Nomura Europe Holdings plc Group

Quarterly Pillar 3 Disclosures
30th June 2022

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Introduction

Background

Nomura Europe Holdings plc ("NEHS") is a Prudential Regulation Authority ("PRA") approved parent financial holding company. NEHS along with its subsidiaries form the NEHS Group (the "Group"). The Group is subject to regulation on a consolidated basis. The regulatory consolidation is produced in accordance with the UK's regulations as set out in the onshored Capital Requirements Regulation ("CRR") and PRA Rules and standards. These requirements are largely based on the Basel Committee's final capital framework for strengthening international capital standards ("Basel III").

Scope of Application

The Pillar 3 disclosures as at 30th June 2022 are prepared on the basis of the consolidated situation of the Group. In addition, Nomura International Plc ("NIP") is reported as a large non-listed subsidiary within the Group. NIP is authorised by the PRA and regulated by the PRA and the Financial Conduct Authority ("FCA").

Other regulated subsidiaries included in the Group are Nomura Bank International Plc ("NBI"), Nomura Financial Products Europe GmbH ("NFPE"), Nomura Bank Luxembourg S.A.("NBL"), Banque Nomura France S.A. ("BNF"), Nomura Alternative Investment Management France S.A.S and Nomura Bank Switzerland Ltd. NBI and NFPE were previously considered "significant subsidiaries" and previously disclosed. However, along with the other regulated subsidiaries, they are not considered to be large subsidiaries as at 30th June 2022 and are therefore not disclosed in this document.

NBL discloses its Pillar 3 disclosure separately in accordance with its local regulatory requirements which can be found here. NBL disclosures have not been included in this document.

Scope of Consolidation

The Group's regulatory consolidation includes UK and non-UK regulated entities; Article 6 of the CRR provides guidance on capital calculations and consolidation of subsidiary undertakings. The regulatory consolidation includes certain entities which have been consolidated using the equity method while full consolidation has been applied for accounting consolidation under UK GAAP.

All companies within the Group are limited by ordinary shares. Apart from the requirements to hold regulatory capital, subject to regulatory approval by the relevant local authority, there is no practical or legal impediment to the prompt transfer of capital between entities within the Group. The Group is a 100% owned subsidiary of Nomura Holdings Inc. ("NHI") (incorporated in Japan), the ultimate parent of the Group. NHI publishes separate Pillar 3 disclosures (NHI Pillar 3). NHI, together with the Group and NHI's other subsidiary undertakings, form the "Nomura Group".

With effect from April 2015, the Group applied the UK Companies Act 2006 exemption from producing statutory group accounts. The exemption applies to a UK parent company where certain conditions are met. Specifically, this includes where the UK parent and all of its subsidiaries are included in group accounts of a larger non-European Economic Area ("EEA") group prepared in accordance with accounting standards which are equivalent to EU-adopted IFRS. Statutory consolidated accounts for the Group are therefore not published.

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Disclosures

Template UK KM1 – Key metrics template for the Group

The below table shows the key metrics for the Group [1, 2, 3]

	$m	The Group				
		a	b	c	d	e
		Jun-22	Mar-22	Dec-21	Sep-21	Jun-21
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	5,403	5,466	5,568	5,630	5,708
2	Tier 1 capital	5,403	5,466	5,568	5,630	5,708
3	Total capital	7,563	7,626	7,728	7,790	7,868
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	31,742	34,823	30,953	33,976	33,544
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	17.02%	15.70%	17.99%	16.57%	17.02%
6	Tier 1 ratio (%)	17.02%	15.70%	17.99%	16.57%	17.02%
7	Total capital ratio (%)	23.83%	21.90%	24.97%	22.93%	23.45%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
UK 7a	Additional CET1 SREP requirements (%)	2.37%	2.26%			
UK 7b	Additional AT1 SREP requirements (%)	0.79%	0.75%			
UK 7c	Additional T2 SREP requirements (%)	1.05%	1.00%			
UK 7d	Total SREP own funds requirements (%)	12.21%	12.02%			
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%	2.50%			
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)					
9	Institution specific countercyclical capital buffer (%)	0.06%	0.06%			
UK 9a	Systemic risk buffer (%)					
10	Global Systemically Important Institution buffer (%)					
UK 10a	Other Systemically Important Institution buffer					
11	Combined buffer requirement (%)	2.56%	2.56%			
UK 11a	Overall capital requirements (%)	14.77%	14.58%			
12	CET1 available after meeting the total SREP own funds requirements (%)	7.87%	6.68%			
	Leverage ratio					
13	Total exposure measure excluding claims on central banks	125,479	131,273	131,272	156,272	164,931
14	Leverage ratio excluding claims on central banks (%)	4.31%	4.18%	4.18%	3.56%	3.41%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	22,559	22,557			
UK 16a	Cash outflows - Total weighted value	33,152	34,664			
UK 16b	Cash inflows - Total weighted value	26,191	27,375			
16	Total net cash outflows (adjusted value)	8,292	8,670			
17	Liquidity coverage ratio (%)	274.33%	261.92%			

1. *As a Leverage Ratio Requirements ("LREQ") entity, the Group shall be subject to additional leverage ratio disclosure requirements beginning 1 January 2023. Template rows 14a to 14e have therefore been removed.*
2. *The Group shall be subject to Net Stable Funding Ratio ("NSFR") disclosure requirements beginning 1 January 2023. Template rows 18 to 20 have therefore been removed.*
3. *The Group is required to maintain a minimum ratio of Own Funds to Risk Weighted Assets ("RWAs"). As at 31st March 2022, the Group is in compliance with the PRA capital requirements.*

Tier 1 ratio increased by 1.32% during the quarter primarily driven by a decrease in RWAs.

Total SREP Own Funds requirements changed during the quarter from a fixed $1.4bn to 4.21% of RWAs, as prescribed by the PRA.

Leverage ratio has improved during the quarter due to reduction in secured financing exposure. Liquidity Coverage ratio has improved during the quarter mainly due to lower business utilisation of liquidity resources observed in the current market environment.

Template UK OV1 – Capital Requirements and Risk Weighted Exposure for the Group

The Group RWA and capital requirements:

$m		The Group		
		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		Jun-22	Mar-22	Jun-22
1	**Credit risk (excluding CCR)**	**2,856**	**3,387**	**228**
2	Of which the standardised approach	2,856	3,387	228
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which slotting approach	-	-	-
UK 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-
6	**Counterparty credit risk - CCR**	**19,507**	**21,539**	**1,561**
7	Of which the standardised approach	5,077	6,307	407
8	Of which internal model method (IMM)	8,418	8,619	673
UK 8a	Of which exposures to a CCP	205	254	16
UK 8b	Of which credit valuation adjustment - CVA	2,809	3,527	225
9	Of which other CCR	2,998	2,832	240
15	**Settlement risk**	**54**	**63**	**4**
16	**Securitisation exposures in the non-trading book (after the cap)**	**-**	**-**	**-**
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
UK 19a	Of which 1250%/ deduction	-	-	-
20	**Position, foreign exchange and commodities risks (Market risk)**	**6,189**	**6,619**	**495**
21	Of which the standardised approach	1,797	2,028	144
22	Of which IMA	4,392	4,591	351
UK 22a	**Large exposures**	**-**	**79**	**-**
23	**Operational risk**	**3,136**	**3,136**	**251**
UK 23a	Of which basic indicator approach	-	-	-
UK 23b	Of which standardised approach	3,136	3,136	251
UK 23c	Of which advanced measurement approach	-	-	-
24	**Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)**	-	-	-
29	**Total**	**31,742**	**34,823**	**2,539**

The Group's RWA decreased over the quarter primarily driven by a reduction in derivative exposure and other credit risk and reduced CVA as the worst credit widening dates associated with COVID-19 begin to leave the VAR simulation window.

Transitional Provisions

CRR Article 473a

Following adoption of IFRS 9 on 1 April 2018 the Group now applies the Expected Credit Loss ("ECL") model which replaces the incurred loss model under IAS 39. The table provides a comparison of own funds, capital and leverage ratios with and without the application of transitional arrangements for IFRS 9.

CRR article 473a ECL transitional relief has been extended to provide additional ECL relief following COVID-19. The relief permits the Group to add back to its own funds 100% of any increases in ECL arising from 1 January 2020 (deemed to be as a result of COVID-19) with the relief factor reducing to 25% by 2025. Prior to January 2020, the ECL relief factor currently stands at 50% which will phase out to 25% by 2023.

Template IFRS 9-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs for the Group

	The Group				
$m	**Jun-22**	**Mar-22**	**Dec-21**	**Sep-21**	**Jun-21**
Available Capital					
Common Equity Tier 1 (CET1) capital	5,403	5,466	5,568	5,630	5,708
Common Equity Tier 1 (CET1) capital as if IFRS 9 ECL transitional arrangements had not been applied	5,402	5,463	5,566	5,629	5,705
Tier 1 capital	5,403	5,466	5,568	5,630	5,708
Tier 1 capital as if IFRS 9 ECL transitional arrangements had not been applied	5,402	5,463	5,566	5,629	5,705
Total capital	7,563	7,626	7,728	7,790	7,868
Total capital as if IFRS 9 ECL transitional arrangements had not been applied	7,562	7,623	7,726	7,789	7,865
Risk Weighted Assets					
Total risk-weighted assets	31,742	34,823	30,953	33,976	33,544
Capital Ratios					
Common Equity Tier 1 (as a percentage of risk exposure amount)	17.02%	15.70%	17.99%	16.57%	17.02%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 ECL transitional arrangements had not been applied	17.02%	15.69%	17.98%	16.57%	17.01%
Tier 1 (as a percentage of risk exposure amount)	17.02%	15.70%	17.99%	16.57%	17.02%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 ECL transitional arrangements had not been applied	17.02%	15.69%	17.98%	16.57%	17.01%
Total capital (as a percentage of risk exposure amount)	23.83%	21.90%	24.97%	22.93%	23.45%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 ECL transitional arrangements had not been applied	23.82%	21.89%	24.96%	22.92%	23.45%
Leverage Ratio					
Leverage ratio total exposure measure	125,479	131,273	156,272	164,931	161,959
Leverage ratio	4.31%	4.18%	3.56%	3.41%	3.52%
Leverage ratio as if IFRS 9 ECL transitional arrangements had not been applied	4.31%	4.18%	3.56%	3.41%	3.52%

Template UK CCR7 – RWEA flow statements of CCR exposures under the IMM

The table below shows how the RWA under IMM have changed for the Group between 31st March 2022 and 30th June 2022:

$m		The Group
		a
		RWEA
1	**RWEA as at 31st March 2022**	**8,619**
2	Asset size	(647)
3	Credit quality of counterparties	(3)
4	Model updates (IMM only)	449
5	Methodology and policy (IMM only)	-
6	Acquisitions and disposals	-
7	Foreign exchange movements	-
8	Other	-
9	**RWEA as at 30th June 2022**	**8,418**

The decrease in RWAs for the Group was due to changes in the composition of the portfolio and IMM model change for Inflation products during the quarter.

Template UK MR2-B – RWA flow statements of market risk exposures under the IMA for the Group

The table below shows how the RWA under IMA Market Risk have changed for the Group between 31st March 2022 and 30th June 2022:

	$m	The Group						
		a	b	c	d	e	f	g
		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total own funds requirements[1]
1	**RWAs at 31st March 2022**	576	1,270	302	0	2,443	4,591	367
1a	*Regulatory adjustment[2]*	(301)	(838)	-	(0)	-	(1,139)	(91)
1b	*RWAs at 31st March 2022*	275	432	302	0	2,443	3,452	276
2	Movement in risk levels	(13)	77	62	(0)	(677)	(551)	(44)
3	Model updates/changes	(79)	1	-	-	-	(78)	(6)
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other	-	-	-	-	-	-	-
8a	*RWAs at 30th June 2022*	183	510	364	0	1,766	2,822	226
8b	*Regulatory adjustment[3]*	449	1,120	-	0	-	1,569	126
8	**RWAs at 30th June 2022**	**632**	**1,630**	**364**	**0**	**1,766**	**4,392**	**351**

1. *The Group Own Funds Requirement is calculated by aggregating the requirements for the individual entities. This includes the capital requirement for NFPE.*
2. *Indicates the difference between reported RWA (based on VaR/SVaR as of quarter end) and RWA (based on 60day average) at the beginning end of the period.*
3. *Indicates the difference between reported RWA (based on 60day average) and RWA (based on VaR/SVaR as of quarter end) at the end of the period.*

10d VaR decrease comes from decrease in short EUR, longer RUB & decrease in long JPY FX Delta and partially from decrease in long GBP SONIA & shorter USD Rates Delta and decrease in long UK Retail inflation Delta. 10d Optimal SVaR increase comes from shorter USD Rates Delta (shorter 1M & long to short switch for 12M tenor).

Template UK LIQ1 – Quantitative information of LCR for the Group

	$m	a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on (DD Month YYY)	30-Jun-22	31-Mar-22	31-Dec-21	30-Sep-21	30-Jun-22	31-Mar-22	31-Dec-21	30-Sep-21
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					22,559	22,557	22,954	23,361
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
3	*Stable deposits*	-	-	-	-	-	-	-	-
4	*Less stable deposits*	-	-	-	-	-	-	-	-
5	Unsecured wholesale funding	5,353	5,245	4,970	4,703	3,485	3,422	3,273	3,101
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	2,477	2,419	2,247	2,117	619	605	562	529
7	*Non-operational deposits (all counterparties)*	2,467	2,471	2,365	2,211	2,457	2,461	2,353	2,197
8	*Unsecured debt*	409	356	358	375	409	356	358	375
9	*Secured wholesale funding*					15,920	16,683	17,805	18,771
10	Additional requirements	7,873	7,782	8,282	8,651	4,930	4,896	5,378	5,572
11	*Outflows related to derivative exposures and other collateral requirements*	6,828	6,696	7,191	7,541	4,560	4,501	4,999	5,251
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	1,044	1,086	1,091	1,110	370	395	379	321
14	Other contractual funding obligations	8,867	9,710	10,645	10,532	8,732	9,570	10,499	10,385
15	Other contingent funding obligations	231	259	275	344	85	95	100	99
16	TOTAL CASH OUTFLOWS					33,152	34,664	37,055	37,929
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	237,960	246,258	255,143	260,494	17,728	18,240	19,263	19,720
18	Inflows from fully performing exposures	1,525	1,570	1,500	1,487	1,165	1,223	1,172	1,185
19	Other cash inflows	7,297	7,912	8,541	8,248	7,297	7,912	8,541	8,248
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
UK-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	246,782	255,740	265,183	270,229	26,191	27,375	28,976	29,154
UK-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
UK-20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
UK-20c	*Inflows subject to 75% cap*	187,512	194,191	200,104	203,948	26,191	27,375	28,976	29,154
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER					22,559	22,557	22,954	23,361
22	TOTAL NET CASH OUTFLOWS					8,292	8,670	9,437	9,769
23	LIQUIDITY COVERAGE RATIO					274.33%	261.92%	244.67%	241.00%

Note that the Group's business model means that some sections of the disclosure are not required to be populated

Main drivers of the Liquidity Coverage Ratio ("LCR")

The main drivers of the LCR are:

- The Liquidity Buffer which is primarily Level 1 high-quality liquid assets
- Net Cash Outflows over 30 days made up of net repos, unsecured and derivative flows
- Cash Inflows are capped at a maximum of 75% of outflows

There has been no evolution of the contribution of inputs to the LCR's calculation over the last quarter.

Changes in the LCR over time

The average LCR for the Group continues on an upward trend from 262% in March 2022 to 274% in June 2022.

Due to the current market environment we have observed lower business utilisation of liquidity resources. Key changes are a reduction in Pillar 1 outflows primarily across secured funding products and a reduced Liquidity Pool driven by the impact of Yen weakening on the sources of Unsecured Funding for the entity.

Concentration of Funding and Liquidity Sources

In line with liquidity reporting requirements, the firm prepares Additional Liquidity Monitoring Metrics ("ALMM") templates designed to supplement LCR, which provide a view on different aspects of concentration risk. The templates are formally submitted to the PRA on a monthly basis and facilitate internal concentration monitoring.

The Group also monitors concentrations covering collateral type, counterparty, and tenor concentrations for secured financing activities under its internal liquidity risk framework. In particular, refinancing risk is monitored via counterparty and tenor concentrations, limit monitoring for peripheral country repo financing as well as the monitoring of currency funding risk via rollover risk concentration.

Composition of the Liquidity Buffer

The liquidity buffer is comprised of highly liquid government securities held in the form of reverse repos and central bank deposits, which fall under the control of the Treasury function. The composition of the liquidity buffer is appropriately managed both in terms of currency and concentration risks.

Derivative Exposures and Potential Collateral Calls

NIP is the main derivatives trading entity within the Group, executing numerous derivative products including FX products, Interest Rate, Equity and Credit derivatives across all major business areas.

The Nomura Group runs a comprehensive range of liquidity specific stress tests capturing items under three core risk drivers:

- Ratings Downgrade
- Counterparty Reaction
- Impact of adverse market shock

Currency Mismatch in the LCR

Currency LCR compliance is not a regulatory requirement. The Group manages currency mismatch by internal stress testing (Maximum Cumulative Outflow or "MCO") and monitors and controls short-dated FX rollover risk via a set of limits, EWIs and other trigger metrics as part of the Contingency Funding Planning.

As the main derivatives executing entity, the Group's currency LCR results are negatively impacted by the LCR inflow cap.

Other Relevant Items in the LCR Calculation that are not Captured in the LCR Disclosure Template

The PRA has applied a range of Pillar II fixed add-ons for liquidity risks not captured under the LCR Pillar I model, including for example intraday risk and debt buybacks. These risks are modelled and fully incorporated in the MCO.