Consolidated Statement of Financial Condition

Nomura Securities International, Inc.
(A subsidiary of Nomura Holding America Inc.)
September 30, 2018
(Unaudited)

Nomura Securities International, Inc.
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September 30, 2018
(Dollars in thousands)

Assets		
Cash and cash equivalents		$ 2,157,514
Deposits with exchanges and cash segregated under federal and other regulations or requirements		999,130
Collateralized financing agreements:		
Securities purchased under agreements to resell (includes $1,366,747 at fair value)	$ 68,472,572	
Securities borrowed	15,959,626	
		84,432,198
Trading assets ($10,251,031 were pledged to various parties and $715,194 relates to consolidated variable interest entities, not available to the Company)		58,253,671
Receivables:		
Customers	2,062,626	
Brokers, dealers and clearing organizations	1,772,637	
Interest and dividends	270,030	
		4,105,293
Furniture, equipment, leasehold improvements and software, net (includes accumulated depreciation and amortization of $65,647)		5,639
Other assets		131,516
Total assets		$ 150,084,961
Liabilities and stockholder's equity		
Liabilities:		
Collateralized financing agreements:		
Securities sold under agreements to repurchase (includes $1,299,484 at fair value)	$ 109,268,629	
Securities loaned	13,175,424	
		$ 122,444,053
Borrowings from Parent		1,051,247
Other secured financing		80,000
Trading liabilities		17,629,081
Payables and accrued liabilities:		
Brokers, dealers and clearing organizations	1,510,219	
Customers	550,753	
Compensation and benefits	157,730	
Interest and dividends	91,170	
Other	127,922	
		2,437,794
Subordinated borrowings		3,150,000
Borrowings at fair value (includes $91,607 relates to consolidated variable interest entity and are non-recourse to the Company)		123,599
Total liabilities		146,915,774
Commitments, contingent liabilities and guarantees (Note 10)		
Stockholder's equity:		
Common stock, without par value, 9,000 shares authorized, 5,984 shares issued and outstanding	-	
Additional paid-in capital	3,677,935	
Accumulated deficit	(508,748)	
Total stockholder's equity		3,169,187
Total liabilities and stockholder's equity		$ 150,084,961

See accompanying Notes to Consolidated Statement of Financial Condition.

1. Organization

Nomura Securities International, Inc. ("NSI" or the "Company") is a wholly owned subsidiary of Nomura Holding America Inc. ("NHA" or the "Parent") which itself is wholly owned by Nomura Holdings, Inc. ("NHI" or "Nomura"), a Japanese corporation. This Consolidated Statement of Financial Condition includes the accounts of NSI and variable interest entities where NSI has been determined to be the primary beneficiary.

The Company is a U.S. registered broker and dealer under the Securities Exchange Act of 1934 and a futures commission merchant with the Commodity Futures Trading Commission ("CFTC"). Financial Industry Regulatory Authority ("FINRA") is the Company's designated regulator. The Company is licensed to transact on the New York Stock Exchange ("NYSE") and is a member of other principal securities exchanges. The Company provides investment banking and brokerage services to institutional customers and enters into principal transactions for its own account.

2. Significant Accounting Policies

Principles of Consolidation

The Consolidated Statement of Financial Condition includes the accounts of the Company and entities deemed to be variable interest entities ("VIEs") under Accounting Standards Codification ("ASC") 810-10-15, *Consolidations – Variable Interest Entities* ("ASC 810-10-15"), where the Company has been determined to be the primary beneficiary of such entities. At September 30, 2018, the Company is the primary beneficiary of two variable interest entities (see Note 13).

Use of Estimates

The Consolidated Statement of Financial Condition is presented in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported in the Consolidated Statement of Financial Condition and accompanying notes. Management believes that the estimates utilized in preparing its Consolidated Statement of Financial Condition are reasonable and prudent. Actual results could differ from those estimates.

Foreign Currency

Assets and liabilities denominated in non-United States dollar currencies are remeasured into United States dollar equivalents at spot foreign exchange rates prevailing on the date of the Consolidated Statement of Financial Condition.

Cash and Cash Equivalents

The Company defines cash equivalents to be highly liquid investments with original maturities of three months or less, other than those held for trading purposes. At September 30, 2018, cash equivalents of $3 million consist of overnight investments in money market funds valued based on quoted net asset values, which approximate fair value.

Securities Transactions

Proprietary securities transactions in regular way trades are recorded on the Consolidated Statement of Financial Condition on trade date, along with related revenues and expenses. Proprietary securities transactions in which the settlement date is considered non-regular way, or extended, are accounted for as forward derivative transactions in between trade date and settlement date, with changes in fair value recorded in earnings in between trade date and settlement date.

Customers' securities transactions are recorded on a settlement date basis. Related revenues and expenses from customer securities transactions are recorded on a trade date basis.

Fair Value Measurements

A significant amount of the assets and liabilities of the Company are carried at fair value on a recurring basis with changes in fair value recognized in income under various accounting literature, principally applicable industry guidance, such as ASC 940, *Financial Services – Brokers and Dealers* ("ASC 940"), but also, ASC 815, *Derivatives and Hedging* ("ASC 815") and by the fair value option election in accordance with ASC 825, *Financial Instruments* ("ASC 825"). If the Company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings.

The Company applies the fair value option for certain securities purchased under agreements to resell, certain securities sold under agreements to repurchase, a financing transaction documented as a derivative that failed the ASC 815 definition of a derivative and long term borrowings of consolidated VIEs (see Notes 4 and 13).

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820") defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and determines disclosures associated with the use of fair value requirements (see Note 4).

Assets and liabilities recorded at fair value on the Consolidated Statement of Financial Condition are categorized for disclosure purposes, based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels are defined by ASC 820 and are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities (see Note 4).

Trading assets and trading liabilities, including securities positions and contractual commitments arising pursuant to derivatives contracts, are recorded on the Consolidated Statement of Financial Condition at fair value, with unrealized gains and losses reflected in income.

Derivative financial instruments are presented on a net-by-counterparty basis where evidence that an enforceable legal right of setoff exists, in accordance with ASC 210-20, *Balance Sheet – Offsetting* ("ASC 210-20") and ASC 815-10-45, *Derivatives and Hedging – Overall – Other Presentation Matters* ("ASC 815-10-45"). The fair value is netted across products where allowable in the associated master netting agreements. Also, the Company generally offsets fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments that are eligible for offset under the same master netting agreements.

Transfers of Financial Assets

The Company accounts for the transfer of a financial asset as a sale when it relinquishes control over the asset by meeting the following conditions outlined in ASC 860, *Transfers and Servicing* ("ASC 860"), (a) the asset has been isolated from the transferor (even in bankruptcy or other receivership), (b) the transferee has the right to pledge or exchange the asset received, or if the transferee is an entity whose sole purpose is to engage in securitization or asset-backed financing activities, if the holders of its beneficial interests have the right to pledge or exchange the beneficial interests held and (c) the transferor has not maintained effective control over the transferred asset.

In connection with its securitization activities, the Company utilizes special purpose entities ("SPEs") to securitize agency and non-agency mortgage-backed securities. The Company's involvement with SPEs includes structuring and underwriting, distributing and selling debt instruments and beneficial interests issued by SPEs to investors. The Company derecognizes financial assets transferred in securitizations provided that the Company has relinquished control over such assets and does not consolidate the SPE. The Company may obtain or retain an interest in the financial assets, including residual interests in the SPEs. Any such interests are accounted for at fair value and are included within *Trading assets* on the Consolidated Statement of Financial Condition with changes in fair value included in income.

Collateralized Financing Agreements

Securities purchased under agreements to resell ("resale agreements") and *Securities sold under agreements to repurchase* ("repurchase agreements") are treated as financing transactions and are carried at the amounts at which the securities will be subsequently resold or reacquired plus accrued interest, except for certain resale and repurchase agreements for which the Company has elected the fair value option.

Repurchase and resale agreements are presented on a net-by-counterparty basis on the Consolidated Statement of Financial Condition where net presentation is permitted by ASC 210-20. It is the Company's policy to take possession of securities collateralizing resale agreements. Similarly, counterparties take possession of the Company's securities collateralizing repurchase agreements.

Substantially all of these transactions are collateralized by United States government and residential mortgage backed agency securities. The Company monitors the market value of the underlying securities as compared to the related receivables or payables, including accrued interest and requests or returns additional collateral when deemed appropriate.

Securities borrowed and *Securities loaned* are included on the Consolidated Statement of Financial Condition at the amount of cash collateral advanced or received plus accrued interest. *Securities borrowed* transactions require the Company to deposit cash, letters of credit or other securities with the lender. With respect to *Securities loaned*, the Company receives collateral in the form of cash or other securities. When securities or letters of credit are pledged as collateral for securities borrowed, such transactions are not recorded on the Consolidated Statement of Financial Condition. The Company monitors the market value of the securities borrowed or loaned against the collateral on a daily basis and additional cash or securities are obtained or refunded, as necessary, to ensure that such transactions are adequately collateralized for the Company's risk management purposes. In accordance with ASC 860, when the Company acts as the lender in a securities lending agreement and receives securities as collateral that can be repledged or sold, it recognizes the amounts received and a corresponding obligation to return them.

Borrowings at fair value

Borrowings at fair value represents a structured financing transaction documented as a derivative which failed the ASC 815 definition of a derivative due to the significance of the upfront payment required under the contract and long term borrowings of consolidated VIEs.

Receivables from and Payables to Customers

Receivables from and payables to customers primarily include amounts due on delivery versus payment / receipt versus payment, customer fails, margin and cash transactions. Securities owned by customers are held as collateral for these receivables.

Income Taxes

Certain income and expense items are accounted for in different periods for income tax purposes as compared to financial reporting purposes. Provisions for deferred taxes are made in recognition of these temporary differences in accordance with the provisions of ASC 740, *Income Taxes* ("ASC 740").

ASC 740 also provides guidance and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of uncertain tax positions (see Note 12).

The Company's policy is to treat interest and/or penalties related to income tax matters and uncertain tax positions as part of pretax income.

3. Deposits with exchanges and cash segregated under federal and other regulations or requirements

Deposits with exchanges and cash segregated under federal and other regulations or requirements, includes deposits with clearing organizations and customers' deposits segregated pursuant to Federal and other regulations.

Cash of approximately $521.0 million and securities of $3.5 million have been segregated on behalf of securities customers pursuant to the reserve formula requirements of Securities and Exchange Commission ("SEC") Rule 15c3-3. The segregated securities were sourced from a resale agreement and trading assets owned on the Consolidated Statement of Financial Condition.

Cash of $10.9 million and securities of $89.9 million have been segregated on behalf of Proprietary Accounts of Brokers ("PAB") under the SEC Requirements of 15c3-3. The segregated securities were sourced from resale agreements and trading assets owned on the Consolidated Statement of Financial Condition.

Cash of approximately $207.4 million and $17.5 million is segregated pursuant to CFTC Regulations 1.20 and 30.7, respectively, and represent funds accruing to customers as a result of trades or contracts.

Cash of $242.3 million was deposited with clearing organizations to satisfy the Company's guaranty deposit requirements as a clearing member of such organizations. These amounts are determinable by such clearing organizations and are subject to change.

4. Fair Value Measurements

The Fair Value of Financial Instruments

A significant amount of the Company's financial instruments are carried at fair value. Financial instruments that are carried at fair value on a recurring basis include *Trading assets* and *Trading liabilities*. Additionally, the Company applies the fair value option for certain *Securities purchased under agreements to resell* and *Securities sold under agreements to repurchase* and all long term borrowings issued by consolidated VIEs. The Company also elected the fair value option for a financing transaction documented as a derivative contract which failed the ASC 815 definition of a derivative due to the significance of the upfront payment required under the terms of the derivative contract.

Other financial instruments are measured at fair value on a nonrecurring basis, where the primary measurement basis is not fair value but where fair value is used in specific circumstances after initial recognition, such as to measure impairment.

In all cases, fair value is determined in accordance with ASC 820, which defines fair value as the amount that would be exchanged to sell a financial asset or transfer a financial liability in an orderly transaction between market participants at the measurement date. It assumes the transaction occurs in the Company’s principal market, or in the absence of the principal market, the most advantageous market for the relevant financial asset or liability.

Valuation Methodology for Financial Instruments Carried at Fair Value on a Recurring Basis

The fair value of financial instruments is based on quoted market prices including market indices, broker or dealer quotations or an estimation by management of the expected exit price under current market conditions. Certain over the counter (“OTC”) contracts have bid and offer prices that are observable in the market. These are measured at the point within the bid-offer range which best represents the Company’s estimate of fair value. Where quoted market prices or broker or dealer quotations are not available, prices for similar instruments or valuation pricing models are considered in the determination of fair value. Where quoted prices are available in active markets, no valuation adjustments are taken to modify the fair value of assets or liabilities that are marked using such prices.

Certain instruments may be measured using valuation techniques, such as valuation pricing models incorporating observable parameters, unobservable parameters or a combination of both. Valuation pricing models use parameters which would be considered by market participants in valuing similar financial instruments.

Valuation pricing models and their underlying assumptions impact the amount of unrealized gains and losses recognized. The use of different valuation pricing models or underlying assumptions could produce different financial results. Valuation uncertainty results from a variety of factors, including the valuation technique or model selected, the quantitative assumptions used within the valuation model, the inputs into the model, as well as other factors. Valuation adjustments are used to reflect the assessment of this uncertainty. Common valuation adjustments include model reserves, credit adjustments, close-out adjustments, and other appropriate instrument-specific adjustments, such as those to reflect transfer or sale restrictions.

The degree of adjustments is largely judgmental and is based on an assessment of the factors that management believes other market participants would use in determining the fair value of similar financial instruments. The type of adjustments taken, the methodology for the calculation of these adjustments and the inputs for these calculations are reassessed periodically to reflect current market practice and the availability of new information.

For example, the fair value of certain financial instruments includes adjustments for credit risk; both with regards to counterparty credit risk on positions held and the Company’s own creditworthiness on positions issued. Credit risk on financial assets is significantly mitigated by credit enhancements such as collateral and netting arrangements. Any net credit exposure is measured using available and applicable inputs for the relevant counterparty. The same approach is used to measure the credit exposure on the Company’s financial liabilities as is used to measure counterparty credit risk on the Company’s financial assets.

Valuation pricing models are calibrated to the market on a regular basis by comparison to observable market pricing, comparison with alternative model and analysis of risk profiles and inputs used are adjusted for current market conditions and risk. The Model Validation Group (“MVG”) within the Risk Management Division reviews pricing models and assesses model appropriateness and consistency independently of the front office. The model reviews consider a number of factors about a model’s suitability for valuation and sensitivity of the models used for a particular product.

Fair Value Hierarchy

All financial instruments measured at fair value, including those carried at fair value using the fair value option, have been categorized into a three-level hierarchy (the "fair value hierarchy") based on the transparency of valuation inputs used by the Company to estimate fair value. A financial instrument is classified in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement of the financial instrument. A financial instrument valued using a combination of Level 1, 2 and 3 inputs would be classified as a Level 3 financial asset or liability where the Level 3 inputs are significant to its measurement. The three levels of the fair value hierarchy are defined as follows, with Level 1 representing the most transparent inputs and Level 3 representing the least transparent inputs:

Level 1 – Unadjusted quoted prices for identical financial instruments in active markets accessible by the Company at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly for substantially the full term (contractual life) of the asset or liability.

Level 3 – One or more inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table presents information about the Company's financial assets and financial liabilities measured at fair value on a recurring basis, as of September 30, 2018, within the fair value hierarchy (dollars in thousands):

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting[1]	Total
Assets					
Trading Assets:					
Mortgage-backed securities: [2]					
Residential mortgage-backed securities - agency	$ -	$ 31,896,075	$ -	$ -	$ 31,896,075
Residential mortgage-backed securities - non-agency	-	477,643	57,156	-	534,799
Commercial mortgage-backed securities	-	7	-	-	7
U.S. and foreign government and agency securities	15,925,755	2,345,332	-	-	18,271,087
Equity securities	4,920,445	450,912	22,465	-	5,393,822
Bank and corporate debt securities	-	1,167,074	150,708	-	1,317,782
Collateralized debt/loan obligations	-	298,570	253,278	-	551,848
Derivative instruments:					
Equity contracts	-	850,932	-	-	850,932
Interest rate contracts	37,114	417,300	-	-	454,414
Credit contracts	-	361,536	1,263	-	362,799
Foreign exchange contracts	-	500	-	-	500
Netting	-	-	-	(1,380,394)	(1,380,394)
Total derivatives	37,114	1,630,268	1,263	(1,380,394)	288,251
Total Trading assets	$ 20,883,314	$ 38,265,881	$ 484,870	$ (1,380,394)	$ 58,253,671
Securities purchased under agreements to resell[3]	$ -	$ 1,273,319	$ 93,428	$ -	$ 1,366,747
Liabilities					
Trading Liabilities:					
U.S. and foreign government and agency securities	$ 13,193,987	$ 1,136,240	$ -	$ -	$ 14,330,227
Equity securities	1,861,984	69,533	-	-	1,931,517
Bank and corporate debt securities	-	706,200	-	-	706,200
Derivative instruments:					
Equity contracts	-	1,290,215	-	-	1,290,215
Interest rate contracts	20,090	332,942	-	-	353,032
Credit contracts	-	447,378	2,525	-	449,903
Foreign exchange contracts	-	1,791	-	-	1,791
Netting	-	-	-	(1,488,179)	(1,488,179)
Total derivatives	20,090	2,072,326	2,525	(1,488,179)	606,762
Residential mortgage-backed securities - non-agency	-	51,390	-	-	51,390
Collateralized debt/loan obligations	-	2,985	-	-	2,985
Total Trading liabilities	$ 15,076,061	$ 4,038,674	$ 2,525	$ (1,488,179)	$ 17,629,081
Securities sold under agreements to repurchase[3]	$ -	$ 1,275,322	$ 24,162	$ -	$ 1,299,484
Borrowings at fair value[3][4]	$ -	$ 123,599	$ -	$ -	$ 123,599

[1] The amount offset under counterparty netting of derivative assets and liabilities and cash collateral netting against derivatives.
[2] Includes $715,194 classified in Level 2 related to consolidated variable interest entities.
[3] Items for which the Company elected the Fair value option under ASC 825.
[4] Includes $91,607 classified in Level 2 related to consolidated variable interest entities.

Valuation Methodology by Major Class of Financial Asset and Liability

The following table describes the valuation methodology used by the Company to estimate fair value of major classes of financial assets and financial liabilities, together with the significant inputs which determine their classification in the fair value hierarchy.

Product/Instrument	**Valuation methodology, inputs and assumptions**	**Valuation Hierarchy Classification**
Residential mortgage-backed securities ("RMBS") and Commercial mortgage-backed securities ("CMBS")	Valuations are primarily based on discounted cash flows ("DCF"), but also quoted market prices and recent market transactions of identical or similar securities, if available. Significant inputs include: • Yields • Prepayment rates • Default probabilities • Loss severities	Generally level 2 Level 3 when they are traded infrequently, or the significant inputs used in DCF valuations are unobservable
U.S. and foreign government and agency securities	Valued using quoted market prices, broker or dealer quotations, or alternative pricing sources.	Level 1 when traded in active markets Level 2 or 3 when traded in less active markets
Equity securities	Listed securities: Valued using quoted prices for identical securities where available. Listed equities traded in inactive markets are valued using the exchange price as adjusted to reflect liquidity and bid/offer spreads.	Level 1 or 2
	Unlisted securities: Valued using DCF or market multiple valuation technique. Market multiple techniques include comparable ratios such as enterprise value / earnings before interest, taxes, depreciation and amortization ("EV/EBITDA") based on relationships between numbers reported in the consolidated financial statements of the investee and the price of comparable companies. A liquidity discount might also be applied to reflect the specific characteristics of the investee. Significant inputs include: • Yields • Credit spreads • Liquidity discounts • Recovery rates	Level 3
Bank and corporate debt securities	Valued using DCF, quoted market prices and/or recent market transactions of identical or similar debt securities, if available. Significant inputs include: • Yield curves • Asset swap spreads • Recovery rates • Credit spreads of the issuer	Level 2 or 3
Collateralized debt/loan obligations ("CDOs"/"CLOs")	Valued using DCF, quoted market prices and/or recent market transactions of identical or similar securities, if available. Significant inputs include: • Market spread data for each credit rating • Prepayment rates • Default probabilities • Loss severities • Prepayment rates • Yields	Level 2 or 3

Product/Instrument	Valuation methodology, inputs and assumptions	Valuation Hierarchy Classification
Derivatives	Exchange-traded derivatives (excluding equity contracts).	Level 1 when valued using unadjusted exchange price Level 2 when valued using models
	Exchange-traded equity derivatives are valued using option models. Use of a model valuation is more representative of fair value than exchange price because of the higher volume and frequency of trading in the underlying equity instruments.	Level 2
	OTC derivative transactions are valued using DCF techniques as well as options models such as Black-Scholes and Monte Carlo simulation. Valuation adjustments are also made to model valuations in order to reflect counterparty credit risk on derivative assets and the Company's own creditworthiness on derivative liabilities. Equity contracts significant inputs include: • Equity prices • Volatilities • Dividend yields • Correlations Interest rate contracts significant inputs include: • Interest rates • Volatilities • Forward foreign exchange ("FX") rates • Correlations Credit contracts significant inputs include: • Interest rates • Default probabilities • Credit spreads • Volatilities • Recovery rates • Correlations • Loss severities FX contracts significant inputs include: • Interest rates • Spot FX rates • Forward FX rates • Volatilities	Level 2 or 3
Securities purchased under agreements to resell / Securities sold under agreements to repurchase	Valuations are based on DCF. Significant inputs include: • Credit Spreads	Level 2 or 3
Borrowings at fair value	Value driven by the fair value of the underlying referenced securities for transaction documented as a derivative that failed the ASC 815 definition of a derivative. Debt of consolidated VIEs are valued with the way the Company values its own inventory.	Level 2

Valuation Processes

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

- The Product Control Valuations Group ("PCVG") has primary responsibility for determining and implementing valuation policies and procedures in connection with the determination of fair value measurements. While it is the responsibility of front office traders in the Company's trading businesses to price its financial instruments, the PCVG is responsible for independently verifying or validating these prices. In the event of a difference in opinion or where the estimate of fair value requires judgment, the valuation used within this Consolidated Statement of Financial Condition is made by senior management independent of the trading businesses. The PCVG reports to the Head of Product Control and ultimately to the NHA Chief Financial Officer;

- The Accounting Policy Group defines the Company's accounting policies and procedures in accordance with US GAAP, including those associated with determination of fair value. This group reports to the NHA Chief Financial Officer;

- The MVG within the Risk Management Division validates the appropriateness and consistency of pricing models used to determine fair value measurements independently of those who design and build the models. This group reports to the NHA Chief Risk Officer.

The fundamental components of this governance framework over valuation processes within the Company, particularly around Level 3 financial instruments, are the procedures in place around independent price verification, pricing model validation and revenue substantiation.

Independent Price Verification Processes

The key objective of the independent price verification processes within the Company is to verify the appropriateness of fair value measurements applied to all financial instruments within the Company. In applying these control processes, observable inputs are used whenever possible and when unobservable inputs are necessary, the processes seek to ensure the valuation methodology and inputs are appropriate, reasonable and consistently applied.

The independent price verification processes aim to verify the fair value of all positions to external sources on a regular basis. The process involves obtaining independent data such as trades, marks and prices from external sources and examining the impact of marking the positions at the independent prices.

Where third-party pricing information sourced from brokers, dealers and consensus pricing services is used as part of the price verification process, consideration is given as to whether that information reflects actual recent market transactions or prices at which transactions involving identical or similar financial instruments are currently executable. If such transactions or prices are not available, the financial instrument will generally be classified as Level 3.

Where there is a lack of observable market information around the inputs used in a fair value measurement, the PCVG and the MVG will assess the inputs used for reasonableness considering available information including comparable products, volatility surfaces, curves and past trades.

Additional valuation adjustments may be taken for the uncertainty in the inputs used, such as correlation and where appropriate, trading desks may be asked to execute trades to evidence market levels.

Model Review and Validation

For more complex and illiquid financial instruments, pricing models are used to determine fair value measurements. Before models are put into official use, the MVG is responsible for validating their integrity and comprehensiveness independently from those who design and build them. As part of this validation process, the MVG analyzes a number of factors to assess a model's suitability and to quantify model risk by applying model reserves and capital adjustments.

Valuation models are developed and maintained by the front-office and risk models by the Risk Methodology Group within the Risk Management Division. Some models may also be developed by third party providers. The Risk Methodology Group has primary responsibility for the ongoing refinement and improvement of risk models and methodologies. All models are also subject to an annual re-approval process by MVG to ensure they remain suitable.

Revenue Substantiation

PCVG also ensures adherence to the Company's valuation policies through daily and periodic analytical review of net revenues. This process involves substantiating revenue amounts through explanations and attribution of revenue sources based on the underlying factors such as interest rates, credit spreads, volatility, FX rates, etc. In combination with the independent price verification processes, this daily, weekly, monthly and quarterly review substantiates the revenues made while helping to identify and resolve potential booking, pricing or risk quantification issues.

Level 3 Financial Instruments

As described above, the valuation of Level 3 financial assets and liabilities is dependent on certain significant inputs which cannot be observed in the market. Common characteristics of an inactive market include a low number of transactions of the financial instrument, stale or non-current price quotes that vary substantially either over time or among market makers, or little publicly released information.

If corroborative evidence is not available to value Level 3 financial instruments, fair value may be established using other equivalent products in the market. The level of correlation between the specific Level 3 financial instrument and the available benchmark instrument is considered as an unobservable parameter. Other techniques for determining an appropriate value for unobservable parameters may consider information such as consensus pricing data among certain market participants, historical trends, extrapolation from observable market data and other information the Company would expect market participants to use in valuing similar instruments.

Using reasonably possible alternative assumptions to value Level 3 financial instruments may significantly influence their value. A range of possible fair values may be available for Level 3 financial instruments as a result of the uncertainties described above. The specific valuation is based on management's judgment of prevailing market conditions, in accordance with the Company's established valuation policies and procedures.

Quantitative Information Regarding Significant Unobservable Inputs and Assumptions

The following table presents quantitative information about the significant unobservable inputs and assumptions used by the Company for certain material Level 3 financial instruments as of September 30, 2018 (dollars in thousands):

Class of financial instrument	Fair value	Valuation technique	Unobservable inputs	Level 3 Input or Range of Inputs (%)	Weighted Average (%)
Assets					
Residential mortgage-backed securities - non-agency	$ 57,156	Discounted cash flow	Loss severities	10.6-100.0	74.7
Equity securities	$ 22,465	Market multiples	Recovery rates	25.5	25.5
Bank and corporate debt securities	$ 150,708	Discounted cash flow	Credit spreads	2.3-5.8	3.2
			Recovery rates	2.5-8.4	4.3
Collateralized debt/loan obligations	$ 253,278	Discounted cash flow	Yields	6.0-20.0	13.2
			Prepayment rates	20.0	20.0
			Default probabilities	2.0	2.0
			Loss severities	40.3-100.0	89.7
Securities purchased under agreements to resell[(1)]	$ 93,428	Discounted cash flow	Credit spreads	3.5-4.9	4.3
Liabilities					
Securities sold under agreements to repurchase[(1)]	$ (24,162)	Discounted cash flow	Credit spreads	3.5	3.5
Derivatives, net:					
Credit contracts	$ (1,262)	Discounted cash flow	Recovery rates	50.7	n/a

[(1)] Items for which the Company elected the Fair value option under ASC 825.

Sensitivity of Fair Value to Changes in Unobservable Inputs

For each class of financial instrument described in the above table, changes in each of the significant unobservable inputs and assumptions used by the Company will impact the determination of a fair value measurement for the financial instrument. The sensitivity of these Level 3 fair value measurements to changes in unobservable inputs and interrelationships between those inputs as described below, impact the determination of a fair value measurement for the financial instrument:

> *RMBS, CDOs/CLOs* – Significant increases (decreases) in yields, prepayment rates, probability of default and loss severity in the event of default, in isolation, would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Equity securities – Significant increases (decreases) in the recovery rates used in a market multiple valuation technique would result in a significantly higher (lower) fair value measurement.

Bank and corporate debt securities – Significant increases (decreases) in the credit spreads used in a DCF valuation technique would result in a significantly lower (higher) fair value measurement, while significant increases (decreases) in recovery rates would result in a significantly higher (lower) fair value measurement.

Repurchase agreements / Resale agreements – Significant increases (decreases) in the credit spreads used in a DCF valuation technique would result in a significantly lower (higher) fair value measurement.

Derivatives – Where the Company is long the underlying risk of a derivative, significant increases (decreases) in recovery rates in the underlying of the derivative would result in a significantly higher (lower) fair value measurement. Where the Company is short the underlying risk of a derivative, the impact of these changes would have a converse effect on the fair value measurements reported by the Company.

The following table explains increases and decreases, including gains and losses, of Level 3 financial assets and financial liabilities measured at fair value on a recurring basis for the six months ended September 30, 2018. Financial instruments classified as Level 3 are often economically hedged with instruments within Level 1 or Level 2 of the fair value hierarchy. The gains or losses presented below do not reflect the offsetting gains or losses for these hedging instruments. Level 3 instruments are at times measured using both observable and unobservable inputs. Fair value changes presented below, therefore, reflect realized and unrealized gains and losses resulting from movements in both observable and unobservable parameters.

	Opening balance, April 1, 2018	Purchases	Issuances	Sales/ Redemptions	Settlements [2]	Total unrealized and realized gains/ (losses)	Transfers from Level 3	Transfers into Level 3	Balance, September 30, 2018	Unrealized gains (losses) on outstanding Level 3 Assets and Liabilities for the six months ended September 30, 2018 [1]
	(Dollars in thousands)									
Trading Assets:										
RMBS - non-agency	$ -	$ 57,222	$ -	$ (50)	$ -	$ (16)	$ -	$ -	$ 57,156	$ (19)
Equity securities	34,079	48	-	-	-	(11,704)	(32)	74	22,465	(31)
Bank and corporate debt securities	154,823	-	-	(290)	-	(3,854)	-	29	150,708	(3,854)
Collateralized debt/loan obligations	201,667	248,006	-	(236,321)	-	11,941	(13,100)	41,085	253,278	(34,725)
Total assets	390,569	305,276	-	(236,661)	-	(3,633)	(13,132)	41,188	483,607	(38,629)
Derivatives, net:										
Credit contracts	(107)	-	-	-	-	(1,155)	-	-	(1,262)	(1,262)
Total derivatives, net	(107)	-	-	-	-	(1,155)	-	-	(1,262)	(1,262)
Trading Liabilities:										
Collateralized debt/loan obligation	(4,913)	-	-	4,913	-	-	-	-	-	-
Net trading assets	$ 385,549	$ 305,276	$ -	$ (231,748)	$ -	$ (4,788)	$ (13,132)	$ 41,188	$ 482,345	$ (39,891)
Securities Purchased Under Agreements To Resell [3]	$ 43,628	$ -	$ -	$ -	$ -	$ (5)	$ -	$ 49,805	$ 93,428	$ (5)
Security Sold Under Agreements To Repurchase [3]	$ (29,132)	$ -	$ -	$ 4,970	$ -	$ -	$ -	$ -	$ (24,162)	$ -

(1) These net unrealized gains (losses) are included within income.
(2) All cash payments or receipts on derivatives are included in settlements.
(3) Items for which the Company elected the Fair value option under ASC 825.

Transfers between Levels of the Fair Value Hierarchy

The Company assumes that transfers of assets and liabilities between Levels within the fair value hierarchy occur at the beginning of the relevant quarter in which the transfer occurred. Amounts reported below, therefore, represent the fair value of the transferred financial instruments at the beginning of the relevant quarter in which the transfer occurred.

Transfers between Level 1 and Level 2:

- There were no transfers between Level 1 and Level 2 during the six months ended September 30, 2018.

Transfers from Level 2 to Level 3:

- *CDOs/CLOs* of approximately $41.1 million were transferred from Level 2 to Level 3 as a result of a decrease in trading activity and lack of external pricing on certain CDO/CLO positions.

- *Resale agreements* of approximately $49.8 million were transferred from Level 2 to Level 3 as a result of a decrease in trading activity and lack of external pricing on certain resale agreement positions.

Transfers from Level 3 to Level 2:

- *CDOs/CLOs* assets of approximately $13.1 million were transferred from Level 3 to Level 2 as a result of an increase in trading activity, and thus an increase in the observability of external pricing on certain CDO/CLO positions.

Fair Value Option for Financial Assets and Liabilities

The Company carries certain eligible financial assets and liabilities at fair value through the election of the fair value option permitted by ASC 815 and ASC 825. When the Company elects the fair value option for an eligible item, changes in that item's fair value are recognized within income. Election of the fair value option is irrevocable unless an event that gives rise to a new basis of accounting for that instrument occurs. Interest and dividend income and expense arising from financial instruments for which the fair value option has been elected are recognized within income.

The financial assets and financial liabilities elected for the fair value option by the Company and the reasons for the election during the six months ended September 30, 2018 are as follows:

- *Repurchase and resale agreements* – The Company elected the fair value option for certain of these agreements to mitigate volatility in income caused by the difference in measurement basis that otherwise would arise between these agreements and the derivatives used to risk manage those instruments.

- *Borrowings at fair value* – The fair value option was elected for a transaction documented as a derivative that failed the ASC 815 definition of a derivative. This transaction is recorded as a financing transaction with embedded derivative. The fair value of this borrowing is driven by the fair value of the underlying investment in equity securities. The Company also elected the fair value option for all of the long term borrowings of its consolidated VIEs to mitigate the volatility within income that would arise from carrying the assets of the VIEs at fair value.

Estimated Fair Value of Financial Instruments Not Carried at Fair Value

Certain financial instruments are not carried at fair value on a recurring basis on the Consolidated Statement of Financial Condition since they are neither held for trading purposes nor elected for the fair value option. These are typically carried at contractual amounts due or amortized cost.

The carrying value of the majority of the following financial instruments will approximate fair value since they are liquid, short-term in nature and/or contain minimal credit risk. These include *Cash and cash equivalents, Deposits with exchanges and cash segregated under federal and other regulations or requirements,* miscellaneous financial assets included in *Other assets,* all *Securities borrowed, Securities loaned, Borrowings from Parent, Other secured financing,* repurchase agreements and resale agreements.

The following table presents carrying values, estimated fair values and classification within the fair value hierarchy of those fair values for financial instruments which are carried on a basis other than fair value within our Consolidated Statement of Financial Condition as of September 30, 2018. Where line items in our Consolidated Statement of Financial Condition include both financial and non-financial instruments, only the financial instruments are disclosed below. Financial instruments carried at fair value are separately reported in the tables above.

	Carrying value	Fair value	Fair value by Level: Level 1	Level 2	Level 3
	(Dollars in thousands)				
Assets:					
Cash and cash equivalents	$ 2,157,514	$ 2,157,514	$ 2,157,514	$ -	$ -
Deposits with exchanges and cash segregated under federal and other regulations or requirements	999,130	999,130	999,130	-	-
Securities purchased under agreements to resell[(1)(2)]	67,105,825	67,105,825	-	67,105,825	-
Securities borrowed	15,959,626	15,959,626	-	15,959,626	-
Other assets	11,652	23,748	5,106	18,642	-
Liabilities:					
Securities sold under agreements to repurchase[(1)(2)]	107,969,145	107,969,145	-	107,969,145	-
Securities loaned	13,175,424	13,175,424	-	13,175,424	-
Borrowings from Parent	1,051,247	1,051,247	-	1,051,247	-
Other secured financing	80,000	80,000	-	80,000	-
Subordinated borrowings	3,150,000	3,270,110	-	-	3,270,110

(1) Excludes balances carried at fair value under a fair value option election.
(2) Represents amounts after counterparty netting in accordance with ASC 210-20.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

In addition to the financial instruments carried at fair value on a recurring basis, the Company also carries other financial instruments at fair value on a nonrecurring basis, where the primary measurement basis is not fair value. Examples of such financial instruments include *Receivables from brokers, dealers and clearing organizations* and *Receivables from customers*. Fair value is only used in specific circumstances after initial recognition such as to measure impairment.

5. Derivative Instruments and Hedging Activities

In the normal course of business, the Company enters into transactions in derivative instruments in order to meet the financing and hedging needs of its customers, to reduce its own exposure to market, credit and liquidity risks, and in connection with its proprietary trading activities. These financial instruments may include interest rate and credit default swaps, exchange traded and OTC options, futures, forward and FX contracts, mortgage-backed to-be-announced securities ("TBAs"), extended settlement trades and securities purchased and sold on a when-issued basis.

Risks arise from unfavorable changes in interest rates, foreign currency exchange rates or the market values of the securities underlying the instruments as well as the possible inability of counterparties to meet the terms of their contracts. The credit risk associated with these contracts is typically limited to the cost of replacing all contracts on which the Company has recorded an unrealized gain.

The Company enters into OTC derivatives, which are negotiated and settled bi-laterally with the derivative counterparty. In addition, the Company enters into certain exchange traded derivatives such as futures and options, and cleared OTC derivative contracts with central counterparties ("CCP"). Exchange traded contracts are generally standardized contracts traded on an exchange and cleared by the CCP. OTC centrally cleared contracts are those contacts which are traded bi-laterally and then novated to a CCP for clearing.

The fair value of all derivatives and associated cash collateral is recorded on a net-by-counterparty basis on the Consolidated Statement of Financial Condition where the Company believes a legal right of offset exists under an enforceable master netting arrangement.

The following table quantifies the volume of the Company's derivative activity recorded in *Trading assets* and *Trading liabilities* on the Consolidated Statement of Financial Condition, as of September 30, 2018, through a disclosure of notional amounts, in comparison with the fair value of those derivatives. All notional and fair value amounts are disclosed on a gross basis, prior to counterparty and cash collateral netting (in thousands):

	Contract / Notional [1]	Fair Value Derivative Assets	Fair Value Derivative Liabilities
Equity contracts	$ 74,375,649	$ 850,932	$ 1,290,215
Interest rate contracts [2]	275,300,037	454,414	353,032
Credit contracts	27,053,258	362,799	449,903
Foreign exchange contracts	228,031	500	1,791
Gross derivative instruments [3]	$ 376,956,975	$ 1,668,645	$ 2,094,941

(1) Represents the total contract/notional amount of derivative assets and liabilities outstanding.
(2) Interest rate contracts are primarily comprised of mortgage-backed TBAs.
(3) Notional amounts include notional related to futures contracts of approximately $30,973,883. The unsettled variation margin on these futures contracts excluded from the table above, is included in *Receivables from brokers, dealers and clearing organizations* and *Payables to brokers, dealers and clearing organizations* on the Consolidated Statement of Financial Condition.

Offsetting of Derivatives

The Company enters into master netting agreements with substantially all of its derivative counterparties. Where legally enforceable, these master netting agreements give the Company, in the event of default by the counterparty, the right to liquidate securities held as collateral and to offset receivables and payables with the same counterparty. For purposes of the Consolidated Statement of Financial Condition, the Company offsets derivative assets and liabilities and cash collateral held with the same counterparty where it has such a legally enforceable master netting agreement.

The following table presents information about offsetting of derivative instruments and related collateral amounts in the Consolidated Statement of Financial Condition as of September 30, 2018 by type of derivative contract, together with the extent to which master netting agreements entered into with counterparties, central clearing counterparties or exchanges permit additional offsetting of derivatives and collateral in the event of counterparty default. Amounts below exclude futures contracts, which are settled daily. The unsettled variation margin on futures contracts is included in *Receivables from brokers, dealers and clearing organizations* and *Payables to brokers, dealers and clearing organizations*, on the Consolidated Statement of Financial Condition. Derivative transactions which are not documented under a master netting agreement or are documented under a master netting agreement for which the Company does not have sufficient evidence of enforceability are not offset in the following table.

	Derivative Assets	Derivative Liabilities
	(dollars in thousands)	
Equity contracts		
OTC settled bilaterally	$ 1,025	$ 372
OTC centrally cleared	-	-
Exchange-traded	849,907	1,289,843
Interest rate contracts		
OTC settled bilaterally	219,035	228,136
OTC centrally cleared	222,507	123,351
Exchange-traded	12,872	1,545
Credit contracts		
OTC settled bilaterally	362,799	449,903
OTC centrally cleared	-	-
Exchange-traded	-	-
Foreign exchange contracts		
OTC settled bilaterally	500	1,791
OTC centrally cleared	-	-
Exchange-traded	-	-
Total gross derivatives balances[1]	1,668,645	2,094,941
Less: Amounts offset in the consolidated statement of financial condition[2]	(1,380,394)	(1,488,179)
Total net amounts reported on the face of the consolidated statement of financial condition[3]	288,251	606,762
Less: Additional amounts not offset in the consolidated statement of financial condition		
Financial instruments and non-cash collateral[4]	-	(439,069)
Net amount	$ 288,251	$ 167,693

(1) Includes all gross derivative asset and liability balances irrespective of whether they are transacted under a master netting agreement or whether the Company has obtained sufficient evidence of enforceability of the master netting agreement. As of September 30, 2018, the gross balance of derivative assets and liabilities documented under master netting agreements for which the Company has not obtained sufficient evidence of enforceability was $189.1 million and $158.9 million, respectively.

(2) Represents amounts offset through counterparty netting of derivative assets and liabilities as well as cash collateral netting against net derivatives under master netting and similar agreements for which the Company has obtained sufficient evidence of enforceability in accordance with ASC 815. As of September 30, 2018, the Company offset a total of $107.8 million of cash collateral receivables against net derivative liabilities.

(3) Net derivative assets and net derivative liabilities are generally reported within *Trading assets* and *Trading liabilities*, respectively on the Consolidated Statement of Financial Condition.

(4) Represents amounts, such as securities collateral, which are not permitted to be offset on the face of the Consolidated Statement of Financial Condition in accordance with ASC 210-20 and ASC 815 but which provide the Company with a legally enforceable right of offset in the event of counterparty default. Amounts relating to derivative and collateral agreements where the Company does not have the legal right of offset or has not determined with sufficient certainty whether the right of offset is legally enforceable are excluded.

As of September 30, 2018, a total of $209.4 million of cash collateral receivables and $20.2 million of cash collateral payables have not been offset against net derivatives. These amounts were not eligible to be offset, either because they represented excess cash collateral or they related to agreements for which the Company lacked evidence of enforceability. Cash collateral receivables and cash collateral payables are reported within *Receivables from* *customers* and *brokers, dealers and clearing organizations* and *Payables to customers* and *brokers, dealers and clearing organization*, respectively on the Consolidated Statement of Financial Condition.

Derivatives entered into in contemplation of sales of financial assets

At the balance sheet date, the Company did not have any outstanding transactions that comprise a transfer of a financial asset recorded as a sale with an agreement (for example, a total return swap or similar derivative) entered into with the transferee in contemplation of the initial transfer, whereby the Company retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction.

Credit Derivatives

In the normal course of business, the Company enters into credit derivatives, primarily with an affiliate company, as part of its trading activities for credit risk mitigation, proprietary trading positions and for client transactions.

Credit derivatives are derivative instruments in which one or more of their underlying are related to the credit risk of a specified entity (or group of entities) or an index based on the credit risk of a group of entities and that expose the seller to potential loss from credit risk related events specified in the contract. The types of credit derivatives used by the Company are those linked to the performance of a credit default index and single-name credit default swaps.

The Company actively monitors and manages its credit derivative exposures. Where credit protection is sold, risks may be mitigated by purchasing credit protection from other third parties either on identical underlying reference assets or on underlying reference assets with the same issuer which would be expected to behave in a correlated fashion.

The value of these purchased contracts is presented in the following table in the row titled “Protection purchased”. These amounts represent purchased credit protection which generally act as a hedge against the Company’s written exposure. To the extent the Company is required to pay out under the written credit derivative, a similar amount would generally become due to the Company under the purchased protection.

The following table presents information about the Company’s written credit derivatives and the related protection purchased as of September 30, 2018 (in millions):

		Maximum Payout on Protection sold or Receivable on Protection Purchased (Notionals) — Years to Maturity			
	Carrying Value[(1)]	**Total**	**1-3 years**	**4-5 years**	**More than 5 years**
Protection sold	$ 324 [(1)]	$ 11,720	$ 1,881	$ 9,253	$ 586
Protection purchased	$ (409) [(1)]	$ 13,965	$ 1,831	$ 9,563	$ 2,571

[(1)] Carrying values are reported on a gross basis, prior to cash collateral and counterparty netting.

Credit derivatives have a stated notional amount which represents the maximum payment the Company may be required to make under the contract. However, this is generally not a true representation of the amount the Company will actually pay as in addition to purchased credit protection, other risk mitigating factors reduce the likelihood of any payment, including the probability of default and the recovery value of the underlying asset. The Company believes that the maximum potential amount of future payments for credit protection sold does not represent the actual loss exposure based on historical experience.

The following table presents information about the Company's written credit derivatives by external credit rating of the underlying asset. Where written credit derivatives have an index as an underlying, the exposure detailed below has been decomposed into the ratings categories below based on ratings of securities or derivatives comprising the index. Where multiple external ratings exist from the major rating services, the rating designated below is determined as the middle rating when ratings are available from all three major rating services or the lower rating when only two ratings are available, consistent with guidelines specified under the Basel Accords.

Maximum Payout/Notional on Protection sold

(Dollars in Millions)

AAA	AA	A	BBB	BB	Other [(1)]	Total
$ 112	$ 188	$ 1,995	$ 5,011	$ 1,065	$ 3,349	$ 11,720

(1) Other includes credit derivatives where the credit rating of the underlying referenced asset is below BB or where the credit rating is unavailable.

6. Collateralized Financing Agreements

Offsetting of certain collateralized transactions

The Company enters into collateralized transactions including resale agreements and repurchase agreements, securities borrowing and securities lending transactions, and other secured borrowings mainly to finance trading inventory positions, obtain securities for settlement, and meet customers' needs.

These transactions are documented under industry standard master netting agreements which reduce the Company's credit exposure to counterparties as they permit the close-out and offset of transactions and collateral amounts in the event of default of the counterparty.

In all of these transactions, the Company either receives or provides collateral, including government, agency, mortgage-backed, bank and corporate debt and equity securities. In most cases, the Company is permitted to use the securities received to secure repurchase agreements, enter into securities lending transactions or to cover short positions with counterparties. In repurchase and resale transactions, the value of collateral typically exceeds the amount of cash transferred. Collateral is generally in the form of securities. Securities borrowing transactions generally require the Company to provide the counterparty with collateral in the form of cash or other securities. For securities lending transactions, the Company generally receives collateral in the form of cash or other securities. The Company monitors the market value of the securities borrowed or loaned and requires additional cash or securities, as necessary, to ensure that such transactions are adequately collateralized for the Company's risk management purposes throughout the life of the transactions.

Resale agreements and repurchase agreements with the same counterparty are offset in the Consolidated Statement of Financial Condition where the specific criteria defined by ASC 210-20 are met.

The following table presents information about offsetting of these transactions in the Consolidated Statement of Financial Condition, together with the extent to which master netting agreements entered into with counterparties and central clearing parties permit additional offsetting in the event of counterparty default (in thousands). Transactions which are documented under a master netting agreement for which the Company does not have sufficient evidence of enforceability are not offset in the following table:

	Assets		Liabilities	
	Resale agreements	Securities borrowing transactions	Repurchase agreements	Securities lending transactions
Total gross balance [1]	$ 135,718,879	$ 15,959,626	$ 176,514,936	$ 13,175,424
Less: Amounts offset in the consolidated statement of financial condition[2]	(67,246,307)	-	(67,246,307)	-
Total net amounts reported on the face of the consolidated statement of financial condition[3]	68,472,572	15,959,626	109,268,629	13,175,424
Less: Additional amounts not offset in the consolidated statement of financial condition:[4]				
Financial instruments and non-cash collateral	(61,392,982)	(9,005,424)	(73,629,684)	(12,534,554)
Cash collateral	(28,440)	-	(3,259)	-
Net amount[5]	$ 7,051,150	$ 6,954,202	$ 35,635,686	$ 640,870

(1) Includes all recognized balances irrespective of whether the Company has obtained sufficient evidence of enforceability of the master netting agreement. Amounts include transactions carried at fair value through election of the fair value option and amounts carried at amortized cost. As of September 30, 2018, the gross balance of resale agreements and repurchase agreements documented under master netting agreements for which the Company has not obtained sufficient evidence of enforceability was $6,777,718 thousand and $35,462,993 thousand, respectively. As of September 30, 2018, the gross balance of securities borrowing transactions and securities lending transactions documented under master netting agreements for which the Company has not obtained sufficient evidence of enforceability was $6,854,164 thousand and $134,838 thousand, respectively.

(2) Represents amounts offset through counterparty netting of repurchase agreements and resale agreements under master netting and similar agreements for which the Company has obtained sufficient evidence of enforceability in accordance with ASC 210-20. Amounts offset include transactions carried at amortized cost.

(3) Resale agreements and securities borrowing transactions are reported within *Collateralized financing agreements* on the Consolidated Statement of Financial Condition as *Securities purchased under agreements to resell* and *Securities borrowed*, respectively. Repurchase agreements and securities lending transactions are reported within *Collateralized financing agreements* on the Consolidated Statement of Financial Condition as *Securities sold under agreements to repurchase* and *Securities loaned*, respectively.

(4) Represents amounts which are not permitted to be offset on the face of the Consolidated Statement of Financial Condition in accordance with ASC 210-20 but which provide the Company with the right of offset in the event of counterparty default. Amounts relating to agreements where the Company has not yet determined with sufficient certainty whether the right of offset is legally enforceable are excluded.

(5) Remaining exposures continue to be secured by financial collateral, but the Company may not have sought or been able to obtain a legal opinion evidencing enforceability of the offsetting right.

Maturity analysis of repurchase agreements and securities lending transactions and securities transferred in repurchase agreements and securities lending transactions

The following two tables present analyses of the total gross balance of liabilities recognized in the Consolidated Statement of Financial Condition for repurchase agreements and securities lending transactions by remaining contractual maturity of the agreement and class of securities transferred as of September 30, 2018. Amounts reported are shown prior to counterparty netting in accordance with ASC 210-20 (in thousands):

Maturity analysis

	Remaining contractual maturity					
	Overnight and open[1]	Up to 30 days	30-90 days	90 days - 1 year	Greater than 1 year	Total
Repurchase agreements	$ 119,393,135	$ 33,207,667	$ 6,180,146	$ 15,943,697	$ 1,790,291	$ 176,514,936
Securities lending transactions	11,833,756	384,120	957,548	-	-	13,175,424
Total gross recognized liabilities[2]	$ 131,226,891	$ 33,591,787	$ 7,137,694	$ 15,943,697	$ 1,790,291	$ 189,690,360

Security analysis

	Repurchase agreements	Securities lending transactions	Total
Residential mortgage-backed securities - agency	$ 43,094,784	$ -	$ 43,094,784
Residential mortgage-backed securities - non-agency	1,586,075	-	1,586,075
Commercial mortgage-backed securities (CMBS)	123,859	-	123,859
U.S. and foreign government and agency securities	125,196,985	191,598	125,388,583
Equity securities	1,224,266	12,845,678	14,069,944
Bank and corporate debt securities	4,331,885	138,148	4,470,033
Collateralized debt/loan obligations	957,082	-	957,082
Total gross recognized liabilities[2]	$ 176,514,936	$ 13,175,424	$ 189,690,360

(1) Open transactions do not have an explicit contractual maturity date and are terminable on demand by the Company or the counterparty.

(2) Repurchase agreements and securities lending transactions are reported within *Collateralized financing agreements* on the Consolidated Statement of Financial Condition under *Securities sold under agreements to repurchase* and *Securities loaned*, respectively.

Collateral received by the Company

The Company receives collateral in the form of securities in connection with Resale agreements and securities borrowed. When the Company borrows securities, it collateralizes the lender by pledging cash or other securities. The Company additionally receives securities as collateral in connection with certain securities-for-securities transactions in which the Company is the securities lender, although no such transactions existed at September 30, 2018.

At September 30, 2018, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was $172.6 billion and the fair value of the portion that had been sold or repledged was $169.8 billion.

Collateral pledged by the Company

The Company pledges firm-owned securities to collateralize repurchase agreements and securities loaned transactions. In addition, the Company pledges firm-owned securities in securities for securities transactions in which the Company is borrower. Pledged securities that can be sold or repledged by the secured party are $10.3 billion at September 30, 2018 and are disclosed in parenthesis as pledged within *Trading assets* on the Consolidated Statement of Financial Condition. *Trading assets* owned which have been pledged as collateral without allowing the secured party the right to sell or repledge them, was approximately $43.2 billion at September 30, 2018.

7. Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations consist of the following at September 30, 2018 (in thousands):

	Receivables	Payables
Receivables from/payables to brokers, dealers and clearing organizations	$ 423,818	$ 716,651
Securities failed-to-deliver/receive	523,631	793,568
Pending trades, net	825,188	-
	$ 1,772,637	$ 1,510,219

Receivables from/payables to brokers, dealers and clearing organizations primarily include cash collateral deposited with clearing organizations including initial and variation amounts related to futures contracts as well as unsettled variation margin. Securities failed-to-deliver and receive represent the contract value of securities which have not been delivered or received by the Company on settlement date. Pending trades represent the net amount receivable on unsettled regular-way securities transactions.

8. Subordinated Borrowings

The Company's subordinated borrowings are covered by agreements approved by FINRA and are included by the Company in regulatory net capital, as defined, under the SEC's Uniform Net Capital Rule ("SEC Rule 15c3-1"). The Company has both term and revolving agreements. Each term borrowing agreement contains an evergreen provision that automatically extends the maturity by one year unless specified actions are taken prior to maturity date. To the extent that such borrowings are required for the Company's continued compliance with minimum regulatory net capital requirements, repayment is deferred.

The Company also has approval from FINRA for a Revolving Note and Cash Subordination Agreement ("Subordinated Revolver") with NHA, for up to $1,450 million which expires on December 31, 2019, subject to an evergreen provision. $850 million was outstanding under the Subordinated Revolver at September 30, 2018. Borrowings under the agreement are available in computing net capital under the SEC Rule 15c3-1. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, repayment is deferred.

Borrowings at September 30, 2018 are as follows (dollars in thousands):

Lender	Par Value	Type	Maturity Date	Interest Rate
NHA	$ 500,000	Term	March 31, 2020	Variable
NHA	300,000	Term	December 31, 2019	Variable
NHA	1,500,000	Term	December 30, 2019	Variable
NHA	850,000	Subordinated revolver	December 31, 2019	Variable
	$ 3,150,000			

At September 30, 2018, the interest rate on these borrowings was 3.31%, which is based on LIBOR plus a spread. Interest payable at September 30, 2018 was $8.5 million. The weighted average effective interest rate on these borrowings during the year ended September 30, 2018, was approximately 3.14%.

9. Off-Balance Sheet Risks and Concentration of Credit and Market Risk

Financial Instruments with Off-Balance Sheet Risk

The Company has sold securities it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded this obligation within *Trading liabilities* on the Consolidated Statement of Financial Condition at September 30, 2018, at the fair values of such securities and will incur a loss if the fair value of the securities increases subsequent to September 30, 2018. Generally, the Company limits this risk by holding offsetting securities, futures or options positions.

Credit Risk

The Company is engaged in various trading and brokerage activities with counterparties which include domestic financial institutions, multinational corporations, the U.S. government and its agencies, security exchanges and clearing organizations. A substantial portion of the Company's securities transactions are collateralized.

The Company's exposure to credit risk associated with the nonperformance of these customers and counterparties in fulfilling their contractual obligations may be directly impacted by volatile or illiquid trading markets.

The Company is subject to concentrated credit risk due to the amount of positions it holds in securities issued by the U.S. and foreign governments and their agencies as well as mortgage-backed securities guaranteed by the U.S. government agencies. Such amounts which are carried at fair value and reflected within *Trading assets* on the Consolidated Statement of Financial Condition, represented approximately 33% of the Company's total assets as of September 30, 2018. The Company is also exposed to credit risk that arises from the failure of a counterparty to perform according to the terms of the contract. The Company's exposure to credit risk at any point in time is approximated by the fair value of the contracts reported as assets. These amounts are reported on a net-by-counterparty basis consistent with ASC 815-10-45.

The Credit Risk Management ("CRM") department manages the credit risk exposure that arises from transactions. The CRM department is an independent control function. The Company's process for managing credit risk 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;
- Active communication and co-operation with various stakeholders such as Trading units, Operations, Legal department, Compliance and Finance.

Market Risk

The Company is exposed to market risk. Market risk is the risk of loss arising from fluctuations in the value of assets and debts (including off-balance sheet items) due to fluctuations in market risk factors (interest rates, FX rates, prices of securities and others). Market risk primarily impacts the Company's trading activities.

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

10. Commitments, Contingent Liabilities and Guarantees

Commitments

At September 30, 2018, the Company has commitments to enter into future resale and repurchase agreements totaling $28.3 billion and $129.4 million, respectively.

In addition, the Company has a contingent obligation to provide financing in the form of resale agreements to a clearinghouse through which it clears certain transactions. The contingent facility is provided by all members of the clearinghouse and is designed to ensure liquidity to the clearinghouse in the event of a default of a major firm. The Company's commitment changes monthly based on the volumes it clears. As of September 30, 2018, the amount of the contingent commitment facility was $1.0 billion.

In the normal course of business, the Company enters into underwriting commitments; there were no open transactions relating to such underwriting commitments at September 30, 2018.

Contingencies

In the normal course of business the Company is involved in investigations, lawsuits and other legal proceedings and, as a result, may suffer loss from any fines, penalties or damages awarded against the Company, any settlements the Company chooses to make to resolve a matter, and legal and other advisory costs incurred to support and formulate a defense.

The ability to predict the outcome of these actions and proceedings is inherently difficult, particularly where claimants are seeking substantial or indeterminate damages, where investigations and legal proceedings are at an early stage or where the matters present novel legal theories or involve a large number of parties.

The Company regularly evaluates each legal proceeding and claim on a case-by-case basis in consultation with external legal counsel to assess whether an estimate of possible loss or range of loss can be made, if recognition of a liability is not appropriate. In accordance with ASC 450 "Contingencies" ("ASC 450"), the Company recognizes a liability for this risk of loss arising on each individual matter when a loss is probable and the amount of such loss or range of loss can be reasonably estimated. The amount recognized as a liability is reviewed at least quarterly and is revised when further information becomes available. If these criteria are not met for an individual matter, such as if an estimated loss is only reasonably possible rather than probable, no liability is recognized. However, where a material loss is reasonably possible, the Company will disclose details of the legal proceeding or claim below. Under ASC 450 an event is defined as reasonably possible if the chance of the loss to the Company is more than remote but less than probable.

The most significant actions and proceedings against the Company are summarized below. The Company believes that, based on current information available as of the date of this Consolidated Statement of Financial Condition, the ultimate resolution of these actions and proceedings will not be material to the Company's financial condition. However, an adverse outcome in certain of these matters could have a material adverse effect on the income or cash flows in a particular quarter or annual period.

In April 2011, the Federal Home Loan Bank of Boston ("FHLB-Boston") commenced proceedings in the Superior Court of Massachusetts against numerous issuers, sponsors and underwriters of RMBS, and their controlling persons, including NHA and certain of its subsidiaries, including the Company. The action alleges that FHLB-Boston purchased RMBS issued by a subsidiary of NHA and underwritten by the Company and other firms for which the offering materials contained untrue statements or omitted material facts concerning the underwriting standards used by the original lenders and the characteristics of the loans underlying the securities. FHLB-Boston seeks rescission of its purchases or compensatory damages pursuant to state law. FHLB-Boston alleges that it purchased certificates in four offerings issued by a subsidiary of NHA in the original principal amount of approximately $406 million. The case is currently in the discovery phase. Due to the legal uncertainties involved, the Company cannot provide an estimate of reasonably possible loss related to this matter at this time.

In September 2011, the Federal Housing Finance Agency ("FHFA"), as conservator for the government sponsored enterprises, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation (the "GSEs"), commenced proceedings in the United States District Court for the Southern District of New York against numerous issuers, sponsors and underwriters of RMBS, and their controlling persons, including NHA and certain of its subsidiaries including the Company. The action alleged that the GSEs purchased RMBS issued by subsidiaries of NHA and underwritten by the Company for which the offering materials contained untrue statements or omitted material facts concerning the underwriting standards used by the original lenders and the characteristics of the loans underlying the securities. FHFA alleged that the GSEs purchased certificates in seven offerings in the original principal amount of approximately $2,046 million and sought rescission of its purchases. The case was tried before the Court beginning March 16, 2015 and closing arguments were completed on April 9, 2015. On May 15, 2015, the Court issued a judgment and ordered the defendants to pay $806 million to GSEs upon GSEs' delivery of the certificates at issue to the defendants. NHA and its affiliates appealed the decision to the United States Court of Appeals for the Second Circuit ("Second Circuit") and agreed, subject to the ultimate outcome of the appeal, to a consent judgment for costs and attorneys' fees recoverable under the blue sky statutes at issue in the maximum amount of $33 million. On September 28, 2017, the Second Circuit affirmed the judgment of the district court. NHA filed a petition for certiorari to the U.S. Supreme Court on March 12, 2018, which was denied on June 25, 2018. The judgement has been satisfied and the proceedings have been discontinued.

The United States Department of Justice, led by the United States Attorney's Office for the Eastern District of New York, informed NHA and certain of its subsidiaries including the Company that it was investigating possible civil claims against them under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 related to RMBS they sponsored, issued, underwrote, managed, or offered during 2006 and 2007. The parties reached a settlement pursuant to which NHA will pay $480 million. A reserve has been established by NHA with respect to this matter, which is reflective of the actual loss realized under the settlement.

The United States Securities and Exchange Commission ("SEC") and the DOJ have been investigating past activities of several former employees of the Company in respect of certain commercial and residential mortgage-backed securities transactions. The Company has been cooperating fully in those investigations. The Company considers it probable that the SEC eventually will institute proceedings focusing on the Company's supervision of certain former employees and that the Company, in connection with such proceedings, will agree to disgorgement and/or restitution relating to some of the transactions in issue. A reserve has been established by the Company with regard to this matter.

Beginning in September 2014, several purported class actions were commenced in the United States District Court for the Southern District of New York against the Company and other financial institutions. On October 30, 2014, the court consolidated the actions under the lead case, Alaska Electrical Pension Fund v. Bank of America, N.A., et al. A consolidated amended complaint was filed on February 12, 2015 asserting claims for alleged violations of the federal antitrust laws and state law by, among other things, allegedly conspiring to manipulate the ISDAFIX benchmark. The parties reached an agreement to resolve the matter on June 22, 2018 and the Company has deposited $8,750,000 in escrow in accordance with the settlement agreement. The court has scheduled a hearing for final approval of the settlement on November 8, 2018. A reserve has been established by the Company with regard to this matter, which is reflective of the actual loss realized under the settlement.

Beginning in May 2016, several purported class actions were commenced in the United States District Court for the Southern District of New York against a number of financial institutions, including the Company, and individuals related to the supranational, sub-sovereign, and agency ("SSA") bond market. On November 3, 2017, plaintiffs filed a Consolidated Amended Class Action Complaint alleging a conspiracy to manipulate trading in SSA bonds in violation of the federal antitrust laws. The plaintiffs seek declaratory and injunctive relief, treble damages in an unspecified amount, and attorneys' fees. On December 12, 2017, defendants filed a motion to dismiss the complaint, which the court granted on August 24, 2018. The court has given the plaintiffs leave to replead.

In March 2017, certain subsidiaries of American International Group, Inc. commenced proceedings in the District Court of Harris County, Texas against certain entities and individuals, including the Company, in connection with a 2012 offering of $750 million of certain project finance notes, of which $92 million allegedly were purchased by AIG. AIG alleges violations of the Texas Securities Act based on material misrepresentations and omissions in connection with the marketing, offering, issuance and sale of the notes and seeks rescission of the purchases or compensatory damages. The case is currently in the discovery phase. Due to the uncertainties involved, the Company cannot provide an estimate of reasonably possible loss related to this matter at this time.

Guarantees

The Company applies the provisions of ASC 460, *Guarantees* ("ASC 460"), which provides accounting and disclosure requirements for certain guarantees. ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or FX rate, security or commodity price, an index, or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. ASC 460 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

In the normal course of business, the Company provides guarantees to securities clearinghouses and exchanges. These guarantees are generally required under the standard membership agreements such that members are required to guarantee the performance of other members. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for the Company to be required to make payments under such guarantees is deemed remote. Accordingly, no contingent liability is recorded on the Consolidated Statement of Financial Condition.

The Company enters into certain derivative contracts that meet the ASC 460 definition of guarantees. Because the Company does not track whether its clients enter into these derivative contracts for speculative or hedging purposes, the Company has disclosed information about derivative contracts that could meet the ASC 460 definition of guarantees.

For information about the maximum potential amount of future payments that the Company could be required to make under certain derivatives, such as written put or call options, the notional amount of contracts has been disclosed. The Company records all derivative contracts at fair value on its Consolidated Statement of Financial Condition. The Company believes the notional amounts generally overstate its risk exposure. Because the derivative contracts are accounted for at fair value, carrying value is considered to be the best indication of payment/performance risks for individual contracts.

The following table sets forth information about the Company's derivative contracts that could meet the definition of a guarantee (other than credit derivatives disclosed as protection sold in Note 5) as of September 30, 2018 (in millions):

	Maximum Payout / Notional By Period of Expiration		
	Years to Maturity		
Carrying Value of Liability	Maximum Payout	Less than 1 year	1-2 years
$ 1,291	$ 37,135	$ 36,811	$ 324

11. Transactions with Related Parties

The Company regularly enters into dealer, trading, clearing and financing transactions with NHI and affiliates, and allocates revenues to, and receives revenues from such affiliates for their participation.

In the normal course of business, the Company receives and provides operational and administrative support services to affiliates and allocates costs for the services provided.

At September 30, 2018, balances with related parties are included in the accompanying Consolidated Statement of Financial Condition captions as follows (in thousands):

Assets		
Securities purchased under agreements to resell[1]	$	24,245,596
Securities borrowed		6,155,954
Trading assets		30,805
Receivables:		
Customers		37,839
Brokers, dealers and clearing organizations		268,375
Interest and dividends		11,789
Other assets		55,995
Liabilities		
Securities sold under agreements to repurchase[1]	$	5,092,082
Securities loaned		8,044,897
Borrowings from Parent		1,051,247
Trading liabilities		41,101
Payables and accrued liabilities:		
Brokers, dealers and clearing organizations		891,245
Customers		50,858
Interest and dividends		15,408
Other		60,570
Subordinated borrowings		3,150,000
Borrowings at fair value		31,992

[1] Represents amounts after counterparty netting in accordance with ASC 210-20.

12. Income Taxes

The Company is included in the consolidated federal and certain combined state and local income tax returns filed by NHA and its subsidiaries (the “Group”). The Company and the Group have a practice whereby federal and state and local income and capital taxes are determined for financial reporting purposes on a separate company basis. Federal, and certain state and local income and capital taxes were paid to NHA. As such, capital taxes payable to NHA of approximately $1.05 million and to other state & local jurisdictions of approximately $42 thousand are included in *Other payables and accrued liabilities* in the Consolidated Statement of Financial Condition as of September 30, 2018. The income taxes receivable from NHA of approximately $373 thousand and from other state & local jurisdictions of approximately $490 thousand is included in *Other assets* in the Consolidated Statement of Financial Condition as of September 30, 2018.

The components of the Company's net deferred tax assets ("DTAs") at September 30, 2018, are as follows (dollars in thousands):

Deferred tax asset	$	285,307
Less valuation allowance		(281,198)
		4,109
Deferred tax liability		(39)
Net deferred tax asset / (liability)	$	4,070

ASC 740 prescribes an asset and liability approach to accounting for taxes that requires the recognition of DTAs and deferred tax liabilities ("DTLs") for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. In estimating future tax consequences, ASC 740 generally considers all expected future events other than future enactment of changes in the tax law or rates. The gross DTAs relate primarily to net operating loss ("NOL") carryforward, compensation accruals and certain other accrued expenses.

A valuation allowance ("VA") of $281.2 million has been maintained against the Company's DTAs in accordance with the realization criteria set forth in ASC 740. The net increase during the six months ending September 30, 2018 in the total VA is $4.2 million, which was primarily due to the current year's book loss.

At September 30, 2018, the Company had a federal NOL carryforward of approximately $681.9 million, of which $529.8 million begins to expire in the year ending March 31, 2035. The remaining NOL of approximately $152.1 million, which was generated in the current period, does not expire due to the changes enacted by the Tax Cuts and Jobs Act of 2017. In addition, the Company had a New York State ("NYS") NOL carryforward of approximately $645.7 million and a New York City ("NYC") NOL carryforward of approximately $538.6 million. Both NYS and NYC NOL begin to expire in the year ending March 31, 2035.

As of September 30, 2018, the Company determined that it has no material uncertain tax positions, interest or penalties as defined within ASC 740, and accordingly, management has concluded that no additional ASC 740 disclosures are required.

As of September 30, 2018, the Company is subject to tax examination for tax years ending March 31, 2015 through 2017 at the federal level, NYS and NYC level. The NYS audit for tax years ending March 31, 2014 and 2015 was completed in June 2018 with no material tax impact. The Company does not believe that it is reasonably possible that the total amount of unrecognized tax benefits will significantly change within the next 12 months.

13. Variable Interest Entities and Securitizations

Variable Interest Entities

In the normal course of business, the Company acts as transferor of financial assets to VIEs, and underwriter, distributor, and seller of repackaged financial instruments issued by VIEs in connection with its securitization activities. In addition, the Company retains, purchases and sells variable interests in VIEs in connection with its market-making, investing and structuring activities.

Under ASC 810-10-15, if the Company has an interest in a VIE that provides the Company with control over the most significant activities of the VIE and the right to receive benefits or the obligation to absorb losses that could be significant to the VIE, the Company is the primary beneficiary of the VIE and must consolidate the entity, provided that the Company does not meet separate tests confirming that it is acting as a fiduciary for other interest holders.

Control over the most significant activities may take a number of different forms in different types of VIEs. For certain types of transactions, such as securitizations of residential mortgage pass through securities and other mortgage-backed securities Re-securitization transactions, there are no significant economic decisions made on an ongoing basis and no single investor has the unilateral ability to liquidate the trust. In these cases, the Company focuses its analysis on decisions made prior to the closing of the initial transaction. If one or a number of third party investors share responsibility for the design of the Re-securitization trust and purchase a significant portion of the resulting securities, the Company does not consolidate the Re-securitization trust.

The Company has sponsored numerous Re-securitization transactions and in many cases has determined that it is not the primary beneficiary on the basis that control over the most significant activities of these entities are shared with third party investors.

However, the Company has consolidated two Re-securitization trust VIEs, in each case where it was determined that third party investors did not share in the responsibility for the design of the Re-securitization trust, as evidenced by less than significant purchases of the resulting securities by third party investors on the date of the Re-securitizations. As of September 30, 2018, the underlying assets of the consolidated VIEs which are primarily comprised of mortgage-backed securities, were approximately $715.2 million and are included in *Trading Assets* on the Consolidated Statement of Financial Condition. Additionally, as of September 30, 2018, underlying liabilities of the Re-securitization trust VIEs, were approximately $91.6 million. These underlying liabilities are long term in nature with a maturity of 2030 and are included in *Long-term borrowings at fair value* on the Consolidated Statement of Financial Condition. During the year ended September 30, 2018, the weighted average interest rate on these liabilities was 2.41%. The Company's maximum remaining exposure to economic loss related to the consolidated Re-securitization trust VIEs is limited to the amount of its interest in the VIE, which was approximately $624 million at September 30, 2018. The Company also consolidates the assets and liabilities of CLOs in which it holds a controlling equity investment. As of September 30, 2018, the Company did not hold a controlling equity investment in any CLO, thus no CLO was consolidated.

The Company also holds variable interests in VIEs where it is not the primary beneficiary. These include interests in residential resecuritizations sponsored by the Company, as well as interests in third party vehicles such as agency mortgage passthrough trusts, agency and non-agency collateralized mortgage obligations, collateralized debt obligations and collateralized loan obligations. As of September 30, 2018, the Company's variable interests in such VIEs were approximately $32.3 billion and are included within *Trading assets* on the Consolidated Statement of Financial Condition. The Company's maximum exposure to loss associated with these VIEs is approximately $32.3 billion; this does not include the offsetting benefit of any financial instruments that the Company may utilize to economically hedge the risks associated with the Company's variable interests.

Securitizations

As discussed above, the Company transfers assets to special purpose entities ("SPEs") that securitize residential mortgage passthrough securities and other types of financial assets. The Company's involvement with SPEs includes structuring SPEs, underwriting, distributing and selling debt instruments and beneficial interests issued by SPEs to investors. The Company accounts for the transfer of financial assets as a sale when the Company relinquishes control over the assets.

ASC 860 deems control to be relinquished when the following conditions are met: (a) the assets have been isolated from the transferor (even in bankruptcy or other receivership), (b) the transferee has the right to pledge or exchange the beneficial interests and (c) the transferor has not maintained effective control over the transferred assets. The Company may obtain an interest in the financial assets, including retained interest in the SPEs. These interests are accounted for at fair value and are included in *Trading assets* on the Consolidated Statement of Financial Condition.

During the six months ended September 30, 2018, the Company recorded as sales, transfers of approximately $7.7 billion in financial assets to resecuritization SPEs in which the Company has continuing involvement in the form of retained interests. The Company received cash proceeds and retained interests at closing of approximately $6.1 billion and $1.6 billion, respectively. Most of these retained interests were sold subsequent to the closing of the respective securitizations.

At September 30, 2018, the Company's retained interests were approximately $2.3 billion and are included within *Trading assets* as mortgage-backed securities. All retained interests held by the Company at September 30, 2018 are classified as Level 2 assets within the fair value hierarchy. The outstanding principal balance of financial assets transferred to SPEs in which the Company has continuing involvement, but is not required to consolidate, was $30.8 billion as of September 30, 2018.

For the six months ended September 30, 2018, the Company received approximately $95 million of proceeds from the retained interests in SPEs. During the six months ended September 30, 2018, the Company did not provide financial support beyond its contractual obligations to any VIEs.

14. Employee Benefit Plans

Substantially all employees of the Company are covered under the Company's Retirement Investment Plan. Certain qualified employees are also eligible to participate in the Supplemental Employee Retirement Plan. The Company's contribution to these defined contribution plans is based on employees' compensation.

Deferred Compensation

Certain of the Company's employees participate in incentive plans and are granted cash settled deferred compensation awards based on NHI stock or a broad equity index. The Company also hedges a portion of this economic exposure with affiliates. Types of awards granted include Notional Stock Units ("NSU"), Collared Notional Stock Units ("CSU"), and Notional Indexed Units ("NIU").

The vesting schedule of awards outstanding during the six month ended (some of which are fully vested as of September 30, 2018) prior to considering the impact of FCR (as described below) is as follows:

FY2015 grant – NSUs vest annually in equal increments over a three year period beginning with the first vesting date being April 30, 2016.

FY2016 grant – NSUs vest annually in equal increments over a three year period beginning with the first vesting date being April 30, 2017. CSUs and NIUs vest quarterly in equal increments over a three year period, with the first quarterly vesting date being June 30, 2016.

FY2017 grant – NSUs vest annually in equal increments over a three year period beginning with the first vesting date being April 30, 2018. CSUs and NIUs vest quarterly in equal increments over a three year period, with the first quarterly vesting date being June 30, 2017.

FY2018 grant – NSUs vest annually in equal increments over a three year period beginning with the first vesting date being April 30, 2019.

The Company's ultimate payment is contingent on the relevant fair value calculation at the vesting date. The Company accrues compensation over time as employees progress toward vesting of each award. The Company also hedges a portion of the economic exposure of these awards and records the impact of the NSU and CSU hedges within compensation expense.

The Company recorded $76.1 million as a reduction in accrued compensation on the Consolidated Statement of Financial Condition for the amounts paid to employees during the six months ended September 30, 2018.

Certain deferred awards granted since May 2013 include Full Career Retirement ("FCR") provisions which permit recipients of the awards to continue to vest in the awards upon voluntary termination if certain criteria based on corporate title and length of service within Nomura are met, provided the retiring employee does not work for a competitor.

The related deferred award amortization expense of an employee eligible for FCR is fully recognized in the first year of issuance if the employee's FCR date has either passed or is within six (6) months of the issuance date, as long as the employee has not submitted notification to Nomura of an election to retire during a specific window. If the employee's FCR date is beyond six (6) months of issuance but prior to a component award's vest date, the associated amortization period of the issued deferred awards may not exceed the FCR date.

15. Net Capital

As a registered broker-dealer, the Company is subject to SEC Rule 15c3-1, which requires the maintenance of minimum regulatory net capital. The Company utilizes the alternative method permitted by Rule 15c3-1, which requires that the Company maintain minimum regulatory net capital, as defined, equal to the greater of $1,000,000 or 2% of aggregate debit items combined with the capital requirement on the overcollateralization of resale agreements arising from customer transactions, as defined. The Company is also subject to CFTC Regulation 1.17, which requires the maintenance of regulatory net capital of 8% of the total risk margin requirement, as defined, for all positions carried in customer accounts plus 8% of the total risk margin requirement, as defined, for all positions carried in non-customer accounts or $1,000,000, whichever is greater.

At September 30, 2018, the CFTC's requirement of 1.17 resulted in a greater regulatory net capital requirement than the SEC minimum requirement of 2% of aggregate debits. At September 30, 2018, the Company had regulatory net capital of approximately $1,501 million, which was approximately $1,287 million in excess of required net capital.

Advances to affiliates, repayment of subordinated borrowings, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule and other regulatory bodies.

16. Subsequent Events

The Company has evaluated subsequent events through December 13, 2018, the date as of which this Consolidated Statement of Financial Condition is available to be issued.