

**FOURTH SUPPLEMENT DATED 1 FEBRUARY 2011 TO THE BASE PROSPECTUS DATED 27 AUGUST 2010**

# **NOMURA**

## **NOMURA BANK INTERNATIONAL PLC**

### **NOTE, WARRANT AND CERTIFICATE PROGRAMME**

This Supplement (the **Supplement**) to the Base Prospectus (the **Base Prospectus**) dated 27 August 2010, as previously supplemented, which comprises a base prospectus constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the **FSMA**) and is prepared in connection with the Note, Warrant and Certificate Programme established by Nomura Bank International plc (the **Issuer**). Terms defined in the Base Prospectus, as previously supplemented, have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with the Base Prospectus and any other supplements to the Base Prospectus issued by the Issuer.

Each of the Issuer and Nomura Holdings, Inc. (the **Guarantor**) accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each of the Issuer and the Guarantor (which have taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

The purpose of this Supplement is:

- (a) to incorporate the updated disclosure contained in the Issuer's revised Registration Document dated 5th of January 2011 into the Base Prospectus;
- (b) to update the risk factors for the Programme relating to the Nomura Group;
- (c) to amend the list of "Documents Incorporated by Reference" in respect of the Guarantor; and
- (d) to update the EU Savings Directive wording in the Risk Factors section and the Taxation section of the Base Prospectus.

With effect from the date of this Supplement, the Base Prospectus shall be amended and supplemented in the manner described in this Supplement and each reference in the Base Prospectus to "Base Prospectus" be read and construed as a reference to the Base Prospectus as amended and supplemented by this Supplement (together with any other supplement to the Base Prospectus from time to time).

As of the date of this Supplement, the Base Prospectus will be amended as follows:

#### **1. Incorporation of the information contained in the Issuer's revised registration document**

##### **1.1 Incorporation of the Issuer's revised registration document**

- (a) Paragraph (a) on page 10 of the Base Prospectus will be deleted in its entirety and replaced with the following:

"pages 1 to 3 (inclusive) and pages 11 to 23 (inclusive) of the publicly available registration document of the Issuer dated 5 January 2011, other than the following statement on page 15 of that document:

*“However, Nomura’s credit spreads have tightened following 30 September 2010, which has resulted in an increase as at 31 October 2010 in the balance sheet values of the notes issued and a corresponding impact on profitability.”,*

such information, taken together but excluding the aforementioned statement, the **Registration Document**.

As of 1 February 2011, the impact of the Nomura Group’s own credit spreads on the Issuer’s financial performance is in line with that disclosed in the Issuer’s unaudited non-consolidated half year report for the half year ended 30 September 2010;"

- (b) The final paragraph of page 10 of the Base Prospectus will be deleted and replaced with the following:

"Information regarding the Issuer's Board of Directors and the Issuer's business purpose is set forth on pages 15 to 20 and page 13, respectively, of the Registration Document, incorporated by reference into this Base Prospectus as set out in (a) above. Information regarding the Issuer's share capital is set out on page 15 of the Registration Document."

- (c) In the first paragraph on page 84, the references to pages 9 to 19 in the penultimate line shall be replaced with references to pages 11 to 20 respectively.
- (d) Section 9 on page 535 of the Base Prospectus shall be amended so that the reference to pages 11 to 13 in the first line shall be replaced with a reference to pages 13 to 14 and the reference to the date of "28 May 2010" in the second line shall be replaced with "5 January 2011".

## **1.2 Amendments to the Risk Factors for the Programme**

In the section entitled "RISK FACTORS":

- (a) the third line of the first paragraph of the sub-section entitled "*Factors that may affect the Issuer's ability to fulfil its obligations under Securities issued under the Programme*" on page 27 of the Base Prospectus shall be amended by:
- (i) the insertion of the word "global" before the words "financial markets generally"; and
  - (ii) the deletion of the words ", and more specifically in the United Kingdom" after the words "financial markets generally"; and
- (b) the second paragraph of the sub-section entitled "*Factors that may affect the Issuer's ability to fulfil its obligations under Securities issued under the Programme*" on page 27 of the Base Prospectus shall be amended by the deletion of the following sentence:

"Since mid-2007, the capital markets have been severely disrupted. Institutional fixed income investors remain reluctant to commit significant levels of liquidity to the financial sector of the market. This has raised the Issuer's cost of funds."

- (c) the sub-section entitled "*Risk Relating to the Issuer's business*" on pages 29 to 30 of the Base Prospectus shall be deleted in its entirety and replaced with the following:

### **"Risks Relating to the Issuer's business**

#### *Market Risk*

The Issuer itself holds positions in assets. Changes in market prices (for instance share prices, bond prices or loan prices) or in other factors affecting asset values (such as the general situation of the

global economy or economical and political conditions in relevant countries) may adversely affect the performance of the relevant asset. Such risk may be limited but not excluded by value protection strategies. A negative performance of the relevant asset would adversely affect the Issuer's financial situation and its profits.

#### *Reference Item Price Risk and Issuer Credit Risk*

The Issuer issues instruments with returns linked to the performance of certain underlying reference assets or baskets. The Issuer enters into hedging transactions in order to hedge its position in respect of such instruments. Fluctuations in the relevant exchange or other relevant markets may result in the proceeds of the hedging transactions being less than the liabilities under the instruments. This may adversely affect the Issuer's financial situation and its profits.

#### *Interest Rate Risk*

The Issuer generates part of its financial results through interest yields. Fluctuations in the relevant applicable interest rate (including the ratio between short and long term interest rates among one another) may influence the profits of the Issuer. The composition of financial assets and liabilities as well as the mismatches resulting from such composition may cause a change in the profits of the Issuer as a result of fluctuations in interest rates. Changes in interest rate levels have a particular impact on differing maturity dates and currencies. A mismatch between the maturity of interest bearing financial assets and interest bearing liabilities within a certain time may have a considerable adverse effect on the financial situation and results of the Issuer.

#### *Currency Risk*

The Issuer currently prepares its accounts in **GBP**. On 1 April 2010 the Issuer changed its functional and presentation currency to US\$. The Issuer enters into transactions in currencies other than its functional currency. Changes in exchange rates may result in foreign exchange gains and losses.

#### *Liquidity Risk*

The Issuer holds various financial assets. Besides market risk, such assets are also subject to the risk that as a result of insufficient market liquidity the relevant assets cannot be sold or hedged on short notice or can only be sold for a lower price. Such risk especially exists in respect of assets for which there are no markets with sufficient liquidity from the beginning. Limited liquidity in respect of such assets may also adversely affect the liquidity of the Issuer.

#### *Credit Risk / Loan Risk*

The Issuer entertains different business relationships with third parties. Within the context of such business relationships there is the risk that the third party which owes the Issuer money, securities or other financial assets cannot fulfil its liabilities. Credit risk may particularly arise as a result of insolvency, illiquidity, cyclical downturn, decline in real estate prices and/or mistakes in the management of the relevant third party. The risk is particularly relevant to loans as the realisation of such risk may result in a loss of both interest (if any) and the principal amount. Such losses may have a considerable adverse effect on the Issuer's financial situation and profits.

#### *Regulatory Risk*

The Issuer's business activities in each jurisdiction in which it operates are subject to extensive supervision and regulations. Changes in laws or regulations may require the Issuer to change its business or certain products and cause significant costs to the Issuer. Furthermore, as a result of changes in the regulatory authority's code of practice the Issuer may have to change part of its business or products or increase its administrative expenses to comply with the changed regulatory requirements which again will involve an increase of cost for the Issuer. Such possible increase in costs would adversely affect the Issuer's financial situation and profits.

On 17 December 2009, the Basel Committee on Banking Supervision (the **Basel Committee**) proposed a number of fundamental reforms to the regulatory capital framework in its consultative document entitled "Strengthening the resilience of the banking sector". The Basel Committee published its economic impact assessment on 18 August 2010 and on 12 September 2010, the Group

of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced further details of the proposed substantial strengthening of existing capital requirements. These proposals have also been subsequently endorsed by the G20. The Basel Committee's package of reforms includes increasing the minimum common equity requirement from 2% (before the application of regulatory adjustments) to 4.5% (after the application of stricter regulatory adjustments). The total Tier 1 capital requirement, which includes common equity and other qualifying financial instruments, will increase from 4% to 6%. In addition, banks will be required to maintain, in the form of common equity (after the application of deductions), a capital conservation buffer of 2.5% to withstand future periods of stress, bringing the total common equity requirements to 7%. If there is excess credit growth in any given country resulting in a system-wide build up of risk, a countercyclical buffer within a range of 0% to 2.5% of common equity (or other fully loss absorbing capital) is to be applied as an extension of the conservation buffer. The capital requirements are to be supplemented by a leverage ratio, and a liquidity coverage ratio and a net stable funding ratio will also be introduced. The Basel Committee has confirmed that work continues to ensure that systemically important banks have loss absorbing capacities beyond the above standards. The Basel Committee has stated that measures may include capital surcharges, contingent capital and bail-in debt. Such measures would be in addition to proposals for the write-off of Tier 1 and Tier 2 debt (and its possible conversion into ordinary shares) if a bank becomes non-viable. The proposed reforms are expected to be implemented by the end of 2012, however the requirements are subject to a series of transitional arrangements and will be phased in over a period of time, to be fully effective by 2019.

These and other future changes to capital adequacy and liquidity requirements in the jurisdictions in which it operates, including the European Commission's public consultation on further possible changes to the Capital Requirements Directive launched in February 2010, may require members of the Nomura Group (including the Issuer) to raise additional Tier 1 (including Core Tier 1) and Tier 2 capital and could result in existing Tier 1 and Tier 2 instruments issued by members of the Nomura Group (including the Issuer) ceasing to count towards their regulatory capital, either at the same level as present or at all. If the Nomura Group is unable to raise the requisite Tier 1 and Tier 2 capital, it may be required to reduce the amount of its risk-weighted assets, which may not occur on a timely basis or achieve prices which would otherwise be attractive to it.

#### *Competition Risk*

In each jurisdiction in which the Issuer is active it is subject to extensive competition with other entities. If the Issuer should not be able to continue to compete successfully with attractive and profitable products and services, this may lead to a loss in market share which would have a significant adverse effect on the Issuer's financial situation and profits.

#### *Reputational Risk*

The Issuer constantly depends on generating new business. Therefore, the Issuer is continuously in discussion with business partners and clients in order to generate new business. A deterioration of the Issuer's business reputation, particularly in form of negative media publicity, may have the effect that potential clients and business partners decide against entering into business transactions with the Issuer. This may have an adverse effect on the profitability and therefore credit rating of the Issuer.

#### *Operational Risk / Business Risk*

For its business operations the Issuer depends on access to human resources and infrastructure to ensure its profitability and credit rating in the long term. Operational incidents (e.g. natural disasters, accidents and terrorist action), which prevent the normal course of business, may lead to adverse economic consequences for the Issuer. This similarly applies to a loss of personnel which cannot be compensated by counteractive measures, such as new hiring or transfer of personnel. The Issuer tries to compensate for losses potentially caused by operational risk by utilising hedging strategies. As such, the business risk describes the risk that these hedging strategies fail or that they are not able to compensate for all losses, which may have a negative effect on the financial situation and the business performance of the Issuer. Notwithstanding anything in this risk factor, this risk factor

should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the UK Financial Services Authority (the **FSA**).

*In the United Kingdom the Issuer is responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers*

In the United Kingdom, the Financial Services Compensation Scheme (the **FSCS**) was established under the Financial Services and Markets Act 2000 (**FSMA**) and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm authorised by the FSA is unable, or likely to be unable, to pay claims against it (for instance, an authorised bank is unable to pay claims by depositors). The FSCS is funded by levies on firms authorised by the FSA, including the Issuer and other members of the Nomura group in the United Kingdom. The Issuer is currently exempt from participation.

In the event that the FSCS raises funds from authorised firms, raises those funds more frequently or significantly increases the levies to be paid by such firms, the associated costs to the Issuer may have a material impact on its results of operations or financial condition. The recent measures taken to protect the depositors of deposit-taking institutions involving the FSCS have resulted in a significant increase in the levies made by the FSCS on the industry and may do so in the future if similar measures are required to protect depositors of other institutions. In addition, regulatory reform initiatives in the UK and internationally may result in further changes to the FSCS, which could result in additional costs and risks for the Issuer. For instance, the UK Government has proposed a consultation on pre-funding the FSCS, which may affect the profitability of the Issuer (and other members of the Nomura group required to contribute to the FSCS), although it has made clear that pre-funding would not be introduced before 2012. Furthermore, the FSA proposed that UK deposit-taking institutions develop systems by 31 December 2010 to enable the institution to produce an aggregated view of each customer's eligibility for compensation in the event of a failure (a **Single Customer View**). As and when the Issuer determines that it has taken on eligible claimants, it will put the necessary processes in place to comply with the regulatory requirement to produce a Single Customer View.

To the extent that other jurisdictions where the Nomura group operates have introduced or plan to introduce similar compensation, contributory or reimbursement schemes, the Nomura group may incur additional costs and liabilities which may negatively impact its results of operations or financial condition."

- (d) the sub-section entitled "Risks relating to the UK Banking Act 2009" on pages 30 to 32 of the Base Prospectus shall be deleted in its entirety and replaced with the following:

**"Risks relating to the UK Banking Act 2009**

Under the Banking Act 2009 (the **Banking Act**), substantial powers have been granted to HM Treasury, the Bank of England and the FSA (together, the **Authorities**) as part of a special resolution regime (the **SRR**). These powers enable the Authorities to deal with a UK bank such as the Issuer, building society or other UK institution with permission to accept deposits pursuant to Part IV of FSMA (each a **relevant entity**) in circumstances in which the Authorities consider its failure has become highly likely and a threat is posed to the public interest. The SRR consists of three stabilisation options and two insolvency and administration procedures applicable to UK banks which may be commenced by the Authorities. The stabilisation options provide for: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a bridge bank established by the Bank of England; and (iii)

temporary public ownership (nationalisation) of the relevant entity or its UK-incorporated holding company. In each case, the Authorities have been granted wide powers under the Banking Act including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively. The following paragraphs set out some of the possible consequences of the exercise of those powers under the SRR.

*The SRR may be triggered prior to insolvency of the Issuer*

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may only be exercised if: (a) the FSA is satisfied that a relevant entity (such as the Issuer) is failing, or is likely to fail, to satisfy the threshold conditions within the meaning of section 41 of the FSMA (which are the conditions that a relevant entity must satisfy in order to retain its authorisation to accept deposits); (b) following consultation with the other Authorities, the FSA determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those threshold conditions; and (c) the Authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial systems, public confidence in the UK banking system and the protection of depositors). It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

*Various actions may be taken in relation to the Securities without the consent of the Securityholders*

If the Issuer were made subject to the SRR, HM Treasury or the Bank of England may exercise extensive share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities) in respect of the Issuer. Exercise of these powers could involve taking various actions in relation to any securities issued by the Issuer (including the Securities) without the consent of the Securityholders, including (among other things): (i) transferring the Securities notwithstanding any restrictions on transfer and free from any trust, liability or encumbrance; (ii) extinguishing any rights to acquire Securities; (iii) delisting the Securities; (iv) converting the Securities into another form or class (the scope of which power is unclear, although may include, for example, conversion of the Securities into equity securities); (v) modifying or disapplying certain terms of the Securities, including disregarding any termination or acceleration rights or events of default under the terms of the Securities which would be triggered by the transfer and certain related events; and/or (vi) where property is held on trust, removing or altering the terms of such trust. If the terms of the Securities are modified or disappplied without the consent of the Guarantor, the validity of the Guarantee may be affected.

There can be no assurance that the taking of any such actions would not adversely affect the rights of Securityholders, the price or value of their investment in the Securities and/or the ability of the Issuer to satisfy its obligations under the Securities. In such circumstances, Securityholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Securityholders would thereby recover compensation promptly or equal to any loss actually incurred.

*A partial transfer of the Issuer's business may result in a deterioration of its creditworthiness*

If the Issuer were made subject to the SRR and a partial transfer of its business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Issuer (which may include the Securities) may result in a deterioration in the creditworthiness of the Issuer and, as a result, increase the risk that it may be unable to meet its obligations in respect of the Securities and/or eventually become subject to administration or

insolvency proceedings pursuant to the Banking Act. In such circumstances, Securityholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Securityholders would thereby recover compensation promptly or equal to any loss actually incurred.

As at the date of this Base Prospectus, the Authorities have not made an instrument or order under the Banking Act in respect of the Issuer and there has been no indication that they will make any such instrument or order. However, there can be no assurance that this will not change and/or that Securityholders will not be adversely affected by any such order or instrument if made."

### **1.3 Incorporation of the Issuer's half year report**

On 1 December 2010, the Issuer published its unaudited non-consolidated half year report for the half year ended 30 September 2010. A copy of that half yearly report has been filed with the Financial Services Authority and, by virtue of this Supplement, that report is deemed incorporated in, and forms part of, the Base Prospectus.

### **1.4 Updating of the "Significant or Material Change" statement**

The paragraph "Significant or Material Change" on page 535 of the Base Prospectus shall be deleted in its entirety and replaced with the following paragraph:

"Save as disclosed in the paragraph entitled "Trend Information" on page 14 of the registration document of the Issuer dated 5 January 2011 incorporated by reference into this Base Prospectus (in the case of the Issuer), there has been no significant change in the financial or trading position of the Issuer or the Guarantor since 30 September 2010 and there has been no material adverse change in the prospects of the Issuer, the Guarantor or the Nomura group (being the Guarantor and its consolidated subsidiaries), since 31 March 2010."

## **2. Amendment of the risk factors relating to the Nomura Group**

In the section entitled "RISK FACTORS", the sub-section entitled "Risk factors relating to the Nomura Group" on pages 33 to 41 of the Base Prospectus shall be deleted in its entirety and replaced with the following:

### **"Risk factors relating to the Nomura Group**

**In this Document, the term "Nomura Group" describes the Guarantor (or "NHI") and its consolidated subsidiaries, including the Issuer, which is a wholly owned subsidiary of the Guarantor. Any factors which affect the financial condition and/or creditworthiness of the Guarantor may have a direct or indirect impact upon the financial condition and/or creditworthiness of other entities within the Nomura Group, including the Issuer. Accordingly, risks identified in this "Risk factors relating to the Nomura Group" section relating to NHI should, unless the context requires otherwise, be construed as potentially applying also to all other entities within the Nomura Group including, in particular, the Issuer.**

*Recent financial and credit crises and recessionary economies around the world have had, and may continue to have, adverse effects on NHI's businesses, financial condition and results of operations.*

During 2008, particularly the second half of the year, the business environment was extremely adverse. Despite signs of recovery in the first half of 2009, the business environment remains extremely uncertain in the medium to long term. Starting in mid-2007 in the United States and Europe, and particularly during the second half of 2008, the financial services industry and global securities markets were materially and adversely affected by significant declines in the values of

nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in the values of subprime mortgages in the U.S. market, but spread to all mortgage and real estate asset classes, to leveraged loans and to nearly all asset classes, including equities. Although the markets have generally stabilized and improved over the course of 2009, the values of many asset classes have not returned to previous levels. Further, the markets have been facing new challenges arising out of concerns over certain sovereign risks and our business environment remains extremely uncertain in the medium to long term.

Market conditions have also led to the failure or merger of a number of prominent financial institutions, primarily in the United States. Financial institution failures or problems have resulted in further losses as a consequence of defaults on securities issued by them and defaults on derivatives and other contracts entered into with such entities. The geographic reach of such consequences has extended globally. In addition, the United States, large parts of Europe and Japan have experienced a significant downturn in their economies as a whole. Business activity across a wide range of industries and regions continues to be significantly reduced and many companies continue to be in serious difficulty due to the lack of demand for their products or services, primarily due to significantly reduced consumer spending, lack of liquidity in the credit markets and high unemployment rates. Any failure to achieve desired results from the recent government aid or stimulus programmes around the world, or any phase-out or termination of such programs, could further adversely affect NHI's business environment.

In response to these challenges in the business environment, NHI has been implementing several strategic initiatives. NHI is seeking to expand its client base, focusing on growing market share in client-driven flow businesses and continuing to review and reduce asset size through targeted disposition of assets not suited to NHI's business focus. NHI is implementing cost reduction through selective downsizing with a concentration on core businesses in the short-term, as well as reengineering NHI's business processes in the longer-term. There can be no assurance, however, that NHI will be able to carry out any of these strategic initiatives or that, even if they are carried out, they will have the intended effect or will be effective in addressing the difficulties NHI has or may have under the current business environment. Also, there can be no assurance that the economic environment will not worsen in the future (as exemplified by the Greek debt crisis that manifested in the first half of calendar year 2010, adversely affecting the credibility of the euro currency and fostering financial doubts with regards to other countries), in which case NHI's financial condition and results of operations may be materially and adversely affected.

#### *Market fluctuations could harm NHI's businesses*

NHI's businesses are materially affected by conditions in the financial markets and economic conditions in Japan and elsewhere around the world. Market downturns can occur not only as a result of purely economic factors, but also as a result of war, acts of terrorism, international tensions, natural disasters or other similar events. A sustained market downturn can adversely affect NHI's business and can result in substantial losses. Even in the absence of a prolonged market downturn, NHI may incur substantial losses due to market volatility or governmental fiscal and monetary policy changes in Japan and other jurisdictions where NHI conducts business.

#### *NHI's brokerage and asset management revenues may decline*

A market downturn could result in a decline in the revenues concerning NHI's intermediary business because of a decline in the volume and value of securities that NHI broker for NHI's clients. Also, with regard to NHI's asset management business, in most cases, NHI charge fees for managing NHI's clients' portfolios that are based on the value of their portfolios. A market downturn that reduces the value of NHI's clients' portfolios, increases the amount of withdrawals or reduces the amount of new investments in these portfolios would reduce the revenue NHI receives from NHI's asset management businesses.



*NHI's investment banking revenues may decline*

Unfavourable financial or economic conditions would likely reduce the number and size of transactions for which NHI provide securities underwriting, financial advisory and other investment banking services. NHI's investment banking revenues, which include fees from these services, are directly related to the number and size of the transactions in which NHI participate and would therefore decrease if there is a sustained market downturn.

*NHI may incur significant losses from NHI's trading and investment activities*

NHI maintain large trading and investment positions in the fixed income, equity and other markets, both for NHI's own account and for the purpose of facilitating NHI's clients' trades. NHI's positions consist of various types of assets, including financial derivatives transactions in equity, interest rate, currency, credit, commodity and other markets, as well as in loans and real estate. Fluctuations in the markets where these assets are traded can adversely affect the value of these assets. To the extent that NHI owns assets, or have long positions, a market downturn could result in losses if the value of these long positions decreases. Furthermore, to the extent that NHI has sold assets that NHI does not own, or have short positions, an upturn in the prices of the assets could expose NHI to potentially significant losses. Although NHI has worked to mitigate these position risks with a variety of hedging techniques, these market movements could result in losses. NHI can incur losses if the markets move in a way NHI has not anticipated as a result of specific events such as the Russian economic crisis in 1998 and the global financial and credit crisis in the autumn of 2008. Also, NHI may face losses if the level of volatility of the markets where the foregoing assets are traded differs from NHI's expectation, which may occur particularly in the emerging markets.

NHI's businesses have been and may continue to be affected by changes in market volatility levels. Certain of NHI's trading businesses depend on market volatility to provide trading and arbitrage opportunities, and decreases in volatility may reduce these opportunities and adversely affect the results of these businesses. On the other hand, increased volatility, while it can increase trading volumes and spreads, also increases risk as measured by value at risk, or "VaR", and may expose NHI to increased risks in connection with NHI's market-making and proprietary businesses or cause NHI to reduce the size of these businesses in order to avoid increasing NHI's VaR. Furthermore, NHI commits capital to take relatively large positions for underwriting or warehousing assets to facilitate certain capital market transactions. Also, NHI structure and possess pilot funds for developing financial investment products and invest seed money to set up and support financial investment products. NHI may incur significant losses from these positions in the event of significant market fluctuations.

In addition, if NHI is the party providing collateral in a transaction, significant declines in the value of the collateral can increase NHI's costs and reduce NHI's profitability; and if NHI is the party receiving collateral, such declines can reduce NHI's profitability by reducing the level of business done with NHI's clients and counterparties.

*Holding large and concentrated positions of securities and other assets may expose NHI to large losses*

Holding a large amount of securities concentrated in specific assets can increase NHI's risks and expose NHI to large losses in NHI's businesses such as market-making, block trading, underwriting, asset securitisation and acquiring newly issued convertible bonds through third-party allotment. NHI has committed substantial amounts of capital to these businesses. This often requires NHI to take large positions in the securities of a particular issuer or issuers in a particular industry, country or region. In addition, NHI may incur substantial losses due to market fluctuations on asset-backed securities such as commercial mortgage-backed securities.

*Extended market declines can reduce liquidity and lead to material losses*

Extended market declines can reduce the level of market activity and the liquidity of the assets traded in the market. If NHI cannot properly close out its associated positions, particularly with respect to over-the-counter derivatives, NHI may incur substantial losses due to the difficulty of monitoring prices in a less liquid market.

*NHI's hedging strategies may not prevent losses*

NHI uses a variety of instruments and strategies to hedge NHI's exposure to various types of risk. If NHI's hedging strategies are not effective, NHI may incur losses. NHI bases many of NHI's hedging strategies on historical trading patterns and correlations. For example, if NHI holds an asset, NHI may hedge this position by taking another asset which has, historically, moved in a direction that would offset a change in value of the former asset. However, historical trading patterns and correlations may not continue, as seen in the case of the global financial and credit crisis in the autumn of 2008, and these hedging strategies may not be fully effective in mitigating NHI's risk exposure because NHI is exposed to all types of risk in a variety of market environments.

*NHI's risk management policies and procedures may not be fully effective in managing market risk*

NHI's policies and procedures to identify, monitor and manage risks may not be fully effective. Some of NHI's methods of managing risk are based upon observed historical market behaviour. This historical market behaviour may not continue in future periods. As a result, NHI may suffer large losses by being unable to predict future risk exposures that could be significantly greater than the historical measures indicate. Other risk management methods that NHI uses also rely on NHI's evaluation of information regarding markets, clients or other matters, which is publicly available or otherwise accessible by NHI. This information may not be accurate, complete, up-to-date or properly evaluated, in which case NHI may be unable to properly assess its risks, and thereby suffer large losses. Furthermore, certain factors, such as market volatility, may render NHI's risk evaluation model unsuitable for the new market environment. In such event, NHI may become unable to evaluate or otherwise manage its risks adequately.

*Market risk may increase other risks that NHI faces*

In addition to the potentially adverse effects on NHI's businesses described above, market risk could exacerbate other risks that NHI faces. For example, the risks associated with new products developed through financial engineering/innovation may be increased by market risk.

Also, if NHI incurs substantial trading losses caused by NHI's exposure to market risk, NHI's need for liquidity could rise sharply while NHI's access to cash may be impaired as a result of market perception of NHI's credit risk. Furthermore, in a market downturn, NHI's clients and counterparties could incur substantial losses of their own, thereby weakening their financial condition and, as a result, increasing NHI's credit risk exposure to them.

*NHI may have to recognise impairment charges with regard to the amount of goodwill and intangible assets recorded on NHI's consolidated balance sheets*

NHI has purchased all or a part of the equity interests in, or certain operations from, certain other companies in order to pursue its business expansion, and expect to continue to do so when and as NHI deems appropriate. NHI accounts for each of those and similar purchases and acquisitions in conformity with U.S. GAAP, as a business combination, and allocates its acquisition costs to the assets acquired and liabilities assumed, and record the remaining amount as goodwill.

NHI may have to record impairment charges with regard to the amount of goodwill and intangible assets. Any impairment charges for goodwill or intangible assets NHI recognise, if recorded, may adversely affect NHI's results of operations and financial condition.

*Liquidity risk could impair NHI's ability to fund operations and jeopardise NHI's financial condition*

Liquidity, or having ready access to cash, is essential to NHI's businesses. In addition to maintaining a readily available cash position, NHI seek to enhance NHI's liquidity through repurchase and securities lending transactions, access to long-term debt, issuance of long-term bonds, diversification of NHI's short-term funding sources such as commercial paper, and by holding a portfolio of highly liquid assets. NHI bears the risk that NHI may lose liquidity under certain circumstances, including but not limited to the following:

*NHI may be unable to access the debt capital markets*

NHI depends on continuous access to the short-term credit markets and the debt capital markets to finance NHI's day-to-day operations. An inability to raise money in the long-term or short-term debt markets, or to engage in repurchase agreements and securities lending, could have a substantial negative effect on NHI's liquidity. For example, lenders could refuse to extend the credit necessary for NHI to conduct business based on their assessment of NHI's long-term or short-term financial prospects if:

- NHI incurs large trading losses,
- the level of NHI's business activity decreases due to a market downturn, or
- regulatory authorities take significant action against NHI.

In addition to the above, NHI's ability to borrow in the debt markets could also be impaired by factors that are not specific to it, such as increases in banks' nonperforming loans which reduce their lending capacity, a severe disruption of the financial and credit markets which, among others, can lead to widening credit spreads and thereby increase NHI's borrowing costs, or negative views about the general prospects for the investment banking, brokerage or financial services industries generally.

*NHI may be unable to access the short-term debt markets*

NHI depends primarily on the issuance of commercial paper and short-term bank loans as a principal source of unsecured short-term funding of NHI's operations. NHI's liquidity depends largely on NHI's ability to refinance these borrowings on a continuous basis. Investors who hold NHI's outstanding commercial paper and other short-term debt instruments have no obligation to provide refinancing when the outstanding instruments mature. NHI may be unable to obtain short-term financing from banks to make up any shortfall.

*NHI may be unable to sell assets*

If NHI is unable to borrow in the debt capital markets or if NHI's cash balances decline significantly, NHI will need to liquidate NHI's assets or take other actions in order to meet NHI's maturing liabilities. In volatile or uncertain market environments, overall market liquidity may decline. In a time of reduced market liquidity, NHI may be unable to sell some of NHI's assets, which may adversely affect NHI's liquidity or NHI may have to sell assets at depressed prices, which could adversely affect NHI's results of operations and financial condition. NHI's ability to sell NHI's assets may be impaired by other market participants seeking to sell similar assets into the market at the same time.

*Lowering of NHI's credit ratings could increase NHI's borrowing costs*

NHI's borrowing costs and NHI's access to the debt capital markets depend significantly on NHI's credit ratings. Rating agencies may reduce or withdraw their ratings or place NHI on "credit watch" with negative implications. This could increase NHI's borrowing costs and limit NHI's access to the capital markets. This, in turn, could reduce NHI's earnings and adversely affect NHI's liquidity.

Further, other factors which are not specific to NHI may increase its funding cost, such as negative market perception of Japanese fiscal soundness.

*Event risk may cause losses in NHI's trading and investment assets as well as market and liquidity risk*

Event risk refers to potential losses in value NHI may suffer through unpredictable events that cause large unexpected market price movements. These include not only the events such as the Russian economic crisis in 1998, the terrorist attacks in the United States on 11 September 2001, U.S. subprime issues since 2007 and the global financial and credit crisis in the autumn of 2008, in each case, adversely affecting NHI's business, but also more generally the following types of events that could cause losses on NHI's trading and investment assets:

- sudden and significant reductions in credit ratings with regard to NHI's trading and investment assets by rating agencies that have significant presence and influence on the market,
- sudden changes in trading, tax, accounting, laws and other related rules which may make NHI's trading strategy obsolete, less competitive or not workable, or
- an unexpected failure in a corporate transaction in which NHI participates resulting in NHI not receiving the consideration it should have received, as well as bankruptcy, deliberate acts of fraud, and criminal prosecution with respect to the issuers of NHI's trading and investment assets.

*Losses caused by financial or other problems of third parties may expose NHI to credit risk*

NHI's counterparties are from time to time indebted to NHI as a result of transactions or contracts, including loans, commitments to lend, other contingent liabilities, and derivatives transactions such as swaps and options.

NHI may incur material losses when NHI's counterparties default on their obligations to NHI due to bankruptcy, deterioration in their creditworthiness, lack of liquidity, operational failure, an economic or political event, or other reasons. This risk may arise from:

- the decline of prices of securities issued by third parties, or
- the execution of securities, futures, currency or derivative trades that fail to settle at the required time due to default by the counterparty, such as monoline insurers (financial guarantors) which are counterparties in credit default swap contracts, or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries.

*Problems related to third party credit risk may include the following:*

*Defaults by a large financial institution could adversely affect the financial markets generally and NHI specifically*

The commercial soundness of many financial institutions is closely interrelated as a result of credit, trading, clearing or other relationships among the institutions. As a result, concern about the credit standing of, or a default by, one institution could lead to significant liquidity problems or losses in, or defaults by, other institutions. This may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which NHI interacts on a daily basis. Actual defaults, increases in perceived default risk and other similar events could arise in the future and could have an adverse effect on the financial markets and on NHI. NHI's finance operations may be damaged if major financial institutions, Japanese or otherwise, fail or experience severe liquidity or solvency problems.

*There can be no assurance as to the accuracy of the information about, or the sufficiency of the collateral NHI uses in managing, NHI's credit risk*

NHI regularly reviews its credit exposure to specific clients or counterparties and to specific countries and regions that NHI believes may present credit concerns. Default risk, however, may arise from events or circumstances that are difficult to detect, such as fraud. NHI may also fail to receive full information with respect to the risks of a counterparty. In addition, in cases where NHI has extended credit against collateral, NHI may fall into a deficiency in value in the collateral. For example, if sudden declines in market values reduce the value of NHI's collateral, NHI may become under-secured.

*NHI's clients and counterparties may be unable to perform their obligations to NHI as a result of political or economic conditions*

Country, regional and political risks are components of credit risk, as well as market risk. Political or economic pressures in a country or region, including those arising from local market disruptions or currency crises, may adversely affect the ability of clients or counterparties located in that country or region to obtain credit or foreign exchange, and therefore to perform their obligations owed to NHI.

*The financial services industry is intensely competitive and rapidly consolidating*

NHI's businesses are intensely competitive, and NHI expects them to remain so. NHI competes on the basis of a number of factors, including transaction execution, NHI's products and services, innovation, reputation and price. In recent years, NHI has experienced intense price competition, particularly in brokerage, investment banking and other businesses.

*Competition with commercial banks, commercial bank-owned securities subsidiaries and non-Japanese firms in the Japanese market is increasing*

Since the late 1990s, the financial services sector in Japan has been undergoing deregulation. Banks and other types of financial services firms can compete with NHI to a greater degree than they could before deregulation in the areas of financing and investment trusts. Among others, securities subsidiaries of commercial banks and non-Japanese firms have been affecting NHI's market shares in the underwriting business, corporate advisory services in connection with M&A, and retail business.

*Increased domestic and global consolidation in the financial services industry means increased competition for NHI*

In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions in Japan and overseas. Particularly in Japan, a number of securities companies have allied with or been acquired by commercial banks, and non-Japanese commercial banks are enhancing their securities subsidiaries in Japan. Most of NHI's major Japanese

competitors are now owned by, or allied with, bank holding groups. Through such business alliances and consolidations, these other securities companies and commercial banks have the ability to offer a wide range of products, including loans, deposit-taking, insurance, brokerage, asset management and investment banking services within their group. This diversity of services offered may enhance their competitive position compared with NHI. They also have the ability to supplement their investment banking and brokerage businesses with commercial banking, insurance and other financial services revenues in an effort to gain market share. NHI's policy to remain independent from commercial banks may result in the loss of market share as these large, consolidated firms expand their business.

*NHI's ability to expand internationally will depend on NHI's ability to compete successfully with financial services firms in international markets*

NHI believes that significant opportunities and challenges will arise for NHI outside of Japan. In order to take advantage of these opportunities, NHI will have to compete successfully with financial services firms based in important non-Japanese markets, including the United States, Europe and Asia. Some of these financial services firms are larger, better capitalised and have a stronger local presence and a longer operating history in these markets. As a means to bolster NHI's international operations, NHI acquired certain Lehman operations, including some of the Lehman employees in Europe and the Middle East and a majority of the Lehman employees in Asia, as well as certain specialized service companies in India in 2008. There can be no assurance, however, that NHI will successfully achieve the targeted synergies or other intended benefits from the acquisition of former Lehman operations as contemplated. In addition, NHI is currently rebuilding its operations in the United States. In particular, NHI is increasing headcount to service client-related businesses, including cross-border transactions such as sales in Europe or Asia of products originated in the United States and vice versa. NHI believes that U.S. build-out will be important to its global success due to continued global demand for U.S. products, and failure to expand and strengthen its operations in the United States may materially and adversely affect its global strategy.

*Operational risk may disrupt NHI's businesses, result in regulatory action against NHI or limit NHI's growth*

NHI faces, for example the following types of operational risk which could result in financial losses, disruption in NHI's business, litigation from relevant parties, intervention in NHI's business by the regulatory authorities, or damage to NHI's reputation:

- failure to settle securities transactions;
- failure by officers or employees to perform proper administrative activities prescribed in regular procedures, such as orders to securities exchanges;
- suspension or malfunction of systems;
- the destruction of NHI's facilities or systems due to large-scale disasters or acts of terrorism, which are beyond anticipation and could not be covered by NHI's contingency plan; or
- the disruption of NHI's business due to pandemic diseases or illnesses, such as avian influenza and swine flu.

*NHI's business is subject to substantial legal, regulatory and reputational risks*

Substantial legal liability or a significant regulatory action against NHI could have a material financial effect or cause reputational harm to NHI, which in turn could seriously damage NHI's business prospects. Also, material changes in regulations applicable to NHI or to NHI's market could adversely affect NHI's business.

*NHI's exposure to legal liability is significant*

NHI faces significant legal risks in NHI's businesses. These risks include liability under securities or other laws in connection with securities underwriting and offering transactions, liability arising from the purchase or sale of any securities or other products, disputes over the terms and conditions of complex trading arrangements or the validity of contracts for transactions with NHI and legal claims concerning NHI's financial advisory and merchant banking business.

During a prolonged market downturn, NHI would expect claims against it to increase. NHI may also face significant litigation. The cost of defending such litigation may be substantial and NHI's involvement in litigation may damage NHI's reputation. In addition, even legal transactions might be subject to social criticism according to the particulars or situations of such transactions. These risks may be difficult to assess or quantify and their existence and magnitude may remain unknown for substantial periods of time.

*Extensive regulation of NHI's businesses limits NHI's activities and may subject NHI to significant penalties and losses*

The financial services industry is subject to extensive regulation. NHI is subject to regulation by governmental and self regulatory organisations in Japan and in virtually all other jurisdictions in which NHI operates, and such governmental and regulatory scrutiny may increase as its operations expand. These regulations are designed to ensure the integrity of the financial markets and to protect clients and other third parties who deal with NHI. These regulations are not necessarily designed to protect NHI's shareholders and often limit NHI's activities, through net capital, client protection and market conduct requirements. NHI faces the risk that regulatory authorities may intervene in NHI's businesses through extended investigation and surveillance activity, adoption of costly or restrictive new regulations or judicial or administrative proceedings that may result in substantial penalties. NHI could be fined, prohibited from engaging in some of NHI's business activities, ordered to improve NHI's internal governance procedures, or be subject to the temporary or long-term suspension or revocation of NHI's legal authorisation to conduct business. NHI's reputation could also suffer from the adverse publicity that any administrative or judicial sanction against NHI may create. As a result of any such sanction, NHI may lose business opportunities for a period of time, even after the sanction is lifted, if and to the extent that NHI's clients, especially public institutions, decide not to engage NHI for their financial transactions.

*Material changes in regulations applicable to NHI or its market could adversely affect its business.*

If regulations that apply to NHI's businesses are introduced, modified or removed, NHI could be adversely affected directly or through resulting changes in market conditions. For example, in accordance with the amendments to the Financial Instruments and Exchange Act (the "FIEA") effective 1 December 2004, banks and certain other financial institutions became able to act as agents of securities companies in the securities brokerage business. In addition, in accordance with the amendments to the FIEA effective from 1 June 2009, firewalls between commercial banks and securities firms were partially deregulated. Therefore, NHI may face increased competition as its competitors will be able to cooperate more closely with their affiliated commercial banks.

NHI currently calculates and discloses its consolidated capital adequacy ratio by applying the Basel II based Japanese Financial Services Agency's (the "Japanese FSA") capital adequacy rules applicable to bank holding companies with international operations, as allowed under the guideline published by the Japanese FSA. In December 2009, the Basel Committee announced consultative proposals to strengthen the resilience of the banking sector, laying out a new framework of capital and liquidity regulations in response to the global financial crisis. Also in September 2010, the Basel Committee disclosed a substantial strengthening of existing capital requirements, announcing that the fully calibrated set of standards will be developed by the end of 2010. Although specific

rules implementing such measures designed to incorporate Basel III as well as the Japanese FSA's rules implementing such measures in Japan are yet to be finalised, as a result of the implementation of those new measures, NHI's capital adequacy ratio may decrease or NHI may be required to liquidate assets, raise additional capital or otherwise restrict its business activities in a manner that could adversely increase its funding costs or could otherwise adversely affect its operating or financing activities or the interests of NHI's shareholders.

The Japanese FSA amended the "Comprehensive Guidelines for Supervision of the Financial Instruments Business Operators, etc." which became effective on 4 March 2010. Such amendment includes, among others, restrictions on the compensation systems of corporate groups of financial instruments firms engaging in international operations, including Nomura Group, which are designed to reduce excessive risk taking by their executives and employees. In addition, to improve the stability and transparency of Japan's financial system and to ensure the protection of investors, another bill to amend the FIEA was passed by the Diet on 12 May 2010. The amendment is scheduled to become effective within one year, and is intended to strengthen group-wide regulation and supervision by introducing consolidated supervision of securities companies the size of which exceeds specified parameters. For more information about such amendments, see "Regulation—Japan" under Item 4.B. of NHI's Form 20-F for the year ended 31 March 2010.

In addition, in response to the financial markets crisis, governments and regulatory authorities in various jurisdictions, such as the U.S. and the U.K., have made and continue to make numerous proposals to reform the regulatory framework for, or impose a tax or levy upon, the financial services industry to enhance its resilience against future crises, contribute to the relevant economy generally or for other purposes. For example, in July 2010, the U.S. enacted the Dodd-Frank Act. The Dodd-Frank Act, among others, would: (i) restrict banks' proprietary trading as well as investments in hedge funds and private equity funds; (ii) empower regulators to liquidate failing financial companies; (iii) provide for a broader regulatory oversight of hedge funds and credit rating agencies; (iv) and create a tight new regulatory framework for derivatives. In December 2010, the Chancellor of the Exchequer in the U.K. announced to introduce a levy on the total liabilities of U.K. banks, which would include the U.K. entities of non-U.K. banks and banking groups. This is in line with initiatives on national bank levies recently taken by the Council of European Union and relates more broadly to a proposal regarding new taxes on financial institutions submitted to the governments of G-20 by the International Monetary Fund. The impact of the regulations and legislation on NHI and its industry is still unknown and various countries in which NHI operates (including Japan) could introduce similar measures. Tightening of regulations or introduction of a new tax or levy applicable to NHI and its industry in many countries could adversely affect NHI's business, financial condition and operating results.

*Deferred tax assets may be reviewed due to a change in laws and regulations, resulting in an adverse affect on our operating result and financial condition.*

NHI recognises deferred tax assets on the consolidated balance sheet as a possible benefit of tax relief in the future. If there is a tax reform such as a reduction of corporate tax rate or a change in accounting standards in the future, NHI may reduce the deferred tax assets in its consolidated balance sheet. As a result, it could adversely affect NHI's operating result and financial condition.

*Misconduct or fraud by an employee, director or officer, or any third party, could occur, and NHI's reputation in the market and its relationships with clients could be harmed.*

NHI faces the risk that misconduct by an employee, director or officer, or any third party, could occur which may adversely affect its business. Misconduct by an employee, director or officer can include, for example, entering into transactions in excess of authorised limits, acceptance of risks that exceed NHI's specified limits, or concealment of unauthorised or unsuccessful activities. The misconduct could also involve, for example, the improper use or disclosure of confidential



information relating to NHI or its clients, such as insider trading, which could result in regulatory sanctions, legal liability and serious reputational or financial damage to NHI. NHI may not always be able to detect or deter misconduct by an employee, director or officer and the precautions it takes to detect and prevent misconduct may not be effective in all cases. If any administrative or judicial sanction is issued against NHI as a result of such misconduct, it may lose business opportunities for a period of time, even after the sanction is lifted, if and to the extent that its clients, especially public institutions, decide not to engage NHI for their financial transactions.

Third parties may also engage in fraudulent activities, including devising a fraudulent scheme by which to induce investments, loans, guarantees or any other form of financial commitment by NHI, both direct and indirect. Because of the broad range of businesses that NHI engages in and the large number of third parties with whom NHI deals in its day-to-day business operations, such fraud or any other misconduct may be difficult to prevent or detect. NHI may not be able to recover the financial losses caused by such activities and its reputation may also be damaged by such activities.

*Unauthorised disclosure of personal information held by us may adversely affect our business*

NHI keeps and manages personal information obtained from clients in connection with its business. In recent years, there have been many reported cases of personal information and records in the possession of corporations and institutions being improperly accessed or disclosed. NHI may have to provide compensation for economic loss and emotional distress arising out of a failure to protect such information in accordance with the Japanese Act on the Protection of Personal Information and the rules, regulations and guidelines relating thereto.

Although NHI exercises care in protecting the confidentiality of personal information and takes steps to safeguard such information, if any material unauthorized disclosure of personal information does occur, NHI's business could be adversely affected in a number of ways. For example, NHI could be subject to complaints and lawsuits for damages from clients if they are adversely affected as a result of the release of their personal information. In addition, NHI could incur additional expenses associated with changing its security systems, either voluntarily or in response to administrative guidance or other regulatory initiatives, or in connection with public relations campaigns designed to prevent or mitigate damage to its corporate or brand image or reputation. Any damage to its reputation caused by such unauthorized disclosure could lead to a decline in new clients and/or a loss of existing clients, as well as to increased costs and expenses in dealing with any such problems.

*NHI is a holding company and depends on payments from NHI's subsidiaries*

NHI depends on dividends, distributions and other payments from NHI's subsidiaries to fund dividend payments and to fund all payments on NHI's obligations, including debt and other obligations. Regulatory and other legal restrictions may limit NHI's ability to transfer funds freely, either to or from NHI's subsidiaries. In particular, many of NHI's subsidiaries, including NHI's broker-dealer subsidiaries, are subject to laws and regulations that authorise regulatory bodies to block or reduce the flow of funds to the parent holding company, or that prohibit such transfers altogether in certain circumstances. These laws and regulations may hinder NHI's ability to access funds that NHI may need to make payments on NHI's obligations.

*NHI may not be able to realise gains it expects, and may even suffer losses, on NHI's private equity investments*

NHI engages in private equity business in and outside of Japan through fully owned subsidiaries and other consolidated entities which have third party pooling of funds. Decline of fair values of NHI's investment positions, which could arise from deteriorating business performance of investee companies, or any deterioration in the market conditions of these sectors, may cause material losses

to NHI. Further, NHI's inability to dispose of its private equity investments at the level and time NHI may wish, could have a material impact on NHI's operating results and financial condition.

*NHI may not be able to dispose of its operating investments at the time or with the speed it would like*

NHI holds substantial operating investments, which refer to investments in equity securities of companies not affiliated with NHI which NHI hold on a long-term basis in order to promote existing and potential business relationships. A substantial portion of these investments consists of equity securities of public companies in Japan. Under U.S. GAAP, depending on market conditions, NHI may record significant unrealised gains or losses on their operating investments, which would have a substantial impact on their consolidated statements of operations. Depending on the conditions of the Japanese equity markets, NHI may not be able to dispose of these equity securities when NHI would like to do so, as quickly as NHI may wish or at the desired values.

Equity investments in affiliates and other investees accounted for under the equity method in NHI's consolidated financial statements may decline significantly over a period of time and result in NHI incurring an impairment loss

NHI has affiliates and investees, accounted for under the equity method in its consolidated financial statements, whose shares are publicly traded. Under U.S. GAAP, if there is a decline in the fair value, i.e., the market price, of the shares NHI holds in such affiliates over a period of time, and NHI determines that the decline is other-than-temporary, then NHI records an impairment loss for the applicable fiscal period.

*NHI may face an outflow of clients' assets due to losses of cash reserve funds or bonds NHI offered*

NHI offers many types of products to meet various needs of its clients with different risk profiles. Cash reserve funds, such as money management funds and money reserve funds are categorised as low-risk products. Such cash reserve funds may fall below par value as a result of losses caused by the rise of interest rates or the withdrawals or defaults on bonds contained in the portfolio. In addition, bonds that NHI offers may default or experience delays in their obligation to pay interest and/or principal. Such losses in the products NHI offers may result in the loss of client confidence and lead to an outflow of client assets from its custody.

It may not be possible for investors to effect service of process within the United States upon NHI or its directors or executive officers, or to enforce against NHI or those persons judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States.

NHI is a limited liability, joint-stock corporation incorporated under the laws of Japan. Most of its directors and executive officers reside in Japan. Many of its assets and the assets of these persons are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for U.S. investors to effect service of process within the United States upon NHI or these persons or to enforce against NHI or these persons judgments obtained in the United States courts predicated upon the civil liability provisions of the federal securities laws of the United States. NHI believes that there is doubt as to the enforceability in Japan, in original actions or in actions for enforcement of judgment of U.S. courts, of liabilities predicated solely upon the federal securities laws of the United States."

### **3. Amendment of the Documents Incorporated by Reference section in respect of the Guarantor**

Items (e), (f) and (g) as listed in the section entitled "Documents Incorporated by Reference" on page 10 of the Base Prospectus shall be deleted and replaced with the following:

- "(e) the publicly available consolidated Annual Report of the Guarantor for the two financial years ended 31 March 2009 and 31 March 2010;
- (f) the publicly available audited consolidated annual report of the Guarantor in its Form 20-F for the year ended 31 March 2009 (but excluding any documents incorporated therein); and
- (g) the publicly available audited consolidated annual report of the Guarantor in its Form 20-F for the year ended 31 March 2010 (but excluding any documents incorporated therein)."

#### **4. Update to the EU Savings Directive Wording in the Risk Factors Section and the Taxation Section**

The paragraphs entitled "EU Savings Directive" within the Risk Factors Section on pages 46 and 47 of the Base Prospectus shall be deleted in their entirety and replaced with the following paragraphs:

"Under EC Council Directive 2003/48/EC on the taxation of savings income (which has been implemented into UK law), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to impose a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Security as a result of the imposition of such withholding tax. In respect of the N&C Securities, the Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive."

The paragraphs entitled "Securities: EU Savings Directive" within the Taxation Section on page 519 of the Base Prospectus shall be deleted in their entirety and replaced with the following paragraphs:

"Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above."

Except where such information or other documents are specifically incorporated by reference by, or attached to, this supplement, if documents which are incorporated by reference themselves incorporate any information or other documents therein (either expressly or implicitly) such information or other documents will not form part of this Supplement for the purposes of the Prospectus Directive.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in or incorporated by reference in the Base Prospectus as previously supplemented, the statements in (a) above will prevail.

Save as disclosed in this Supplement and any supplement previously issued, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus since the publication of the Base Prospectus.

In accordance with section 87Q(4) FSMA, investors who have agreed to purchase or subscribe for the Securities before the Supplement is published have the right, exercisable before the end of the period of two working days beginning with the working day after the date on which this Supplement was published, to withdraw their acceptances.