Company Registration No. 201212290E

Nomura International Funding Pte. Ltd.

Annual Financial Statements
31 March 2022

Building a better
working world

Nomura International Funding Pte. Ltd.

General information

Directors

Alok Vimalkishore Tapadia
Christopher Michael Mason Darke
Kelvin Ho Teik Chye
Kenichiro Asano

Company Secretary

Chew Pei Tsing

Registered Office

10 Marina Boulevard
Marina Bay Financial Centre Tower 2
#36-01
Singapore 018983

Auditor

Ernst & Young LLP
One Raffles Quay
North Tower, Level 18
Singapore 048583

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Nomura International Funding Pte. Ltd.

Directors' statement

We Alok Vimalkishore Tapadia and Kelvin Ho Teik Chye, being two of the directors of Nomura International Funding Pte. Ltd. (the "Company"), do hereby state that, in our opinion of the directors:

(a) the accompanying statement of comprehensive income, balance sheet, statement of changes in equity and cash flow statement together with notes thereto are drawn up so as to present fairly of the state of affairs of the Company as at 31 March 2022 and the results of the business, changes in equity and cash flows of the Company for the financial year ended on that date; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors:

Alok Vimalkishore Tapadia
Director

Kelvin Ho Teik Chye
Director

Singapore
27 July 2022

Independent auditor's report to the member of Nomura International Funding Pte. Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Nomura International Funding Pte. Ltd. (the "Company"), which comprise the balance sheet as at 31 March 2022, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are properly drawn up in accordance with International Financial Reporting Standards (IFRSs) so as to present fairly, in all material respects, the financial position of the Company as at 31 March 2022 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matters (cont'd)

Valuation of financial instruments

The structured notes issued by the Company, which are classified as financial liabilities designated at fair value through profit or loss, represented 80% (USD9.2 billion) of the Company's total liabilities as at 31 March 2022. The derivative financial instruments entered into by the Company for hedging purposes represented 8% (USD1.0 billion) of total assets and 20% (USD2.3 billion) of total liabilities respectively as at 31 March 2022, of which USD28.1 million derivative financial assets and USD421.4 million derivative financial liabilities are classified as level 3 derivative financial instruments.

The Level 2 and Level 3 financial instruments are valued based on valuation models and certain inputs other than quoted prices. When inputs other than observable quoted prices are used, it often involves the exercise of judgement and the use of estimates, particularly in the case for Level 3 financial instruments with significant unobservable inputs. In addition, significant judgment is applied in determining the inputs and assumptions in the valuation of financial liabilities designated at fair value through profit or loss which includes Own Credit Adjustment ("OCA"). As such, the key area of focus on our audit was on the valuation of financial instruments with significant judgments involved in unobservable inputs and assumptions used in valuation models, including the OCA calculation.

As part of our audit, we assessed the key management controls over the valuation of all level 2 and level 3 financial instruments, including those within the model validation process and the independent price verification process. Further, for selected samples of financial instruments, we involved our internal valuation specialists to assess the reasonableness of key assumptions and inputs used by management, including the OCA methodology and computation. Additionally, we performed an independent valuation, for selected financial instruments, by reference to alternative valuation methods used by other market participants to develop our own range of values. We also assessed the adequacy of the disclosures in relation to the valuation of financial instruments. The related disclosures are made in Note 15 Financial liabilities designated at fair value through profit or loss, Note 18 Financial risk management objectives and policies (d) Derivative financial instruments, and Note 19 Fair value of financial instruments to the financial statements.

Other matter

For the purpose of statutory filing with the Accounting and Corporate Regulatory Authority of Singapore, the Company will be preparing a separate set of financial statements for the year ended 31 March 2022 in accordance with the provisions of the Companies Act 1967 and Singapore Financial Reporting Standards, on which we expect to issue a separate auditor's report.

Other information

Management is responsible for other information. The other information comprises general information and directors' statement, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and 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, 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.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation and fair presentation of financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Company's financial reporting process.

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 SSAs 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.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Auditor's responsibilities for the audit of the financial statements (cont'd)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young LLP

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

27 July 2022

Nomura International Funding Pte. Ltd.

Statement of comprehensive income
For the financial year ended 31 March 2022

	Notes	2022 USD'000	2021 USD'000
Interest income	3	162,785	198,810
Interest expense		(97)	(98)
Net interest income		162,688	198,712
Net losses from trading activities	4	(150,823)	(267,655)
Other income	5	3,955	76,210
Profit before operating expenses		15,820	7,267
Staff costs	6	(145)	(112)
Other operating expenses	7	(15,416)	(9,210)
Total operating expenses		(15,561)	(9,322)
Less: Allowance for impairment	8	(493)	(598)
Loss before taxation		(234)	(2,653)
Taxation	9	28	426
Loss for the year		(206)	(2,227)
Other comprehensive income/(loss)		232,252	(491,263)
Total comprehensive income/(loss) for the year		232,046	(493,490)

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

Nomura International Funding Pte. Ltd.

Balance sheet
As at 31 March 2022

	Notes	2022 USD'000	2021 USD'000
Assets			
Cash and cash equivalents	10	224,344	376,724
Derivative financial instruments	18(d)	1,045,923	3,998,235
Financial assets designated at fair value through profit or loss	11	30,006	28,159
Loans	12	9,240,403	10,714,276
Other assets	13	1,466,490	593,469
Right-of-use assets		9	14
Deferred tax asset	9	515	46,676
		12,007,690	15,757,553
Liabilities			
Derivative financial instruments	18(d)	2,291,338	4,436,209
Other liabilities	14	32,551	50,217
Financial liabilities designated at fair value through profit or loss	15	9,224,232	11,036,861
		11,548,121	15,523,287
Net assets		459,569	234,266
Shareholder's equity			
Share capital	17	450,000	450,000
Accumulated losses		(20,071)	(13,122)
Own credit reserve		29,640	(202,612)
		459,569	234,266

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

Nomura International Funding Pte. Ltd.

Statement of changes in equity
For the financial year ended 31 March 2022

	Notes	2022 USD'000	2021 USD'000
Share capital			
Issued and fully paid:			
Balance at the beginning and end of year		450,000	190,000
Capital raised during the year		–	260,000
Balance at the end of year	17	450,000	450,000
Accumulated losses			
Balance at the beginning of year		(13,122)	(19,053)
Loss for the year		(206)	(2,227)
Transferred from own credit reserve to retained earnings during the year		(6,743)	8,158
Balance at the end of year		(20,071)	(13,122)
Own credit reserves			
Balance at the beginning of year		(202,612)	288,651
Movement during the year, net of deferred tax		232,252	(491,263)
Balance at the end of year		29,640	(202,612)
Total equity		459,569	234,266

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

Nomura International Funding Pte. Ltd.

Cash flow statement
For the financial year ended 31 March 2022

	2022 USD'000	2021 USD'000
Cash flows from operating activities		
Loss before taxation	(234)	(2,653)
Adjustments for:		
Allowance for impairment	493	598
Interest income	(162,785)	(198,810)
Interest expense	97	98
Depreciation of right-of-use assets	6	5
Operating cash flows before working capital changes	(162,423)	(200,762)
(Increase)/decrease in		
Loans	1,473,380	(856,291)
Other assets	(876,974)	(240,680)
Financial assets designated at fair value through profit or loss	(1,847)	(9,479)
Increase/(decrease) in:		
Other liabilities	(17,655)	30,691
Derivative financial instruments, net	807,440	251,164
Financial liabilities designated at fair value through profit or loss	(1,540,931)	339,171
Cash flows used in operating activities	(319,010)	(686,186)
Interest received	166,738	175,058
Interest paid	(97)	(98)
Tax paid	–	(22)
Net cash flows used in operating activities	(152,369)	(511,248)
Cash flows generated from financing activities		
Proceeds from issuance of shares	–	260,000
Payment of principal portion of lease liability	(11)	(11)
Net cash flows (used in)/generated from financing activities	(11)	259,989
Net decrease in cash and cash equivalents for the year	(152,380)	(251,259)
Cash and cash equivalents at beginning of year	376,724	627,983
Cash and cash equivalents at end of year (Note 10)	224,344	376,724

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

1. Corporate information

Nomura International Funding Pte. Ltd. (the "Company") was incorporated on 17 May 2012. The Company is a private limited company incorporated in Singapore. Its immediate and ultimate holding company is Nomura Holdings Inc., incorporated in Japan.

The registered office of the Company is located at 10 Marina Boulevard, Marina Bay Financial Centre Tower 2, #36-01, Singapore 018983.

The principal activity of the Company is that of issuance of structured credit, equity, interest rate and foreign exchange linked notes for the global markets international business outside of Japan.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in United States dollars ("USD" or "US$") and all values in the tables are rounded to the nearest thousand (USD'000) except when otherwise indicated.

2.2 *Changes in accounting policies*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Company has adopted all the new and revised IFRS, standards International Accounting Standards ("IAS"), IAS and International Financial Reporting Interpretations of Committee ("IFRIC") interpretations which are effective for annual periods beginning on or after 1 April 2021. The adoption of these standards did not have any material impact on the financial performance or position of the Company.

2. Summary of significant accounting policies (cont'd)

2.3 *Impact of standards issued but not yet effective*

The Company has not adopted the following standards that have been issued but are not yet effective:

Description	**Effective for annual periods beginning on or after**
Property, Plant and Equipment: Proceeds before Intended Use – *Amendments to IAS 16*	1 January 2022
AIP IFRS 9 Financial Instruments – *Fees in the "10 per cent" test for derecognition of financial liabilities*	1 January 2022
Amendments to IAS 1 *Classification of Liabilities as Current or Non-Current*	1 January 2023
IFRS 17 *Insurance Contracts*	1 January 2023
Amendments to IAS 8 *Definition of Accounting Estimates*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies*	1 January 2023
Amendments to IAS 12 *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*	1 January 2023
Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an investor and its Associate or Joint Venture*	Date to be determined

The directors expect that the adoption of the standards above will have no material impact on the financial statements in the period of initial application.

2.4 *Significant accounting estimates and judgements*

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Key sources of estimation uncertainty

(a) Impairment losses on financial assets

Allowance for impairment of financial assets is determined in accordance with Note 2.9. This requires management's experience and judgement in relation to the forward looking assumptions used in the expected credit loss allowance computation to evaluate various factors such as economic indicators, significant increase in credit risk, business prospects, timing and amount of future cash flows.

2. Summary of significant accounting policies (cont'd)

2.4 *Significant accounting estimates and judgements (cont'd)*

Key sources of estimation uncertainty (cont'd)

(b) Fair value of financial instruments

The fair value financial instruments that are not quoted in active markets are determined using valuation techniques. Where valuation techniques (e.g. models) are used to determine fair value, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are validated by an independent model validation group before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models will use observable data.

However, certain input parameters such as credit risks (both own and counterparty), volatilities and correlations may require management to make estimates. Changes in assumptions about the input parameters may affect the reported fair value of financial instruments.

Market factors such as the impact of the COVID-19 pandemic, rates change, Russia-Ukraine war are factors that may result in significant market volatility, therefore impacting movements in rates and credit spreads used in determining the fair value of financial instruments. The impact on the credit spreads may impact the OCA curve which is used for the purpose of calculating the OCA that forms part of the fair value of the financial liabilities designated at fair value through profit and loss.

(c) Taxes

Significant judgement is involved in determining the Company's provision for taxation. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the financial year in which such determination is made.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The related tax disclosure is made in Note 9.

2. Summary of significant accounting policies (cont'd)

2.5 *Functional currency*

The functional currency of the Company is the US$. The Company is of the opinion that the US$ reflects the economic substance of the underlying events and circumstances relevant to the Company.

2.6 *Foreign currencies*

Transactions in foreign currencies are measured and recorded on initial recognition in the functional currency at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2.7 *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances held with banks with reputable standing and hence are subject to an insignificant risk of changes in value.

2.8 *Financial assets*

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss. The Company determines the classification of its financial assets at initial recognition. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transactions costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.8 *Financial assets (cont'd)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and designated upon initial recognition as at fair value through profit or loss. All derivatives that are held-for-trading are fair value through profit or loss. Financial assets designated at fair value through profit or loss are fully funded over-the-counter equity options which are risk managed on a fair value basis where the Company elects the fair value option.

Subsequent to initial recognition, financial assets in this category are measured at fair value with gains or losses arising from changes in fair value recognised in profit or loss within "net losses from trading activities".

(b) Financial assets at amortised cost

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired, and through amortisation process.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired, and through amortisation process. Financial assets at amortised cost include loans, receivables from third parties and receivables from related companies that are held for the collection of contractual cash flows.

Regular way purchase or sale of a financial asset

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the financial period generally established by regulation or convention in the marketplace concerned.

2. Summary of significant accounting policies (cont'd)

2.8 *Financial assets (cont'd)*

De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The contractual rights to receive cash flows from the asset have expired;
- The Company retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the differences between the carrying amount and the sum of: (a) the consideration received (including any new asset obtained less any new liability assumed); and (b) any cumulative gains or losses that have been recognised directly in other comprehensive income is recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.9 *Impairment of financial assets*

General ECL impairment model

The Company leverages the Nomura Group's models/parameters used for Basel reporting purposes, where feasible and available, with modifications to align to IFRS 9 requirements. Under this model, the ECL associated with a financial asset is typically a product of its probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") discounted using the original effective interest rate to the reporting date.

- PD - PDs are sourced from industry data and validated based on historical experience, incorporating forward-looking scenarios.
- LGD - LGDs 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. Adjustments are made to reflect impact of collateral and integral credit enhancements.
- EAD - EAD is based on the current gross carrying value of the financial instruments, with adjustments made for significant scheduled or potential repayment and drawdowns.

ECL models are subject to an independent assurance process, which is managed by the Risk Model Validation Group ("RMVG"), and are also reviewed regularly for its logic and conceptual soundness, together with the integrity of model inputs and outputs.

Assessment of significant increase in credit risk

Under the General ECL impairment model, determination of whether a significant increase in credit risk has occurred at each reporting date is primarily through observed changes in internal credit ratings between initial recognition and reporting date, which is more than pre-specified thresholds.

Non-credit impaired exposures more than 30 days past due are considered to have experienced a significant increase in credit risk, and are transferred to Stage 2.

Exposures are transferred back to Stage 1 when they no longer meet the criteria for a significant increase in credit risk.

The Company considers "low credit risk" to meet all of the following criteria.

- Low default risk - possess an investment grade credit rating using a combination of internal and external credit rating model;
- The obligor has a strong capacity in the short term to meet its obligations; and
- Expectations that adverse change in economic and business conditions will not necessary reduce the ability of the obligor to meet its obligations.

The Company applies low credit risk simplifications for cash balances with banks, reverse repurchase agreements and receivables from related companies. For the loans and advances carried at amortised cost, due to the low default history, days past due is used as backstop if there is a significant increase in credit risk.

2. Summary of significant accounting policies (cont'd)

2.9 *Impairment of financial assets (cont'd)*

Definition of default for credit-impaired financial assets

Exposures are classified as Stage 3 if these are deemed to be credit-impaired or have demonstrated objective evidence of default as at the reporting date.

The Company uses the following criteria to determine whether there is evidence of default:

- Default or delinquency in interest or principal payments.
- Granting of a concession to existing contractual terms for economic or legal reasons relating to the borrower's financial difficulty.
- Bankruptcy filings, liquidation or other winding-up or cessation of business of an obligor or other similar situations.

Exposures which are 90 days or more past due are considered to be credit impaired, and are transferred to Stage 3.

Exposures that are credit-impaired are classified as Stage 3 and could be upgraded to Stage 1 or Stage 2 if supported by repayment capability, cash flows and financial position of the borrower and it is unlikely that the exposure will be classified again as credit-impaired in the future.

Expected Life

When measuring Stage 2 or 3 ECL, cash flows over the expected remaining life of the financial asset are considered. The expected life for this purpose is the maximum contractual period over which the Company is exposed to credit risk from the financial instrument.

Governance framework

ECL models are subject to an independent assurance process, which is managed by the Risk Model Validation Group ("RMVG"), and are also reviewed regularly. This assurance process covers the review of the underlying ECL methodology including its logic and conceptual soundness, together with the integrity of model inputs and outputs.

Simplified ECL impairment model

Simplified ECL impairment model is applied to trade receivables, other receivables and other assets.

2. Summary of significant accounting policies (cont'd)

2.10 *Financial liabilities*

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. In addition, they are not generally recognised unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of IFRS 9. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classifications as follows:

(a) <u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated at fair value through profit or loss. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial liabilities designated at fair value through profit or loss includes structured notes issued by the company which are risk managed on a fair value basis as it includes embedded derivatives.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss. Any gains or losses arising from changes in own credit risk of notes issued are recognised in the other comprehensive income.

(b) <u>Financial liabilities at amortised cost</u>

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

2. Summary of significant accounting policies (cont'd)

2.10 *Financial liabilities (cont'd)*

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration is recognised in profit or loss. However, the own credit risk of notes issued is not allowed to be recycled to profit or loss upon derecognition.

2.11 *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheet, when and only when, there is a currently enforceable legal right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Amounts due to/due from counterparties are only netted if there is a legal right to offset and management intends to settle on a net basis, or to realise an asset and settle the liability simultaneously. At present, no transactions meet these criteria and no amounts due to/due from by counterparties have been netted.

2.12 *Provisions*

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provisions are reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provisions due to the passage of time is recognised as a finance cost.

2. Summary of significant accounting policies (cont'd)

2.13 ***Revenue***

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

(a) *Interest income*

Interest income is recognised on a time proportion basis using the effective interest rate which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial assets or liabilities.

(b) *Other income*

Other income includes service fee income performed on behalf of related companies over time. During the year, the Company entered into a transfer pricing arrangement with the related parties and the transfer pricing income is recognised based on the globally agreed methodology applicable for trading activities.

(c) *Net losses from trading activities*

Net losses from trading activities include gains and losses from changes in fair value of financial assets and liabilities designated at fair value through profit or loss and derivative financial assets and liabilities.

2.14 ***Taxes***

(a) *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

2. Summary of significant accounting policies (cont'd)

2.14 *Taxes (cont'd)*

(b) *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax asset is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the financial period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set-off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. Summary of significant accounting policies (cont'd)

2.15 *Employee benefits*

(a) *Defined contribution plan*

As required by law in Singapore, the Company makes contribution to the state retirement scheme, the Central Provident Fund ("CPF"), a defined contribution pension scheme. These contributions are recognised as an expense in the period in which the related service is performed.

(b) *Employee leave entitlement*

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to the end of the reporting period.

2.16 *Related parties*

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Company if that person:

- (i) Has control or joint control over the Company;
- (ii) Has significant influence over the Company; or
- (iii) Is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Company if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
- (vi) The entity is controlled or jointly controlled by a person identified in (a);
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

2. Summary of significant accounting policies (cont'd)

2.17 *Interest rate benchmark reform*

In March 2021, the UK Financial Conduct Authority (FCA) announced the dates on which LIBOR would be discontinued. All GBP, CHF, EUR and JPY London Interbank Offered Rate (LIBOR) settings and the one-week and two-month USD LIBOR settings would lose representativeness or discontinue after 31 December 2021. The remaining USD LIBOR settings would lose representativeness or discontinue after 30 June 2023.

Nomura Group, including the Company, has been actively working on a transition away from IBOR to risk free rates ("RFR"). During the year, the Company has completed the transition of the IBOR exposures to RFRs and is currently working on the remaining transitions for those IBOR referenced rates that has yet to cease as shown in the table below. The migration of the existing IBOR positions will be validated by the various workstreams. In addition, migrations for existing IBOR positions are being performed with the involvement of multiple departments across the Nomura Group.

As part of the transition process, the Nomura Group is currently focused on actively transitioning counterparties away from viable legacy IBOR contracts. In this regard, Nomura Group including the Company is holding transition discussion with counterparties and have already received consent from some of the counterparties. Following the discussion with the counterparties, pace of progress will be determined by their decision and readiness to transit.

During the reporting period, the Company has completed the transition of derivative and loan contracts to other alternative rates where publication of such IBOR ends at the end of December 2021.

The amounts in the below table provides an indication of the extent of the Company's exposure to the IBOR benchmarks that are due to be replaced. Amounts are in respect of financial instruments that:

(a) contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
(b) have a contractual maturity beyond the date by which the reference interest rate benchmark is expected to cease; and
(c) are recognised on the Company's balance sheet.

	USD LIBOR USD'000
Financial assets designated at fair value through profit or loss	30,006
Financial liabilities designated at fair value through profit or loss	1,176,768
Derivative notional contract amount	76,959,551

3. Interest income

	2022 USD'000	**2021** USD'000
Loans due from related companies	161,025	197,784
Placements with related companies	1,450	422
Interest from bank balance	310	604
	162,785	198,810

Total interest income (calculated using effective interest rate) for financial assets that are measured at amortised cost is USD162,785,000 (2021: USD198,810,000).

4. Net losses from trading activities

	2022 USD'000	**2021** USD'000
Financial instruments held for trading	(1,857,367)	(193,613)
Financial liabilities designated at fair value through profit or loss	1,706,544	(74,042)
	(150,823)	(267,655)

Interest expense on financial liabilities designated at fair value through profit or loss is USD241,000,000 (2021: USD188,000,000).

5. Other income

	2022 USD'000	**2021** USD'000
Transfer pricing income	–	72,596
Service fees income	3,955	3,614
	3,955	76,210

6. Staff costs

	2022 USD'000	**2021** USD'000
Salaries, wages, bonuses and other staff related expenses	133	100
Defined contribution plan	12	12
	145	112

7. Other operating expenses

	2022 USD'000	**2021** USD'000
Guarantee fees payable	5,843	5,571
Service fees paid	2,590	2,288
Legal and professional fees	446	646
Other expenses	764	557
Sales and withholding tax	278	148
Transfer pricing expense	5,495	–
	15,416	9,210

8. Allowance for expected credit losses

	2022 USD'000	**2021** USD'000
Stage 1 ECL allowance		
Loans (Note 12)	2,091	1,598
	2,091	1,598

The table below shows the movement in allowance for ECL during the year:

	Balance at 1 April 2021 USD'000	**Charge to income statement** USD'000	**Balance at 31 March 2022** USD'000
Loans	1,598	493	2,091
	1,598	493	2,091

The ECL balance above relates to loans which are classified as Stage 1 under IFRS 9. These loans are not past due and are collectively assessed for impairment. There was no movement between ECL stages during the year. The increase in ECL was solely driven by the increase in carrying value of loan balances as at year end. As these are loans due from related companies which are relatively short term in nature, the ECL is not expected to be significant.

9. Taxation

(a) *Major components of income tax expense*

The major components of income tax expense for the years ended 31 March 2022 and 2021 are:

	2022 USD'000	2021 USD'000
Current income tax	–	–
Deferred income tax		
- Original and reversal of temporary differences	(28)	(426)
	(28)	(426)

(b) *Relationship between tax expense and accounting profit*

The reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate for the financial years ended 31 March 2022 and 2021 is as follows:

	2022 USD'000	2021 USD'000
Loss before taxation	(234)	(2,653)
Tax at applicable statutory tax rate at 17% (2021: 17%)	(40)	(451)
Adjustments:		
Withholding tax	47	25
Others	(35)	–
	(28)	(426)

9. Taxation (cont'd)

(c) *Deferred tax asset*

	2022 USD'000	2021 USD'000
At beginning of year	46,676	6,839
Movement to profit or loss	28	426
Movement through OCI	(46,189)	39,411
Total deferred tax asset	515	46,676

(d) *Deferred tax liability*

	2022 USD'000	2021 USD'000
At beginning of year	–	59,538
Movement through OCI	–	(59,538)
Total deferred tax liability	–	–
Net deferred tax (liability)/asset	515	46,676

The deferred tax asset relates to unrealised losses on own credit which are taken to other comprehensive income as well as the current year's tax losses. The deferred tax liability relates to gains on own credit reserve which are taken to other comprehensive income.

10. Cash and cash equivalents

	2022 USD'000	2021 USD'000
Cash balances with banks	224,344	376,724

Cash balances with banks earn interest at prevailing deposit rates.

11. Financial assets designated at fair value through profit or loss

The financial assets are fully funded over-the-counter ("OTC") equity options that are held for trading entered into with related companies, Nomura Securities Bermuda, it matures on June 2026. The notional value at the year ended was USD53,700,000 (2021: USD53,700,000). Fair value changes arising from changes in credit risk as at 31 March 2022 and 31 March 2021 were not significant.

12. Loans

	2022 USD'000	**2021** USD'000
Loans	9,242,494	10,715,874
Less: Allowance for impairment (Note 8)	(2,091)	(1,598)
	9,240,403	10,714,276

Loans are unsecured, bear interest at various 1 and 3 month interbank offer rate plus market related spread. Loans have maturities ranging from April 2022 to March 2023.

13. Other assets

	2022 USD'000	**2021** USD'000
Collateral placed	1,340,697	399,896
Trade receivables	105,144	151,081
Interest receivable	19,118	23,071
Other receivables	1,493	19,383
Tax receivable	38	38
	1,466,490	593,469

Trade and other receivables are unsecured, non-interest bearing and are due to settle within the next 12 months.

Collateral received or placed are unsecured, bear interest at US Federal Funds Rate and repayable within 30 days.

14. Other liabilities

	2022 USD'000	**2021** USD'000
Trade payable	18,401	43,584
Guarantee fee payables	5,438	5,508
Service fee payables	2,603	825
Other payables	6,074	267
Provision for staff related costs	26	19
Lease payable	9	14
	32,551	50,217

Guarantee fee payables are paid to Nomura Holdings Inc. and Nomura Securities Co. for the guarantee provided on the notes issued by the Company.

15. Financial liabilities designated at fair value through profit or loss

	2022 USD'000	**2021** USD'000
Notes in issue, by remaining maturity:		
- Less than 5 years	3,974,766	4,464,873
- Greater than 5 years	5,249,466	6,571,988
	9,224,232	11,036,861

The notes in issue above are designated at fair value through profit or loss comprised structured notes with maturity dates ranging from April 2022 to December 2067 (2021: April 2021 to December 2067). The structured notes issued by the Company are managed together with the derivative financial instruments on a fair value basis. The impact of fair value changes in own credit risk recorded on the balance sheet as at 31 March 2022 was a gain of USD35,711,000 (2021: loss of USD244,110,000). The notes are guaranteed by either a related company, Nomura Securities Co Ltd (incorporated in Japan) or the holding company, Nomura Holdings Inc..

16. Related parties transactions

Other than those disclosed elsewhere in the financial statements, the Company had the following significant transactions with related companies which were made in the ordinary course of their business at terms agreed between the parties:

2022	**Ultimate holding company** USD'000	**Related companies** USD'000
Net income/(expense)		
Interest income	–	162,484
Losses from trading activities	–	(1,853,726)
Transfer pricing expense (Note 7)	–	5,495
Service fee income (Note 5)	–	3,955
Guarantee fee expense	(5,073)	(770)
Service fee expense	–	(2,590)
Other expense	–	(6)
Allowance for impairment	–	(493)
Assets/(liabilities)		
Financial asset at fair value through profit or loss	–	30,006
Collateral placed (Note 13)	–	1,340,697
Loans (Note 12)	–	9,240,403
Trade receivables	–	105,144
Interest receivables	–	19,116
Other receivables	–	1,375
Derivative financial assets	–	1,045,923
Derivative financial liabilities	–	(2,291,338)
Trade payables	–	(18,401)
Other payables	(4,708)	(9,151)

16. Related parties transactions (cont'd)

2021	**Ultimate holding company** USD'000	**Related companies** USD'000
Net income/(expense)		
Interest income	–	198,405
Losses from trading activities	–	(164,116)
Transfer pricing income (Note 5)	–	72,596
Service fee income (Note 5)	–	3,614
Guarantee fee expense	(4,748)	(823)
Service fee expense	–	(2,288)
Other expense	–	(5)
Allowance for impairment	–	(598)
Assets/(liabilities)		
Financial asset at fair value through profit or loss	–	28,159
Collateral placed	–	399,896
Loans (Note 12)	–	10,714,276
Trade receivables	–	151,081
Interest receivables	–	23,068
Other receivables	–	19,223
Derivative financial assets	–	3,998,235
Derivative financial liabilities	–	(4,436,209)
Trade payables	–	(43,585)
Other payables	(4,719)	(1,631)

17. Share capital

	2022		**2021**	
	No. of shares '000	USD'000	No. of shares '000	USD'000
Issued and fully paid:				
At beginning of year	230,000	450,000	100,000	190,000
Issued during the year	–	–	130,000	260,000
At end of year	230,000	450,000	230,000	450,000

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

18. Financial risk management

Financial risk management objectives and policies

The Company is exposed to a variety of financial risks, including the effects of changes in foreign exchange rates, interest rates, credit risk and liquidity risk.

Managing these financial risks forms an integral part of the Company's business. The Company's risk management policy encompasses a variety of controls and reporting processes. These include the parameters for the risks that the Company may undertake for the various financial instruments, guidelines for accepting customers and the terms under which customer business is conducted. The Company believes it has effective processes in place to identify, measure, monitor and mitigate these financial risks.

(a) *Market risk*

Market risk is the risk of loss arising from fluctuations in the value of 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).

(i) Market risk management process

Effective management of market risk requires the ability to analyse a complex and 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 complementary tools to measure, model and aggregate market risk. The Company's principal statistical measurement tool to assess and monitor market risk on an ongoing basis is Value at Risk ("VaR"). Limits on VaR are set in line with Group's risk appetite as expressed through economic capital. In addition to VaR, the Company uses sensitivity analysis and stress testing to measure and analyse its market risk. Sensitivities are measures used to show the potential changes to a portfolio due to standard moves in market risk factors. They are specific to each asset class and cannot usually be aggregated across risk factors. Stress testing enables the Company to analyse portfolio risks or tail risks, including non-linear behaviours and can be aggregated across risk factors at any level of the group hierarchy. Market risk is monitored against a set of approved limits, with daily reports and other management information provided to the business units and senior management.

The Company enters into derivative financial instruments with Nomura affiliates to hedge the underlying market risk such as currency risk, interest rate risk, and other price risk of its positions.

(ii) Value at risk

VaR is a measure of the potential loss in the value of positions due to adverse movements in markets over a defined time horizon with a specified confidence level. Market risks that are incorporated in the VaR model include equity prices, interest rates, foreign exchange rates, and commodities with associated volatilities and correlations.

18. Financial risk management (cont'd)

Financial risk management objectives and policies (cont'd)

(a) *Market risk (cont'd)*

(iii) VaR methodology assumptions

The Company uses a single VaR model which has been implemented globally in order to determine the total VaR for the Company. The Company's VaR methodology uses historical simulation to estimate potential profit or loss. Historical market moves are repeatedly applied to current exposure, forming a distribution of simulated portfolio returns. From this distribution the required potential losses can be estimated at required confidence levels or probabilities. VaR is calculated at a 95% (2021: 95%) confidence level and using a 1-day time horizon. The change in VaR limit measure from 99% to 95% confidence interval was a group level change to align closer to trading daily PL expectations while larger standard deviation moves are covered by other risk matrices.

The VaR model uses a default historical time window of two years (520 business days). For risk management and VaR backtesting, the Company uses a weighted VaR. For the calculation of VaR, the probability weight assigned to each measure of estimated profit or loss in the historical simulation scenarios depends on when it occurred. The older the observation, the lower the weight.

In addition, the Company calculates other measures used to complement VaR under regulation known as "Basel 2.5". One example is Stressed-VaR ("SVaR") which is calibrated using a one-year window during a period of financial stress. The SVaR calculation uses one year of market data from that period of financial stress. The one-year window is calibrated to be the one with the largest SVaR, given the Company's current portfolio. The historical data used for SVaR is not exponentially weighted. All VaR and SVaR numbers are calculated within the same system using equivalent model assumptions.

The Company's VaR model uses time series for each individual underlying, whenever available. Whenever a time series cannot be found for a specific underlying, the VaR model will follow a 'proxy logic' to map the exposure to an appropriate time series (for example, this would be the case for an option on a recently issued stock). The level of proxying taking place in the VaR model 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.

(iv) 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 VaR model is backtested at the Group level and backtesting results are reviewed on a monthly basis by Group Risk Management.

18. Financial risk management (cont'd)

Financial risk management objectives and policies (cont'd)

(a) *Market risk (cont'd)*

(v) Limitations and advantages of VaR

The main advantage of VaR as a risk measure is that it is able to aggregate risk from different asset classes (in contrast with other risk measures sensitivities that cannot be easily aggregated directly). The risk from different divisions of the Company can therefore easily be compared and aggregated using VaR.

As a risk measure, however, VaR has certain limitations. One of the main disadvantages with VaR is that it is a backward-looking risk measure. Using historical market moves to estimate future profits or losses assumes that only events that have actually happened in the past are relevant to analyse the risk of a portfolio.

In addition, VaR only gives an estimate of the loss at a stated 95th percentile (i.e. in 5 out of 100 days the loss will be greater than 1-day VaR), but not what the magnitude of loss could be whenever the loss does exceed VaR. VaR as a risk measure is most appropriate for liquid markets and may understate the financial impact of severe events for which there is no historical precedent on where market liquidity may not be reliable. In particular, historical correlations can break down in extreme markets leading to unexpected relative market moves. This may make positions that off-set each other in VaR modelling move in the same direction thus increasing losses.

Given the limitations of the VaR model, the Group uses VaR only as one component of a diverse market risk management process. Other metrics to supplement VaR include stress VAR, economic capital, stress testing and sensitivity analysis.

(vi) VaR metrics

The one-day VaR at 95% confidence level as of 31 March 2022 (95% as of 31 March 2021) indicated is as follows:

	2022 USD'000	**2021** USD'000
VaR	208	428

18. Financial risk management (cont'd)

Financial risk management objectives and policies (cont'd)

(a) *Market risk (cont'd)*

(vii) Stress testing

The Company conducts market risk stress testing since VaR and sensitivity analysis have limited ability to capture all portfolio risks or tail risks, including non-linear behaviours. Stress testing for market risk is conducted daily and weekly, using various scenarios based upon features of trading strategies. The Company conducts stress testing for each desk and at the Company level. The stress testing scenarios are calibrated each year and additional scenarios may be added on changing market events, including impact on the financial markets due to Covid-19 pandemic.

(b) *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its working capital requirements and commitments for the loans, including that associated with financial instruments. This risk could arise from various scenarios and could be due both to Nomura specific and market wide events. The primary objective for liquidity risk management is to ensure continuous liquidity across market cycles and periods of market stress, and to ensure that all funding requirements and unsecured debt obligations that fall due within one year can be met without any reliance on additional unsecured funding or forced liquidation of assets.

Nomura Group's Maximum Cumulative Outflow ("MCO") model quantifies the amount of liquidity required to survive approved stress scenarios and controls liquidity usage via an unsecured funding limit framework. To ensure a readily available source of liquidity to meet the modelled liquidity requirements, including the Companies maturing liabilities, Nomura Group maintains a liquidity pool in the form of cash and highly liquid unencumbered securities that can readily be sold or pledged, of which the guarantor may utilise for any liquidity shortfall.

The Company places its cash with related companies of the Nomura Group through short term loans and is managed as a part of the overall Nomura Group liquidity as described above.

18. Financial risk management (cont'd)

Financial risk management objectives and policies (cont'd)

(b) *Liquidity risk (cont'd)*

The table below presents the breakdown of the assets and liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the carrying values. The amounts reflected under "due within 1 year" represent current assets and liabilities in accordance with IAS 1.

2022	**Due within 1 year** USD'000	**Due after 1 year** USD'000	**Total** USD'000
Assets			
Cash and cash equivalents	224,344	–	224,344
Derivative financial instruments	15,562	1,030,361	1,045,923
Financial assets designated at fair value through profit or loss	–	30,006	30,006
Loans	9,240,403	–	9,240,403
Other assets	1,466,490	–	1,466,490
Right-of-use assets	9	–	9
Deferred tax asset	–	515	515
Total assets	10,946,808	1,060,882	12,007,690

2022	**Due within 1 year** USD'000	**Due after 1 year** USD'000	**Total** USD'000
Liabilities			
Derivative financial instruments	12,920	2,278,418	2,291,338
Other liabilities	32,551	–	32,551
Financial liabilities designated at fair value through profit or loss	1,720,963	7,503,269	9,224,232
Total liabilities	1,766,434	9,781,687	11,548,121
Net assets/(liabilities)	9,180,374	(8,720,805)	459,569

18. Financial risk management (cont'd)

Financial risk management objectives and policies (cont'd)

(b) *Liquidity risk (cont'd)*

2021	**Due within 1 year** USD'000	**Due after 1 year** USD'000	**Total** USD'000
Assets			
Cash and cash equivalents	376,724	–	376,724
Derivative financial instruments	11,167	3,987,068	3,998,235
Financial assets designated at fair value through profit or loss	–	28,159	28,159
Loans	10,714,276	–	10,714,276
Other assets	593,469	–	593,469
Right-of-use assets	–	14	14
Deferred tax asset	–	46,676	46,676
Total assets	11,695,636	4,061,917	15,757,553

2021	**Due within 1 year** USD'000	**Due after 1 year** USD'000	**Total** USD'000
Liabilities			
Derivative financial instruments	12,923	4,423,286	4,436,209
Other liabilities	50,212	5	50,217
Financial liabilities designated at fair value through profit or loss	2,249,697	8,787,164	11,036,861
Total liabilities	2,312,832	13,210,455	15,523,287
Net assets/(liabilities)	9,382,804	(9,148,538)	234,266

18. Financial risk management (cont'd)

Financial risk management objectives and policies (cont'd)

(b) *Liquidity risk (cont'd)*

The table below presents the cash flows payable under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Derivative financial instruments are included in the "within 3 months" column at their fair value as liquidity risk on these items is not managed on the basis of contractual maturity and will frequently be settled before contractual maturity. Financial liabilities designated at fair value are disclosed based on the contractual maturity remaining.

2022	**Within 3 months** USD'000	**3 to 12 months** USD'000	**Over 1 year** USD'000	**Over 5 years** USD'000	**Total** USD'000
Liabilities					
Derivative financial instruments	2,291,338	–	–	–	2,291,338
Other liabilities	32,551	–	–	–	32,551
Financial liabilities designated at fair value through profit or loss	717,296	1,266,447	2,646,171	6,653,860	11,283,774
Total liabilities	3,041,185	1,266,447	2,646,171	6,653,860	13,607,663
2021					
Liabilities					
Derivative financial instruments	4,436,209	–	–	–	4,436,209
Other liabilities	50,217	–	–	–	50,217
Financial liabilities designated at fair value through profit or loss	708,456	2,045,993	3,552,803	7,858,484	14,165,736
Total liabilities	5,194,882	2,045,993	3,552,803	7,858,484	18,652,162

18. Financial risk management (cont'd)

Financial risk management objectives and policies (cont'd)

(c) *Credit risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations.

At the end of the reporting period, the Company's maximum exposure to credit risk was represented by the carrying amount of the financial assets that were recognised in the balance sheet.

The Company transacts primarily with other Nomura affiliates and its exposure to credit risks is that of the holding company, Nomura Holdings Inc's credit risk. Credit risk is managed by the ultimate holding company as part of the operations of the Group.

<u>Concentration of credit risk</u>

Due to the Company's approach to mitigating risk, it is not exposed to any significant concentration risk other than that from other Nomura Group companies. Approximately 70% of the loans is with Nomura Europe Finance N.V. which is part of the Nomura Group.

(d) *Derivative financial instruments*

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair value, as recorded in the balance sheet. Derivative financial instruments are entered with related subsidiary companies for hedging purposes. The Company does not apply hedge accounting.

The tables below analyse the contractual or underlying principal amounts of derivative financial instruments held or issued for trading purposes.

They also set out the corresponding gross positive and negative balance sheet fair value of the trading derivative financial instruments.

18. Financial risk management (cont'd)

Financial risk management objectives and policies (cont'd)

(d) *Derivative financial instruments (cont'd)*

2022	**Contract or underlying principal amount** USD'000	**Derivative financial assets** USD'000	**Derivative financial liabilities** USD'000
Foreign exchange derivatives			
Foreign exchange options	159,762	754	(12,631)
Foreign exchange swaps	1,585,429	11,334	(5,011)
Equities derivatives			
Equity options	2,611,046	85,902	(428,878)
Credit derivatives			
Credit default swaps	2,898,670	90,932	(238,404)
Interest rate derivatives			
Interest rate options	4,813,565	7,585	(606,155)
Interest rate swaps	85,539,026	849,416	(1,000,259)
Total	97,607,498	1,045,923	(2,291,338)
2021			
Foreign exchange derivatives			
Foreign exchange options	196,347	628	(5,249)
Foreign exchange swaps	2,139,240	1,582	(35,854)
Equities derivatives			
Equity options	2,940,887	96,595	(201,856)
Credit derivatives			
Credit default swaps	2,846,508	142,745	(49,026)
Interest rate derivatives			
Interest rate options	4,952,039	161,425	(87,943)
Interest rate swaps	167,127,937	3,595,260	(4,056,281)
Total	180,202,958	3,998,235	(4,436,209)

18. Financial risk management (cont'd)

Financial risk management objectives and policies (cont'd)

(e) *Offsetting derivative financial assets and liabilities*

The following table shows the impact of netting arrangements on all derivative financial instruments that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for balance sheet netting under IAS 32.

		Related amounts not offset		
2022	**Gross carrying amounts** USD'000	**Financial instruments** USD'000	**Financial collateral** USD'000	**Net amounts** USD'000
Derivative financial assets	1,045,923	(1,045,923)	–	–
Derivative financial liabilities	(2,291,338)	1,045,923	1,227,197	(18,218)
	(1,245,415)	–	1,227,197	(18,218)
2021				
Derivative financial assets	3,998,235	(3,998,235)	–	–
Derivative financial liabilities	(4,436,209)	3,998,235	399,896	(38,078)
	(437,974)	–	399,896	(38,078)

* The net balances of the gross carrying amount of the derivative financial assets and liabilities are used to hedge against the underlying exposure of the derivatives embedded in the long term structured notes disclosed in Note 15. The company does not apply hedge accounting.

18. Financial risk management (cont'd)

Financial risk management objectives and policies (cont'd)

(f) *Classification of financial assets and liabilities*

2022	At fair value through profit or loss (Mandatory) USD'000	At fair value through profit or loss (Designated) USD'000	Amortised cost USD'000
Financial assets			
Cash and cash equivalents	–	–	224,344
Other assets	–	–	1,466,490
Derivative financial instruments	1,045,923	–	–
Financial assets designated at fair value through profit or loss	–	30,006	–
Loans	–	–	9,240,403
Total financial assets	1,045,923	30,006	10,931,237

	At fair value through profit or loss (Mandatory) USD'000	At fair value through profit or loss (Designated) USD'000	Amortised cost USD'000
Financial liabilities			
Other liabilities	–	–	32,551
Derivative financial instruments	2,291,338	–	–
Financial liabilities designated at fair value through profit or loss	–	9,224,232	–
Total financial liabilities	2,291,338	9,224,232	32,551

18. Financial risk management (cont'd)

Financial risk management objectives and policies (cont'd)

(f) *Classification of financial assets and liabilities (cont'd)*

2021	**At fair value through profit or loss** (Mandatory) USD'000	(Designated) USD'000	**Amortised cost** USD'000
Financial assets			
Cash and cash equivalents	–	–	376,724
Other assets	–	–	593,469
Derivative financial instruments	3,998,235	–	–
Financial assets designated at fair value through profit or loss	–	28,159	–
Loans	–	–	10,714,276
Total financial assets	3,998,235	28,159	11,684,469

	At fair value through profit or loss (Mandatory) USD'000	(Designated) USD'000	**Amortised cost** USD'000
Financial liabilities			
Other liabilities	–	–	50,217
Derivative financial instruments	4,436,209	–	–
Financial liabilities designated at fair value through profit or loss	–	11,036,861	–
Total financial liabilities	4,436,209	11,036,861	50,217

19. Fair value of financial instruments

(a) *Fair value hierarchy*

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices unadjusted in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs).

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

2022	**Level 1** USD'000	**Level 2** USD'000	**Level 3** USD'000	**Total** USD'000
Recurring fair value measurements				
Financial assets:				
Financial assets designated at fair value through profit or loss	–	30,006	–	30,006
Derivatives financial assets:				
Foreign exchange options	–	–	754	754
Foreign exchange swaps	–	11,334	–	11,334
Equity options	–	81,296	4,606	85,902
Credit default swaps	–	68,690	22,242	90,932
Interest rate options	–	7,152	433	7,585
Interest rate swaps	–	849,379	37	849,416
As at 31 March 2022	–	1,047,857	28,072	1,075,929

19. Fair value of financial instruments (cont'd)

(a) *Fair value hierarchy (cont'd)*

2022	**Level 1** USD'000	**Level 2** USD'000	**Level 3** USD'000	**Total** USD'000
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss	–	9,224,232	–	9,224,232
Derivatives financial liabilities:				
Foreign exchange options	–	–	12,631	12,631
Foreign exchange swaps	–	5,011	–	5,011
Equity options	–	255,988	172,890	428,878
Credit default swaps	–	162,287	76,117	238,404
Interest rate options	–	469,812	136,343	606,155
Interest rate swaps	–	976,805	23,454	1,000,259
As at 31 March 2022	–	11,094,135	421,435	11,515,570

2021				
Recurring fair value measurements				
Financial assets:				
Financial assets designated at fair value through profit or loss	–	28,159	–	28,159
Derivatives financial assets:				
Foreign exchange options	–	154	474	628
Foreign exchange swaps	–	1,571	11	1,582
Equity options	–	83,480	13,115	96,595
Credit default swaps	–	89,925	52,820	142,745
Interest rate options	–	158,385	3,040	161,425
Interest rate swaps	–	3,594,591	669	3,595,260
As at 31 March 2021	–	3,956,265	70,129	4,026,394

19. Fair value of financial instruments (cont'd)

(a) ***Fair value hierarchy (cont'd)***

2021	**Level 1** USD'000	**Level 2** USD'000	**Level 3** USD'000	**Total** USD'000
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss	–	11,036,861	–	11,036,861
Derivatives financial liabilities:				
Foreign exchange options	–	2	5,247	5,249
Foreign exchange swaps	–	35,854	–	35,854
Equity options	–	118,373	83,483	201,856
Credit default swaps	–	18,371	30,655	49,026
Interest rate options	–	59,250	28,693	87,943
Interest rate swaps	–	4,053,336	2,945	4,056,281
As at 31 March 2021	–	15,322,047	151,023	15,473,070

Financial assets and financial liabilities not carried at fair value

Except for financial instruments disclosed above, the carrying values of assets and liabilities approximate their respective fair values, either because of the relatively short-term maturity or because the interest rates are generally reset after a short period of time.

Valuation processes

The Company is fully integrated into the Nomura Group's governance framework which mandates determination or validation of a fair value measurement by control and support functions independent of the businesses assuming the risk of the financial instrument in order to ensure the appropriateness of any fair value measurement of a financial instrument used within these financial statements including those classified as Level 3 within the fair value hierarchy.

19. Fair value of financial instruments (cont'd)

(a) *Fair value hierarchy (cont'd)*

Valuation processes (cont'd)

The functions for either defining, implementing or maintaining valuation policies and procedures are as follows:

- The Valuation Control Group ("VCG") within Nomura's Finance Department has the primary responsibility to determine and implement valuation policies and procedures in connection with determination of fair value measurements. VCG performs independent price verification to verify the appropriateness of fair value measurements applied to all financial instruments. The independent price verification process seeks to ensure the valuation technique and inputs are appropriate, reasonable and consistently applied.

- The Valuation Control Model Validation Group ("VCMVG") is an independent function at the global level to validate the appropriateness and perform governance and oversight for all models developed and built by the Valuation Control Group ("VCG"). The valuation technique of the OCA model as disclosed in Note 2.4 was validated and approved by VCMVG.

- The Valuation Model Validation Group ("VMVG") validates the appropriateness and consistency of pricing models used to determine fair value measurements independently of those who design and build the models.

(b) *Level 2 fair value measurements*

The following is a description of the valuation techniques and inputs used in the fair value measurement for assets and liabilities that are categorised within Level 2 of the fair value hierarchy:

(i) *Financial assets and liabilities designated at fair value through profit or loss*

Financial assets and liabilities designated at fair value through profit and loss are measured at fair value by reference to quoted prices when available. Valuation models are based wherever possible on assumptions supported by observable market prices or rates. These valuation techniques include discounted cash flows ("DCF") and option pricing models, depending on the nature of the embedded features within the financial instruments. As a result, fair value calculated using these valuation techniques will change if the underlying assumptions change. The fair value of the financial liabilities designated at fair value through profit or loss includes Nomura's own credit worthiness.

(ii) *Derivatives*

Derivative products valued using a valuation technique with market-observable inputs are mainly interest rate swaps and options, currency swaps and forward foreign exchange contracts. The most frequently applied valuation technique is discounted cash flow model.

19. Fair value of financial instruments (cont'd)

(c) *Level 3 fair value measurements*

(i) *Information about significant unobservable inputs used in Level 3 fair value measurements*

The following table shows the information about fair value measurements using significant unobservable inputs (Level 3):

Description	Fair value as at 31 March 2022 USD'000	Valuation techniques	Unobservable inputs	Range
Credit default swaps	(53,875)	Discounted cash flow	EQ vs Others Correlation; IR vs IR Correlation; IR vs FX Correlation; IR vs EQ Correlation; Other vs Other Correlation	98.99% to (98.00)%
Equity options	(168,284)	Discounted cash flow/option model	EQ vs EQ Correlation; EQ vs Others Correlation; IR vs FX Correlation; IR vs EQ Correlation; Other vs Other Correlation	66.54% to (69.00)%
Foreign exchange options	(11,877)	Discounted cash flow/option model	IR vs FX Correlation; IR vs IR Correlation; IR vs EQ Correlation; Other vs Other Correlation	99.77% to (50.00)%
Interest rate options	(136,306)	Discounted cash flow/option model	IR vs IR Correlation; IR vs FX Correlation; Other vs Other Correlation	98.51% to (53.00)%
Interest rate swaps	(23,417)	Discounted cash flow	IR vs IR Correlation; Other vs Other Correlation	93.43% to (38.00)%

19. Fair value of financial instruments (cont'd)

(c) *Level 3 fair value measurements (cont'd)*

(i) *Information about significant unobservable inputs used in Level 3 fair value measurements (cont'd)*

Description	**Fair value as at 31 March 2021** USD'000	**Valuation techniques**	**Unobservable inputs**	**Range**
Credit default swaps	22,165	Discounted cash flow	IR vs IR Correlation; IR vs FX Correlation; IR vs EQ Correlation; Other vs Other Correlation	99.45% to (98.00)%
Equity options	(70,368)	Discounted cash flow/option model	IR vs FX Correlation; IR vs EQ Correlation; Other vs Other Correlation	50.79% to (69.00)%
Foreign exchange options	(4,773)	Discounted cash flow/option model	IR vs FX Correlation; IR vs IR Correlation; IR vs EQ Correlation; Other vs Other Correlation	99.91% to (46.00)%
Foreign exchange swaps	11	Discounted cash flow	FX Volatility	6.96% to 6.86%
Interest rate options	(25,653)	Discounted cash flow/option model	IR vs IR Correlation; IR vs FX Correlation; Other vs Other Correlation	97.11% to (46.00)%
Interest rate swaps	(2,276)	Discounted cash flow	IR vs IR Correlation; Other vs Other Correlation	97.00% to (46.00)%

19. Fair value of financial instruments (cont'd)

(c) *Level 3 fair value measurements (cont'd)*

(i) *Information about significant unobservable inputs used in Level 3 fair value measurements (cont'd)*

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

Credit default swap - a 1% movement in correlation could result in a profit or loss of USD394,000.

Foreign exchange option - a 1% movement in correlation could result in a profit or loss of USD94,000.

Equity Option - a 1% movement in the correlation could result in a profit or loss of USD449,000.

Interest rate swap - a 1% movement in correlation could result in a profit or loss of USD174,000.

Interest rate option - a 1% movement in correlation could result in a profit or loss of USD615,000.

For each class of financial instrument described in the above table, changes in each of the significant unobservable inputs and assumptions used by the Company will impact upon the determination of a fair value measurement for the financial instrument.

As the Company enters into derivative transactions to hedge the risk in the embedded derivatives associated risk exposures and the market risks in loans, the increase or decrease in the value of the Level 3 inputs or assumptions have material impact on its profit and loss. Hedging derivative instruments offset the positions arising from the derivatives which are embedded in the debt instruments and limit the sensitivity of fair value to changes in unobservable inputs related to these financial instruments.

19. Fair value of financial instruments (cont'd)

(c) *Level 3 fair value measurements (cont'd)*

(ii) *Movements in Level 3 financial instruments measured at fair value*

Assets and liabilities move between Level 2 and Level 3 primarily when there is an increase or decrease in market activity related to an unobservable input, or a change in the significance of the unobservable input, with instruments classified as Level 3 if an unobservable input is deemed significant. The transfers occurred at the beginning of the reporting period.

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial liabilities which are recorded at fair value:

	At 1 April 2021	**Transfers in**	**Transfers out**	**Settlements**	**Total gains/ (losses) in profit or loss**	**At 31 March 2022**
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Financial assets:						
Derivative financial instruments						
Foreign exchange options	474	–	–	(70)	350	754
Foreign exchange swaps	11	–	–	–	(11)	–
Equity options	13,115	–	388	(7,623)	(1,274)	4,606
Credit default swaps	52,820	–	–	(1,843)	(28,735)	22,242
Interest rate options	3,040	–	–	(38)	(2,569)	433
Interest rate swaps	669	–	–	–	(632)	37
Total level 3 financial assets	70,129	–	388	(9,574)	(32,871)	28,072
Financial liabilities:						
Derivative financial instruments						
Foreign exchange options	5,247	–	–	(162)	7,546	12,631
Foreign exchange swaps	–	–	–	–	–	–
Equity options	83,483	23	4,471	(28,579)	113,492	172,890
Credit default swaps	30,655	–	–	(981)	46,443	76,117
Interest rate options	28,693	–	–	(621)	108,271	136,343
Interest rate swaps	2,945	–	–	–	20,509	23,454
Total level 3 financial liabilities	151,023	23	4,471	(30,343)	296,261	421,435

19. Fair value of financial instruments (cont'd)

(c) *Level 3 fair value measurements (cont'd)*

(ii) *Movements in Level 3 financial instruments measured at fair value (cont'd)*

	At 1 April 2020 USD'000	**Transfers in** USD'000	**Transfers out** USD'000	**Settlements** USD'000	**Total gains/ (losses) in profit or loss** USD'000	**At 31 March 2021** USD'000
Financial assets:						
Derivative financial instruments						
Foreign exchange options	283	–	–	(263)	454	474
Foreign exchange swaps	5,144	–	–	(5,144)	11	11
Equity options	10,989	4	(157)	(10,989)	13,268	13,115
Credit default swaps	31,782	–	(22,205)	(31,782)	75,025	52,820
Interest rate options	146	–	–	(146)	3,040	3,040
Interest rate swaps	8	–	–	(8)	669	669
Total level 3 financial assets	48,352	4	(22,362)	(48,332)	92,467	70,129
Financial liabilities:						
Derivative financial instruments						
Foreign exchange options	28,277	2,136	–	(88,900)	63,734	5,247
Foreign exchange swaps	–	3,141	–	–	(3,141)	–
Equity options	244,319	12,300	(36,386)	(265,577)	128,827	83,483
Credit default swaps	108,504	–	–	(119,609)	41,760	30,655
Interest rate options	99,500	–	–	(99,500)	28,693	28,693
Interest rate swaps	24,811	–	–	(24,611)	2,745	2,945
Total level 3 financial liabilities	505,411	17,577	(36,386)	(598,197)	262,618	151,023

(iii) *Valuation techniques*

Derivatives are valued using internal models using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, or alternative pricing sources with reasonable levels of price transparency. Valuation techniques include discounted cash flow techniques and option pricing models. Derivatives that are valued using models with significant unobservable inputs such as correlation, long-dated volatility, or other unobservable inputs are classified within Level 3.

Valuation techniques may 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.

20. Capital management

The objective of the Company's capital management is to safeguard its ability to continue as a going concern so that it can continue to manage the financing needs and liquidity position of the Nomura Group. In order to maintain or achieve an optimal capital structure, the Company may adjust, in light of changes in economic conditions, the amounts of dividend payment and capital return to shareholders.

The capital structure of the Company comprised the notes issued, issued capital and reserves as disclosed in the statement of changes in equity. Notes issued are guaranteed by NHI and NSC.

The Company is not subject to externally imposed capital requirements.

21. Authorisation of financial statements

The financial statements of the Company for the financial year ended 31 March 2022 were authorised for issue in accordance with a resolution of the directors on 27 July 2022.