



**NOMURA**

# **NOMURA INTERNATIONAL PLC**

**Annual Report  
31 March 2020**

**COMPANY REGISTRATION NUMBER: 1550505**

STRICTLY PRIVATE AND CONFIDENTIAL

Copyright © 2020 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, recoding or otherwise - without the prior written permission of Nomura.

**NOMURA INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2020****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 2020. 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, FINANCIAL PERFORMANCE AND FINANCIAL POSITION, DESCRIPTION OF PRINCIPAL RISKS AND INFORMATION REGARDING BRANCHES****Principal Activities**

The Company is a London-based securities broker-dealer operating company and is a wholly owned subsidiary of Nomura Europe Holdings plc (“NEHS”), which together with the Company, NEHS and other NEHS’s subsidiary undertakings, form the “NEHS Group”. 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 has branches in Dubai, Doha and Cape Town. The Company’s core 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

## NOMURA INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2020

### STRATEGIC REPORT (CONTINUED)

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

|                                     | <u>Year ended</u><br><b>31 March 2020</b> | <u>Year ended</u><br><b>31 March 2019</b> |
|-------------------------------------|---|---|
|                                     | <b>\$'000</b>                             | <b>\$'000</b>                             |
| Trading profit                      | 1,187,278                                 | 1,361,906                                 |
| Net interest income/(expense)       | 36,770                                    | (105,798)                                 |
| General and administrative expenses | (1,440,816)                               | (1,582,413)                               |
| Credit impairment charges           | (40,668)                                  | (1,434)                                   |
| Operating loss                      | (257,436)                                 | (327,739)                                 |
| Loss before taxation                | (313,313)                                 | (387,309)                                 |
| Loss for the financial year         | (310,452)                                 | (383,555)                                 |
| Total assets                        | 289,116,893                               | 244,236,088                               |
| Total liabilities                   | 283,627,471                               | 239,462,780                               |
| Shareholders' funds                 | 5,489,422                                 | 4,773,308                                 |

#### ***Financial Performance:***

The Company reported a loss before tax for the year of \$313,313,000 (2019: loss of \$387,309,000). Despite year-on-year improved Wholesale performance, particularly in the Rates business, the Company suffered significant trading losses in the fourth quarter of the year, as a result of the market dislocation caused by the Coronavirus pandemic ("COVID-19").

Credit impairment charges also increased \$39,234,000 (2019: \$1,434,000) in the year, reflective of the COVID-19 impact on the Company's Expected Credit Loss provisioning requirement. Further details are presented in Notes 5 and 8 of the Financial Statements.

General and administrative expenses reduced by 10% against 31 March 2019 following the Nomura Group restructuring plan executed in April 2019. However, the benefit was partially offset by new litigation provisions of \$117,670,000 (2019:\$109,919,000) raised during the year, with further details presented in Note 29 of the Financial Statements.

#### ***Financial Position:***

The Company's total assets of \$289,116,893,000 increased by 19% in 2020, following widening spreads and a resultant increase in derivative assets during the COVID-19 market volatility.

During the year, the Company issued 1,000,000,000 ordinary shares of \$1 each in three tranches to NEHS on 29 August 2019, 30 October 2019 and 30 March 2020 for 250,000,000, 250,000,000 and 500,000,000 ordinary shares respectively.

The Company continues to participate in a multi-year legal entity programme as part of the Nomura Group's legal entity strategy, which 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.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2020**

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

#### **BUSINESS ENVIRONMENT**

The heightened worry over United States ("US")-China trade tensions destabilised financial markets during the summer of 2019, prompting major central banks to resume monetary easing. In September 2019, the European Central Bank ("ECB") introduced a further interest rate cut along with resumption of quantitative easing. Expectations for a global economic recovery started to grow following the manufacturing sector entering into an upward cycle which eased US-China trade tension, alongside improved transparency over the United Kingdom ("UK")'s expected departure from the European Union ("EU") at the end of 2020. However the impact of COVID-19 between January to March 2020 has eroded the growth expectations, with all of the world's major economies reported severe contractions during this period.

In addition to the macro-economic uncertainties referenced above, the Company continues to proactively manage the continued challenges of industry digitalisation by prioritising collaboration across division and regions along with investment in e-trading platforms.

#### **COVID-19 PANDEMIC**

As noted above, the Company has been impacted by COVID-19 which was declared as a pandemic by the World Health Organisation on 11 March 2020. Subsequently, the Company activated the pandemic plan under the oversight of the NEHS Executive Committee. Evaluation of the situation was managed through the governance structures of the NEHS Operating Committee, which assessed issues and recommended actions and mitigants to the NEHS Executive Committee as necessary for ratification.

To date, the Company's contingency and business continuity arrangements are operating as planned and the Company continues to operate on a business as usual basis with most employees working from home. The Company has been preparing phased returns to the offices in compliance with local government mandates. It is considered that the Company will continue with these arrangements for as long as is required with no detrimental impact on the operations of the business and look to establish long-term flexible working arrangement in future.

The Company's pandemic plan has also focused on ensuring the safety of its employees and their families as well as contributing to the wider community through donating funds to support National Health Service ("NHS") Charities Together.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2020**

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

#### **FUTURE DEVELOPMENTS**

##### **UK Referendum (BREXIT)**

The United Kingdom's membership of the European Union ended on 31 January 2020 ("Brexit") in accordance with the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (the "Withdrawal Agreement"). The Withdrawal Agreement provides for a transition period until 31 December 2020 during which EU rules and regulations continue to apply to the UK. Whilst the future agreement between the UK and EU are currently under negotiation, its final form and substance remain uncertain at this time.

The Company conducts a substantial level of business throughout Europe with London as its regional hub. The Company has access to the entire European Economic Area ("EEA") through providing cross-border services under the relevant EU single market legislation known as "passporting rights". If the transition period ends without any agreement between the UK and EU in respect to continuation of access for financial services, including passporting rights, the Company may lose access to the EEA, adversely affecting both the Company's and the Nomura Group's revenue and profitability from business in the European region.

In response to the impacts of Brexit on both the Nomura Group and the Company, and to provide continued services to clients both regionally and globally, a broker-dealer entity, Nomura Financial Products Europe GmbH ("NFPE") in the Federal Republic of Germany was established in 2019. NFPE is a subsidiary of NEHS and is eligible for passporting rights to the EEA if no agreement is reached before the transition period ends.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2020**

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

#### **RISK MANAGEMENT**

The Company's risk management framework is closely aligned to the Nomura Group's risk management framework. However through its local governance framework, the Company does apply specific risk management controls and defines its risk appetite, which is the maximum level and types of risk that the Company is willing to assume in pursuit of its strategic objectives and business plan.

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. These risks are managed through sub-committees of the Board of NEHS, which include:

- the Board Risk Committee ("BRC"), which has oversight over the NEHS Group's risk profile, financial risk appetite, future risk strategy and maintenance of an appropriate risk control framework.
- cross-border risk committees in relation to non-Europe, Middle East and Africa ("non-EMEA") business booked into the Company.

Further information on the management of these risks is provided in note 18 of the Financial Statements.

#### **REGULATION AND REGULATORY CHANGES**

##### **Regulations**

The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the 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.

During the year, the Directors have noted, amongst other items, the following key Regulatory updates and confirm the establishment of regulatory programs as appropriate to ensure compliance:

- On 23 November 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"). These updates entered into force in June 2019 with the majority of changes being introduced two years later in June 2021. Among other things these proposed changes include the introduction of binding minimum leverage and net stable funding ratios, changes to the calculations for counterparty credit risk of derivatives, a tightening of large exposure limits, introduction of new reporting requirements for market risk and the introduction of a new EU intermediate parent undertaking requirement. These reforms are generally expected to lead to an increase in local capital and liquidity requirements and increased costs of compliance. The Company has a Regulatory change program which is managing the transition through to June 2021.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2020**

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

#### **REGULATION AND REGULATORY CHANGES (CONTINUED)**

- The internal minimum requirement for eligible liabilities (“MREL”) became applicable in the UK for all UK incorporated institutions from 1 January 2019 for firms whose failure would have a significant impact on the UK financial system and for certain overseas firms where the Bank of England (“BOE”) would support a home resolution authority in carrying out a cross-border resolution. The Nomura Group has adopted a single point of entry resolution strategy, the Company has therefore maintained sufficient capital resources to comply with MREL as required by the Bank of England since 1 January 2020.
- In July 2019, the BOE and UK PRA published a policy statement on the Resolvability Assessment Framework (“RAF”). The proposals for the RAF bring together existing policies such as MREL and Operational Continuity in Resolution (“OCIR”) as well as other new resolution policies in order to follow the resolution principles set out by the FSB. Under the policy, it is expected firms perform an assessment of their preparations for resolution and the BOE provide a public statement concerning resolvability of each firm.
- The European Market Infrastructure Regulation (“EMIR”) became effective on 16 August 2012, and applies to any entity established in the EU that is a legal counterparty to a derivative contract, even when trading with non-EU firms. EMIR was created with the intention of stabilizing OTC markets found within EU member states. Although the majority of EMIR regulations have already been implemented, on 28 May 2019, Regulation (EU) 2019/834 (EMIR REFIT) was published in the EU’s Official Journal, with the aim of amending EMIR to make some of its requirements simpler and more proportionate. With a few exceptions, the majority of the provisions in the Regulation entered into force on 17 June 2019.
- On 12 January 2016, the Securities Financing Transactions Regulation (“SFTR”), which forms part of the EU’s package of legislation targeted at reforming shadow banking and aims to improve transparency in the securities financing transactions (“SFTs”) market, came into force subject to a range of transitional provisions over a number of years. On 11 April 2019, the final regulatory technical standards entered into force and MiFID firms were due to commence their reporting one year later on 11 April 2020. However, due to the COVID-19 pandemic, the reporting under the SFTR has been extended until 13 July 2020. Furthermore, in preparation of post-EU withdrawal, the UK Government has stated that the UK will not be taking action to incorporate into UK law the reporting obligation of the EU’s SFTR for non-financial counterparties (NFCs).
- The Fifth Money Laundering Directive (“5MLD”), came into force in the EU on 26 April 2018 and for implementation by EU Member States by 10 January 2020. Not all Member States have yet been able to implement the changes. However the U.K. government has enacted the regulations bringing into force the 5MLD and the provisions are contained in the Money Laundering and Terrorist Financing (Amendment) Regulations 2019. The changes impose additional obligations within the financial services sector. 5MLD amends 4MLD, and includes provisions that enhance the required level of transparency around beneficial ownership of corporates and trusts, tightens some controls relating to Politically-Exposed Persons and high risk third countries and also addresses risks associated with certain technological innovation, particularly virtual currencies.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2020**

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

#### **REGULATION AND REGULATORY CHANGES (CONTINUED)**

- The Senior Managers and Certification Regime (“SM&CR”) came into force on 7 March 2016 with the aim of reducing the risk of harm to consumers and strengthening market integrity by making firms, and individuals within those firms, more accountable for their conduct and competence. In July 2018, the UK FCA and UK PRA published near-final rules extending SM&CR to cover all financial services firms in the UK to apply from 9 December 2019. On 8 March 2019, the U.K. FCA announced its final rules on its proposed Directory - a new public register that will enable consumers, firms and other stakeholders to find information on key individuals working in financial services who are not otherwise appointed and publicly registered under the SM&CR. Firms were required to submit data on Directory individuals in December 2019, and the Directory was expected to go live in March 2020. However, due to the COVID-19 pandemic, the implementation date of the Directory of Certified and Assessed Persons is currently under review.
- In November 2019, the EU Benchmark Regulation (“BMR”) was amended to include two new types of “climate benchmarks” - ‘Paris-Aligned’ Benchmarks (“PABs”) and Climate Transition Benchmarks (“CTBs”). The Low-Carbon Benchmarks Regulation introduced the requirement (under Article 13 of the BMR) that administrators of benchmarks (save interest rate and foreign exchange benchmarks) must provide an explanation of how the key elements of their benchmark methodologies reflect ESG factors. The requirements are to be complied with by 30 April 2020. However, since the draft regulatory technical standards are currently subject to a public consultation and a number of important details are subject to these delegated acts, ESMA issued a ‘No Action Letter’ encouraging EU national regulators not to force these ‘Level 1’ requirements until these delegated acts are finalised.
- Interest rate benchmarks including, among others, the London Interbank Offered Rate (“LIBOR”), the Euro Interbank Offered Rate (EURIBOR), the Euro Overnight Index Average (EONIA) and certain other Interbank Offered Rates (“IBORs”) are being reformed. The UK is due to make the transition from LIBOR to Sterling Overnight Index Average (“SONIA”) by the end of 2021 although certain interim milestones have been extended due to the COVID-19 pandemic.



**NOMURA INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2020****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 providing 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 UK employees, in order to provide information relevant to them about their employment and Nomura. This includes regular Nomura news bulletins circulated to all UK employees as well as communication and updates on the employee training programs that are available. All UK employees are encouraged to participate in the various employee committees and networks offered by the Nomura Group. The Company is not listed in the UK 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 2020**

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

#### **SECTION 172 OF THE COMPANIES ACT 2006**

Section 172 of the Companies Act 2006 requires directors to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard to the interests of stakeholders, including shareholders, clients, employees, suppliers, regulators and the wider society in which the Company operates.

As a Board, we strive to take decisions for the long term, with the aim of understanding and respecting the views and needs of our clients, employees and suppliers along with the environment we operate in and the shareholders to whom we are accountable.

The Board ensures the Section 172 requirements are met and the interests of all stakeholder groups are considered and taken into account when making decisions. This is evidenced through a number of actions including but not limited to the following:

- There is an established policy of communicating with all employees regularly. The NEHS Group's purpose and its strategy and priorities are communicated at quarterly town halls, and throughout the year in leadership meetings, all employee email messages and Nomura news bulletins. In its communications, the NEHS Group actively promotes its commitment to: good governance; risk management; compliance; good conduct; client needs and shareholder requirements; social responsibility; equal opportunities; and diversity and inclusion.
- Nomura conducts an annual Founding Principles and Corporate Ethics Day, a global initiative with the aim of engaging with employees and obtaining feedback in relation to conduct matters. These sessions are held in teams and led by team leaders to facilitate open discussions. Over 200 sessions were held over the attestation period to discuss corporate ethics and conduct related issues and the Conduct team collated detailed employee feedback and condensed it into overall themes to address the feedback received. The Human Resources ("HR") team conduct employee engagement surveys and review the output of the surveys, gather feedback and develop targeted action plans which are presented to Executive management. An overview is also presented to the Board.
- The Human Resources ("HR") team conduct employee engagement surveys and review the output of the surveys, gather feedback and develop targeted action plans which are presented to Executive management. An overview is also presented to the Board. Both the NEHS Executive Committee (the Terms of Reference of which include the operations of the Company within its scope) and the Board receives regular updates from HR to consider matters such as diversity and inclusion, and annual diversity monitoring surveys are conducted.
- An annual Health and Safety review of employee wellbeing is conducted by HR. The Director of the Board responsible for Health and Safety provides an annual update on Health, Safety and the Environment. Mental Health champions have been trained across the business and a firm-wide mental health resilience programme is in place.
- The Company reviews and reports on its invoice payment practices to ensure suppliers are treated fairly by abiding to agreed payment terms.
- Pursuant to Section 54(1) of the Modern Slavery Act 2015 (the "MSA Act"), the Company annually attests to the Act by publishing a statement outlining how the Company mitigates the risk of slavery and human trafficking both within their business and their supply chains. As part of this process, the NEHS Group has in place a Modern Slavery and Human Trafficking Policy (the "MSA Policy"), which seeks to identify and manage such risk.

**NOMURA INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2020****STRATEGIC REPORT (CONTINUED)****SECTION 172 OF THE COMPANIES ACT 2006 (CONTINUED)**

- The Board, its committees and Executive management take their environmental responsibilities seriously and receive regular updates on climate change. The Board members have undergone training on financial risks associated with climate change and an SMF with responsibility for climate change has been appointed.
- Established in 2009, the Nomura Charitable Trust has been supporting disadvantaged young people in the local communities through both grant making and employee engagement in the form of volunteering and other engagement initiatives, making a significant impact both internally and externally. The Nomura Charitable Trust engages with the wider community by supporting three partner charities and provides strategic grants to charities in order to fund specific programmes or projects. The Nomura Charitable Trust's mission is to ensure Nomura's business goals are aligned with providing positive contribution to stakeholders and the wider communities in which Nomura operates.

The Board considers the interests of stakeholders as part of its overall long term business objectives and continues to align the company's strategic direction with the shareholder's aspirations for sustainability and growth.

The Board has an open, transparent and constructive relationship with the regulators and provide them with monthly Management Information ("MI"). The Board and its Committees receive regular updates to understand regulatory developments and Board members regularly meet with the regulators to ensure they are kept updated and informed.

When making principal decisions, the Directors have regard to the interests of relevant stakeholders. An example of this is in connection with the approach to operations post-Brexit. In deciding the future operating model, the Company was required to take into account client requirements, employees and the impact on the wider business model. For clients, it was important to take into the account their needs in a post-Brexit environment, their requirements to be serviced by an entity authorised and regulated in the EU and the impact of transition. It was also important to ensure that there was appropriate resourcing in place to ensure client needs could continue to be met in an uninterrupted fashion. For employees, the Board needed to consider the impact of relocation, and the ability to attract and retain staff in new locations. A further example of the impact of regard to stakeholders in decision making is in connection with the capital restructuring which was undertaken during the year. When making the decision, the Board considered the impact on the shareholder of the Company, the NEHS Group's regulatory capital requirements, capital management and liquidity risk management considerations as well as the future market outlook and potential risks. Following due and careful consideration and taking into account the need to act fairly between the relevant stakeholders, the Company decided to proceed with the proposed capital restructuring.

**NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2020**

**STRATEGIC REPORT (CONTINUED)**

**ENVIRONMENT AND ENERGY**

The Company 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 minimise 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 continual improvement in energy performance;
- aims to maximise the efficiency of its property portfolio through effective asset management covering utilisation, 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 23 July 2020**



.....  
Christopher Barlow  
Company secretary

23 July 2020

Company Registration Number 1550505

**NOMURA INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2020****DIRECTORS' REPORT**

The Directors present their report and Financial Statements of the Company which comprises of the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Statement of Cash Flow and related Notes 1-31.

**RESULTS AND DIVIDENDS**

The results for the year are presented in the Statement of Comprehensive Income. The loss transferred to reserves for the year amounted to \$310,452,000 (2019: loss of \$383,555,000).

No interim dividend was paid (2020: nil) and the Directors do not recommend the payment of a final dividend (2019: nil).

**EVENT SINCE THE STATEMENT OF FINANCIAL POSITION DATE**

No significant events occurring after the balance sheet date that would meet the criteria to be disclosed or adjusted in the financial statements for the year ended 31 March 2020.

**TANGIBLE ASSETS**

Movements in tangible assets are shown in Note 11 to the financial statements.

**DONATIONS**

No political donations were made during the year (2019: nil).

**RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Company's approach to Risk Management is presented in Note 18 of the Financial Statements, with additional analysis on Financial Instruments disclosed in Notes 1, 8 and 19 of the Financial Statements.

**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 outlined in the Company's Strategic Report.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2020**

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

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

|                  |                               |
|------------------|-------------------------------|
| David Godfrey    | Non-Executive Chairman        |
|                  | Non-Executive Director        |
| Jonathan Lewis   | Chief Executive Officer       |
|                  | Executive Director            |
| Takeo Aoki       | Executive Director            |
|                  | (appointed 10 September 2019) |
| John Tierney     | Executive Director            |
| Jonathan Britton | Non-Executive Director        |
| Rosemary Murray  | Non-Executive Director        |
| Hisato Miyashita | Non-Executive Director        |
| Neeta Atkar      | Non-Executive Director        |
| Maria Bentley    | Non-Executive Director        |
|                  | (resigned 31 May 2020)        |

### **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.

### **ANTI-BRIBERY AND CORRUPTION POLICY**

The Company's policy against bribery and corruption requires employees and persons acting for or on behalf of the Company, to understand and to comply with laws, rules and regulations concerning bribery and corruption and to be neither involved with bribery nor corrupt activities.

The Company maintains policies and procedures designed to mitigate the risk of the Company becoming involved in bribery and/or corruption.

### **BOARD RECRUITMENT POLICY**

The NEHS Governance and Nomination Committee is responsible for having regard to a broad set of technical capabilities and competencies when recruiting members of the Boards of the Company. The NEHS Governance and Nomination Committee is also responsible for putting in place a policy promoting diversity on the Board.

The Nomura Group is committed to providing equal opportunities throughout its Board appointments including in the recruitment, training and development of Board members. The objective is to attract the best possible candidates and to retain the best people.

**NOMURA INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2020****DIRECTORS' REPORT (CONTINUED)****BOARD DIVERSITY POLICY**

The Nomura Group is committed to fostering our corporate culture which respects our people's values regardless of their background, such as gender, nationality, ethnic origin, age, sexual orientation or gender identity. Today, Nomura's workforce includes employees of more than 70 different nationalities. This diverse group of personnel is our most important asset, and as such, we strive to offer equal opportunities to all personnel to enable each and every one of them to develop their capabilities and strengths as individuals to the fullest and perform as Nomura professionals.

The NEHS Governance and Nomination Committee has responsibility for leading the process for Board appointments and for identifying and nominating candidates for appointment to the Board. Board appointments will be based on merit and candidates will be considered against objective criteria. The Board currently has a diverse range of ages, geographical provenance, educational and professional backgrounds, skills, knowledge and experience which values input from all directors. The NEHS Governance and Nomination Committee will continue to ensure appropriate actions are taken to further broaden the diversity on the Company board.

**EMPLOYEE ENGAGEMENT**

The Company recognises the importance of engaging employees, considers employee opinions when making decisions and uses a variety of media to keep employees informed.

In August Nomura's annual Founding Principles and Corporate Ethics Day event took place where employees communicated any concerns during discussions with senior management. Over 200 discussion sessions were held and feedback from the discussions was fed back to the Board along with actions agreed by Senior Management.

The Company utilises Nomura's Group policy of communicating with all its employees regularly, including UK employees, in order to provide information relevant to them about their employment and Nomura. This includes Nomura News Bulletins circulated to all UK employees as well as communication and updates on the employee training programs that are available. All UK employees are encouraged to participate in the various employee committees and networks offered by the Nomura Group. The Company is not listed in the UK 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, divisional performance and the NEHS Group's 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.

**ENGAGEMENTS WITH SUPPLIERS, CUSTOMERS AND OTHERS**

Section 172 of the Companies Act 2006 requires directors to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard to the interests of stakeholders, including shareholders, clients, employees, suppliers, regulators, the environment and the wider society in which the Company operates.

On pages 9-10, we have set out how we have engaged with our key stakeholders and how the Board has considered their interests during the year.



**NOMURA INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2020****DIRECTORS' REPORT (CONTINUED)****THE WATES PRINCIPLES**

For the year ended 31 March 2020, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies published by the Financial Reporting Council ("FRC") in December 2018.

**Principle One - Purpose and Leadership**

The Board develops and promotes the purpose of the Company and ensures that its values, strategy and culture align with that purpose.

The Board holds an annual strategy day and monitors the implementation of its strategy throughout the year. The Board's purpose and its strategy and priorities are communicated at quarterly town halls, and throughout the year in divisional leadership meetings, all employee email messages and Nomura news bulletins.

The Board values openness, transparency and integrity, and it is committed to supporting employees in speaking up freely, ensuring managers listen and encouraging everyone in taking collective responsibility for escalating concerns. The Company's Speaking Up policy also allows employees to report concerns anonymously. The Board ensures employees do not suffer detrimental treatment as a result of raising a concern in good faith and receive regular updates on Speaking Up incidents. Nomura has a dedicated external whistleblowing hotline to enable employees to make anonymous disclosures.

Nomura has established a comprehensive conduct risk framework to ensure good conduct is the solid foundation of Nomura's culture and is reflected in every aspect of how business is done. Nomura's aim is to ensure that its approach to conduct meets regulatory expectations and that this approach helps individuals to consider their behaviour and actions with a critical eye. The Board recognises that its commercial priorities can only be achieved through a business model that promotes and maintains a culture of robust controls, appropriate judgement, good behaviour and responsibility for one's actions. A key part of the Nomura's conduct risk framework is the monitoring and management of the different types of conduct risks relevant to the business. These risks are monitored through information captured on a monthly basis in a conduct risk dashboard. This enables senior management visibility of conduct risk at all levels of the business - division, department, desk and employee - in order to take all necessary actions to manage and reduce it. Training and awareness is also important. Nomura employees have received training to further strengthen awareness of conduct risk, how to manage it appropriately and embed good conduct firmly as part of Nomura's culture.

The Company and its employees are expected to adhere to the Nomura Code of Ethics and Code of Conduct and are held accountable to NEHS Group internal Policies and Procedures.

**Principle Two - Board Composition**

The Board comprises a Chief Executive, Chief Financial Officer, Vice Chair and five Non-Executive Directors (four of which are independent Non-Executive Directors). The size and composition is appropriate to the business and the Board is diverse with an appropriate balance of skills, knowledge and experience. The independent Non-Executive Directors bring expertise in banking, finance and risk matters contributing independent challenge and opinions to decision making.



## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2020**

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

#### **Principle Two - Board Composition**

The Company has a separate Chair and Chief Executive to ensure that independence of decision-making is effectively maintained. The Chair is an independent Non-Executive Director. The Board uses committees as a method of expanding their work, increasing their efficiency and discussing important issues in detail. The Board has an audit, remuneration, governance and nomination and risk committee which further enhances decision-making. The Non-Executive Directors attend and chair the committees in order for them to challenge and get involved in a range of areas across the business. An external consultancy undertook an extensive effectiveness review of the Board and its Committees in 2017 with a follow on review conducted in 2018. The Board effectiveness review assessed that the Board was appropriately structured and well managed and run and the next external Board effectiveness review is scheduled for 2021. In order to ensure directors are equipped to perform their duties effectively, at the start of the term of office an induction programme is completed which is supported by ongoing director development and training.

The Board is committed to providing equal opportunities and ensures all Board members are aware of their obligations in ensuring that the Company's environment retains a culture which is conducive to good working and high performance. The Nomura Group is committed to providing equal opportunities throughout its Board appointments, including in the recruitment, training and development of Board members. The Company set a target in 2015 to appoint two female Board members by 2018, which was exceeded with the appointment of three female Board members by 2018. The NEHS Governance and Nomination Committee leads the process of identifying and nominating candidates for appointment to the Board, ensuring appropriate actions are taken to further broaden the diversity of the Board and to nominate candidates for appointment based on merit and assessment against objective criteria.

A Board learning and development framework is in place to support Board members in updating their skills and knowledge. Board members attend regular internal and external training sessions and meet with senior management to update their knowledge and familiarity of the business, risk management and compliance.

#### **Principle Three - Director Responsibilities**

##### **Accountability**

There are clear lines of accountability and responsibility which support effective decision-making in the Company. Each Board member understands their responsibilities and accountabilities. The Board meets eleven times per year plus an additional strategy day where the Board and Executive leadership team discuss strategy and budget planning.

##### **Committees**

The committees support effective decision-making and independent challenge. The Board delegates authority for the day to day management to the NEHS Executive Committee which meets twice monthly and is chaired by the Chief Executive Officer and whose membership includes the Chief Financial and Administration Officer, Chief Risk Officer, Head of Global Markets, Head of Investment Banking and Head of Legal. Where responsibilities have been delegated to a committee or individual, these are clearly established within each committee Terms of Reference or through delegations of authority.

In addition, governance responsibilities are delegated to the NEHS Audit Committee, NEHS Remuneration Committee, NEHS Governance and Nomination Committee and NEHS Board Risk Committee. These committees are chaired by non-executive directors to support and enhance independent decision-making. Reports are provided to the Board by the Chairs of those committees at each Board meeting.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2020**

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

#### **Principle Three - Director Responsibilities (continued)**

##### **Integrity of Information**

The Board receives monthly MI on all key aspects of the business. The MI is constantly challenged and reviewed by the Board to ensure the Board have access to sufficient high quality material on financial performance, strategy, operational matters, health and safety, risks, market conditions and sustainability. MI is shared monthly with the FCA and PRA. Board papers are circulated in good time with an executive summary on each paper outlining the purpose of each paper.

#### **Principle Four - Opportunity and risk**

The Board promotes the long-term sustainable success of the Company by identifying opportunities to create and preserve value and establishing the oversight for the identification and mitigation of risks. The Board has implemented frameworks to evaluate and control the possibility of potential losses arising from the NEHS Group's various operations and transactions.

The NEHS Risk Management Framework (which has been adopted by the Company) promotes consistency with the NEHS Group business objectives and strategy, monitors risk against NEHS Group risk appetite and ensures that appropriate levels of governance and control are in place across NEHS Group businesses. The Risk Management Framework provides an effective platform for the Board to make informed and robust decisions.

The NEHS Group actively takes risk in support of its strategy and accepts that this exposes the firm to all major risk types. The quantum of risk that the NEHS Group is willing to accept in pursuit of this strategy is set out in the Risk Appetite Statement. The Risk Appetite Statement includes metrics which are chosen to define the maximum consolidated level of risk for the firm, as well as qualitative criteria by which to balance risk and reward.

The NEHS Board Risk Committee (to which the Board has delegated authority) meets monthly and makes decisions in line with the Board's Risk Appetite Statement which provides direction for evaluating business opportunities and for day-to-day risk management decisions.

**NOMURA INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2020****DIRECTORS' REPORT (CONTINUED)****Principle Five - Remuneration**

The Remuneration Committee's primary objective is to set remuneration at a level that is consistent with, and promotes, sound and effective risk management and does not encourage risk taking that exceeds the Group's risk appetite or provide an incentive to breach the Group's policies and procedures including the Employee Code of Conduct. The Remuneration Committee has an established terms of reference and it is responsible for recommending to the Board remuneration policies in line with the Group's global remuneration strategy. In determining the Company's remuneration policy, the Committee takes into account relevant laws, applicable local and regional regulations, and regulatory guidance and the provision and recommendations of the UK Corporate Governance Code and associated guidance. In doing so, the Committee can take advice from independent external consultants on market practices and remuneration benchmarking against other companies in the sector. Pay is aligned with performance and seeks to reward employees for long term value creation within Nomura's accepted risk appetite and by promoting and encouraging desired behaviours in accordance with Nomura's Competency Framework and Founder's Principles. The directors' remuneration is disclosed on page 130. The Gender Pay Gap was published for the first time in 2018 and encouraged discussions and focus on diversity and inclusion areas with engagement of the Board and NEHS Executive Committee. Over the last year, the Company has introduced a number of direct measures to address gender balance, and has given senior management individual accountability for achieving these targets. The Company is an equal opportunity employer and is committed to providing 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. All decisions relating to employment (including remuneration) are free from bias and are based on individual merit and objective work criteria.

**NOMURA INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2020****DIRECTORS' REPORT (CONTINUED)****Principle Six - Stakeholder relationships and engagement**

The Board is committed to making the Company an increasingly balanced organisation, where everyone is proud to work. An employee engagement survey is conducted throughout the year to gauge the overall engagement and wellbeing of employees. The Board reviews the survey results and assesses the workforce's confidence in the Company's strategic direction, leadership, optimism in the future and career opportunities, awareness of good governance and conduct and risk management policies.

The Board has overseen a number of people initiatives over the past number of years to improve employee relations, including promoting greater diversity and inclusion. In 2018, the Board oversaw the introduction of Gender Pay Gap reporting. The most recent data shows a marginal improvement in the mean hourly rate between male and female employees. The Company has introduced a number of measures to improve gender balance across the Company. Some of the initiatives include the Board reviewing female recruitment, attrition and promotion MI and qualitative analysis of the drivers of female workforce experiences and the introduction of individual accountability in achieving diversity targets as part of senior management's annual performance objectives.

The Board has an established policy of communicating with all employees regularly. In its communications, the Board actively promotes its commitment to good governance, risk management, compliance, good conduct, client needs and shareholder requirements, social responsibility, equal opportunities; and diversity and inclusion. The Corporate Communications team provide frequent business updates and health and wellbeing support messages by email.

The Board also recognises Nomura's duty to help maintain trust in the integrity of the markets in which we operate. The NEHS Group seeks to ensure that the actions or conduct of the firm or our staff do not put this at risk. This is achieved through training, awareness raising, the maintenance of controls and the monitoring of activities.

The Board considers the interests of stakeholders as part of its overall long term business objectives and continues to align the Company's strategic direction with the shareholder's aspirations for sustainability and growth. More information on stakeholder engagement, including engagement with employees, can be found on page 14.

**NOMURA INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2020****DIRECTORS' REPORT (CONTINUED)****STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENT**

The Board is committed to high standards of corporate governance and the Company's corporate governance framework is subject to ongoing review, assessment and improvement. The Board proactively adopts governance policies and practices designed to align the interests of the Board and senior management with those of the shareholder and other stakeholders; and to promote the highest standards of corporate governance.

The Board has responsibility for the oversight, governance and direction of the business and affairs of the Company. The Board has delegated authority to the NEHS Board and Committee structure to consider matters on behalf of the Company, as appropriate. In accordance with the Terms of Reference of the relevant NEHS Committees, those committees, where appropriate, have authority to review and approve matters on behalf of the Company. This authority does not extend to any matters which are reserved for decision by the Board. The Board is charged with ensuring the corporate objectives for the Company are achieved and are consistent with those of NHI. As a result, the Company's Board has not established its own Audit, Risk, Remuneration or Nomination committees. The Chairman of each of the NEHS Board Committees provides an update of proceedings to the Company's Board at each subsequent Board meeting.

The Board has approved a formal schedule of matters reserved for its own decision, detailing the specific responsibilities which the Board may not delegate. In order to discharge its duties effectively the Board normally meets at least eleven times per year. Additional meetings of the Board are held when required. The quorum needed for business to be carried out is two Directors as set out in the Articles of Association of the Company (the "Articles"). However, attendance of the full Board is ensured whenever possible. Decisions of the Board will be decided by a majority vote of the Board members in attendance as detailed in the Articles.

The NEHS Governance and Nomination Committee has responsibility for leading the process for Board appointments and for identifying and nominating candidates for appointment to the Board. Board appointments will be based on merit and candidates will be considered against objective criteria. The Company strives to maintain a Board in which a diverse range of skills, knowledge and experiences are combined in an environment which values the input of every Director.

The members of the Board take their responsibilities as Directors very seriously and are mindful of the duties outlined in the Companies Act 2006 at all times. As part of the detailed induction programme received by all Directors on joining the Board, the Company Secretary spends time with each Director outlining their role and responsibilities in this context. The letters of appointment for Non-Executive Directors also outline the duties to which the Directors are required to adhere.

## NOMURA INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2020

### DIRECTORS' REPORT (CONTINUED)

#### STREAMLINED ENERGY & CARBON REPORTING

On 1 April 2019, the Streamlined Energy and Carbon Reporting was implemented through the enforcement of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulation 2018. The Company has embarked on a journey to measure, manage and reduce our greenhouse gas (GHG) footprint since 2010. Ambitious targets were set in 2014 to reduce Scope 1, 2, & 3 emissions by 34%, adopted with a timeframe aligned with the Nomura Group.

#### Methodology

The Company's performance is reflected in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). The Company's carbon reporting activities cover Scope 1, 2 & 3 emissions as listed below:

- Scope 1 - Direct emissions over which the Company has management control, covering gas, diesel & company-owned vehicle.
- Scope 2 - Indirect emissions over which the Company has management control, such as electricity.
- Scope 3 - Other indirect emissions, such as waste, travel (road travel, grey fleet), electricity transmission & distribution.

The fullest range of available emission data have been included. They were gathered on an ongoing basis, with primary evidence being sourced from office managers and managed centrally by the Environmental management team based at 1 Angel Lane. In order to better reflect the environmental benefit of purchasing renewable energy, the electricity emissions are reported in both 'market-based' and 'location-based' method. The primary metrics used by the Company for normalising emissions for inter-office and annual comparison are Floor area (m<sup>2</sup>) and occupied desks.

#### UK Annual Energy & Carbon

For the year ended 31 March 2020, the Company has an adjusted footprint of 14,697 tCO<sub>2</sub>e, equating to a year-on-year decrease of 2,941 tCO<sub>2</sub>e. The final figures are summarised below:

|                | Gas       |                      | Diesel                 |                      | Company Vehicle Fuel |                      |
|----------------|-----------|----------------------|------------------------|----------------------|----------------------|----------------------|
|                | (kwh)     | (tCO <sub>2</sub> e) | (kwh)                  | (tCO <sub>2</sub> e) | (kwh)                | (tCO <sub>2</sub> e) |
| <b>Scope 1</b> |           |                      |                        |                      |                      |                      |
| 2020           | 2,581,160 | 527                  | 134,756                | 33                   | 71,279               | 17                   |
| 2019           | 2,816,474 | 576                  | 118,294                | 29                   | 67,085               | 16                   |
|                |           |                      | Electricity (location) |                      | Electricity (market) |                      |
|                |           |                      | (kwh)                  | (tCO <sub>2</sub> e) | (kwh)                | (tCO <sub>2</sub> e) |
| <b>Scope 2</b> |           |                      |                        |                      |                      |                      |
| 2020           |           |                      | 50,650,179             | 12,946               | 2,007,348            | 468                  |
| 2019           |           |                      | 55,528,872             | 15,719               | 2,153,669            | 610                  |

**NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2020**

**DIRECTORS' REPORT (CONTINUED)**

**STREAMLINED ENERGY & CARBON REPORTING (CONTINUED)**

**UK Annual Energy & Carbon (continued)**

| Scope 3                           | Travel-Grey Fleet |         | Travel Car Service |                | Waste          |                | Electricity (T&D) |
|-----------------------------------|-------------------|---------|--------------------|----------------|----------------|----------------|-------------------|
|                                   | (miles)           | (tCO2e) | (miles)            | (tCO2e)        | (kg)           | (tCO2e)        | (tCO2e)           |
| 2020                              | 78,367            | 22      | 117,102            | 39             | 503,274        | 10             | 1,099             |
| 2019                              | 98,383            | 29      | 164,340            | 57             | 539,070        | 11             | 1,199             |
| <b>Adjusted Footprint (TCO2e)</b> |                   |         |                    | <b>Scope 1</b> | <b>Scope 2</b> | <b>Scope 3</b> | <b>Total</b>      |
| 2020                              |                   |         |                    | 577            | 12,949         | 1,171          | 14,697            |
| 2019                              |                   |         |                    | 621            | 15,719         | 1,296          | 17,636            |
| <b>Intensities</b>                |                   |         |                    |                |                | <b>tCO2/m2</b> | <b>tCO2/desk</b>  |
| 2020                              |                   |         |                    |                |                | .30            | 5.76              |
| 2019                              |                   |         |                    |                |                | .36            | 5.91              |

**Efficiency Measures**

The Company is highly conscious of the unprecedented crisis in the global environment and is dedicated to reducing its GHG emissions to limit the environmental impacts.

The Company's greatest impact on the environment comes from the power used in the buildings. Good practice in managing energy is already an important part of Nomura Group's Real Estate & Services policies and is now part of the fabric of how the Nomura Group is run. This can be seen by the current implementation of an ISO 50001 Energy management system, which enables the Company to continue measuring energy uses in the buildings and identify significant energy users for potential efficiency initiatives.

Examples of energy efficiency and monitoring initiatives during the year are summarised below:

- Refurbishing the main passenger lift car in 1 Angel Lane, resulting in an estimated 81% energy saving from newly replaced LED lighting (5366kW pa).
- Rationalising data centres to impact overall energy consumption via space optimisation. Year-on-year saving of approximately 115,086 kWh and 17,630kWh achieved for Woking Data Centre and Redhill Data Centre respectively.
- Replacing the Catering PAK Condenser on Level 7 of 1 Angel Lane, resulting in an estimated 20% energy savings.
- Changing 1 Angel Lanes' control strategy for air conditioning requests by disabling heating systems without impacting the operation of the cooling systems.

## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2020**

### **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 approach to manage credit and liquidity risk is described in Note 18 of the Financial Statements. Its capital management procedures and available capital resources are presented and described separately in Note 21 of the Financial Statements.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future of at least twelve months from the date of approval of the Financial Statements. Accordingly the financial statements have been prepared on a going concern basis. Refer to Note 31 for more information regarding COVID-19 impact on the Company.

#### **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 authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.



## **NOMURA INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2020**

### **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 23 July 2020**

A handwritten signature in black ink, appearing to read "Christopher Barlow".

Christopher Barlow  
Company secretary

23 July 2020

Company Registration number 1550505

## **NOMURA INTERNATIONAL PLC**

### **INDEPENDENT AUDITOR'S 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 2020 which comprise 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 including FRS 101 “Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company’s affairs as at 31 March 2020 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.

#### **Emphasis of matter – Effects of COVID-19**

We draw attention to Note 1(a) and Note 31 of the financial statements, which describes the economic and social consequences the Company is facing as a result of COVID-19 which is impacting financial markets. Our opinion is not modified in respect of this matter.

## **NOMURA INTERNATIONAL PLC**

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

#### **Other information**

The other information comprises the information included in the annual report set out on pages 1 to 24, 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Opinion on other matter 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.

## NOMURA INTERNATIONAL PLC

### INDEPENDENT AUDITOR'S 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 24, 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.



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

24 July 2020

Notes:

- 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.
- 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 2020

| Note |   | Year ended    | Year ended                 |
|------|---|---------------|----------------------------|
|      |   | 31 March 2020 | 31 March 2019 <sup>1</sup> |
|      |   | \$'000        | \$'000                     |
| 2    | <b>TRADING PROFIT</b>   | 1,187,278     | 1,361,906                  |
| 3    | Interest income calculated using effective interest method      | 116,274       | 132,558                    |
| 3    | Other interest and similar income                               | 2,346,450     | 2,551,640                  |
| 3    | Interest expense calculated using the effective interest method | (222,682)     | (282,158)                  |
| 3    | Other interest and similar expenses                             | (2,203,272)   | (2,507,838)                |
|      | Net interest income / (expense)                                 | 36,770        | (105,798)                  |
| 4    | General and administrative expenses                             | (1,440,816)   | (1,582,413)                |
| 5    | Credit impairment charges                                       | (40,668)      | (1,434)                    |
| 4    | <b>OPERATING LOSS</b>   | (257,436)     | (327,739)                  |
|      | Interest expense on subordinated borrowings                     | (55,877)      | (59,570)                   |
|      | <b>LOSS BEFORE TAXATION</b>                                     | (313,313)     | (387,309)                  |
| 7    | Taxation on loss  | 2,861         | 3,754                      |
|      | <b>LOSS FOR THE FINANCIAL YEAR</b>                              | (310,452)     | (383,555)                  |
|      | <b>OTHER COMPREHENSIVE INCOME:</b>                              |               |                            |
|      | <b>Items that can be reclassified to profit and loss</b>        |               |                            |
|      | Foreign currency (loss) / gain                                  | (150)         | 19,539                     |
|      | <b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>                    | (310,602)     | (364,016)                  |

The notes on pages 33 to 141 form part of these financial statements.

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

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.

<sup>1</sup> 2019 includes a presentational reclassification between other interest and similar income and other interest and similar expense. Refer to Notes 1(f) and 3 for further details.

## NOMURA INTERNATIONAL PLC

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

|  | Called-up<br>Share<br>Capital | Share<br>Premium | Other<br>Reserves | Capital<br>Redemption<br>Reserve | Available<br>-for-sale<br>Reserve | Share-<br>based<br>Payment<br>Reserve | Retained<br>Earnings | Total            |
|--|-------------------------------|------------------|-------------------|----------------------------------|-----------------------------------|---------------------------------------|----------------------|------------------|
|  | \$'000                        | \$'000           | \$'000            | \$'000                           | \$'000                            | \$'000                                | \$'000               | \$ 000           |
| At 1 April 2019  | 10,241,227                    | 27,479           | 152               | 184,498                          | -                                 | 1,142,815                             | (6,822,863)          | 4,773,308        |
| Changes on<br>initial application<br>of IFRS 16 Note<br>1(w) | -                             | -                | -                 | -                                | -                                 | -                                     | 2,165                | 2,165            |
| Loss for the year  | -                             | -                | -                 | -                                | -                                 | -                                     | (310,452)            | (310,452)        |
| Other<br>comprehensive<br>loss                               | -                             | -                | (150)             | -                                | -                                 | -                                     | -                    | (150)            |
| Total<br>comprehensive<br>loss                               | -                             | -                | (150)             | -                                | -                                 | -                                     | (308,287)            | (308,437)        |
| Share-based<br>payment reserve                               | -                             | -                | -                 | -                                | -                                 | 24,551                                | -                    | 24,551           |
| New share<br>capital<br>subscribed                           | 1,000,000                     | -                | -                 | -                                | -                                 | -                                     | -                    | 1,000,000        |
| <b>At 31 March<br/>2020</b>                                  | <b>11,241,227</b>             | <b>27,479</b>    | <b>2</b>          | <b>184,498</b>                   | <b>-</b>                          | <b>1,167,366</b>                      | <b>(7,131,150)</b>   | <b>5,489,422</b> |
| At 1 April 2018  | 10,241,227                    | 27,479           | (19,387)          | 184,498                          | 4,450                             | 1,105,732                             | (6,444,191)          | 5,099,808        |
| Changes on<br>initial application<br>of IFRS 9               | -                             | -                | -                 | -                                | (4,450)                           | -                                     | 4,883                | 433              |
| Loss for the year  | -                             | -                | -                 | -                                | -                                 | -                                     | (383,555)            | (383,555)        |
| Other<br>comprehensive<br>gain                               | -                             | -                | 19,539            | -                                | -                                 | -                                     | -                    | 19,539           |
| Total<br>comprehensive<br>loss                               | -                             | -                | 19,539            | -                                | -                                 | -                                     | (383,555)            | (364,016)        |
| Share-based<br>payment reserve                               | -                             | -                | -                 | -                                | -                                 | 37,083                                | -                    | 37,083           |
| <b>At 31 March<br/>2019</b>                                  | <b>10,241,227</b>             | <b>27,479</b>    | <b>152</b>        | <b>184,498</b>                   | <b>-</b>                          | <b>1,142,815</b>                      | <b>(6,822,863)</b>   | <b>4,773,308</b> |

The notes on pages 33 to 141 form part of these financial statements.

## NOMURA INTERNATIONAL PLC

### STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2020

| Note  |  | <u>Year Ended</u>    | <u>Year Ended</u>                |
|-------|--|----------------------|----------------------------------|
|       |  | <u>31 March 2020</u> | <u>31 March 2019<sup>1</sup></u> |
|       |  | \$'000               | \$'000                           |
|       | <b>Assets</b>  |                      |                                  |
| 8     | Cash and cash equivalent   | 2,691,932            | 2,981,407                        |
|       | Financial assets held for trading                                      | 176,749,230          | 132,563,352                      |
| 8     | Investment time deposits   | 258,290              | 173,159                          |
|       | Current tax receivable   | 3,783                | 4,421                            |
| 8     | Collateral posted for securities purchased under agreements to resell  | 75,223,612           | 79,450,934                       |
| 8     | Collateral posted for securities borrowed                              | 11,979,093           | 9,353,591                        |
| 10    | Other debtors  | 22,084,163           | 19,664,382                       |
|       | Financial investments  | 18,710               | 17,595                           |
| 11    | Tangible assets  | 83,718               | 12,026                           |
| 12    | Intangible assets  | 11,240               | 2,274                            |
| 13    | Investment in subsidiaries   | 21                   | 22                               |
| 14    | Investment in group companies  | 13,101               | 12,925                           |
|       | <b>Total Assets</b>  | <u>289,116,893</u>   | <u>244,236,088</u>               |
|       | <b>Liabilities</b>   |                      |                                  |
| 8, 18 | Financial Liabilities held for trading                                 | 171,021,244          | 130,827,193                      |
| 15    | Other creditors  | 38,593,970           | 36,914,492                       |
| 8     | Collateral received for securities sold under agreements to repurchase | 63,955,753           | 66,248,739                       |
| 8     | Collateral received for securities loaned                              | 7,433,534            | 4,011,916                        |
|       | Provisions   | 239,945              | 111,261                          |
| 8, 16 | Creditors (amounts falling due after more than one year)               | 2,383,025            | 1,349,179                        |
|       | <b>Total Liabilities</b>   | <u>283,627,471</u>   | <u>239,462,780</u>               |
|       | <b>Shareholders' funds</b>   |                      |                                  |
| 17    | Called up share capital  | 11,241,227           | 10,241,227                       |
|       | Share premium  | 27,479               | 27,479                           |
|       | Capital redemption reserve   | 184,498              | 184,498                          |
|       | Other reserve  | 2                    | 152                              |
|       | Share-based payment reserve  | 1,167,366            | 1,142,815                        |
|       | Retained earnings  | (7,131,150)          | (6,822,863)                      |
|       | <b>Total Equity</b>  | <u>5,489,422</u>     | <u>4,773,308</u>                 |
|       | <b>Total Liabilities and Equity</b>                                    | <u>289,116,893</u>   | <u>244,236,088</u>               |

Approved by the board of Directors on 23 July 2020 and subsequently signed on its behalf on 23 July 2020 .



John Tierney,  
Director

The notes on pages 33 to 141 form part of these financial statements.

<sup>1</sup>2019 includes presentational reclassifications between (1) collateral posted/received for securities purchased/sold under agreement to resell/repurchase and financial assets/liabilities held for trading upon accounting policy change in combination of financial instruments, refer to Notes 1(j) and 8; and (2) other debtors/creditors upon change in determination of negative interest, refer to Notes 8, 10 and 15 for further details.

## NOMURA INTERNATIONAL PLC

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2020

|  | <u>Year Ended</u><br><u>31 March 2020</u><br>\$'000 | <u>Year Ended</u><br><u>31 March 2019</u><br>\$'000 |
|--|---|---|
| <b>Operating activities</b>  |   |   |
| Loss before taxation   | (313,313)   | (387,309)   |
| <b>Adjustments to reconcile profit before tax to net cash flows</b>                  |   |   |
| Depreciation and amortisation  | 41,875  | 6,068   |
| Interest expense on subordinated borrowings  | 55,877  | 59,570  |
| Internally generated software capitalised  | 55,870  | 42,642  |
| Provisions   | 128,684   | 111,261   |
| Share-based payment expense for the year   | 24,551  | 37,083  |
| Internally generated software written-off  | 2,860   | 13,085  |
| Other reserves released  | (150)   | 23,072  |
| Foreign exchange gain  | (65)  | (3,014)   |
| <b>Change in working capital adjustments</b>   |   |   |
| Net change in financial assets held of trading                                       | (44,185,878)  | 4,135,218   |
| Net change in collateral posted for securities purchased under agreements to resell  | 4,227,322   | 8,325,357   |
| Net change in collateral posted for securities borrowed                              | (2,625,502)   | (709,097)   |
| Net change in other debtors  | (2,435,709)   | 4,166,317   |
| Net change in investment in time deposits  | (85,131)  | 239,691   |
| Net change in financial liabilities held for trading                                 | 40,194,051  | (1,443,489)   |
| Net change in collateral received for securities sold under agreements to repurchase | (2,292,986)   | (9,728,739)   |
| Net change in collateral received for securities loaned                              | 3,421,618   | (2,582,756)   |
| Net change in financial investments  | 1,115   | (1,905)   |
| Net change in other creditors  | 1,357,847   | (2,170,086)   |
| Income tax received/(paid)   | 3,498   | 36,849  |
| <b>Net cash flow (used in) / from operating activities</b>                           | <b>(2,423,566)</b>                                  | <b>169,818</b>                                      |
| <b>Cash flows from investing activities</b>  |   |   |
| Software generated internally  | (42,802)  | (57,966)  |
| Purchase of fixed assets   | (20,475)  | (6,441)   |
| Investment in group companies  | -   | (12,915)  |
| Proceeds from disposal of fixed assets   | 4,211   | 3,734   |
| <b>Net cash used in investing activities</b>   | <b>(59,066)</b>                                     | <b>(73,588)</b>                                     |
| <b>Cash flows from financing activities</b>  |   |   |
| Proceeds from issue of called up share capital                                       | 1,000,000   | -   |
| Proceeds from borrowings and other liabilities                                       | 1,033,845   | -   |
| Repayment in loans and other liabilities   | -   | (1,023,474)   |
| Interest expense on subordinated borrowings  | (55,877)  | (59,570)  |
| Payment of principal portion of lease liabilities                                    | (32,007)  | -   |
| <b>Net cash from / (used in) financing activities</b>                                | <b>1,945,961</b>                                    | <b>(1,083,044)</b>                                  |
| <b>Net decrease in cash and cash equivalents</b>                                     | <b>(536,671)</b>                                    | <b>(986,814)</b>                                    |
| <b>Cash at 1 April</b>   | <b>2,887,861</b>                                    | <b>3,874,675</b>                                    |
| <b>Cash at 31 March</b>  | <b>2,351,190</b>                                    | <b>2,887,861</b>                                    |



**NOMURA INTERNATIONAL PLC**

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2020  
(CONTINUED)**

|  | <u>Year Ended</u>    |                      | <u>Year Ended</u>    |                      |                  |
|--|----------------------|----------------------|----------------------|----------------------|------------------|
|  | <u>31 March 2020</u> | <u>31 March 2019</u> | <u>31 March 2020</u> | <u>31 March 2019</u> |                  |
|  | \$'000               | \$'000               | \$'000               | \$'000               |                  |
| <b>Included within operational cash flows</b>      |                      |                      |                      |                      |                  |
| Interest paid                                      | (2,530,253)          | (1,551,417)          |                      |                      |                  |
| Interest received                                  | 2,429,659            | 1,341,767            |                      |                      |                  |
|  |                      |                      |                      |                      |                  |
|  | <b>31 March</b>      | <b>IFRS 16</b>       | <b>Cash flows</b>    | <b>Non Cash</b>      | <b>31 March</b>  |
|  | <b>2019</b>          | <b>Transition</b>    |                      | <b>changes</b>       | <b>2020</b>      |
|  | <b>\$'000</b>        | <b>Impact</b>        | <b>\$'000</b>        | <b>\$'000</b>        | <b>\$'000</b>    |
|  |                      | <b>\$'000</b>        |                      |                      |                  |
| Lease liabilities                                  | -                    | 104,607              | (33,340)             | (3,245)              | 68,022           |
| Loans and other liabilities                        | 89,179               | -                    | 1,033,846            | -                    | 1,123,025        |
| Subordinated debt                                  | 1,260,000            | -                    | (55,877)             | 55,877               | 1,260,000        |
| <b>Total liabilities from financing activities</b> | <b>1,349,179</b>     | <b>104,607</b>       | <b>944,629</b>       | <b>52,632</b>        | <b>2,451,047</b> |

Cash balance is presented as gross on the Statement of Financial Position. An overdraft of \$340,542,000 (2019: \$93,546,000) 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 2020 (CONTINUED)

#### 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:

- 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 40A regarding the presentation of third statement of financial position if retrospective restatement of items is made in the financial statements, 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;
- 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;
- 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;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures to disclose key management personnel compensation; and
- 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 UK. The results of the Company are included in the consolidated financial statements of NHI, the ultimate parent company. See Note 30 for further details on ultimate and immediate parent companies.

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future of at least twelve months from the date of approval of the Financial Statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis. Refer to Note 31 for further details.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### (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 7.

##### (c) Financial Instruments

###### i. Classification and Measurement

Financial instruments are classified either as financial assets or liabilities at amortised cost, financial assets mandatorily at fair value through profit or loss or financial liabilities designated at fair value through profit or loss. The classification and measurement of all financial assets, except equity instruments and derivatives, are assessed based on the Company's business model for managing the assets and the instruments' contractual cash flow characteristics.

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.

###### Business Model

The Company 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, frequency of sales of the financial assets and the complexity or potential differences in underlying business model.

There are three business models 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.
- Other - Financial assets held with trading intent or that do not meet the "hold to collect" and "hold to collect and sell" qualifying criteria.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### Financial Instruments (continued)

The Company 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.

##### (c) 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 Company 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.

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.

##### ii. Financial instruments at fair value through profit or loss

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

##### iii. Financial instruments held for trading

Financial instruments 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. 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.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### iv. Financial assets mandatorily at fair value through profit and loss

Financial assets are mandatorily held at fair value through profit and loss where the asset is managed on a fair value basis or if the asset fails the SPPI test. Such assets are generally recognised on settlement date at fair value. From the date the terms are agreed, until the financial asset is funded, the Company recognises any unrealised fair value changes in the financial asset in the profit and loss. Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value.

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

##### v. Financial liabilities designated at fair value through profit and loss

The company designates non-trading financial liabilities to be measured at fair value through profit and loss through election of the fair value option on initial recognition if measurement of the fair value through profit and loss represents the more relevant measurement basis for the financial liability because of how the financial liability is managed with other financial assets and financial liabilities or because of the purpose or the nature of the financial liability itself, the designation is made where any of the following criteria are met:

- It is part of a larger group of financial assets and financial liabilities which is managed on a fair value basis;
- The election would eliminate or significantly reduce a measurement or recognition inconsistency (i.e. accounting mismatch) that would otherwise arise from measuring financial assets or financial liabilities or recognising gains and losses on them on different bases; or
- It is a structured financial liability which contains one or more embedded derivatives where the economic characteristics and risks of the derivative(s) are not closely related to the host and require bifurcation.

The financial liability is initially measured at fair value and transaction costs are taken directly to Profit and Loss.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

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

###### vi. Financial instruments at amortised cost

Financial assets are recognised at amortised cost when the Company's business model objective is to collect the contractual cash flows of the assets and where these cash flows are Solely Payments of Principal and Interest on the principal amount outstanding until maturity, such assets are initially recognised on settlement date. The instruments are initially measured at fair value and subsequently measured at amortised cost less Expected Credit Loss ("ECL") allowance (See 1(c) ix). Interest is recognised in the Profit and Loss in 'Interest income', using the effective interest rate method. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL and reversals thereof are recognised in the Statement of Comprehensive Income in 'credit impairment (charge)/release'.

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.

###### vii. Impairment of financial instruments

The Company 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 and lease receivables.

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

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

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

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

###### vii. Impairment of financial instruments (continued)

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 increase in credit risk since initial recognition but which are not credit-impaired; and
- Stage 3 - non-performing financial assets for which there has been a significant increase in credit risk since initial recognition and which have become credit-impaired.

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.

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.

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 Company 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.

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 Company will be able to collect all principal and interest amounts due in accordance with the contractual terms of the financial asset.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

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

###### vii. Impairment of financial instruments (continued)

A default is defined 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.

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.

Credit-impaired financial instruments individually assessed for impairment are typically written-off when further cash flows are deemed uncollectible and when all commercially reasonable 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.

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 the Profit and Loss in 'credit impairment (charge) / release' 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.



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### vii. Impairment of financial instruments (continued)

###### Measurement of expected credit losses:

The measurement of expected credit losses through the general ECL impairment model is typically determined within the Company using a loss rate model 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").

PD inputs are determined by internal Nomura credit rating applied to the financial instrument. PD inputs used by the Company are sourced from industry data and validated based on Nomura's 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 Company are included in the measurement of expected credit losses.

The company permits 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 there is a significant increase in credit risk and subsequently the financial instrument becomes credit-impaired, the financial instrument is reclassified from stage 1 to stage 2 and then stage 3 where expected credit losses are determined using lifetime ECL. A similar approach is applied for 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).

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### vii. Impairment of financial instruments (continued)

Balances to which the Company applies this approach include the following:

- Default fund contribution receivables from investment grade central clearing counterparties;
- Initial margin and variation margin receivables from investment grade central clearing counterparties;
- Segregated initial margin receivables from investment grade custodians in connection with OTC derivatives and bilateral repurchase agreements;
- Variation margin on derivative transactions and collateralised agreements accounted for at FVPL;
- Cash and cash equivalent;
- Demand deposits and short term investments grade deposits;
- Loans to clients which are overcollateralised and daily margined dependent on quality and liquidity of underlying collateral.

For those financial instruments the Company identifies significant increases in credit risk through monitoring of observable events or indicators of default in relation to these counterparties.

If a financial asset has been the subject of modification which does not lead to its derecognition, significant increase in credit risk is assessed by comparing the risk of default of the financial instrument, based on the modified terms at the reporting date, with the risk of default of the financial instrument at inception, based on the financial instrument's original, unmodified, terms.

Where the modification of contractual cash flows of a financial asset leads to its derecognition and the recognition of a new asset, the date of modification is treated as the date of initial recognition for the new financial asset when determining whether a significant increase in credit risk has occurred for that modified financial asset. In rare circumstances, after modification, the new asset is considered to be credit impaired, in which case it is treated as an asset which was credit-impaired at origination.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (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" 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.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

#### **1 ACCOUNTING POLICIES (continued)**

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

###### **(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.

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.

##### **(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.

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 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### (ii) Fees and commission income and expenses

Fees and commission income includes gains, losses and fees, 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.

Revenues are recognised when or as the customer obtains control of the service provided by Nomura which depends on when each of the key distinct substantive promises made by Nomura within the contract with the customer performance obligations are satisfied. Such performance obligations are generally satisfied at a particularly point in time or, if certain criteria are met, over a period of time.

Underwriting and syndication revenues recognised at a point in time when the underlying transaction is complete.

Fees contingent on the success of an underlying transaction are variable consideration recognised when the underlying transaction has been completed since only at such point is it probable that a significant reversal of revenue will not occur.

Depending upon whether the company is acting as principal or agent in generating fees and Commissions, costs are reported on a gross or net basis respectively.

##### (f) Interest receivable and interest payable

Interest receivable and payable includes dividends and interest paid and earned on securities positions, interest on financial instruments at fair value through profit or loss including securities bought and sold under repurchase agreements. 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 other interest and similar expenses. Negative interest on financial liabilities is presented as other interest and similar income.

##### (g) Other debtors

Other debtors include financial assets (1c), intangible assets (1m) and other less material non-financial assets.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### (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.

The Company derecognises financial liabilities when the Company's obligations are discharged or cancelled or when they expire.

##### (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) Combination of financial instruments

Financial instruments entered into concurrently, in contemplation of each other and with the same counterparty are typically combined into a single financial instrument unless there is a substantive business purpose or economic need to report the transactions separately. From 1 April 2019, the Company has changed its application of this accounting policy for certain securities which are held for trading that are purchased or sold at the same time as entering into an open dated repurchase or reverse repurchase (collateralised financing agreements) with the same counterparty. These transactions will no longer be combined and accounted for as a derivative and instead presented separately respecting the legal form. The change reflects the assessment of the business purpose to execute the transactions separately, as combining them in a forward contract under an ISDA is not a standard market practice for market makers to transfer risks within the group. Combining the transactions as a derivative would be operationally onerous due to complex systems which require substantial investments in infrastructure setup and establishing controls around processes across all functions within the Company. Disclosure of these items separately improves the reliability and relevance of the Financial Statements reflecting the Company's primary risk in relation to these transactions and in conjunction with other transactions entered into, in particular the financing risk as opposed to market risk on securities which are derecognised. The effects of this change in accounting policy are presented in Note 8.

##### (k) 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. Financial guarantees are subject to impairment under ECL.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### (l) 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

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:

- For derivatives, cash or securities where cash collateral received or paid are disclosed in other debtors or creditors as broker balances.
- 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.

##### (m) 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 lease property      | Over the life of the lease  |
| Furniture and equipment  | Five to ten years   |
| Certain IT Equipment     | Three to Five years   |
| Construction in progress | Not depreciated until completed and transferred to asset categories above |
| Right-of-use asset       | Over the life of the lease  |



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### (m) Tangible assets and depreciation

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.

Refer to 1(w) for further information relating to the recognition of right-of-use assets.

##### (n) 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.

##### (o) Fixed asset investments

Investments in subsidiary undertakings, group companies and entities common control are stated at original cost less amounts written off where there has been impairment in value.

##### (p) 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.

##### (q) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the year-end date, taking into account the risks and uncertainties surrounding the obligation.



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### (r) 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.

##### (s) 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.

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.

The IFRIC 23 Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### (t) 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.

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.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### (u) Share-based payments

The Company and the ultimate holding company of the Nomura Group, NHI grants 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.

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.

##### (v) 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.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### (w) Leases

###### Policy applicable after 1 April 2019

###### As a lessee

For any new contracts entered into on or after 1 April 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. At lease commencement date, the Company recognises a right-of-use asset within "tangible assets" (further details in 1(m)) and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Company's incremental borrowing rate. Certain lease contracts include extension and termination options which are considered in determining the lease term and whether the Company is reasonably certain to exercise or not to exercise that option as well as variable lease payments.

###### As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. It is classified by making an overall assessment on whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. The Company is an intermediate lessor in relation to certain leased office space, these subleases are classified as finance leases under IFRS 16, a net investment in lease is recognised as the present value of lease payments receivable discounted at the incremental borrowing rate with the corresponding right of use asset relating to the head lease being derecognised and any difference recognised in the income statement. Subsequently the effective interest on the net investment in lease is recognised in the income statement as interest and other similar income. Net investment in lease are assessed for impairment under requirements of IFRS 9 on an ongoing basis outlined in Note 1(c)(vii) and are derecognised in line with principles outlined in Note 1(h).

###### Policy applicable before 1 April 2019

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as 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 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### (x) Cash Flow Statement

The cash flow statement reconciles the increase or decrease in cash and cash equivalent in the period.

##### **Cash and cash equivalent**

Cash and cash equivalent comprises of cash and demand deposits denominated in foreign currencies. It 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.

##### (y) 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.
- 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.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 1 ACCOUNTING POLICIES (continued)

##### (z) Changes in accounting policies and disclosures

###### IFRS 16: Leases

IFRS 16 'Leases' which replaced IAS 17 'Leases, IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease' has been applied effective from 1 April 2019. The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases.

The Company applied the following practical expedients that are permitted on transition to IFRS 16 where the company is a lessee in a lease previously classified as an operating lease:

- to not reassess whether or not a contract contained a lease;
- to rely on previous assessments of whether such contracts were considered onerous;
- to rely on previous sale-and-leaseback assessments;
- to adjust lease terms with the benefit of hindsight with respect to whether extension or termination options are reasonably certain of being exercised;
- to discount lease liabilities using the Group's incremental borrowing rate in each currency as of 1 April 2019;
- to initially measure the RoU asset at an amount equal to the lease liability for leases previously classified as operating leases, adjusted for existing lease balances, such as rent prepayments, rent accruals, lease incentives and onerous lease provisions, but excluding initial direct costs; and
- to not apply IFRS 16 to leases the remaining term of which will end within 12 months from the transition date.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2019. Accordingly, comparative information for 2019 has not been restated.

The effect of adoption of IFRS 16 is as follows:

- Right-of-use assets of \$106 million and presented in the statement of financial position within "Tangible Assets".
- Additional lease liabilities of \$105 million and included in "Other creditors"
- Liabilities from financing activities in cash flow statement reduced by \$32 million
- An effect of \$2 million on "Retained earnings"

The lease liabilities as at 1 April 2019 can be reconciled to the operating lease commitments as of 31 March 2019, as follows:

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**1 ACCOUNTING POLICIES (continued)**

|  | <u>Amounts</u> |
|--|----------------|
|  | <u>\$'000</u>  |
| <b>Total undiscounted operating lease commitments disclosed at 31 March 2019</b> | <b>156,696</b> |
| Total undiscounted lease payments  | 156,696        |
| Discounted at a weighted average incremental borrowing rate (1.47%)              | (2,636)        |
| <b>Less:</b>   |                |
| - Commitments relating to leases of low-value assets                             | (38)           |
| - Reassessment of lease term   | (42,894)       |
| - Other adjustments  | (6,521)        |
| <b>Total lease liabilities recognised under IFRS 16 as at 1 April 2019</b>       | <b>104,607</b> |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 2 TRADING PROFIT

All of the Company's trading profit is derived from Wholesale, comprising trading and sales in fixed income, 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><br><u>31 March 2020</u> | <u>Year Ended</u><br><u>31 March 2019</u> |
|---|---|---|
|   | <u>\$'000</u>                             | <u>\$'000</u>                             |
| Net Fees and Commissions                              | 430,272                                   | 435,503                                   |
| Principal transactions                                | 105,612                                   | 588,314                                   |
| Other revenues <sup>1</sup>                           | 783,358                                   | 510,492                                   |
| Less : attributable transaction expenses <sup>1</sup> | (131,964)                                 | (172,403)                                 |
| Trading profit  | <u>1,187,278</u>                          | <u>1,361,906</u>                          |

\$930,461,680 (2019: \$961,853,000) of the trading profit in the year ended 31 March 2020 is attributable to EMEA and \$256,815,943 (2019: \$400,053,000) 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> 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><br><u>31 March 2020</u> | <u>Year Ended</u><br><u>31 March 2019</u> |
|--------------------------|---|---|
|                          | <u>\$'000</u>                             | <u>\$'000</u>                             |
| Brokerage Commissions    | 185,721                                   | 205,108                                   |
| Arrangement fees         | 57,123                                    | 66,080                                    |
| Advisory                 | 82,977                                    | 73,692                                    |
| Other Fees               | 104,451                                   | 90,623                                    |
| Net fees and commissions | <u>430,272</u>                            | <u>435,503</u>                            |



**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**2 TRADING PROFIT (CONTINUED)**

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

|   | <u>Year Ended</u><br><u>31 March 2020</u> | <u>Year Ended</u><br><u>31 March 2019</u> |
|---|---|---|
|   | <u>\$'000</u>                             | <u>\$'000</u>                             |
| Financial instruments held for trading                      | 84,451                                    | 599,430                                   |
| Financial instruments at fair value through profit and loss | 21,161                                    | (11,116)                                  |
| Principal transactions                                      | <u>105,612</u>                            | <u>588,314</u>                            |

**d. Analysis of financial instruments held for trading by product type:**

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

|                             | <u>Year Ended</u><br><u>31 March 2020</u> | <u>Year Ended</u><br><u>31 March 2019</u> |
|-----------------------------|---|---|
|                             | <u>\$'000</u>                             | <u>\$'000</u>                             |
| Bond and equity derivatives | (20,596)                                  | 60,095                                    |
| Convertible bonds           | (439,416)                                 | (369,021)                                 |
| Equities                    | (15,617)                                  | 358,212                                   |
| Warrants                    | (29,838)                                  | (23,874)                                  |
| Bank and corporate bonds    | (652,699)                                 | 448,761                                   |
| Government bonds            | 714,697                                   | 396,808                                   |
| Interest rate derivatives   | 123,940                                   | (1,397,249)                               |
| Currency derivatives        | 434,183                                   | 1,079,115                                 |
| Credit derivatives          | (30,203)                                  | 46,583                                    |
|                             | <u>84,451</u>                             | <u>599,430</u>                            |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 3 INTEREST INCOME AND EXPENSE

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

|  | <u>Year Ended</u><br><u>31 March 2020</u><br>\$'000 | <u>Year Ended</u><br><u>31 March 2019</u><br>\$'000 |
|--|---|---|
| <b>Interest income calculated using the effective interest method</b>  |   |   |
| Cash and short-term funds  | 116,274   | 132,558   |
|  | <u>116,274</u>                                      | <u>132,558</u>                                      |
| <b>Other interest and similar income</b>                               |   |   |
| Secured financing transactions <sup>1</sup>                            | 2,243,446   | 2,392,832   |
| Financial instruments at fair value through profit and loss            | 88,670  | 138,235   |
| Other  | 14,334  | 20,573  |
|  | <u>2,346,450</u>                                    | <u>2,551,640</u>                                    |
| <br>   |   |   |
|  | <u>Year Ended</u><br><u>31 March 2020</u><br>\$'000 | <u>Year Ended</u><br><u>31 March 2019</u><br>\$'000 |
| <b>Interest expense calculated using the effective interest method</b> |   |   |
| Overdrafts and loans   | (222,682)   | (282,158)   |
|  | <u>(222,682)</u>                                    | <u>(282,158)</u>                                    |
| <b>Other interest and similar expenses</b>                             |   |   |
| Secured financing transactions <sup>2</sup>                            | (2,110,635)   | (2,419,486)   |
| Financial instruments at fair value through profit and loss            | (19,490)  | (19,143)  |
| Other  | (73,147)  | (69,209)  |
|  | <u>(2,203,272)</u>                                  | <u>(2,507,838)</u>                                  |

<sup>1</sup> Includes \$691m (2019: \$855m) of interest income on securities lent and repurchase agreements with negative interest rates for the year ended 31 March 2020. The Company now determines negative interest amounts at a currency level which were previously determined at a financial product level and accordingly prior year is restated by \$1,318m relating to \$685m of interest income on securities lent and repurchase agreements with negative interest rate and \$633m of interest expense on securities borrowed and reverse repurchase agreements with negative interest rate, with no impact on overall financial performance.

<sup>2</sup> Includes \$679m (2019: \$836m) of interest expense on securities borrowed and reserve repurchase agreements with negative interest rates for the year ended 31 March 2020. The Company now determines negative interest amounts at a currency level which were previously determined at a financial product level and accordingly prior year is restated by \$1,318m relating to \$633m of interest expense on securities borrowed and reserve repurchase agreements with negative interest rate and \$685m of interest income on securities lent and repurchase agreements with negative interest rate, with no impact on overall financial performance.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 4 LOSS BEFORE TAXATION

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

|   | <u>Year Ended</u><br><u>31 March 2020</u> | <u>Year Ended</u><br><u>31 March 2019</u> |
|---|---|---|
|   | <u>\$'000</u>                             | <u>\$'000</u>                             |
| Wages, salaries and other personnel costs                       | 493,104                                   | 591,089                                   |
| Provisions for litigation                                       | 117,670                                   | 109,919                                   |
| Social security costs   | 55,712                                    | 61,230                                    |
| Pension cost - defined benefit contribution                     | 22,742                                    | 28,119                                    |
| Depreciation and amortisation (note 11 & 12)                    | 6,047                                     | 6,068                                     |
| Depreciation on right-of-use assets                             | 35,828                                    | -   |
| Software expenses   | 55,870                                    | 42,642                                    |
| Auditors remuneration including expenses                        |   |   |
| - Audit   | 2,269                                     | 1,886                                     |
| - Audit-related assurance services                              | 501                                       | 487                                       |
| - Services relating to taxation                                 | 120                                       | 399                                       |
| - All other services  | 35  | 70  |
| Operating lease costs   |   |   |
| - Building  | -   | 61,078                                    |
| - Other   | -   | 35  |
| Interest receivable from Nomura Group undertakings <sup>1</sup> | (740,083)                                 | (831,685)                                 |
| Interest payable from Nomura Group undertakings <sup>2</sup>    | 813,230                                   | 906,804                                   |

In addition to the audit fee shown above, an amount of \$1,015,187 (2019: \$1,046,171) was borne by NHI.

<sup>1</sup> Includes \$141m (2019: \$110m) of interest income on securities lent and repurchase agreements with negative interest rates for the year ended 31 March 2020. The Company now determines negative interest amounts at a currency level which were previously determined at a financial product level and accordingly prior year is restated by \$249m relating to \$110m of interest income on securities lent and repurchase agreements with negative interest rate and \$139m of interest expense on securities borrowed and reverse repurchase agreements with negative interest rate, with no impact on overall financial performance.

<sup>2</sup> Includes \$174m (2019: \$139m) of interest expense on securities borrowed and reserve repurchase agreements with negative interest rates for the year ended 31 March 2020. The Company now determines negative interest amounts at a currency level which were previously determined at a financial product level and accordingly prior year is restated by \$249m relating to \$139m of interest expense on securities borrowed and reserve repurchase agreements with negative interest rate and \$110m of interest income on securities lent and repurchase agreements with negative interest rate, with no impact on overall financial performance.

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**5 CREDIT IMPAIRMENT CHARGE/(RELEASE)**

|   | <u>Year Ended</u><br><u>31 March 2020</u> | <u>Year Ended</u><br><u>31 March 2019</u> |
|---|---|---|
|   | <u>\$'000</u>                             | <u>\$'000</u>                             |
| Stage 1: 12-month ECL                       | 5,089                                     | 381                                       |
| - Other debtors                             | 4,384                                     | 218                                       |
| - Commitments and financial guarantees      | 705                                       | 163                                       |
| Stage 2: Lifetime ECL – not credit-impaired | 11,533                                    | 1,053                                     |
| - Other debtors                             | 11,883                                    | (32)                                      |
| - Commitments and financial guarantees      | (350)                                     | 1,085                                     |
| Stage 3: Lifetime ECL credit impaired       | 24,046                                    | -   |
| - Other debtors                             | 24,046                                    | -   |
| - Commitments and financial guarantees      | -   | -   |
|   | <u>40,668</u>                             | <u>1,434</u>                              |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 6 DEFINED BENEFIT PENSION SCHEME

A full actuarial valuation of the defined benefit pension scheme was undertaken at 31 March 2020 by Premier Pensions Management Ltd, a qualified independent actuary.

During the year ended 31 March 2020, 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 2020 is nil (2019: nil). The Trustees have historically insured their pensioner amounts using a buy-in insurance contract with Aviva. More recently, the Trustees have extended their policy of insuring the pure defined benefit liabilities in the scheme by the purchase of a bulk annuity policy with Pension Insurance Corporation.

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

|   | <b><u>Year Ended</u></b><br><b><u>31 March 2020</u></b> | <b><u>Year Ended</u></b><br><b><u>31 March 2019</u></b> |
|---|---|---|
|   | %   | %   |
| Rate of increase in pensions in payment   | 3.10  | 3.65  |
| Rate of increase in pensions in deferment | 2.10  | 2.65  |
| Discount rate                             | 2.35  | 2.55  |
| Inflation assumption                      | 2.10  | 2.65  |

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

|  | <b><u>Year Ended</u></b><br><b><u>31 March 2020</u></b> | <b><u>Year Ended</u></b><br><b><u>31 March 2019</u></b> |
|--|---|---|
|  | Years   | Years   |
| Male Member age 60 (life expectancy at age 60)   | 29.2  | 28.7  |
| Male Member age 40 (life expectancy at age 60)   | 31.9  | 31.4  |
| Female Member age 60 (life expectancy at age 60) | 31.8  | 30.9  |
| Female Member age 40 (life expectancy at age 60) | 34.2  | 33.4  |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 6 DEFINED BENEFIT PENSION SCHEME (CONTINUED)

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

|                                     |      | <u>Year Ended</u><br><u>31 March 2020</u> |      | <u>Year ended</u><br><u>31 March 2019</u> |
|-------------------------------------|------|---|------|---|
|                                     | %    | \$'000                                    | %    | \$'000                                    |
| Equities                            | 2.35 | 14,119                                    | 2.55 | 1,510                                     |
| Dividend growth rate                | 2.35 | 15,299                                    | 2.55 | 29,158                                    |
| Cash                                | 2.35 | 1,087                                     | 2.55 | 4,343                                     |
| Annuities                           | 2.35 | <u>244,124</u>                            | 2.55 | <u>264,425</u>                            |
| Market value of assets              |      | 274,629                                   |      | 299,436                                   |
| Present value of scheme liabilities |      | <u>(251,450)</u>                          |      | <u>(271,804)</u>                          |
| Surplus in the scheme               |      | 23,179                                    |      | 27,632                                    |
| Effect of surplus cap               |      | <u>(23,179)</u>                           |      | <u>(27,632)</u>                           |
| Recoverable deficit in the scheme   |      | -   |      | -   |
| Deferred tax asset                  |      | -   |      | -   |
| 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. The Trustees of the Pension Scheme carry out a triennial actuarial valuation of the assets and liabilities. The latest report as at 31 March 2019 indicated a funding surplus of \$19m, which was less than the accounting surplus for the same period. This was primarily due to more prudent assumptions used in the Trustees' funding calculations.

Following a confirmatory judgment in the Lloyds Banking Group case in October 2018, pension schemes with any Guaranteed Minimum Pension ("GMP") earned between 17 May 1990 and 5 April 1997 are now required to pay fully sex-equalised benefits. In anticipation of this, an estimated liability of \$3.1m was recognised during 2019 and has no impact during the year.

The amount charged to other finance income:

|   | <u>31 March 2020</u><br><u>\$'000</u> | <u>31 March 2019</u><br><u>\$'000</u> |
|---|---------------------------------------|---------------------------------------|
| <b>Amount charged to other finance income</b> |                                       |                                       |
| Interest income on pension scheme assets      | 7,302                                 | 7,630                                 |
| Interest cost on pension scheme liabilities   | (6,612)                               | (6,900)                               |
| Interest on the effect of asset ceiling       | <u>(690)</u>                          | <u>(730)</u>                          |
| Net Interest                                  | <u>-</u>                              | <u>-</u>                              |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 6 DEFINED BENEFIT PENSION SCHEME (CONTINUED)

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

|   | <u>31 March 2020</u> | <u>31 March 2019</u> |
|---|----------------------|----------------------|
|   | \$'000               | \$'000               |
| Actual return on pension scheme assets less interest                        | (7,501)              | 7,917                |
| Actuarial (loss) / gains arising on pension scheme liabilities              | 3,534                | (5,520)              |
| Actuarial gains / (losses) before adjustment due to movement in surplus cap | (3,967)              | 2,397                |
| Adjustment due to movement in surplus cap                                   | 3,967                | (2,397)              |
| Actuarial loss recognised in other comprehensive income                     | -                    | -                    |

The defined benefit pension scheme has no effect on the net assets and reserves of the Company (2019: no effect).

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

|  | <u>Year ended</u>    | <u>Year ended</u>    |
|--|----------------------|----------------------|
|  | <u>31 March 2020</u> | <u>31 March 2019</u> |
|  | \$'000               | \$'000               |
| <b>Change in benefit obligations</b>     |                      |                      |
| Benefit obligations at beginning of year | (271,804)            | (293,014)            |
| Other remeasurement changes              | -                    | (3,131)              |
| Interest cost                            | (6,612)              | (6,900)              |
| Actuarial (losses) / gains               | 3,534                | (5,520)              |
| Benefits paid                            | 11,385               | 15,762               |
| Foreign currency exchange gains / (loss) | 12,048               | 20,999               |
| Benefit obligations at end of year       | <u>(251,449)</u>     | <u>(271,804)</u>     |

|  | <u>Year ended</u>    | <u>Year ended</u>    |
|--|----------------------|----------------------|
|  | <u>31 March 2020</u> | <u>31 March 2019</u> |
|  | \$'000               | \$'000               |
| <b>Change in plan assets</b>                   |                      |                      |
| Fair value of plan assets at beginning of year | 299,437              | 322,784              |
| Interest income on plan assets                 | 7,302                | 7,630                |
| Actuarial gains / (losses)                     | (7,501)              | 7,917                |
| Benefits paid from plan                        | (11,385)             | (15,762)             |
| Foreign currency exchange (losses) / gains     | (13,224)             | (23,132)             |
| Fair value of plan assets at end of year       | <u>274,629</u>       | <u>299,437</u>       |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 6 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><br><u>31 March 2020</u><br>\$'000 | <u>Year ended</u><br><u>31 March 2019</u><br>\$'000 |
|--|---|---|
| <b>Sensitivity analysis of significant actuarial assumptions</b> |   |   |
| Discount rate applied to scheme liabilities                      |   |   |
| Increase by 1%   | (41,677)  | (43,757)  |
| Decrease by 1%   | 54,286  | 59,213  |
| Inflation assumption   |   |   |
| Increase by 1%   | 36,849  | 32,998  |
| Decrease by 1%   | (30,212)  | (33,019)  |
| Life expectancy  |   |   |
| Increase by 1 Year   | 7,501   | 8,114   |
| Decrease by 1 Year   | (7,468)   | (8,049)   |

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><br><u>31 March 2020</u><br>\$'000 | <u>Year ended</u><br><u>31 March 2019</u><br>\$'000 |
|-----------------------------------|---|---|
| <b>Defined benefit obligation</b> |   |   |
| Current pensioners                | 88,948  | 95,838  |
| Deferred pensioners               | 162,502   | 175,967   |
|                                   | <u>Years</u>  | <u>Years</u>  |
| <b>Weighted average age</b>       |   |   |
| Current pensioners                | 66.0  | 66.2  |
| Deferred pensioners               | 55.0  | 54.8  |
| <b>Duration</b>                   |   |   |
| Current pensioners                | 14.0  | 14.5  |
| Deferred pensioners               | 20.0  | 20.1  |



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 7 INCOME TAX

##### Tax expense

|   | <u>Year ended</u><br><u>31 March 2020</u><br>\$'000 | <u>Year ended</u><br><u>31 March 2019</u><br>\$'000 |
|---|---|---|
| <b>Current taxation</b>                           |   |   |
| UK Corporation tax credit                         | (3,427)   | (5,439)   |
| Foreign tax charge                                | 94  | 3,481   |
| Adjustment in respect of prior years              | 473   | (2,707)   |
| Current tax (credit) / charge                     | <u>(2,861)</u>                                      | <u>(4,665)</u>                                      |
| <b>Deferred taxation</b>                          |   |   |
| Origination and reversal of temporary differences | (1)   | 834   |
| Effect of changes in tax rates                    |   | (7)   |
| Adjustment in respect of prior years              | 1   | 84  |
| Deferred tax charge / (credit)                    | <u>-</u>  | <u>911</u>  |
| Tax receipt in the profit and loss account        | (2,861)   | (3,754)   |
| <b>Tax charge / (credit) in equity</b>            | -   | 107   |

##### Tax reconciliation

The tax credited to the income statement differs from the tax credit that would be if it had been calculated by reference to the UK corporation tax rate as follows:

|   | <u>Year ended</u><br><u>31 March 2020</u><br>\$'000 | <u>Year ended</u><br><u>31 March 2019</u><br>\$'000 |
|---|---|---|
| Loss before taxation  | <b>(313,313)</b>                                    | <b>(387,309)</b>                                    |
| UK corporation tax credit at 19% (2019: 19%)  | (59,529)  | (73,589)  |
| Expenses not deductible and income not taxable for tax                                    | 26,959  | 23,915  |
| Items taxed under chargeable gains rules  | -   | 4,384   |
| Group relief to group entities charged at a rate different to the UK corporation tax rate | 2,938   | 4,011   |
| Write down / (reversal of write down) of previously recognised deferred tax assets        | 9   | 845   |
| Changes in unrecognised deferred tax assets   | 26,208  | 36,424  |
| Effect of tax rate change   | -   | (7)   |
| Foreign tax charge  | 94  | 3,481   |
| Foreign tax relief  | (13)  | (595)   |
| Adjustment in respect of prior years  | 473   | (2,623)   |
| Tax credit in income statement  | <u>(2,861)</u>                                      | <u>(3,754)</u>                                      |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 7 INCOME TAX (CONTINUED)

##### Movement of recognised deferred tax assets and liabilities

|   | Unused<br>trade losses<br>\$'000 | Unused<br>capital<br>losses<br>\$'000 | Financial<br>assets -<br>FVOCI<br>\$'000 | Tax<br>transitional<br>adjustments<br>\$'000 | Total<br>\$'000 |
|---|----------------------------------|---------------------------------------|--|--|-----------------|
| Asset / (Liability) as at beginning of FY | 67                               | -                                     | -  | (67)   | -               |
| Income statement                          | (1)                              | -                                     | -  | 1  | -               |
| Asset / (Liability) as at 31 March 2020   | 66                               | -                                     | -  | (66)   | -               |

##### (b) Unrecognised deferred tax assets and (liabilities)

|  | 31 March 2020<br>\$'000 | 31 March 2019<br>\$'000 |
|--|-------------------------|-------------------------|
| Unused trade losses                    | 815,117                 | 718,726                 |
| Unused capital losses                  | 130                     | 1,306                   |
| Decelerated capital allowance          | 118,219                 | 95,616                  |
| Deferred emoluments                    | 5,586                   | 7,791                   |
| Share-based payment                    | 14,043                  | 13,306                  |
| Total unrecognised deferred tax assets | 953,095                 | 836,745                 |

On 11 March 2020 the UK government announced in Budget 2020 that the headline corporation tax rate will remain at 19% in 2020. This rate was deemed to be substantively enacted on the same date. Deferred tax assets and liabilities as at the balance sheet date are calculated by reference to the most appropriate rates based on forecast.

Under UK tax rules, unused trade losses can be carried forward indefinitely. The amount of current year taxable profits that can be relieved by unused tax losses incurred by 31 March 2015 is restricted to 25% of such profits. The utilisation of unused trade losses incurred on or after 1 April 2015 against current year taxable profits is restricted to 50% of such profits subject to an annual £5 million allowance. Trade losses incurred on or 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.

The Company has unused trade losses of \$4.3 billion (2019: \$4.2 billion). A deferred tax asset of \$815.1 million (2019: \$718.7 million) is not recognised in respect of the unused trade losses due to uncertainty surrounding the availability of future taxable profits.

The Company has unused capital losses of \$0.7 million (2019: \$7.7 million) that is available to set off against future chargeable gains. A deferred tax asset of \$0.1 million (2019: \$1.3 million) is not recognised in respect of the unused capital losses due to uncertainty surrounding the availability of future chargeable gains.

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**8 FINANCIAL INSTRUMENTS**

**Analysis of the Company's financial assets and financial liabilities:**

|  | <u>2020</u>             | <u>2020</u>                | <u>2020</u>               | <u>2020</u>           | <u>2020</u>          |
|--|-------------------------|----------------------------|---------------------------|-----------------------|----------------------|
|  | <u>Held for Trading</u> | <u>Mandatorily at FVPL</u> | <u>Designated at FVPL</u> | <u>Amortised Cost</u> | <u>Total</u>         |
|  | <u>\$'000</u>           | <u>\$'000</u>              | <u>\$'000</u>             | <u>\$'000</u>         | <u>\$'000</u>        |
| <b>Financial Assets</b>  |                         |                            |                           |                       |                      |
| Cash and cash equivalent   | -                       | -                          | -                         | 2,691,932             | 2,691,932            |
| Financial assets held for trading                                      | 176,749,230             | -                          | -                         | -                     | 176,749,230          |
| Investment time deposits   | -                       | 65,886                     | -                         | 192,404               | 258,290              |
| Collateral posted for securities purchased under agreements to resell  | -                       | 75,223,612                 | -                         | -                     | 75,223,612           |
| Collateral posted for securities borrowed                              | -                       | 11,979,093                 | -                         | -                     | 11,979,093           |
| Financial investments  | -                       | 18,710                     | -                         | -                     | 18,710               |
| Other debtors  | -                       | 2,842,766                  | -                         | 19,066,161            | 21,908,927           |
|  | <u>176,749,230</u>      | <u>90,130,067</u>          | <u>-</u>                  | <u>21,950,497</u>     | <u>288,829,794</u>   |
| <b>Financial Liabilities</b>   |                         |                            |                           |                       |                      |
| Financial Liabilities held for trading                                 | (171,021,244)           | -                          | -                         | -                     | (171,021,244)        |
| Other creditors  | -                       | -                          | (1,098,558)               | (37,256,825)          | (38,355,383)         |
| Collateral received for securities sold under agreements to repurchase | -                       | -                          | (63,955,753)              | -                     | (63,955,753)         |
| Collateral received for securities loaned                              | -                       | -                          | (7,433,534)               | -                     | (7,433,534)          |
| Creditors (amounts falling due after more than one year)               | -                       | -                          | (73,025)                  | (2,310,000)           | (2,383,025)          |
|  | <u>(171,021,244)</u>    | <u>-</u>                   | <u>(72,560,870)</u>       | <u>(39,566,825)</u>   | <u>(283,148,939)</u> |

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**8 FINANCIAL INSTRUMENTS (CONTINUED)**

**Analysis of the Company's financial assets and financial liabilities:**

|   | <u>2019</u>             | <u>2019</u>                | <u>2019</u>               | <u>2019</u>           | <u>2019</u>          |
|---|-------------------------|----------------------------|---------------------------|-----------------------|----------------------|
|   | <u>Held for trading</u> | <u>Mandatorily at FVPL</u> | <u>Designated at FVPL</u> | <u>Amortised Cost</u> | <u>Total</u>         |
|   | <u>\$'000</u>           | <u>\$'000</u>              | <u>\$'000</u>             | <u>\$'000</u>         | <u>\$'000</u>        |
| <b>Financial Assets</b>   |                         |                            |                           |                       |                      |
| Cash and cash equivalent  | -                       | -                          | -                         | 2,981,407             | 2,981,407            |
| Financial assets held for trading <sup>1</sup>                                      | 132,563,352             | -                          | -                         | -                     | 132,563,352          |
| Investment time deposits  | -                       | 172,527                    | -                         | 632                   | 173,159              |
| Collateral posted for securities purchased under agreements to resell <sup>1</sup>  | -                       | 79,450,934                 | -                         | -                     | 79,450,934           |
| Collateral posted for securities borrowed   | -                       | 9,353,591                  | -                         | -                     | 9,353,591            |
| Financial investments   | -                       | 17,595                     | -                         | -                     | 17,595               |
| Other debtors <sup>2</sup>  | -                       | 2,371,796                  | -                         | 17,086,275            | 19,458,071           |
|   | <u>132,563,352</u>      | <u>91,366,443</u>          | <u>-</u>                  | <u>20,068,314</u>     | <u>243,998,109</u>   |
| <b>Financial Liabilities</b>  |                         |                            |                           |                       |                      |
| Financial Liabilities held for trading <sup>1</sup>                                 | (130,827,193)           | -                          | -                         | -                     | (130,827,193)        |
| Other creditors <sup>2</sup>  | -                       | -                          | (1,298,926)               | (35,384,692)          | (36,683,618)         |
| Collateral received for securities sold under agreements to repurchase <sup>1</sup> | -                       | -                          | (66,248,739)              | -                     | (66,248,739)         |
| Collateral received for securities loaned   | -                       | -                          | (4,011,916)               | -                     | (4,011,916)          |
| Creditors (amounts falling due after more than one year)                            | -                       | -                          | (89,179)                  | (1,260,000)           | (1,349,179)          |
|   | <u>(130,827,193)</u>    | <u>-</u>                   | <u>(71,648,760)</u>       | <u>(36,644,692)</u>   | <u>(239,120,645)</u> |

<sup>1</sup> 2019 includes further offsetting following the change in accounting policy in relation to combination of financial instruments during the year. Refer to Note 1(j) for further details. This change resulted in reductions in 2019 financial assets and liabilities held for trading of \$23,986m and \$21,029m respectively; as well as increases in collateral posted/received for securities purchased/sold under agreements to resell/repurchase of \$12,123m and \$9,166m, relating to positions with fellow Nomura Group undertakings. There is no impact on retained earnings.

<sup>2</sup> 2019 includes presentational reclassifications between other debtors/creditors upon change in determination of negative interest, refer to Notes 1(f), 10 and 15 for further details.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 8 FINANCIAL INSTRUMENTS (CONTINUED)

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

Included within the financial instruments at amortised cost above are the following positions with fellow Nomura Group undertakings:

|   | <u>2020</u><br>\$'000 | <u>2019</u><br>\$'000 |
|---|-----------------------|-----------------------|
| <b>Financial assets</b>                                 |                       |                       |
| Investment time deposits                                | 191,244               | -                     |
| Other debtors   | 7,543,488             | 7,274,249             |
|   | <u>7,734,732</u>      | <u>7,274,249</u>      |
| <b>Financial liabilities</b>                            |                       |                       |
| Other creditors   | (20,117,973)          | (19,151,925)          |
| Creditors: amounts falling due after more than one year | (2,310,000)           | (1,260,000)           |
|   | <u>(22,427,973)</u>   | <u>(20,411,925)</u>   |

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

The following table analyses the Company's held at fair value through profit and loss financial assets and liabilities by product type:

|   | <u>2020</u><br>\$'000 | <u>2019</u><br>\$'000 |
|---|-----------------------|-----------------------|
| <b>Financial assets</b>   |                       |                       |
| Equity securities <sup>1</sup>  | 7,069,791             | 7,621,071             |
| Debt securities and loans <sup>1</sup>  | 5,624,872             | 4,824,077             |
| Derivatives <sup>1</sup>  | 164,054,567           | 120,118,204           |
| Collateral posted for securities purchased under agreements to resell <sup>1</sup>  | 75,223,612            | 79,450,934            |
| Collateral posted for securities borrowed   | 11,979,093            | 9,353,591             |
| Other debtors <sup>2</sup>  | 2,842,766             | 2,371,796             |
| Financial investments   | 18,710                | 17,595                |
| Investment time deposits  | 65,886                | 172,527               |
|   | <u>266,879,297</u>    | <u>223,929,795</u>    |
| <b>Financial liabilities</b>  |                       |                       |
| Equity securities <sup>1</sup>  | (5,181,941)           | (5,917,283)           |
| Debt securities and loans <sup>1</sup>  | (3,394,332)           | (3,453,779)           |
| Derivatives <sup>1</sup>  | (162,444,971)         | (121,456,131)         |
| Other creditors <sup>2</sup>  | (1,098,558)           | (1,298,926)           |
| Collateral received for securities sold under agreements to repurchase <sup>1</sup> | (63,955,753)          | (66,248,739)          |
| Collateral received for securities loaned   | (7,433,534)           | (4,011,916)           |
| Creditors: amounts falling due after more than one year                             | (73,025)              | (89,179)              |
|   | <u>(243,582,114)</u>  | <u>(202,475,953)</u>  |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 8 FINANCIAL INSTRUMENTS (CONTINUED)

##### Analysis of the Company's financial instruments by product type(continued)

Included within the financial assets and liabilities held at fair value through profit and loss above are the following positions with fellow Nomura Group undertakings:

|  | <b>2020</b>          | <b>2019</b>         |
|--|----------------------|---------------------|
|  | <b>\$'000</b>        | <b>\$'000</b>       |
| <b>Financial Assets</b>  |                      |                     |
| Equity securities  | 320,852              | 278,560             |
| Debt securities and loans  | 41,855               | 68,634              |
| Derivatives <sup>1</sup>   | 93,885,865           | 65,242,463          |
| Collateral posted for securities purchased under agreements to resell <sup>1</sup>   | 23,705,933           | 26,507,251          |
| Collateral posted for securities borrowed  | 8,872,815            | 7,448,114           |
| Other debtors <sup>2</sup>   | 211,075              | 385,855             |
| Investment time deposits   | 65,886               | 172,527             |
|  | <u>127,104,281</u>   | <u>100,103,404</u>  |
| <b>Financial Liabilities</b>   |                      |                     |
| Equity securities  | (3,804)              | (5,557)             |
| Debt securities  | (13,555)             | (16,020)            |
| Derivatives <sup>1</sup>   | (97,288,798)         | (71,705,509)        |
| Other creditors <sup>2</sup>   | (231,318)            | (291,108)           |
| Collateral received for securities purchased under agreements to resell <sup>1</sup> | (18,232,431)         | (21,915,257)        |
| Collateral received for securities borrowed  | (5,564,813)          | (1,631,986)         |
| Creditors: amount falling due after more than 1 year                                 | (59,724)             | (61,939)            |
|  | <u>(121,394,443)</u> | <u>(95,627,376)</u> |

<sup>1</sup> Following the change in accounting policy in relation to combination of financial instruments as detailed in Note 1(j), equity securities, debt securities and loans, and derivatives within financial assets were restated by \$3m, \$(23,852)m and \$(138)m respectively. Equity securities, debt securities and loans, and derivatives within financial liabilities were restated by \$(3)m, \$20,917m and \$115m respectively. Derivatives positions in financial assets and financial liabilities with fellow Nomura Group undertakings were restated by \$(138)m and \$(115)m respectively. Refer to page 66 for reclassification between collateral posted/received for securities purchased/sold under agreement to resell/repurchase.

<sup>2</sup> 2019 includes presentational reclassifications between other debtors/creditors upon change in determination of negative interest, refer to Notes 1(f), 10 and 15 for further details.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 8 FINANCIAL INSTRUMENTS (CONTINUED)

##### The Role of Financial Instruments

###### *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 2020 (CONTINUED)

#### 9 DERECOGNISED AND COLLATERALISED TRANSACTIONS

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

The Company enters into transactions in the ordinary course of business resulting in the transfer of financial assets to third parties which may not result in the full derecognition of the assets under IFRS 9.

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. 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.

Such transactions 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.

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 are presented below:

|  | <u>2020</u><br><u>Financial assets</u><br>\$'000 | <u>2020</u><br><u>Financial liabilities</u><br>\$'000 | <u>2020</u><br><u>Difference</u><br>\$'000 |
|--|--|---|--|
| Collateral received for securities sold under agreements to repurchase | 2,111,985  | (2,086,075)   | 25,910                                     |
| Collateral received for securities loaned                              | 1,226,981  | (1,199,453)   | 27,528                                     |
| Other  | 30,915   | (30,915)  | -  |
|  | <u>3,369,881</u>                                 | <u>(3,316,443)</u>                                    | <u>53,438</u>                              |
|  | <u>2019</u><br><u>Financial assets</u><br>\$'000 | <u>2019</u><br><u>Financial liabilities</u><br>\$'000 | <u>2019</u><br><u>Difference</u><br>\$'000 |
| Collateral received for securities sold under agreements to repurchase | 1,832,009  | (1,813,662)   | 18,347                                     |
| Collateral received for securities loaned                              | 1,142,487  | (1,137,211)   | 5,276                                      |
| Other  | 40,301   | (40,301)  | -  |
|  | <u>3,014,797</u>                                 | <u>(2,991,174)</u>                                    | <u>23,623</u>                              |



## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

#### **9 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.

##### **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 \$320 billion (2019: \$311 billion). Of this amount, \$265 billion (2019: \$259 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 \$73 billion (2019: \$63 billion) of balances due to fellow Nomura Group undertakings. The corresponding obligation to return securities received which have been sold or repledged is \$31 million (2019: \$27 million), relating to special purpose vehicles.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 10 OTHER DEBTORS

|  | <u>2020</u>       | <u>2019</u>       |
|--|-------------------|-------------------|
|  | <u>\$'000</u>     | <u>\$'000</u>     |
| Loans and advances                                     | 5,114,579         | 5,044,898         |
| Trade debtors  | 1,400,581         | 1,071,438         |
| Broker balances  | 14,951,433        | 12,895,820        |
| Customer contract receivable                           | 53,902            | 41,573            |
| Accrued interest and dividends receivable <sup>1</sup> | 107,401           | 174,929           |
| Prepayments and accrued income                         | 344,714           | 317,688           |
| Internally generated software                          | 111,553           | 118,036           |
|  | <u>22,084,163</u> | <u>19,664,382</u> |

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

|  | <u>2020</u>      | <u>2019</u>      |
|--|------------------|------------------|
|  | <u>\$'000</u>    | <u>\$'000</u>    |
| Loans and advances                                     | 282              | -                |
| Trade debtors  | 202,292          | 142,283          |
| Broker balances  | 7,235,868        | 7,363,894        |
| Customer contract receivable                           | 20,410           | 9,911            |
| Accrued interest and dividends receivable <sup>1</sup> | 18,380           | 44,884           |
| Prepayments and accrued income                         | 275,292          | 109,044          |
| Internally generated software                          | 111,553          | 118,036          |
|  | <u>7,864,077</u> | <u>7,788,052</u> |

<sup>1</sup>The Company now determines negative interest amounts at a currency level which were previously determined at a financial product level and accordingly 2019 accrued interest and dividends receivable includes a presentation reclassification of \$82m relating to accrued interest and dividends receivable with negative interest of \$36m and accrued interest and dividends payable in other creditors with negative interest of \$46m. Included within the presentation reclassification, \$20m relates to fellow Nomura Group undertakings making up of \$11m accrued interest and dividends receivable and \$9m accrued interest and dividends payable in other creditors. Refer to Notes 1(f), 8 and 15 for further details.

**NOMURA INTERNATIONAL PLC**
**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**
**11 TANGIBLE ASSETS**

|                                  | <u>Construction<br/>In Progress</u><br>\$'000 | <u>Long<br/>Leasehold</u><br>\$'000 | <u>Furniture &amp;<br/>Equipment</u><br>\$'000 | <u>ROU Assets -<br/>Buildings</u><br>\$'000 | <u>Total</u><br>\$'000 |
|----------------------------------|---|-------------------------------------|--|---|------------------------|
| <b>Cost</b>                      |   |                                     |  |   |                        |
| At 1 April 2019                  | 56  | 9,563                               | 235,597  | -   | 245,216                |
| IFRS 16 Transition<br>Adjustment | -   | -                                   | -  | 106,439                                     | 106,439                |
| Additions                        | 52  | 3                                   | 3,518  | 6,008                                       | 9,581                  |
| Disposals                        | -   | -                                   | (19)   | (4,222)                                     | (4,241)                |
| Others                           | (105)   | 105                                 | (148)  | (25)  | (173)                  |
| At 31 March 2020                 | 3   | 9,671                               | 238,948  | 108,200                                     | 356,822                |
| <b>Depreciation</b>              |   |                                     |  |   |                        |
| At 1 April 2019                  | -   | 5,334                               | 227,856  | -   | 233,190                |
| Charged during the<br>year       | -   | 1,014                               | 3,105  | 35,828                                      | 39,947                 |
| Disposals                        | -   | -                                   | (13)   | (17)  | (30)                   |
| Others                           | -   | -                                   | (3)  | -   | (3)                    |
| At 31 March 2020                 | -   | 6,348                               | 230,945  | 35,811                                      | 273,104                |
| <b>Carrying Amount</b>           |   |                                     |  |   |                        |
| At 31 March 2020                 | 3   | 3,323                               | 8,003  | 72,389                                      | 83,718                 |
| At 31 March 2019                 | 56  | 4,229                               | 7,741  | -   | 12,026                 |

**12 INTANGIBLE ASSETS**

|                         | <u>Software</u><br>\$'000 | <u>Total</u><br>\$'000 |
|-------------------------|---------------------------|------------------------|
| <b>Cost</b>             |                           |                        |
| At 1 April 2019         | 91,883                    | 91,883                 |
| Additions               | 10,894                    | 10,894                 |
| Disposals               | -                         | -                      |
| At 31 March 2020        | 102,777                   | 102,777                |
| <b>Amortisation</b>     |                           |                        |
| At 1 April 2019         | 89,609                    | 89,609                 |
| Charged during the year | 1,928                     | 1,928                  |
| At 31 March 2020        | 91,537                    | 91,537                 |
| <b>Carrying Amount</b>  |                           |                        |
| At 31 March 2020        | 11,240                    | 11,240                 |
| At 31 March 2019        | 2,274                     | 2,274                  |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 13 INVESTMENT IN SUBSIDIARIES

|                        | \$'000    |
|------------------------|-----------|
| <b>Cost</b>            |           |
| At 1 April 2019        | 22        |
| Impairment             | -         |
| Others                 | (1)       |
| At 31 March 2020       | <u>21</u> |
| <b>Carrying amount</b> |           |
| At 31 March 2020       | <u>21</u> |
| At 31 March 2019       | <u>22</u> |

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

| Subsidiary undertaking                                 | Nature of business         | Company address   | Proportion of voting rights & ordinary share capital held |
|--|----------------------------|---|---|
| Nomura PB Nominees Limited                             | Investment                 | 1 Angel Lane, London EC4R 3AB, U.K.                                 | 100%  |
| Nomura Custody Nominee Limited                         | Investment                 | 1 Angel Lane, London EC4R 3AB, U.K.                                 | 100%  |
| Nomura D1 Nominee Limited                              | Investment                 | 1 Angel Lane, London EC4R 3AB, U.K.                                 | 100%  |
| Nomura Derivatives Clearing Nominee Limited            | Dissolved on 17 March 2020 | 1 Angel Lane, London EC4R, London EC4R 3AB, U.K.                    | 100%  |
| Nomura PB Beneficial Ownership Markets Limited         | Dissolved on 18 Feb 2020   | 1 Angel Lane, London EC4R 3AB, U.K.                                 | 100%  |
| Nomura Clearance and Settlement Nominees Limited       | Investment                 | 1 Angel Lane, London EC4R 3AB, U.K.                                 | 100%  |
| Nomura RPS Limited                                     | Investment adviser         | 1 Angel Lane, London EC4R 3AB, U.K.                                 | 100%  |
| Nomura Employment Services (Isle of Man) Limited       | Dormant                    | 1st Floor, Sixty Circular Road, Douglas, Isle of Man                | 100%  |
| Nomura Nominees Limited                                | Custody                    | 1 Angel Lane, London EC4R 3AB, U.K.                                 | 100%  |
| Nomura.com Limited                                     | Dormant                    | 1 Angel Lane, London EC4R 3AB, U.K.                                 | 100%  |
| IBJ Nomura Financial Products (U.K.) plc               | Company in liquidation     | PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT | 100%  |
| Nomura London Retirement Benefits Plan Trustee Limited | Corporate Trustee          | 1 Angel Lane, London EC4R 3AB, U.K.                                 | 100%  |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 13 INVESTMENT IN SUBSIDIARIES (continued)

| Subsidiary undertaking  | Nature of business     | Company address   | Proportion of voting rights & ordinary share capital held |
|---|------------------------|---|---|
| Nomura Investments (AH) Limited                                     | Company in liquidation | 1 Royal Plaza, Royal Avenue, St Peter Port, Guernsey, GY1 2HL | 99.99%  |
| Nomura Private Equity Investment GP Limited                         | Company in liquidation | 1 Angel Lane, London, EC4R 3AB, United Kingdom                | 100%  |
| Nomura Investment Solutions PLC-Nomura Equity Volatility Fund       | Investment             | Beaux Lane House Mercer Street, Lower Dublin 2, Ireland       | 42.35%  |
| Nomura Investment Solutions PLC-Nomura Fixed INC Risk               | Investment             | Beaux Lane House Mercer Street, Lower Dublin 2, Ireland       | 46.77%  |
| Nomura Nikkei 225 EUR-Hedged ETF                                    | Investment             | Beaux Lane House Mercer Street, Lower Dublin 2, Ireland       | 60%   |
| Nomura Nikkei 225 USD-Hedged ETF                                    | Investment             | Beaux Lane House Mercer Street, Lower Dublin 2, Ireland       | 79%   |
| Nomura Index Fund JPX Nikkei 400-EUR                                | Investment             | Beaux Lane House Mercer Street, Lower Dublin 2, Ireland       | 85%   |
| Nomura Index Fund JPX Nikkei 400-USD                                | Investment             | Beaux Lane House Mercer Street, Lower Dublin 2, Ireland       | 85%   |
| Novus Capital Plc, Series 2012-23, 2017-44 and 2020-30              | Securitisation         | 11/12 Warrington Place, 2nd Floor Dublin 2, Ireland           | 100%  |
| Sylph 1012, 1014, 1686, 1687, 1738, 1811, 1855, 1881, 1922 and 2001 | Securitisation         | South Church Street, Uglan House, George Town, KY1-1104       | 100%  |
| Titanium Secured Obligations DAC                                    | Securitisation         | Fourth Floor, 3 George's Dock, IFSC, Dublin 1, Ireland        | 100%  |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 14 INVESTMENT IN GROUP COMPANIES

|                        | <b>\$'000</b> |
|------------------------|---------------|
| <b>Cost</b>            |               |
| At 1 April 2019        | 12,925        |
| Additions              | -             |
| Disposals              | -             |
| Other                  | 176           |
| At 31 March 2020       | <u>13,101</u> |
| <b>Carrying amount</b> |               |
| At 31 March 2020       | <u>13,101</u> |
| At 31 March 2019       | <u>12,925</u> |

#### 15 OTHER CREDITORS

|   | <b>2020</b>       | <b>2019</b>       |
|---|-------------------|-------------------|
|   | <b>\$'000</b>     | <b>\$'000</b>     |
| Short-term borrowings                               | 3,965,266         | 5,336,459         |
| Overdrafts  | 340,542           | 93,546            |
| Trade creditors                                     | 3,606,131         | 3,823,263         |
| Broker balances                                     | 29,993,480        | 26,980,549        |
| Other tax and social security payable               | 15,219            | 32,205            |
| Accrued interest and dividends payable <sup>1</sup> | 95,527            | 167,050           |
| Accruals and deferred income                        | 509,783           | 481,420           |
| Lease liabilities                                   | 68,022            | -                 |
|   | <u>38,593,970</u> | <u>36,914,492</u> |

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

|   | <b>2020</b>       | <b>2019</b>       |
|---|-------------------|-------------------|
|   | <b>\$'000</b>     | <b>\$'000</b>     |
| Short-term borrowings                               | 3,600,108         | 4,778,715         |
| Trade creditors                                     | 202,699           | 162,517           |
| Broker balances                                     | 16,345,944        | 14,340,011        |
| Accrued interest and dividends payable <sup>1</sup> | 31,127            | 62,358            |
| Accruals and deferred income                        | 173,394           | 99,432            |
|   | <u>20,353,272</u> | <u>19,443,033</u> |

<sup>1</sup>The Company now determines negative interest amounts at a currency level which were previously determined at a financial product level and accordingly 2019 accrued interest and dividends payable includes a presentation reclassification of \$82m relating to accrued interest and dividends payable of \$46m and accrued interest and dividends receivable in other debtors of \$36m. Included within the presentation reclassification, \$20m relates to fellow Nomura Group undertakings making up of \$9m accrued interest and dividends payable and \$11m accrued interest and dividends receivable in other debtors. Refer to Notes 1(f), 8 and 10 for further details.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

|                                  | <u>2020</u><br>\$'000 | <u>2019</u><br>\$'000 |
|----------------------------------|-----------------------|-----------------------|
| Borrowings and other liabilities | 1,123,025             | 89,179                |
| Subordinated debt                | 1,260,000             | 1,260,000             |
|                                  | <u>2,383,025</u>      | <u>1,349,179</u>      |

Included within creditor balances above are 2020: \$2,369,724,300 (2019: \$1,321,938,967) of balances due to fellow Nomura Group undertakings.

#### **Borrowings and other liabilities**

In compliance with the MREL requirement highlighted in Strategic Report under Regulatory update, the issued \$1.05bn senior debt to its parent entity NEHS in December 2019, with the below term:

Nomura Europe Holdings plc                      19 Dec 2022                      LIBOR + 1.40%

#### **Subordinated debt agreements**

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

| <b>Long term</b>           | <u>Repayment</u><br><u>date</u> | <u>2020</u><br>\$'000 | <u>2019</u><br>\$'000 |
|----------------------------|---------------------------------|-----------------------|-----------------------|
| Nomura Europe Holdings plc | 23 Apr 2025                     | -                     | 600,000               |
| Nomura Europe Holdings plc | 23 Apr 2025                     | -                     | 460,000               |
| Nomura Europe Holdings plc | 17 May 2025                     | -                     | 200,000               |
| Nomura Europe Holdings plc | 18 Dec 2026                     | 1,260,000             | -                     |
|                            |                                 | <u>1,260,000</u>      | <u>1,260,000</u>      |

The legal nature of the subordinated loan 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 interest rates on the subordinated loan are based on local inter bank borrowing rates and include a margin to reflect the subordination. Rates are generally fixed quarterly.

The rate of interest applicable to the loan with maturity greater than five years are as follows:

Nomura Europe Holdings plc                      18 Dec 2026                      LIBOR + 1.86%

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**17 SHARE CAPITAL**

|                                       | <u>Number</u><br><u>'000</u> | <u>Fully paid</u><br><u>consideration</u><br><u>\$'000</u> |
|---------------------------------------|------------------------------|--|
| <b>2020</b>                           |                              |  |
| <b>Authorised</b>                     |                              |  |
| US Dollar Ordinary shares of \$1 each | 11,241,227                   | 11,241,227   |
| <b>Shares issued and fully paid</b>   |                              |  |
| US Dollar Ordinary shares of \$1 each | 11,241,227                   | 11,241,227   |
| <b>2019</b>                           |                              |  |
| <b>Authorised</b>                     |                              |  |
| US Dollar Ordinary shares of \$1 each | 10,241,227                   | 10,241,227   |
| <b>Shares issued and fully paid</b>   |                              |  |
| US Dollar Ordinary shares of \$1 each | 10,241,227                   | 10,241,227   |

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

|                                       | <u>31 March 2019</u><br><u>\$'000</u> | <u>Number Issued during the</u><br><u>year</u><br><u>'000</u> | <u>31 March 2020</u><br><u>\$'000</u> |
|---------------------------------------|---------------------------------------|---|---------------------------------------|
| <b>2020</b>                           |                                       |   |                                       |
| US dollar Ordinary shares of \$1 each | 10,241,226,555                        | 1,000,000,000   | 11,241,226,555                        |
| <b>2019</b>                           |                                       |   |                                       |
|                                       | <u>31 March 2018</u><br><u>\$'000</u> | <u>Number Issued during the</u><br><u>year</u><br><u>'000</u> | <u>31 March 2019</u><br><u>\$'000</u> |
| US dollar Ordinary shares of \$1 each | 10,241,226,555                        | -   | 10,241,226,555                        |

During the year, the Company issued 1,000,000,000 ordinary shares of \$1 each in three tranches to NEHS on 29 August 2019, 30 October 2019 and 30 March 2020 for 250,000,000, 250,000,000 and 500,000,000 ordinary shares respectively.



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 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 to, 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 the Company to publish both Pillar 3 and country by country reporting disclosures. This information has been made publically available on the below website:

<http://www.nomuraholdings.com/company/group/europe>

#### **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. The Board Risk Committee, as delegated by the Board, ensures an effective internal control and risk management environment is maintained in respect of all the risks impacting the NEHS Group:

- 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 2020 (CONTINUED)

#### 18 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 Board Risk Committee (“BRC”) 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 Risk Management Committee is established and chaired by the NEHS Chief Risk Officer (“CRO”) and is primarily responsible for monitoring and controlling market risk and credit risk for the NEHS Group, including the Company. Operational Risk is monitored by the Non-Financial Risk Committee.
- The Non-Financial Risk Committee is responsible for implementation and management of an effective Non-Financial Risk (NFR) framework and for monitoring the consistent application of the NFR Framework by owners of NFRs for the NEHS Group.
- Operational Risk Management (“ORM”), a part of the Compliance division, is responsible for defining and coordinating the Company’s operational risk framework and its implementation and provides challenge to the 1st line of defence. The EMEA Head of ORM reports to the NEHS Head of Compliance.
- Three lines of defence (LOD) risk governance model is adopted to ensure roles and responsibilities for the management of risk throughout the Company are clearly defined, communicated and widely understood. First LOD responsibilities are embedded across all functions as their activities give rise to some risks, e.g. non-financial risks. The second LOD functions provide objective review and challenge to the first LOD: these include, but are not limited to, the Risk Management Division (for Financial Risks except Liquidity Risk), the Legal, Compliance and Controls (LCC) Division (for Non-Financial Risks), and the Finance Division (for Liquidity Risk). The third LOD provides independent assurance on the activities of the first and second LODs. This consists of the Company’s Internal Audit function.
- 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;
- 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;
- 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 2020 (CONTINUED)

#### 18 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, independently from those who design and build them

The EMEA Heads of MRM, CRM, and NBG report to the NEHS CRO.

The NEHS CRO is also member of the Global Risk Analytics Committee ("GRAC") and Model Risk Analytics Committee ("MRAC"). 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 is part of Finance, reporting to the Chief Financial Officer (CFO), and operates purely as a cost-centre - managing access to unsecured funding and making this available to the business, at cost. Treasury is responsible for assessing and monitoring liquidity risks, and ensuring appropriate liquidity reserves are held to protect against modelled outflows in stress.

The Treasury funding team are responsible for maintaining a sufficient Liquidity Portfolio, held in the form of highly liquid, unencumbered securities and central bank deposits.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Risk management structure (Continued)

###### *Internal Audit Division*

The Nomura Group Internal Audit Department has responsibility to examine, evaluate and raise issues 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 actions, target dates and responsible owners to the relevant Audit Committee(s), Senior Management and Line Management as appropriate.

The statuses of outstanding issues are reviewed regularly and reported to management periodically. Internal Audit also performs validation work for issues which management represents as having been completed, again using a risk based approach.

The Audit Committee, a sub-committee of 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.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Risk Appetite

NEHS Group's capacity to take risk ('risk capacity') is determined by what constraints there are on the business; these include the available financial resources (for example regulatory capital and liquidity) and business conditions. NEHS Group's 'risk appetite' provides an expression of how much risk the Company is prepared to take within that risk capacity to support the business plan and strategy.

The risk appetite and risk limits for the NEHS Group, including the Company, includes the following topics: capital adequacy, liquidity risk, market and credit risk, cross-border risk, model risk and non-financial risk.

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, regulatory P&L, stressed capital 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 event risk.

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 statement must be reviewed and updated at the beginning of each financial year in conjunction with the annual business planning process, and may also be reviewed and revised at any time in response to emerging risks or to significant changes in business and economic conditions, business strategy, competitive conditions or regulatory requirements.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 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 Company is 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, 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.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Market Risk (continued)

##### 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.

##### **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 BRC. The BRC 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.

##### *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. For regulatory capital calculation and backtesting process, the higher of weighted and unweighted VaR is used, whereas for internal risk management purposes the weighted VaR is used.



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Market Risk (continued)

##### A Market Risk - Trading (continued)

###### *VaR Methodology Assumptions (continued)*

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 Nomura group level, while a window that is specific to NEHS is used for regulatory reporting.

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 once every two days. The stress period used in SVaR model is the optimal one-year window, which is calibrated daily 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.

###### *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.



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Market Risk (continued)

##### A Market Risk - Trading (continued)

##### *VaR Backtesting (continued)*

1-day trading losses exceeded the 99% VaR estimate on five occasions for the Company for the year ended 31 March 2020. However, out of the 10 exceptions over the past 250 days, 5 were recorded in the month of March 2020 on account of Covid-19 related volatility. These were excluded from the exception count as per the statement on VaR Backtesting Exceptions temporary approach issued by the PRA on 30 March 2020. Refer to Note 31 for further information regarding COVID-19 impact on the Company.

##### *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 2020 and 31 March 2019. It shows the highest, lowest and average VaR during the financial year.

|                       | <b>Average VaR</b> | <b>Min VaR</b> | <b>Max VaR</b> | <b>Average VaR</b> | <b>Min VaR</b> | <b>Max VaR</b> |
|-----------------------|--------------------|----------------|----------------|--------------------|----------------|----------------|
|                       | <b>2020</b>        | <b>2020</b>    | <b>2020</b>    | <b>2019</b>        | <b>2019</b>    | <b>2019</b>    |
|                       | <b>\$'000</b>      | <b>\$'000</b>  | <b>\$'000</b>  | <b>\$'000</b>      | <b>\$'000</b>  | <b>\$'000</b>  |
| Equity VaR            | 1,094              | 357            | 3,730          | 1,596              | 319            | 7,021          |
| Credit VaR            | 9,068              | 3,443          | 45,628         | 3,281              | 2,462          | 5,091          |
| Interest Rates VaR    | 3,208              | 1,702          | 6,767          | 3,557              | 2,153          | 6,553          |
| Inflation VaR         | 319                | 216            | 439            | 378                | 231            | 516            |
| FX VaR                | 1,101              | 501            | 7,192          | 2,000              | 948            | 12,162         |
| Commodity VaR         | 17                 | -              | 267            | 24                 | 1              | 177            |
| Diversification/other | (5,958)            | -              | -              | (5,625)            | -              | -              |
| <b>Total</b>          | <b>8,849</b>       | <b>3,213</b>   | <b>36,255</b>  | <b>5,211</b>       | <b>3,502</b>   | <b>14,952</b>  |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Market Risk (continued)

##### A Market Risk - Trading (continued)

###### *Limitations and Advantages of VaR (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 2020 was higher than previous year following an increase in the Credit VaR. The increase in the Max 1d VaR was driven by increased market volatility and significant widening of credit spreads amidst the Covid-19 outbreak. 1d VaR, however, decreased after the loan time series return calculation methodology was changed from relative based shocks to absolute shocks.

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 2020 (CONTINUED)

#### 18 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 stress test limits to constrain the interest rate risk taken by non-trading books. Positions are monitored on a regular basis and hedging strategies may be implemented to ensure that the risk is maintained within the established limits.

###### *Currency risk*

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, achieved using currency swap transactions. This is undertaken in accordance with approved market risk limits.

##### 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, 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.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Credit Risk (continued)

##### B Credit Risk Measures (continued)

For derivative 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 funded and unfunded basis.

##### 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 BRC. 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 2020 (CONTINUED)

#### 18 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.

Give the potential for loss resulting from unsecured exposures, as a general rule, all extensions of credit by the Company should be collateralised. 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 2020 (CONTINUED)**

**18 RISK MANAGEMENT (continued)**

**Credit Risk (continued)**

**Credit Risk Exposure**

The Company's maximum exposure to credit risk at the balance sheet date is disclosed in the table below, based on the carrying amount of the financial assets the Company believes are 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 mandatorily 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.

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.

|   | <b>Maximum<br/>Exposure to<br/>Credit Risk<br/>(gross basis)</b> | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> |
|---|--|----------------|----------------|----------------|
| <b>2020</b>   | <b>\$'m</b>  | <b>\$'m</b>    | <b>\$'m</b>    | <b>\$'m</b>    |
| Financial assets held for trading                                     | 176,749  | -              | -              | -              |
| Collateral posted for securities purchased under agreements to resell | 75,224   | -              | -              | -              |
| Collateral posted for securities borrowed                             | 11,979   | -              | -              | -              |
| Other debtors   | 21,952   | 18,920         | 121            | 68             |
| Investment time deposits  | 258  | 192            | -              | -              |
| Cash and cash equivalent  | 2,692  | 2,692          | -              | -              |
| Financial investments   | 19   | -              | -              | -              |
|   | <b>288,873</b>   | <b>21,804</b>  | <b>121</b>     | <b>68</b>      |
| Commitments and financial guarantees                                  | 4,407  | 759            | 24             | -              |
|   | <b>293,280</b>   | <b>22,563</b>  | <b>145</b>     | <b>68</b>      |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Credit Risk (continued)

|   | Maximum<br>Exposure to<br>Credit Risk<br>(gross basis)<br>\$'m | Stage 1<br>\$'m | Stage 2<br>\$'m | Stage 3<br>\$'m |
|---|--|-----------------|-----------------|-----------------|
| <b>2019</b>   |  |                 |                 |                 |
| Financial assets held for trading <sup>1</sup>  | 132,563  | -               | -               | -               |
| Collateral posted for securities purchased<br>under agreements to resell <sup>1</sup> | 79,451   | -               | -               | -               |
| Collateral posted for securities borrowed   | 9,354  | -               | -               | -               |
| Other debtors <sup>2</sup>  | 19,460   | 17,069          | 20              | -               |
| Investment time deposits  | 173  | -               | -               | -               |
| Cash and cash equivalent  | 2,981  | 2,981           | -               | -               |
| Financial investments   | 18   | -               | -               | -               |
|   | <u>244,000</u>   | <u>20,050</u>   | <u>20</u>       | <u>-</u>        |
| Commitments and financial guarantees  | 3,223  | 943             | 11              | -               |
|   | <u>247,223</u>   | <u>20,993</u>   | <u>31</u>       | <u>-</u>        |

<sup>1</sup>2019 includes presentational reclassifications upon accounting policy change in combination of financial instruments, refer to Notes 1(j) and 8 for further details.

<sup>2</sup>2019 includes presentational reclassifications between other debtors/creditors upon change in determination of negative interest, refer to Notes 1(f), 8, 10 and 15 for further details.

**NOMURA INTERNATIONAL PLC**
**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**
**18 RISK MANAGEMENT (continued)**
**Credit Risk (continued)**
**2020**

| <b>Credit loss allowance</b>         | <b>Stage 1<br/>\$'m</b> | <b>Stage 2<br/>\$'m</b> | <b>Stage 3<br/>\$'m</b> | <b>Total<br/>\$'m</b> |
|--------------------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| Other debtors                        | (4.6)                   | (12.6)                  | (25.4)                  | (42.6)                |
| Commitments and financial guarantees | (1.4)                   | (0.3)                   | -                       | (1.7)                 |
|                                      | <u>(6.0)</u>            | <u>(12.9)</u>           | <u>(25.4)</u>           | <u>(44.3)</u>         |

**2019**

| <b>Credit loss allowance</b>         | <b>Stage 1<br/>\$'m</b> | <b>Stage 2<br/>\$'m</b> | <b>Stage 3<br/>\$'m</b> | <b>Total<br/>\$'m</b> |
|--------------------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| Other debtors                        | (1.1)                   | (1.2)                   | -                       | (2.3)                 |
| Commitments and financial guarantees | (0.1)                   | (1.2)                   | -                       | (1.3)                 |
|                                      | <u>(1.2)</u>            | <u>(2.4)</u>            | <u>-</u>                | <u>(3.6)</u>          |

**Movements in credit loss allowances**

|  | <b>Stage 1<br/>\$'m</b> | <b>Stage 2<br/>\$'m</b> | <b>Stage 3<br/>\$'m</b> | <b>Total<br/>\$'m</b> |
|--|-------------------------|-------------------------|-------------------------|-----------------------|
| Credit loss allowance at 1 April 2019  | (1.2)                   | (2.4)                   | -                       | (3.6)                 |
| Transfer:                              |                         |                         |                         |                       |
| to stage 1                             | (1.2)                   | 1.2                     | -                       | -                     |
| to stage 2                             | 1.0                     | (1.0)                   | -                       | -                     |
| to stage 3                             | 0.5                     | 0.8                     | (1.3)                   | -                     |
| Credit impairment (charge) / release   |                         |                         |                         |                       |
| - new assets originated or purchased   | (1.9)                   | -                       | -                       | (1.9)                 |
| - change in credit risk                | (3.2)                   | (11.5)                  | (24.1)                  | (38.8)                |
|  | <u>(5.1)</u>            | <u>(11.5)</u>           | <u>(24.1)</u>           | <u>(40.7)</u>         |
| Credit loss allowance at 31 March 2020 | <u>(6.0)</u>            | <u>(12.9)</u>           | <u>(25.4)</u>           | <u>(44.3)</u>         |



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Credit Risk (continued)

The credit quality of financial assets and off balance sheet commitments which are subject to credit risk is summarised below. The credit ratings are determined by the Company's internally determined public rating agency equivalents.

| Credit Rating   | Maximum Exposure<br>to Credit Risk | Maximum Exposure<br>to Credit Risk |
|---|------------------------------------|------------------------------------|
|   | 2020<br>\$'m                       | 2019 <sup>1</sup><br>\$'m          |
| AAA   | 4,166                              | 4,397                              |
| AA  | 35,169                             | 36,127                             |
| A   | 66,934                             | 148,269                            |
| BBB   | 146,144                            | 23,588                             |
| Non-Investment grade  | 32,094                             | 29,224                             |
| Unrated   | 4,366                              | 2,395                              |
| Off-balance sheet commitments and financial guarantee contracts |                                    |                                    |
| AA  | 358                                | 85                                 |
| A   | 151                                | 473                                |
| BBB   | 1,469                              | 1,390                              |
| Non-Investment grade  | 771                                | 1,117                              |
| Unrated   | 1,658                              | 158                                |
|   | <u>293,280</u>                     | <u>247,223</u>                     |

<sup>1</sup>2019 includes presentational reclassifications upon accounting policy change in combination of financial instruments, refer to Note 1(j) and 8 for further details and reclassifications between other debtors/creditors upon change in determination of negative interest, refer to Notes 1(f), 8, 10 and 15 for further details.

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 \$112 billion (2019: \$107 billion) and is rated using the Nomura Group's credit rating of BBB (2019: 'A').

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Liquidity Risk

##### *Liquidity Risk Management*

The Company's approach to liquidity risk management is founded on the 3 lines of defence principle, ensuring a clear ownership and strong connection between the business (1st line), Treasury (2nd line) and Internal Audit / governance committees (3rd line) both globally and locally.

The Company's primary Liquidity Risk Management objective is to ensure continuous liquidity across market cycles and periods of market and idiosyncratic stress, ensuring that all contractual and modelled funding requirements and unsecured debt obligations that fall due within Board-established survival horizons and risk appetite, can be met without any reliance on sourcing additional unsecured funding or forced liquidation of assets.

The MCO (Maximum Cumulative Outflow model) is Nomura's primary tool to measure and monitor liquidity risk on a daily basis, defining the level of liquid assets required to meet contractual and contingent liquidity needs in the event of a stress. The MCO incorporates consistent assumptions at an entity, regional and global level, modelling stressed liquidity outflows over three scenarios of increasing severity, ranging from normal business conditions to a combination of both a market-wide and Nomura-specific liquidity stress.

The Company as a U.K. regulated entity is fully compliant with the U.K. PRA prescribed liquidity requirements.

##### *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. Other creditors include cash collateral received on certain affiliate derivatives presented as on demand, being the earliest possible contractual payment date subject to both parties agreeing, furthermore any repayment of these amounts would be contractually replaced by longer term unsecured funding by other group companies. Financial liabilities designated at fair value are disclosed based on their earliest redemption date.

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**18 RISK MANAGEMENT (continued)**

**Liquidity Risk (continued)**

**Contractual Maturity Table (continued)**

|  | <u>On demand</u> | <u>Less than 30 days</u> | <u>31 - 90 days</u> | <u>91 days - 1 year</u> | <u>1 - 5 years</u> | <u>Later than 5 years</u> | <u>Total</u> |
|--|------------------|--------------------------|---------------------|-------------------------|--------------------|---------------------------|--------------|
|  | \$'m             | \$'m                     | \$'m                | \$'m                    | \$'m               | \$'m                      | \$'m         |
| <b>2020</b>  |                  |                          |                     |                         |                    |                           |              |
| Financial liabilities held for trading - derivatives                   | 137,827          | 7,457                    | 4,797               | 6,840                   | 5,150              | 374                       | 162,445      |
| Financial liabilities held for trading - non derivatives               | 8,576            | -                        | -                   | -                       | -                  | -                         | 8,576        |
| Collateral received for securities sold under agreements to repurchase | 17,906           | 38,148                   | 3,113               | 4,014                   | 775                | -                         | 63,956       |
| Collateral received for securities loaned                              | 7,283            | 73                       | 78                  | -                       | -                  | -                         | 7,434        |
| Other creditors - non lease liabilities                                | 38,287           | -                        | -                   | -                       | -                  | -                         | 38,287       |
| Other creditors - lease liabilities                                    | -                | 4                        | 7                   | 26                      | 28                 | 3                         | 68           |
| Creditors (amounts falling due after more than one year)               | -                | -                        | -                   | -                       | 1,123              | 1,260                     | 2,383        |
|  | 209,879          | 45,682                   | 7,995               | 10,880                  | 7,076              | 1,638                     | 283,149      |
| Other commitments  | -                | 1,652                    | 125                 | 15                      | 792                | 1,823                     | 4,407        |
| Total exposure to liquidity risk                                       | 209,879          | 47,334                   | 8,120               | 10,894                  | 7,868              | 3,461                     | 287,556      |

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**18 RISK MANAGEMENT (continued)**

**Liquidity Risk (continued)**

**Contractual Maturity Table (continued)**

|   | <u>On demand</u> | <u>Less than 30 days</u> | <u>31 - 90 days</u> | <u>91 days - 1 year</u> | <u>1 - 5 years</u> | <u>Later than 5 years</u> | <u>Total</u>   |
|---|------------------|--------------------------|---------------------|-------------------------|--------------------|---------------------------|----------------|
|   | \$'m             | \$'m                     | \$'m                | \$'m                    | \$'m               | \$'m                      | \$'m           |
| <b>2019</b>   |                  |                          |                     |                         |                    |                           |                |
| Financial liabilities held for trading - derivatives <sup>1</sup>                   | 111,907          | 2,181                    | 2,721               | 3,373                   | 1,151              | 123                       | 121,456        |
| Financial liabilities held for trading - non derivatives <sup>1</sup>               | 9,371            | -                        | -                   | -                       | -                  | -                         | 9,371          |
| Collateral received for securities sold under agreements to repurchase <sup>1</sup> | 12,611           | 45,420                   | 2,654               | 4,414                   | 1,150              | -                         | 66,249         |
| Collateral received for securities loaned   | 3,932            | -                        | 80                  | -                       | -                  | -                         | 4,012          |
| Other creditors - non lease liabilities <sup>2</sup>                                | 36,684           | -                        | -                   | -                       | -                  | -                         | 36,684         |
| Other creditors - lease liabilities   | -                | -                        | -                   | -                       | -                  | -                         | -              |
| Creditors (amounts falling due after more than one year)                            | -                | -                        | -                   | -                       | 89                 | 1,260                     | 1,349          |
|   | <u>174,505</u>   | <u>47,601</u>            | <u>5,455</u>        | <u>7,787</u>            | <u>2,390</u>       | <u>1,383</u>              | <u>239,121</u> |
| Other commitments   | -                | 542                      | -                   | -                       | 1,242              | 1,439                     | 3,223          |
| Total exposure to liquidity risk  | <u>174,505</u>   | <u>48,143</u>            | <u>5,455</u>        | <u>7,787</u>            | <u>3,632</u>       | <u>2,822</u>              | <u>242,344</u> |

<sup>1</sup>2019 includes presentational reclassifications upon accounting policy change in combination of financial instruments, refer to Notes 1(j) and 8 for further details.

<sup>2</sup>2019 includes presentational reclassifications between other debtors/creditors upon change in determination of negative interest, refer to Notes 1(f), 8, 10 and 15 for further details.

**NOMURA INTERNATIONAL PLC**
**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**
**18 RISK MANAGEMENT (continued)**
**Liquidity Risk (continued)**
***Contractual Maturity Table (continued)***

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<br/>demand</u> | <u>Less<br/>than 30<br/>days</u> | <u>31 - 90<br/>days</u> | <u>91 days<br/>- 1 year</u> | <u>1 - 5<br/>years</u> | <u>Later<br/>than 5<br/>years</u> | <u>Total</u>   |
|---|----------------------|----------------------------------|-------------------------|-----------------------------|------------------------|-----------------------------------|----------------|
|   | \$'m                 | \$'m                             | \$'m                    | \$'m                        | \$'m                   | \$'m                              | \$'m           |
| <b>2020</b>   |                      |                                  |                         |                             |                        |                                   |                |
| Cash and cash equivalent  | 2,692                | -                                | -                       | -                           | -                      | -                                 | 2,692          |
| Financial investments   | 19                   | -                                | -                       | -                           | -                      | -                                 | 19             |
| Financial assets held for trading - derivatives                       | 138,771              | 7,981                            | 4,956                   | 6,759                       | 5,212                  | 376                               | 164,055        |
| Financial assets held for trading - non derivatives                   | 12,695               | -                                | -                       | -                           | -                      | -                                 | 12,695         |
| Collateral posted for securities purchased under agreements to resell | 18,891               | 42,262                           | 8,188                   | 3,268                       | 2,528                  | 86                                | 75,224         |
| Collateral posted for securities borrowed                             | 10,164               | 1,611                            | -                       | 204                         | -                      | -                                 | 11,979         |
| Other debtors   | 21,909               | -                                | -                       | -                           | -                      | -                                 | 21,909         |
| Investment time deposits  | 148                  | -                                | 110                     | -                           | -                      | -                                 | 258            |
| Total exposure to liquidity risk                                      | <u>205,289</u>       | <u>51,854</u>                    | <u>13,254</u>           | <u>10,231</u>               | <u>7,740</u>           | <u>462</u>                        | <u>288,830</u> |

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**18 RISK MANAGEMENT (continued)**

**Liquidity Risk (continued)**

**Contractual Maturity Table (continued)**

|  | <u>On demand</u> | <u>Less than 30 days</u> | <u>31 - 90 days</u> | <u>91 days - 1 year</u> | <u>1 - 5 years</u> | <u>Later than 5 years</u> | <u>Total</u>   |
|--|------------------|--------------------------|---------------------|-------------------------|--------------------|---------------------------|----------------|
|  | \$'m             | \$'m                     | \$'m                | \$'m                    | \$'m               | \$'m                      | \$'m           |
| <b>2019</b>  |                  |                          |                     |                         |                    |                           |                |
| Cash and cash equivalent   | 2,981            | -                        | -                   | -                       | -                  | -                         | 2,981          |
| Financial investments  | 18               | -                        | -                   | -                       | -                  | -                         | 18             |
| Financial assets held for trading - derivatives <sup>1</sup>                       | 100,687          | 3,829                    | 3,773               | 6,474                   | 4,641              | 714                       | 120,118        |
| Financial assets held for trading - non derivatives <sup>1</sup>                   | 12,445           | -                        | -                   | -                       | -                  | -                         | 12,445         |
| Collateral posted for securities purchased under agreements to resell <sup>1</sup> | 9,750            | 52,995                   | 10,400              | 3,869                   | 2,162              | 275                       | 79,451         |
| Collateral posted for securities borrowed  | 4,016            | 5,151                    | 187                 | -                       | -                  | -                         | 9,354          |
| Other debtors <sup>2</sup>   | 19,458           | -                        | -                   | -                       | -                  | -                         | 19,458         |
| Investment time deposits   | 173              | -                        | -                   | -                       | -                  | -                         | 173            |
| <b>Total exposure to liquidity risk</b>  | <b>149,528</b>   | <b>61,975</b>            | <b>14,360</b>       | <b>10,343</b>           | <b>6,803</b>       | <b>989</b>                | <b>243,998</b> |

<sup>1</sup>2019 includes presentational reclassifications upon accounting policy change in combination of financial instruments, refers to Notes 1(j) and 8 for further details.

<sup>2</sup>2019 includes presentational reclassifications between other debtors/creditors upon change in determination of negative interest, refer to Notes 1(f), 8, 10 and 15 for further details.

**Maturity analysis of assets and liabilities**

The table on next page shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

**NOMURA INTERNATIONAL PLC**
**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**
**18 RISK MANAGEMENT (continued)**
**Maturity analysis of assets and liabilities (continued)**

|  | Within 12<br>months<br><u>2020</u><br>\$'m | After 12<br>months<br><u>2020</u><br>\$'m | Total<br><u>2020</u><br>\$'m | Within 12<br>months<br><u>2019</u><br>\$'m | After 12<br>months<br><u>2019</u><br>\$'m | Total<br><u>2019</u><br>\$'m |
|--|--|---|------------------------------|--|---|------------------------------|
| Cash and cash equivalent   | 2,692                                      | -   | 2,692                        | 2,981                                      | -   | 2,981                        |
| Financial assets held for trading <sup>1</sup>                                     | 171,161                                    | 5,588                                     | 176,749                      | 127,208                                    | 5,355                                     | 132,563                      |
| Investment time deposits   | 258  | -   | 258                          | 173  | -   | 173                          |
| Current Tax receivable   | 4  | -   | 4                            | 4  | -   | 4                            |
| Collateral posted for securities purchased under agreements to resell <sup>1</sup> | 72,610                                     | 2,614                                     | 75,224                       | 77,014                                     | 2,437                                     | 79,451                       |
| Collateral posted for securities borrowed  | 11,979                                     | -   | 11,979                       | 9,354                                      | -   | 9,354                        |
| Other debtors <sup>2</sup>   | 22,084                                     | -   | 22,084                       | 19,664                                     | -   | 19,664                       |
| Financial investments  | 19   | -   | 19                           | 18   | -   | 18                           |
| Tangible Fixed Assets  | -  | 84  | 84                           | -  | 12  | 12                           |
| Intangible Fixed Assets  | -  | 11  | 11                           | -  | 2   | 2                            |
| Investment in subsidiaries   | -  | -   | -                            | -  | -   | -                            |
| Investment in group companies  | -  | 13  | 13                           | -  | 13  | 13                           |
| <b>Total Assets</b>  | <b>280,807</b>                             | <b>8,310</b>                              | <b>289,117</b>               | <b>236,416</b>                             | <b>7,820</b>                              | <b>244,236</b>               |
| Financial Liabilities held for trading <sup>1</sup>                                | 165,497                                    | 5,524                                     | 171,021                      | 129,553                                    | 1,274                                     | 130,827                      |
| Collateral received for securities sold under agreement to repurchase <sup>1</sup> | 63,181                                     | 775                                       | 63,956                       | 65,099                                     | 1,150                                     | 66,249                       |
| Collateral received for securities loaned  | 7,434                                      | -   | 7,434                        | 4,012                                      | -   | 4,012                        |
| Other creditors - non lease liabilities <sup>2</sup>                               | 38,527                                     | -   | 38,527                       | 36,915                                     | -   | 36,915                       |
| Other creditors - lease liabilities  | 37   | 31  | 68                           | -  | -   | -                            |
| Provisions   | 240  | -   | 240                          | 111  | -   | 111                          |
| Creditors (amounts falling due after more than one year)                           | -  | 2,383                                     | 2,383                        | -  | 1,349                                     | 1,349                        |
| <b>Total Liabilities</b>   | <b>274,916</b>                             | <b>8,713</b>                              | <b>283,629</b>               | <b>235,690</b>                             | <b>3,773</b>                              | <b>239,463</b>               |

<sup>1</sup>2019 includes presentational reclassifications upon accounting policy change in combination of financial instruments, refer to Notes 1(j) and 8 for further details. <sup>2</sup>2019 includes presentational reclassifications between other debtors/creditors upon change in determination of negative interest, refer to Notes 1(f), 8, 10 and 15 for further details.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### 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.

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.
- Policy framework: sets standards for managing operational risk and details how to monitor adherence to these standards.

##### *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.



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Operational Risk (continued)

###### *Outputs (continued)*

- Operational risk capital calculation: Calculate operational risk capital as required under applicable Basel standards and local regulatory requirements.

##### 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.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Climate Risk

The Company is aware of the impact climate change related risks including physical<sup>1</sup> and transition risks<sup>2</sup> can have on its businesses. Below are some of the assumed risks which can be classified as financial<sup>3</sup> or non-financial<sup>4</sup>:

##### *Physical risk*

- Damage to company facilities, interruptions to business and increased expenses due to major natural disasters
- Business partners suffering damages and a decline in their business due to natural disasters
- Loss of collateral value in asset-based finance transactions, e.g. real estate

##### *Transition risk*

- Price fluctuation in trading positions, etc., difficulty selling underwriting positions as climate change risk is integrated into the market
- Impact of stranded assets such as coal mines, oil fields and natural gas reserves, resulting in negative business performance and creditworthiness of clients and investments
- Reputational risk arising from project finance transactions, decreased opportunities for reselling
- Change in client needs and products becoming obsolete due to climate change, loss of competitive advantage in new product development
- Decrease in existing businesses due to changes in legislation and the regulatory environment, higher costs due to increased burden on capital, etc.

<sup>1</sup> Physical risk: risk of extreme weather events, fire and flooding caused by rising sea levels and other physical climate change factors damaging the assets or operating base of Nomura Group, our clients and business partners; risk of operational capabilities being impaired

<sup>2</sup> Transition risk: impact of accelerated regulations, new technologies, and other changes in external environment in the move to address climate change, on Nomura Group's operating environment (including damage to assets or businesses unable to respond to changes in government and industrial policies, introduction of carbon tax and rapid technological innovation)

<sup>3</sup> Financial risk: market risk, credit risk, model risk

<sup>4</sup> Non-financial risk: reputational risk, operational risk (including compliance risk and conduct risk)

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 18 RISK MANAGEMENT (continued)

##### Climate Risk (continued)

###### *Risk Management of Climate Risk*

The NEHS Group has launched the Climate Risk Working Group comprising members from risk management and related departments. This working group will build a global framework to identify, understand and manage climate change risks based on the Company's strategy. The person responsible for the climate risk management frameworks is the CRO. Current proposed methods include:

- Process for new transactions

Due diligence process will be strengthened, particularly for new transactions, incorporating sustainability considerations into the process. Exposure will be mainly recognised by region and sector.

- Credit evaluation

Credit risk management processes will be enhanced to include an assessment of physical and transition risks with consideration of the ESG factors.

- Scenario analysis

Scenario for climate change relating to physical risk and transition risk will be incorporated in the analysis with exposure categorised mainly by region and sector.

##### **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.

##### **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 \$15,194,863 (2019: \$8,007,511) which is 10% of fair value of Level 3 Equity and Debt securities.

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**18 RISK MANAGEMENT (continued)**

**Financial Instruments Valued Using Unobservable Market Data (continued)**

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 \$9,577,259 (2019: loss of \$15,952,390).

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:

|                              | <b>2020</b>    | <b>2019</b>    |
|------------------------------|----------------|----------------|
|                              | <b>\$'000</b>  | <b>\$'000</b>  |
| As at 1 April                | 41,433         | 47,536         |
| New transactions             | 3,938          | 548            |
| Redemptions and terminations | <u>(7,665)</u> | <u>(6,651)</u> |
| As at 31 March               | <u>37,706</u>  | <u>41,433</u>  |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (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 financial assets and liabilities at amortised cost due within 12 months are assumed to approximate to their carrying values.
- (b) Financial assets classified as fair value through other comprehensive income 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 mandatorily at fair value through profit and loss, financial 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

- |                |   |   |
|----------------|---|---|
| <b>Level 1</b> | - | quoted prices in active markets for the same instrument (i.e. without modification or repackaging).   |
| <b>Level 2</b> | - | 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. |
| <b>Level 3</b> | - | 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.

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.

**NOMURA INTERNATIONAL PLC****NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)****19 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****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 2020 (CONTINUED)

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

##### Collateralised agreements and collateralised 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 2020 (CONTINUED)**
**19 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

|  | <u>Level 1</u>     | <u>Level 2</u>       | <u>Level 3</u>     | <u>Counterparty<br/>and cash<br/>collateral<br/>netting</u> | <u>Total</u>         |
|--|--------------------|----------------------|--------------------|---|----------------------|
|  | <u>\$'000</u>      | <u>\$'000</u>        | <u>\$'000</u>      | <u>\$'000</u>   | <u>\$'000</u>        |
| <b>2020</b>  |                    |                      |                    |   |                      |
| Financial assets held for trading  |                    |                      |                    |   |                      |
| - Equity Securities  | 6,589,271          | 404,983              | 75,537             | -   | 7,069,791            |
| - Debt Securities  | 1,990,969          | 3,557,491            | 76,412             | -   | 5,624,872            |
| - Derivatives  | 11,545             | 160,669,146          | 3,373,876          | -   | 164,054,567          |
| Collateral posted for securities<br>purchased under agreements to<br>resell  | -                  | 218,476,320          | -                  | (143,252,708)   | 75,223,612           |
| Collateral posted for securities<br>borrowed                                 | -                  | 11,979,093           | -                  | -   | 11,979,093           |
| Other debtors  | -                  | 2,312,865            | 529,901            | -   | 2,842,766            |
| Financial investments  | -                  | -                    | 18,710             | -   | 18,710               |
| Investment time deposits   | -                  | 63,966               | 1,920              | -   | 65,886               |
|  | <u>8,591,785</u>   | <u>397,463,864</u>   | <u>4,076,356</u>   | <u>(143,252,708)</u>  | <u>266,879,297</u>   |
| Financial liabilities held for trading                                       |                    |                      |                    |   |                      |
| - Equity Securities  | (5,081,874)        | (91,752)             | (8,315)            | -   | (5,181,941)          |
| - Debt Securities  | (970,844)          | (2,400,661)          | (22,827)           | -   | (3,394,332)          |
| - Derivatives  | (11,334)           | (158,990,697)        | (3,442,940)        | -   | (162,444,971)        |
| Collateral received for securities<br>sold under agreements to<br>repurchase | -                  | (207,208,461)        | -                  | 143,252,708   | (63,955,753)         |
| Collateral received for securities<br>loaned                                 | -                  | (7,433,534)          | -                  | -   | (7,433,534)          |
| Other creditors  | -                  | (1,032,362)          | (66,196)           | -   | (1,098,558)          |
| Creditors (amounts falling due<br>after more than one year)                  | -                  | (73,025)             | -                  | -   | (73,025)             |
|  | <u>(6,064,052)</u> | <u>(377,230,492)</u> | <u>(3,540,278)</u> | <u>143,252,708</u>  | <u>(243,582,114)</u> |



**NOMURA INTERNATIONAL PLC**
**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**
**19 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

|   | <u>Level 1</u>     | <u>Level 2</u>       | <u>Level 3</u>     | <u>Counterparty<br/>and cash<br/>collateral<br/>netting</u> | <u>Total</u>         |
|---|--------------------|----------------------|--------------------|---|----------------------|
|   | <u>\$'000</u>      | <u>\$'000</u>        | <u>\$'000</u>      | <u>\$'000</u>   | <u>\$'000</u>        |
| <b>2019</b>   |                    |                      |                    |   |                      |
| Financial assets held for trading <sup>1</sup>  |                    |                      |                    |   |                      |
| - Equity Securities   | 7,039,736          | 567,593              | 13,742             | -   | 7,621,071            |
| - Debt Securities   | 2,252,518          | 2,534,104            | 37,455             | -   | 4,824,077            |
| - Derivatives   | 32,171             | 117,689,830          | 2,396,203          | -   | 120,118,204          |
| Collateral posted for securities<br>purchased under agreements to<br>resell <sup>1</sup>  | -                  | 211,366,458          | -                  | (131,915,524)   | 79,450,934           |
| Collateral posted for securities<br>borrowed  | -                  | 9,353,591            | -                  | -   | 9,353,591            |
| Other debtors <sup>2</sup>  | -                  | 2,067,686            | 304,110            | -   | 2,371,796            |
| Financial investments   | -                  | -                    | 17,595             | -   | 17,595               |
| Investment time deposits  | -                  | 172,270              | 257                | -   | 172,527              |
|   | <u>9,324,425</u>   | <u>343,751,532</u>   | <u>2,769,362</u>   | <u>(131,915,524)</u>  | <u>223,929,795</u>   |
| Financial liabilities held for<br>trading <sup>1</sup>                                    |                    |                      |                    |   |                      |
| - Equity Securities   | (5,862,680)        | (46,642)             | (7,961)            | -   | (5,917,283)          |
| - Debt Securities   | (574,309)          | (2,858,062)          | (21,408)           | -   | (3,453,779)          |
| - Derivatives   | (31,951)           | (118,836,648)        | (2,587,532)        | -   | (121,456,131)        |
| Collateral received for securities<br>sold under agreements to<br>repurchase <sup>1</sup> | -                  | (198,164,263)        | -                  | 131,915,524   | (66,248,739)         |
| Collateral received for securities<br>loaned  | -                  | (4,011,916)          | -                  | -   | (4,011,916)          |
| Other creditors <sup>2</sup>  | -                  | (1,188,132)          | (110,794)          | -   | (1,298,926)          |
| Creditors (amounts falling due<br>after more than one year)                               | -                  | (89,179)             | -                  | -   | (89,179)             |
|   | <u>(6,468,940)</u> | <u>(325,194,842)</u> | <u>(2,727,695)</u> | <u>131,915,524</u>  | <u>(202,475,953)</u> |

<sup>1</sup>2019 includes presentational reclassifications upon accounting policy change in combination of financial instruments, refer to Notes 1(j) and 8 for further details.

<sup>2</sup>2019 includes presentational reclassifications between other debtors/creditors upon change in determination of negative interest, refer to Notes 1(f), 8, 10 and 15 for further details.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (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 in the table on the next page, 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.

|  | <b>At 1 April<br/>2019</b> | <b>Total<br/>gains<br/>(losses)<br/>in P&amp;L</b> | <b>Purchases</b> | <b>Sales</b>     | <b>Settlement</b> | <b>Transfers<br/>in level 3</b> | <b>Transfers<br/>out of<br/>level 3</b> | <b>At 31 March<br/>2020</b> | <b>Unrealised<br/>Total gains<br/>(losses) in<br/>P&amp;L</b> |
|--|----------------------------|--|------------------|------------------|-------------------|---------------------------------|---|-----------------------------|---|
|  | <b>\$'000</b>              | <b>\$'000</b>                                      | <b>\$'000</b>    | <b>\$'000</b>    | <b>\$'000</b>     | <b>\$'000</b>                   | <b>\$'000</b>                           | <b>\$'000</b>               | <b>\$'000</b>   |
| <b>Financial assets</b>                        |                            |  |                  |                  |                   |                                 |   |                             |   |
| Financial assets held for trading <sup>1</sup> |                            |  |                  |                  |                   |                                 |   |                             |   |
| - Equity Securities                            | 13,742                     | (4,998)  | 68,810           | (31,910)         | -                 | 31,418                          | (1,525)                                 | 75,537                      | (9,064)   |
| - Debt Securities                              | 37,455                     | (4,579)  | 60,488           | (23,114)         | -                 | 6,162                           | -                                       | 76,412                      | 8,189   |
| - Derivatives                                  | 2,396,203                  | 763,923  | -                | -                | 315,258           | 71,695                          | (173,203)                               | 3,373,876                   | 1,024,052   |
| Other debtors                                  | 304,110                    | (53,360)   | 410,875          | (131,724)        | -                 | -                               | -                                       | 529,901                     | (26,423)  |
| Financial investments                          | 17,595                     | 1,115  | -                | -                | -                 | -                               | -                                       | 18,710                      | 1,303   |
| Investment time deposits                       | 257                        | (1,922)  | 3,616            | (31)             | -                 | -                               | -                                       | 1,920                       | (1,505)   |
|  | <b>2,769,362</b>           | <b>700,179</b>                                     | <b>543,789</b>   | <b>(186,779)</b> | <b>315,258</b>    | <b>109,275</b>                  | <b>(174,728)</b>                        | <b>4,076,356</b>            | <b>996,552</b>  |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 19 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

##### Level 3 financial assets and financial liabilities (continued)

|  | <u>At 1 April</u><br><u>2019</u> | <u>Total</u><br><u>gains</u><br><u>(losses)</u><br><u>in P&amp;L</u> | <u>Purchases</u> | <u>Sales</u>   | <u>Settlement</u> | <u>Transfers</u><br><u>in level 3</u> | <u>Transfers</u><br><u>out of</u><br><u>level 3</u> | <u>At 31 March</u><br><u>2020</u> | <u>Unrealised</u><br><u>Total gains</u><br><u>(losses) in</u><br><u>P&amp;L</u> |
|--|----------------------------------|--|------------------|----------------|-------------------|---------------------------------------|---|-----------------------------------|---|
|  | \$'000                           | \$'000   | \$'000           | \$'000         | \$'000            | \$'000                                | \$'000  | \$'000                            | \$'000  |
| <b>Financial liabilities</b>           |                                  |  |                  |                |                   |                                       |   |                                   |   |
| Financial liabilities held for trading |                                  |  |                  |                |                   |                                       |   |                                   |   |
| - Equity Securities                    | (7,961)                          | 2,565  | (3,707)          | 708            | -                 | (15)                                  | 95  | (8,315)                           | (58)  |
| - Debt Securities                      | (21,408)                         | (208)  | (1,287)          | 535            | -                 | (499)                                 | 40  | (22,827)                          | (208)   |
| - Derivatives                          | (2,587,532)                      | (662,956)  | -                | -              | (394,845)         | (13,540)                              | 215,933   | (3,442,940)                       | (930,494)   |
| Other creditors                        | (110,794)                        | 3,020  | (62,951)         | 104,529        | -                 | -                                     | -   | (66,196)                          | 6,305   |
|  | <u>(2,727,695)</u>               | <u>(657,579)</u>   | <u>(67,945)</u>  | <u>105,772</u> | <u>(394,845)</u>  | <u>(14,054)</u>                       | <u>216,068</u>                                      | <u>(3,540,278)</u>                | <u>(924,455)</u>  |

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.

<sup>1</sup>2019 includes presentational reclassifications upon accounting policy change in combination of financial instruments, refer to Notes 1(j) and 8 for further details.

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**19 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**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 2020**

|  | <b>Transfers from<br/>level 1 to level 2<br/>\$'000</b> | <b>Transfers from<br/>level 2 to level 1<br/>\$'000</b> |
|--|---|---|
| <b>Financial assets</b>                |   |   |
| Financial assets held for trading      |   |   |
| - Equities                             | 119,800   | 186,364   |
| - Debt securities and loans            | 25,011  | 780   |
|  | <u>144,811</u>  | <u>187,144</u>  |
| <b>Financial liabilities</b>           |   |   |
| Financial liabilities held for trading |   |   |
| - Equities                             | (83,932)  | (15,237)  |
| - Debt securities and loans            | -   | -   |
|  | <u>(83,932)</u>   | <u>(15,237)</u>   |

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**19 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**Transfers between level 1 and 2 (continued)**

**As at 31 March 2019**

|  | <b>Transfers from<br/>level 1 to level 2<br/>\$'000</b> | <b>Transfers from<br/>level 2 to level 1<br/>\$'000</b> |
|--|---|---|
| <b>Financial assets</b>                |   |   |
| Financial assets held for trading      |   |   |
| - Equities                             | 171,855   | 164,881   |
| - Debt securities and loans            | -   | -   |
|  | <u>171,855</u>  | <u>164,881</u>  |
| <b>Financial liabilities</b>           |   |   |
| Financial liabilities held for trading |   |   |
| - Equities                             | (40,925)  | (148,184)   |
| - Debt securities and loans            | -   | -   |
|  | <u>(40,925)</u>   | <u>(148,184)</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 2020 (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 2020 and 2019 .

| <u>Class of financial instrument</u> | <u>Fair value \$'000</u> | <u>Valuation techniques</u> | <u>Unobservable inputs</u> | <u>Range</u> | <u>Weighted average (%)</u> |
|--------------------------------------|--------------------------|-----------------------------|----------------------------|--------------|-----------------------------|
| <b>2020</b>                          |                          |                             |                            |              |                             |
| Financial assets held for trading    |                          |                             |                            |              |                             |
| - Equity Securities                  | 75,537                   | DCF                         | Liquidity discount         | 75%-75%      | 75                          |
| - Debt Securities                    | 76,412                   | DCF                         | Credit Spreads             | 8.9%-8.9%    | 8.9                         |
|                                      |                          |                             | Recovery Rates             | 7.8%-35%     | 28.6                        |
| - Derivatives                        | 3,373,876                | DCF\Option Model            | Interest Rates             | -0.1%-0.9%   |                             |
|                                      |                          |                             | Credit Spread              | 0.1%-28.4%   |                             |
|                                      |                          |                             | Recovery Rates             | 25%-90%      |                             |
|                                      |                          |                             | Dividend Yield             | 0%-19%       |                             |
|                                      |                          |                             | Volatilities               | 9%-79%       |                             |
|                                      |                          |                             | Volatilities               | 25bp-119bp   |                             |
|                                      |                          |                             | Correlations               | (1)-0.98     |                             |
| Other debtors                        | 529,901                  | DCF                         | Credit Spreads             | 1.8%-20.5%   | 6.4                         |
| Financial investments                | 18,710                   | DCF                         | Liquidity discount         | 40%-40%      | 40                          |
| Investment time deposits             | 1,920                    |                             |                            |              |                             |
| <b>Total Level 3</b>                 | <b>4,076,356</b>         |                             |                            |              |                             |

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**19 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**A Level 3 quantitative disclosures on significant unobservable inputs (continued)**

| <u>Class of financial instrument</u>           | <u>Fair value \$'000</u> | <u>Valuation techniques</u> | <u>Unobservable inputs</u> | <u>Range</u> | <u>Weighted average (%)</u> |
|--|--------------------------|-----------------------------|----------------------------|--------------|-----------------------------|
| <b>2019</b>                                    |                          |                             |                            |              |                             |
| Financial assets held for trading <sup>1</sup> |                          |                             |                            |              |                             |
| - Equity Securities                            | 13,742                   | DCF                         | Liquidity discount         | 75%-75%      | 75                          |
| - Debt Securities                              | 37,455                   | DCF                         | Credit Spreads             | 2%-12.3%     | 3.9                         |
|  | -                        |                             | Recovery Rates             | 25%-52.3%    | 37.3                        |
| - Derivatives                                  | 2,396,203                | DCF\Option Model            | Interest Rates             | 0%-2.4%      |                             |
|  | -                        |                             | Credit Spread              | 0%-7.6%      |                             |
|  | -                        |                             | Recovery Rates             | 20%-90%      |                             |
|  | -                        |                             | Dividend Yield             | 0%-8%        |                             |
|  | -                        |                             | Volatilities               | 2%-59%       |                             |
|  | -                        |                             | Volatilities               | 26bp-67bp    |                             |
|  | -                        |                             | Correlations               | (1)-0.98     |                             |
| Other debtors                                  | 304,110                  | DCF                         | Credit Spreads             | 1.9%-6.5%    | 6.2                         |
| Financial investments                          | 17,595                   | DCF                         | Liquidity discount         | 40%-40%      | 40                          |
| Investment time deposits                       | 257                      |                             |                            |              |                             |
| <b>Total Level 3</b>                           | <b>2,769,362</b>         |                             |                            |              |                             |

<sup>1</sup>2019 includes presentational reclassifications upon accounting policy change in combination of financial instruments, refers to Notes 1(j) and 8 for further details.

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**19 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**A Level 3 quantitative disclosures on significant unobservable inputs (continued)**

| <u>Class of financial instrument</u>   | <u>Fair value \$'000</u> | <u>Valuation techniques</u> | <u>Unobservable inputs</u> | <u>Range</u> | <u>Weighted average (%)</u> |
|--|--------------------------|-----------------------------|----------------------------|--------------|-----------------------------|
| <b>2020</b>                            |                          |                             |                            |              |                             |
| Financial liabilities held for trading |                          |                             |                            |              |                             |
| - Equity Securities                    | (8,315)                  | DCF                         | Liquidity Discount         | 75% - 75%    | 75                          |
| - Debt Securities                      | (22,827)                 | DCF                         | Credit Spreads             | 8.9%-8.9%    | 8.9                         |
|  | -                        |                             | Recovery Rates             | 7.8%-35%     | 28.6                        |
| - Derivatives                          | (3,442,940)              | DCF\Option Model            | Interest Rates             | -0.1%-0.9%   |                             |
|  | -                        |                             | Credit Spread              | 0.1%-28.4%   |                             |
|  | -                        |                             | Recovery Rates             | 25%-90%      |                             |
|  | -                        |                             | Dividend Yield             | 0%-19%       |                             |
|  | -                        |                             | Volatilities               | 9%-79%       |                             |
|  | -                        |                             | Volatilities               | 25bp-119bp   |                             |
|  | -                        |                             | Correlations               | (1)-0.98     |                             |
| Other creditors                        | (66,196)                 | DCF                         | Credit Spreads             | 3.5%-3.5%    | 3.5                         |
| Total Level 3                          | <u>(3,540,278)</u>       |                             |                            |              |                             |



**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**19 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**A Level 3 quantitative disclosures on significant unobservable inputs (continued)**

| <u>Class of financial instrument</u>   | <u>Fair value \$'000</u> | <u>Valuation techniques</u> | <u>Unobservable inputs</u> | <u>Range</u> | <u>Weighted average (%)</u> |
|--|--------------------------|-----------------------------|----------------------------|--------------|-----------------------------|
| <b>2019</b>                            |                          |                             |                            |              |                             |
| Financial liabilities held for trading |                          |                             |                            |              |                             |
| - Equity Securities                    | (7,961)                  | DCF                         | Liquidity Discount         | 75%-75%      | 75                          |
| - Debt Securities                      | (21,408)                 | DCF                         | Credit Spreads             | 2%-12.3%     | 3.9                         |
|  | -                        |                             | Recovery Rates             | 25%-52.3%    | 80                          |
| - Derivatives                          | (2,587,532)              | DCF\Option Model            | Interest Rates             | 0%-2.4%      |                             |
|  | -                        |                             | Credit Spread              | 0% - 7.6%    |                             |
|  | -                        |                             | Recovery Rates             | 20% - 90%    |                             |
|  | -                        |                             | Dividend Yield             | 0% - 8%      |                             |
|  | -                        |                             | Volatilities               | 2% - 59%     |                             |
|  | -                        |                             | Volatilities               | (1) - 0.98   |                             |
|  | -                        |                             | Correlations               |              |                             |
| Other creditors                        | (110,794)                | DCF                         | Credit Spreads             |              |                             |
| Total Level 3                          | <u>(2,727,695)</u>       |                             |                            |              |                             |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (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 and cash equivalent, borrowings from fellow subsidiary undertakings, cash collateral and other liabilities.

Cash and cash equivalent, 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.

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 31 March 2020 and 2019.

|   | <b>Carrying<br/>amount<br/>\$'000</b> | <b>Fair value<br/>\$'000</b> | <b>Fair value by level</b> |                           |                           |
|---|---------------------------------------|------------------------------|----------------------------|---------------------------|---------------------------|
|   |                                       |                              | <b>Level 1<br/>\$'000</b>  | <b>Level 2<br/>\$'000</b> | <b>Level 3<br/>\$'000</b> |
| <b>2020</b>   |                                       |                              |                            |                           |                           |
| <b>Financial Assets:</b>                                |                                       |                              |                            |                           |                           |
| Other debtors   | 19,066,161                            | 19,066,161                   | 299,581                    | 18,766,580                | -                         |
| Investment time deposit                                 | 192,404                               | 192,404                      | -                          | 192,404                   | -                         |
| Cash and cash equivalent                                | 2,691,932                             | 2,691,932                    | 1,711,380                  | 980,552                   | -                         |
|   | <u>21,950,497</u>                     | <u>21,950,497</u>            | <u>2,010,961</u>           | <u>19,939,536</u>         | <u>-</u>                  |
| <b>Financial Liabilities:</b>                           |                                       |                              |                            |                           |                           |
| Other creditors   | (37,256,825)                          | (37,256,825)                 | -                          | (37,256,825)              | -                         |
| Creditors: amounts falling due after more than one year | (2,310,000)                           | (2,310,000)                  | -                          | (2,310,000)               | -                         |
|   | <u>(39,566,825)</u>                   | <u>(39,566,825)</u>          | <u>-</u>                   | <u>(39,566,825)</u>       | <u>-</u>                  |

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**19 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**B Estimated fair value of financial instruments not carried at fair value (continued)**

|   | <u>Carrying<br/>amount</u><br>\$'000 | <u>Fair value</u><br>\$'000 | <u>Fair value by level</u> |                          |                          |
|---|--------------------------------------|-----------------------------|----------------------------|--------------------------|--------------------------|
|   |                                      |                             | <u>Level 1</u><br>\$'000   | <u>Level 2</u><br>\$'000 | <u>Level 3</u><br>\$'000 |
| <b>2019</b>   |                                      |                             |                            |                          |                          |
| <b>Financial Assets:</b>                                      |                                      |                             |                            |                          |                          |
| Other debtors   | 17,086,275                           | 17,086,275                  | 233,030                    | 16,853,245               | -                        |
| Investment time deposit                                       | 632                                  | 632                         | -                          | 632                      | -                        |
| Cash and cash equivalent                                      | 2,981,407                            | 2,981,407                   | 2,036,975                  | 944,432                  | -                        |
|   | <u>(20,068,314)</u>                  | <u>(20,068,314)</u>         | <u>(2,270,005)</u>         | <u>(17,798,309)</u>      | <u>-</u>                 |
| <b>Financial Liabilities:</b>                                 |                                      |                             |                            |                          |                          |
| Other creditors   | (35,384,692)                         | (35,384,692)                | -                          | (35,384,692)             | -                        |
| Creditors: amounts falling<br>due after more than one<br>year | (1,260,000)                          | (1,260,000)                 | -                          | (1,260,000)              | -                        |
|   | <u>36,644,692</u>                    | <u>36,644,692</u>           | <u>-</u>                   | <u>36,644,692</u>        | <u>-</u>                 |

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**20 OFFSETTING DISCLOSURES**

|   | <u>Collateral posted<br/>for securities<br/>purchased under<br/>agreements to<br/>resell<sup>1</sup></u><br>\$'000 | <u>Collateral posted<br/>for securities<br/>borrowed</u><br>\$'000 | <u>Derivatives<sup>1</sup></u><br>\$'000 |
|---|--|--|--|
| <b>2020</b>   |  |  |  |
| <b>Assets:</b>  |  |  |  |
| Total gross balance (1)   | 218,476,320  | 11,979,093   | 164,054,567                              |
| Less: Amounts offset in the Statement of<br>Financial Position                      | (143,252,708)  | -  | -  |
| Total net amounts of reported on the face of<br>the Statement of Financial Position | 75,223,612   | 11,979,093   | 164,054,567                              |
| Less: Additional amounts not offset in the<br>Statement of Financial Position       | (23,638,641)   | (5,552,409)  | (147,616,414)                            |
| Financial instruments and non-cash collateral                                       | (43,169,510)   | (4,584,454)  | (1,043,060)                              |
| Cash collateral   | (116,744)  | -  | (12,673,972)                             |
| Net Amount  | 8,298,717  | 1,842,230  | 2,721,121                                |
| <b>2019</b>   |  |  |  |
| <b>Assets:</b>  |  |  |  |
| Total gross balance (1)   | 211,366,458  | 9,353,591  | 120,118,204                              |
| Less: Amounts offset in the Statement of<br>Financial Position                      | (131,915,524)  | -  | -  |
| Total net amounts of reported on the face of<br>the Statement of Financial Position | 79,450,934   | 9,353,591  | 120,118,204                              |
| Less: Additional amounts not offset in the<br>Statement of Financial Position       | (21,180,901)   | (1,848,475)  | (107,813,546)                            |
| Financial instruments and non-cash collateral                                       | (57,335,696)   | (6,033,767)  | (802,315)                                |
| Cash Collateral   | (164,266)  | -  | (9,147,815)                              |
| Net Amount  | 770,071  | 1,471,349  | 2,354,528                                |

<sup>1</sup>2019 includes presentational reclassifications upon accounting policy change in combination of financial instruments, refer to Notes 1(j) and 8 for further details.

**NOMURA INTERNATIONAL PLC**
**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**
**20 OFFSETTING DISCLOSURES (continued)**

|  | <u>Collateral<br/>received for<br/>securities<br/>sold under<br/>agreements<br/>to repurchase<sup>1</sup></u><br>\$'000 | <u>Collateral<br/>received for<br/>securities loaned</u><br>\$'000 | <u>Derivatives<sup>1</sup></u><br>\$'000 |
|--|---|--|--|
| <b>2020</b>  |   |  |  |
| <b>Liabilities:</b>  |   |  |  |
| Total gross balance (1)  | (207,208,461)   | (7,433,534)  | (162,444,971)                            |
| Less: amounts offset in the Statement of Financial Position                      | 143,252,708   | -  | -  |
| Total net amounts of reported on the face of the Statement of Financial Position | (63,955,753)  | (7,433,534)  | (162,444,971)                            |
| Less: additional amounts not offset in the Statement of Financial Position (2)   | 23,638,641  | 5,552,409  | 147,616,414                              |
| Financial instruments and non-cash collateral                                    | 38,472,503  | 815,272  | 637,846                                  |
| Cash collateral  | 98,977  | -  | 10,543,349                               |
| Net amount   | (1,745,632)   | (1,065,853)  | (3,647,362)                              |
| <b>2019</b>  |   |  |  |
| <b>Liabilities:</b>  |   |  |  |
| Total gross balance (1)  | (198,164,263)   | (4,011,916)  | (121,456,131)                            |
| Less: amounts offset in the Statement of Financial Position                      | 131,915,524   | -  | -  |
| Total net amounts of reported on the face of the Statement of Financial Position | (66,248,739)  | (4,011,916)  | (121,456,131)                            |
| Less: additional amounts not offset in the Statement of Financial Position (2)   | 21,180,901  | 1,848,475  | 107,813,546                              |
| Financial instruments and non-cash collateral                                    | 43,320,451  | 562,664  | 484,298                                  |
| Cash collateral  | 2,074   | -  | 10,352,081                               |
| Net amount   | (1,745,313)   | (1,600,777)  | (2,806,206)                              |

• 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.

• 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.

<sup>1</sup>2019 includes presentational reclassifications upon accounting policy change in combination of financial instruments, refer to Notes 1(j) and 8 for further details.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 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 Regulation and 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>2020</u></b><br><b><u>\$'000</u></b> | <b><u>2019</u></b><br><b><u>\$'000</u></b> |
|----------------------|--|--|
| Common Equity Tier 1 | 5,489,422                                  | 4,772,714                                  |
| Adjustments to CET 1 | (357,920)                                  | (158,297)                                  |
| Tier 1 Capital       | <u>5,131,502</u>                           | <u>4,614,417</u>                           |
| Tier 2 Capital       | <u>1,260,000</u>                           | <u>1,260,000</u>                           |
| Own Funds            | <u>6,391,502</u>                           | <u>5,874,417</u>                           |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (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 Company's 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 Undertakings for the Collective Investment of Transferable Securities ("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 2020 (CONTINUED)**
**22 UNCONSOLIDATED STRUCTURED ENTITIES (continued)**

|  | <u>Carrying<br/>amount of<br/>variable<br/>interests asset</u> | <u>Carrying<br/>amount of<br/>variable<br/>interests<br/>liabilities</u> | <u>Maximum<br/>exposure to loss<br/>to unconsolidated<br/>structured entities</u> | <u>Total size of<br/>structured<br/>entities</u> |
|--|--|--|---|--|
|  | \$'m   | \$'m   | \$'m  | \$m  |
| <b>2020</b>  |  |  |   |  |
| Financial assets held for trading                                      | 1,028  | -  | 2,252   |  |
| Financial Liabilities held for trading                                 | -  | (204)  | 1,629   |  |
| Collateral posted for securities purchased under agreements to resell  | 171  | -  | 171   |  |
| Collateral received for securities sold under agreements to repurchase | -  | (954)  | -   |  |
|  | 1,199  | (1,158)  | 4,052   | 560,491  |
| <b>2019</b>  |  |  |   |  |
| Financial assets held for trading                                      | 1,451  | -  | 3,636   |  |
| Financial Liabilities held for trading                                 | -  | (164)  | 6,974   |  |
| Collateral posted for securities purchased under agreements to resell  | 399  | -  | 399   |  |
| Collateral received for securities sold under agreements to repurchase | -  | (1,083)  | -   |  |
|  | 1,850  | (1,247)  | 11,009  | 769,291  |

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 2020 (CONTINUED)

#### 23 LEASES

The Company's leases principally relate to real estate, some of which were previously classified as operating leases under IAS 17. The Company also sub-leases certain real estate to third parties. Under IFRS 16, these sub-leases are all classified as finance leases. Right of use assets and lease liabilities recognised for leases for which the Company is lessee are presented in tangible assets (see Note 11) and other creditors (see Note 15) respectively.

The amounts recognised in profit or loss in respect of these leases is shown in interest and similar income (see Note 2), interest expenses (see Note 3), general and administrative expenses (see Note 4).

The total cash outflow recognised in the Statement of Cash Flows was \$32 million, comprising \$32 million payment of principal portion of lease liabilities recognised as cash flows from financing activities, \$1million sublease income and \$1 million interest expense recognised as cash flows from operating activities.

#### Lease Commitments

|                          | <u>2020</u><br><u>Buildings</u><br><u>\$'000</u> | <u>2020</u><br><u>Other</u><br><u>\$'000</u> | <u>2019</u><br><u>Building</u><br><u>\$'000</u> | <u>2019</u><br><u>Other</u><br><u>\$'000</u> |
|--------------------------|--|--|---|--|
| Within one year          | 37,504   | 36   | 44,071  | 20   |
| Within two to five years | 28,540   | 33   | 81,788  | 18   |
| After five years         | 3,194  | -  | 27,236  | -  |
|                          | 69,238   | 69   | 153,095   | 38   |

At 31 March 2020, the undiscounted sublease payments to expected be received for the sublease agreements (Finance Lease) under IFRS 16 are as follows:

|   | <u>2020</u><br><u>\$'000</u> |
|---|------------------------------|
| Within 1 year                                       | 2,166                        |
| Within 2-5 years                                    | 1,659                        |
|   | 3,825                        |
| Less: Unearned finance sublease income              | (54)                         |
| Net investment in lease recognised on balance sheet | 3,771                        |

At 31 March 2019, the future minimum sublease payments expected to receive within one year for the sublease agreement under IAS 17 amounted to \$4,001,565

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**23 LEASES (continued)**

The amounts recognised in profit or loss in respect of these leases are as follows:

|  | <u>2020</u>   | <u>2019</u>   |
|--|---------------|---------------|
|  | <u>\$'000</u> | <u>\$'000</u> |
| Income from sub-leasing ROU assets (note 2)  | 966           | -             |
| Interest income on lease receivables (note 3)  | 109           | -             |
| Interest expenses on lease liabilities (note 3)  | (1,332)       | -             |
| Depreciation expense on ROU assets (note 4)  | (35,828)      | -             |
| Expense relating to leases of low-value assets (included in general & administrative expenses) | (2,684)       | -             |
| Minimum lease payment  | -             | (61,113)      |
| Sub lease payments   | -             | 15,291        |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 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><br><u>31 March 2020</u><br>Number | <u>Year ended</u><br><u>31 March 2019</u><br>Number |
|------------------------|---|---|
| United Kingdom         | 1,797   | 2,017   |
| Other Europe           | 1   | 126   |
| Middle East and Africa | 36  | 38  |
|                        | <u>1,834</u>  | <u>2,181</u>  |

#### 25 DIRECTORS' REMUNERATION

The directors' remuneration for the year was as follows:

|   | <u>Year ended</u><br><u>31 March 2020</u><br>\$'000 | <u>Year ended</u><br><u>31 March 2019</u><br>\$'000 |
|---|---|---|
| Salaries, allowances and taxable benefits | 4,100   | 4,630   |
| Company contributions to pension          | 28  | 30  |
| Bonuses                                   | 1,367   | 954   |
|   | <u>5,495</u>  | <u>5,614</u>  |

The number of Directors who exercised share options during the year was 4 (2019: 2).

The number of Directors who were entitled to receive shares under long-term incentive plans during the year was Nil (2019: Nil).

The number of Directors accruing retirement benefits under money purchase pension schemes during the year was 2 (2019: 2).

The highest paid Director received emoluments of \$2,573,908 (2019: \$2,171,052) and the Company made no contribution to pension in 2020 (2019: Nil). The highest paid Director did not exercised share options during 2019 and was not entitled to receive shares under long-term incentive plans.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (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   | Key features  | Key accounting considerations   |
|---|---|---|
| <b>Restricted Stock Unit ("RSU") Awards</b><br>Restricted stock units linked to the price of NHI common shares designed to replace certain core deferral awards and all supplemental awards | <ul style="list-style-type: none"> <li>• Granted and settled by NHI</li> <li>• Graded vesting period generally over 3 years.</li> <li>• Extended vesting period of up to seven years for certain senior management and employees in order to meet local regulatory requirements based on the role they perform in Nomura Group</li> <li>• New type of award introduced in 2018 as the primary type of deferred compensation award for Nomura Group. Granted in May 2018 in respect of the prior fiscal year.</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 RSU awards was \$23,515,322 (2019: \$43,094,093)</li> </ul> |

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**26 SHARE-BASED PAYMENTS AND SIMILAR DEFERRED COMPENSATION AWARDS (continued)**

| <b>Type of award</b>  | <b>Key features</b>  | <b>Key accounting considerations</b>   |
|---|--|--|
| <p><b>Stock Acquisition Right (SAR) Plan B awards</b></p> <p>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</p> | <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 \$1,030,841 (2019: \$28,009,232)</li> </ul> |
| <p><b>Notional Stock Unit (NSU) awards</b></p> <p>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)</p>             | <ul style="list-style-type: none"> <li>• Granted and settled by the Company.</li> <li>• Used in countries where equity-settled RSU 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>• Following the introduction of RSU awards, NSU awards are less commonly used</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 \$33,753,763 (2019: \$39,086,516)</li> </ul>                    |

**NOMURA INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

**26 SHARE-BASED PAYMENTS AND SIMILAR DEFERRED COMPENSATION AWARDS (continued)**

| <b>Type of award</b>   | <b>Key features</b>  | <b>Key accounting considerations</b>  |
|--|--|---|
| <p><b>Collared Notional Stock Unit ("CSU") awards</b></p> <p>Phantom of plan linked to the price of NHI common shares with exposure subject to a cap and floor</p> | <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 \$4,182,718 (2019: \$24,890,867).</li> </ul>                       |
| <p><b>Notional Index Unit (NIU) awards</b></p> <p>Phantom plan linked to a world stock index quoted by Morgan Stanley Capital International.</p>                   | <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 \$1,314,466 (2019: \$8,541,344).</li> </ul> |

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 26 SHARE-BASED PAYMENTS AND SIMILAR DEFERRED COMPENSATION AWARDS (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 2020 and 2019.

|   | RSU<br>awards  | SAR Plan B<br>awards | NSU<br>awards | CSU<br>Awards | NIU Awards  |
|---|----------------|----------------------|---------------|---------------|-------------|
| Outstanding at 31 March 2019                      | 11,813,500     | 171,811              | 12,177,471    | 5,322,784     | 1,736,811   |
| Granted   | 7,845,800      | -                    | 8,059,124     | -             | -           |
| Forfeited   | (1,310,900)    | (2,400)              | (73,526)      | (169,820)     | (30,814)    |
| Exercised or settled                              | (3,135,100)    | (76,755)             | (10,532,025)  | (1,901,529)   | (790,216)   |
| Expired   |                | (555)                | -             | -             | -           |
| Outstanding at 31 March 2020                      | 15,213,300     | 92,101               | 9,631,044     | 3,251,435     | 915,781     |
| Weighted average fair value at 31 March 2020      | ¥397.06        | Not Applicable       | ¥439.89       | ¥601.42       | \$6.24      |
| Outstanding liability recognised at 31 March 2020 | Not Applicable | Not applicable       | (26,650,106)  | (14,754,823)  | (4,729,194) |

None of the 92,101 SAR Plan B awards which are outstanding at [31 March 2020] are exercisable at such date.

SAR Plan B awards were exercised or settled during the year ended 31 March 2020 at a weighted average price of NHI common shares of ¥490.00 (2019: ¥508.77). NSU and CSU awards were exercised or settled during the year ended 31 March 2020 at a weighted average price of NHI common shares of ¥440.00 (2019: ¥496.64 ) and ¥601.00 (2019: ¥525.32) respectively. NIU awards were settled during the year ended 31 March 2020 at a weighted average index level of \$6.24 (2019: \$5.88).

The weighted average remaining contractual life of all awards outstanding as at 31 March 2020 was 3.99 years (2019: 4.55 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 are the primary type of deferred compensation award in the Nomura Group. Certain core deferral awards and all supplemental awards are no longer used. However, existing unvested SAR Plan B, CSU and NIU awards continue to vest in accordance with their original contractual terms.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 27 CAPITAL COMMITMENTS

As at 31 March 2020, there were no capital commitments relating to assets in the course of construction. (2019: \$Nil).

#### 28 RELATED PARTY TRANSACTIONS

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.

#### 29 CONTINGENT LIABILITIES AND COMMITMENTS

##### **Investigations, disputes and other litigation matters**

The most significant investigations, disputes and other litigation matters currently faced by the Company are summarised below. The Company believes that, based on current information available as of the date of these financial statements, the ultimate resolution of these actions and proceedings will not be material to the Company's financial condition. However, an adverse outcome in certain of these matters could have a material adverse effect on the statements of income or cash flows in a particular quarter or annual period.

For each of the significant actions and proceedings described below, where possible, the Company has estimated the amount of reasonably possible maximum loss in excess of amounts recognised as a provision (if any) against such matters. These estimates are based on current information available as of the date of these financial statements and include, but are not limited to, the specific amount of damages or claims against Nomura in each matter.

As of 31 March 2020, for those cases where an estimate of the range of reasonably possible losses can be made, the Company estimates that the total aggregate reasonably possible maximum loss in excess of amounts recognised as a provision (if any) against these cases is approximately \$270 million. For certain other significant actions and proceedings, the Company is unable to provide an estimate of the reasonably possible loss or range of reasonably possible losses because, among other reasons, (i) the proceedings are at such an early stage there is not enough information available to assess whether the stated grounds for the claim are viable; (ii) damages have not been identified by the claimant; (iii) damages are unsupported and/or exaggerated; (iv) there is uncertainty as to the outcome of pending appeals or motions; (v) there are significant legal issues to be resolved that may be dispositive, such as the applicability of statutes of limitations; and/or (vi) there are novel or unsettled legal theories underlying the claims.

The Company will continue to cooperate with regulatory investigations and to vigorously defend its position in the ongoing actions and proceedings set out below, as appropriate.



## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 29 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

##### Italian tax dispute

In 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 UK - 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 approximately EUR 33.8 million, plus interest, already refunded. In 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 EUR 37.5 million which comprised the original refunded amount, interest and collection fees. Payment of this amount was made in October 2012. Payment does not undermine the Company's arguments in the dispute. The Company intends to continue to vigorously challenge the second decision and a further appeal to the Supreme Court in Rome was filed in July 2013 in order to seek full reimbursement of this amount plus further interest. A hearing date has yet to be scheduled.

Similar claims have been made by the tax authorities against IBJ Nomura Financial Products (UK) PLC ("IBJN") a group company which has been in members' voluntary liquidation since 2000. An Italian Supreme Court judgment in June 2019 confirmed that tax credit refunds of approximately EUR 38 million, plus interest, were payable by IBJN to the Italian tax authorities. The Company continues to assess the position.

##### 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 United States pursuant to the Securities Investor Protection Act. The first claim was brought by the liquidators of the Fairfield Funds. It was filed in October 2010 in the Supreme Court of the State of New York, but was subsequently removed to the United States Bankruptcy Court for the Southern District of New York. The Bankruptcy Court dismissed some but not all of the claims asserted against the Company and the dismissal of those claims has been appealed to the United States District 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 in June 2012 when the Madoff Trustee filed an amended complaint in the United States Bankruptcy Court for the Southern District of New York. Again, this claim is one of many claims being brought against a range of investors. In November 2016, the United States Bankruptcy Court for the Southern District of New York granted a motion to dismiss the Madoff Trustee's claim. The Madoff Trustee successfully appealed that decision to the United States Court of Appeals for the Second Circuit and the Supreme Court of the United States declined a petition seeking further review of that decision. The matter has now been remanded to the Bankruptcy Court for further proceedings. The amount claimed is approximately USD 35 million plus interest. The Company does not believe that it will face the prospect of double recovery of the sums in question.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 29 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

##### Harley litigation

In October 2011, the Madoff Trustee filed an adversary proceeding against the Company in the United States Bankruptcy Court for the Southern District of New York 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 United States 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 United States Bankruptcy Court granted a motion to dismiss the Madoff Trustee’s claim. The Madoff Trustee successfully appealed the decision to the United States Court of Appeals for the Second Circuit and the Supreme Court of the United States declined a petition seeking further review of that decision. The matter has been remanded to the Bankruptcy Court for further proceedings. The claim is for approximately USD 21.5 million plus interest.

##### 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.

In September 2015, the Company entered into a settlement agreement with MPS to terminate the Transactions. 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.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 29 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

##### Legal proceedings relating to Banca Monte dei Paschi di Siena SpA "MPS" (continued)

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. In April 2015, the Public Prosecutor's office in Milan issued a notice concluding its preliminary investigation, which was re-served on the Company in January 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 in October 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) commenced in December 2016. As part of these proceedings, a number of civil claimants have been permitted to bring damages claims against a number of entities and individuals, including the Company.

On 8 November 2019, the court delivered its oral verdict, finding two former employees of the Company guilty of false accounting, market manipulation and obstructing the supervisory activities of CONSOB and that the Company had breached Italian corporate liability legislation. In so doing it imposed a fine of EUR 3.45 million on the Company as well as ordering confiscation of EUR 88 million. On 12 May 2020, the court issued the detailed reasoning for the verdict (including the rationale for the penalties imposed). As of the date of these consolidated financial statements, The Company continues to analyse the contents of the written reasoning to determine all of its options, including any appeal. The penalties will not be enforceable until all appeals have been concluded.

In addition, the Company is involved in a number of separate civil or administrative matters relating to the Transactions including those described further below

In July 2013, a claim was issued against 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 originally sought by FMPS was not less than EUR 315.2 million. A final decision is expected in the first half of 2021

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 EUR 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.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 29 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

##### **Legal proceedings relating to Banca Monte dei Paschi di Siena SpA "MPS" (continued)**

In May 2019, a claim before the Italian Courts brought by York Global Finance Offshore BDH (Luxembourg) Sàrl and a number of seemingly related funds was served on the Company. The claim is made against the Company, MPS, two MPS former directors and a member of MPS's internal audit board, and seeks monetary damages of approximately EUR 186.7 million on grounds similar to those in the MPS and FMPS claims, as well as non-monetary damages in an amount left to be quantified by the Judge.

Additionally, in January 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. In May 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 was vicariously liable to pay the fines imposed on its former employees, and paid those fines in July 2018. The Company has appealed the CONSOB decision to the Milan Court of Appeal.

##### **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. The proceedings are currently stayed.

##### **Bond investigations and related class action**

Various authorities continue to conduct investigations concerning the activities of the Company, other Nomura Group entities and other third parties in respect of government, supranational, sub-sovereign and agency bond trading. These investigations relate to various matters including certain activities of the Company in Europe for which the Company and NHI have received a Statement of Objections from the European Commission ("Commission") which reflects the Commission's initial views around certain historical conduct. The Company and another entity in the Nomura Group are also defendants to class action complaints filed in the United States District Court for the Southern District of New York alleging violations of U.S. antitrust law relating to the alleged manipulation of the secondary trading market for supranational, sub-sovereign and agency bonds. The Company and another entity in the Nomura Group 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. Additionally, the Company and another entity in the Nomura Group have been served with a separate class action filed in the United States Court for the Southern District of New York in relation to the alleged manipulation of the primary and secondary markets for European government bonds.

## **NOMURA INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)**

#### **29 CONTINGENT LIABILITIES AND COMMITMENTS (continued)**

##### **German tax**

In August 2017, the Cologne public prosecutor in Germany notified the Company that it is investigating possible tax fraud by individuals who worked for the Nomura Group in relation to the historic planning and execution of trading strategies around dividend record dates in certain German equities (known as “cum/ex” trading) and in relation to filings of tax reclaims in 2007 to 2012. During the year ended 31 March 2020, Nomura Group became aware that certain of those individuals would be the subject of investigative proceedings in Germany. The Company and another entity in the Nomura Group are cooperating with the investigation, including by disclosing to the public prosecutor certain documents and trading data. If the investigation involving Nomura Group entities and former individuals proceeds to trial, the individuals could face criminal sanctions and Nomura Group entities could face administrative sanctions such as administrative fines or profit confiscation orders. It is not yet possible to reasonably estimate the potential losses which may arise from any administrative sanction imposed on a Nomura Group affiliate.

##### **Italian derivative litigation**

In July 2018, a former Italian counterparty filed a claim against the Company in the Civil Court of Rome relating to a derivative transaction entered into by the parties in 2006, and terminated in 2009. The claim alleges that payments by the counterparty to the Company of approximately €165m were made in breach of Italian insolvency law, and seeks reimbursement of those payments. The matter is at an early stage.

##### **Commitments**

The Company had commitments as at 31 March 2020 amounting to \$4,407million (2019: \$3,223million) in respect of undrawn loan facilities.

#### **30 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.

## NOMURA INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020 (CONTINUED)

#### 31 COVID-19 PANDEMIC

On 11 March 2020, COVID-19 was declared as a global pandemic by the World Health Organisation. Credit spreads widened sharply, equity prices declined to 2016 level and liquidity tightened across international financial markets. Consequently, both the Company and the Nomura Group implemented their respective Business Continuity Plans to prioritise the Company's role:

- as a capital market intermediary and liquidity provider
- to support the recovery of economy whilst ensuring the safety of our clients, employees and their families
- to ensure uninterrupted business operations across all business and corporate functions
- to maintain a robust capital and liquidity position as detailed in the Capital Management Policy in Note 21 and Risk Management in Note 18

Following key adjustments made to the Company's operating model aligned to the new business environment:

- 90% of employees working from home
- employees provided with technology to support homeworking
- wellness initiatives were offered to employees
- diversification of engagement approaches with clients (online meetings and phone calls instead of in-person meetings)
- improvement of online marketing and digital contents
- reprioritisation of business strategies across regions and products

Given the Company's strong capital and liquidity positions, together with continued parental support, the Company will be able to meet all prudential requirements amid the market volatility driven by COVID-19. Therefore, the Directors have a reasonable expectation that the Company is able to continue in operational existence for the foreseeable future of at least twelve months from the date of approval of the Financial Statements and continue to prepare the Financial Statements on a going concern basis.