NOMURA INTERNATIONAL PLC

ANNUAL REPORT
31 March 2014

COMPANY REGISTERED NUMBER 1550505

STRICTLY PRIVATE AND CONFIDENTIAL

NOMURA

NOMURA INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2014

STRATEGIC REPORT

The Directors of Nomura International plc (the “Company") present their Strategic Report, Directors’ Report and the financial statements for the year ended 31 March 2014.

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

REVIEW OF THE COMPANY’S BUSINESS, DESCRIPTION OF PRINCIPAL RISKS AND INFORMATION REGARDING BRANCHES

The Company is the London based securities broker/dealer operating company within the Nomura Group headed by Nomura Holdings, Inc. (“NHI”). The Company's activities include:

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

The Company has branches in Madrid, Dubai, Milan, Stockholm, Doha, Helsinki and Frankfurt.

On 30 September 2013, the Company merged the assets and liabilities of Nomura Bank (Deutschland) GmbH (“NBD”), a former subsidiary of Nomura Europe Holdings plc (“NEHS”). Consideration for the transfer of these assets and liabilities was made in the form of the issuance of 51,932,418 ordinary shares in the Company to NEHS. This restructure has been accounted for by the Company as a merger. The impact on prior year comparatives is disclosed in note 2 on page 30.

The Company remains a key member of the Nomura Group and in addition to European-based business activity, many Wholesale business lines across Asia and the Americas continue to leverage the Company’s well developed infrastructure and wide client reach.

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

	Year ended 31 March 2014 $’000	Year ended 31 March 2013 [1] $’000
Trading profit	1,631,989	1,882,336
Net interest payable	(302,377)	(875,976)
Loss on ordinary activities before taxation	(465,629)	(740,100)
Loss on ordinary activities after taxation	(471,806)	(733,845)
Total assets	463,449,172	421,786,069
Total liabilities	459,164,534	417,603,148
Shareholders’ funds	4,284,638	4,182,921

[1] The comparative figures have been restated to reflect the merger with NBD as described in note 1(c) and note 2.

NOMURA INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2014

STRATEGIC REPORT (CONTINUED)

The Company reported a loss on ordinary activities before tax for the period of $465,629,000 (March 2013: loss of $740,100,000). Despite continued market challenges the Company's Wholesale division reported a reduced loss as funding costs, including subordinated debt costs, decreased versus the prior year, driven by the continued transfers of the Company's business portfolios to other Nomura Group companies and increased levels of ordinary share capital. In addition, whilst the Company scaled back certain businesses, causing a reduction of both Trading Profit and Net Interest Payable, the former was positively impacted by a smaller loss attributable to the impact of tightening of Nomura Group own credit spreads, coupled with a gain from the tightening of counterparty credit spreads on positions held for trading purposes.

As a result of the cyclical pressures facing the industry and to support the stated goals of NHI, who in August 2012 targeted to reduce costs by a total of $1bn through "narrowing and deepening" of businesses, especially in overseas locations, the Company continued to implement a number of cost reduction initiatives.

The Company will continue to focus on delivering high value-added products and solutions to its clients for the year ending 31 March 2015.

FUTURE DEVELOPMENTS

Future of UK GAAP

The Accounting Standards Board ("ASB") has been working on a project entitled the Future of UK GAAP. As a result, a number of new Financial Reporting Standards ("FRS") were issued, including FRS 100 "Application of Financial Reporting Requirements", FRS 101 "Reduced Disclosure Framework" and FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". These standards are effective for accounting periods beginning 1 April 2015. The Company is currently assessing the impact of these new standards.

Legal Entity Strategy

In line with the Nomura Group's legal entity strategy, during July 2013, a number of transactions were migrated from Nomura Capital Markets ("NCM") to the Company. This transfer of trades occurred following the Company's successful attainment of a model waiver permission from the Prudential Regulation Authority ("PRA") in relation to market risk.

As part of this legal entity strategy, the Company also transferred the market risk of a number of its trading portfolios to Nomura Financial Products & Services, Inc. ("NFPS"), domiciled in Japan. The Company will continue to transfer market risk to NFPS as its infrastructure develops and required regulatory approvals are obtained. Furthermore, trading portfolios from cross border businesses have been, and wherever possible will continue to be, transferred to entities in their respective regions.

Basel 3

There are a number of regulatory developments that impact capital requirements for UK regulated entities. Most significantly is Basel 3 which came into force on 1 January 2014. Basel 3 was adopted into EU law through the fourth Capital Requirements Directive ("CRD IV") and Capital Requirements Regulation.

Given the current market conditions and the changes to the regulatory environment, the Company will continue to review the capital planning process to ensure that it always maintains adequate capital to meet its minimum regulatory capital requirements. The Company's Tier 1 capital ratio is significantly in excess of minimum CRD IV requirements.

NOMURA INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2014

STRATEGIC REPORT (CONTINUED)

EMPLOYEE MATTERS

The Company operates an equal opportunities policy. We have taken steps to ensure all employees are aware of their obligations in ensuring that the Company's environment retains an atmosphere which is conducive to good working and high performance.

Full internal communication and access to training and development opportunities support this philosophy.

The Company is committed to taking positive action to promote equality of opportunity, which includes provision for disabled people and those who have become disabled while employed by the Company. Our recruitment, training and promotion procedures are all based on the requirements of a particular position.

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

RISK MANAGEMENT

The Company's activities involve the assumption and transfer of certain risks, including market risk, credit risk, operational risk, liquidity risk, model risk and business risk. Further information on these risks and the Company's risk management objectives and policies are described in note 20 to the financial statements.

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

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YEAR ENDED 31 MARCH 2014

STRATEGIC REPORT (CONTINUED)

ENVIRONMENT

The Nomura Group is committed to acting in an environmentally responsible manner.

The Nomura Group:

- encourages investment and constructive engagement in environmentally friendly goods and services;
- assesses environmental risks and continually strives to minimise pollution and improve the environment;
- complies with relevant environmental laws and regulations and engages with external stakeholders on environmental issues;
- is committed to reducing waste and conserving energy and natural resources to minimise the impact of our footprint on the environment;
- communicates this policy to all employees to raise awareness of environmental issues and encourages environmentally friendly initiatives.

The Nomura Group makes this policy available for public viewing at:

http://www.nomuraholdings.com/csr/citizenship/environment/management

BY ORDER OF THE BOARD AT A MEETING HELD ON 16 JULY 2014

Andrew Eames
Company Secretary

Company Registration Number 1550505

NOMURA INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2014

DIRECTORS' REPORT

RESULTS AND DIVIDENDS

The results for the year are set out on page 11. The loss transferred to reserves for the year amounted to $471,806,000 (2013: loss of $733,845,000).

No interim dividend was paid (2013: $nil) and the Directors do not recommend the payment of a final dividend (2013: $nil).

TANGIBLE FIXED ASSETS

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

On 3 September 2013, the Company sold the leasehold of a property on Gloucester Gate, London, for £22,000,000 ($34,265,000) and recognised a gain of $26,334,000. This sale was part of the Nomura Group's strategy to hold all UK properties used by NEHS in one single legal entity. This gain is reflected in the profit and loss account as an exceptional gain on disposal.

EVENTS SINCE THE BALANCE SHEET DATE

The Company repaid subordinated debt to NEHS in the amount of $1,750,000,000 on 19 June 2014.

DONATIONS

Charitable donations of $588,466 (2013: $457,503) have been made.

FINANCIAL INSTRUMENTS

The Company's risk management objectives and policies are described in note 20 on page 56 to the financial statements. Further analysis on financial instruments is disclosed in note 12 and 21 on page 44 and 75 respectively. The accounting policies with respect to financial instruments are described within note 1 on page 16.

MATTERS DEALT WITH IN THE STRATEGIC REPORT

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

NOMURA INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2014

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

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

Kieran Poynter	Chairman Non-Executive Director
Jeremy Bennett	Chief Executive Officer (appointed 2 August 2013) Executive Director (appointed 2 August 2013) Non-Executive Director (resigned 2 August 2013)
Yasuo Kashiwagi	Executive Director Chief Executive Officer (resigned 2 August 2013)
Lewis O'Donald	Executive Director
David Benson	Executive Director
Paul Spanswick	Executive Director
David Findlay	Executive Director (appointed 1 July 2013)
Hiroyuki Suzuki	Non-Executive Director (appointed 20 November 2013)
Patrik Edsparr	Non-Executive Director (appointed 22 January 2014) Non-Executive Director (resigned 20 May 2014)
Sir Andrew Cahn	Non-Executive Director
John Phizackerley	Executive Director (resigned 9 April 2013)
Shigesuke Kashiwagi	Executive Director (resigned 9 April 2013)
Masanori Itatani	Non-Executive Director (resigned 18 July 2013)
Dame Clara Furse	Non-Executive Director (resigned 1 May 2013)

DIRECTORS' INDEMNITIES

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

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in this report. Its objectives, policies and processes for risk management, and its exposures to credit and liquidity risk, are described in note 20 to the financial statements. Its capital management procedures and available capital resources are described in note 22.

The Company received an injection of ordinary share capital in December 2013 to support its capital position. While market and regulatory pressures remain challenging, the improved capital base will allow continued focus on client flow businesses and supplying liquidity to the market, whilst closely monitoring risk.

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

NOMURA INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2014

DIRECTORS' REPORT (CONTINUED)

DISCLOSURE OF INFORMATION TO AUDITORS

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

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and

- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

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

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YEAR ENDED 31 MARCH 2014

DIRECTORS' REPORT (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

BY ORDER OF THE BOARD AT A MEETING HELD ON 16 JULY 2014

Andrew Eames
Company Secretary

Company Registration number 1550505

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOMURA INTERNATIONAL PLC

We have audited the financial statements of Nomura International Plc (“the Company”) for the year ended 31 March 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movement in Shareholders’ funds, the Balance Sheet and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company’s affairs as at 31 March 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors’ Report and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

David Canning-Jones (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 July 2014

NOMURA INTERNATIONAL PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2014

Notes		Year ended 31 March 2014 $'000	Year ended 31 March 2013[1] $'000
1(c),3	**TRADING PROFIT**	1,631,989	1,882,336
4	Other operating income	431	2,280
		1,632,420	1,884,616
1(d),5	Interest receivable and similar income	930,981	1,185,770
1(d),5	Interest payable and similar charges	(1,233,358)	(2,061,746)
	Net interest payable	(302,377)	(875,976)
	General and administrative expenses	(1,673,180)	(1,492,848)
	Exceptional loss on impairment	-	(59,330)
	OPERATING LOSS	(343,137)	(543,538)
	Exceptional gain on disposal	26,334	-
	Interest payable on subordinated borrowings	(148,826)	(196,562)
6	**LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**	(465,629)	(740,100)
8	Tax (charge)/credit on loss on ordinary activities	(6,177)	6,255
	LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	(471,806)	(733,845)

[1] The comparative figures have been restated to reflect the merger with NBD as described in note 1(v) and note 2.

The notes on pages 16 to 89 form part of these financial statements.

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

NOMURA INTERNATIONAL PLC

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2014

Notes		2014 $'000	2013[1] $'000
	Loss for the financial year	(471,806)	(733,845)
1(e),19	Gain on available-for-sale investments	5,655	215
8	Current tax charge recognised in the statement of total recognised gains and losses	(1,201)	-
1(e),19	Realised gains on available-for-sale investments reclassified to the profit and loss account on disposal	(431)	(2,280)
19	Foreign currency loss	(6,164)	(2,834)
	Total recognised losses relating to the year	(473,947)	(738,744)

[1] The comparative figures have been restated to reflect the merger with NBD as described in note 1(v) and note 2.

The notes on pages 16 to 89 form part of these financial statements.

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NOMURA INTERNATIONAL PLC

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2014

Notes		2014 $'000	2013[1] $'000
	Loss on ordinary activities after taxation	(471,806)	(733,845)
	Other recognised gains and (losses) relating to the year:		
1(e),19	Gain on available-for-sale investments	5,655	215
	Current tax charge recognised in the statement of total recognised gains and losses	(1,201)	-
1(e),19	Realised gains on available-for-sale investments reclassified to the profit and loss account on disposal	(431)	(2,280)
19	Foreign currency loss	(6,164)	(2,834)
18	New share capital subscribed	470,000	1,362,622
19	Movement on share-based payment reserve	105,664	113,626
	Net addition to shareholders' funds	101,717	737,504
	Opening shareholders' funds at 1 April	4,182,921	3,445,417
	Closing shareholders' funds at 31 March	4,284,638	4,182,921

[1] The comparative figures have been restated to reflect the merger with NBD as described in note 1(v) and note 2.

The notes on pages 16 to 89 form part of these financial statements.

NOMURA INTERNATIONAL PLC

BALANCE SHEET AT 31 MARCH 2014

Notes		2014 $'000	2014 $'000	2013[1] $'000	2013[1] $'000
	FIXED ASSETS				
9	Intangible fixed assets	-		-	
10	Tangible fixed assets	230,049		295,124	
11	Fixed asset investments	13,057		24,922	
12,20	Available-for-sale investments	8,157		2,018	
			251,263		322,064
	CURRENT ASSETS				
1(e),12,20	Financial assets held for trading	283,440,081		222,479,979	
1(e),12,20	Financial assets designated at fair value through profit and loss	16,961,654		23,169,919	
12	Collateral paid for securities purchased under agreements to resell	125,181,339		136,688,632	
12	Collateral paid for securities borrowed	18,771,120		16,426,713	
12,14	Other debtors	14,139,887		15,004,451	
12	Investments - time deposits	995,868		1,652,903	
12	Cash at bank and in hand	3,707,960		6,041,408	
			463,197,909		421,464,005
	CREDITORS (amounts falling due within one year)				
1(e),12,20	Financial liabilities held for trading	(258,468,036)		(211,746,949)	
1(e),12,20	Financial liabilities designated at fair value through profit and loss	(7,719,447)		(10,585,981)	
12	Collateral received for securities sold under agreements to repurchase	(136,573,057)		(137,376,879)	
12	Collateral received for securities loaned	(14,350,606)		(9,903,404)	
12,15	Other creditors	(35,900,301)		(41,535,514)	
			(453,011,447)		(411,148,727)
	NET CURRENT ASSETS		10,186,462		10,315,278
	TOTAL ASSETS LESS CURRENT LIABILITIES		10,437,725		10,637,342
12,17	**CREDITORS (amounts falling due after more than one year)**		(6,153,087)		(6,454,421)
	NET ASSETS		4,284,638		4,182,921

NOMURA INTERNATIONAL PLC

BALANCE SHEET AT 31 MARCH 2014 (CONTINUED)

Notes		2014 $'000	2013[1] $'000
	CAPITAL AND RESERVES		
18	Called up share capital	8,376,226	7,906,226
19	Share premium	27,479	27,479
19	Redenomination reserve	25,921	25,921
19	Other reserve	(107,348)	(101,184)
19	Capital redemption reserve	184,499	184,499
19	Available-for-sale reserve	12,033	8,010
19	Share-based payment reserve	688,150	582,486
19	Profit and loss account	(4,922,322)	(4,450,516)
	SHAREHOLDERS' FUNDS – Equity	4,284,638	4,182,921

[1] The comparative figures have been restated to reflect the merger with NBD as described in note 1(v) and note 2.

Approved by the board of Directors on 16 July 2014 and subsequently signed on its behalf on 21 July by:

Jeremy Bennett
Director

The notes on pages 16 to 89 form part of these financial statements.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014

1. ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the inclusion of trading securities, derivatives and other financial instruments at fair value in accordance with United Kingdom Generally Accepted accounting standards, as defined in note (b) below.

The Company has taken advantage of the exemption contained within the Companies Act 2006 from having to prepare consolidated financial statements since it is a wholly owned subsidiary of NEHS, a company registered in the UK. These financial statements have been prepared on a company only basis.

Where appropriate, prior year figures have been restated to conform with current year presentation.

(b) Fair Value of Financial Instruments

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

(i) Valuation of fair value instruments

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

The best evidence of fair value is quoted prices in an active market. Therefore, the fair value of financial instruments, including exchange-traded securities and derivatives is based on quoted market prices on exchanges or other broker/dealer quotations.

Where quoted market prices or broker/dealer quotations are not available, prices for similar instruments or valuation pricing models are considered in the determination of fair value. Valuation pricing models consider contractual terms, position size, underlying asset prices, interest rates, dividend rates, time value, volatility and other statistical measurements for the relevant instruments or for instruments with similar characteristics. These models also incorporate adjustments relating to counterparty and the Company's own credit risk, the administrative costs of servicing future cash flow and market liquidity adjustments. These adjustments are fundamental components of the fair value calculation process. The valuation technique used maximises the use of market inputs and minimises the use of entity-specific inputs which are unobservable in the market.

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NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(b) Fair Value of Financial Instruments (continued)

(i) Valuation of fair value instruments (continued)

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

During the year ended 31 March 2012, the Company began including valuation adjustments in its estimation of fair value of certain OTC derivatives relating to funding costs associated with these transactions to be consistent with how market participants in the principal market for these derivatives would determine fair value. This initially involved using the Overnight Indexed Swap curve rather than LIBOR curve to estimate the fair value of certain collateralised derivative contracts. During the year ended 31 March 2013, the Company refined its valuation methodology to incorporate additional features of collateralised derivative transactions. During the year ended 31 March 2014, the Company started using more appropriate inputs to calculate the valuation adjustment for certain uncollateralised derivatives. This change reflects increased transparency around how market participants incorporate this funding cost into their pricing of such derivative transactions and consequently, how they estimate fair value. As part of its continuous review of the valuation methodologies applied by market participants, the Company may further refine its valuation methodology of derivatives in future periods.

(ii) Recognition of day 1 gains and losses

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

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(b) Fair Value of Financial Instruments (continued)

(iii) Fair value option

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

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

The fair value option election under 1) and 2) above is undertaken on a product-by-product basis. This only applies to those instruments that meet one or more of the above criteria, where fair value would provide a fairer representation of the risks associated with those instruments. Once made, the fair value option election is irrevocable.

(c) Trading Profit

(i) Principal Transactions Income and Expenses

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

(ii) Fees and Commission Income and Expenses

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

Trading profit arises on a strategy basis across a range of instruments. It is presented on a net basis, even though the corresponding financial assets and liabilities may not have been offset on the balance sheet in accordance with the presentation requirements of FRS 25.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(d) Interest Receivable and Interest Payable

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

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

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

(e) Financial Instruments

Financial instruments within the scope of FRS 26 are classified either as financial assets or liabilities at fair value through profit or loss, loans and receivables, financial liabilities at amortised cost, available-for-sale investments or held-to-maturity investments.

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(e) Financial Instruments (continued)

In accordance with FRS 26, all financial instruments are initially measured at fair value.

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

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

a. Financial instruments held for trading

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

Derivative instruments, as detailed in note 20, are used for trading and risk management purposes. In accordance with FRS 26, all derivatives are recognised initially and subsequently carried at fair value, with derivatives having positive fair values carried as assets and derivatives with negative fair values carried as liabilities on the balance sheet.

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

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

Any financial asset or financial liability within the scope of FRS 26 may be designated when initially recognised as a financial asset or financial liability at fair value through profit or loss, assuming the criteria described in note 1(b) (iii) are met, except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.
The Company applies the fair value option to the following instruments:

- Loans and receivables and repos and reverse repos which are risk managed on a fair value basis: The Company elects the fair value option to mitigate income statement volatility caused by the difference in measurement basis for loans and receivables and the derivatives used to risk manage those instruments;
- Structured notes held and issued: The fair value option is elected primarily as these financial instruments contain an embedded derivative that significantly modifies the cash flows resulting from the financial instrument;

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(e) Financial Instruments (continued)

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

- Financial liabilities associated with continuing involvement in assets derecognised under FRS 26: The fair value option is elected to mitigate income statement volatility which would arise between these liabilities and their related assets which are measured at fair value;
- Prepaid OTC Contracts: These are transactions for which an initial investment of greater than 90% of the notional of the embedded derivative has been paid or received. The risk on these financial instruments, both financial assets and financial liabilities, is primarily hedged using financial instruments categorised as held for trading; and
- Other Financial Liabilities: These include financial liabilities such as those that arise upon the consolidation of certain special purpose entities and those that arise as a result of continuing recognition of certain financial assets and the simultaneous recognition of an associated financial liability.

Financial instruments designated at fair value are generally recognised on a settlement basis, when the Company becomes party to the contractual provisions of the instrument.

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

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

(ii) Financial instruments at amortised cost

a. Loans and receivables

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

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(e) Financial Instruments (continued)

(ii) Financial instruments at amortised cost (continued)

b. Financial liabilities at amortised cost

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

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

c. Collateral paid for securities purchased under agreements to resell and collateral received for securities sold under agreements to repurchase

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

The Company also enters into agreements to sell certain securities to counterparties and then repurchase them at a later date. Where the securities were sourced from the Company's balance sheet, they will continue to be retained on the Company's balance sheet, and where they are to be rehypothecated by the transferee, they are shown within held for trading pledged as collateral. The cash amount received by the Company is shown within creditors as collateral received for securities sold under agreements to repurchase.

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

d. Collateral paid for securities borrowed and collateral received for securities loaned

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

The Company also enters into agreements to lend certain securities to counterparties, to be returned at a later date. These securities are retained on the Company's balance sheet and shown within held for trading pledged as collateral where they are able to be rehypothecated by the transferee. The cash amount received by the Company is shown within creditors as collateral received for securities loaned. The transfer of the securities to counterparties is only reflected on the balance sheet if the risks and rewards of ownership are also transferred.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(e) Financial Instruments (continued)

(iii) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the two preceding categories. Available-for-sale investments are initially recognised at fair value and are subsequently held at fair value with unrealised gains or losses being recognised in the statement of total recognised gains and losses. Transaction costs on equity investments classified as available-for-sale are capitalised on initial recognition of the investment.

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

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

Interest earned whilst holding available-for-sale debt investments is reported in interest receivable and similar income using the effective interest rate. Dividends earned whilst holding available-for-sale equity investments are also recognised in the profit and loss account under interest receivable and similar income.

(iv) Held-to-maturity investments

As at the balance sheet date, the Company held no held-to-maturity investments.

(f) Impairment

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

(i) Loans and receivables

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

1. ACCOUNTING POLICIES (CONTINUED)

(f) Impairment (continued)

(i) Loans and receivables (continued)

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

(ii) Financial assets at cost

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

(iii) Available-for-sale investments

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

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest receivable and similar income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

(g) Derecognition

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(h) Offsetting financial instruments

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

(i) Financial guarantees

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

(j) Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

The Company also makes use of master netting agreements with counterparties with whom a significant volume of transactions are undertaken. Such an arrangement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master netting arrangements do not normally result in an offset of balance sheet assets and liabilities unless certain conditions for offsetting under FRS 25 apply.

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

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(k) Fixed Assets and Depreciation

Fixed assets are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Construction in progress is capitalised on a floor-by-floor basis from the completion date of each floor. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation rates are selected based on expected useful economic lives of the assets, taking into account the expected rate of technological developments, market requirements and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to the Company and its circumstances. Fixed assets are currently depreciated on a straight-line basis in order to write off their cost over their expected useful economic lives as follows:

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

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

(l) Intangible Assets

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Positive goodwill arising on acquisition is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. If an entity is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

All goodwill arising in the financial statements relates to the acquisition of Lehman Brothers businesses and is being amortised on a straight line basis over a twenty year period.

(m) Fixed Asset Investments

Investments in subsidiary undertakings, which are outside the scope of FRS 26, are stated at original cost less amounts written off where there has been impairment in value.

(n) Provisions

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(o) Foreign Currencies

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

(p) Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are the differences between the Company's taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent periods.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

(q) Pension Costs

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

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits at the date the plan closed to the current period to determine the present value of the defined benefit obligation and is based on actuarial advice. Past service costs are recognised in the profit and loss account on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using actuarial assumptions at the date of the curtailment or settlement and the resultant gain or loss recognised in the profit and loss account during the period in which the settlement or curtailment occurs. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(q) Pension Costs (continued)

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account change in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the profit and loss account as other finance income or expense. Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status and broadly consistent term to the liabilities), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the current bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Company expects to recover by way of refunds from the plan or reductions in the future contributions.

In accordance with FRS 17, the defined benefit liability is shown on the balance sheet net of deferred tax.

The amendments to FRS 17 require additional disclosures to be made in the statutory accounts, which have been included in note 7.

(r) Share-based payments

The ultimate holding company, Nomura Holdings, Inc., operates share-based awards schemes for the purpose of providing incentives and rewards to eligible participants. Such share-based awards are classified as either equity-settled or cash-settled transactions depending on the terms of the award.

The cost of both the equity-settled and cash-settled transactions with employees and Directors is measured by reference to the fair value at the date at which they are granted. The fair value of the stock options as of the grant date is estimated using a Black-Scholes option-pricing model.

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(r) Share-based payments (continued)

Cash-settled transactions such as Notional Stock Unit ("NSU") which will be settled in cash are classified as liability awards. These are remeasured to fair value at each balance sheet date, net of estimated forfeitures with the final measurement of cumulative compensation cost equal to the settlement amount. Similar to the equity-settled transactions, compensation cost is recognised in the profit and loss account over the vesting period.

(s) Share Capital

Share capital meeting the definition of an equity instrument under FRS 25 is disclosed within shareholders' funds. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Preference shares, that provide for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or give the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, are financial liabilities. Convertible preference share capital may be a compound financial liability. As required by FRS 25, the components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instruments as a whole the amount separately determined as the fair value of the liability component on the date of issue.

At the balance sheet date, the Company had no issued redeemable convertible participating preference share capital.

(t) Operating Leases

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

(u) Cash Flow Statement

The Company has taken advantage of the exemption under FRS 1 (revised) and has not produced a cash flow statement, since the Company has more than 90% of its voting rights controlled by Nomura Holdings, Inc., in whose publicly available financial statements it is consolidated. Copies of the financial statements of Nomura Holdings, Inc. can be obtained from 9-1, Nihonbashi 1-chome, Chuo-ku, Tokyo 103-8645, Japan.

(v) Merger Accounting

On 30 September 2013 the Company merged the assets and liabilities of NBD, a former subsidiary of NEHS. Consideration for the transfer of these assets and liabilities was made in the form of the issuance of 51,923,418 ordinary shares in the Company to NEHS. The business combination of NBD and the Company has been accounted for as a merger in accordance with FRS 6. As such the assets and liabilities of NBD were brought in at their book values and not at fair value, no goodwill was recognised and the consideration paid, being the issuance of shares, has been recorded at their nominal value not at their fair value. Accordingly, the financial information for the current period has been presented, and that for the prior period restated, as if NBD had been owned by the Company throughout the current and comparative accounting periods.

2. IMPACT OF NOMURA BANK (DEUTSCHLAND) GMBH MERGER

As explained in note 1(v), on 30 September 2013, the Company agreed to merge its balance sheet with the assets and liabilities of NBD. The consideration was satisfied by the issue of 51,932,418 equity shares (51,932,418 ordinary shares) with a nominal value of $1 each. The fair value consideration was $60,664,358 based on the book value of the merged entity. The difference of $8,731,940 arising on issuance has been credited to Other Reserves. On 31 March 2014, the aggregate net assets of the Company were $4,284,638,000 and the aggregate net assets of NBD were $25,975,000.

The analysis of principal components of profit and loss accounts and statements of total recognised gains and losses is as follows:

Profit and loss account	The Company pre merger Year ended 31 March 2014 $'000	NBD pre merger Year ended 31 March 2014 $'000	Total Year ended 31 March 2014 $'000
Trading profit	1,631,977	12	1,631,989
Operating (loss)/profit	(354,948)	11,811	(343,137)
(Loss)/profit on ordinary activities before taxation	(477,404)	11,775	(465,629)
Taxation	(1,724)	(4,453)	(6,177)
(Loss)/profit on ordinary activities after taxation	(479,128)	7,322	(471,806)

Total recognised gains and losses	The Company pre merger Year ended 31 March 2014 $'000	NBD pre merger Year ended 31 March 2014 $'000	Total Year ended 31 March 2014 $'000
(Loss)/profit on ordinary activities after taxation	(479,128)	7,322	(471,806)
Gain on available-for-sale investments	5,655	-	5,655
Current tax charge recognised in the statement of total recognised gains and losses	(1,201)	-	(1,201)
Realised gains on available for sale investments reclassified to the profit and loss account on disposal	(431)	-	(431)
Foreign currency loss		(6,164)	(6,164)
Total recognised (losses)/profits relating to the period	(475,105)	1,158	(473,947)

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

2. IMPACT OF NOMURA BANK (DEUTSCHLAND) GMBH MERGER (CONTINUED)

Profit and loss account	The Company pre merger	NBD pre merger	Total
	Year ended 31 March 2013 $'000	Year ended 31 March 2013 $'000	Year ended 31 March 2013 $'000
Trading profit	1,882,336	-	1,882,336
Operating loss	(538,675)	(4,863)	(543,538)
Loss on ordinary activities before taxation	(735,237)	(4,863)	(740,100)
Taxation	6,255	-	6,255
Loss on ordinary activities after taxation	(728,982)	(4,863)	(733,845)

Total recognised gains and losses	The Company pre merger	NBD pre merger	Total
	Year ended 31 March 2013 $'000	Year ended 31 March 2013 $'000	Year ended 31 March 2013 $'000
Operating loss after taxation	(728,982)	(4,863)	(733,845)
Gain on available-for-sale investments	215	-	215
Realised gains on available for sale investments reclassified to the profit and loss account on disposal	(2,280)	-	(2,280)
Foreign currency loss	-	(2,834)	(2,834)
Total recognised losses relating to the period	(731,047)	(7,697)	(738,744)

Total adjustment of the opening retained reserves resulting from the merger, broken down by components, is:

(a) Share Capital of $51,932,000 credit
(b) Share Premium of $8,732,000 credit
(c) Other Reserves of $847,000 debit
(d) Retained Earnings of $1,755,000 debit

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

3. TRADING PROFIT

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

a. Segmental analysis

The trading profit is attributable to the following revenue streams:

	Year ended 31 March 2014 $'000	Year ended 31 March 2013 $'000
Net fees and commissions[1]	601,301	541,171
Principal transactions[2]	1,300,860	1,611,630
Less: attributable transaction expenses[3]	(270,172)	(270,465)
Trading profit	1,631,989	1,882,336

$1,435,009,000 (2013: $1,743,418,000) of the trading profit in the year ended 31 March 2014 is attributable to EMEA and $196,980,000 (2013: $138,918,000) to offshore markets. Due to the integrated nature of the Company's business, it is not meaningful to provide a geographical split of the Company's total assets.

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

[2] 'Principal transactions' includes realised and unrealised gains and losses from proprietary trading activities, asset finance, customer trading activities and private equity.

[3] 'Attributable transaction expenses' excludes sales credit amounts paid/received from other Nomura Group entities. These amounts are included in general and administrative expenses.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

3. TRADING PROFIT (CONTINUED)

b. Analysis of net fee and commission income

	Year ended 31 March 2014 $'000	Year ended 31 March 2013 $'000
Financial instruments not at fair value through profit or loss	518,231	444,777
Other fees and commission income	83,070	96,394
Net fees and commissions	601,301	541,171

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

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

c. Analysis of principal transactions by financial instrument type

	Year ended 31 March 2014 $'000	Year ended 31 March 2013 $'000
Financial instruments held for trading	1,238,958	1,082,232
Financial instruments designated at fair value through profit and loss	61,902	529,398
Principal transactions	1,300,860	1,611,630

4. OTHER OPERATING INCOME

	Year ended 31 March 2014 $'000	Year ended 31 March 2013 $'000
Profit from sales of available-for-sale investments	431	2,280
	431	2,280

Included in 'Profit from sales of available-for-sale investments' are the amounts transferred from reserves to the profit and loss account on the derecognition of available-for-sale investments.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

5. INTEREST INCOME AND EXPENSE

Analysis of total interest income and expense by financial instrument type

	Year ended 31 March 2014 $'000	Year ended 31 March 2013 $'000
Interest receivable and similar income		
Cash and short-term funds	57,277	65,808
Securities borrowed and reverse repurchase agreements	771,689	966,278
Other	14,524	11,567
	843,490	1,043,653
Financial instruments at fair value through profit and loss	87,491	142,117
	930,981	1,185,770
Interest payable and similar charges		
Overdrafts and loans	(174,116)	(291,489)
Securities lent and repurchase agreements	(869,111)	(1,486,857)
Other	(141,656)	(195,357)
	(1,184,883)	(1,973,703)
Fair value financial instruments - payable	(48,475)	(88,043)
	(1,233,358)	(2,061,746)

6. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	Year ended 31 March 2014 $'000	Year ended 31 March 2013 $'000
Wages, salaries and other personnel costs	971,332	1,064,482
Social security costs	95,265	104,212
Pension costs – defined contribution	37,746	40,363
Amortisation and depreciation (note 9 & 10)	103,805	110,185
Auditors' remuneration including expenses		
- audit	1,956	1,680
- audit-related assurance services	349	335
- services relating taxation	71	79
- all other services	1,419	1,605
Operating lease costs		
- buildings	89,518	80,005
- other	1,082	1,172
Interest receivable from Nomura Group undertakings	(354,460)	(443,610)
Interest payable to Nomura Group undertakings	681,842	974,021

In addition to the audit fee shown above, an amount of $1,099,041 (2013: $1,026,545) was borne by NHI.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

7. DEFINED BENEFIT PENSION SCHEME

A full actuarial valuation of the defined benefit pension scheme was undertaken at 31 March 2014 by Premier Pensions Management Ltd., a qualified independent actuary.

During the year ended 31 March 2014, the Company made no additional contributions and the fund remained in surplus. The amount that can be recovered through reduced contributions in the future is the present value of the liability expected to arise from future service by current and future scheme members less the present value of future employee contributions. As the plan closed to all future accrual with effect 31 October 2005, there is no future benefit accrual and therefore no surplus is to be recognised in the Company's balance sheet. The expected employer's contribution to the Company's defined benefit pension scheme for year ended 31 March 2015 is $1,275,000 (2014: $nil).

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

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

	31 March 2014	31 March 2013	31 March 2012
	%	%	%
Rate of increase in pensions in payment	3.66%	3.62%	3.12%
Rate of increase in pensions in deferment	3.66%	3.62%	3.12%
Discount rate applied to scheme liabilities	4.45%	4.65%	5.04%
Inflation assumption	2.66%	2.92%	2.32%

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

	31 March 2014	31 March 2013
	Years	Years
Male Member age 60 (life expectancy at age 60)	30.0	30.1
Male Member age 40 (life expectancy at age 60)	33.3	33.4
Female Member age 60 (life expectancy at age 60)	32.2	32.6
Female Member age 40 (life expectancy at age 60)	35.4	35.8

7. DEFINED BENEFIT PENSION SCHEME (CONTINUED)

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

	31 March 2014		31 March 2013		31 March 2012	
	%	$'000	%	$'000	%	$'000
Equities		-		-		-
Bonds	3.70	320,940	2.84	282,282	3.24	253,862
Property		-	3.94	19,420	4.34	20,301
Cash	0.50	1,047	0.50	381	0.50	385
Annuities	4.45	63,642	4.65	55,258	5.04	53,775
Market value of assets		385,629		357,341		328,323
Present value of scheme liabilities		(284,128)		(257,849)		(222,288)
Surplus in the scheme		101,501		99,492		106,035
Effect of surplus cap		(101,501)		(99,492)		(106,035)
Recoverable deficit in the scheme		-		-		-
Deferred tax asset		-		-		-
Net pension liability		-		-		-

The expected return on assets does not allow for expenses as these are now paid directly by the Company.

There is a charge of $617,000 operating loss in relation to the defined benefit pension scheme (2013: $nil).

The amount charged to other finance income:

	31 March 2014	31 March 2013
	$'000	$'000
Past service cost	(5,856)	-
Unrecognised surplus applied to past service cost	5,856	-
Expected return on pension scheme assets	11,796	10,950
Interest on pension scheme liabilities	(12,413)	(10,950)
Other finance income	(617)	-

Analysis of movements scheme assets during the year:

	31 March 2014	31 March 2013
	$'000	$'000
Deficit in scheme at beginning of year	-	-
Expected return on pension scheme assets	11,796	10,950
Interest on pension scheme liabilities	(12,413)	(10,950)
Deficit in scheme at end of year	(617)	-

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

7. DEFINED BENEFIT PENSION SCHEME (CONTINUED)

The amounts recognised in the STRGL for the year are set out below:

	31 March 2014 $'000	31 March 2013 $'000
Actual return less expected return on pension scheme assets	(11,247)	39,525
Experience losses arising on pension scheme liabilities	(1,318)	(2,327)
Changes in assumptions underlying the present value of the pension scheme liabilities	11,617	(38,366)
Actuarial gain before adjustment due to movement in surplus cap	(948)	(1,168)
Adjustment due to movement in surplus cap	948	1,168
Actuarial loss recognised in STRGL	-	-

The defined benefit pension scheme has no effect on the net assets and reserves of the Company (2013: no effect).

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

	Year ended 31 March 2014 $'000	Year ended 31 March 2013 $'000
Change in benefit obligations		
Benefit obligations at beginning of year	257,849	222,288
Plan Amendments	5,857	-
Interest cost	12,413	10,950
Actuarial loss	(9,847)	42,308
Benefits paid	(7,396)	(4,574)
Foreign currency exchange loss	25,252	(13,123)
Benefit obligations at end of year	284,128	257,849

	Year ended 31 March 2014 $'000	Year ended 31 March 2013 $'000
Change in plan assets		
Fair value of plan assets at beginning of year	357,341	328,323
Expected return on plan assets	11,796	10,950
Actuarial gain	(10,754)	41,092
Benefits paid from plan	(7,396)	(4,574)
Foreign currency exchange profit/(loss)	34,642	(18,450)
Fair value of plan assets at end of year	385,629	357,341

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

7. DEFINED BENEFIT PENSION SCHEME (CONTINUED)

FRS 17 requires that a history of amounts that were, or would have been, recognised in the STRGL be disclosed as set out below:

	31 March 2014 %	$'000
Difference between expected and actual return on pension scheme assets	(2.92%) (a)	(11,247)
Experience gains and losses on pension scheme liabilities	(0.46%) (b)	(1,318)
Total amount recognised in STRGL	0.00% (b)	-

	31 March 2013 %	$'000
Difference between expected and actual return on pension scheme assets	11.06% (a)	39,525
Experience gains and losses on pension scheme liabilities	(0.90%) (b)	(2,327)
Total amount recognised in STRGL	0.00% (b)	-

	31 March 2012 %	$'000
Difference between expected and actual return on pension scheme assets	11.67% (a)	38,465
Experience gains and losses on pension scheme liabilities	(0.58%) (b)	(1,305)
Total amount recognised in STRGL	1.14% (b)	(2,525)

	31 March 2011 %	$'000
Difference between expected and actual return on pension scheme assets	2.12% (a)	5,927
Experience gains and losses on pension scheme liabilities	(0.84%) (b)	(1,765)
Total amount recognised in STRGL	(2.09%) (b)	(4,393)

	31 March 2010 %	$'000
Difference between expected and actual return on pension scheme assets	11.14% (a)	27,637
Experience gains and losses on pension scheme liabilities	2.29% (b)	4,478
Total amount recognised in STRGL	(2.02%) (b)	(4,158)

	31 March 2009 %	$'000
Difference between expected and actual return on pension scheme assets	0.66% (a)	1,323
Experience gains and losses on pension scheme liabilities	0.37% (b)	449
Total amount recognised in STRGL	(3.04%) (b)	(3,815)

(a): Percentage based on scheme assets

(b): Percentage based on present value of pension scheme liabilities

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

8. TAX CHARGE/(CREDIT) ON LOSS ON ORDINARY ACTIVITIES

(a) TAX CHARGE/(CREDIT)

	Year ended 31 March 2014 $'000	Year ended 31 March 2013[1] $'000
Current Tax:		
UK corporation tax (credit) at 23% (2013: 24%)	(1,419)	(8,348)
Foreign tax suffered	8,722	5,383
Adjustment in respect of previous periods	(1,126)	(3,290)
	6,177	(6,255)
Deferred Tax		
Deferred taxation (credit) (note 16)	-	-
Total tax charge/(credit) for the year	6,177	(6,255)
Current tax charge recognised in the statement of total recognised gains and losses	1,201	-

(b) RECONCILIATION OF CORPORATION TAX CREDIT

	Year ended 31 March 2014 $'000	Year ended 31 March 2013[1] $'000
Loss on ordinary activities before tax	(465,629)	(740,100)
UK Corporation tax credit at 23% (2013: 24%)	(107,095)	(177,624)
Effects of		
Expenses not deductible for tax purposes	(8,978)	26,846
Revenues deductible for tax purposes	(1,806)	(1,292)
Timing differences		
- Losses surrendered to group company for nil payment	1,976	-
- Tangible fixed assets	6,749	6,708
- Profit on sale of Gloucester Gate	(5,056)	-
- Share based payments	(1,243)	(6,484)
- Deferred emoluments	(18,338)	(6,657)
- Transition adjustment on adoption of FRS 25/26	10,135	10,576
Unutilised losses for the year carried forward	122,237	139,579
Higher tax rates on overseas earnings	8,722	5,383
Adjustment in respect of previous periods	(1,126)	(3,290)
Corporation tax charge/(credit) for the year	6,177	(6,255)

[1] The comparative figures have been restated to reflect the merger with NBD as described in note 1(v) and note 2.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

9. INTANGIBLE FIXED ASSETS

	Goodwill
Cost	**$'000**
At 1 April 2013	63,108
At 31 March 2014	63,108
Amortisation	
At 1 April 2013	63,108
At 31 March 2014	63,108
Net book value	
At 31 March 2014	-
At 31 March 2013	-

All goodwill recognised in the financial statements related to the acquisition of Lehman Brothers businesses on 13 October 2008. The carrying amount of Lehman Goodwill was fully impaired as at 31 March 2013 resulting in an impairment loss of $50,227,067 in the prior year. The value in use calculation used a discount rate of 13%, forecasted cash flows over the remaining useful life of the goodwill (15.5 years) and a growth rate of 2.25%.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

10. TANGIBLE FIXED ASSETS

Cost	Construction In Progress $'000	Long Leasehold $'000	Furniture, Equipment, and Software $'000	Total $'000
At 1 April 2013	414	15,661	762,499	778,574
Transfers	-	630	2,000	2,630
Additions	1,127	4,241	54,249	59,617
Disposals	(1,426)	(17,112)	(181,961)	(200,499)
At 31 March 2014	115	3,420	636,787	640,322
Depreciation				
At 1 April 2013	-	4,681	478,769	483,450
Charged during year	-	569	103,236	103,805
Disposals	-	(4,011)	(172,971)	(176,982)
At 31 March 2014	-	1,239	409,034	410,273
Net book value				
At 31 March 2014	115	2,181	227,753	230,049
At 31 March 2013	414	10,980	283,730	295,124

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NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

11. FIXED ASSET INVESTMENTS

Cost	Investment in Subsidiary Undertakings
	$'000
At 1 April 2013	24,922
Additions	1,382
Return of Investment	(13,173)
Impairment	(74)
At 31 March 2014	13,057
Net book value	
At 31 March 2014	13,057
At 31 March 2013	24,922

During the year, one of the Company's subsidiaries decreased its balance sheet by way of a share capital reduction, returning cash of $13,173,000 to the Company. This has been treated as a return of the Company's original investment.

The investment in subsidiary undertakings represents the following:

Name of Subsidiary	Shares/ Voting rights held	Country of incorporation and registration	Principal business activities
Nomura Investments (AH) Limited	100%	Guernsey	Investment
Nomura PB Nominees Limited	100%	England and Wales	Investment
Nomura Custody Nominees Limited	100%	England and Wales	Investment
Nomura D1 Nominee Limited	100%	England and Wales	Investment
Nomura Derivatives Clearing Nominee Limited	100%	England and Wales	Investment
Nomura PB Beneficial Ownership Markets Limited	100%	England and Wales	Investment
Nomura Clearance and Settlement Nominees Limited	100%	England and Wales	Investment
Nomura RPS Limited	100%	England and Wales	Investment adviser
Nomura Investment Advisor LLP	50%	England and Wales	Investment adviser
Nomura Private Equity Investment GP Limited	100%	England and Wales	Investment Manager
Nomura Employment Services (Isle of Man) Limited	100%	Isle of Man	Employment Services
Nomura Nominees Limited	100%	England and Wales	Custody
Nomura.com Limited	100%	England and Wales	Dormant
Nomura London Retirement Benefits Plan Trustee Limited	100%	England and Wales	Corporate Trustee
IBJ Nomura Financial Products (UK) plc*	100%	England and Wales	In Liquidation

** Currently in members voluntary liquidation*

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

12. FINANCIAL INSTRUMENTS

Analysis of the Company's financial assets and financial liabilities by FRS 26 classification

	2014	2014	2014	2014	2014	2014
	Available-for-sale investments	Held for trading	Designated at fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets						
Available-for-sale Investments	8,157	-	-	-	-	8,157
Held for trading		283,440,081	-	-	-	283,440,081
Designated fair value through profit and loss	-	-	16,961,654	-	-	16,961,654
Collateral paid for securities purchased under agreements to resell	-	-	-	125,181,339	-	125,181,339
Collateral paid for securities borrowed	-	-	-	18,771,120	-	18,771,120
Other debtors	-	-	-	14,139,887	-	14,139,887
Investments – time deposits	-	-	-	995,868	-	995,868
Cash at bank and in hand	-	-	-	3,707,960	-	3,707,960
Financial Liabilities						
Held for trading	-	(258,468,036)	-	-	-	(258,468,036)
Designated fair value through profit and loss	-	-	(7,719,447)	-	-	(7,719,447)
Collateral received for securities sold under agreements to repurchase	-	-	-	-	(136,573,057)	(136,573,057)
Collateral received for securities loaned	-	-	-	-	(14,350,606)	(14,350,606)
Other creditors	-	-	-	-	(35,900,301)	(35,900,301)
Creditors (amounts falling due after more than one year)	-	-	-	-	(6,153,087)	(6,153,087)
	8,157	24,972,045	9,242,207	162,796,174	(192,977,051)	4,041,532

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

12. FINANCIAL INSTRUMENTS (CONTINUED)

	2013	2013	2013	2013	2013	2013[1]
	Available-for-sale investments	Held for trading	Designated at fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets						
Available-for-sale investments	2,018	-	-	-	-	2,018
Held for trading	-	222,479,979	-	-	-	222,479,979
Designated fair value through profit and loss	-	-	23,169,919	-	-	23,169,919
Collateral paid for securities purchased under agreements to resell	-	-	-	136,688,632	-	136,688,632
Collateral paid for securities borrowed	-	-	-	16,426,713	-	16,426,713
Other debtors	-	-	-	15,004,451	-	15,004,451
Investments - time deposits	-	-	-	1,652,903	-	1,652,903
Cash at bank and in hand	-	-	-	6,041,408	-	6,041,408
Financial Liabilities						
Held for trading	-	(211,746,949)	-	-	-	(211,746,949)
Designated fair value through profit and loss	-	-	(10,585,981)	-	-	(10,585,981)
Collateral received for securities sold under agreements to repurchase	-	-	-	-	(137,376,879)	(137,376,879)
Collateral received for securities loaned	-	-	-	-	(9,903,404)	(9,903,404)
Other creditors	-	-	-	-	(41,535,514)	(41,535,514)
Creditors (amounts falling due after more than one year)	-	-	-	-	(6,454,421)	(6,454,421)
	2,018	10,733,030	12,583,938	175,814,107	(195,270,218)	3,862,875

[1] The comparative figures have been restated to reflect the merger with NBD as described in note 1(v) and note 2.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

12. FINANCIAL INSTRUMENTS (CONTINUED)

Analysis of the Company's financial assets and financial liabilities by FRS 26 classification (continued)

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

	2014 $'000	2013 $'000
Loans and receivables		
Collateral paid for securities purchased under agreements to resell	48,971,419	60,764,689
Collateral paid for securities borrowed	6,387,602	6,176,545
Other debtors	5,439,107	7,537,184
Investments - time deposits	738,202	1,082,190
	61,536,330	75,560,608
Financial liabilities at amortised cost		
Collateral received for securities sold under agreements to repurchase	(41,993,262)	(51,701,314)
Collateral received for securities loaned	(6,653,157)	(3,730,300)
Other creditors	(17,735,232)	(25,081,915)
Creditors (amounts falling due after more than one year)	(5,900,814)	(5,109,136)
	(72,282,465)	(85,622,665)

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

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

	2014 $'000	2013 $'000
Financial assets		
Equity securities	15,560,426	7,497,921
Debt securities	54,885,658	34,837,128
Derivatives	213,002,154	180,146,948
Financial Instruments designated at fair value through profit and loss	16,961,654	23,169,919
	300,409,892	245,651,916
Financial liabilities		
Equity securities	(4,904,076)	(8,399,045)
Debt securities	(38,766,197)	(23,621,769)
Derivatives	(214,797,763)	(179,726,135)
Financial Instruments designated at fair value through profit and loss	(7,719,447)	(10,585,981)
	(266,187,483)	(222,332,930)

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NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

12. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

	2014 $'000	2013 $'000
Financial assets		
Equity securities	371,387	760,245
Debt securities	264,169	179,455
Derivatives	109,365,974	96,160,892
	110,001,530	97,100,592
Financial liabilities		
Equity securities	(47,898)	(147,845)
Debt securities	(218,176)	(228,858)
Derivatives	(115,031,960)	(98,018,459)
	(115,298,034)	(98,395,162)

Available-for-sale investments

Available-for-sale investments include unquoted equity instruments which are measured at cost because their fair value cannot be measured reliably. As at 31 March 2014, such unquoted equity instruments measured at cost comprised of investments in other Nomura entities and market bodies which the Company is required to hold for strategic purposes. The value of such investments measured at cost held at the balance sheet date amounted to $6,948,307 (2013: $400,403).

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

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

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

13. DERECOGNISED AND COLLATERALISED TRANSACTIONS

Transfers of financial assets, including pledges of collateral

In the ordinary course of business, the Company enters into transactions resulting in the transfer of financial assets to third parties which may not result in the full derecognition of the assets under FRS 26.

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

	2014 Financial assets $'000	2014 Financial liabilities $'000	2014 Difference $'000
Collateral received for securities sold under agreements to repurchase	41,220,876	(39,012,395)	2,208,481
Collateral received for securities loaned	2,324,834	(2,308,011)	16,823
Other	1,117,834	(1,117,834)	-
	44,663,544	(42,438,240)	2,225,304

	2013 Financial assets $'000	2013 Financial liabilities $'000	2013 Difference $'000
Collateral received for securities sold under agreements to repurchase	21,503,375	(21,602,534)	(99,159)
Collateral received for securities loaned	2,082,299	(2,043,570)	38,729
Other	990,857	(990,857)	-
	24,576,531	(24,636,961)	(60,430)

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

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

13. DERECOGNISED AND COLLATERALISED TRANSACTIONS (CONTINUED)

Continuing involvement

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

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

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

2014 Total carrying value of financial assets with continuing involvement $'000	2014 Total carrying value of associated liabilities $'000	2014 Net economic exposure $'000
52,290	(52,290)	-

2013 Total carrying value of financial assets with continuing involvement $'000	2013 Total carrying value of associated liabilities $'000	2013 Net economic exposure $'000
982,693	(983,704)	1,011

13. DERECOGNISED AND COLLATERALISED TRANSACTIONS (CONTINUED)

Financial assets accepted as collateral

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

The fair value of financial assets accepted as collateral that the Company is permitted to sell or repledge in the absence of default is $230 billion (2013: $236.7 billion). Of this amount, $185 billion (2013: $200 billion) has been sold or repledged to comply with commitments under short sale transactions or in connection with financing activities. Included within these balances are $36 billion (2013: $53 billion) of balances due to fellow Nomura Group undertakings. The corresponding obligation to return securities received which have been sold or repledged is $1.7 billion (2013: $1.9 billion), relating to special purpose vehicles.

14. OTHER DEBTORS

	2014 $'000	2013[1] $'000
Trade debtors	3,045,556	2,364,285
Broker balances	10,400,995	11,863,860
Taxation recoverable	9,918	43,010
Accrued interest and dividends receivable	148,472	255,117
Prepayments and accrued income	534,946	478,179
	14,139,887	15,004,451

[1] The comparative figures have been restated to reflect the merger with NBD as described in note 1(v) and note 2.

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

	2014 $'000	2013 $'000
Trade debtors	467,178	228,371
Broker balances	4,532,037	6,967,383
Accrued interest and dividends receivable	15,329	13,388
Prepayments and accrued income	424,563	328,042
	5,439,107	7,537,184

Refer to note 20 for an aged analysis of Other debtors which are past due but not impaired.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

15. OTHER CREDITORS

	2014 $'000	2013[1] $'000
Loans and overdrafts	4,229,407	8,029,664
Trade creditors	3,971,871	4,211,646
Broker balances	26,464,942	26,836,808
Taxation payable	435	1,518
Other tax and social security payable	23,764	59,546
Accrued interest and dividends payable	146,366	290,869
Accruals and deferred income	1,063,516	1,005,463
Subordinated debt	-	1,100,000
	35,900,301	41,535,514

[1] The comparative figures have been restated to reflect the merger with NBD as described in note 1(v) and note 2.

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

	2014 $'000	2013 $'000
Loans and overdrafts	4,126,979	7,653,357
Trade creditors	426,816	195,729
Broker balances	12,862,213	15,868,614
Accrued interest and dividends payable	70,435	77,566
Accruals and deferred income	248,789	186,649
Subordinated debt	-	1,100,000
	17,735,232	25,081,915

16. DEFERRED TAXATION

	2014 $'000	2013 $'000
Tangible fixed assets	29,696	24,471
FRS 26 transition liabilities	(17,626)	(30,405)
Other short-term timing differences	42,199	58,600
Unutilised tax losses	738,032	759,405
Deferred tax not provided	(792,301)	(812,071)
	-	-

Deferred taxation has been disclosed at 20% (2013: 23%) reflecting the reduction in the UK Corporation tax rate to 20% which takes effect from 1 April 2015 and which was enacted by the balance sheet date. The Company has unutilised losses arising of $3,690,158,306 (2013: $3,301,764,799) that are available for offset against future taxable profits. A deferred tax asset of $738,031,661 (2013: $759,404,904) has not been recognised in respect of these losses due to uncertainty surrounding the Company's future profitability.

Provision for deferred tax comprises:	2014 $'000	2013 $'000
Timing differences	54,269	52,666
Losses	738,032	759,405
Deferred tax not provided	(792,301)	(812,071)
Total provision for deferred tax	-	-

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

17. CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR

	2014 $'000	2013 $'000
Loans and overdrafts	678,087	2,079,421
Subordinated debt	5,475,000	4,375,000
	6,153,087	6,454,421

Included within creditor balances above are $5,900,814 (2013: $6,209,136) of balances due to fellow Nomura Group undertakings.

Subordinated debt agreements

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

	Repayment date	2014 $'000	2013 $'000
Short Term			
Nomura Europe Holdings plc	15 Apr 2013	-	500,000
Nomura Europe Holdings plc	23 Apr 2013	-	600,000
		-	1,100,000
Long Term			
Nomura Europe Holdings plc	15 May 2015	200,000	200,000
Nomura Europe Holdings plc	07 Mar 2020	1,100,000	1,100,000
Nomura Europe Holdings plc	11 Mar 2020	750,000	750,000
Nomura Europe Holdings plc	12 Mar 2020	700,000	700,000
Nomura Europe Holdings plc	23 Apr 2020	600,000	-
Nomura Europe Holdings plc	13 Apr 2020	500,000	-
Perpetual			
Nomura Europe Holdings plc	Perpetual	1,625,000	1,625,000
		5,475,000	4,375,000

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

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

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

Nomura Europe Holdings plc	07 Mar 2020	LIBOR + 2.26%
Nomura Europe Holdings plc	11 Mar 2020	LIBOR + 2.26%
Nomura Europe Holdings plc	12 Mar 2020	LIBOR + 2.26%
Nomura Europe Holdings plc	13 Apr 2020	LIBOR + 2.26%
Nomura Europe Holdings plc	23 Apr 2020	LIBOR + 2.26%
Nomura Europe Holdings plc	Perpetual	LIBOR + 2.86%

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

18. SHARE CAPITAL

2014	Number '000	Fully paid consideration $'000
US Dollar Ordinary shares of $1 each	8,376,226	8,376,226
		8,376,226

2013 [1]	Number '000	Fully paid consideration $'000
US Dollar Ordinary shares of $1 each	7,906,226	7,906,226
		7,906,226

[1] The comparative figures have been restated to reflect the merger with NBD as described in note 1(v) and note 2.

The Company issued $470,000,000 of ordinary shares to NEHS on 20 December 2013.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

19. RESERVES

	Capital redemption reserve $'000	Share-based payment expense reserve $'000	Available-for-sale reserve $'000	Profit and loss account $'000	Other Reserve $'000	Redenomination Reserve $'000	Share premium $'000
At 1 April 2013 [1]	184,499	582,486	8,010	(4,450,516)	(101,184)	25,921	27,479
Retained loss for the year	-	-	-	(471,806)	-	-	-
Foreign exchange loss	-	-	-	-	(6,164)	-	-
Share-based payment expense for the year	-	105,664	-	-	-	-	-
Gain on available-for-sale investments	-	-	5,655	-	-	-	-
Current tax charge recognised in the statement of total recognised gains and losses	-	-	(1,201)	-	-	-	-
Realised gains on available-for-sale investments reclassified to the profit and loss account on disposal	-	-	(431)	-	-	-	-
At 31 March 2014	184,499	688,150	12,033	(4,922,322)	(107,348)	25,921	27,479

[1] The comparative figures have been restated to reflect the merger with NBD as described in note 1(v) and note 2.

20. FINANCIAL RISK MANAGEMENT

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

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

The Capital Requirements Directive IV ("CRD IV"), including the Capital Requirements Regulation (CRR), requires the Company to publish both Pillar 3 and country by country reporting disclosures. This information has been made publically available on the below website:

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

The Role of Financial Instruments

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

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

Trading Activities

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

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

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

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

Cash Products	Government bonds, corporate bonds, asset backed bonds, convertible bonds and equities.
Currency and Commodity Derivatives	Forward FX contracts, currency swaps, currency options, commodity forwards, commodity swaps and commodity options.
Interest Rate Derivatives	Interest rate swaps, forward rate agreements, forwards, options and combinations of these products.
Equity Derivatives	Single stock, equity, index and variance swaps, options, warrants and combinations of these products.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Role of Financial Instruments (continued)

Credit Derivatives	Asset swaps, credit default swaps, credit options, credit baskets, credit linked notes, synthetic CDO tranches, CDO squared tranches and combinations of these.

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

Financing Activities

The responsibility for unsecured funding, managing the liquidity pool and any resulting interest rate and foreign exchange risk lies with the Treasury function. The Treasury function is managed globally and reports to the Chief Financial Officer ("CFO") and is fully independent of the trading activities. The Treasury function's primary responsibility is to pro-actively manage the liquidity and financing needs of the Company via a diversified financing programme, supported by a comprehensive and tested contingency plan. The Treasury function is not authorised to take positions for its own account and it is not judged on the basis of profit.

The distribution of sources of funding and their maturity profile are actively managed in order to ensure access to funds and to avoid a concentration of funding at any one time or from any one source. The main funding sources used by the Treasury function include capital, intercompany borrowings, long term debt, and committed credit facilities. We typically fund the Company's trading activities on a secured basis through repurchase agreements, we believe these funding activities in the secured markets are more cost-effective and less credit sensitive than financing in the unsecured market, we manage the risks by transacting with a large number of counterparties over various durations with a diverse range of security types.

Risk Management Structure

The Board of Directors of the Company is ultimately responsible for identifying and controlling risks through its overall risk management approach and approval of risk strategies and principles. It is advised by the PRC of its immediate parent, NEHS. Risk reporting and control is undertaken by the following departments and committees within the Company:

Capital Allocation

The annual process for budgeting entity level capital needs is part of the ICAAP exercise which takes place in conjunction with the budget related processes. The setting of all current and budgeted capital requirements relating to UK-regulated entities is coordinated and challenged by the Financial and Regulatory Control functions within EMEA Finance. The Financial and Regulatory Control functions are also responsible for monitoring compliance with capital usage limits to ensure capital adequacy targets are met.

Treasury Department

The Treasury Department monitors compliance with the Company's liquidity, currency and cash flow policies, including that described under Financing Activities above.

Market Risk Management Department

The Market Risk Management department monitors and reports compliance with internally set market risk limits and is completely independent of the business areas.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk Management Structure (continued)

Credit Risk Management Department

The Credit Risk Management department monitors and reports compliance with internally set credit limits and is completely independent of the business areas.

Operational Risk Management Department

The Operational Risk Management Department monitors, evaluates, conducts forensic investigations on operational risk issues and the internal control framework and reports on these to both the Audit Committee and the Executive Committee. The department is completely independent and separate from the Internal Audit function.

Finance Department

The Finance Department monitors compliance with internally and externally set regulatory limits and guidelines.

Risk Management Committee

On behalf of the European Management Committee of Nomura European Holdings, the Risk Management Committee (RMC) considers and monitors the risk exposures of the Company, including market, counterparty credit, operational, model, liquidity and business risks. The RMC is also responsible for the oversight of the Operational Risk Management Committee.

Internal Audit

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

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

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

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

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

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

Market Risk

Market risk is the risk of loss arising from fluctuation in the value of financial assets and liabilities (including off-balance sheet items) due to fluctuations in market risk factors (interest rates, foreign exchange rates, prices of securities and others). The Company classifies exposures into either trading or non-trading portfolios. Trading portfolios are exposed to market risk and managed and monitored on a daily basis on a Value-at-Risk ("VaR") methodology. Non-trading positions are managed and monitored using other sensitivity analysis.

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

Effective management of market risk requires the ability to analyse a complex and 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 VaR.

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

NCAT is used for performance evaluation and capital allocation, but not for capital adequacy. In order to ensure capital adequacy, financial soundness is assessed under stressed conditions, i.e. worst-case risk factor moves. Stress testing is undertaken quarterly on the basis of historical scenario analysis.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

A. Market Risk – Trading (continued)

Value at Risk

VaR is a measure of the potential loss in the value of the Company's trading 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, credit, foreign exchange rates, and commodities with associated volatilities and correlations.

VaR Methodology Assumptions

The Nomura Group uses a single VaR model which has been implemented globally in order to determine the total trading VaR for the Nomura Group. The Nomura Group's VaR methodology uses historical simulation to estimate potential profit or loss. Historical market moves are repeatedly applied to the Company's current exposure, forming a distribution of simulated portfolio returns. From this distribution potential losses can be estimated at required confidence levels or probabilities.

For internal risk management purposes, VaR is calculated across the Company at a 99% confidence level and using a 1-day time horizon. For regulatory capital, the Company uses the same confidence level but a 10-day time horizon calculated using actual 10-day historical market moves.

The VaR model uses a default historical time window of two years (520 business days). For risk management and VaR backtesting, The Nomura Group 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 Basel 2.5 regulations. One of these, Stressed-VaR ("SVaR"), is calibrated using a one-year window during a 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.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

A. Market Risk – Trading (continued)

VaR Backtesting

The performance of the Company's VaR model is constantly monitored to ensure that it remains fit for purpose. The main approach for validating VaR is to compare 1-day trading losses with the corresponding VaR estimate. Using a 99% VaR measure, 2 or 3 exceptions (i.e. loss is larger than VaR) may be expected to occur each year. The Company's VaR model is backtested at the Company level as well as at a number of lower levels, and backtesting results are reviewed on a monthly basis by the Risk Management Division.

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 99th percentile (i.e. in one 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 or 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 increase losses.

The Nomura Group is aware of the limitation of the Company's VaR model and uses VaR only as one component of a diverse risk management process. Other metrics to supplement VaR include stress testing and sensitivity analysis.

The table on the next page illustrates, by major risk category, the VaR during the financial years ended 31 March 2014 and 31 March 2013. It shows the highest, lowest and average VaR during the financial year.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

A. Market Risk – Trading (continued)

	Average VaR 2014 $'000	Min VaR 2014 $'000	Max VaR 2014 $'000	Average VaR 2013 $'000	Min VaR 2013 $'000	Max VaR 2013 $'000
Equity VaR	6,097	2,127	16,443	9,028	2,322	102,896
Securitised Products VaR	-	-	34	1,592	-	3,386
Credit VaR	6,885	3,812	10,682	29,079	6,691	62,286
Interest Rates VaR	14,241	6,951	27,668	19,888	10,141	52,758
Inflation VaR	3,682	1,365	11,066	1,309	531	2,834
FX VaR	14,932	9,072	39,135	13,834	9,197	21,864
Commodity VaR	73	-	1,661	78	1	243
Diversification	(20,765)			(32,185)		
Total	25,145	14,421	36,938	42,623	17,443	69,088

The total average, minimum and maximum VaR values are shown over the full annual period. A large part of the reduction in the total average VaR during the fiscal year ended 31 March 2014 was driven by the migration of certain positions to other Nomura Group entities.

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

B. Market Risk – Non-Trading

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

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

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk

Credit Risk Management

Credit risk is the risk of loss arising from an obligor or counterparty's default, insolvency or administrative proceeding which results in the obligor's failure to meet its contractual obligations in accordance with agreed terms. This includes both on and off-balance sheet exposures. It is also the risk of loss arising through a Credit Valuation Adjustment ("CVA") associated with deterioration in the creditworthiness of a counterparty.

Credit Risk Management Process

Credit Risk Management ("CRM") operates a credit risk control function within the Risk Management Division, reporting to the Chief Risk Officer ("CRO"). The process for managing credit risk at the Company includes:

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

Credit Limits and Risk Measures

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

The Company's main type of counterparty credit risk exposures arise from derivatives transactions or securities financing transactions. Credit exposures against counterparties are managed by means of setting credit limits based upon credit analysis of individual counterparty. Credit risk is managed daily through the monitoring of credit exposure against approved credit limits and the ongoing monitoring of the creditworthiness of the Company's counterparties.

Risk Mitigation

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk Exposure

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

	Maximum Exposure to Credit Risk 2014 $m	Maximum Exposure to Credit Risk 2013 $m
Available-for-sale debt investments	8	2
Financial assets held for trading	283,440	222,480
Financial assets designated at fair value through profit and loss	16,962	23,170
Collateral paid for securities purchased under agreements to resell	125,181	136,689
Collateral paid for securities borrowed	18,771	16,427
Other debtors	14,140	15,004
Investments - Time deposits	996	1,653
Cash at bank and in hand	3,708	6,041
	463,206	421,466
Commitments to extend credit	1,783	1,208
Other commitments	3	4
	1,786	1,212
Total exposure to credit risk	464,992	422,678

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk Exposure (continued)

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

	Maximum Exposure to Credit Risk 2014 $m	Maximum Exposure to Credit Risk 2013 $m
Credit Rating		
AAA	14,051	13,671
AA	49,811	35,972
A	105,254	100,019
BBB	223,129	200,822
Non-Investment grade	58,797	55,020
Unrated	12,164	15,962
Total exposure to credit risk by credit rating	463,206	421,466

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

Included in the non-investment grade exposure is the fair value of various credit derivative contracts with monoline insurers. These positions were entered into by the structured credit trading business of Global Markets in Europe and are classified as financial assets held for trading. The Company is currently negotiating with the insurers to settle the outstanding amounts.

Concentrations of Credit Risk

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

The Company is exposed to significant counterparty credit risk from other Nomura Group undertakings. The maximum credit exposure to other Nomura Group undertakings is $167 billion (2013: $163 billion) and is rated using the Nomura Group's credit rating of BBB (2013: 'BBB').

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Amounts past due but not impaired

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

An ageing analysis of amounts past due but not impaired is provided in the table below:

	Less than 91 days	
	2014 **$'000**	**2013** **$'000**
Other debtors	1,123,920	789,256
Total	1,123,920	789,256

Impaired financial assets

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

The amount charged to profit and loss for assets subject to impairment losses during the period is $nil (2013: $nil).

As at 31 March 2014 the cumulative impairment loss on available-for-sale investments was $nil (2013: $nil).

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Risk

Liquidity Risk Management

The Company defines liquidity risk as the potential inability to meet financial obligations as they become due. This risk could arise from various scenarios and could be due both to Nomura-specific and market-wide events. Liquidity risk management policy is based on the board approved liquidity risk appetite. The Company's 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 Board-established survival horizons can be met without any reliance on additional unsecured funding or forced liquidation of assets.

The firms Maximum Cumulative outflow ("MCO") model quantifies the amount of liquidity required to survive the approved stress scenarios, the Company manages liquidity risk on a self-sufficiency basis and controls liquidity usage via an unsecured funding limit framework. To ensure a readily available source of liquidity to meet the modeled liquidity requirements, we maintain a liquidity portfolio in the form of highly liquid, unencumbered securities that may be sold or pledged to provide liquidity, called "The Liquidity Pool".

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Risk (continued)

Contractual Maturity Table

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

	On demand 2014 $m	Less than 30 days 2014 $m	31 – 90 days 2014 $m	91 days – 1 year 2014 $m	1 – 5 years 2014 $m	Later than 5 years 2014 $m	Total 2014 $m
Financial liabilities held for trading – derivatives	205,923	2,446	1,833	2,716	1,778	102	214,798
Financial liabilities held for trading – non derivatives	43,670	-	-	-	-	-	43,670
Financial liabilities designated at fair value	731	907	1,599	804	3,087	591	7,719
Collateral received for securities sold under agreements to repurchase	26,191	87,290	11,525	11,284	283	-	136,573
Collateral received for securities loaned	10,886	3,465	-	-	-	-	14,351
Other Creditors	29,705	3,856	1,129	-	-	-	34,690
Creditors (amounts falling due after more than one year)	-	-	-	-	497	5,656	6,153
	317,106	97,964	16,086	14,804	5,645	6,349	457,954
Other commitments	-	-	-	435	1,151	196	1,782
Standby letters of credit and other guarantees	-	-	-	-	-	3	3
	-	-	-	435	1,151	199	1,785
Total exposure to liquidity risk	317,106	97,964	16,086	15,239	6,796	6,548	459,739

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Risk (continued)

Contractual Maturity Table

	On demand 2013 $m	Less than 30 days 2013 $m	31 – 90 days 2013 $m	91 days – 1 year 2013 $m	1 – 5 years 2013 $m	Later than 5 years 2013 $m	Total 2013 $m
Financial liabilities held for trading – derivatives	169,545	3,076	2,497	2,702	1,810	96	179,726
Financial liabilities held for trading – non derivatives	32,020	-	-	-	-	-	32,020
Financial liabilities designated at fair value	796	5,735	742	1,308	1,592	413	10,586
Collateral received for securities sold under agreements to repurchase	5,735	88,873	36,962	4,510	1,297	-	137,377
Collateral received for securities loaned	8,573	557	545	228	-	-	9,903
Other creditors	30,871	1,722	4,790	2,855	-	-	40,238
Creditors (amounts falling due after more than one year)	-	-	-	-	1,600	4,854	6,454
	247,540	99,963	45,536	11,603	6,299	5,363	416,304
Other commitments	-	-	-	329	617	262	1,208
Standby letters of credit and other guarantees	-	-	-	-	-	4	4
	-	-	-	329	617	266	1,212
Total exposure to liquidity risk	247,540	99,963	45,536	11,932	6,916	5,629	417,516

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Risk (continued)

Contractual Maturity Table

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

	On demand 2014	Less than 30 days 2014	31 – 90 days 2014	91 days – 1 year 2014	1 – 5 years 2014	Later than 5 years 2014	Total 2014
	$m	$m	$m	$m	$m	$m	$m
Cash at bank and in hand	3,708	-	-	-	-	-	3,708
Available-for-sale Investments	8	-	-	-	-	-	8
Financial assets held for trading – derivatives	204,189	2,410	1,763	2,817	1,729	94	213,002
Financial liabilities held for trading – non derivatives	70,438	-	-	-	-	-	70,438
Financial assets designated at fair value	4,693	9,431	1,706	544	50	538	16,962
Collateral paid for securities purchased under agreement to resell	30,685	73,754	12,323	6,502	1,917	-	125,181
Collateral paid for securities borrowed	10,953	7,509	309	-	-	-	18,771
Other debtors	12,334	1,124	-	-	-	-	13,458
Investments - time deposits	933	61	1	-	-	-	995
Total exposure to liquidity risk	337,941	94,289	16,102	9,863	3,696	632	462,523

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Risk (continued)

Contractual Maturity Table

	On demand 2013	Less than 30 days 2013	31 – 90 days 2013	91 days – 1 year 2013	1 – 5 years 2013	Later than 5 years 2013	Total 2013
	$m	$m	$m	$m	$m	$m	$m
Cash at bank and in hand	6,041	-	-	-	-	-	6,041
Available-for-sale Investments	2	-	-	-	-	-	2
Financial assets held for trading – derivatives	169,572	3,590	2,342	2,724	1,828	91	180,147
Financial assets held for trading – non derivatives	42,333	-	-	-	-	-	42,333
Financial assets designated at fair value	4,210	8,906	3,197	6,340	244	273	23,170
Collateral paid for securities purchased under agreement to resell	2,508	84,258	45,458	818	3,646	-	136,688
Collateral paid for securities borrowed	10,353	5,055	423	596	-	-	16,427
Other debtors	14,215	789	-	-	-	-	15,004
Investments - time deposits	1,303	-	-	3	326	21	1,653
Total exposure to liquidity risk	250,537	102,598	51,420	10,481	6,044	385	421,465

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Operational Risk

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

The Three Lines of Defence

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

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

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

Infrastructure of the framework

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

Products and Services

- Risk and Control Self Assessment ("RCSA"): The process used by business units to identify and assess the operational risks to which they are exposed, the controls in place to mitigate risks, and action plans to further reduce risk.
- Scenario Analysis: Process to identify and assess high impact, low probability 'tail events'
- Event Reporting: Process to obtain information on and learn from actual events impacting the Nomura Group and relevant external events. A key step is to identify appropriate action plans to prevent or mitigate future occurrence of events.
- Key Risk Indicators ("KRI"): Metrics which allow monitoring of certain key operational risks and trigger appropriate responses as thresholds are breached.

Outputs

- Analysis and reporting: A key aspect of ORM's role is to analyse, report, and challenge operational risk information provided by business units, and work with business units to develop action plans to mitigate risks.
- Operational risk capital calculation: Calculate operational risk capital for regulatory reporting purposes and allocate to business units to improve the efficiency on profit versus risks

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Model Risk

Model risk is the risk arising from model errors or incorrect or inappropriate model application, which can lead to financial loss, poor business and strategic decision making, restatement of external and internal reports, regulatory penalties and damage to the Company's reputation.

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

The Nomura Group has documented policies in place, which define the process and validation procedures required in order to implement new or amend existing valuation and risk models. Before models are put into official use, the Model Validation Group ("MVG") is responsible for validating their integrity and comprehensiveness independently from those who design and build them. All models are also subject to an annual re-approval process by MVG to ensure they remain suitable. For changes with an impact above certain materiality thresholds, model approval is required.

Business Risk

Business risk is the risk of failure of revenues to cover costs due to a deterioration in the earnings environment or a deterioration in the efficiency or effectiveness of the Nomura Group's business operations. Managing business risk is the responsibility of Nomura Group's Executive Managing Directors and Senior Managing Directors.

Fair values of financial assets and financial liabilities

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

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

Financial instruments valued using unobservable market data

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

These valuation techniques are based on assumptions. As a result, the fair value calculated using these valuation techniques will change if the underlying assumptions change. The potential impact of using reasonably possible alternative assumptions to value these financial instruments at the balance sheet date is plus and/or minus $57,856,016 (2013: $46,142,867).

Where the use of valuation techniques with significant unobservable parameters generates a gain or loss at inception, this is deferred over the life of the contract, until the parameters become observable or the instrument is terminated. Changes in fair value after inception are recognised in the income statement. The total fair value change recognised in profit or loss attributable to these financial instruments at balance sheet date is a profit of $111,716,062 (2013: loss of $20,176,346).

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair values of financial assets and financial liabilities (continued)

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

	2014 $'000	2013 $'000
As at 1 April	14,985	26,381
New transactions	7,536	9,689
Redemptions and terminations	(17,664)	(21,085)
As at 31 March	4,857	14,985

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

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

	2014 $m	2013 $m
Bond and equity derivatives	(1,320)	(955)
Convertible bonds	(861)	(301)
Equities	5,005	(147)
Warrants	115	354
Government bonds	406	(2,019)
Bank and corporate bonds	362	228
Interest rate derivatives	(50)	(671)
Currency derivatives	1,255	1,147
Credit derivatives	(3,673)	3,446
	1,239	1,082

The information provided in the table above is shown on a pure product split basis, with no matching of the gains and losses on derivative contracts being offset against those on the underlying position. A significant amount of trading takes place on a strategy basis across a range of instruments and is managed accordingly.

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NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

a) The fair value of loans and receivables and other liabilities due within 12 months are assumed to approximate to their carrying values.

b) Financial assets classified as available for sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated using a valuation model.

c) Financial assets and liabilities designated at fair value through profit and loss and derivatives are measured at fair value by reference to quoted market prices when available. Such models are based wherever possible on assumptions supported by observable market prices or rates. These valuation techniques are based on assumptions. As a result, the fair value calculated using these valuation techniques will change if the underlying assumptions change.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

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

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

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

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

As at 31 March 2014

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
- Equities	14,125,658	1,162,048	272,720	15,560,426
- Debt securities and loans	35,045,068	19,534,750	305,840	54,885,658
- Derivatives	2,270,663	207,572,747	3,158,744	213,002,154
Designated at fair value through profit and loss	707,402	16,254,252	-	16,961,654
	52,148,791	244,523,797	3,737,304	300,409,892

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Liabilities				
- Equities	(4,698,123)	(205,482)	(471)	(4,904,076)
- Debt securities and loans	(25,410,397)	(13,355,800)	-	(38,766,197)
- Derivatives	(2,809,460)	(209,118,027)	(2,870,277)	(214,797,764)
Designated at fair value through profit and loss	(748,499)	(6,417,977)	(552,971)	(7,719,447)
	(33,666,479)	(229,097,286)	(3,423,719)	(266,187,484)

During the year, approximately $1.2 billion of equities classified as financial assets held for trading were transferred out of level 2 and into 1 because the observable markets in which these instruments were traded became active (2013: $2.7 billion).

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 March 2013

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
- Equities	4,531,810	2,733,299	232,812	7,497,921
- Debt securities and loans	18,194,957	16,413,553	228,618	34,837,128
- Derivatives	2,813,031	171,876,742	5,457,175	180,146,948
Designated at fair value through profit and loss	-	23,169,919	-	23,169,919
	25,539,798	214,193,513	5,918,605	245,651,916

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Liabilities				
- Equities	(7,471,268)	(924,989)	(2,788)	(8,399,045)
- Debt securities and loans	(13,680,013)	(9,941,756)	-	(23,621,769)
- Derivatives	(3,494,315)	(171,048,895)	(5,182,925)	(179,726,135)
Designated at fair value through profit and loss	(857,035)	(9,721,004)	(7,942)	(10,585,981)
	(25,502,631)	(191,636,644)	(5,193,655)	(222,332,930)

Level 3 financial assets and financial liabilities

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

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

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	At 1 April 2013	Total gains (losses) in P&L	Purchase	Sales	Settlements	Net transfers in/ (out of) level 3	At 31 March 2014	Unrealised Total gains (losses) in P&L
Financial Assets								
Financial assets held for trading								
- Equities	232,812	108,537	11,324	(103,081)	-	23,128	272,720	66,812
- Debt securities and loans	228,618	3,179	232,320	(192,093)	-	33,816	305,840	16,097
- Derivatives	5,457,175	1,464,079	-	-	(3,231,517)	(530,993)	3,158,744	1,368,546
	5,918,605	1,575,795	243,644	(295,174)	(3,231,517)	(474,049)	3,737,304	1,451,455

	At 1 April 2013	Total gains (losses) in P&L	Purchase	Sales	Settlements	Net transfers in/ (out of) level 3	At 31 March 2014	Unrealised Total gains (losses) in P&L
Financial Liabilities								
Financial liabilities held for trading								
- Equities	(2,788)	(470)	(1,821)	5,026	-	(418)	(471)	(442)
- Debt securities and loans	-	-	-	-	-	-	-	-
- Derivatives	(5,182,925)	(1,373,879)	-	-	3,049,186	637,341	(2,870,277)	(1,296,797)
Financial liabilities designated fair value through profit and loss:								
- Loans and receivables	(7,942)	64,587	(11,283)	268,719	-	(867,052)	(552,971)	332,663
	(5,193,655)	(1,309,762)	(13,104)	273,745	3,049,186	(230,129)	(3,423,719)	(964,576)

Total gains and losses on financial assets included in the above table are included in 'Trading profit' in the profit and loss account.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Transfers between level 1 and 2

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

As at 31 March 2014

	Transfers from level 1 to level 2 $'000	Transfers from level 2 to level 1 $'000
Financial Assets		
Financial assets held for trading		
- Equities	131,897	1,229,704
- Debt Securities	29,810	8,947
	161,707	1,238,651

	Transfers from level 1 to level 2 $'000	Transfers from level 2 to level 1 $'000
Financial Liabilities		
Financial liabilities held for trading		
- Equities	(107,263)	(580,322)
- Debt Securities	(2,733)	-
	(109,996)	(580,322)

As at 31 March 2013

	Transfers from level 1 to level 2 $'000	Transfers from level 2 to level 1 $'000
Financial Assets		
Financial assets held for trading		
- Equities	43,680	2,730,145
- Debt Securities	117,156	13,553
	160,836	2,743,698

	Transfers from level 1 to level 2 $'000	Transfers from level 2 to level 1 $'000
Financial Liabilities		
Financial liabilities held for trading		
- Equities	(22,046)	(2,809,014)
- Debt Securities	(12,898)	-
	(34,944)	(2,809,014)

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

22. CAPITAL MANAGEMENT POLICY

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

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

The Company is subject to and has complied with the regulatory requirements imposed by the Prudential Regulation Authority ("PRA") under the CRD IV framework.

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

Regulatory Capital

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

	2014 $'000	2013 $'000
Common Equity Tier 1	4,224,512	4,124,858
Deductions from Common Equity Tier 1	(251,923)	(2,257)
Tier 1 Capital after deductions	3,972,589	4,122,601
Tier 2	5,475,000	3,686,301
Deductions from Tier 2	-	(24,922)
Tier 2 Capital after deductions	5,475,000	3,661,379
Tier 3 Capital	-	1,788,699
Total Own Funds	9,447,589	9,572,679
Deductions from Total Capital	-	(11,131)
Own Funds	9,447,589	9,561,548

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

23. OPERATING LEASE COMMITMENTS

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

	2014 Buildings $'000	2014 Other $'000	2013 Buildings $'000	2013 Other $'000
Within one year	-	1,346	357	417
Within two to five years	5,330	145	5,330	1,239
After five years	63,422	-	79,026	-
	68,752	1,491	84,713	1,656

24. EMPLOYEES

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

	Year ended 31 March 2014 Number	Year ended 31 March 2013 Number
United Kingdom	2,419	2,513
Other Europe	70	83
Middle East	32	34
	2,521	2,630

25. DIRECTORS' REMUNERATION

	Year ended 31 March 2014 $'000	Year ended 31 March 2013 $'000
Salaries, allowances and taxable benefits	4,786	5,440
Company contributions to pension	108	103
Bonuses	3,251	2,914
Compensation for loss of office	-	3,350
	8,145	11,807

The number of Directors who exercised share options during the year was four (2013: 3).
No Directors were entitled to receive shares under long-term incentive plans during the year (2013: 7).

The number of Directors accruing retirement benefits under money purchase pension schemes during the year was 4 (2013: 3).

The highest paid Director received emoluments of $1,982,492 (2013: $1,414,220) and Company contributions to pension of $60,880 (2013: $nil). The highest paid Director exercised share options during both 2013 and 2014.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

26. SHARE-BASED PAYMENTS

The ultimate holding company, NHI, has issued two types of share option schemes – SAR plan A and SAR plan B

For both plans the share options have variable vesting periods during which the options may not be exercised.

The exercise price of stock option plan A will be determined by reference to the market price of the ultimate holding company's common stock at the time the options are granted, whilst that of stock option plan B will be 1¥ per share.

For both stock option plans, these stock options are exercisable during a certain period from the vesting date (five years at maximum from the vesting date), which is to be decided by the ultimate holding company's Executive Management Board.

The following table for stock option plan A lists the inputs to the model used for the year ended 31 March 2014:

Date of grant of share options	Dividend yield	Historical volatility	Risk-free interest rate	Expected life of options	Share Price at Grant Date
	%	%	%	Years	¥
14-Jul-06	3.08	36.48	1.68	7	2,020
01-Aug-07	3.04	33.85	1.65	7	2,210
05-Aug-08	3.78	32.73	1.43	7	1,493

The following table for stock option plan A lists the inputs to the model used for the year ended 31 March 2013:

Date of grant of share options	Dividend yield	Historical volatility	Risk-free interest rate	Expected life of options	Share Price at Grant Date
	%	%	%	Years	¥
25-Jul-05	3.30	42.44	0.87	7	1,335
14-Jul-06	3.08	36.48	1.68	7	2,020
01-Aug-07	3.04	33.85	1.65	7	2,210
05-Aug-08	3.78	32.73	1.43	7	1,493

Under stock option plan B, the share price as at the grant date has been used as an estimate for the fair value at grant date.

For both stock option plans it has been assumed that all options will vest given that there is insignificant historical experience available to provide a reliable estimate.

The expense recognised for employee services received during the year was $105,664,000 (2013: $113,626,000).

26. SHARE-BASED PAYMENTS (CONTINUED)

NSU and CSU Awards

NSUs and CSUs are cash-settled awards linked to the price of the Company's common stock which have graded vesting over three years from grant date. NSUs vest annually over three years while CSUs vest quarterly over three years. NSUs are tied to the value of the ultimate holding company's common stock on the Tokyo Stock Exchange (JP: 8604) and are settled in cash rather than the Company's common stock. CSUs are similar to NSUs but exposure of the employee to movements in the price of the Company's common stock is subject to a cap and floor. The fair value of NSUs and CSUs are determined using the average closing NHI share price over the five trading days up to and including the vesting date.

For NSU and CSU awards the expense recognised for employee services received during the year was $176,422,058 (2013: $175,851,401).

Other Awards

In addition to the stock-based compensation awards described above, Nomura also grants NIUs to certain senior management and employees. NIUs are cash-settled awards linked to a world stock index quoted by Morgan Stanley Capital International which have graded vesting over three years from grant date. NIUs vest quarterly over three years. The fair value of NIUs is determined using the average closing price of the Index during the five trading days up to and including the vesting date.

For NIU awards the expense recognised for employee services received during the year was $48,570,772 (2013: $41,510,384).

The following table illustrates the number and weighted average exercise price of the following groups of share options:

	Share Option Plan	Number of Share Options		Weighted average exercise price ¥
Oustanding at the beginning of the year	A	240		232
	B	649,473		1
	NSU	16,979,217		
	CSU	40,689,792		
	NIU	21,200,891		
			79,519,613	
Granted during the year	A	-		-
	B	127,942		1
	NSU	5,787,319		
	CSU	12,278,595		
	NIU	5,944,669		
			24,138,525	

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NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

26. SHARE-BASED PAYMENTS (CONTINUED)

	Share Option Plan	Number of Share Options		Weighted average exercise price ¥
Forfeited during the year	A	-		-
	B	(19,470)		1
	NSU	(372,403)		
	CSU	(1,521,125)		
	NIU	(1,020,421)		
			(2,933,419)	
Exercised during the year	A	-		-
	B	(277,123)		1
	NSU	(11,807,337)		
	CSU	(19,409,324)		
	NIU	(11,899,982)		
			(43,393,766)	
Expired during the year	A	(150)		-
	B	(28)		1
	NSU	-		
	CSU	-		
	NIU	-		
			(178)	
Outstanding at the end of the year	A	90		232
	B	480,794		1
	NSU	10,586,796		
	CSU	32,037,938		
	NIU	14,225,157		
			57,330,775	
Exercisable at the end of the year	A	-		
	B	-		1

27. CAPITAL COMMITMENTS

As at 31 March 2014 there were capital commitments of $21,341,734 relating to assets in the course of construction (2013: $17,763,127).

28. RELATED PARTY TRANSACTIONS

Profit and loss account

The Company has taken advantage of the exemption in FRS 8 from disclosing related party transactions with other entities included in the consolidated financial statements of NHI.

As part of the Company's Merchant Banking operations, financial arrangements are made with certain companies for the purpose of holding investments. As a result of these arrangements, these companies become related parties. As at 31 March 2014 and 31 March 2013, aggregate amounts due from such related parties of $458,482 and $420,539, respectively, had been fully provided for.

29. CONTINGENT LIABILITIES AND COMMITMENTS

Italian Tax Dispute

On 25 January 2008, the Company was served with a Tax Notice issued by the Tax Authorities in Pescara, Italy alleging breaches by the Company of the UK - Italy Double Taxation Treaty of 1998. The alleged breaches relate to payments to the Company of tax credits on dividends on Italian shares. The Tax Notice not only denies certain payments to which the Company claims to be entitled but is also seeking reimbursement of €33.8 million, plus interest, already refunded. On 25 March 2008, the Company lodged an appeal against the Tax Notice rejecting the Italian Tax Authorities' demands for reimbursement and advancing the Company's claim for further refunds.

The matter went to a hearing in March 2009 and in November 2009 a decision was issued by the First Instance Pescara Tax Court in favour of the Italian Tax Authorities. The Company lodged an appeal of this decision and in March 2012 a second decision was issued by the Second Instance Pescara Tax Court in favour of the Italian Tax Authorities. As is allowed under Italian tax procedure, in September 2012 the Company received a demand for payment from the Italian Tax Authorities in the amount of €37.5 million which comprised the original refunded amount, interest and collection fees. Payment of this amount was made on 26 October 2012. Payment does not undermine the Company's arguments in the dispute and the Company intends to continue to vigorously challenge the second decision and a further appeal to the Supreme Court in Rome was filed on 8 July 2013 in order to seek full reimbursement of this amount plus further interest. Ultimately the Company expects that its appeal will prevail. The specified amount paid is the Company's current estimate of the maximum reasonably possible loss from this matter.

NOMURA INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

29. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Fairfield Claims

The Company is a defendant in two actions seeking recovery of payments allegedly made to the Company by Fairfield Sentry Ltd. and Fairfield Sigma Ltd. (collectively, the "Fairfield Funds"). The Fairfield Funds, now in liquidation, were feeder funds to Bernard L. Madoff Investment Securities LLC ("BLMIS"). BLMIS is itself now in liquidation in the US pursuant to the Securities Investor Protection Act. The first claim was brought by the liquidators of the Fairfield Funds. It was filed on 5 October 2010 in the Supreme Court of the State of New York, but was subsequently removed to the US District Court, which in turn referred it the US Bankruptcy Court. It looks likely that the claim will be transferred back to the New York Supreme Court. The claim is one of many similar claims that have been brought against a number of investors. The second claim was brought by the Trustee for the liquidation of BLMIS (the "Madoff Trustee"). The Company was added as a defendant on 6 June 2012 when the Madoff Trustee filed an amended complaint in the US Bankruptcy Court. The US District Court agreed to hear certain preliminary issues and the Company is still waiting for rulings on all the issues. Again, this claim is one of many claims being brought against a range of investors. Both claims are at a preliminary stage. The amount claimed in each case is approximately US$35 million plus interest. The Company intends to vigorously contest the proceedings. The Company does not believe that it will face the prospect of double recovery of the sums in question. The Company's current estimate of the maximum reasonably possible loss from this matter is US$35 million.

Harley Claim

On 6 October 2011, the Madoff Trustee filed an adversary proceeding against the Company in the US Bankruptcy Court for the recovery of redemption payments allegedly made by the Harley fund to the Company. The basis of the claim is that the redemptions in question were and continue to be "Customer Property" within the meaning of the Securities Investor Protection Act and are therefore avoidable and recoverable under the US Bankruptcy Code and New York Debtor and Creditor law. The Harley fund, now in liquidation, was a feeder fund to BLMIS. The claim is for approximately US$21.5 million plus interest. The Company, along with many other similarly situated defendants, filed a motion seeking to have the proceedings heard in the US District Court rather than the US Bankruptcy Court, which the US District Court granted. The US District Court also agreed to hear certain preliminary issues and we expect to receive its rulings on all issues by the end of 2014. The Company intends to vigorously contest the proceedings. The specified amount claimed is the Company's current estimate of the maximum reasonably possible loss from this matter.

Region of Calabria

The Region of Calabria (the "Region") commenced civil proceedings against a number of financial services firms including the Company in the local Calabrian court. The Region's claim against the Company related to derivative transactions entered into by the Region and purported to be for the sum of €32 million. The Company vigorously defended these proceedings, and this dispute was resolved and settled between the parties on 6 March 2014.

29. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Collateral dispute

On 1 March 2011, formal proceedings were commenced in the Commercial Court of the Canton of Zurich (the "Court") against Tarquin Limited ("Tarquin"), a special purpose company established at the request of the Company, in which PT Bank Mutiara Tbk. ("Bank Mutiara") has challenged Tarquin's rights over US$155 million previously on deposit in a bank account held with Dresdner Bank (Schweiz) ("Dresdner") over which Tarquin has a security interest pursuant to a loan facility. These funds are now deposited with the Cantonal Bank of Zurich by order of the Swiss Court, following a request by Dresdner for the Court to decide who should receive the funds. As part of this process the Swiss Court of Appeal determined that Bank Mutiara had until 1 March 2011 to commence proceedings against Tarquin claiming the monies. Bank Mutiara met this deadline. Tarquin disputes that Bank Mutiara has any enforceable security interest over the funds and is seeking the release of the monies to its order and will therefore vigorously defend the action which is ongoing. The Company cannot currently estimate the maximum reasonably possible loss from this matter but believes it is significantly less than the amount of cash being claimed.

Legal proceedings relating to Banca Monte dei Paschi di Siena SpA

In March 2013, Banca Monte dei Paschi di Siena SpA ("MPS") issued a claim in the Italian Courts against two former directors of MPS and the Company. MPS alleges that the former directors improperly caused MPS to enter into certain structured financial transactions with the Company in 2009 (the "Transactions") and alleges that the Company is jointly liable for the unlawful conduct of MPS's former directors. MPS is claiming damages of not less than €700 million. In July 2013 a claim was also issued against the same former directors of MPS, and the Company, by the shareholder group Fondazione Monte dei Paschi di Siena ("FMPS"). The grounds of the FMPS claim are similar to those on which the MPS claim is founded. The level of damages sought by FMPS is not specified. The Company has filed and served its Defences to both the MPS and the FMPS claims.

An investigation has also been commenced by the Public Prosecutor's office in Siena, Italy, into various allegations against MPS and certain of its former directors, including in relation to the Transactions. Starting on 15 April 2013, the Public Prosecutor in Siena issued seizure orders in relation to the Transactions seeking to seize the Transactions and approximately €1.9 billion of assets said to be held or receivable in various accounts of the Company and Nomura Bank International plc ("NBI") accounts in, or managed through, Italy and alleging that the Transactions involved offences under Italian law. To date, these seizure orders have not been validated by the Italian Courts. The Public Prosecutor lodged an appeal against the Italian Courts' decisions, which was heard at the Supreme Court in Rome on 25 March 2014. The Supreme Court determined that the appeal should be denied in part, but that the case should be sent back to the lower court for further consideration in relation to one element of the case.

Additionally, the Company commenced a claim against MPS in the English Courts in March 2013. The claim is for declaratory relief confirming that the Transactions remain valid and contractually binding. MPS filed and served its Defence and Counterclaim to these proceedings in March 2014. The Company filed and served its Reply in June 2014. MPS alleges in its Counterclaim that the Company is liable to make restitution of a net amount of approximately €1.5 billion, and seeks declarations regarding the illegality and invalidity of the Transactions.

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NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2014 (CONTINUED)

29. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

The Company continues to vigorously defend its position in each of the aforementioned proceedings. It is not possible for the Company to estimate the amount of reasonably possible loss in these proceedings. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before the amount of any potential liability can be reasonably estimated for these claims. The Company cannot predict if, how, or when the claims will be resolved or what any eventual settlement, fine, penalty or other relief may be, particularly since the claims are at an early stage in their development and the claimants are seeking substantial damages.

German Claim

On 10 January 2014 the Company received a claim from a firm owned by the municipality of Munich. The claim was served on the Company's branch office in Frankfurt. The claim relates to six swap transactions. It is alleged that the Company breached its duties under (implied) advisory agreements associated with the transactions, and failed to explain the structure of, and risks associated with, the transactions. Approximately €1 million in damages is claimed and the firm also asks that the court release it from all of its obligations in relation to the transactions. It states that the total amount in dispute is approximately €11 million. The Company has submitted a full defence to the claim, which will be heard in the Munich District Court, and intends to vigorously contest the proceedings.

Region of Sicily

On 15 July 2014, the Company received with no advance notice, an order dated 7 July 2014 from the Court in Palermo, Sicily (the "Order") seizing a coupon payment of €6.9m that was due from the Region of Sicily to the Company in connection with certain interest rate derivatives transactions entered into in 2005 and 2006. The Order contains limited information and the Company is in the process of investigating the position.

However, the Company and Sicily have performed the trades in accordance with the contractual terms of these derivative transactions. No civil proceedings have been served on the Company.

Given the lack of information available to the Company at the present time, and that numerous legal and factual issues may need to be investigated, it is not possible for the Company to estimate the amount of reasonably possible loss in this matter.

Commitments

The Company had commitments as at 31 March 2014 amounting to $1,786,000,000 (2013: $1,202,000,000) in respect of undrawn loan facilities.

30. EVENTS SINCE THE BALANCE SHEET DATE

The Company repaid subordinated debt to NEHS in the amount of $1,750,000,000 on 19 June 2014.

31. ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent undertaking and controlling party, and the parent that heads the largest group of undertakings for which consolidated financial statements are prepared, is Nomura Holdings, Inc., incorporated in Japan. Copies of the group financial statements of Nomura Holdings, Inc. may be obtained from 9-1, Nihonbashi 1-Chome, Chuo-ku, Tokyo 103-8645, Japan. The parent that heads the smallest group of undertakings for which consolidated financial statements are prepared is Nomura Europe Holdings plc, a company registered at 1 Angel Lane, London, EC4R 3AB, United Kingdom.