NOMURA

NOMURA BANK INTERNATIONAL PLC

INTERIM REPORT
30 September 2018

COMPANY REGISTRATION NUMBER 1981122

NOMURA BANK INTERNATIONAL PLC

PERIOD ENDING 30 SEPTEMBER 2018 (UNAUDITED)

The Interim Report is comprised of a Management Report and the condensed financial statements of Nomura Bank International plc (the "Bank") for the period from 1 April 2018 to 30 September 2018. The Bank is incorporated in England and Wales and its registered office is 1 Angel Lane, London, EC4R 3AB.

MANAGEMENT REPORT

PRINCIPAL ACTIVITIES

The Bank's primary role is to support the Global Wholesale Business, predominantly the Global Markets Division, of the Nomura Group (Nomura Holdings, Inc. ("NHI") and its consolidated subsidiaries).

The Bank has a liaison office in Istanbul, Turkey. The Bank's principal activities include:

- issuance of guaranteed credit and equity-linked notes and certificates;
- provision of sub-participations and structured loans (including bridge and warehouse financing);
- purchase of structured credit assets and structured loans;
- provision of traditional banking products such as loans and credit facilities in major currencies, repurchase and reverse repurchase transactions, letters of credit and guarantees; and
- taking deposits (including foreign exchange and other reference linked deposits).

During the period the Bank continued its note issuance business. The Bank has a number of platforms for the issuance of debt which allows it to issue equity-linked notes and certificates and credit-linked notes and warrants to investors, which include notes that are traded on exchanges. In addition to the above, the Bank continues to provide loan facilities to clients across a wide variety of industries, including power and gas, telecommunications and fast moving consumer goods.

The Bank continues to lend predominantly on a secured basis through the use of reverse repurchase transactions ('Securities purchased under agreements to resell'). As at 30 September 2018, 96% (31 Mar 2018: 91%) of funds were advanced on a secured basis, mainly to Nomura International plc "NIP".

DIRECTORS

The current Directors and those who served during the period are as shown below:

David Godfrey	Non-Executive Director
	Non-Executive Chairman
John Tierney	Director
Jonathan Britton	Non-Executive Director
Jonathan Lewis	Director and Chief Executive officer
Lewis O'Donald	Director
Neeta Atkar	Non-Executive Director

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Bank's key financial performance indicators during the period are as shown below:

	Period ended 30 Sep 2018 $'000	Period ended 30 Sep 2017 $'000
Net interest income	29,770	34,971
Net fee income	32,912	20,386
Profit for the period	8,354	9,074
Total comprehensive loss	(3,614)	(11,683)

	Period ended 30 Sep 2018	Period ended 31 Mar 2018
Total assets	6,327,137	7,844,926
Total liabilities	5,846,952	7,362,186
Shareholders' Funds	480,185	482,740

The Bank has reported a post tax profit of for the period ending 30 September 2018 $8,354,277 (period ending 30 September 2017: post tax profit of $9,073,515). This profit is driven by fee income received for facilitating structured note issuance.

The Bank reported a total comprehensive loss for the period of $3,613,812 (Sep 2017: loss of $11,683,064). The most significant impact to the Bank's performance this period has been as a result of the tightening of the Nomura Group's own credit spreads. The impact of own credit has resulted in a loss for the year of $13,601,436 (Sep 2017: loss of $33,321,323).

From an operational standpoint, the Bank outsources a significant proportion of its support services under service level agreements to the related departments of Nomura International plc ("NIP"). The Treasury department continues to manage the liquidity of the Bank and provides asset and liability management for the balance sheet.

Looking forward, the Bank will continue to focus on its activities supporting the Global Wholesale Business, predominantly the Global Markets Division, of the Nomura Group.

FUTURE DEVELOPMENTS

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. 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 are currently unclear. 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.

DESCRIPTION OF PRINCIPAL RISKS

The Bank'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. These risks are managed through sub-committees of the Board of Nomura Europe Holdings plc ("NEHS"), the Bank'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 Bank.

The Bank's financial risk management objectives and policies are disclosed in note 13 of its statutory financial statements for the year to 31 March 2018. The Bank's principal risks and uncertainties have not changed in the period ending 30 September 2018.

GOING CONCERN

The Bank's business activities, together with the factors likely to affect its future development, performance and position are set out in this Report. In addition, notes 13 and 16 of the statutory financial statements for the year to 31 March 2018 describe the Bank's objectives, policies and processes for risk management and capital management, as well as its exposures to credit and liquidity risk.

The Directors consider the Bank's capital position to be strong, given that the Bank significantly offsets its market risk. Whilst the Bank has significant exposure to Nomura Group companies, and in particular to NIP, this is minimised through significant collateralisation. The Bank's net exposures with NIP are also supported by a limited written guarantee from the Bank's ultimate parent, NHI. The maturity profile of the Bank's liabilities is typically much longer dated than that of its assets, minimising the risk of the Bank not being able to meet its obligations as they fall due.

The Directors are not aware of any material uncertainties related to events or conditions that cast doubt about the ability of the Bank to continue as a going concern. They have therefore prepared the financial statements on a going concern basis.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors confirm that, to the best of their knowledge, the condensed set of financial statements on pages 4 to 31 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority ("FCA") and with International Accounting Standard 34 ("IAS 34"), Interim Financial Reporting as adopted by the EU and that the interim management report on pages 1 to 3 includes a fair review of the information required by the Disclosure and Transparency Rules of the FCA.

By Order of the Board at a meeting held on 13 December 2018

Christopher Barlow
Company Secretary

13 December 2018

Company Registration Number: 1981122

INDEPENDENT REVIEW REPORT TO NOMURA BANK INTERNATIONAL PLC FOR THE PERIOD ENDING 30 SEPTEMBER 2018 (UNAUDITED)

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 which comprises an income statement, statement of comprehensive income, statement of changes in equity, statement of financial position, statement of cash flows and related notes 1 to 8. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst &Young LLP
London
13 December 2018

NOMURA BANK INTERNATIONAL PLC

CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

INCOME STATEMENT FOR THE PERIOD ENDING 30 SEPTEMBER 2018 (UNAUDITED)

		Period Ending 30 September 2018 $'000	Period Ending 30 September 2017 $'000
INCOME			
Interest income and similar income[1]		40,673	45,605
Interest expense and similar charges[2]		(10,903)	(10,634)
NET INTEREST INCOME		29,770	34,971
Fee and commission income		35,317	23,258
Fee and commission expense		(2,405)	(2,872)
Dealing loss		(46,253)	(37,707)
TOTAL OPERATING INCOME		16,429	17,650
Administrative expenses		(6,115)	(6,447)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		10,314	11,203
Income tax expense	2	(1,960)	(2,129)
PROFIT FOR THE PERIOD ATTIBUTABLE TO EQUITY SHAREHOLDERS OF THE PARENT		8,354	9,074

1. Of the total interest income, $2,016,379 is from financial instruments measured at amortised cost.
2. Of the total interest expense, $ 1,270,787 is from financial instruments measured at amortised cost.

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

The notes on pages 11 to 31 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDING 30 SEPTEMBER 2018 (UNAUDITED)

		Period ended 30 September 2018 $'000	Period ending 30 September 2017 $'000
PROFIT FOR THE PERIOD		8,354	9,074
OTHER COMPREHENSIVE INCOME			
Items that will be reclassified to the income statement			
Foreign currency translation gains/(loss)		-	289
Items that will be not be reclassified to the income statement			
Change in fair value attributable to change in the credit risk of financial liabilities designated at fair value through profit and loss (net of related tax effects)	2	(11,968)	(21,046)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(3,614)	(11,683)

The notes on pages 11 to 31 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED) (UNAUDITED)

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDING 30 SEPTEMBER 2018 (UNAUDITED)

	Called-up share capital	Retained Earnings	Other Reserve	Own Credit Reserve	Total shareholder's equity
	$'000	$'000	$'000	$'000	$'000
As at 1 April 2018	555,000	32,541	-	(104,801)	482,740
Changes on initial application of IFRS-9	-	1,058	-	-	1,058
Profit for the period	-	8,354	-	-	8,354
Other Comprehensive Income				(11,968)	(11,968)
Transferred from Own Credit Reserve to Retained Earnings during the period	-	(3,045)	-	3,045	-
Total comprehensive income		6,367	-	(8,923)	(2,556)
As at 30 September 2018	555,000	38,908	-	(113,724)	480,185

	Called-up share capital	Retained Earnings	Other Reserve	Own Credit Reserve	Total shareholder's equity
	$'000	$'000	$'000	$'000	$'000
As at 1 April 2017	555,000	31,857	(285)	(111,412)	475,160
Profit for the period	-	9,074	-	-	9,074
Other Comprehensive Income	-	-	289	(21,046)	(20,757)
Transferred from Own Credit Reserve to Retained Earnings during the period	-	(3,620)	-	3,620	-
Total comprehensive income	-	5,454	289	(17,426)	(11,683)
As at 30 September 2017	555,000	37,311	4	(128,838)	(463,477)

During the period, $3,045,244 (Sep 2017: $3,619,907) was transferred from Own Credit Reserve to Retained Earnings due to settlement of financial liabilities designated at fair value through profit and loss (net of tax effects).

The notes on pages 11 to 31 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED) (UNAUDITED)

STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2018

	Note	September 2018 Unaudited $'000	March 2018 Audited $'000
Assets			
Loans and advances to banks		3,774	6,635
Derivative financial instruments	3,4	539,011	504,352
Loans and advances to affiliates – at fair value through profit or loss		561,938	790,145
Loans and advances to affiliates – at amortised cost		100,909	236,028
Securities purchased under agreements to resell[1]		5,004,183	6,196,820
Loans and advances to others – at fair value through profit or loss		75,640	79,694
Loans and advances to others – at amortised cost		4,695	799
Prepayments and accrued income		10,398	9,748
Other assets		12,259	8,376
Deferred tax asset		14,311	12,317
Financial investments at fair value through profit or loss[2]	3	18	12
Total Assets		**6,327,137**	**7,844,926**
Liabilities			
Customer accounts		190	200
Derivative financial instruments	3,4	980,846	1,107,756
Accruals and deferred income		14,102	25,931
Borrowing from affiliates		171,678	246,485
Borrowing from others		40,136	43,235
Securities sold under agreements to repurchase[1]		600,047	1,450,000
Bonds and medium-term notes	7	4,035,610	4,460,415
Group relief payable		4,262	27,424
Other liabilities		81	740
Total Liabilities		**5,846,952**	**7,362,186**
Shareholders' funds			
Called up share capital		555,000	555,000
Retained earnings		38,908	32,541
Own Credit Reserve		(113,724)	(104,801)
Total Equity		**480,185**	**482,740**
Total Liabilities and Equity		**6,327,137**	**7,844,926**

1. Following the adoption of IFRS 9 on 1 April 1 2018, the transitional impact of which was immaterial, securities purchased/sold under agreements to resell/repurchase were reclassified to fair value through profit or loss. Further detail on the adoption of new accounting policies can be found in Note 1
2. Prior to adoption of IFRS 9 on 1 April 2018, financial investments at fair value through profit or loss were disclosed as available-for-sale financial investments as at March 2018.

The notes on pages 11 to 31 form part of these financial statements.

Approved by the board of Directors on 13 December 2018 and subsequently signed on its behalf on XX December 2018 by:

John Tierney
Director

NOMURA BANK INTERNATIONAL PLC

CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED) (UNAUDITED)

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDING 30 SEPTEMBER 2018 (UNAUDITED)

	Period Ending 30 September 2018 $'000	Period Ending 30 September 2017 $'000
Operating activities		
Profit before tax	10,314	11,203
Change in operating assets and liabilities		
Net change in derivative assets	(34,660)	(90,287)
Net change in loans and advances to affiliates at FVPL	228,207	(27,827)
Net change in loans and advances to affiliates at cost	135,119	139,969
Net change in securities purchased under agreements to resell	1,194,911	(164,217)
Net change in loans and advances to others at FVPL	4,054	1,604
Net change in loans and advances to others at cost	(3,896)	-
Net change in prepayments and accrued income	(650)	(14,861)
Net change in other assets	(3,883)	(14,879)
Net change in financial investments at FVPL	(6)	-
Net change in customer accounts	(10)	17
Net change in derivative liabilities	(126,911)	71,892
Net change in accruals and deferred income	(11,845)	16,837
Net change in borrowings from affiliates	(74,807)	(122,234)
Net change in borrowing from banks and other customers	(3,098)	(183)
Net change in securities sold under agreements to repurchase	(851,169)	-
Net change in bond and medium-term notes	(129,741)	(73,160)
Net change in other liabilities	(658)	16,094
Net change in corporation tax liability	-	1,520
Income tax paid	(25,010)	(5)
Net cash flows in relation to operating activities	**306,261**	**(248,517)**
Financing activities		
Proceeds of borrowings and issuance of debt	344,160	513,998
Repayments of borrowings and redemption of debt	(653,282)	(267,844)
Net cash flows in relation to financing activities	(309,122)	246,154
Net (decrease)/increase in cash and cash equivalents	(2,861)	(2,363)
Cash and cash equivalents at the beginning of the period	6,635	6,559
Cash and cash equivalents at the end of the period	**3,774**	**4,196**
Included within operational cash flows		
Interest paid	(11,866)	(10,560)
Interest received	40,014	30,743

NOMURA BANK INTERNATIONAL PLC

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDING 30 SEPTEMBER 2018 (CONTINUED) (UNAUDITED)

ANALYSIS OF THE BALANCES OF CASH AS SHOWN IN THE BALANCE SHEET:

30 September 2018

	30 September 2018 $'000	Cash Flow $'000	31 March 2018 $'000
Loans and advances to other banks repayable on demand	3,774	(2,861)	6,635
Net Cash and Cash Equivalents	**3,774**	**(2,861)**	**6,635**

31 March 2018

	31 March 2018 $'000	Cash Flow $'000	31 March 2017 $'000
Loans and advances to banks repayable on demand	6,635	76	6,559
Net cash balance	**6,635**	**76**	**6,559**

30 September 2017

	30 September 2017 $'000	Cash Flow $'000	31 March 2017 $'000
Loans and advances to other banks repayable on demand	4,196	(2,363)	6,559
Net Cash and Cash Equivalents	4,196	(2,363)	6,559

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES:

30 September 2018	Liabilities as at 1 April 2018	Cash Flow	Non-cash changes			Liabilities as at 30 September 2018
			Acquisition	Foreign exchange movement	Fair value changes	
	$'000	$'000	$'000	$'000	$'000	$'000
Bonds and medium-term notes	4,460,415	(309,122)	-	(129,741)	14,058	4,035,610
Total liabilities from financing activities	**4,460,415**	**(309,122)**	**-**	**(129,741)**	**14,058**	**4,035,610**

31 March 2018	Liabilities as at 1 April 2017	Cash Flow	Non-cash changes			Liabilities as at 31 March 2018
			Acquisition	Foreign exchange movement	Fair value changes	
	$'000	$'000	$'000	$'000	$'000	$'000
Bonds and medium-term notes	4,104,141	326,949	-	6,929	22,396	4,460,415
Total liabilities from financing activities	**4,104,141**	**326,949**	**-**	**6,929**	**22,396**	**4,460,415**

NOTES TO INTERIM REPORT

1. ACCOUNTING POLICIES

(a) Basis of Accounting

These condensed interim financial statements as at and for the half-year to 30 September 2018 of Nomura Bank International plc (the "Bank") have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority ("FCA") and with International Accounting Standard 34 ("IAS 34"), Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements as at and for the year ending 31 March 2018 which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The financial statements have been prepared under the historical cost convention modified to include the fair valuation of particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies.

The condensed financial statements have been prepared on a going concern basis. The condensed financial statements are presented in United States dollar ("USD"), and all values are rounded to the nearest thousand USD except where otherwise stated. The information presented in this interim report does not constitute statutory accounts for the purposes of s435 of the Companies Act 2006. A copy of the statutory accounts for the year ending 31 March 2018 has been delivered to the Registrar of Companies and contained an unqualified auditors' report in accordance with s495 of the Companies Act 2006. The audit report did not contain a statement under s498 of the Companies Act 2006, nor did it include references to any matters to which the auditor drew attention by way of emphasis.

The Bank does not have any subsidiaries and as such no consolidated financial statements are required to be prepared.

(b) Significant accounting judgments, estimates and assumptions

The preparation of the condensed 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. 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.

The significant accounting judgments and estimates applied in the preparation of these interim financial statements are consistent with those applied in the preparation of the annual financial statements for the year ended 31 March 2018.

(c) Segment reporting

For management purposes, the Bank has only one operating and reportable segment involving financing activities. Substantially all of the Bank's gross and net assets and profit before taxation reported in these financial statements has arisen from this segment.

(d) New standards, interpretations and amendments thereof, adopted by the Bank

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ending 31 March 2018 in addition to and except as disclosed below.

1. ACCOUNTING POLICIES (CONTINUED)

(d) New standards, interpretations and amendments thereof, adopted by the Bank (continued)

(i) IFRS 9 Financial Instruments

IFRS 9, Financial Instruments, which replaced IAS 39, Financial Instruments: Recognition and Measurement, has been applied effective from 1 April 2018, including the early adoption of 'Prepayment features with negative compensation (Amendments to IFRS 9)' which was endorsed by the EU in March 2018. The early adoption of 'Prepayment features with negative compensation (Amendments to IFRS9)' does not have any impact on the bank. Note that the Bank had early adopted the option in IFRS 9 'Financial Instruments: Classification and Measurement' to recognise changes in own credit on financial liabilities designated at fair value through profit and loss in other comprehensive income from 1 April 2016.

IFRS 9 does not require the restatement of comparative-period financial statements for the initial application of the classification and measurement requirements of IFRS 9, but requires additional disclosures on transition to IFRS 9 as required under IFRS 7, Financial Instruments: Disclosures. As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Consequently, the comparative information for prior periods is reported under IAS 39 and not comparable to the information presented for the current period. Any adjustments to the carrying amount of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and reserves as of 1 April 2018.

Classification and measurement

To determine their classification and measurement category, the new standard requires all assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets have been replaced by: fair value through profit or loss, fair value through other comprehensive income and amortised cost. IFRS 9 also allows entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through other comprehensive income instruments as fair value through profit or loss, if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. Equity instruments that are not held for trading may be irrevocably designated as fair value through other comprehensive income, with no subsequent reclassification of gains or losses to the income statement.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

The accounting of financial liabilities remains largely the same as the requirements of IAS 39, except for the treatment of gains and losses arising from the Bank's own credit risk relating to liabilities designated at fair value through profit or loss. Such movements in own credit risk are presented in other comprehensive income with no subsequent reclassification to the income statement.

Business model:

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective, how information is reported to management of the Nomura reporting entity, frequency of sales of the financial assets and the complexity or potential differences in underlying business model.

There are three business models identified under IFRS 9 for financial assets:
– Hold to Collect - Financial assets held with the objective to collect contractual cash flows.
– Hold to Collect and Sell - Financial assets held with the objective of both collecting contractual cash flows and selling financial assets.

1. ACCOUNTING POLICIES (CONTINUED)

(d) New standards, interpretations and amendments thereof, adopted by the Bank (continued)

(i) IFRS 9 Financial Instruments (continued)

– Other - Financial assets held with trading intent or that do not meet the "hold to collect" and "hold to collect and sell" qualifying criteria.

The Bank manages a portfolio of financial assets through a hold to collect business model where all of the following criteria are met:

The portfolio is not managed through a held for trading or fair value management business model;

The portfolio of financial assets is managed to realise cash flows solely through collecting contractual payments over the life of the financial assets rather than managing the overall return on the portfolio by both holding and selling financial assets; and

Any sales of financial assets are expected to be infrequent or insignificant.

Solely Payments of Principal and Interest (SPPI):

To meet the hold to collect business model, the portfolio of financial assets are to be held by the Bank with the strategy of collecting cash flows from the financial assets specified by contractual terms of the instrument. A financial asset can only be measured at amortised cost where the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

Principal for purpose of the SPPI test is defined as the fair value of the debt instrument at initial recognition and therefore is determined based on a comparison of contractual cash flows to the amount actually invested. It is not necessarily the contractual par amount of the debt instrument.

The most significant elements of interest within a basic lending arrangement are that it is consideration for the time value of money and credit risk. Interest may also include a profit margin.

Impairment of financial assets

IFRS 9 establishes a new credit risk impairment model based on expected losses. The standard replaces IAS 39's incurred loss approach with a forward-looking expected loss approach. The Bank is required to record an allowance for expected losses for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the expected life of the instrument.

Application of the general expected credit loss ("ECL") impairment model:

Expected credit losses should be determined using all reasonable and supportable information which is reasonably available at the Bank's reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions. The information used should reflect factors that are specific to the obligor, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the Bank's reporting date. Information that is available for financial reporting purposes is always considered to be available without undue cost or effort.

The general ECL impairment model is used to measure expected credit losses against the majority of financial instruments held by the Bank which are subject to impairment though the ECL impairment model under IFRS 9.

1. ACCOUNTING POLICIES (CONTINUED)

(d) New standards, interpretations and amendments thereof, adopted by the Bank (continued)

(i) IFRS 9 Financial Instruments (continued)

Expected credit losses represent the difference between the cash flows that the Bank is entitled to receive in accordance with the contractual terms of the financial instrument and the cash flows that the Bank ultimately expects to receive based on following model.

The measurement of expected credit losses under the ECL impairment model reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonably and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Lifetime expected credit losses represent expected credit losses that would result from all possible default events over the expected life of the financial asset whereas 12 month expected credit losses are those life expected credit losses expected to occur within 12 months of balance sheet date.

In order to determine whether 12 month or lifetime expected credit losses are used, each financial asset and off-balance sheet financial instrument being individually or collectively assessed for impairment is classified at each reporting date into one of following three stages of credit quality deterioration since the financial asset was initially recognised.

- Stage 1 – Performing financial assets for which there has been no significant deterioration in credit quality since initial recognition;
- Stage 2 – Underperforming financial assets for which there has been a significant deterioration in credit quality since initial recognition but which are not credit-impaired; and
- Stage 3 – Non-performing financial assets for which there has been a significant deterioration in credit quality since initial recognition and which have become credit-impaired.

A financial instrument that is not credit-impaired on initial recognition is initially classified into stage 1 and is typically subsequently continuously monitored to determine whether a significant increase in credit risk has occurred, at which point the financial instrument is reclassified to stage 2. A determination of whether a significant increase in credit risk has occurred at each reporting date will primarily be through a comparison of Nomura Group's internal credit rating applied to the financial instrument at acquisition, origination or issuance and the internal credit rating currently assigned to the financial instrument at the reporting date. A financial instrument will be reclassified into stage 2 where the internal credit rating has declined by more than a specific number of notches, in addition there is a rebuttable presumption that the credit risk of a financial instrument subject has significantly deteriorated since initial recognition when contractual payments of principal or interest are more than 30 days past due. If there is a further deterioration in credit risk such that the financial instrument becomes credit-impaired, the financial instrument is then reclassified into stage 3.

A stage 3 financial asset can only be classified out of stage 3 and into stage 2 or eventually stage 1 when it no longer meets the definition of being credit-impaired, namely when it is no longer probable that the Bank will not be able to collect all principal and interest amounts due in accordance with the original or modified contractual terms of the financial asset.

1. ACCOUNTING POLICIES (CONTINUED)

(d) New standards, interpretations and amendments thereof, adopted by the Bank (continued)

(i) IFRS 9 Financial Instruments (continued)

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred since origination or purchase and it is no longer probable that the Bank will be able to collect all principal and interest amounts due in accordance with the contractual terms of the financial asset.

Nomura group policy is to define a default for application of this policy as the failure of an obligor to make payments in full and on time of any financial obligations, markedly disadvantageous modification to a contractual term compared with the existing obligation, bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of business of an obligor or other similar situations. A small delay in payment would not automatically be considered a default for determination of whether a financial asset has been credit-impaired. In addition, there is a rebuttable presumption that regardless of the above definition, default is deemed to occur and a financial instrument is credit-impaired when the financial instrument is 90 days or more past due.

The Nomura Group policy is that a financial instrument will continue to be credit-impaired until the obligor cures the reasons for credit-impairment or there has been a sustained observable period of repayment performance on the financial instrument. Determination of what constitutes a sustained period of repayment performance by the obligor depends on the nature of the financial instrument but will typically be for a period of 6 months or more.

The allowance for expected credit losses recognised against stage 1 financial assets is determined using 12 month expected credit losses. Conversely, the allowance against stage 2 or stage 3 financial assets is based on lifetime expected credit losses.
Credit-impaired financial instruments individually assessed for impairment are typically written-off when further cash flows are deemed uncollectible and when all commercially reasonably means of recovering outstanding principle and interest balances have been exhausted. Such a determination is based on factors such as the occurrence of significant changes in the obligor's financial position such that the obligor can no longer pay the obligation, or that the proceeds from collateral will not be sufficient to pay amounts due. Credit impaired financial instruments collectively assessed for impairment are typically written off when obligors are declared bankrupt, insolvent or in equivalent situations.

Write-offs are initially recognised against any existing allowance for expected credit losses and can relate to a financial instrument in its entirety or to a portion of it.

Recoveries are recognised through earnings during a reporting period.

For stage 1 and 2 financial assets, interest income is determined by applying the effective interest rate to the gross carrying value. For stage 3 financial assets, interest income is determined by applying the effective interest rate to net carrying amount of the financial asset namely the gross carrying amount less the allowance for expected credit losses.

Measurement of expected credit losses:

The measurement of expected credit losses through the general ECL impairment model is typically determined within the Bank using loss rate models or discounted cash flow models depending on the relevant staging of the financial instrument. A loss rate model measures expected credit losses for an individual or portfolio of similar financial instruments through development of loss rates calculated through an estimate of the probability of default ("PD") of the obligor and loss given default ("LGD") which is applied to the expected credit exposure of the obligor at default ("CEAD").

1. ACCOUNTING POLICIES (CONTINUED)

(d) New standards, interpretations and amendments thereof, adopted by the Bank (continued)

(i) IFRS 9 Financial Instruments (continued)

PD inputs are determined by class of financial instrument and by internal Nomura credit rating applied to the financial instrument. PD inputs used by the Bank are sourced from industry data and validated based on historical experience.

Nomura Group policy is that forward-looking information is incorporated into the PD inputs by forecasting economic scenarios and adjusting the base case inputs for at least one more optimistic and pessimistic scenario.

LGD inputs are determined by class of financial instrument based on historical experience of loss and recovery rates for similar financial instruments and other relevant industry data. Where appropriate, LGD inputs are adjusted to reflect the impact of collateral and other integral credit enhancements.

For revolving and non-revolving loan commitments, the relevant absolute measure of CEAD represents an estimate of the total amount of the facility which will be drawn by the obligor by the time of default.

Cash flows expected from collateral and other credit enhancements that are integral to contractual terms of the financial instrument and not recognised separately by the Bank are included in the measurement of expected credit losses.

Use of the low credit risk practical expedient applies where the financial instrument meets all of the following criteria:

- The financial instrument is a debt security or financial instrument receivable but not a lending activity;
- The financial instrument has low default risk;
- The obligor has strong capacity in the short-term to meet its obligations; and
- Nomura expects, in the longer term that adverse changes in economic and business conditions might, but will not necessarily reduce the ability of the obligor to meet its obligations.

Nomura group policy is to permit a low credit risk practical expedient to be used for measurement of expected credit losses, namely that expected credit losses for certain Stage 1 financial instruments is determined using a 12 month ECL without formal consideration of whether a significant increase in credit risk has occurred. However, in the event that the financial instrument becomes credit-impaired, the financial instrument is reclassified from Stage 1 to Stage 3 where expected credit losses are determined using lifetime ECL.

Examples of balances to which the Bank applies the low credit risk practical expedient includes:

- Default fund contribution receivables from investment grade central clearing counterparties;
- Initial margin and variation margin receivables from investment grade central clearing counterparties; and
- Segregated initial margin receivables from investment grade custodians in connection with OTC derivatives and bilateral repurchase agreements

1. ACCOUNTING POLICIES (CONTINUED)

(d) New standards, interpretations and amendments thereof, adopted by the Bank (continued)

(i) IFRS 9 Financial Instruments (continued)

Certain financial instruments where expected credit losses are very low (either because of the nature of the obligor or the collateral provisions of the financial instrument) will not qualify for use of the low credit risk practical expedient because they meet the definition of a lending activity. There is a rebuttable presumption that these financial instruments will continue to be classified in stage 1 with a significant increase in credit risk only occurring when an observable indicator or event such as a default occurs (referred to as “basic staging” approach).

Financial instruments to which the basic staging approach may be applied includes demand deposits, investments grade short term deposits and variation margin receivables on derivative and collateralised agreements measured at fair value through profit and loss.

For those financial instruments which qualify for the low credit risk practical expedient or which are subject to the basic staging approach referred to above, Nomura group policy is to permit use of various alternative and more simplistic approaches to measure expected credit losses under the general ECL impairment model other than use of a loss rate model as described above.

Given the minimal credit risk retained by the Bank the expected credit loss provision determined in accordance with IFRS 9 as at 1 April 2018 is immaterial.

Loan modifications and renegotiations that are not credit impaired

Nomura group policy is that the accounting for a modification of a financial asset depends on whether a substantial modification has occurred, namely that either the terms of the financial asset are substantially changed or the financial asset is cancelled and replaced with a substantially different financial asset with the same obligor.

Determination of whether a substantial modification has occurred though is assessed through both qualitative and quantitative assessment of how fundamental are the changes to the terms of the financial asset as a result of the modification.

A substantial modification of a financial asset results in derecognition of the original financial asset (or part of it) and recognition of a new financial asset on modification date. The new financial asset is classified and measured in accordance with classification and measurement principles described above. Any costs incurred or fees received in connection with the modification are recognised through the income statement as part of the gain or loss on derecognition of the original instrument.

Where terms are not substantially different the gross carrying amount of the modified original financial asset is recalculated to reflect the impact of the modification based on the present value of the modified contractual cash flows discounted at the original effective interest rate of the financial instrument. Any difference between the existing and revised gross carrying amount is recognised through the income statement as a modification gain or loss.

Transitional impact upon adoption of IFRS 9

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39’s incurred credit loss calculations with IFRS 9’s ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 April 2018 is, as follows:

NOMURA BANK INTERNATIONAL PLC

PERIOD ENDING 30 SEPTEMBER 2018 (UNAUDITED)

NOTES TO INTERIM REPORT

1. ACCOUNTING POLICIES (CONTINUED)

(d) New standards, interpretations and amendments thereof, adopted by the Bank (continued)

(i) IFRS 9 Financial Instruments (continued)

USD '000s	Ref	IAS 39 measurement		Re-classification	Re-measurement	IFRS 9	
		Category	Amount	Amount	Amount	Amount	Category
Assets							
Financial assets							
Loans and advances to banks		L&R[1]	6,635	-	-	6,635	AC[2]
Derivative financial instruments		FVPL[3]	504,352	-	-	504,352	FVPL (mandatory)
Loans and advances to affiliates			1,026,173	(1,026,173)	-	N/A	
Loans and advances to affiliates – at fair value through profit or loss	A		N/A	790,145	-	790,145	FVPL (mandatory)
Loans and advances to affiliates – at amortised cost	B		N/A	236,028	-	236,028	AC
Securities purchased under agreements to resell	C	L&R	6,196,820	2,274	-	6,199,094	FVPL (mandatory)
Loans and advances to others			80,493	(80,493)	-	N/A	
Loans and advances to others – at fair value through profit or loss	A		N/A	79,694	-	79,694	FVPL (mandatory)
Loans and advances to others – at amortised cost	B		N/A	799	-	799	AC
Available for sale financial investments	D	AFS	12	(12)	-	N/A	
Financial investments – at fair value through profit or loss			N/A	12	-	12	FVPL (mandatory)
Other assets		L&R	8,376	-	-	8,376	AC
Non-financial assets							
Prepayments and accrued income		N/A	9,748	-	-	9,748	N/A
Deferred tax asset		N/A	12,317	-	-	12,317	N/A
Total assets			**7,844,926**	**2,274**	**-**	**7,847,200**	
Liabilities							
Financial liabilities							
Customer accounts		AC	200	-	-	200	AC
Derivative financial instruments		FVPL	1,107,756	-	-	1,107,756	FVPL (mandatory)
Borrowings from affiliates		AC	246,485	-	-	246,485	AC
Borrowings from others		FVPL (designated)	43,235	-	-	43,235	FVPL (designated)
Securities sold under agreements to repurchase	C	AC	1,450,000	1,216	-	1,451,216	FVPL (designated)
Bonds and medium-term notes		FVPL (designated)	4,460,415	-	-	4,460,415	FVPL (designated)
Non-financial liabilities							
Accruals and deferred income		N/A	25,931	-	-	25,931	N/A
Group relief payable		N/A	27,424	-	-	27,424	N/A
Other liabilities		N/A	740	-	-	740	N/A
Total liabilities			**7,362,186**	**1,216**	**-**	**7,363,402**	

[1]L&R: Loans & Receivables
[2]AC: Amortised cost
[3]FVPL: Fair value through P&L

1. ACCOUNTING POLICIES (CONTINUED)

(d) New standards, interpretations and amendments thereof, adopted by the Bank (continued)

(i) IFRS 9 Financial Instruments (continued)

As of 1 April 2018, the following changes to classification and measurement were made on adoption of IFRS 9.

A. Certain loans and advances of a structured nature were designated FVPL under IAS 39 and are mandatorily measured at FVPL under IFRS 9. In order to increase comparability and transparency, these balances are now separately presented on the face of the statement of financial position.

B. Certain loans and advances which were classified as Loans and Receivables under IAS 39 were classified as Amortised cost under IFRS 9 and subject to ECL. In order to increase comparability and transparency, these balances are now separately presented on the face of the statement of financial position.

C. Securities purchased under agreements to resell have been reclassified from Loans and Receivables under IAS 39 to being mandatorily at FVPL under IFRS 9. Securities sold under agreements to repurchase have been reclassified from Amortised cost under IAS 39 to being designated at FVPL under IFRS 9. The impact on retained earnings of reclassification is an increase of $1.1 million before tax.

D. Certain Financial investments that were previously classified as Available-for-sale investments under IAS 39 to being mandatorily at fair value through profit or loss under IFRS 9.

Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at fair value through profit or loss due to changes in the Bank's own credit risk. Changes in own credit on financial liabilities designated at fair value through profit or loss such as notes issued is recognised in other comprehensive income (OCI) and do not get recycled to the profit or loss, thereby eliminating volatility in profit and loss in relation to unrealised own credit adjustments. Refer to the 'Impact on Equity' note below for more details.

Impact on equity

The Bank records an adjustment to its opening April 1, 2018 retained earnings, to reflect the application of the new requirements of IFRS 9 Impairment and Classification and Measurement at the adoption date and will not restate comparative periods.

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Retained earnings
	USD '000s
Closing balance under IAS 39 (31 March 2018)	**32,541**
Reclassification adjustments in relation to IFRS 9	
Remeasurement impact of reclassifying assets held at amortised cost to financial assets at fair value designated through profit or loss	2,274
Remeasurement impact of reclassifying liabilities held at amortised cost to financial liabilities at fair value designated through profit or loss	(1,216)
Opening balance under IFRS 9 (1 April 2018)	**33,599**
Total change in equity due to adopting IFRS 9	**1,058**

1. ACCOUNTING POLICIES (CONTINUED)

(ii) IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which specifies how and when revenue is recognised, but does not impact income recognition related to financial instruments in scope of IFRS 9/IAS 39. In April 2016, the IASB issued clarifications to the standard, clarifying some requirements and providing additional transitional relief for companies that are implementing the new standard. This standard is endorsed by EU and effective for annual periods beginning on or after 1 January 2018 with early adoption possible. Based on assessment made, this new standard does not have a material impact on the Bank's financial position and performance.

2. TAX

Income tax expense in the Income Statement is calculated using the tax rate that would be applicable to the expected total annual earnings. The major components of the income tax expense are:

INCOME TAXES	Period ending 30 September 2018 $'000	Period ending 30 September 2017 $'000
Current income tax expense	1,960	2,129
Income tax expense recognised in the Income Statement	**1,960**	**2,129**

Income tax expense in the Statement of Comprehensive Income is calculated using the tax rate that would be applicable to the expected total annual earnings. The major components of the income tax expense are:

INCOME TAXES	Period ending 30 September 2018 $'000	Period ending 30 September 2017 $'000
Current income tax credit	(87)	(645)
Deferred income tax credit relating to origination and reversal of temporary differences on own credit	(2,003)	(15,026)
Income tax credit recognised in Statement of Comprehensive Income	**(2,090)**	**(15,671)**

3. FINANCIAL INSTRUMENTS

Analysis of the Bank's financial assets and financial liabilities by IFRS 9 classification

	September 2018				
	Mandatorily at fair value through profit or loss	Designated at fair value through profit and loss	Financial Assets at amortised cost	Financial liabilities at amortised cost	Total
	$'000	$'000	$'000	$'000	$'000
Financial Assets					
Loans and advances to banks	-	-	3,774	-	3,774
Derivative financial instruments	539,011	-	-	-	539,011
Loans and advances to affiliates – at fair value through profit or loss	561,938	-	-	-	561,938
Loans and advances to affiliates – at amortised cost	-	-	100,909	-	100,909
Securities purchased under agreements to resell	5,004,183	-	-	-	5,004,183
Loans and advances to others – at fair value through profit or loss	75,640	-	-	-	75,640
Loans and advances to others – at amortised cost	-	-	4,695	-	4,695
Other assets	-	-	12,259	-	12,259
Financial investments – at fair value through profit or loss	18	-	-	-	18
Financial Liabilities					
Customer accounts	-	-	-	(190)	(190)
Derivative financial instruments	(980,846)	-	-	-	(980.846)
Borrowing from affiliates	-	-	-	(171,678)	(171,678)
Borrowing from others	-	(40,136)	-	-	(40,136)
Securities sold under agreements to repurchase	-	(600,047)	-	-	(600,047)
Bonds and medium term notes	-	(4,035,610)	-	-	(4,035,610)
Other liabilities	-	-	-	(81)	(81)
	5,199,945	**(4,675,793)**	**121,637**	**(171,949)**	**473,840**

The maximum credit exposure of the financial assets designated at fair value through profit and loss amounts to $5.6 billion (March 2018: $870m). The cumulative change in fair value of the assets attributable to changes in credit risk amounts to nil (March 2018: nil) and the change for the current period is nil (March 2018: nil). Included in financial assets designated at fair value through profit and loss is a loan which is guaranteed by NIP.

3. FINANCIAL INSTRUMENTS (CONTINUED)

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

	March 2018					
	Available-for-sale investments	Held for trading	Designated at fair value through profit and loss	Financial Assets at amortised cost	Financial liabilities at amortised cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets						
Loans and advances to banks	-	-	-	6,635	-	6,635
Derivative financial instruments	-	504,352	-	-	-	504,352
Loans and advances to affiliates	-	-	790,145	236,028	-	1,026,173
Securities purchased under agreements to resell	-	-	-	6,196,820	-	6,196,820
Loans and advances to others	-	-	79,694	799	-	80,493
Other assets	-	-	-	8,376	-	8,376
Available-for-sale Investments	12	-	-	-	-	12
Financial Liabilities						
Customer accounts	-	-	-	-	(200)	(200)
Derivative financial instruments	-	(1,107,756)	-	-	-	(1,107,756)
Borrowing from affiliates	-	-	-	-	(246,485)	(246,485)
Borrowing from others	-	-	(43,235)	-	-	(43,235)
Securities sold under agreements to repurchase	-	-	-	-	(1,450,000)	(1,450,000)
Bonds and medium term notes	-	-	(4,460,415)	-	-	(4,460,415)
Other liabilities	-	-	-	-	(740)	(740)
	12	**(603,404)**	**(3,633,811)**	**6,448,658**	**(1,697,425)**	**514,030**

3. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

	30 September 2018	31 March 2018
	$'000	$'000
Financial assets		
Derivative financial instruments	408,934	502,785
Loans and advances to affiliates – at fair value through profit or loss	561,938	790,145
Loans and advances to affiliates – at amortised cost	100,909	236,028
Securities purchased under agreements to resell	5,004,183	6,196,820
Other assets	11,865	7,911
	6,087,829	**7,733,689**
Financial liabilities		
Derivative financial instruments	935,318	911,232
Borrowing from affiliates	171,678	246,485
	1,106,996	**1,157,717**

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities accessible by the Bank at the measurement date.

Level 2 Quoted prices in inactive markets or prices containing other inputs which are observable, either directly or indirectly. Valuation techniques using observable inputs reflect assumptions used by market participants in pricing financial instruments and are based on data obtained from independent market sources at the measurement date.

Level 3 Unobservable inputs that are significant to the fair value measurement of the financial instrument. Valuation techniques using unobservable inputs reflect management's assumptions about the estimates used by other market participants in valuing similar financial instruments. These valuation techniques are developed based on the best available information at the measurement date.

The following tables presents information about the Bank'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 Bank to determine such fair values.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

There are no financial instruments whose carrying amounts differ materially to their fair values.

Fair value hierarchy

30 September 2018:	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Financial assets held for trading:				
- Derivatives	-	443,482	95,529	539,011
Loans and advances to affiliates – at fair value through profit or loss	-	561,938	-	561,938
Securities purchased under agreements to resell	-	5,004,183	-	5,004,183
Loans and advances to others – at fair value through profit or loss	-	-	75,640	75,640
Financial investments at fair value through profit or loss	-	18	-	18
	-	**6,009,621**	**171,169**	**6,180,790**
Financial Liabilities				
Financial liabilities held for trading:				
- Derivatives	-	705,295	275,551	980,846
Securities sold under agreements to repurchase	-	600,047	-	600,047
Bonds and medium-term notes	-	4,035,610	-	4,035,610
Borrowings from others	-	40,136	-	40,136
	-	**5,381,088**	**275,551**	**5,656,639**

31 March 2018:	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Financial assets held for trading:				
- Derivatives	-	239,558	264,794	504,352
Loans and advances to affiliates – at fair value through profit or loss	-	790,145	-	790,145
Loans and advances to others – at fair value through profit or loss	-	-	79,694	79,694
	-	**1,029,703**	**344,488**	**1,374,191**
Financial Liabilities				
Financial liabilities held for trading:				
- Derivatives	-	557,988	549,768	1,107,756
Bonds and medium-term notes	-	4,460,415	-	4,460,415
Borrowings from others	-	43,235	-	43,235
	-	**5,061,638**	**549,768**	**5,611,406**

5. VALUATION PROCESSES

In order to ensure the appropriateness of any fair value measurement of a financial instrument used within these financial statements including those classified as Level 3 within the fair value hierarchy, the Bank operates a governance framework which mandates determination or validation of a fair value measurement by control and support functions independent of the businesses assuming the risk of the financial instrument. Such functions within Nomura Group with direct responsibility for either defining, implementing or maintaining valuation policies and procedures are as follows:

- The Product Control Valuations Group ("PCVG") within Nomura's Finance Department has primary responsibility for determining and implementing valuation policies and procedures in connection with determination of fair value measurements. In particular, this group will ensure that valuation policies are documented for each type of financial instrument. While it is the responsibility of our businesses to price our financial instruments, the PCVG are responsible for independently verifying or validating these prices. In the event of a difference in opinion or where the estimate of fair value requires judgment, the valuation used within these financial statements is made by senior managers independent of the businesses. This group reports to the Global Head of Product Control and ultimately to the Chief Financial Officer ("CFO") of Nomura Group;

- The Accounting Policy Group ("APG") within Nomura's Finance Department defines the Group's accounting policies and procedures, including those associated with determination of fair value. This group reports to the Global Head of Accounting Policy and ultimately to the CFO of Nomura Group; and

- The Global Model Validation Group ("MVG") within Nomura's Risk Management Department validates the appropriateness and consistency of pricing models used to determine fair value measurements independently of those who design and build the models. The group reports to the Global Head of Market and Quantitative Risk of Nomura Group.

Sensitivity of fair value to changes in unobservable inputs

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.

Movements in Level 3 financial instruments

Level 3 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. Additionally, due to these hedging arrangements no effect of reasonably possible alternative assumptions has been disclosed as a change in any assumption would cause a similar offsetting effect to the hedging instruments' fair value. 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.

5. VALUATION PROCESSES (CONTINUED)

Movements in Level 3 financial instruments

30 September 2018	At 1 April 2018	Total gains (losses) in P&L	Settlement	Net transfers in of level 3	Net transfers (out) of level 3	At 30 September 2018	Unrealised Total gains (losses)in P&L
$'000s							
Financial assets							
Financial assets held for trading:							
- Derivatives	264,794	(3,351)	(115,078)	1,085	(51,920)	95,529	(7,501)
Loans and advances to others	79,694	(4,054)	-	-	-	75,640	(4,054)
	344,487	**(7,405)**	**(115,078)**	**1,085**	**(51,920)**	**171,169**	**(11,555)**

30 September 2018	At 1 April 2018	Total gains (losses) in P&L	Settlement	Net transfers in of level 3	Net transfers (out) of level 3	At 30 September 2018	Unrealised Total gains (losses)in P&L
$'000s							
Financial liabilities							
Financial liabilities held for trading:							
- Derivatives	549,768	57,214	(319,207)	755	(12,979)	275,551	62,889
	549,768	**57,214**	**(319,207)**	**755**	**(12,979)**	**275,551**	**62,889**

Total gains and losses on financial instruments included in the above tables are included in 'Dealing losses' in the profit and loss account.

The Bank 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.

During the period, financial assets and liabilities were transferred into Level 3 as certain parameters became unobservable or more significant.

NOMURA BANK INTERNATIONAL PLC

PERIOD ENDING 30 SEPTEMBER 2018 (UNAUDITED)

NOTES TO INTERIM REPORT (CONTINUED)

5. VALUATION PROCESSES (CONTINUED)

Level 3 quantitative disclosures on significant unobservable inputs

The following table presents quantitative information about the significant unobservable inputs and assumptions used by the Bank for Level 3 financial instruments as of 30 September 2018 and 31 March 2018.

30 September 2018

Class of financial instrument	Fair value $'000	Valuation techniques	Significant Unobservable inputs	Range
Financial Instruments held for trading				
- Derivative Assets	95,529	DCF/Option Models	Volatilities	1.8% - 10.8%
- Derivative Liabilities	(275,551)		Correlations	(0.42) – 0.96
- Loans and advances to others – at fair value through profit or loss	75,640		No significant unobservable inputs[1]	

31 March 2018

Class of financial instrument	Fair value $'000	Valuation techniques	Significant Unobservable inputs	Range
Financial Instruments held for trading				
- Derivative Assets	264,794	DCF/Option Models	Dividend Yield	1% - 5.2%
			Volatilities	5.1% - 33.2%
- Derivative Liabilities	(549,768)		Correlations	(0.40) – 0.64
- Loans and advances to others – at fair value through profit or loss	79,694		No significant unobservable inputs[1]	

[1]The position is valued with a significant adjustment to theoretical value to reflect likely exit level. Whilst this is significant to the valuation no individual input is seen as significant and unobservable.

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 on the next page 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.

5. VALUATION PROCESSES (CONTINUED)

The following tables present carrying values, fair values and classification within the fair value hierarchy for certain classes of financial instruments which are not carried at fair value as of 30 September 2018 and 31 March 2018.

	September 2018		September 2018		
				Fair value by level	
	Carrying amount	Fair value	Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000	$'000
Financial Assets:					
Loans and advances to banks	3,774	3,774	3,774	-	-
Loans and advances to affiliates – at amortised cost	100,909	100,909	-	100,909	-
Loans and advances to others – at amortised cost	4,695	4,695	-	4,695	-
Other Assets	12,259	12,259	-	12,259	-
	121,637	**121,637**	**3,774**	**117,863**	**-**
Financial Liabilities:					
Borrowing from affiliates	(171,678)	(171,678)	-	(171,678)	-
Other liabilities	(81)	(81)	-	(81)	-
	(171,759)	**(171,759)**	**-**	**(171,759)**	**-**

	March 2018		March 2018		
				Fair value by level	
	Carrying amount	Fair value	Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000	$'000
Financial Assets:					
Loans and advances to banks	6,635	6,635	6,635	-	-
Loans and advances to affiliates – at amortised cost	236,028	236,028	-	236,028	-
Loans and advances to others – at amortised cost	799	799	-	799	-
Securities purchased under agreements to resell	6,196,820	6,196,820	-	6,196,820	-
Other Assets	8,376	8,376	-	8,376	-
	6,448,658	**6,448,658**	**6,635**	**6,442,023**	**-**
Financial Liabilities:					
Borrowing from affiliates	(246,485)	(246,485)	-	(246,485)	-
Securities sold under agreements to repurchase	(1,450,000)	(1,450,000)	-	(1,450,000)	-
Other liabilities	(740)	(740)	-	(740)	-
	(1,697,225)	**(1,697,225)**	**-**	**(1,697,225)**	**-**

6. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent Liabilities

Financial guarantee contracts

The Bank provides certain financial guarantees to third parties over their exposure to Nomura group companies. At 30 September 2018 the maximum exposure on these financial guarantee contracts amounted to $99,503,705 (31 March 2018 $184,439,319).

Commitments

The Bank had commitments as at 30 September 2018 amounting to $1,404,446,980 (31 March 2018: $1,151,832,572) in respect of undrawn note issuance facilities and loan commitments. The loan commitments are sub-participated to NIP on commitment date.

7. BONDS AND MEDIUM TERM NOTES

The Bank issues structured notes with returns linked to equity, credit instruments or other indices. The Bank actively manages the resultant risk on a fair value basis using a combination of derivative and non-derivative financial instruments with the express intention of eliminating significant market risk arising from such transactions.

	September 2018	March 2018
	$'000	$'000
Bonds and Medium Term Notes, by remaining maturity:		
- Less than 1 year	305,931	613,721
- Less than 5 years but greater than 1 year	916,407	994,833
- Greater than 5 years	2,813,272	2,851,861
Total	**4,035,610**	**4,460,415**

As of 30 September 2018, the fair value of the aggregate unpaid principal balance (which is contractually principally protected) of long-term borrowings for which the fair value option was elected was $91,585,759 (March 2018: $88,464,301) more than the principal balance of such long-term borrowings.

The impact of changes in own credit risk during the year included in other comprehensive income on financial liabilities designated at fair value through profit and loss account was an unrealised loss of $13,601,436 (March 2018: $17,599,553) and realised loss of $456,955 (March 2018: $4,796,277), as well as a U.K. corporation tax credit of $2,090,302 (March 2018: $13,560,212) arising during the year. The cumulative valuation adjustment resulting from own credit, included in the fair values of bonds and medium notes in the statement of financial position, is a credit of $81,781,135 at 30 September 2018 (March 2018: $68,179,698). The Bank calculates and applies an own credit adjustment based on movements in the credit spread of the Nomura Group.

Movement in bonds and medium term notes

The bank typically hedges the returns it is obliged to pay with derivatives and/or the underlying assets to obtain funding equivalent to unsecured long-term debt.

Structured notes are debt securities 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 variable(s) such as an equity or equity index, commodity price, foreign exchange rate, credit rating of a third party or more complex interest rate calculation.

7. BONDS AND MEDIUM TERM NOTES (CONTINUED)

Movement in bonds and medium term notes (continued)

$,000	Balance as at 1 April 2018	Issuance	Redemption	Others	Balance as at 30 September 2018
Bonds and medium term notes	4,460,415	344,160	(653,282)	(115,683)	4,035,610
Total	**4,460,415**	**344,160**	**(653,282)**	**(115,683)**	**4,035,610**

8. RELATED PARTY TRANSACTIONS

The Bank enters into various transactions with other companies under common control within the Nomura Group which are at an arm's length basis.

a. Transactions with NIP

i. The Bank has secured financing and collateralised lending receivables owing from NIP in the amount of $5,316,823,563 as at 30 September 2018 (31 March 2018: $6,595,720,997). Prepayments including interest receivables owing from NIP amounted to $10,397,881 as at 30 September 2018 (31 March 2018: $9,738,752).

ii. The Bank enters into derivative agreements with NIP to hedge the market risk on medium term notes issued. The fair value of the derivatives assets with NIP is $408,933,831 as at 30 September 2018 (31 March 2018: $502,784,762) and the fair value of derivative liabilities with NIP is $766,716,928 (31 March 2018: $911,231,436). The Bank receives a combination of cash and securities collateral from NIP with respect to its net derivative exposure with NIP.

iii. The Bank has other receivables due from NIP of $12,328,586 (31 March 2018: $9,780,228) and other payables due to NIP of $89,513,968 (31 March 2018: $90,324,426).

iv. The Bank advanced a loan to NIP to the amount of $100,908,997 (31 March 2018 $634,929,982) and has received cash collateral $46,537,046 (31 March 2018: $161,127,863).

v. Interest income includes Interest on Reverse repo with NIP $39,481,769 (30 September 2017: $45,063,077).

vi. Interest expense includes Interest on Loan and Collateral with NIP $517,279 (30 September 2017 $1,108,431).

vii. Fee income includes arrangement fees received from NIP $29,485,079 (30 September 2017 $21,561,314).

viii. Fee expense includes commitment fee expense with NIP $1,803,720 (30 September 2017 $1,624,221).

8. RELATED PARTY TRANSACTIONS (CONTINUED)

ix. Administration expense include SLA & Technology charges paid to NIP $4,714,273 (30 September 2017 $4,714,273).

x. The Bank benefits from a written guarantee from its ultimate parent, NHI, over its exposure to NIP.

xi. The Bank's obligation to pay the UK Bank Levy in both the current year and prior year has been settled by NIP, who is responsible for reporting and paying the bank levy on behalf of the Nomura UK tax group.

a. Transactions with other Nomura group companies

i. The Bank has borrowings and payables due to other Nomura group companies of $41,029,064 as at 30 September 2018 (31 March 2018: $1,067,708) but has loans and advances due from other Nomura group companies as at 30 September 2018 $248,833,590 (31 March 2018: $390,409,948).

For the period ended 30 September 2018 and 30 September 2017, there were no impairment losses on any of the above disclosed related party receivables.

The risk on the Bank's transactions is predominantly retained by other Nomura Group companies. Therefore, many "back-to-back" transactions exist between the Bank and other Nomura Group companies.

In addition to the above, the Bank has significant dependencies with other Nomura Group companies. Certain Corporate services, including the use of IT systems, are provided by NIP through service level agreements. The premises where the Bank is registered and operates are leased by Nomura Properties Plc.