeeding the statement of cash flows.

###### **Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary differences. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The entity has applied amendments retrospectively, however their application has no effect on the entity's financial position and performance.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 2. TRADING PROFIT

All of the Company's trading profit is derived from wholesale, comprising trading and sales in fixed income and equity products and related derivatives, investment banking services, principal, corporate and asset finance and private equity, to which all net assets are attributable.

#### a. Segmental analysis

The trading profit is attributable to the following revenue streams:

	<u>Year ended</u> <u>31 March 2018</u> \$'000	<u>Year ended</u> <u>31 March 2017</u> \$'000
Net fees and commissions <sup>1</sup>	406,026	371,114
Principal transactions <sup>2</sup>	725,821	930,290
Other revenues <sup>3</sup>	512,123	599,201
Less: attributable transaction expenses <sup>3</sup>	(133,110)	(121,350)
Trading profit	<u>1,510,860</u>	<u>1,779,255</u>

\$1,144,569,000 (2017: \$1,495,157,000) of the trading profit in the year ended 31 March 2018 is attributable to EMEA and \$366,290,000 (2017: \$284,098,000) to offshore markets. Due to the integrated nature of the Company's business, it is not meaningful to provide a geographical split of the Company's total assets.

<sup>1</sup> 'Net fees and commissions' includes gains, losses and fees, net of syndication expenses arising from securities offerings in which the Company acts as an underwriter or agent, and fees earned from providing financial advisory services. Such revenues do not include revenues from secondary trading activities which are included in 'Principal transactions'. Commissions arising from broking securities are also included.

<sup>2</sup> 'Principal transactions' includes realised and unrealised gains and losses from proprietary trading activities, asset finance, customer trading activities and private equity.

<sup>3</sup> 'Attributable transaction expenses' excludes sales credits payable/receivable to/from other Nomura Group entities. Sales credits payable are included in 'general and administrative expenses'; sales credits receivable are included in 'other revenues'.

#### b. Analysis of net fee and commission income:

	<u>Year ended</u> <u>31 March 2018</u> \$'000	<u>Year ended</u> <u>31 March 2017</u> \$'000
Financial instruments not at fair value through profit or loss	264,503	245,577
Other fees and commission income	<u>141,522</u>	<u>125,537</u>
Net fees and commissions	<u>406,025</u>	<u>371,114</u>

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 2. TRADING PROFIT (CONTINUED)

Fees and commission income and expenses from financial instruments not at fair value through profit or loss include servicing and lending commitment fees (other than those included in determining the effective interest rate), relating to financial assets and liabilities not carried at fair value through profit or loss.

Other fees and commission income and expenses include amounts arising from securities offerings in which the Company acts as an underwriter or agent, commissions arising from broking securities and fees earned from providing financial advisory services.

##### c. Analysis of principal transactions by financial instrument type:

	<b><u>Year ended</u></b> <b><u>31 March 2018</u></b> <b>\$'000</b>	<b><u>Year ended</u></b> <b><u>31 March 2017</u></b> <b>\$'000</b>
Financial instruments held for trading	828,334	692,283
Financial instruments designated at fair value through profit and loss	(102,514)	238,007
Principal transactions	<u>725,820</u>	<u>930,290</u>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 3. INTEREST INCOME AND EXPENSE

Analysis of total interest income and expense by financial instrument type:

	<u>Year ended</u> <u>31 March 2018</u> \$'000	<u>Year ended</u> <u>31 March 2017</u> \$'000
<b>Interest receivable and similar income</b>		
Cash and short-term funds	284,752	149,581
Securities borrowed and reverse repurchase agreements	997,088	821,371
Other	26,918	37,094
	<u>1,308,758</u>	<u>1,008,046</u>
Financial instruments at fair value through profit and loss	<u>115,804</u>	<u>91,324</u>
	<u>1,424,562</u>	<u>1,099,370</u>

Includes \$561m (2017: \$428m) of Interest Income on liabilities with negative interest rates for the year ended Mar 2018.

#### Interest payable and similar expenses

Overdrafts and loans	(118,144)	(89,651)
Securities lent and repurchase agreements	(1,404,125)	(1,155,299)
Other	(60,194)	(128,517)
	<u>(1,582,463)</u>	<u>(1,373,467)</u>
Financial instruments at fair value through profit and loss	<u>(69,175)</u>	<u>(46,294)</u>
	<u>(1,651,638)</u>	<u>(1,419,761)</u>

Includes \$430m (2017: \$278m) of Interest Expense on assets with negative interest rates for the year ended Mar 2018.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 4. LOSS BEFORE TAXATION

Loss on ordinary activities before tax for the Company is stated after charging/(crediting):

	<u>Year ended</u> <u>31 March 2018</u> \$'000	<u>Year ended</u> <u>31 March 2017</u> \$'000
Wages, salaries and other personnel costs	706,015	738,916
Social security costs	74,787	68,368
Pension costs – defined contribution	28,380	28,911
Depreciation and Amortisation (note 10 & 11)	8,149	8,712
Software expenses	52,433	60,785
Impairment loss on investment in subsidiary	29	12,847
Auditors' remuneration including expenses		
- Audit	1,686	1,451
- Audit-related assurance services	559	689
- Services relating to taxation	410	342
- All other services	683	661
Operating lease costs		
- Buildings	62,182	59,052
- Other	33	67
Interest receivable from Nomura Group undertakings	(359,802)	(319,080)
Interest payable to Nomura Group undertakings	690,236	588,730

In addition to the audit fee shown above, an amount of \$1,163,267 (2017: \$1,058,578) was borne by NHI.

The investment in Nomura Investment Advisor LLP was reviewed for impairment during the period as future profitability for the entity is not expected. Following this, the investment has been impaired, resulting in an impairment loss of \$29,000 (2017: \$12,847,000).



# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 5. DEFINED BENEFIT PENSION SCHEME

A full actuarial valuation of the defined benefit pension scheme was undertaken at 31 March 2018 by Premier Pensions Management Ltd, a qualified independent actuary.

During the year ended 31 March 2018, the Company made no additional contributions and the fund remained in surplus. The amount that can be recovered through reduced contributions in the future is the present value of the liability expected to arise from future service by current and future scheme members less the present value of future employee contributions. As the plan closed to all future accrual with effect 31 October 2005, there is no future benefit accrual and therefore no surplus is to be recognised in the Company's Statement of Financial Position. The expected employer's contribution to the Company's defined benefit pension scheme for year ended 31 March 2018 is Nil (2017: Nil).

Under the projected unit actuarial cost method the current service cost will increase as members approach retirement.

The major assumptions used by the actuary to calculate the defined benefit liability are set out below:

	<u>Year ended</u> <u>31 March 2018</u>	<u>Year ended</u> <u>31 March 2017</u>
	%	%
Rate of increase in pensions in payment	3.30	3.60
Rate of increase in pensions in deferment	2.30	2.60
Discount rate	2.60	2.55
Inflation assumption	2.30	2.60

Life expectancy from mortality tables used to determine benefit obligations at:

	<u>Year ended</u> <u>31 March 2018</u>	<u>Year ended</u> <u>31 March 2017</u>
	Years	Years
Male Member age 60 (life expectancy at age 60)	29.3	29.4
Male Member age 40 (life expectancy at age 60)	31.9	32.1
Female Member age 60 (life expectancy at age 60)	31.4	31.4
Female Member age 40 (life expectancy at age 60)	33.9	34.0

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 5. DEFINED BENEFIT PENSION SCHEME (CONTINUED)

The assets and liabilities of the scheme and the expected long-term rates of return were:

		<b>Year ended</b> <b>31 March 2018</b>		<b>Year ended</b> <b>31 March 2017</b>
	<b>%</b>	<b>\$'000</b>	<b>%</b>	<b>\$'000</b>
Equities	2.60	1,562	2.55	1,258
Dividend Growth Funds	2.60	31,636	2.55	28,701
Cash	2.60	411	2.55	369
Annuities	2.60	289,174	2.55	275,886
Market value of assets		<u>322,783</u>		<u>306,214</u>
Present value of scheme liabilities		<u>(293,014)</u>		<u>(279,117)</u>
Surplus in the scheme		29,769		27,097
Effect of surplus cap		<u>(29,769)</u>		<u>(27,097)</u>
Recoverable deficit in the scheme		-		-
Deferred tax asset		<u>-</u>		<u>-</u>
Net pension liability		<u>-</u>		<u>-</u>

The fair values of the equities and Dividend Growth Funds are determined via quoted prices.

The Company does not recognise the pension surplus as an asset as an unconditional right to a refund does not exist. The right to a refund requires the approval of the third party plan trustees and as such is contingent upon factors beyond the Company's control. To the extent the right is contingent, no asset is recognised.

There is no charge of operating loss in relation to the defined benefit pension scheme nil (2017: Nil).

The amount charged to other finance income:

	<b>31 March 2018</b> <b>\$'000</b>	<b>31 March 2017</b> <b>\$'000</b>
Interest income on pension scheme assets	8,084	9,560
Interest cost on pension scheme liabilities	(7,353)	(8,509)
Interest on the effect of asset ceiling	<u>(731)</u>	<u>(1,051)</u>
Net interest	<u>-</u>	<u>-</u>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 5. DEFINED BENEFIT PENSION SCHEME (CONTINUED)

The amounts recognised in the statement of comprehensive income for the year are set out below:

	<u>31 March 2018</u> \$'000	<u>31 March 2017</u> \$'000
Actual return on pension scheme assets less interest income	(8,061)	38,298
Actuarial (loss) / gains arising on pension scheme liabilities	7,518	(42,068)
Actuarial gains/(losses) before adjustment due to movement in surplus cap	(543)	(3,770)
Adjustment due to movement in surplus cap	543	3,770
Actuarial loss recognised in other comprehensive income	-	-

The defined benefit pension scheme has no effect on the net assets and reserves of the Company (2017: No effect).

Analysis of movements in benefit obligation and plan assets during the year:

	<u>Year ended</u> <u>31 March 2018</u> \$'000	<u>Year ended</u> <u>31 March 2017</u> \$'000
<b>Change in benefit obligations</b>		
Benefit obligations at beginning of year	(279,117)	(281,356)
Past service cost	(770)	-
Interest cost	(7,353)	(8,509)
Actuarial gains/(losses)	7,518	(42,068)
Benefits paid	19,596	15,109
Foreign currency exchange gains/(losses)	(32,888)	37,707
Benefit obligations at end of year	(293,014)	(279,117)

	<u>Year ended</u> <u>31 March 2018</u> \$'000	<u>Year ended</u> <u>31 March 2017</u> \$'000
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	306,214	315,491
Interest income on plan assets	8,084	9,560
Actuarial gains/(losses)	(8,061)	38,298
Benefits paid from plan	(19,596)	(15,109)
Foreign currency exchange gains/(losses)	36,143	(42,026)
Fair value of plan assets at end of year	322,784	306,214

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 5. DEFINED BENEFIT PENSION SCHEME (CONTINUED)

#### Sensitivity analysis of significant actuarial assumptions

The table below presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would be affected by changes in the relevant actuarial assumption that were reasonably possible at the Statement of Financial Position date. Unforeseen circumstances may arise, which could result in variations that are outside the range of alternatives deemed reasonably possible. This sensitivity analysis applies to the defined benefit obligation and not to the net defined benefit asset/(liability) in its entirety. Caution should be used in extrapolating the sensitivities below to the overall impact on the defined benefit obligation as the sensitivities may not be linear.

	<u>Year ended</u> <u>31 March 2018</u> \$'000	<u>Year ended</u> <u>31 March 2017</u> \$'000
<b>Sensitivity analysis of significant actuarial assumptions</b>		
Discount rate applied to scheme liabilities		
Increase by 1%	(46,015)	(46,764)
Decrease by 1%	60,845	62,537
Inflation assumption		
Increase by 1%	34,101	32,517
Decrease by 1%	(29,865)	(31,095)
Life expectancy		
Increase by 1 year	7,753	7,669
Decrease by 1 year	(7,740)	(7,642)

The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant, so that interdependencies between the assumptions are excluded.

Maturity profile of defined benefit pension scheme:

	<u>Year ended</u> <u>31 March 2018</u> \$'000	<u>Year ended</u> <u>31 March 2017</u> \$'000
<b>Defined benefit obligation</b>		
Current pensioners	104,755	83,698
Deferred pensioners	188,259	195,419
	<u>Years</u>	<u>Years</u>
<b>Weighted average age</b>		
Current pensioners	66.2	65.0
Deferred pensioners	54.8	53.9
<b>Duration</b>		
Current pensioners	14.5	14.7
Deferred pensioners	20.1	21.4

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 6. INCOME TAX

#### (a) TAX EXPENSE

	<u>Year ended</u> <u>31 March 2018</u> \$'000	<u>Year ended</u> <u>31 March 2017</u> \$'000
<u>Current Income Tax:</u>		
U.K. corporation tax (credit)	(3,201)	(5,097)
Foreign tax charge	3,872	3,797
Adjustment in respect of prior years	530	13,779
Current tax charge	<u>1,201</u>	<u>12,479</u>
<u>Deferred Tax</u>		
Origination and reversal of temporary differences	(97)	67
Effect of changes in tax rates	(2)	43
Adjustment in respect of prior years	<u>11</u>	<u>-</u>
Deferred tax charge / (credit)	<u>(88)</u>	<u>110</u>
Tax charge in income statement	<u>1,113</u>	<u>12,589</u>
Tax (credit) in equity – Equity settled share-based payment	(6,082)	-
Tax charge / (credit) in other comprehensive income– Available-for-sale financial assets	<u>88</u>	<u>(110)</u>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 6. INCOME TAX (CONTINUED)

#### (b) RECONCILIATION OF CORPORATION TAX EXPENSE

	<u>Year Ended</u> <u>31 March 2018</u> \$'000	<u>Year Ended</u> <u>31 March 2017</u> \$'000
Loss on ordinary activities before tax	(230,370)	(26,811)
U.K. corporation tax charge / (credit) at 19% (2017: 20%)	(43,770)	(5,362)
Effects of		
Expenses not deductible / (non-taxable) for tax purposes		
- Bank levy	4,807	9,442
- Other expenses not deductible / (non-taxable) for tax purposes	201	1,748
Group relief charged at a rate different to the U.K. corporation tax rate	5,964	1,805
(Utilisation of unrecognised deferred tax assets) / Non-recognition of current year movement on deductible temporary differences and tax losses as deferred tax assets	30,334	(11,970)
(Recognition of previously unrecognised deferred tax asset) / Unrecognition of previously recognised deferred tax asset	(97)	-
Effect of tax rate change	(2)	43
Foreign tax suffered	3,872	3,797
Foreign tax relief	(736)	(759)
Tax charge transferred from other components of the financial statements	-	66
Adjustment in respect of prior years	540	13,779
	<hr/>	<hr/>
Total tax expense reported in profit and loss	1,113	12,589

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 7. FINANCIAL INSTRUMENTS

Analysis of the Company's financial assets and financial liabilities by IAS 39 classification:

	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>
	<u>Available- for-sale investments</u>	<u>Held for trading</u>	<u>Designated at fair value through profit and loss</u>	<u>Loans and receivables</u>	<u>Financial liabilities at amortised cost</u>	<u>Total</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>Financial Assets</b>						
Cash at bank and in hand	-	-	-	9,864,677	-	9,864,677
Held for trading	-	158,960,781	-	-	-	158,960,781
Investments – time deposits	-	-	196,438	216,412	-	412,850
Collateral posted for securities purchased under agreements to resell	-	-	10,600,004	61,269,925	-	71,869,929
Collateral posted for securities borrowed	-	-	-	8,644,494	-	8,644,494
Other debtors	-	-	1,354,966	15,883,284	-	17,238,250
Available-for-sale investments	5,655	-	-	-	-	5,655
<b>Financial Liabilities</b>						
Held for trading	-	(151,742,166)	-	-	-	(151,742,166)
Other creditors	-	-	(830,852)	-	(37,547,110)	(38,377,962)
Collateral received for securities sold under agreements to repurchase	-	-	(4,455,171)	-	(58,408,848)	(62,864,019)
Collateral received for Securities loaned	-	-	(1,256,006)	-	(5,338,666)	(6,594,672)
Creditors: amounts falling due after more than one year	-	-	(122,585)	-	(2,250,069)	(2,372,654)
	<u>5,655</u>	<u>7,218,615</u>	<u>5,486,794</u>	<u>95,878,792</u>	<u>(103,544,693)</u>	<u>5,045,163</u>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 7. FINANCIAL INSTRUMENTS (CONTINUED)

Analysis of the Company's financial assets and financial liabilities by IAS 39 classification:

	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>
	<u>Available- for-sale investments</u>	<u>Held for trading</u>	<u>Designated at fair value through profit and loss</u>	<u>Loans and receivables</u>	<u>Financial liabilities at amortised cost</u>	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>						
Cash at bank and in hand	-	-	-	5,363,858	-	5,363,858
Held for trading	-	172,777,589	-	-	-	172,777,589
Investments – time deposits	-	-	260,145	162,191	-	422,336
Collateral posted for securities purchased under agreements to resell	-	-	9,597,851	72,949,512	-	82,547,363
Collateral posted for securities borrowed	-	-	-	11,963,227	-	11,963,227
Other debtors	-	-	1,848,140	16,050,758	-	17,898,898
Available-for-sale investments	5,139	-	-	-	-	5,139
<b>Financial Liabilities</b>						
Held for trading	-	(171,512,396)	-	-	-	(171,512,396)
Other creditors	-	-	(725,907)	-	(33,562,959)	(34,288,866)
Collateral received for securities sold under agreements to repurchase	-	-	(3,221,809)	-	(67,323,757)	(70,545,566)
Collateral received for Securities loaned	-	-	(1,335,275)	-	(5,827,581)	(7,162,856)
Creditors: amounts falling due after more than one year	-	-	(466,562)	-	(2,008,562)	(2,475,124)
	5,139	1,265,193	5,956,583	106,489,546	(108,722,859)	4,993,602



# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 7. FINANCIAL INSTRUMENTS (CONTINUED)

#### Analysis of the Company's financial assets and financial liabilities by IAS 39 classification (continued)

Included within the loans and receivables above are the following positions with fellow Nomura Group undertakings:

	<b><u>2018</u></b> <b><u>\$'000</u></b>	<b><u>2017</u></b> <b><u>\$'000</u></b>
<b>Loans and receivables</b>		
Investments - time deposits	215,644	160,845
Collateral posted for securities purchased under agreements to resell	20,963,496	25,392,611
Collateral posted for securities borrowed	7,029,496	9,204,192
Other debtors	9,889,414	8,721,843
	<hr/> 38,098,050	<hr/> 43,479,491
<b>Financial liabilities at amortised cost</b>		
Other creditors	(19,416,508)	(18,855,336)
Collateral received for securities sold under agreements to repurchase	(17,695,036)	(24,270,378)
Collateral received for securities loaned	(2,349,169)	(2,605,918)
Creditors: amounts falling due after more than one year	(2,127,934)	(2,008,562)
	<hr/> (41,588,647)	<hr/> (47,740,194)

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 7. FINANCIAL INSTRUMENTS (CONTINUED)

#### Analysis of the Company's financial assets and financial liabilities by product type

The following table analyses the Company's available-for-sale investments, held for trading and designated fair value through profit and loss financial assets and liabilities by product type:

	<u>2018</u> \$'000	<u>2017</u> \$'000
<b>Financial assets</b>		
Equity securities	8,010,520	6,714,571
Debt securities	27,773,876	24,500,258
Derivatives	123,182,040	141,567,899
Investments - time deposits	196,438	260,145
Collateral posted for securities purchased under agreements to resell	10,600,004	9,597,851
Other debtors	1,354,966	1,848,140
	<hr/> 171,117,844	<hr/> 184,488,864
<b>Financial liabilities</b>		
Equity securities	(5,418,530)	(5,263,117)
Debt securities	(23,061,500)	(22,237,959)
Derivatives	(123,262,136)	(144,011,320)
Other creditors	(830,852)	(725,907)
Collateral received for securities sold under agreements to repurchase	(4,455,171)	(3,221,809)
Collateral received for securities loaned	(1,256,006)	(1,335,275)
Creditors: amounts falling due after more than one year	(122,585)	(466,562)
	<hr/> (158,406,780)	<hr/> (177,261,949)

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 7. FINANCIAL INSTRUMENTS (CONTINUED)

#### Analysis of the Company's financial assets and financial liabilities by product type (continued)

Included within the financial assets and financial liabilities above are the following positions with fellow Nomura Group undertakings:

	<b>2018</b> <b>\$'000</b>	<b>2017</b> <b>\$'000</b>
<b>Financial assets</b>		
Equity securities	294,893	382,857
Debt securities	40,718	33,193
Derivatives	64,083,512	79,078,744
Investments - time deposits	196,438	260,145
	<hr/> 64,615,561	<hr/> 79,754,939
<b>Financial liabilities</b>		
Equity securities	(664)	(15,111)
Debt securities	(3,219)	(5,057)
Derivatives	(72,809,612)	(86,313,134)
Other creditors	(332,819)	(205,750)
Collateral received for securities sold under agreements to repurchase	(1,517,856)	(1,293,085)
Creditors: amounts falling due after more than one year	(66,089)	(416,842)
	<hr/> (74,730,259)	<hr/> (88,248,979)

#### Available-for-sale investments

Available-for-sale investments are initially recognised at fair value and are subsequently held at fair value with unrealised gains or losses being recognised in other comprehensive income. As at 31 March 2018, such unquoted equity instruments comprised of investments in market bodies which the Company is required to hold for strategic purposes. The value of such investments held at the Statement of Financial Position date amounted to \$5,655,000 (2017: \$5,139,318).

#### Financial assets and liabilities designated at fair value through profit or loss

Refer to Note 1(c) (i) (b) for details of instruments on which fair value option applied:

There is no material difference between the carrying amount and the amount contractually required to be paid at maturity to holders of financial liabilities designated at fair value through profit or loss.

#### The Role of Financial Instruments

The Company holds or issues financial instruments for two main purposes:

- *Trading Activities* – to facilitate the needs of its client base and for trading purposes on its own account
- *Financing Activities* – to finance its operations and to manage the interest rate and currency risk arising from its financing activities

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 7. FINANCIAL INSTRUMENTS (CONTINUED)

##### **The Role of Financial Instruments (continued)**

###### *Trading Activities*

Trading includes both customer-orientated activities and positions that are taken for the Company's own account. These two activities are managed together.

To meet the expected needs of its client base the Company maintains access to market liquidity, both by engaging in two way business with other market makers and by carrying an inventory of cash and derivatives products. The Company also takes its own positions in the interest rate, credit, equity and foreign exchanges based on expectations of future client demand and its own views on the future direction of markets.

Within its trading activities, the Company employs standard market terms and conditions.

The financial instruments listed below are actively used by the Company. They are used both to facilitate customer business, for own account trading as well as to manage risk. In the ordinary course of business these products are valued on a mark to market basis, with the resulting income being recorded in trading profits.

Cash Products	Government bonds, corporate bonds, asset backed bonds, convertible bonds and equities.
Currency and Commodity Derivatives	Forward FX contracts, currency swaps, currency options, commodity forwards, commodity swaps and commodity options.
Interest Rate Derivatives	Interest rate swaps, forward rate agreements, forwards, options and combinations of these products.
Equity Derivatives	Single stock, equity, index and variance swaps, options, warrants and combinations of these products.
Credit Derivatives	Asset swaps, credit default swaps, credit options, credit baskets, credit linked notes, synthetic collateralised debt obligation ("CDO") tranches, CDO squared tranches and combinations of these.

The interest rate, credit, equity and foreign exchange risks that arise from activities using these products are managed through the Company's financial risk management objectives and policies, which are described in more detail in the next section.

###### *Financing Activities*

The main unsecured funding sources used by the Treasury function include capital, intercompany borrowings and long term debt.

We typically fund trading activities on a secured basis through repurchase agreements. Re-financing risk is managed with a range of measures including transacting with a significant number of counterparties over various durations.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 8. DERECOGNISED AND COLLATERALISED TRANSACTIONS

#### Transfers of financial assets, including pledges of collateral

In the ordinary course of business, the Company enters into transactions resulting in the transfer of financial assets to third parties which may not result in the full derecognition of the assets under IAS 39.

The following table shows the carrying amount of financial assets sold or otherwise transferred which do not qualify for derecognition and continue to be recognised on the Statement of Financial Position, together with their associated financial liabilities:

	<u>2018</u>	<u>2018</u>	<u>2018</u>
	<u>Financial</u>	<u>Financial</u>	<u>Difference</u>
	<u>assets</u>	<u>liabilities</u>	
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Collateral received for securities sold under agreements to repurchase	16,898,844	(16,738,252)	160,592
Collateral received for securities loaned	2,474,431	(2,394,543)	79,888
Other	131,756	(131,756)	-
	<u>19,505,031</u>	<u>(19,264,551)</u>	<u>240,480</u>
	<u>2017</u>	<u>2017</u>	<u>2017</u>
	<u>Financial</u>	<u>Financial</u>	<u>Difference</u>
	<u>assets</u>	<u>liabilities</u>	
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Collateral received for securities sold under agreements to repurchase	15,446,495	(14,731,731)	714,764
Collateral received for securities loaned	1,978,550	(1,974,470)	4,080
Other	139,336	(139,336)	-
	<u>17,564,381</u>	<u>(16,845,537)</u>	<u>718,844</u>

Financial asset transfers which do not result in derecognition predominantly result from secured financing transactions such as repurchase agreements or securities lending transactions. Under these types of transactions, the Company retains substantially all the risks and rewards associated with the transferred assets including market risk, issuer risk, credit risk and settlement risk. Effectively, these assets are pledged as security for borrowings, represented by the associated financial liabilities recognised. Financial assets may also be transferred, but not derecognised, as the risks and rewards associated with those assets continue to be retained by the Company through derivatives or similar instruments. In such cases, the financial asset continues to be recognised on Statement of Financial Position with an associated liability representing the cash received on the transfer as a secured borrowing.

The transactions above are conducted under standard terms used by financial market participants as well as requirements determined by exchanges where the Company acts as intermediary. These transactions are conducted with counterparties subject to the Company's normal risk control processes. The counterparties have the right to resell or repledge the transferred financial assets under standard market agreements.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 8. DERECOGNISED AND COLLATERALISED TRANSACTIONS (CONTINUED)

#### Continuing involvement

In addition to the financial assets transferred but not derecognised and retained in their entirety on the Company's Statement of Financial Position outlined above, there are also a number of transactions in which the Company neither retains nor transfers substantially all the risks and rewards of the financial asset. As the Company retains control over those assets, it is considered to have a continuing involvement with those financial assets for accounting purposes.

Financial asset transfers which result in continuing involvement result from the partial retention of the risks and rewards associated with those assets by the Company through derivatives or similar instruments. In such cases, the financial asset continues to be recognised on Statement of Financial Position at the level of the Company's continuing involvement with a corresponding liability.

The following table shows the carrying amount of financial assets sold or otherwise transferred in which the Company has continuing involvement, together with the level of the Company's associated financial liabilities and its net economic exposure, representing the fair value of the associated derivatives or similar instruments:

<u>2018</u>	<u>2018</u>	<u>2018</u>
<u>Total carrying value of</u>	<u>Total carrying value of</u>	<u>Net economic exposure</u>
<u>financial assets with</u>	<u>associated liabilities</u>	
<u>continuing involvement</u>		
\$'000	\$'000	\$'000
7,932	(7,932)	-
<u>2017</u>	<u>2017</u>	<u>2017</u>
<u>Total carrying value of</u>	<u>Total carrying value of</u>	<u>Net economic exposure</u>
<u>financial assets with</u>	<u>associated liabilities</u>	
<u>continuing involvement</u>		
\$'000	\$'000	\$'000
59,414	(59,414)	-

#### Financial assets accepted as collateral

Financial assets are accepted as collateral as part of reverse repurchases arrangements or securities borrowing transactions which the Company is permitted to sell or repledge under standard market documentation.

The fair value of financial assets accepted as collateral that the Company is permitted to sell or repledge in the absence of default is \$303 billion (2017: \$281 billion). Of this amount, \$245 billion (2017: \$237 billion) has been sold or repledged to comply with commitments under short sale transactions or in connection with financing activities. Included within these balances are \$33 billion (2017: \$45 billion) of balances due to fellow Nomura Group undertakings. The corresponding obligation to return securities received which have been sold or repledged is \$0.1 billion (2017: \$0.2 billion), relating to special purpose vehicles.

# **NOMURA INTERNATIONAL PLC**

## **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

### **9. OTHER DEBTORS**

	<b><u>2018</u></b> <b><u>\$'000</u></b>	<b><u>2017</u></b> <b><u>\$'000</u></b>
Loans and advances	1,423,348	1,897,920
Trade debtors	1,201,548	1,619,360
Broker balances	14,613,354	14,381,619
Accrued interest and dividends receivable	68,089	44,788
Prepayments and accrued income	415,195	407,911
Internally generated software	115,796	122,401
	<hr/> 17,837,330	<hr/> 18,473,999

Included within debtor balances above are the following balances due from fellow Nomura Group undertakings:

	<b><u>2018</u></b> <b><u>\$'000</u></b>	<b><u>2017</u></b> <b><u>\$'000</u></b>
Trade debtors	264,004	288,414
Broker balances	9,625,410	8,433,430
Accrued interest and dividends receivable	35,986	29,223
Prepayments and accrued income	149,951	258,237
	<hr/> 10,075,351	<hr/> 9,009,304

Refer to note 18 for an aged analysis of other debtors which are past due but not impaired.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 10. TANGIBLE ASSETS

<b>Cost</b>	<b>Construction In Progress \$'000</b>	<b>Long Leasehold \$'000</b>	<b>Furniture &amp; Equipment \$'000</b>	<b>Total \$'000</b>
At 1 April 2017	290	9,831	237,933	248,054
Additions	209	182	1,400	1,791
Disposals	-	-	-	-
Others	-	125	907	1,032
At 31 March 2018	499	10,138	240,240	250,877
<b>Depreciation</b>				
At 1 April 2017	-	4,099	226,692	230,791
Charged during the year	-	1,240	3,354	4,594
Disposals	-	-	-	-
Others	-	47	775	822
At 31 March 2018	-	5,386	230,821	236,207
<b>Carrying Amount</b>				
At 31 March 2018	499	4,752	9,419	14,670
At 31 March 2017	290	5,732	11,241	17,263

### 11. INTANGIBLE ASSETS

<b>Cost</b>	<b>Software \$'000</b>	<b>Total \$'000</b>
At 1 April 2017	100,386	100,386
Additions	742	742
Disposals	-	-
At 31 March 2018	101,128	101,129
<b>Amortisation</b>		
At 1 April 2017	94,885	94,885
Charged during the year	2,733	2,733
Disposals	-	-
At 31 March 2018	97,618	97,618
<b>Carrying Amount</b>		
At 31 March 2018	3,510	3,510
At 31 March 2017	5,502	5,502



# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 12. INVESTMENT IN SUBSIDIARIES

<u>Cost</u>	<u>Investment in Subsidiary Undertakings</u> \$'000
At 1 April 2017	61
Additions	-
Return of Investment	-
Impairment	(29)
Others	(10)
	<hr/>
At 31 March 2018	22
<u>Carrying amount</u>	<hr/>
At 31 March 2018	22
At 31 March 2017	61

The investment in Nomura Investment Advisor LLP was reviewed for impairment during the period as future profitability for the entity not now expected. Following this, the investment has been impaired, resulting in an impairment loss of \$29,000 (2017: \$12,847,000)

#### The investment in subsidiary undertakings represents the following:

<u>Subsidiary undertakings</u>	<u>Proportion of voting rights and ordinary share capital held</u>	<u>Nature of business</u>	<u>Company address</u>
Nomura PB Nominees Limited	100%	Investment	1 Angel Lane, London EC4R 3AB, U.K.
Nomura Custody Nominees Limited	100%	Investment	1 Angel Lane, London EC4R 3AB, U.K.
Nomura D1 Nominee Limited	100%	Investment	1 Angel Lane, London EC4R 3AB, U.K.
Nomura Derivatives Clearing Nominee Limited	100%	Investment	1 Angel Lane, London EC4R 3AB, U.K.
Nomura PB Beneficial Ownership Markets Limited	100%	Investment	1 Angel Lane, London EC4R 3AB, U.K.
Nomura Clearance and Settlement Nominees Limited	100%	Investment	1 Angel Lane, London EC4R 3AB, U.K.
Nomura RPS Limited	100%	Investment adviser	1 Angel Lane, London EC4R 3AB, U.K.
Nomura Investment Advisor LLP	50%	Investment adviser	1 Angel Lane, London EC4R 3AB, U.K.
Nomura Private Equity Investment GP Limited	100%	Investment Manager	1 Angel Lane, London EC4R 3AB, U.K.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 12. INVESTMENT IN SUBSIDIARIES (CONTINUED)

The investment in subsidiary undertakings represents the following (continued):

<u>Subsidiary undertakings</u>	<u>Proportion of voting rights and ordinary share capital held</u>	<u>Nature of business</u>	<u>Company address</u>
Nomura Employment Services (Isle of Man) Limited	100%	Employment Services	1st Floor, Sixty Circular Road, Douglas, Isle of Man
Nomura Nominees Limited	100%	Custody	1 Angel Lane, London EC4R 3AB, U.K.
Nomura Investments (AH) Limited	99.99%	Investment	1 Royal Plaza, Royal Avenue, St Peter Port, Guernsey GY1 2HL
Nomura.com Limited	100%	Dormant	1 Angel Lane, London EC4R 3AB, U.K.
IBJ Nomura Financial Products (U.K.) plc*	100%	Company in liquidation	PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
Nomura London Retirement Benefits Plan Trustee Limited	100%	Corporate Trustee	1 Angel Lane, London EC4R 3AB, U.K.
Nomura Investment Solutions PLC-Nomura Equity Volatility Fund	53.10%	Investment	Beaux Lane House Mercer Street Lower Dublin 2 Ireland
Nomura Investment Solutions PLC-Nomura Colrs Commodity Fund	69.60%	Investment	Beaux Lane House Mercer Street Lower Dublin 2 Ireland C/O Global Funds Trust Company, PO Box 309, Ugland House, South Church Street, George Town KY1-1104, Cayman Islands
Nomura Account Select 1207	100%	Investment	Nomura NEXT FUNDS Ireland plc, Beaux Lane House, Mercer Street Lower, Dublin 2, Ireland
Nomura Nikkei 225 EUR-Hedged ETF	44.00%	Investment	Nomura NEXT FUNDS Ireland plc, Beaux Lane House, Mercer Street Lower, Dublin 2, Ireland
Nomura Nikkei 225 USD-Hedged ETF	67.00%	Investment	Nomura NEXT FUNDS Ireland plc, Beaux Lane House, Mercer Street Lower, Dublin 2, Ireland
Nomura Index Fund JPX Nikkei 400 – EUR	57.00%	Investment	Nomura NEXT FUNDS Ireland plc, Beaux Lane House, Mercer Street Lower, Dublin 2, Ireland

\* Currently in liquidation

# **NOMURA INTERNATIONAL PLC**

## **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

### **12. INVESTMENT IN SUBSIDIARIES (CONTINUED)**

The investment in subsidiary undertakings represents the following (continued):

<b><u>Subsidiary undertakings</u></b>	<b><u>Proportion of voting rights and ordinary share capital held</u></b>	<b><u>Nature of business</u></b>	<b><u>Company address</u></b>
Nomura Index Fund JPX Nikkei 400 – USD	62%	Investment	Nomura NEXT Funds Ireland plc, Beaux Lane House, Mercer Street Lower, Dublin 2 Ireland
Novus Capital Plc, Series 2012-23, 2016-43, 2017-44 and 2017-19	100%	Securitisation	11/12 Warrington Place, 2nd Floor, Dublin 2
Sylph Ltd Series 1011, 1012, 1013, 1014, 1686, 1687, 1738, 1811, 1855, 1881, 2001 and 1922.	100%	Securitisation	South Church Street, Uglard House, George Town, KY1-1104
Titanium Secured Obligations DAC	100%	Securitisation	Fourth Floor, 3 George's Dock, IFSC, Dublin 1, Ireland

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 13. OTHER CREDITORS

	<u>2018</u> \$'000	<u>2017</u> \$'000
Loans	4,473,282	5,476,694
Overdrafts	68,812	91,759
Trade creditors	3,600,570	2,813,234
Broker balances	30,235,298	25,907,179
Other tax and social security payable	36,282	26,894
Accrued interest and dividends payable	51,443	63,125
Accruals and deferred income	512,428	512,930
	<u>38,978,115</u>	<u>34,891,815</u>

Included within creditor balances above are the following balances due to fellow Nomura Group undertakings:

	<u>2018</u> \$'000	<u>2017</u> \$'000
Loans	3,507,999	4,777,685
Trade creditors	195,285	209,676
Broker balances	15,760,098	14,073,725
Accrued interest and dividends payable	39,809	43,096
Accruals and deferred income	57,666	77,586
	<u>19,560,857</u>	<u>19,181,768</u>

### 14. DEFERRED TAX

#### (a) Movement of recognised deferred tax assets and (liabilities)

	Asset / (liability) at 1 April 2017	Credit in income statement	(charge) in OCI	Credit / (charge) in equity	Asset / (liability) at 31 March 2018
Unused capital loss	823	88	-	-	911
Available-for-sale financial assets	(823)	-	(88)	-	(911)
	<u>-</u>	<u>88</u>	<u>(88)</u>	<u>-</u>	<u>-</u>
	Asset / (liability) at 1 April 2016	(Charge) in income statement	Credit in OCI	Credit / (charge) in equity	Asset / (liability) at 31 March 2017
Unused capital loss	933	(110)	-	-	823
Available-for-sale financial assets	(933)	-	110	-	(823)
	<u>-</u>	<u>(110)</u>	<u>110</u>	<u>-</u>	<u>-</u>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 14. DEFERRED TAX (CONTINUED)

<b>(b) Unrecognised deferred tax assets and (liabilities)</b>	<b><u>2018</u></b> <b><u>\$'000</u></b>	<b><u>2017</u></b> <b><u>\$'000</u></b>
Unused trade loss	714,968	692,517
Unused capital loss	395	495
(Accelerated) / decelerated capital allowance	93,355	78,724
Deferred emoluments	9,200	15,274
Share-based payment	21,057	31,676
	<u>838,975</u>	<u>818,686</u>

The UK government has reduced the UK corporation tax rate in recent years with the enacted rates at 19% from 1 April 2017 and at 17% from 1 April 2020. Deferred tax assets and liabilities as at the balance sheet date are calculated by reference to the most appropriate rates based on forecast.

From 1 April 2015, Finance Act 2015 restricts the amount of taxable profits that can be relieved by brought forward tax losses in existence at 31 March 2015 at 50% of such taxable profits. From 1 April 2016 the amount is further restricted to 25% by Finance Act 2016.

From 1 April 2017, the use of post 1 April 2015 brought forward tax losses against current year profits is restricted to 50% subject to an annual £5 million allowance. In addition to this, tax losses incurred after 1 April 2017 and carried forward to subsequent years can be surrendered as group relief subject to the 50% restriction and the annual £5 million allowance. These changes were legislated by Finance (No 2) Act 2017 which was enacted on 16 November 2017.

Under UK tax rules, tax losses can be carried forward indefinitely.

The Company has an unutilised trade loss of \$4.2 billion (2017: \$4.1 billion) that is available to set off against future taxable profits. A deferred tax asset of \$714.7 million (2017: \$692.5 million) is not recognised in respect of the unutilised trade loss due to uncertainty surrounding the availability of future taxable profits.

The Company has an unutilised capital loss of \$7.7 million (2017: \$7.8 million) that is available to set off against future chargeable gains. A deferred tax asset of \$0.9 million (2017: \$0.8 million) in respect of the unutilised capital loss is recognised to set off against a deferred tax liability of the same amount in respect of future chargeable gains on the disposals of available-for-sale financial assets. A deferred tax asset of \$0.4 million (2017: \$0.5 million) is not recognised in respect of the remaining unutilised capital loss due to uncertainty surrounding future chargeable gains in addition to the disposals of available-for-sale financial assets.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>2018</u> \$'000	<u>2017</u> \$'000
Loans and other liabilities	1,112,654	1,215,124
Subordinated debt	1,260,000	1,260,000
	<u>2,372,654</u>	<u>2,475,124</u>

Included within creditor balances above are 2018: \$2,194,023,000 (2017: \$2,425,405,000) of balances due to fellow Nomura Group undertakings.

#### Subordinated debt agreements

The amounts subject to Subordinated loan agreements are wholly repayable as shown below:

Long Term	<u>Repayment date</u>	<u>2018</u> \$'000	<u>2017</u> \$'000
Nomura Europe Holdings plc	23 Apr 2025	600,000	600,000
Nomura Europe Holdings plc	13 Apr 2025	460,000	460,000
Nomura Europe Holdings plc	17 May 2025	200,000	200,000
		<u>1,260,000</u>	<u>1,260,000</u>

The legal nature of the subordinated loans differs from that usually associated with debt. In a winding up of the Company no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

The interests rates on the subordinated loans are based on local inter bank borrowing rates and include a margin to reflect the subordination. Rates are generally fixed quarterly.

The rates of interest applicable to the loans with maturities greater than five years are as follows:

Nomura Europe Holdings plc	23 Apr 2025	LIBOR + 2.26%
Nomura Europe Holdings plc	13 Apr 2025	LIBOR + 2.26%
Nomura Europe Holdings plc	17 May 2025	LIBOR + 2.26%

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 16. SHARE CAPITAL

#### 2018

	<u>Number</u> <u>'000</u>	<u>Fully paid</u> <u>consideration</u> <u>\$'000</u>
<b><u>Authorised</u></b>		
US Dollar Ordinary shares of \$1 Each	10,241,226	10,241,226

#### **Shares Issued and Fully Paid**

US Dollar Ordinary shares of \$1 Each	10,241,226	10,241,226
--	------------	------------

#### 2017

	<u>Number</u> <u>'000</u>	<u>Fully paid</u> <u>consideration</u> <u>\$'000</u>
<b><u>Authorised</u></b>		
US Dollar Ordinary shares of \$1 Each	9,991,226	9,991,226

#### **Shares Issued and Fully Paid**

US Dollar Ordinary shares of \$1 Each	9,991,226	9,991,226
--	-----------	-----------

### Reconciliation of number of shares outstanding at the beginning and end of the period

#### 2018

	<u>Mar 2017</u>	<u>Number '000</u> <u>Issued during</u> <u>the year</u>	<u>Mar 2018</u>
US Dollar Ordinary shares of \$1 Each	9,991,226	250,000	10,241,226

#### 2017

	<u>Mar 2016</u>	<u>Number '000</u> <u>Issued during</u> <u>the year</u>	<u>Mar 2017</u>
US Dollar Ordinary shares of \$1 Each	9,991,226	-	9,991,226

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 17. RESERVES

	<u>Share Premium</u>	<u>Other Reserve</u>	<u>Capital Redemption Reserve</u>	<u>Available For Sale Reserve</u>	<u>Share- based payment Reserve</u>	<u>Retained Earnings</u>
	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
At 1 April 2017	27,479	(20,128)	184,499	4,022	1,047,392	(6,212,708)
Loss for the year	-	-	-	-	-	(231,483)
Foreign currency translation reserve charged during the year	-	741	-	-	-	-
Share-based payment expense for the year	-	-	-	-	58,340	-
Gain on available-for-sale investments	-	-	-	516	-	-
Current tax recognised in other comprehensive income	-	-	-	(88)	-	-
At 31 Mar 2018	27,479	(19,387)	184,499	4,450	1,105,732	(6,444,191)

	<u>Share Premium</u>	<u>Other Reserve</u>	<u>Capital Redemption Reserve</u>	<u>Available For Sale Reserve</u>	<u>Share- based payment Reserve</u>	<u>Retained Earnings</u>
	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
At 1 April 2016	27,479	(17,475)	184,499	4,246	1,004,216	(6,173,308)
Loss for the year	-	-	-	-	-	(39,400)
Foreign currency translation reserve charged during the year	-	(2,653)	-	-	-	-
Share-based payment expense for the year	-	-	-	-	43,176	-
Gain on available-for-sale investments	-	-	-	(334)	-	-
Current tax recognised in other comprehensive income	-	-	-	110	-	-
At 31 Mar 2017	27,479	(20,128)	184,499	4,022	1,047,392	(6,212,708)



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT

The Company's activities involve both the assumption and transfer of certain risks which the Company must manage.

The Company defines risks as (i) the potential erosion of the Company's capital base due to unexpected losses arising from risks which its business operations are exposed, such as market risk, credit risk, operational risk and model risk, (ii) liquidity risk, the potential lack of access to funds or higher cost of funding than normal levels due to a deterioration in the Nomura Group's creditworthiness or deterioration in market conditions, and (iii) business risk, the potential failure of revenues to cover costs due to a deterioration in the earnings environment or a deterioration in the efficiency or effectiveness of its business operations.

The Capital Requirements Directive IV (CRD IV), including the Capital Requirements Regulation (CRR), requires NEHS and its fellow subsidiary undertakings, including the Company, to publish both Pillar 3 and country by country disclosures on a consolidated basis. The March 2018 reports will be published on the below website in the fourth quarter of 2018:

<https://www.nomuranow.com/portal/site/nnextranet/en/regulatory-disclosures/>

#### **Risk management strategy**

The Company's risk strategy comprises a key component of the overall NHI risk strategy and is closely linked to that broader risk strategy. The Company's risk strategy has been established using a similar risk management framework as the one for the Nomura Group, and is articulated by the Board of NEHS Group through three key elements:

- Risk taking is a component of the business strategy approved by the Board of NEHS;
- Risk governance is established through the Board-approved committee structure, risk management policies and devolved individual accountabilities for risk management; and
- The risk appetite statement is established to articulate the maximum level and types of risk that the NEHS Group is willing to assume in pursuit of its strategic objectives and business plan.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Risk management structure

- The Board of Directors of the Company is ultimately responsible for identifying and controlling these risks through its overall risk management approach and approval of risk strategies and principles. These risks are managed through sub-committees of the Board of NEHS Group, including the Company:
- The Prudential Risk Committee ("PRC") has oversight of, and provides advice to, the Board on the Group's risk profile, risk appetite, future risk strategy and maintenance of an appropriate risk control framework.
- The Financial Conduct Committee is responsible for ensuring an effective internal control and risk management environment is maintained in respect of the financial conduct risks impacting the NEHS Group, including the Company, and for ensuring corporate objectives for the NEHS Group are achieved and are consistent with the Nomura Group.
- The Risk Management Committee is established and chaired by the EMEA Chief Risk Officer ("CRO") and is primarily responsible for monitoring and controlling market risk, credit risk and operational risk for the NEHS Group, including the Company.
- The Risk Management Division is responsible for establishing and operating risk management processes, establishing and enforcing risk management policies and regulations, verifying the effectiveness of risk management methods, as well as reporting to regulatory bodies where required, and handling regulatory applications concerning risk management methods and other items as necessary.

The Risk Management Division comprises the following functions to manage the various types of risk that the Company is exposed to:

- Market Risk Management ("MRM"), which provides independent oversight, assessment and monitoring of market risks taken by the Company and includes the Stress Testing Group, which develops and performs various sensitivity and scenario analyses;
- Credit Risk Management ("CRM"), which provides independent oversight, assessment and monitoring of credit risks taken by the Company;
- Operational Risk Management ("ORM"), which is responsible for defining and coordinating the Company's operational risk framework and its implementation and provides challenge to the 1<sup>st</sup> Line of Defence, and EMEA New Business Group ("NBG"), which is responsible for the approval process of new products and transactions to ensure that risks associated with these new products and transactions are identified and managed appropriately;
- Business Resilience ("BR"), which is responsible for assessing the Company's business resilience and facilitating the implementation of business continuity strategies and approach across the Nomura offices in EMEA, enabling it to rapidly adapt and respond to situations such as events causing a loss of office access or a loss of data centre, a major system issue, a cyber-attack, a pandemic crisis, a geo or socio political disorder and business disruption, dependency outages in other regions or critical third parties supporting the Company. This includes facilitating the Company's approach to Operational Continuity in Resolution; and
- Risk Methodology Group ("RMG"), which is responsible for designing and building risk models that calculate potential losses incurred from a specific risk type and are used for regulatory or economic capital calculations, limit monitoring, trade approval, etc.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### **Risk management structure (Continued)**

Model Validation Group ("MVG"), which is responsible for validating the integrity and comprehensiveness of valuation and risk models to ensure that they are fit-for-purpose. Validation is performed independently of those who design and build the models.

The EMEA Heads of MRM, CRM, ORM, NBG and BR report to the EMEA CRO. The EMEA CRO is also member of the Global Risk Analytics Committee ("GRAC") and Model Risk Analytics Committee ("MRAC"). Upon delegation from the Global Risk Management Committee, the GRAC and the MRAC deliberate on or determine matters concerning the development, management and strategy of risk models and valuation models, respectively. The committees' primary responsibility is to govern and provide oversight of model management, including the approval of new models and significant model changes.

- Various committees are responsible for the review and approval of risks arising in relation to transactions originated and booked within EMEA. Additionally there are committees dedicated to overseeing cross-border risk in relation to non-EMEA business booked into certain European entities, including the subsidiaries of the Group.
- Other departments or functions within the Company are responsible for contributing to the overall risk management of the Company as further described below:

##### *Finance Division*

The Finance Division monitors compliance with internally and externally set regulatory limits and guidelines. The annual process for budgeting entity level capital needs is part of the Internal Capital Adequacy Assessment Process ("ICAAP") exercise which takes place in conjunction with the budget related processes. The setting of all current and budgeted capital requirements relating to U.K.-regulated entities, including the Company, is coordinated and challenged by the Financial and Regulatory Control functions within EMEA Finance. The Financial and Regulatory Control functions are also responsible for monitoring compliance with capital usage limits to ensure capital adequacy targets are met.

##### *Treasury*

Treasury has responsibility for managing the Company's unsecured funding profile, Liquidity Portfolio and undertaking Liquidity Stress testing ensuring compliance with Board approved Liquidity Risk Appetite and Policies. The Treasury function reports to the Chief Financial Officer ("CFO") and is fully independent of trading activities. The Treasury function is not authorised to take positions for its own account and it is not judged on the basis of profit.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### **Risk management structure (Continued)**

###### *Internal Audit Division*

The Nomura Group Internal Audit Department has responsibility to examine, evaluate and make recommendations on the appropriateness and the effectiveness of the internal control of all business and operational activities.

The Global Head of Internal Audit has an independent reporting line to the Internal Controls Committee, the Chairman of the Nomura Holdings, Inc. Audit Committee and the Audit Mission Directors in Tokyo.

In EMEA, the Head of Internal Audit has an independent reporting line to the Chairman of the Audit Committee of NEHS. The EMEA Head of Internal Audit also reports to the Global Head of Internal Audit and locally to the Chief Executive Officer of EMEA.

Internal Audit adopts a risk-based audit approach. A risk assessment is formally carried out annually using a globally agreed methodology and, where necessary, this is updated throughout the year as a result of continuous monitoring, on completion of audits and in response to internal or external events or incidents.

The outcome of the Internal Audit risk assessment is used as a basis for determining the annual Audit Plan. Any regulatory or other required or expected audits are added to the Plan as well as any Management Requests or Special Projects initiated by Internal Audit, such as pre-implementation reviews, new business reviews or one-off assignments in response to significant changes in the regulatory or business environment. The annual Audit Plan is reviewed and approved by the NEHS Audit Committee.

Audit execution is also risk-based. Key controls are identified and a variety of techniques are used to evaluate the adequacy of the design and the effectiveness of the controls, including inquiry and observation, sample testing and, in some cases, substantive testing.

Internal Audit reports its findings and the agreed issues, target dates and responsible owners to the relevant Audit Committee(s), Senior Management and Line Management as appropriate.

The status of outstanding issues is reviewed regularly and reported to Management periodically. Internal Audit also performs validation work for issues which Management represents as having been completed.

The Board has satisfied itself as to the adequacy and sufficiency of Internal Audit resources.

A copy of the Internal Audit Charter is available upon request.

##### **Risk Appetite**

The risk appetite defines the type and quantum of risk that the Group is willing to assume in pursuit of its strategic objectives and business plan. This must be within its risk capacity which is determined by constraints including regulatory capital, liquidity, and business conditions.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Risk Appetite (Continued)**

The risk appetite for the NEHS Group, including the Company, includes the following topics: capital adequacy, liquidity risk, market and credit risk, cross-border risk, operational risk, model risk, compliance risk, conduct risk, tax risk and data management.

The risk appetite and risk limits for the NEHS Group, including the Company are established at levels that are consistent with the cascaded Nomura Group risk appetite and risk limits. Lower level risk limits are used to manage the business at the more granular levels of the hierarchy in a manner that is consistent with the Company's risk appetite.

Some of the measures used for the risk appetite of the NEHS Group, including the Company, are calculated differently from those used in the Nomura Group's risk appetite in line with local regulations, and for some of the measures there are additional local regulatory requirements, so additional specific measures have been established at the NEHS Group level to ensure this compliance.

The metrics include, but are not limited to:

- Capital adequacy metrics, such as Tier 1 capital headroom above capital buffers, capital coverage ratio, stressed Tier 1 ratio and economic capital ratio;
- Liquidity risk metrics, such as Maximum Cumulative Outflow under different scenarios, Liquidity Coverage Ratio;
- Market and credit risk metrics, such as economic capital;
- Operational risk metrics, such as the aggregated operational risk losses as a percentage of gross revenue on a 12-month rolling basis; and
- Model risk metrics, such as model reserves as a percentage of economic capital.

The risk appetite statement for the NEHS Group, including the Company, is approved by the Board, and tracked and communicated to that forum on an ongoing basis. There is clear ownership and accountability for each category of risk and individual risk appetite measures. The risk appetite statements may be reviewed on an ad hoc basis, and must specifically be reviewed following any significant change in strategy.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Risk Policy Framework**

Policies and procedures are essential tools of governance used by the Risk Management Division. They define principles, rules and standards, and the specific processes that must be adhered to in order to effectively manage risk at Nomura Group, including the Company. The Risk Management Division has established a risk policy framework to promote appropriate standards and consistency for risk policies and procedures and to articulate the principles and procedures conducive to effective risk management. All risk management policies and procedures are developed in line with this policy framework and a defined process is followed for any exceptions.

##### **Monitoring, Reporting and Data Integrity**

Development, consolidation, monitoring and reporting of risk management information ("risk MI") are fundamental to the appropriate management of risk. The aim of all risk MI is to provide a basis for sound decision-making, action and escalation as required. The Risk Management Division and the Finance Division are responsible for producing regular risk MI, which reflects the position of the NEHS Group, including the Company, relative to stated risk appetite. Risk MI includes information from across the risk classes defined in the risk management framework and reflects the use of the various risk tools used to identify and assess those risks. The Risk Management Division is responsible for implementing appropriate controls over data integrity for risk MI.

##### **Adequacy of the risk management arrangements**

The Directors are ultimately responsible for reviewing the adequacy of the risk management arrangements of the NEHS Group, including the Company, and consider that the arrangements in place are adequate.

##### **Market Risk**

Market risk is the risk of loss arising from fluctuations in values of financial assets and liabilities (including off-balance sheet items) due to fluctuations in market risk factors (interest rates, foreign exchange rates, prices of securities and others). The Company classifies exposures into either trading or non-trading portfolios. Trading portfolios are exposed to market risk and managed and monitored on a daily basis on a Value-at-Risk ("VaR") methodology. Non-trading positions are managed and monitored using other sensitivity analysis. The Company uses the Nomura Group's MRM framework for the management of market risk, with some specific criteria applied to the Company where relevant.

##### **Use of the Internal Models for Market Risk**

In July 2013, the Company was granted permission by the PRA to use the internal model method, such as Value at Risk ("VaR"), Stressed VaR ("SVaR"), Incremental Risk Charge ("IRC"), to calculate market risk regulatory capital requirements for a range of trading positions. VaR scope covers certain credit and interest rates positions (e.g. bonds, credit default swaps, loans in the trading book and others), certain equity positions (e.g. cash equities, equity forwards, equity swaps and others) and certain foreign exchange positions (e.g. FX spot, FX futures, FX forwards, FX swaps, cross-currency swaps and others). For trading positions that are not in scope under the internal model method, the standard rules are applied to calculate their market risk regulatory capital requirements.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

**A. Market Risk – Trading (including financial assets and financial liabilities designated at fair value through profit and loss)**

Effective management of market risk requires the ability to analyse a complex and evolving portfolio in a constantly changing global market environment, identify problematic trends and ensure that appropriate action is taken in a timely manner. The Company uses a variety of statistical measurement tools to assess and monitor market risk on an ongoing basis including, but not limited to, Value at Risk ("VaR"), Stressed VaR ("SVaR") and Incremental Risk Charge ("IRC").

Within the Company, there is also a formal process for the allocation and management of economic capital (Nomura Capital Allocation Target or "NCAT"), which is facilitated through the capital allocation agenda discussed at the PRC. The PRC recommends any changes to the Board, who must opine and approve, if appropriate. Day-to-day responsibility for the NCAT calculation and the monitoring of risk limits, within the risk control framework, rests with MRM.

NCAT is used for performance evaluation and capital allocation, but not for capital adequacy. In order to ensure capital adequacy, financial soundness is assessed under stressed conditions, i.e. worst-case risk factor moves. Stress testing is undertaken, and results reviewed, monthly. For additional information about stress testing performed at the Nomura Group, refer to Form 20-F of the Nomura Holdings, Inc.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Market Risk (continued)

##### A. Market Risk – Trading (continued)

##### *Value at Risk*

VaR is a measure of the potential loss due to adverse movements in market factors, such as equity prices, interest rates, credit, foreign exchange rates, and commodities with associated volatilities and correlations.

##### *VaR Methodology Assumptions*

The Company uses a single VaR model which has been implemented globally in order to determine the total trading VaR. A historical simulation is implemented where historical market moves over a two-year window are applied to the Company's current exposure, in order to construct a P&L distribution. Potential losses can be estimated at required confidence levels or probabilities. A scenario weighting scheme is employed to ensure that the VaR model responds to changing market volatility.

Depending on the booking system, product and risk factor, profit and loss distribution is generated using full revaluation, spot-volatility grids or Greeks based methods. For interest rate and credit products, their main risk factors (interest rate and credit) are treated using the full revaluation method. For equity and foreign exchange products, their main risk factors (spot and volatility for equity and FX respectively) are treated using spot-volatility grids. However, for some products (e.g. interest rates and FX hedges of equity derivatives portfolios, booked in the relevant equity system), as well as for secondary risk factors of all products (e.g. FX risk for interest rates, credit and equity instruments) the Greeks based method is applied (relevant Greeks are multiplied by corresponding historical returns).

The Company uses the same VaR model for both internal risk management purposes and for regulatory reporting. For regulatory capital, the Company uses 99% confidence level and 10-day time horizon, calculated using actual 10-day historical market moves. For internal risk management purposes, VaR is calculated across the Company at the same confidence level using both 1-day and 10-day time horizons. SVaR is in both cases calculated using 10-day time horizon. The 1-year stress window used in SVaR for internal risk management is calibrated at the group level (NHI), while for regulatory reporting it is specific to NEHS.

To complement VaR under Basel 2.5 regulations, Nomura also computes SVaR, which samples from a one-year window during a period of financial stress. Both VaR and SVaR are based on a single model that diversifies general and specific risk. Both VaR and SVaR are calculated daily using actual 10-day historical market moves. The historical two-year window for VaR is updated twice a week, while the optimal one-year window for SVaR is calibrated monthly. The stress period used in SVaR model is the optimal one-year window, which is calibrated monthly by maximising SVaR over rolling one-year window between start of 2008 and the reporting date.

The Company's VaR model uses exact time series for each individual risk factor. When simulating potential movements in risk factors, a mixed approach is used, with absolute returns for some risk classes and relative returns for others. However, if good quality data are not available, a 'proxy logic' maps the exposure to an appropriate time series. The level of proxying taking place is carefully monitored through internal risk management processes and there is a continual effort to source new time series to use in the VaR calculation.



# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Market Risk (continued)

##### A. Market Risk – Trading (continued)

##### *VaR Backtesting*

The performance of the Company's VaR model is constantly monitored to ensure that it remains fit for purpose. The main approach for validating VaR is to compare 1-day trading losses with the corresponding VaR estimate. The Company's VaR model is backtested at different levels. Backtesting results are reviewed on a monthly basis by the Risk Management Division.

1-day trading losses did not exceed the 99% VaR estimate on any occasion for the Company for the year ended 31 March 2018.

##### *Limitations and Advantages of VaR*

VaR aggregates risks from different asset classes in a transparent and intuitive way. However, there are limitations. VaR is a backward-looking measure: it implicitly assumes that distributions and correlations of recent factor moves are adequate to represent moves in the near future. VaR is appropriate for liquid markets and is not appropriate for risk factors that exhibit sudden jumps. Therefore it may understate the impact of severe events.

Given these limitations, Nomura uses VaR only as one component of a diverse risk management process.

The table below illustrates, by major risk category, the VaR used for internal risk management purpose during the financial years ended 31 March 2018 and 31 March 2017. It shows the highest, lowest and average VaR during the financial year.

	Average VaR	Min VaR	Max VaR	Average VaR	Min VaR	Max VaR
	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Equity VaR	3,465	325	11,912	1,688	634	3,223
Credit VaR	3,356	2,332	4,904	5,622	2,798	9,828
Interest Rates VaR	4,980	2,745	7,946	5,688	3,106	9,617
Inflation VaR	436	261	850	549	357	804
FX VaR	3,236	1,269	6,763	3,432	1,207	9,398
Commodity VaR	45	-	395	114	4	835
Diversification / other	(7,854)	-	-	(7,683)	-	-
Company's VaR	7,665	4,680	12,781	9,410	6,053	15,748

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### **Market Risk (continued)**

##### **A. Market Risk – Trading (continued)**

The total average, minimum and maximum VaR values are shown over the full annual period. Total average VaR during the fiscal year ended 31 March 2018 was lower than previous year following a decrease in the average credit VaR, partially offset by increase in the average equity VaR.

In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

##### **B. Incremental Risk Charge ("IRC")**

IRC is a measure of the potential loss from credit migration and default events on debt securities over a one year time horizon and 99.9% confidence level. IRC is calculated by Monte Carlo simulation of correlated migration and default events. A two factor Copula model is used which imply an inter asset correlation (across sectors) and an intra asset correlation (within a sector). These correlations are calibrated to empirically observed default events. P&L from migration is computed by applying credit spread shocks based on initial and final credit rating, adjusted for basis risk by product, recovery and maturity. P&L from default is simulated including stochastic recovery, correlated with overall default rates. A key determinant of IRC on a position is the credit rating of the obligor, which is based on the Nomura Group's Internal Rating system also used for the Internal Ratings-Based approach. IRC scope covers all debt securities as approved by the PRA. All positions in the IRC model are assumed to have a one year liquidity horizon.

##### **C. Stress testing of internal risk models**

Stress testing is used to complement any internal risk models in order to identify certain risks to portfolios, at various levels, which are adversely affected by certain shocks when such portfolios are non-linear and tail risks from potential higher moves than those captured by the VaR model; to overcome limitations of models and historical data when assessing and controlling risk; and to identify risk concentrations and potential correlations across instruments, risk types and businesses.

Stress tests are designed to be economically coherent, challenging, and comprehensive in terms of business and risk coverage. Stress tests specific to one risk class, also known as grids, are run and aggregated at levels where this specific risk is managed. Stress tests are applied to all trades notwithstanding the way they are treated in VaR in order to be able to get a consistent view of the risks. However, analysis could be done at any level of business, or aggregation when required. Stress tests are performed by defining and applying shocks to the data used as input into the VaR model such as shocks to credit spreads, to bond prices, to interest rates, to equity price, foreign exchange rates as well as shocks to the volatility and other factors impacting the data used as input into the VaR model.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### **Market Risk (continued)**

##### ***D. Market Risk – Non-Trading***

###### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

###### *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. During the course of the Treasury department's financing activities there is often a need to swap surplus flows in one currency into another currency; a process achieved using currency swap transactions. The Company is exposed to currency risk in respect of certain foreign currency denominated loans. This exposure is managed on a portfolio basis. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. Hedge accounting is not applied.

In the cases of both interest rate and currency risk the Company does not believe, after taking account of the portfolio management and hedging strategies in place, that there is a material exposure to non-trading market risk. On this basis no sensitivity analysis is presented.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### **Credit Risk**

Credit risk is the risk of loss arising from an obligor's default, insolvency or administrative proceeding which results in the obligor's failure to meet its contractual obligations in accordance with agreed terms. This includes both on and off-balance sheet exposures. It is also the risk of loss arising through a Credit Valuation Adjustment ("CVA") associated with deterioration in the creditworthiness of a counterparty. The Company uses the Nomura Group's CRM framework for managing credit risk, with some specific criteria applied to the Company where relevant.

##### **A. Credit Risk Management Process**

The process for managing credit risk at the Company includes:

- Evaluation of likelihood that a counterparty defaults on its payments and obligations;
- Assignment of internal credit ratings to all active counterparties;
- Approval of extensions of credit and establishment of credit limits;
- Measurement, monitoring and management of the firm's current and potential future credit exposures;
- Setting credit terms in legal documentation; and
- Use of appropriate credit risk mitigants including netting, collateral and hedging.

##### **B. Credit Risk Measures**

The Company's main type of counterparty credit risk exposures arise from derivatives transactions securities financing transactions and loans.

In December 2012, the Company was granted permission by the PRA to use the Internal Model Method ("IMM") in combination with the standardised approach in the calculation of counterparty credit risk requirements for certain derivatives and securities financing transactions. In the calculation of risk-weighted exposure amounts under the standardised approach to credit risk, the ratings of Fitch, Moody's and Standard and Poor's are used for all applicable exposure classes.

For derivatives and securities financing transactions, the Company measures credit risk primarily by way of a Monte Carlo-based simulation model that determines a Potential Exposure profile at a specified confidence level. The exposure calculation model used for counterparty credit risk management is also used for the IMM-based exposure calculation for regulatory capital reporting purposes since the end of December 2012. Loans and lending commitments are measured and monitored on both a funded and unfunded basis.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### **Credit Risk (continued)**

##### **C. Credit Limits**

Credit exposures against counterparties are managed by means of setting credit limits based upon credit analysis of each individual counterparty. Credit risk is managed daily through the monitoring of credit exposure against approved credit limits and the ongoing monitoring of the creditworthiness of the Company's counterparties. Any change in circumstance that alters the Company's risk appetite for any particular counterparty, sector, industry or country is reflected in changes to the internal rating and credit limit as appropriate.

Internal ratings form an integral part in the assignment of credit limits to counterparties. The Company's credit limit framework is designed to ensure that the Company takes appropriate credit risk in a manner that is consistent with its risk appetite. Global Credit policies define the delegated authority matrices that establish the maximum aggregated limit amounts and tenors that may be set for any single counterparty group based on their internal rating.

NCAT, the measure of economic capital used by the Nomura Group and its affiliates, including the Company, is used as a constraint on the total level of risk which can be taken by the Company. NCAT has various uses within the Company: for example, for counterparty credit exposure management, the Company used the Credit NCAT model to derive single name limits by rating.

A bespoke limit framework has been developed to monitor exposures against central counterparty clearing houses, which include limits to funded exposures related to default fund and initial margin, and limits to unfunded exposures related to loss sharing amount (also known as stress loss) and potential variation margin callback.

##### **D. Wrong Way Risk**

Wrong Way Risk ("WWR") occurs when exposure to a counterparty is highly correlated with the deterioration of creditworthiness of that counterparty. The Nomura Group, including the Company, has established policies that govern the management of any WWR exposures. Stress testing is used to support the assessment of any WWR embedded within existing portfolios and adjustments are made to credit exposures and regulatory capital, as appropriate.

WWR analysis is performed by the Risk Management Division and presented monthly to the PRC. The analysis is provided to assist the business and senior management in determining whether the level of wrong way risk is a concern and action should be taken to reduce it.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### **Credit Risk (continued)**

##### ***E. Risk Mitigation***

The Company utilises financial instruments, agreements and practices to assist in the management of credit risk. The Company enters into legal agreements, such as the International Swap and Derivatives Association, Inc ("ISDA") agreements or equivalent (referred to as "Master Netting Agreements"), with many of its counterparties. Master Netting Agreements allow netting of receivables and payables and reduce losses potentially incurred as a result of a counterparty default. Further reduction in credit risk is achieved through entering into collateral agreements that allow the Company to obtain collateral from counterparties either upfront or contingent on exposure levels, changes in credit rating or other factors.

Given the potential for loss resulting from unsecured exposures, as a general rule, all extensions of credit by the Company should be collateralized. However, in certain cases where there is sufficient risk appetite, unsecured exposure may be approved by the relevant credit risk managers. In addition, there are certain jurisdictions with specific rules relating to approvals and management of collateral. To ensure compliance, any local regulatory rules or statutes that are stricter must be followed.

Legal agreements should ensure that margin agreements and collateral accepted from clients provide the best possible protection for the Company. Any collateral types included for exposure reduction must meet the Basel standards. New collateral types, including non-standard collateral must be approved by the Global Collateral Steering Committee. Any non-standard collateral that gets approved must also be reviewed by all relevant departments to ensure that the operational capability is in place to properly control the new collateral type, and that concentration, reuse and liquidity implications are understood. The review must include any local or legal vehicle policies or procedures that contain rules relating to eligibility or acceptable collateral.

Concentrations of collateral by issuer, country and counterparty are monitored and reported to senior management. Haircuts are applied to collateral and set according to the market risk of the asset. Haircut levels are determined through quantitative and historical analysis, and are reviewed periodically.

The Company utilises financial instruments, to assist in the management of counterparty credit risk. The Company enters into credit hedges in the form of single name credit default swaps, credit contingent CDS and credit index swaps to mitigate losses arising from deterioration in counterparty creditworthiness. The Company actively monitors large exposures to collateralised counterparties and seeks to reduce exposures through trade compression and hedging with single name credit default swaps.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Credit Risk Exposure

The Company's maximum exposure to credit risk at the balance sheet date is disclosed below, based on the carrying amount of the financial assets the Company believes is subject to credit risk, without taking account of any collateral held or any other credit enhancements. Certain off balance sheet instruments which expose the Company to a risk of loss due to default by the parties underlying these contracts are also disclosed. Collateral is held on financial assets held for trading, financial assets designated at fair value through profit and loss, collateral posted for securities purchased under agreements to resell and collateral posted for securities borrowed. The exercise of collateral will lead to a significant reduction in the potential loss in the value of the corresponding financial asset in the event of a counterparty or issuer failing to perform its contractual commitment.

	<u>Maximum Exposure to Credit Risk</u> <u>2018</u> \$m	<u>Maximum Exposure to Credit Risk</u> <u>2017</u> \$m
Available-for-sale debt investments	6	5
Financial assets held for trading	158,961	172,778
Collateral posted for securities purchased under agreements to resell	71,870	82,547
Collateral posted for securities borrowed	8,644	11,963
Other debtors	17,875	18,507
Investments - Time deposits	413	422
Cash at bank and in hand	9,865	5,365
	<hr/> 267,634	<hr/> 291,587
Commitments to extend credit	5,560	6,064
Total exposure to credit risk	<hr/> 273,194	<hr/> 297,651

Other credit enhancements include netting agreements which provide protection to reduce the risks of counterparty default and, in some cases offset the Company's exposure with the same counterparty, which provides a more meaningful presentation of Statement of Financial Position credit exposure. Also included in the total exposure to credit risk are credit derivatives and other financial guarantee products which are used to hedge the Company's exposure to credit risk.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Credit Risk Exposure (continued)

The credit quality of financial assets and off balance sheet commitments which are subject to credit risk, that are neither past due nor impaired, is summarised below. The credit ratings are determined by the Company's internally determined public rating agency equivalents.

Credit Rating	<u>Maximum Exposure to Credit Risk</u>	<u>Maximum Exposure to Credit Risk</u>
	<u>2018</u> \$m	<u>2017</u> \$m
AAA	9,124	7,785
AA	55,493	51,905
A	133,449	168,220
BBB	26,826	32,185
Non-Investment grade	39,403	26,633
Unrated	3,338	4,859
Off balance sheet Commitments and financial guarantee contracts		
AA	1,671	482
A	1,649	1,159
BBB	773	915
Non-Investment grade	1,065	1,599
Unrated	403	1,909
Total exposure to credit risk by credit rating	273,194	297,651

The unrated balance represents the pool of counterparties which individually do not generate material credit risk for the Company and which do not require rating under the Company's credit management policies. This pool is highly diversified, subject to limits, and monitored on a regular basis.

#### Concentrations of Credit Risk

Concentrations of credit risk may arise from the Company's normal operation in derivative instruments, securities financing transactions and underwriting activities, and from exposures to central counterparty clearing houses, and may be impacted by changes in political or economic factors. The Company's significant single concentrations of credit risk are typically with strongly rated credit institutions in the US and Europe and benefit from credit risk mitigation such as bilateral collateral agreements.

The Company is exposed to significant counterparty credit risk from other Nomura Group undertakings. The maximum credit exposure to other Nomura Group undertakings is \$97 billion (2017: \$124 billion) and is rated using the Nomura Group's credit rating of A (2017: 'A').



## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Credit Risk Exposure (continued)**

##### ***Amounts past due but not impaired***

Amounts which are past due but not impaired are those amounts which the Company believes are past due but still recoverable or which are sufficiently collateralised such that the fair value of the collateral pledged is sufficient to offset the amount of the outstanding obligation.

Amounts past due but not impaired were \$72,473,000 (2017: \$567,913,000). None of these were more than 90 days past due.

##### ***Impaired financial assets***

The Company assesses whether there is any objective evidence that a financial asset is impaired at each balance sheet date. An impairment loss is incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset; the loss event has an impact on estimated future cash flows, after taking into account any collateral held; and if the impact of that loss can be reliably estimated.

The amount charged to profit and loss for assets subject to impairment losses during the period is nil. (2017: nil).

As at 31 March 2018 the cumulative impairment loss on available-for-sale investments was nil (2017: nil).

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Liquidity Risk**

##### ***Liquidity Risk Management***

The Company defines liquidity risk as the potential inability to meet financial obligations as they become due. This risk could arise from various scenarios and could be due both to Nomura-specific and market-wide events. The Company's primary Liquidity Risk Management objective is to ensure continuous liquidity across market cycles and periods of market stress, and to ensure that all funding requirements and unsecured debt obligations that fall due within Board-established survival horizons and risk tolerances can be met without any reliance on additional unsecured funding or forced liquidation of assets.

The Company's Maximum Cumulative Outflow ("MCO") model quantifies the amount of liquidity required to survive the approved stress scenarios. The Company manages liquidity risk on a self-sufficiency basis and controls liquidity usage via an unsecured funding limit framework. The Liquidity Portfolio held in the form of highly liquid, unencumbered securities and central bank deposits, ensures that sufficient liquidity is held locally to meet the modeled requirements.

The Company as a U.K. regulated entity is fully compliant with the U.K. Prudential Regulation Authority ("PRA") prescribed liquidity requirements.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Liquidity Risk (continued)

##### Contractual Maturity Table

The table below shows the Company's financial liabilities by contractual maturity remaining, taking into account early redemption features. Derivative contracts and other financial instruments contained within the Company's trading portfolio and other instruments containing embedded derivatives (including structured note issuances and other financial liabilities designated at fair value) are presented at their fair values. All other amounts represent undiscounted cash flows payable by the Company arising from its financial liabilities. Perpetual cash flows are shown for a period of ten years. Derivatives are disclosed at fair value on demand with the exception of gross settled derivatives, which are shown by contractual maturity remaining. Financial liabilities designated at fair value are disclosed based on their earliest redemption date. This presentation is considered to reflect the liquidity risk arising from the Company's financial liabilities and is consistent with how this risk is managed by the Company.

	<u>On</u> <u>demand</u> <u>2018</u> \$m	<u>Less</u> <u>than 30</u> <u>days</u> <u>2018</u> \$m	<u>31 – 90</u> <u>days</u> <u>2018</u> \$m	<u>91 days</u> <u>– 1 year</u> <u>2018</u> \$m	<u>1 – 5</u> <u>years</u> <u>2018</u> \$m	<u>Later</u> <u>than 5</u> <u>Years</u> <u>2018</u> \$m	<u>Total</u> <u>2018</u> \$m
Financial liabilities held for trading – derivatives	108,333	3,910	3,953	5,480	1,485	102	123,263
Financial liabilities held for trading – non derivatives	28,480	-	-	-	-	-	28,480
Collateral received for securities sold under agreements to repurchase	21,540	31,529	2,368	5,577	2,184	-	63,198
Collateral received for securities loaned	4,839	272	190	399	470	424	6,594
Other Creditors	38,410	-	-	-	-	-	38,410
Creditors: amounts falling due after more than one year	-	-	-	-	1,115	1,260	2,375
	201,602	35,711	6,511	11,456	5,254	1,786	262,320
Other commitments	-	2,125	310	12	1,346	1,767	5,560
Total exposure to liquidity risk	201,602	37,836	6,821	11,468	6,600	3,553	267,880

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Liquidity Risk (continued)

##### Contractual Maturity Table

	<u>On</u> <u>demand</u> <u>2017</u> \$m	<u>Less</u> <u>than 30</u> <u>days</u> <u>2017</u> \$m	<u>31 – 90</u> <u>days</u> <u>2017</u> \$m	<u>91 days</u> <u>– 1 year</u> <u>2017</u> \$m	<u>1 – 5</u> <u>years</u> <u>2017</u> \$m	<u>Later</u> <u>than 5</u> <u>years</u> <u>2017</u> \$m	<u>Total</u> <u>2017</u> \$m
Financial liabilities held for trading – derivatives	129,198	3,901	5,689	4,088	1,045	90	144,011
Financial liabilities held for trading – non derivatives	27,501	-	-	-	-	-	27,501
Collateral received for securities sold under agreements to repurchase	14,081	44,881	2,507	6,271	2,473	-	70,213
Collateral received for securities loaned	5,812	193	958	184	-	193	7,340
Other creditors	34,002	285	-	-	-	-	34,287
Creditors: amounts falling due after more than one year	-	-	-	-	1,242	1,260	2,502
	210,594	49,260	9,154	10,543	4,760	1,543	285,854
Other commitments	-	2,245	519	551	1,462	1,287	6,064
Total exposure to liquidity risk	210,594	51,505	9,673	11,094	6,222	2,830	291,918

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Liquidity Risk (continued)

##### *Contractual Maturity Table*

The table below shows the maturity profile of the Company's financial assets. The analysis into maturity groupings is based on the remaining period to the contractual maturity date or, if earlier, the expected date the assets will be realised.

	<u>On</u> <u>demand</u> <u>2018</u> \$m	<u>Less</u> <u>than 30</u> <u>days</u> <u>2018</u> \$m	<u>31 – 90</u> <u>days</u> <u>2018</u> \$m	<u>91 days</u> <u>– 1 year</u> <u>2018</u> \$m	<u>1 – 5</u> <u>years</u> <u>2018</u> \$m	<u>Later</u> <u>than 5</u> <u>years</u> <u>2018</u> \$m	<u>Total</u> <u>2018</u> \$m
Cash at bank and in hand	9,865	-	-	-	-	-	9,865
Available-for-sale investments	6	-	-	-	-	-	6
Financial assets held for trading – derivatives	108,116	3,758	4,120	5,534	1,552	101	123,181
Financial assets held for trading – non derivatives	35,780	-	-	-	-	-	35,780
Collateral posted for securities purchased under agreement to resell	10,967	46,204	8,207	5,374	2,479	88	73,319
Collateral posted for securities borrowed	7,923	455	266	-	-	-	8,644
Other debtors	17,238	-	-	-	-	-	17,238
Investments - time deposits	413	-	-	-	-	-	413
Total exposure to liquidity risk	190,308	50,417	12,593	10,908	4,031	189	268,446

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Liquidity Risk (continued)

#### Contractual Maturity Table

	<u>On</u> <u>demand</u>	<u>Less</u> <u>than 30</u> <u>days</u>	<u>31 – 90</u> <u>days</u>	<u>91 days –</u> <u>1 year</u>	<u>1 – 5</u> <u>years</u>	<u>Later</u> <u>than 5</u> <u>years</u>	<u>Total</u>
	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Cash at bank and in hand	5,364	-	-	-	-	-	5,364
Available-for-sale investments	5	-	-	-	-	-	5
Financial assets held for trading – derivatives	126,974	3,696	5,651	4,120	1,040	87	141,568
Financial assets held for trading – non derivatives	31,210	-	-	-	-	-	31,210
Collateral posted for securities purchased under agreement to resell	7,118	55,585	8,058	7,438	4,414	129	82,742
Collateral posted for securities borrowed	10,909	404	650	-	-	-	11,963
Other debtors	17,404	495	-	-	-	-	17,899
Investments - time deposits	422	-	-	-	-	-	422
Total exposure to liquidity risk	199,406	60,180	14,359	11,558	5,454	216	291,173

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

	Within 12 months <u>2018</u> \$m	After 12 months <u>2018</u> \$m	Total <u>2018</u> \$m	Within 12 months <u>2017</u> \$m	After 12 months <u>2017</u> \$m	Total <u>2017</u> \$m
Cash in bank and in hand	9,865	-	9,865	5,364	-	5,364
Financial assets held for trading	157,306	1,653	158,959	171,650	1,128	172,778
Investment time deposit	413	-	413	422	-	422
Current tax receivable	38	-	38	33	-	33
Collateral posted for securities purchased under agreements to resell	69,236	2,634	71,870	78,004	4,544	82,548
Collateral posted for securities borrowed	8,644	-	8,644	11,963	-	11,963
Other Debtors	17,837	-	17,837	18,474	-	18,474
Available-for-sale Investment	6	-	6	5	-	5
Tangible Fixed Assets	-	15	15	-	17	17
Intangible Fixed Assets	-	4	4	-	6	6
Investment in subsidiaries	-	-	-	-	-	-
<b>Total Assets</b>	<b>263,345</b>	<b>4,306</b>	<b>267,651</b>	<b>285,915</b>	<b>5,695</b>	<b>291,610</b>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Maturity analysis of assets and liabilities (continued)

	Within 12 months <u>2018</u> \$m	After 12 months <u>2018</u> \$m	Total <u>2018</u> \$m	Within 12 months <u>2017</u> \$m	After 12 months <u>2017</u> \$m	Total <u>2017</u> \$m
Financial liabilities held for trading	150,155	1,587	151,742	170,377	1,135	171,512
Collateral received for securities sold under agreements to repurchase	60,680	2,184	62,864	67,115	3,431	70,546
Collateral received for securities loaned	5,701	894	6,595	6,970	193	7,163
Other creditors	38,978		38,978	34,892	-	34,892
Creditors (amounts falling due after more than one year)	-	2,373	2,373	-	2,475	2,475
Total Liabilities	255,514	7,038	262,552	279,354	7,234	286,588

#### Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events. It excludes strategic risk (the risk of loss as a result of poor strategic business decisions), but includes the risk of breach of legal and regulatory requirements, and the risk of damage to Nomura Group's reputation if caused by an operational risk. The Company uses the Nomura Group's Operational Risk Management ("ORM") framework for managing operational risk.

#### *The Three Lines of Defence*

The Nomura Group adopts the industry standard "Three Lines of Defence" for the management of operational risk, comprising:

- 1) 1st Line of Defence: The business which owns and manages its risks,
- 2) 2nd Line of Defence: The ORM function, which defines and co-ordinates the Nomura Group's operational risk framework and its implementation, and provides challenge to the 1st Line of Defence,
- 3) 3rd Line of Defence: Internal Audit, who provide independent assurance.



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Nomura Group's ORM framework is set out below:

##### *Infrastructure of the framework*

- Policy framework: Sets standards for managing operational risk and details how to monitor adherence to these standards.
- Training and awareness: Action taken by ORM to improve business understanding of operational risk.

##### *Products and Services*

- Event Reporting: This process is used to identify and report any event which resulted in or had the potential to result in a loss or gain or other impact associated with inadequate or failed internal processes, people and systems, or from external events.
- Risk and Control Self-assessment ("RCSA"): This process is used to identify the inherent risks the business faces, the key controls associated with those risks and relevant actions to mitigate the residual risks. Global ORM are responsible for developing the RCSA process and supporting the business in its implementation.
- Key Risk Indicators ("KRI"): KRIs are metrics used to monitor the business' exposure to operational risk and trigger appropriate responses as thresholds are breached.
- Scenario Analysis: This process is used to assess and quantify potential high impact, low likelihood operational risk events. During the process, actions may be identified to enhance the control environment, which are then tracked via the Operational Risk Management framework.

##### *Outputs*

- Analysis and reporting: A key aspect of ORM's role is to analyse, report, and challenge operational risk information provided by business units, and work with business units to develop action plans to mitigate risks.
- Operational risk capital calculation: Calculate operational risk capital as required under applicable Basel standards and local regulatory requirements.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Model Risk**

Model Risk is the risk of loss arising from Model errors or incorrect or inappropriate Model application with regard to Valuation Models and Risk Models.

Errors can occur at any point from model assumptions through to implementation. In addition, the quality of model outputs depends on the quality of model parameters and any input data. Even a fundamentally sound model producing accurate outputs consistent with the design objective of the model may exhibit high model risk if it is misapplied or misused.

The Nomura Group has documented policies and procedures in place, approved by Group Integrated Risk Management Committee and/or Global Risk Strategic Committee, which define the process and validation requirements for implementing changes to valuation and risk models. In addition, a Model Performance Monitoring process has been established to identify and assess specific events, that can indicate that a model is not performing as it should or is potentially unsuitable and to determine what actions (for example, additional validation work) might be necessary. For changes with an impact above certain materiality thresholds, model approval is required. MVG defines these materiality thresholds in a formal procedure and operates a control process to identify where the procedure is not followed. For certain material changes to risk models, backtesting of the new model, parallel running of both models and stress-testing of the new model are required prior to the model being approved.

##### **Business Risk**

Business risk is the risk of failure of revenues to cover costs due to a deterioration of the earnings environment or a deterioration of the efficiency or effectiveness of the Company's business operations. Business risk is managed by the senior management of the Company, including the Board of Directors.

##### **Fair values of financial assets and financial liabilities**

All financial instruments held or issued for trading purposes are carried in the financial statements at fair value which is determined using market values, option pricing models or by discounting expected future cash flows at prevailing interest rates.

The carrying value of financial instruments not measured at fair value is a reasonable approximation of fair value for the majority of these holdings due to the short-term nature of these financial assets and liabilities.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Financial instruments valued using unobservable market data

Certain financial assets and liabilities are valued using valuation techniques which rely on parameters which are not observable in the market due to an absence of equivalent, current, market transactions or observable market data.

These valuation techniques are based on assumptions. As a result, the fair value calculated using these valuation techniques will change if the underlying assumptions change. The potential impact of using reasonably possible alternative assumptions to value these financial instruments at the Statement of Financial Position date is of plus and/or minus of \$41,902,786 (2017: \$12,748,212) which is 10% of fair value of Level 3 Equity and Debt securities.

Where the use of valuation techniques with significant unobservable parameters generates a gain or loss at inception, this is deferred over the life of the contract, until the parameters become observable or the instrument is terminated. Changes in fair value after inception are recognised in the income statement. The total fair value change recognised in profit or loss attributable to these financial instruments at Statement of Financial Position date is a loss of \$9,639,225 (2017: profit of \$4,833,218).

The amounts not recognised during the year relating to the difference between the transaction price and the fair value determined using a valuation technique with unobservable parameters is shown in the table below:

	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
As at 1 April	44,160	38,208
New transactions	12,813	8,761
Redemptions and terminations	(9,437)	(2,809)
As at 31 March	<u>47,536</u>	<u>44,160</u>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Financial instruments valued using unobservable market data

#### Gains and losses on financial assets and financial liabilities held or issued for trading

The net gain/(loss) from trading in financial assets and financial liabilities shown in profit and loss includes the following:

	<u>2018</u> \$m	<u>2017</u> \$m
Bond and equity derivatives	103	(222)
Convertible bonds	(31)	10
Equities	435	537
Warrants	12	103
Bank and corporate bonds	297	(670)
Government bonds	667	1,508
Interest rate derivatives	(322)	(621)
Currency derivatives	(579)	(310)
Credit derivatives	246	358
	<hr/> 828	<hr/> 693

The information provided in the table is shown on a pure product split basis, with no matching of the gains and losses on derivative contracts being offset against those on the underlying position.

A significant amount of trading takes place on a strategy basis across a range of instruments and is managed accordingly.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **19. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions have been applied in determining the fair values of financial instruments:

- a) The fair value of loans and receivables and other liabilities due within 12 months are assumed to approximate to their carrying values.
- b) Financial assets classified as available for sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated using a valuation model.
- c) Financial assets and liabilities designated at fair value through profit and loss and derivatives are measured at fair value by reference to quoted market prices when available. Valuations models are based wherever possible on assumptions supported by observable market prices or rates. These valuation techniques are based on assumptions. As a result, the fair value calculated using these valuation techniques will change if the underlying assumptions change.

#### **Fair value hierarchy**

**Level 1** - quoted prices in active markets for the same instrument (i.e. without modification or repackaging).

**Level 2** - quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.

**Level 3** - valuation techniques for which any significant input is not based on observable market data.

The following table presents information about the Company's financial assets and financial liabilities measured at fair value within the fair value hierarchy, based on the transparency of inputs into the valuation techniques used by the Company to determine such fair values. Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement of the financial instrument.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

##### **Valuation techniques by major class of financial instrument**

The valuation techniques used by Nomura to estimate fair value for major classes of financial instruments, together with the significant inputs which determine classification in the fair value hierarchy, are as follows.

##### **Equities**

Equities include direct holdings of both listed and unlisted equity securities, and fund investments. The fair value of listed equity securities is determined using quoted prices for identical securities from active markets where available. These valuations should be in line with market practice and therefore can be based on bid prices or mid-market prices. Nomura determines whether the market is active depending on the sufficiency and frequency of trading activity. Where these securities are classified in level 1 of the fair value hierarchy, no valuation adjustments are made to fair value. Listed equity securities traded in inactive markets are also generally valued using the exchange price and are classified in level 2. The fair value of unlisted equity securities requires significant management judgment because unlisted equity securities, by their nature, have little or no price transparency. Unlisted equity securities are initially carried at cost as an approximation of fair value. Adjustments to carrying value are made if there is third-party evidence of a change in value. Adjustments are also made, in the absence of third-party transactions, if it is determined that the expected exit price of the investment is different from carrying value. Unlisted equity securities are usually classified in level 3 because significant valuation inputs are unobservable.

##### **Government, agency and municipal securities**

The fair value of Japanese and other G7 government securities is primarily determined using quoted market prices, executable broker or dealer quotations, or alternative pricing sources. These securities are traded in active markets and therefore are classified within level 1 of the fair value hierarchy. Non-G7 government securities, agency securities and municipal securities are valued using similar pricing sources but are generally classified in level 2 as they are traded in inactive markets. Certain non-G7 securities may be classified in level 1 because they are traded in active markets. Certain securities may be classified in level 3 because they are traded infrequently and there is not sufficient information from comparable securities to classify them in level 2. These are valued using DCF valuation techniques which include significant unobservable inputs such as credit spreads of the issuer.

##### **Bank and corporate debt securities and loans carried at fair value**

The fair value of bank and corporate debt securities and loans carried at fair value either as trading assets or through election of the fair value option is primarily determined using DCF valuation techniques but also using broker or dealer quotations and recent market transactions of identical or similar debt securities, if available. Consideration is given to the nature of the broker and dealer quotations, namely whether these are indicative or executable, the number of available quotations and how these quotations compare to any available recent market activity or alternative pricing sources. The significant valuation inputs used for DCF valuations are yield curves, asset swap spreads, recovery rates and credit spreads of the issuer. Bank and corporate debt securities are generally classified in level 2 of the fair value hierarchy because these valuation inputs are usually observable or market-corroborated. Certain bank and corporate debt securities will be classified in level 3 because they are traded infrequently and there is insufficient information from comparable securities to classify them in level 2, or credit spreads or recovery rates of the issuer used in DCF valuations are unobservable.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

##### **Valuation techniques by major class of financial instrument (Continued)**

###### **Funds**

The fair value of funds is primarily determined using NAV per share as this is a tradeable level and/or the fund uses accepted valuation methods. Where the NAV per share is used as the basis of valuation, the information and valuation provided by the fund manager, including assumptions used, are reviewed for reasonableness. Publicly traded funds which are valued using a daily tradeable NAV per share are classified in level 1 of the fair value hierarchy. For funds that are not publicly traded but Nomura has the ability to redeem its investment with the investee at NAV per share on the balance sheet date or within the near term, the investments are classified in level 2. Investments where Nomura does not have the ability to redeem in the near term or does not know when it can redeem are classified in level 3. The fair value of certain other funds is determined using DCF valuation techniques. These funds are classified in level 3 as the valuation includes significant unobservable valuation inputs such as liquidity discounts.

###### **Derivatives**

Nomura enters into both exchange-traded and OTC equity, interest rate, credit and foreign exchange derivative transactions. Where these derivatives are traded in active markets and the exchange price is representative of fair value, the fair value of exchange-traded derivatives is determined using an unadjusted exchange price and classified in level 1 of the fair value hierarchy. The fair value of exchange-traded equity derivatives which are traded in inactive markets or where the exchange price is not representative of fair value is determined using a model price and are classified in level 2. The fair value of OTC equity derivatives is determined through option models such as Black-Scholes and Monte Carlo simulation. The significant valuation inputs used include equity prices, dividend yields, volatilities correlations, interest rates, credit spreads, recovery rates and foreign exchange rates. Valuation adjustments are also made to model valuations in order to reflect counterparty credit risk on derivative assets and Nomura's own creditworthiness on derivative liabilities. OTC derivatives are generally classified in Level 2 because all significant valuation inputs and adjustments are observable or market-corroborated. Certain less liquid vanilla or more complex equity derivatives are classified in Level 3 where dividend yield, interest rate, credit spread, recovery rate, volatility or correlation valuation inputs are significant and unobservable.

Nomura includes valuation adjustments in its estimation of fair value of certain OTC derivatives relating to funding costs associated with these transactions to be consistent with how market participants in the principal market for these derivatives would determine fair value.

###### **Collateralized agreements and Collateralized financing**

The primary types of collateralised agreement and financing transactions carried at fair value are reverse repurchase and repurchase agreements elected for the fair value option. The fair value of these financial instruments is primarily determined using DCF valuation techniques. The significant valuation inputs used include interest rates and collateral funding spreads such as general collateral or special rates. Reverse repurchase and repurchase agreements are generally classified in Level 2 of the fair value hierarchy because these valuation inputs are usually observable.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

##### Valuation techniques by major class of financial instrument (Continued)

###### **Bonds and medium-term notes (“Structured notes”)**

Structured notes are debt securities issued by Nomura which contain embedded features that alter the return to the investor from simply receiving a fixed or floating rate of interest to a return that depends upon some other variables, such as an equity or equity index, commodity price, foreign exchange rate, credit rating of a third party or a more complex interest rate (i.e., an embedded derivative).

The fair value of structured notes is determined using a quoted price in an active market for the identical liability if available, and where not available, using a mixture of valuation techniques that use the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities, similar liabilities when traded as assets, or an internal model which combines DCF valuation techniques and option pricing models, depending on the nature of the embedded features within the structured note. Where an internal model is used, Nomura estimates the fair value of both the underlying debt instrument and the embedded derivative components. The significant valuation inputs used to estimate the fair value of the debt instrument component include yield curves, prepayment rates, default probabilities and loss severities. The significant valuation inputs used to estimate the fair value of the embedded derivative component are the same as those used for the relevant type of freestanding OTC derivative discussed above. A valuation adjustment is also made to the entire structured note in order to reflect Nomura's own creditworthiness. This adjustment is determined based on recent observable secondary market transactions and executable broker quotes involving Nomura debt instruments and is therefore typically treated as a Level 2 valuation input. Structured notes are generally classified in Level 2 of the fair value hierarchy as all significant valuation inputs and adjustments are observable.

###### **Long-term borrowings (“Secured financing transactions”)**

Secured financing transactions are liabilities recognised when a transfer of a financial asset does not meet the criteria for sales accounting under IAS 39 and therefore the transaction is accounted for as a secured borrowing. These liabilities are valued using the same valuation techniques that are applied to the transferred financial assets which remain on the balance sheet and are therefore classified in the same level in the fair value hierarchy as the transferred financial assets. These liabilities do not provide general recourse to Nomura and therefore no adjustment is made to reflect Nomura's own creditworthiness.



# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 March 2018

	<u>Level 1</u> \$'000	<u>Level 2</u> \$'000	<u>Level 3</u> \$'000	<u>Counterparty and cash collateral netting</u> \$'000	<u>Total</u> \$'000
Financial Assets held for trading					
- Equities	7,350,575	621,298	38,647	-	8,010,520
- Debt securities and loans	16,616,659	10,776,836	380,381	-	27,773,876
- Derivatives	212,411	120,197,595	2,772,034	-	123,182,040
Collateral posted for securities purchased under agreements to resell	-	10,600,004	-	-	10,600,004
Other debtors	-	1,088,857	266,109	-	1,354,966
Investments-time deposits	-	196,438	-	-	196,438
	24,179,645	143,481,029	3,457,171	-	171,117,844

	<u>Level 1</u> \$'000	<u>Level 2</u> \$'000	<u>Level 3</u> \$'000	<u>Counterparty and cash collateral netting</u> \$'000	<u>Total</u> \$'000
Financial Liabilities held for trading					
- Equities	(5,224,745)	(185,539)	(8,246)	-	(5,418,530)
- Debt securities and loans	(16,223,595)	(6,837,672)	(232)	-	(23,061,499)
- Derivatives	(216,838)	(120,156,671)	(2,888,627)	-	(123,262,136)
Collateral received for securities sold under agreements to repurchase	-	(4,455,171)	-	-	(4,455,171)
Collateral received for securities loaned	-	(1,256,006)	-	-	(1,256,006)
Other creditors	-	(801,488)	(29,364)	-	(830,852)
Creditors (amounts falling due after more than one year)	-	(122,585)	-	-	(122,585)
	(21,665,178)	(133,815,132)	(2,926,469)	-	(158,406,779)

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 March 2017

	<u>Level 1</u> \$'000	<u>Level 2</u> \$'000	<u>Level 3</u> \$'000	<u>Counterparty and cash collateral netting</u> \$'000	<u>Total</u> \$'000
Financial Assets held for trading					
- Equities	5,388,975	1,295,019	30,577	-	6,714,571
- Debt securities and loans	15,580,550	8,822,803	96,905	-	24,500,258
- Derivatives	123,339	148,835,177	2,097,216	(9,487,833)	141,567,899
Collateral posted for securities purchased under agreements to resell	-	9,690,592	-	(92,741)	9,597,851
Other debtors	-	1,668,260	179,880	-	1,848,140
Investments-time deposits	-	116,114	144,031	-	260,145
	21,092,864	170,427,965	2,548,609	(9,580,574)	184,488,864

	<u>Level 1</u> \$'000	<u>Level 2</u> \$'000	<u>Level 3</u> \$'000	<u>Counterparty and cash collateral netting</u> \$'000	<u>Total</u> \$'000
Financial Liabilities held for trading					
- Equities	(4,088,934)	(1,168,841)	(5,342)	-	(5,263,117)
- Debt securities and Loans	(14,700,681)	(7,537,276)	(2)	-	(22,237,959)
- Derivatives	(122,171)	(150,862,797)	(2,602,687)	9,576,335	(144,011,320)
Collateral received for securities sold under agreements to repurchase	-	(3,314,550)	-	92,741	(3,221,809)
Collateral received for securities loaned	-	(1,335,275)	-	-	(1,335,275)
Other creditors	(31,187)	(689,670)	(5,050)	-	(725,907)
Creditors (amounts falling due after more than one year)	-	(466,562)	-	-	(466,562)
	(18,942,973)	(165,374,971)	(2,613,081)	9,669,076	(177,261,949)

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### Level 3 financial assets and financial liabilities

Level 3 financial assets and financial liabilities include instruments whose valuations are significantly dependent on parameters which are unobservable in the market. Financial instruments are categorised in accordance with their lowest level significant input. As a result, a derivative valued using a combination of level 1, level 2 and level 3 parameters would be classified in level 3 in its entirety, if its value is significantly affected by at least one significant unobservable parameter.

These financial instruments are often hedged with instruments within level 1 or level 2 of the fair value hierarchy and the gains or losses below do not reflect the offsetting gains or losses for these hedging instruments. Level 3 instruments are also measured using both observable and unobservable inputs. Fair value changes presented below, therefore, reflect realised and unrealised gains and losses resulting from movements in both observable and unobservable parameters.

The following table presents information about financial assets and liabilities measured at fair value on a recurring basis for which the Company has utilised level 3 inputs to determine fair value.

	<u>At 1 April</u> <u>2017</u> \$'000	<u>Total</u> <u>gains</u> <u>(losses)</u> <u>in P&amp;L</u> \$'000	<u>Purchase</u> \$'000	<u>Sales</u> \$'000	<u>Settlement</u> \$'000	<u>Transfers in</u> <u>level 3</u> \$'000	<u>Transfers</u> <u>out of</u> <u>level 3</u> \$'000	<u>At 31 March</u> <u>2018</u> \$'000	<u>Unrealised</u> <u>Total gains</u> <u>(losses) in</u> <u>P&amp;L</u> \$'000
<b>Financial Assets</b>									
Financial assets held for trading									
- Equities	30,577	3,341	23,283	(43,237)	-	27,235	(2,552)	38,647	(2,515)
- Debt securities and loans	96,905	6,298	325,278	(52,277)	-	4,975	(799)	380,381	969
- Derivatives	2,097,216	568,266	-	-	223,131	53,745	(170,324)	2,772,034	987,145
Other debtors	179,879	54,177	106,074	(74,021)	-	-	-	266,109	(153,366)
Investments-time deposits	144,031	-	100	(144,131)	-	-	-	-	-
	<u>2,548,608</u>	<u>632,082</u>	<u>454,735</u>	<u>(313,666)</u>	<u>223,131</u>	<u>85,955</u>	<u>(173,675)</u>	<u>3,457,171</u>	<u>832,233</u>
<b>Financial liabilities</b>									
Financial liabilities held for trading									
- Equities	(5,342)	(324)	(17,319)	1,076	-	9,306	4,356	(8,246)	345
- Debt securities and loans	(2)	(245)	-	11	-	3	1	(232)	(234)
- Derivatives	(2,602,687)	(802,648)	-	-	358,742	(57,940)	215,906	(2,888,627)	(880,909)
Other creditors	(5,050)	9	(24,323)	-	-	-	-	(29,364)	(257)
Creditors due after more than one year	-	-	-	-	-	-	-	-	-
	<u>(2,613,081)</u>	<u>(803,208)</u>	<u>(41,642)</u>	<u>1,087</u>	<u>358,742</u>	<u>(48,631)</u>	<u>220,263</u>	<u>(2,926,469)</u>	<u>(881,055)</u>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Total gains and losses on financial assets included in the above table are included in 'Trading profit' in the statement of comprehensive income.

The Company assumes that all transfers of financial instruments from one level to another level within the fair value hierarchy occur at the beginning of the relevant quarter in which the transfer takes place.

Instruments transferred out of level 3 due to valuation inputs became observable and Transfer into level 3, due to valuation inputs became unobservable.

#### Transfers between level 1 and 2

The following table shows transfers between level 1 and level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value:

As at 31 March 2018

	<u>Transfers from level 1 to level 2</u> \$'000	<u>Transfers from level 2 to level 1</u> \$'000
<b>Financial Assets</b>		
Financial assets held for trading		
- Equities	179,567	862,536
	<u>179,567</u>	<u>862,536</u>
	<u>Transfers from level 1 to level 2</u> \$'000	<u>Transfers from level 2 to level 1</u> \$'000
<b>Financial Liabilities</b>		
Financial liabilities held for trading		
- Equities	(72,967)	(926,831)
	<u>(72,967)</u>	<u>(926,831)</u>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 March 2017

	<u>Transfers from level 1 to level 2</u> \$'000	<u>Transfers from level 2 to level 1</u> \$'000
<b>Financial Assets</b>		
Financial assets held for trading		
- Equities	1,033,009	200,076
	<u>1,033,009</u>	<u>200,076</u>
	<u>Transfers from level 1 to level 2</u> \$'000	<u>Transfers from level 2 to level 1</u> \$'000
<b>Financial Liabilities</b>		
Financial liabilities held for trading		
- Equities	(916,285)	(44,610)
	<u>(916,285)</u>	<u>(44,610)</u>

Instruments were transferred from level 1 to level 2 due to observable parameters became less active and transfer from level 2 to level 1 because the valuation parameters became more active.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### A. Level 3 quantitative disclosures on significant unobservable inputs

The following table presents quantitative information about the significant unobservable inputs and assumptions used by the Company for Level 3 financial instruments as of 31 March 2018 and 2017.

#### 31 March 2018

<u>Class of financial instrument</u>	<u>Fair value</u> \$'000	<u>Valuation techniques</u>	<u>Unobservable inputs</u>	<u>Range</u>	<u>Weighted average</u>
Financial Assets held for trading					
-Equity securities	38,647	DCF	Liquidity discount	28% - 75%	68.3%
-Debt securities and loans	380,381	DCF	Credit Spreads	0% - 8.6%	4.3%
			Recovery Rates	5% - 80%	67.3%
-Derivatives	2,772,034	DCF/Option Models	Interest Rates	0.2% - 3.0%	
			Credit Spread	0% - 7.6%	
			Recovery Rate	20% - 90%	
			Dividend Yield	0% - 11.5%	
			Volatilities	2% - 83%	
			Volatilities	0.29%-0.71%	
			Correlations	(0.79) - 0.95	
Financial assets designated at fair value through profit and loss	266,109	DCF	Credit Spreads	2.9% - 9.8%	4.1%
Total Level 3	3,457,171				

#### 31 March 2017

<u>Class of financial instrument</u>	<u>Fair value</u> \$'000	<u>Valuation techniques</u>	<u>Unobservable inputs</u>	<u>Range</u>	<u>Weighted average</u>
Financial Assets held for trading					
-Equity securities	30,577	DCF	Liquidity discount	45% - 65%	57.7%
-Debt securities and loans	96,905	DCF	Credit Spreads	0% - 20%	9.4%
		DCF/Option Models	Recovery Rates	4% - 62%	7.2%
-Derivatives	2,097,216	DCF/Option Models	Interest Rates	0.1% - 3%	
			Credit Spread	0% - 7.6%	
			Recovery Rate	20% - 90%	
			Dividend Yield	0% - 5.3%	
			Volatilities	1% - 83%	
			Correlations	(0.75) - 0.96	
Financial assets designated at fair value through profit and loss	323,911		Credit Spreads	2.9% - 9.8%	4.4%
Total Level 3	2,548,609				

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### A. Level 3 quantitative disclosures on significant unobservable inputs

<u>31 March 2018</u> <u>Class of financial instrument</u>	<u>Fair value</u> <u>\$'000</u>	<u>Valuation techniques</u>	<u>Unobservable inputs</u>	<u>Range</u>	<u>Weighted average</u>
Financial liabilities held for trading					
-Equity securities	(8,246)	DCF	Liquidity discount	28% - 75%	68.3%
-Debt securities and loans	(232)	DCF	Credit Spreads	0% - 8.6%	4.3%
			Recovery Rates	80% - 80%	80%
-Derivatives	(2,888,627)	DCF/Option Models	Interest Rates	0.2% - 3.0%	
			Credit Spread	0.0% - 7.6%	
				20% - 90%	
			Recovery Rate		
			Dividend Yield	0% - 11.5%	
			Volatilities	2% - 83%	
			Correlations	(0.79) - 0.95	
Financial liabilities designated fair value through profit and loss	(29,364)	DCF	Yield	8.1% - 8.1%	8.1%
Total Level 3	(2,926,469)				

<u>31 March 2017</u> <u>Class of financial instrument</u>	<u>Fair value</u> <u>\$'000</u>	<u>Valuation techniques</u>	<u>Unobservable inputs</u>	<u>Range</u>	<u>Weighted average</u>
Financial liabilities held for trading					
-Equity securities	(5,342)	DCF	Liquidity discount	45% - 65%	57.7%
-Debt securities and loans	(2)	DCF	Credit Spreads	0% - 20%	9.4%
			Recovery Rates	4% - 62%	7.2%
-Derivatives	(2,602,687)	DCF/Option Models	Interest Rates	0.1% - 3.0%	
			Credit Spread	0% - 7.60%	
			Recovery Rate	20% - 90%	
			Dividend Yield	0% - 5.30%	
			Volatilities	1%-83%	
			Correlations	(0.75) - 0.96	
Financial liabilities designated fair value through profit and loss	(5,050)	DCF	Yields	12.8% - 12.9%	12.9%
Total Level 3	(2,613,081)				

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

##### **B. Estimated fair value of financial instruments not carried at fair value**

Certain financial instruments are not carried at fair value on a recurring basis in the Statement of Financial Position since they are neither held for trading purposes nor are elected for the fair value option. These are typically carried at contractual amounts due or amortised cost.

The carrying value of the majority of the financial instruments detailed below will approximate fair value since they are short-term in nature and contain minimal credit risk. These financial instruments include financial assets reported within Loans, Debtors, Cash at bank and in hand, Borrowings from fellow subsidiary undertakings, Cash collateral and other liabilities.

Cash at bank and in hand, Other debtors, Borrowings from fellow subsidiary undertakings and Cash Collateral, in the Statement of Financial Position would generally be classified in either level 1 or level 2 within the fair value hierarchy.



# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### B. Estimated fair value of financial instruments not carried at fair value

The following tables present carrying values, fair values and classification within the fair value hierarchy for certain classes of financial instruments of which a portion of the ending balance was carried at fair value as of March 31, 2018 and 2017.

	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>
	<u>Fair value by level</u>				
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>Financial Assets:</b>					
Collateral posted for securities purchased under agreements to resell	61,269,925	61,269,925	-	61,269,925	-
Collateral posted for securities borrowed	8,644,494	8,644,494	-	8,644,494	-
Other Debtors	15,883,284	15,883,284	-	15,883,284	-
Investment time deposit	216,412	216,412	-	216,412	-
Cash at bank and in hand	9,864,677	9,864,677	4,344,949	5,519,729	-
	<u>95,878,792</u>	<u>95,878,792</u>	<u>4,344,949</u>	<u>91,533,843</u>	<u>-</u>

#### Financial Liabilities:

Collateral received for securities sold under agreements to repurchase	(58,408,848)	(58,408,848)	-	(58,408,848)	-
Collateral received for securities loaned	(5,338,666)	(5,338,666)	-	(5,338,666)	-
Other creditors	(37,547,110)	(37,547,110)	-	(37,547,110)	-
Creditors: Amounts falling due after more than one year	(2,250,069)	(2,250,069)	-	(2,250,068)	-
	<u>(103,544,693)</u>	<u>(103,544,693)</u>	<u>-</u>	<u>(103,544,692)</u>	<u>-</u>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### B. Estimated fair value of financial instruments not carried at fair value

	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>
	<u>Fair value by level</u>				
	<u>Carrying</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>amount</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>Financial Assets:</b>					
Collateral posted for securities purchased under agreements to resell	72,949,512	72,949,512	-	72,923,878	25,634
Collateral posted for securities borrowed	11,963,227	11,963,227	-	11,963,227	-
Other Debtors	16,050,758	16,050,758	-	16,050,758	-
Investment time deposit	162,191	162,191	-	162,191	-
Cash at bank and in hand	5,363,858	5,363,858	3,058,976	2,304,882	-
	<u>106,489,546</u>	<u>106,489,546</u>	<u>3,058,976</u>	<u>103,404,936</u>	<u>25,634</u>
<b>Financial Liabilities:</b>					
Collateral received for securities sold under agreements to repurchase	(67,323,757)	(67,323,757)	-	(67,323,757)	-
Collateral received for securities loaned	(5,827,581)	(5,827,581)	-	(5,827,581)	-
Other creditors	(33,562,959)	(33,562,959)	-	(33,562,959)	-
Creditors: Amounts falling due after more than one year	(2,008,562)	(2,008,562)	-	(2,008,562)	-
	<u>(108,722,859)</u>	<u>(108,722,859)</u>	<u>-</u>	<u>(108,722,859)</u>	<u>-</u>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 20. OFFSETTING DISCLOSURES

The following tables provide a summary of financial assets and liabilities that are Statement of Financial Position netted and which are subject to enforceable master netting arrangements and similar agreements.

<b>31 March 2018</b>	<b><u>Collateral posted for securities purchased under agreements to resell</u> \$'000s</b>	<b><u>Collateral posted for securities borrowed</u> \$'000s</b>	<b><u>Derivatives</u> \$'000s</b>
<b><u>Assets:</u></b>			
Total gross balance (1)	213,332,115	8,644,494	123,182,040
Less: Amounts offset in the Statement of Financial Position	(141,462,186)	-	-
Total net amounts of reported on the face of the Statement of Financial Position	71,869,929	8,644,494	123,182,040
Less: Additional amounts not offset in the Statement of Financial Position (2)	(11,338,658)	(2,742,282)	(107,760,314)
Financial instruments and non-cash collateral	(55,055,504)	(4,982,160)	(1,208,575)
Cash collateral	(1,032,397)	-	(10,686,417)
Net amount	4,443,370	920,052	3,526,734

<b>31 March 2017</b>	<b><u>Collateral posted for securities purchased under agreements to resell</u> \$'000s</b>	<b><u>Collateral posted for securities borrowed</u> \$'000s</b>	<b><u>Derivatives</u> \$'000s</b>
<b><u>Assets:</u></b>			
Total gross balance (1)	201,129,003	11,963,227	151,055,732
Less: Amounts offset in the Statement of Financial Position	(118,581,640)	-	(9,487,833)
Total net amounts of reported on the face of the Statement of Financial Position	82,547,363	11,963,227	141,567,899
Less: Additional amounts not offset in the Statement of Financial Position (2)	(15,599,701)	(2,815,718)	(128,034,428)
Financial instruments and non-cash collateral	(63,525,846)	(8,091,119)	(1,518,660)
Cash collateral	-	-	(8,327,558)
Net amount	3,421,816	1,056,390	3,687,253

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 20. OFFSETTING DISCLOSURES (CONTINUED)

<b>31 March 2018</b>	<b><u>Collateral received for securities sold under agreements to repurchase</u> \$'000s</b>	<b><u>Collateral received for securities loaned</u> \$'000s</b>	<b><u>Derivatives</u> \$'000s</b>
<b><u>Liabilities:</u></b>			
Total gross balance (1)	(204,326,205)	(6,594,672)	(123,262,136)
Less: Amounts offset in the Statement of Financial Position	141,462,186	-	-
Total net amounts of reported on the face of the Statement of Financial Position	(62,864,019)	(6,594,672)	(123,262,136)
Less: Additional amounts not offset in the Statement of Financial Position (2)	11,338,658	2,742,282	107,760,314
Financial instruments and non-cash collateral	48,191,824	2,015,513	173,564
Cash collateral	727,037	-	11,985,385
Net amount	(2,606,500)	(1,836,877)	(3,342,873)

<b>31 March 2017</b>	<b><u>Collateral received for securities sold under agreements to repurchase</u> \$'000s</b>	<b><u>Collateral received for securities loaned</u> \$'000s</b>	<b><u>Derivatives</u> \$'000s</b>
<b><u>Liabilities:</u></b>			
Total gross balance (1)	(189,127,206)	(7,162,856)	(153,587,656)
Less: Amounts offset in the Statement of Financial Position	118,581,640	-	9,576,336
Total net amounts of reported on the face of the Statement of Financial Position	(70,545,566)	(7,162,856)	(144,011,320)
Less: Additional amounts not offset in the Statement of Financial Position (2)	15,599,701	2,815,718	128,034,428
Financial instruments and non-cash collateral	52,756,537	2,248,710	180,005
Cash collateral	-	-	11,184,728
Net amount	(2,189,328)	(2,098,428)	(4,612,159)

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 20. OFFSETTING DISCLOSURES (CONTINUED)

- 1) Includes all recognised balances irrespective of whether they are transacted under legally enforceable master netting agreements. Amounts include transactions carried at fair value through election of the fair value option and amounts carried at amortised cost.
- 2) Represents amounts which are not permitted to be offset on the face of the Statement of Financial Position but which provide the Company with the right of offset in the event of counterparty default. Amounts relating to agreements where the Company does not have a legal right of offset or has not yet determined with sufficient certainty whether the right of offset is legally enforceable are excluded. The amount disclosed has been capped per the relevant netting agreement so as not to exceed the net amount of financial assets presented on the Statement of Financial Position. Thus, over-collateralization is not reflected in the table.

### 21. CAPITAL MANAGEMENT POLICY

The objectives of the Company's capital management policies are to ensure that the Company complies with externally imposed capital requirements and to seek to enhance shareholder value by capturing business opportunities as they develop. To achieve these goals, sufficient capital is maintained to support the Company's business and to withstand losses due to extreme market movements.

The Company reviews the appropriate level of capital sufficiency, with senior management responsible for implementing and enforcing capital policies. The determination of Statement of Financial Position size and level of capital take into consideration regulatory requirements, economic risks inherent in its business and maintenance of a debt rating appropriate to a global financial institution. The allocation of available capital resource across the business is then based upon factors such as return on capital and regulatory requirements.

The Company is subject to and has complied with the regulatory requirements imposed by the PRA under the CRD IV framework.

No changes were made in the objectives, policies or processes for managing capital during the year.

#### *Regulatory Capital*

Regulatory guidelines developed by the Basel Committee and European Union Directives, as implemented by the PRA for supervisory purposes define two 'Tiers' of capital resources. Tier 1 capital is the highest tier and consists of, inter alia, ordinary share capital, reserves and retained earnings. Tier 2 consists of long-term subordinated debt. Tiers 1 and 2 capital can be used to support both trading and non-trading activity and all market and counterparty risks.

	<b><u>2018</u></b> <b><u>\$'000</u></b>	<b><u>2017</u></b> <b><u>\$'000</u></b>
Common Equity Tier 1	5,099,808	5,021,782
Adjustments to CET 1	(162,603)	(292,986)
Tier 1 Capital	<u>4,937,205</u>	<u>4,728,796</u>
Tier 2 Capital	<u>1,260,000</u>	<u>1,260,000</u>
Own Funds	<u>6,197,205</u>	<u>5,988,796</u>

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 22. UNCONSOLIDATED STRUCTURED ENTITIES

The Company has an involvement with various structured entities which are designed to achieve a specific business purpose. Structured entities have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate only to administrative tasks and the relevant activities are directed by means of contractual arrangements. Such entities generally have restricted activities as well as narrow and well-defined objectives.

As the Company has taken the exemption from preparing consolidated financial statements under section 401 of Companies Act 2006, disclosures are in relation to the Companies involvement with all structured entities, irrespective of whether they are consolidated or not.

Below is a description of the Company's involvements in structured entities by type:

##### **Securitisation Vehicles:**

The Company establishes securitisation vehicles to meet clients' investment needs through the combination of securities and derivatives, including fixed income and equities products. The vehicles fund these investments by issuing structured notes, the repayment of which is linked to the performance of the assets in the vehicles. The Company often transfers assets and enters into derivatives with these securitisation vehicles.

The Company also invests in third party securitisation vehicles in the form of asset backed securities.

##### **Investment Funds:**

The Company holds investments in third party investment funds such as Mutual Funds and Hedge Funds in the normal course of trading activity. In addition, the Company holds seed investments in UCITS and other Funds sponsored by fellow subsidiaries within the Nomura Group.

##### **Other:**

These are investments in third party structured entities that do not fall into any criteria above.

The following table shows the carrying amounts of Company's interests' recognised in the Statement of Financial Position as well as the maximum exposure to loss resulting from their interests in structured entities. It also provides an indication of the size of the structured entities.

The maximum exposure to loss is determined by considering the nature of the interest in the structured entity. The maximum exposure for loans and trading instruments is reflected by the carrying amounts. The maximum exposure for derivatives and off Statement of Financial Position commitments is reflected by the notional amounts. Maximum exposure to loss does not reflect the Company's estimate of the actual losses that could result from adverse changes, nor does it reflect the economic hedges Company enters into to reduce its exposure. The risks associated with structured entities in which the Company is involved are limited to the amounts recorded in the Statement of Financial Position and the amount of commitments.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 22. UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

	<u>2018</u> <u>Carrying</u> <u>amount of</u> <u>variable</u> <u>interests</u> <u>Asset</u> <u>\$'000</u>	<u>2018</u> <u>Carrying</u> <u>amount of</u> <u>variable</u> <u>interests</u> <u>Liabilities</u> <u>\$'000</u>	<u>2018</u> <u>Maximum</u> <u>exposure to loss</u> <u>to unconsolidated</u> <u>Structured</u> <u>Entities</u> <u>\$'000</u>	<u>2018</u> <u>Total size of</u> <u>Structured</u> <u>Entities</u> <u>\$'000</u>
Financial assets held for trading	1,560,799		4,180,886	
Financial liabilities held for trading	-	(154,847)	7,694,393	
Collateral posted for securities purchased under agreements to resell	477,570	-	477,570	
Collateral received for securities sold under agreements to repurchase	-	(1,413,832)	-	
Gross assets of structured entities	-	-	-	520,655,281
	<u>2,038,369</u>	<u>(1,568,679)</u>	<u>12,352,849</u>	<u>520,655,281</u>

	<u>2017</u> <u>Carrying</u> <u>amount of</u> <u>variable</u> <u>interests</u> <u>Asset</u> <u>\$'000</u>	<u>2017</u> <u>Carrying</u> <u>amount of</u> <u>variable</u> <u>interests</u> <u>Liabilities</u> <u>\$'000</u>	<u>2017</u> <u>Maximum</u> <u>exposure to loss</u> <u>to unconsolidated</u> <u>Structured</u> <u>Entities</u> <u>\$'000</u>	<u>2017</u> <u>Total size of</u> <u>Structured</u> <u>Entities</u> <u>\$'000</u>
Financial assets held for trading	1,470,525	-	3,792,445	
Financial liabilities held for trading	-	(336,710)	6,812,370	
Collateral posted for securities purchased under agreements to resell	513,248	-	513,248	
Collateral received for securities sold under agreements to repurchase	-	(2,418,897)	-	
Gross assets of structured entities	-	-	-	449,510,824
	<u>1,983,773</u>	<u>(2,755,607)</u>	<u>11,118,063</u>	<u>449,510,824</u>

The Company did not provide non-contractual support during the year to unconsolidated structured entities.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 23. OPERATING LEASE COMMITMENTS

The Company's obligations from operating leases relate to long-term leases of real estate, equipment and vehicle leases. Some of these leases contain extension options at rentals based on market prices.

The Company was committed to making the following payments during the following periods in respect of operating leases:

	<u>2018</u> <u>Buildings</u> \$'000	<u>2018</u> <u>Other</u> \$'000	<u>2017</u> <u>Buildings</u> \$'000	<u>2017</u> <u>Other</u> \$'000
Within one year	66,312	16	57,997	33
Within two to five years	225,643	3	212,905	18
After five years	357,219	-	365,724	-
	<u>649,174</u>	<u>19</u>	<u>636,626</u>	<u>51</u>

The future minimum sublease payments expected to be received under sublease agreements as at 31 March 2019 is \$14,447,693 (\$14,467,465 as at 31 March 2018).

The total lease and sublease payments recognised in profit and loss were as follows:

	<u>2018</u> \$'000	<u>2017</u> \$'000
Minimum lease payments	62,216	59,118
Sublease payments	<u>14,467</u>	<u>9,014</u>
Total operating lease payments	<u>47,749</u>	<u>50,104</u>

### 24. EMPLOYEES

The average monthly number of persons employed by the Company during the year and their location were as follows:

	<u>Year ended</u> <u>31 March 2018</u> Number	<u>Year ended</u> <u>31 March 2017</u> Number
United Kingdom	2,089	2,166
Other Europe	113	117
Middle East and Africa	<u>34</u>	<u>21</u>
	<u>2,236</u>	<u>2,304</u>



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

#### 25. DIRECTORS' REMUNERATION

	<u>Year ended</u> <u>31 March 2018</u> \$'000	<u>Year ended</u> <u>31 March 2017</u> \$'000
Salaries, allowances and taxable benefits	4,636	4,176
Company contributions to pension	68	72
Bonuses	2,943	2,139
	<hr/> 7,647	<hr/> 6,387

The number of Directors who exercised share options during the year was 3 (2017: 5)

The number of Directors who were entitled to receive shares under long-term incentive plans during the year was 2 (2017: 3).

The number of Directors accruing retirement benefits under money purchase pension schemes during the year was 3 (2017: 4).

The highest paid Director received emoluments of \$1,650,576 (2017: \$2,426,758) and Company contributions to pension of \$32,876 (2017: \$49,613). The highest paid Director exercised share options during 2018 and was entitled to receive shares under long-term incentive plans.

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 26. SHARE-BASED PAYMENTS AND SIMILAR DEFERRED COMPENSATION AWARDS

#### SAR Awards

The Company and NHI, the ultimate holding company in the Nomura Group, provide various types of share-based payment and similar deferred compensation awards to the Directors and employees of the company. The following table summarizes the main types of award currently granted to Directors and employees for services provided to the company.

Unless otherwise indicated below, all awards have graded vesting over three years and extended vesting periods of up to seven year for certain Directors and employees in order to meet regulatory requirements based on the role they perform for the Company. All awards are generally reduced, forfeited or clawed back in the event of voluntary termination of employment, material conduct issues, and material downturns in performance of the Nomura group and/or a material failure of risk management. However, all awards include "Full Career Retirement" ("FCR") provisions which permit recipients of the awards to continue to vest in the awards in the event of voluntary termination of employment if certain criteria based on corporate title and length of service within Nomura are met.

Type of award Overview	Key features	Key accounting considerations
<b>Stock Acquisition Right (SAR) Plan B awards</b>  Restricted stock units linked to the price of NHI common shares designed to replicate traditional restricted stock awards used in the United States and Europe.	<ul style="list-style-type: none"> <li>• Granted and settled by NHI.</li> <li>• Granted in May in respect of the prior fiscal year.</li> <li>• Settled in common shares of NHI.</li> <li>• Exercise price of ¥1 per share.</li> <li>• No dividend equivalent amounts paid or accrue during vesting period.</li> <li>• Options exercisable for up to 5 years after vesting date.</li> </ul>	<ul style="list-style-type: none"> <li>• Classified as equity awards as settled in NHI common shares.</li> <li>• Grant date fair value based on listed price of NHI common shares as adjusted for future estimated dividends.</li> <li>• Total compensation cost measured based on grant date fair value, net of estimated and actual forfeitures.</li> <li>• Total compensation expense recognised by the Company in connection with SAR Plan B awards was \$52,257,674 (2017: \$43,176,823).</li> </ul>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 26. SHARE-BASED PAYMENTS (Continued)

#### SAR Awards (Continued)

Type of award Overview	Key features	Key accounting considerations
<b>Notional Stock Unit (NSU) awards</b>  Phantom plan linked to the price of NHI common shares designed to replicate the key features of RSU awards (and SAR Plan B awards used in prior fiscal years)	<ul style="list-style-type: none"> <li>Granted and settled by the Company.</li> <li>Used in countries where SAR Plan B awards are less favorably treated from a tax or other perspective.</li> <li>Granted in May each year in respect of the prior fiscal year and also quarterly to new employees as a recruitment incentive to replace awards forfeited from prior employers.</li> <li>Cash-settled.</li> </ul>	<ul style="list-style-type: none"> <li>Classified as liability awards as settled in cash.</li> <li>Grant date fair value based on listed price of NHI common shares.</li> <li>Total compensation cost remeasured at each balance sheet date to reflect the expected settlement amount, net of estimated and actual forfeitures.</li> <li>Total compensation expense recognised by the Company in connection with NSU awards was \$50,395,146 (2017: \$2,901,921).</li> </ul>
<b>Collared Notional Stock Unit ("CSU") awards</b>  Phantom plan linked to the price of NHI common shares with exposure subject to a cap and floor	<ul style="list-style-type: none"> <li>Granted and settled by the Company.</li> <li>Granted in May in respect of the prior fiscal year.</li> <li>Cash-settled.</li> <li>Exposure of the employee to NHI share price is subject to a cap and a floor.</li> </ul>	<ul style="list-style-type: none"> <li>Classified as liability awards as settled in cash.</li> <li>Grant date fair value based on option pricing model.</li> <li>Total compensation cost remeasured at each balance sheet date to reflect the expected settlement amount, net of estimated and actual forfeitures.</li> <li>Total compensation expense recognised by the Company in connection with CSU awards was \$34,633,833 (2017: \$58,010,036).</li> </ul>
<b>Notional Index Unit (NIU) awards</b>  Phantom plan linked to a world stock index quoted by Morgan Stanley Capital International.	<ul style="list-style-type: none"> <li>Granted and settled by the Company.</li> <li>Granted in May in respect of the prior fiscal year.</li> <li>Cash-settled.</li> </ul>	<ul style="list-style-type: none"> <li>Classified as liability awards as settled in cash.</li> <li>Grant date fair value based on the closing price of the index on such date.</li> <li>Total compensation cost remeasured at each balance sheet date to reflect the expected settlement amount, net of estimated and actual forfeitures.</li> <li>Total compensation expense recognised by the Company in connection with NIU awards was \$45,713,870 (2017: \$45,443,693).</li> </ul>

# NOMURA INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)

### 26. SHARE-BASED PAYMENTS (CONTINUED)

The following table presents a roll-forward of activity in each of the key types of deferred compensation award during the years ended 31 March 2018 and 2017.

	<b>SAR Plan B awards</b>	<b>NSU awards</b>	<b>CSU awards</b>	<b>NIU Awards</b>
Outstanding at 31 March 2017	373,828	4,465,816	11,834,105	4,561,312
Granted	94,727	9,229,642	7,880,091	2,902,434
Forfeited	(5,379)	(4,919)	(355,056)	(43,811)
Exercised or settled	(191,666)	(9,354,218)	(8,797,009)	(3,663,576)
Expired	-	Not applicable	Not applicable	Not applicable
Outstanding at 31 March 2018	271,510	4,336,321	10,562,131	3,756,359
Weighted average fair value at 31 March 2018	¥ 687.03	¥ 683.87	¥ 668.24	\$5.34
Outstanding liability recognised at 31 March 2018	Not applicable	(11,914,654)	(42,279,864)	(17,638,867)

None of the 373, 828 SAR Plan B awards which are outstanding at 31 March 2018 are exercisable at such date.

SAR Plan B awards were exercised or settled during the year ended 31 March 2018 at a weighted average price of NHI common shares of ¥667.21 (2017: ¥524.83). NSU and CSU awards were exercised or settled during the year ended 31 March 2018 at a weighted average price of NHI common shares of ¥668.78 (2017: ¥535.91) and ¥642.81 (2017: ¥525.57) respectively. NIU awards were settled during the year ended 31 March 2018 at a weighted average index level of \$5.48 (2017: ¥4.79).

The weighted average remaining contractual life of all awards outstanding as at 31 March 2018 was 5.14 years (2017: 5.16 years). On 14 May 2018, NHI passed a resolution to grant a new type of deferred compensation award, namely Restricted Stock Unit (RSU) awards to senior management and employees within the Nomura Group, including to Directors and employees of the Company. RSU awards will now be the primary type of deferred compensation award in Nomura and will prospectively replace SAR Plan B awards, CSU awards and NIU awards. Existing unvested SAR Plan B, CSU and NIU awards have not been modified and will continue to vest in accordance with their original contractual terms.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **27. CAPITAL COMMITMENTS**

As at 31 March 2018 there were no capital commitments relating to assets in the course of construction (2017: \$7,811).

#### **28. RELATED PARTY TRANSACTIONS**

##### **Statement of comprehensive income**

The Company has taken advantage of the exemption under FRS 101 from the requirement in IAS 24 for disclosing related party transactions with other entities included in the consolidated financial statements of NHI.

As part of the Company's Merchant Banking operations, financial arrangements are made with certain companies for the purpose of holding investments. As a result of these arrangements, these companies become related parties. As at 31 March 2018 and 31 March 2017, aggregate amounts due from such related parties of \$423,103 and \$404,820, respectively, had been fully provided for.

#### **29. CONTINGENT LIABILITIES AND COMMITMENTS**

##### **Italian Tax Dispute**

On 25 January 2008, the Company was served with a Tax Notice issued by the Tax Authorities in Pescara, Italy, alleging breaches by the Company of the U.K. – Italy Double Taxation Treaty of 1998. The alleged breaches relate to payments to the Company of tax credits on dividends on Italian shares. The Tax Notice not only denies certain payments to which the Company claims to be entitled but is also seeking reimbursement of €33.8 million, plus interest, already refunded. On 25 March 2008, the Company lodged an appeal against the Tax Notice rejecting the Italian Tax Authorities' demands for reimbursement and advancing the Company's claim for further refunds. The matter went to a hearing in March 2009 and in November 2009 a decision was issued by the First Instance Pescara Tax Court in favour of the Italian Tax Authorities. The Company lodged an appeal of this decision and in March 2012 a second decision was issued by the Second Instance Pescara Tax Court in favour of the Italian Tax Authorities. As is allowed under Italian tax procedure, in September 2012 the Company received a demand for payment from the Italian Tax Authorities in the amount of €37.5 million which comprised the original refunded amount, interest and collection fees. Payment of this amount was made on 26 October 2012. Payment does not undermine the Company's arguments in the dispute and the Company intends to continue to vigorously challenge the second decision and a further appeal to the Supreme Court in Rome was filed on 8 July 2013 in order to seek full reimbursement of this amount plus further interest. Ultimately the Company expects that its appeal will prevail. The specified amount paid is the Company's current estimate of the maximum reasonably possible loss from this matter.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **29. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)**

##### **Fairfield Claims**

The Company is a defendant in two actions seeking recovery of payments allegedly made to the Company by Fairfield Sentry Ltd. and Fairfield Sigma Ltd. (collectively, the "Fairfield Funds"). The Fairfield Funds, now in liquidation, were feeder funds to Bernard L. Madoff Investment Securities LLC ("BLMIS"). BLMIS is itself now in liquidation in the U.S. pursuant to the Securities Investor Protection Act. The first claim was brought by the liquidators of the Fairfield Funds. It was filed on 5 October 2010 in the Supreme Court of the State of New York, but was subsequently removed to the U.S. District Court, which in turn referred it to the U.S. Bankruptcy Court. The claim is one of many similar claims that have been brought against a number of investors. The second claim was brought by the Trustee for the liquidation of BLMIS (the "Madoff Trustee"). The Company was added as a defendant on 6 June 2012 when the Madoff Trustee filed an amended complaint in the U.S. Bankruptcy Court. Again, this claim is one of many claims being brought against a range of investors. In November 2016, the US Bankruptcy Court granted a motion to dismiss the Madoff Trustee's claim. The Madoff Trustee has appealed the decision to the United States Court of Appeals for the Second Circuit. The amount claimed in each case is approximately US\$35 million plus interest. The Company intends to vigorously contest the proceedings. The Company does not believe that it will face the prospect of double recovery of the sums in question. The Company's current estimate of the maximum reasonably possible loss from this matter is US\$35 million.

##### **Harley Claim**

On 6 October 2011, the Madoff Trustee filed an adversary proceeding against the Company in the U.S. Bankruptcy Court for the recovery of redemption payments allegedly made by Harley International (Cayman) Ltd. (the "Harley Fund") to the Company. The basis of the claim is that the redemptions in question were and continue to be "Customer Property" within the meaning of the Securities Investor Protection Act and are therefore avoidable and recoverable under the U.S. Bankruptcy Code and New York Debtor and Creditor law. The Harley Fund, now in liquidation, was a feeder fund to BLMIS. The claim is one of many similar claims that have been brought against a number of investors. In November 2016, the U.S. Bankruptcy Court granted a motion to dismiss the Madoff Trustee's claim. The Madoff Trustee has appealed the decision to the United States Court of Appeals for the Second Circuit. The claim is for approximately US\$21.5 million plus interest. The Company intends to vigorously contest the proceedings. The specified amount claimed is the Company's current estimate of the maximum reasonably possible loss from this matter.

##### **Legal proceedings relating to Banca Monte dei Paschi di Siena SpA "MPS"**

In March 2013, Banca Monte dei Paschi di Siena SpA ("MPS") issued a claim in the Italian Courts against (1) two former directors of MPS and (2) the Company. MPS alleged that the former directors improperly caused MPS to enter into certain structured financial transactions with the Company in 2009 ("Transactions") and that the Company acted fraudulently and was jointly liable for the unlawful conduct of MPS's former directors. MPS claimed damages of not less than EUR 1.142 billion.

In March 2013, the Company commenced a claim against MPS in the English Courts. The claim was for declaratory relief confirming that the Transactions remained valid and contractually binding. MPS filed and served its Defence and Counterclaim to these proceedings in March 2014. MPS alleged in its Counterclaim that the Company was liable to make restitution of a net amount of approximately EUR 1.5 billion, and sought declarations regarding the illegality and invalidity of the Transactions.

On September 23, 2015, the Company entered into a settlement agreement with MPS to terminate the Transactions.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **29. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)**

##### **Legal proceedings relating to Banca Monte dei Paschi di Siena SpA “MPS” (Continued)**

The Company believes that the Transactions were conducted legally and appropriately, and does not accept the allegations made against it or admit any wrongdoing. Taking into account the views of relevant European financial authorities and the advice provided by external experts, the Company considered it to be in its best interests to reach a settlement in relation to this matter. As part of the agreement, the Transactions were unwound at a discount of EUR 440 million in favour of MPS and the civil proceedings between MPS and the Company in Italy and England, respectively, will no longer be pursued. Pursuant to the settlement agreement MPS and the Company applied to the Italian Courts to discontinue the proceedings brought by MPS against the Company. These proceedings have now been discontinued. The financial impact of the settlement on the Company's results for the fiscal year ending March 31, 2016 is a loss of approximately \$309 million and has been included in Trading profit in the statement of comprehensive income for the year ended March 31, 2016.

In July 2013, a claim was also issued against the same former directors of MPS, and the Company, by the shareholder group Fondazione Monte dei Paschi di Siena (“FMPS”). The grounds of the FMPS claim are similar to those on which the MPS claim was founded. The level of damages sought by FMPS is not less than EUR 315.2 million. The Company filed and served Defences to both the MPS and the FMPS claims.

In April 2013, an investigation was commenced by the Public Prosecutor's office in Siena, Italy, into various allegations against MPS and certain of its former directors, including in relation to the Transactions. The investigation was subsequently transferred to the Public Prosecutor of Milan. On April 3, 2015, the Public Prosecutor's office in Milan issued a notice concluding its preliminary investigation, which was re-served on the Company on January 14, 2016. Under that notice the Public Prosecutor sought to indict, amongst others, MPS, three individuals from MPS's former management, the Company and two Company individuals for the offences of false accounting and market manipulation in relation to MPS's previous accounts for 2009, 2010, 2011, and the interim and quarterly statements for 2012. The Public Prosecutor also sought to indict the two Company individuals, as well as MPS and three individuals from MPS's former management, for the offence of obstructing the supervisory activities of CONSOB. The preliminary hearing at which the court considered whether or not to grant the indictment concluded on October 1, 2016, the Judge ordering the trial of all individuals and banks involved except for MPS (which entered into a plea bargaining agreement with the Public Prosecutor). The trial (which also involves three other sets of allegations in relation to MPS and its counterparties in other transactions unrelated to the Company) has now commenced and is ongoing.

Additionally, on January 12, 2017, the Company was served by CONSOB (the Italian financial regulatory authority) with a notice commencing administrative sanction proceedings for market manipulation in connection with the Transactions. In relation to the Transactions, the notice named MPS, three individuals from MPS's former management and two former employees of the Company as defendants, whereas the Company was named only in its capacity as vicariously liable to pay any fines imposed on its former employees. The Company filed its first defensive brief in these proceedings on March 28, 2017. On May 22, 2018 CONSOB issued its decision in which it levied EUR 100,000 fines in relation to each of the Company's two former employees as well as revocations of the Italian law integrity requirement to perform certain corporate functions of three and six months respectively. The Company is vicariously liable to pay the fines imposed on its former employees.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **29. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)**

##### **Legal proceedings relating to Banca Monte dei Paschi di Siena SpA “MPS” (Continued)**

In November 2017, a claim issued before the Italian Courts by a group of four MPS shareholders was served on the Company. The claim is made against the Company, MPS and Deutsche Bank and seeks damages of approximately €22 million on the basis of allegations similar to those made in the MPS and FMPS claims. The case is at a preliminary phase.

In January 2018, a claim before the Italian Courts by two Luxembourg investment funds and their management company (collectively referred to as Alken) was served on the Company. The claim is made against the Company, MPS, four MPS former directors and a member of MPS's internal audit board, and seeks monetary damages of approximately €434 million on the basis of allegations similar to those made in the MPS and FMPS claims, as well as non-monetary damages in an amount left to be quantified by the Judge. The case is at a preliminary phase.

The Company will continue to vigorously defend its position in all the ongoing proceedings.

##### **Civitavecchia**

In January 2016, the Municipality of Civitavecchia in Italy (“Municipality”) commenced civil proceedings against the Company in the local courts in Civitavecchia. The Municipality's claim related to derivatives transactions entered into by the Municipality between 2003 and 2005. The Municipality alleged that the Company failed to comply with its duties under an advisory agreement and sought to recover approximately €35 million in damages. On December 20, 2017, the Company entered into a settlement agreement with the Municipality pursuant to which the Municipality agreed to withdraw its proceedings against the Company. The proceedings have since been formally discontinued.

##### **Employee Litigation**

In March 2016, the Company was served with proceedings by a former employee. The claim has been brought in the English High Court and alleges breaches of contract and duty. The amount claimed has yet to be quantified, but could amount to approximately £65 million. The Company filed and served a Defence and Counterclaim to these proceedings in May 2016 and the employee filed a Reply and Defence to Counterclaim in July 2017. The next procedural step is for the Company to file a Rejoinder and Reply to Defence to Counterclaim. A timetable for the proceedings going forward has not yet been agreed and a directions hearing has not yet been scheduled. The Company will continue to vigorously defend its position in the ongoing proceedings.



## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018 (CONTINUED)**

#### **29. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)**

##### **Bond Investigations and related class action**

Various authorities continue to conduct investigations concerning the activities of the Company, other entities in the Nomura Group and other parties in respect of government, supranational, sub-sovereign and agency bonds. The Company and other entities in the Nomura Group are also defendants to a consolidated class action complaint filed in the United States District Court for the Southern District of New York alleging violations of U.S. antitrust law related to the alleged manipulation of the secondary trading market for supranational, sub-sovereign and agency bonds. The Company and NSI have been served with a similar class action complaint filed in the Toronto Registry Office of the Federal Court of Canada alleging violations of Canadian competition law which also names NHI as a defendant. The Company intends to vigorously defend the proceedings.

##### **German Tax**

In August 2017, the Cologne public prosecutor notified NIP that it is investigating possible tax fraud by individuals who worked for the Nomura Group in relation to the historic planning and execution of cum-ex trades. NIP and another entity in the Nomura Group are cooperating with the investigation.

##### **Commitments**

The Company had commitments as at 31 March 2018 amounting to \$5,560,000,000 (2017: \$6,064,000,000) in respect of undrawn loan facilities.

#### **30. EVENTS SINCE THE STATEMENT OF FINANCIAL POSITION DATE**

No events to report post balance sheet date.

#### **31. ULTIMATE PARENT UNDERTAKING**

The Company's ultimate parent undertaking and controlling party, and the parent that heads the largest group of undertakings for which consolidated financial statements are prepared, is NHI, incorporated in Japan. Copies of the group financial statements of Nomura Holdings, Inc. may be obtained from 9-1, Nihonbashi 1-Chome, Chuo-ku, Tokyo 103-8645, Japan. The parent that heads the smallest group of undertakings is NEHS, a company registered at 1 Angel Lane, London, EC4R 3AB, United Kingdom.