*Translation from the German language*

# NOMURA FINANCIAL PRODUCTS EUROPE GmbH

Financial statements and management report
1 April 2020 to 31 March 2021

STRICTLY CONFIDENTIAL

## Table of contents

# NOMURA FINANCIAL PRODUCTS EUROPE GmbH

## FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

## MANAGEMENT REPORT

The Management Board of Nomura Financial Products Europe GmbH (the "Institution" or "NFPE") hereby presents its management report and financial statements for the fiscal year ended 31 March 2021. The Institution is registered in Germany in the commercial register of Frankfurt am Main Local Court under no. HRB 110 223 and has its registered office at Rathenauplatz 1, 60313 Frankfurt am Main, Germany.

### OVERVIEW OF THE INSTITUTION'S BUSINESS ACTIVITIES AND CONTROLS, DESCRIPTION OF MAJOR RISKS AND INFORMATION ABOUT BRANCHES

#### Primary activities, organisation and legal structure

The Institution was founded in 2017 as a securities trading bank and is a subsidiary of Nomura Europe Holdings plc ("NEHS"), which has its registered office in London, UK.
On 24 May 2018, BaFin ["Bundesanstalt für Finanzdienstleistungsaufsicht": German Federal Financial Supervisory Authority] issued the Institution with a licence to conduct banking business and render financial services in accordance with Sec. 32 (1) and (2) KWG ["Kreditwesengesetz": German Banking Act]. The Institution commenced trading activities on 6 March 2019. The Institution's licensed banking operations include:

- Trading in and sale of fixed-income and equity products, including derivatives
- Investment banking services
- Corporate finance and private equity

The Institution's ultimate parent company and controlling company is Nomura Holdings Inc. ("NHI"), which together with NEHS and the other NHI subsidiaries forms the "Nomura Group".
The Nomura Group is a financial services group based in Japan with branches in countries and regions all over the world, including Singapore, Hong Kong, the US and the UK. The Nomura Group's business comprises the Retail, Asset Management and Wholesale divisions which provide financial services to a large number of diverse clients, including private investors, corporations, financial institutions, governments and government agencies.

In response to Brexit preparations, the decision was made to serve Nomura's European clients in all European Economic Area (EEA) countries in the Wholesale division, comprising Global Markets and Investment Banking, through Nomura Financial Products Europe GmbH in Frankfurt am Main and its branches in Madrid, Milan, Stockholm, Helsinki, Amsterdam and Paris.

The Institution is subject to the oversight of BaFin. BaFin sets minimum capital requirements for the Institution on a stand-alone basis.

In the reporting year NFPE was managed by four managing directors and controlled by a Supervisory Board composed of at least three members. Since 1 April 2021 NFPE has had five managing directors.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

## CORPORATE GOVERNANCE

In terms of organisational structure, NFPE has a **Management Board** and a voluntary **Supervisory Board**. Together with the shareholder meeting, these boards are the governing bodies of NFPE.

### Management Board

The Management Board's primary aim is to conduct NFPE's business sustainably and in conformity with Sec. 25a KWG and to act in the best interests of its stakeholders (which include its shareholders) and in the public interest. The Management Board defines the allocation of powers and responsibilities and manages NFPE's business and affairs, including:

- Determining NFPE's strategy and objectives
- Recruiting and directing staff
- Managing NFPE's business on a daily basis
- Protecting clients' interests, satisfying obligations towards shareholders and considering the interests of other recognised stakeholders
- Developing the corporate culture, activities and behaviour in order to ensure that NFPE operates safely, soundly, with integrity and in compliance with applicable laws and regulations
- Establishing an internal risk, control, business continuity and remuneration system for NFPE in accordance with Sec. 25a (1) KWG
- Complying with legal and official requirements, especially those to prevent financial crime and money laundering

The Management Board comprises the Chief Executive Officer ("**CEO**"), the Chief Financial Officer ("**CFO**"), the Chief Risk Officer ("**CRO**") and the Chief Operating Officer ("**COO**") who collectively bear responsibility for the management and control of NFPE. Since 1 April 2021, the Management Board comprises the above four members plus a Chief Client Management Officer ("**CCMO**").

The Management Board is assisted by committees which advise the managing directors: the Risk Management Committee, the Cross-Border Risk Committee, the Asset and Liability Committee, the ICAAP Committee and the Outsourcing Committee. NFPE's managing directors also attend Transaction Committee meetings at NEHS which have implications for the business undertaken by NFPE. The committees and their responsibilities are outlined below:

NFPE's Risk Management Committee is chaired by the CRO of NFPE and is primarily responsible for monitoring and controlling market risk, credit risk and non-financial risk, and for the policies and methods for managing such risks. It is also responsible for reviewing the risk strategy and monitoring risk management-relevant regulatory matters and their implementation at NFPE.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

The Cross-Border Risk Committee is chaired by the CEO of NFPE and ensures the monitoring of all cross-border activities in accordance with the controls and requirements relevant for NFPE.

The Asset and Liability Committee (ALCO) was set up by the Management Board of NFPE to support the Institution's CFO in fulfilling his tasks in relation to the management of financial resources and the monitoring of liquidity risk.

In accordance with Sec. 25a (1) Sentence 3 No. 2 KWG in conjunction with AT 4.1 No. 1 MaRisk ["Mindestanforderungen an das Risikomanagement": Minimum Requirements for Risk Management], the Management Board of NFPE has established an internal capital adequacy assessment process (ICAAP) and an ICAAP Committee to ensure that the Institution's major risks are at all times covered by its risk coverage potential, taking into account risk concentrations, and that internal capital adequacy is therefore ensured.

The Outsourcing Committee is chaired by the outsourcing officer and ensures that the services provided by the service organisation are monitored effectively by establishing an effective outsourcing framework. This includes regular assessments of the performance of the service organisations on the basis of individual key performance indicators (KPIs).

Representatives of NFPE also attend group-wide committee meetings. The Transaction Committees are a control body set up by the EMEA CRO to approve complex and non-standard transactions and high-risk transactions at NEHS. The NFPE CRO attends the committee meetings if a transaction requiring approval is relevant for NFPE. The NFPE CRO has a veto right in relation to such transactions. The decision of the NFPE CRO is underpinned by a local process involving the control functions. Nine Transaction Committee meetings which were relevant for NFPE took place in the reporting period.

The NFPE COO also attends NEHS Non-Financial Risk Committee (NFRC) meetings.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Supervisory Board of NFPE

The Supervisory Board is responsible for overseeing the Management Board and ensures that business is conducted in compliance with applicable laws and regulations and with the Institution's articles of incorporation and bylaws. In addition, the Supervisory Board is responsible for engaging the auditor for the fiscal year and for making the relevant reports available to the shareholders. In order to fulfil these tasks, the Supervisory Board has formed a Remuneration Committee and a combined Audit and Risk Committee.

NFPE's Remuneration Committee is based on the requirements of the IVV III ["Institutsvergütungsverordnung": German Ordinance Regarding the Supervisory Requirements for Remuneration Systems of Institutions] and the KWG and is tasked with monitoring the appropriate design of the remuneration systems for managing directors and employees. In organisational terms, this committee reports to the Supervisory Board of NFPE, its members are also members of the Supervisory Board. The committee supports the Supervisory Board in all of NFPE's remuneration matters. For instance, the remuneration systems and components and the underlying regulatory requirements are reviewed and discussed in terms of whether they are appropriate and current. This includes the salary adjustment processes and the planning and disbursement of variable remuneration components. In order to review variable remuneration with a view to risk, the Remuneration Committee may also use information provided by the Compliance, Internal Audit and Risk control functions, in addition to that provided by Human Resources. The Finance department is consulted when considering the financial position and performance.

The Audit and Risk Committee is a sub-committee of NFPE's Supervisory Board and was established in accordance with the requirements of Sec. 25d (8) and (9) KWG. The committee's tasks include supporting the Supervisory Board in monitoring the implementation of the risk strategy and the internal control system, and in accounting processes. It also assists the Supervisory Board in selecting the external auditor, monitoring the performance of the audit and in the Management Board's rectification of audit findings.

The Supervisory Board meets at least four times a year to fulfil its tasks effectively. Additional Supervisory Board meetings are held whenever necessary.

DIVISIONS AND PRODUCTS

NFPE's business comprises the two main divisions of Global Markets and Investment Banking.

NFPE's Global Markets division sells and trades in cash and derivative products on the basis of interest, fixed-income products and currencies, securitised products and equities. It also performs equity research for its European clients.

NFPE's Investment Banking division sells a comprehensive range of products, including strategic advisory services as well as financing and derivative solutions for corporations, private equity investors, financial institutions and sovereign or supranational institutions.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

BUSINESS ENVIRONMENT

Amidst the COVID-19 pandemic and the restrictions it entailed, gross domestic product in the eurozone was, according to Eurostat figures, far below the prior-year figures in all quarters of fiscal year 2019/2020. For January to March 2021 it was 1.8% below the same period in 2020. The slump was particularly severe in the first quarter of the fiscal year (April to June 2020, -14.6% on the prior-year period) before a recovery set in. As a result, the stock markets rebounded, making good the heavy losses of March 2020. The EuroStoxx 50 climbed 41.7% from 27 March 2020 to 26 March 2021, reaching a new record high of 3,867 points on 26 March 2021. Market volatility was high, especially in the first quarter of the fiscal year, with a VSTOXX value of 51 on 1 April 2020. But this returned to normal in the course of the year, falling sharply to a VSTOXX low of 17 on 26 March 2021. In this environment, NFPE's trading volumes remained fairly stable until the end of calendar year 2020, but rose sharply after the end of the Brexit transition period as client numbers increased.

**Brexit**

NFPE was established as a licensed securities trading bank ("broker-dealer") with passporting rights in the European Economic Area ("EEA") to serve Nomura's EEA clients after the UK's departure from the EU ("Brexit"). As a result of the national referendum held on 23 June 2016, the UK left the European Union on 31 January 2020; the transition period in which businesses from the UK continued to enjoy unrestricted access to the EEA ended on 31 December 2020. Nomura therefore transferred services for its EEA target clients from Nomura International plc to NFPE. Client relationship officers in Global Markets and Investment Banking were also transferred or newly hired to serve these clients. As business relationships were transferred to NFPE, the volume of trades settled by NFPE expanded significantly.

COVID-19

Apart from the preparations for Brexit, the last fiscal year for Nomura Financial Products Europe GmbH was shaped by the COVID-19 pandemic.

Our business model proved to be robust and profitable even in the face of changes in the macroeconomic and fiscal environment. There were no operational risk events in connection with COVID responses qualifying as significant under our Operational Risk Management Reporting Procedure and NFPE remained profitable overall in fiscal year 2020/2021.

Office and working-from-home policies were developed and continuously adapted to reflect new insights and needs for protecting the health and safety of employees at all times.

While inherent operational risks in many areas rose at first, they returned to normal levels over the course of the year. After peaking briefly in April 2020, NFPE's trading volumes quickly fell back to normal levels and did not rise sharply again until the end of the Brexit transition period.

At no time were there any significant or reportable disruptions to business processes. Rather, the existing controls and additional measures put in place have enabled the management and close monitoring of operational risk.

# NOMURA FINANCIAL PRODUCTS EUROPE GmbH

## FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

## MANAGEMENT REPORT (CONTINUED)

### BUSINESS ENVIRONMENT (CONTINUED)

As the pandemic gradually appears to have been contained, we are currently revisiting our return-to-office strategies which are implemented on a local level. In so doing, we want to apply the lessons learned from remote working.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

KEY PERFORMANCE INDICATORS

The Management Board uses a number of performance indicators to assess the Institution's business performance.

These indicators are aligned with the objectives of the NOMURA Group, with group-wide metrics being broken down into components which can be influenced by the Institution.

Return on equity (ROE) and profitability: The Group defines ROE as the profit or loss attributable to shareholders divided by total shareholders' equity. NFPE aims to remain within a target corridor of 8% to 10% in the medium term.

As the Institution has only limited influence on consolidated equity and its allocation, the Management Board focuses on the profit contribution to this metric in the form of net income for the year. Due to its directly correlation with capital, the net income for the year as reported in the financial statements prepared according to the German Commercial Code is used as a basis.

CET1 ratio: The Group intends to maintain a CET1 ratio of 11% or higher. The Institution is therefore aiming to achieve a level of capitalisation that enables it to meet this goal and is building up its capital organically through its net income.

Targets for the Wholesale division: All business carried on by the Institution is attributable to the Wholesale division, for which the cost-income ratio and income to RWA have been defined as performance indicators. In keeping with its role within the Group, the Institution can influence these factors through its expenditure and commission income and by managing its RWA utilisation. Income is projected with a moderate increase on an annualised basis, whereas RWAs are managed in the context of the risk appetite.

Other indicators are trading assets and total assets. These are indicators derived directly from the financial and regulatory reporting which, in view of the Institution's fledgling status, have to be closely monitored and managed in order to comply with all regulatory requirements and underpin business planning.

In addition to the above metrics, our business is also governed using all other resources deployed in our business activities, such as liquidity used. The development of these indicators in the fiscal year is described below.

ASSETS, LIABILITIES, FINANCIAL POSITION AND FINANCIAL PERFORMANCE

In keeping with expectations, the balance sheet and capital-related indicators were substantially amplified, especially in the fourth quarter of the fiscal year after Brexit took effect. This went hand in hand with an increase in the related income metrics. As NFPE's operating functions had already been ramped up in anticipation of Brexit in the prior year, administrative expenses increased only moderately, also on a scale that had been expected. Overall, the result is positive as it is in line with the Institution's aim to build a platform in continental Europe.

The Institution's financial resources were aligned with balance sheet growth by obtaining additional liquidity and furthering organic growth of CET1 capital. The outcomes of the regular internal capital adequacy and assessment process (ICAAP) are a key element in this process. The outcomes of the last ICAAP in the fiscal year fed into measures to strengthen capital after the end of the fiscal year. The Institution's financial resources were within the budget at all times and are considered to be adequate.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

The Institution's key financial indicators developed as follows during the year:

| | Fiscal year 2020/2021 EUR k | Fiscal year 2019/2020 EUR k |
|---|---|---|
| Net income from trading book positions | 21,398 | 3,290 |
| Net interest expense | -6,447 | -2,060 |
| Commission income | 103,701 | 91,364 |
| Other operating income | 24,862 | 23,820 |
| General and administrative expenses | -89,385 | -81,232 |
| Earnings before taxes | 49,913 | 34,591 |
| Net income for the year | 32,609 | 24,187 |
| | | |
| Total assets | 10,334,559 | 1,110,480 |
| Total liabilities | 9,774,643 | 583,172 |
| Equity | 559,916 | 527,307 |
| Tier 1 capital | 525,374 | 502,435 |
| Tier 1 capital ratio | 38.7% | 82.2% |
| Risk-weighted assets (RWAs) | 1,356,313 | 611,368 |
| Total capital ratio | 38.7% | 82.2% |
| Liquid assets | 1,269,455 | 335,826 |
| Net liquidity outflows | 242,576 | 118,335 |
| LCR | 523% | 284% |

*Income statement:*

The Institution reported earnings before taxes of EUR 49.9m for the fiscal year (prior year: EUR 34.6m). This profit is attributable to commission and trade income and other operating income, which mainly stems from global transfer pricing arrangements. It comprises sales credits and trading income from Global Markets, shares in Investment Banking income and cost refunds within the Nomura Group. In the last quarter of the fiscal year, as traders transferred to the Institution as planned, net trading income after transfer pricing in Global Markets increased further.

General and administrative expenses mainly relate to the personnel and non-staff operating expenses arising in the headquarters and the branches.

The rise in income and expenses during the fiscal year is chiefly attributable to the further increase in business activity in the head office and in the branches as compared with the prior fiscal year.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

*Balance sheet:*

As of 31 March 2021, the Institution had assets of EUR 10,335m (prior year: EUR 1,110m). Due to the ramp-up of Global Markets trading activities, these mainly relate to reverse repos/repos on the trading book and treasury assets in the form of balances at central banks and reverse repos on the non-trading book. The treasury assets were primarily funded by the increase in intragroup revolving liquidity facilities with a tenor of less than 18 months, of which EUR 900m had been drawn at the end of the year. After the end of the fiscal year, some of these funds were replaced with longer-term loans.

The substantially amplified derivatives trading business contributed relatively little to balance sheet growth as positions are mostly netted on the balance sheet.

The shareholders' total equity came to EUR 559.9m as of 31 March 2021 (prior year: EUR 527.3m) and consists of capital stock, capital and revenue reserves and net retained profit.

*Regulatory ratios:*

As of 31 March 2021, the Institution had own funds totalling EUR 525.4m (prior year: EUR 502.4m) and risk-weighted assets (RWAs) of EUR 1,356.3m (prior year: EUR 611.4m), resulting in a total capital ratio of 38.7% (prior year: 82.2%). The Institution's risk-weighted assets are primarily shaped by operational risk and counterparty credit risk. The year-on-year increase in RWAs is mostly due to an increase in client trading activities.

The Institution's cash and cash equivalents are made up of balances at central banks and reverse repos. Net liquidity outflow came to EUR 242.6m and resulted in an LCR of 523% (prior year: 284%). This ratio increased because additional liquidity was sourced from within the Group in the fiscal year.

At the time of preparing the financial statements, events after the reporting date had not had any impact on assets, liabilities, financial position or financial performance.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

# MANAGEMENT REPORT (CONTINUED)

## OUTLOOK AND OPPORTUNITIES

### Development of financial position and financial performance

According to the business plan, more traders and Global Markets sales and Investment Banking staff are due to transfer to the Institution in the coming fiscal year. This is expected to boost earnings in these divisions. The Management Board is training its focus on stringent and closely monitored cost discipline, and thereby proactively manages the Institution's profit situation.

The Management Board expects that the balance sheet will grow further on the back of additional trading activities with EU clients. This is gauged by total assets, which are expected to increase to between EUR 15b and EUR 18b in the next 24 months.

Overall, moderate growth in costs and income is forecast over the coming 24 months. These growth assumptions may be significantly impacted by changes in the regulatory landscape and the level of client activities with the Nomura Group.

### Development of other financial resources

The utilisation of financial resources will continue to rise as business activities expand and will be managed within the Institution's risk appetite. According to its current forecasts, the Institution is equipped with sufficient resources to support its growth plans. In this context, the CET1 capital ratio, the liquidity coverage ratio (LCR) and the leverage ratio are constantly monitored.

### Outlook and opportunities for Global Markets

The Global Markets segment aims to further expand trading activities with European clients, with a focus on developing business with existing clients and winning a moderate number of new clients. Following the sharp increase in business volume in the last quarter of fiscal year 2019/2020 due to the end of the Brexit transition period, we expect fiscal year 2021/2022 to also bring a substantial year-on-year rise in business volume driven by the significant growth in client numbers.

### Outlook and opportunities for Investment Banking

The stated target of the Investment Banking division is to further expand advisory services and broking of financing solutions to European clients. We anticipate a rise in business activities in fiscal year 2021/2022 compared with the prior year, also driven by basis effects.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

RISKS

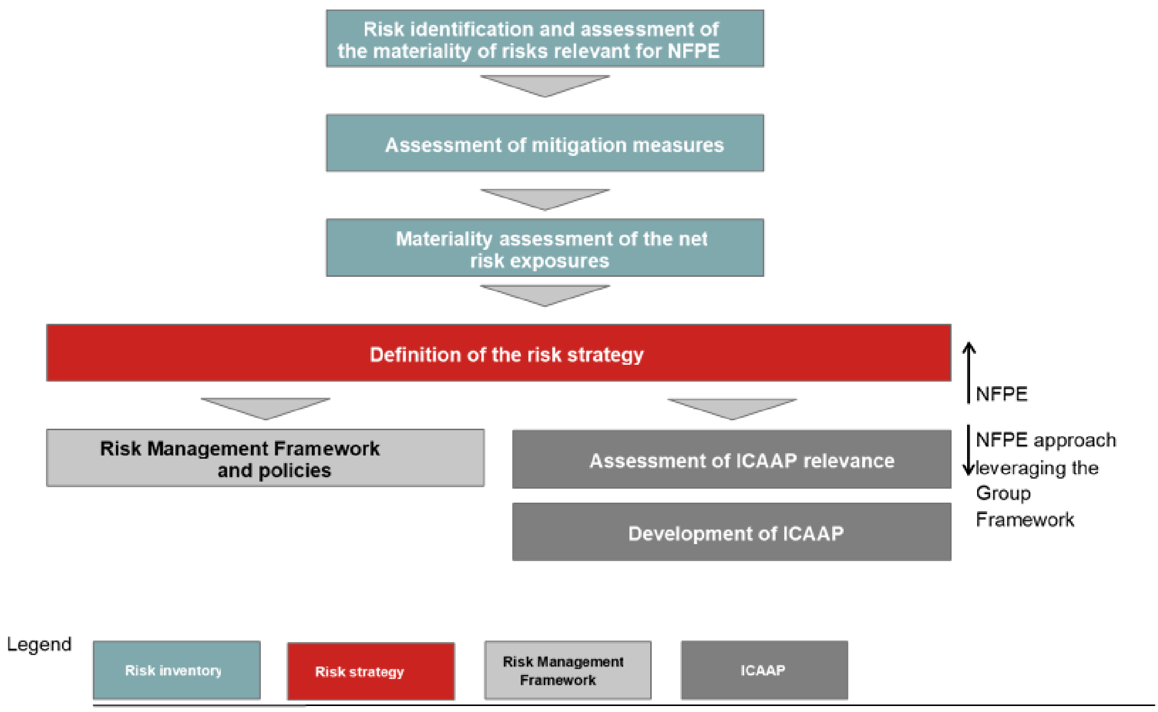
Strategic risk management approach

NFPE's risk strategy is composed of the NFPE Risk Appetite Statement and the NFPE Risk Management Policy. In compliance with the MaRisk, the risk strategy sets out NFPE's strategic approach to risk management and defines its risk appetite in keeping with its business strategy. It is reviewed and approved by NFPE's Management Board and presented to NFPE's Supervisory Board at least once a year.

The Institution's approach to risk management is interwoven with that of the rest of the Nomura Group, whose infrastructure it uses under outsourcing agreements. However, the Institution is governed locally and therefore defines, where it deems necessary, specific risk management controls, policies and procedures and formulates its risk appetite, i.e., the maximum amount and types of risks the Institution is willing to take.

The overarching goal of NFPE's risk management process is to identify, quantify (wherever possible), monitor and control risks and risk concentrations to which NFPE is exposed. NFPE's risk management process starts with the identification of risks, which is followed by a materiality assessment of the identified risk. This risk assessment is documented in the NFPE risk inventory. The risk strategy defines the strategic risk management approach to be taken for all risks which have been assessed as being material.

The following chart outlines the NFPE risk management approach:



NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

All risks to which NFPE is exposed are potentially material. The following risks were identified as material for NFPE in the last risk inventory:

- Market risk
- Credit risk (including country risk)
- Liquidity and funding risk
- Non-financial risk (operational risk, reputational risk, compliance and conduct risk as well as legal risk)
- Model risk
- Business risk

In addition, the Institution has identified risk drivers that affect multiple risk types: cross-border risk and environmental, social and governance (ESG) risks. These are not managed separately, but as part of the above risk types.

As the volume of business in the reporting year was lower than envisaged in the prior-year planning due to delays in the Brexit process, even the risks classified as material only have a relatively minor financial impact on the Institution. The non-quantifiable risks did not have a significant impact on the Institution in the reporting period, either, due to the low level of operating activity.

Internal Capital Adequacy Assessment Process

NFPE has implemented an internal capital adequacy assessment process (“ICAAP”) in accordance with the requirements of the MaRisk and the supplementary ICAAP guidelines issued by BaFin. The ICAAP forms a governance framework for a detailed capital plan, an internal capital adequacy calculation and appropriate stress tests. In order to assess internal capital adequacy, NFPE has developed and implemented a normative and an economic perspective.

The normative perspective considers the requirements for minimum regulatory capital ratios, including the combined buffer requirement, the SREP requirement and the target equity ratio. It comprises a scenario-based test of compliance with Pillar 1 requirements in a baseline scenario and several adverse scenarios, at least one of which is severe, for a three-year horizon. Stress calculations are carried out for both capital and risks. From a normative perspective, risk coverage potential is equal to the regulatory own funds, which currently exclusively comprise Tier 1 capital. The capital requirements are calculated in accordance with the internal model approaches prescribed or approved by the regulator.

The economic perspective is designed to protect creditors from losses. Economic risk capital is calculated on the basis of a 99.9% confidence interval and a one-year holding period. The risk capital is then compared with the economic risk coverage potential (RCP). Internal capital is adequate if the risk capital is equal to or less than the RCP. In addition, stress testing is carried out using the same stress scenarios as in the normative perspective. Here too, internal capital is adequate if the risk capital is equal to or less than the RCP.

The internal capital adequacy plan and stress tests are updated annually on the basis of current insights from the risk inventory.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

The Institution's internal capital adequacy was ensured at every quarterly reporting date during the fiscal year. The table below provides an overview of economic internal capital adequacy at the end of the fiscal year and the prior year.

| Fiscal year | | Baseline Q4 | | | GEDEP Q4 | |
|---|---|---|---|---|---|---|
| Risk type | Risk (EUR m) | Limit (EUR m) | Limit utilisation | Risk (EUR m) | Limit (EUR m) | Limit utilisation |
| Credit risk | 184 | 355 | 52% | 212 | 334 | 63% |
| Market risk | 20 | 71 | 28% | 30 | 67 | 46% |
| Operational risk | 4 | 18 | 21% | 6 | 17 | 37% |
| **Total** | **207** | **444** | **47%** | **249** | **418** | **60%** |
| | | | | | | |
| **Available capital** | **710** | | | **669** | | |

| Prior year | | Baseline Q4 | | | GED Q4 | |
|---|---|---|---|---|---|---|
| Risk type | Risk (EUR m) | Limit (EUR m) | Limit utilisation | Risk (EUR m) | Limit (EUR m) | Limit utilisation |
| Credit risk | 113 | 226 | 50% | 190 | 232 | 82% |
| Market risk | 12 | 113 | 11% | 18 | 116 | 16% |
| Operational risk | 28 | 113 | 25% | 56 | 116 | 49% |
| **Total** | **153** | **452** | **34%** | **264** | **464** | **57%** |
| | | | | | | |
| **Available capital** | **904** | | | **929** | | |

Stress tests are an integral part of risk management in the Nomura Group and at NFPE. Stress testing is carried out to supplement ICAAP and internal risk models in order to identify certain risks to portfolios at different levels which are impaired by specific shocks. Stress tests are designed to be economically coherent, exacting and comprehensive in terms of business and risk coverage. In order to obtain a uniform picture of risks, risk-specific and general stress tests are carried out.

Reverse stress tests are also performed annually. They examine which events would cause the original business model to be no longer feasible or viable. The reverse stress tests are analysed both quantitatively and qualitatively. The last analysis was carried out as of the end of December 2020. Some of the scenarios indicated an impairment of internal capital adequacy, but from a current perspective there is no need for action as the shocks were considered to be extremely unlikely to incur in the magnitude simulated.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

### Risk appetite

Risk appetite defines the type and quantum of risk that the Institution is willing to assume in pursuit of its strategic objectives and business plan.

The Institution's Risk Appetite Statement is approved by NFPE's Management Board and the utilisation of the various limits, e.g., for regulatory capital, internal capital adequacy and liquidity requirements, is communicated regularly to the Risk Management Committee (RMC) and the ICAAP Committee. There is clear ownership and accountability for monitoring and development for each risk type and the relevant risk appetite ratios. As part of the risk strategy, the Risk Appetite Statement must be reviewed and adapted if necessary at least once a year or following any significant changes in business strategy.

### Risk organisation and structure

The Risk Management department was established as an independent risk control function to monitor and report on financial risks. In organisational terms it is separate from the front office departments and reports to the Chief Risk Officer of NFPE ("NFPE CRO"), who is a member of NFPE's Management Board.

In addition, there are committees devoted to monitoring other significant risks to the Institution. Other departments or functions within the Institution contribute to the Institution's global risk management as described below:

The Finance function, though its liquidity risk management and financing departments, is responsible for managing the Institution's liquidity requirements and for performing liquidity stress tests to ensure compliance with the liquidity risk appetite and limits approved by the Management Board. Additionally, the Finance function bears overall responsibility for the ICAAP, which is carried out in close cooperation with the Risk Management department.

Responsibility for the management of non-financial risk risks lies with NFPE's Chief Operating Officer. The Operational Risk Management function, which reports to the Head of Non-Financial Risk, has responsibility as a second line of defence. The Operational Risk Management function is a multidisciplinary, independent role which goes beyond that of traditional operational risk management and also covers the management of vendor, compliance, legal, IT and cyber risks.

### Monitoring, reporting and data integrity

Development, consolidation, control and reporting of risk management information ("risk MI") are fundamental to the appropriate management of risk. The aim of all risk MI is to provide a basis for sound decision-making, action and escalation as required. The departments are responsible for preparing regular risk MI, although most aspects of operational risk reporting are outsourced within the Group. This includes both regular reporting on the utilisation of the risk appetite and granular information on the risk situation. The risk MI encompasses information about all significant risk types and is regularly enhanced to accommodate current developments. The relevant departments are responsible for implementing appropriate reports and controls over data quality for the various elements of risk MI.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

## Adequacy of risk management

NFPE's Management Board is responsible for reviewing the adequacy of NFPE's risk management arrangements.

## Risk categories

### Market risk

Market risk is the risk of loss from fluctuations in the value of financial assets and liabilities (including off-balance sheet items) due to fluctuations in market risk factors, such as interest rates, foreign exchange rates, prices of securities. The Institution allocates its exposures to either trading portfolios or non-trading portfolios. The value at risk ("VaR") is determined daily for all trading book positions and compliance with the relevant limits is monitored.

As NFPE enters into back-to-back transactions with other Nomura Group subsidiaries to hedge against the market risk in client transactions, the Institution only retains market risks in the form of the credit valuation adjustment ("CVA") and the funding valuation adjustment ("FVA") alongside the hedging activities of the trading desks and market risks from treasury activities. These risks are managed by the trading desks in the Institution's books. No hedge accounting is performed.

*Risk assessment*

In June 2018, the Institution was granted provisional permission by BaFin to use the internal models approach in the calculation of regulatory capital requirements for market risk for value at risk ("VaR"), stressed VaR ("sVaR") and incremental risk charge ("IRC") for a number of trading positions during the "non-objection period". The regulatory VaR scope covers the general and specific risk of debt and equity instruments and currency risk. The standard rules for calculating the regulatory capital requirements for market risk are applied to trading positions which do not fall within the scope of the internal models approach. However, such positions are also captured in the VaR for internal management purposes.

Market risk is managed by market risk limits which are defined in accordance with the Nomura Group's market risk limit management system and NFPE's risk appetite. Market risk limits are set at various levels in NFPE, from institution level to trading desk level.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

*Value at risk*

VaR is a measure of the potential loss due to adverse movements of market factors, such as equity prices, interest rates, credit, foreign exchange rates and commodities with associated volatilities and correlations.

The Institution uses a VaR model that has been implemented group-wide to determine the total trading VaR. A historical simulation is implemented, where historical market moves over a two-year window are applied to the Institution's current exposure in order to construct a profit and loss distribution. Potential losses can be estimated at required confidence intervals or probabilities.

Depending on the posting system, product and risk factor, the profit and loss distribution is generated by way of a full revaluation using spot-volatility grids or methods based on sensitivities ("greeks"). The full revaluation method is applied to the primary risk factors of interest and credit products (interest rate and credit rating), whereas market value volatility grids are used for the primary risk factors of equity and currency products (spot price and stock market or exchange rate volatility). For some products (e.g., interest and currency hedges of equity derivative portfolios posted in the relevant share system) and for secondary risk factors of all products (e.g., currency risk for interest rate, credit and equity instruments), the sensitivities-based method is used (the relevant metrics are multiplied by appropriate historical yields).

The Institution uses a VaR model for both internal risk management purposes and for regulatory reporting. For regulatory capital, the Institution uses a confidence interval of 99% and a 10-day time horizon calculated using actual 10-day historical market moves. For internal risk management purposes, VaR is calculated at the same confidence interval using both the one-day and 10-day time horizon. sVaR is calculated using the 10-day time horizon in both cases. The one-year stress window used for sVaR for internal risk management purposes is defined at group level (NHI), whereas it is NFPE-specific for regulatory reporting.

The sVaR is calculated for a severe financial stress using a one-year time window. Both VaR and sVaR are based on a single model that diversifies general and specific risks. Both VaR and sVaR are calculated daily using 10-day historical market moves. The historical two-year window for VaR is updated at least every other business day, while the optimal one-year window for sVaR is calibrated daily. The stressed period used in the sVaR model maximises the sVaR over a rolling one-year window between the beginning of 2008 and the reporting date.

The Institution's VaR model is monitored continuously to ensure that it is fit for purpose. The main way of validating VaR is to compare one-day trading losses with the corresponding VaR estimate (backtesting). The Institution's VaR model is backtested at different levels. In the fiscal year ended 31 March 2021, one-day trading losses at institution level once exceeded the VaR estimated with a confidence interval of 99%. With this breach, the actual change in value was exceeded after a new transaction was entered into as part of the FVA Desk's hedging activities.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

VaR is a backward-looking measure: it implicitly assumes that distributions and correlations of recent factor moves are adequate to represent moves in the near future. Therefore it may understate the impact of severe events.

Given these limitations, Nomura uses VaR only as one component of a diverse risk management process.

The table below outlines the market risk situation at fiscal year-end showing a slight increase in market risk during the COVID-19 crisis.

| Market risk according to CoRep in EUR | 31 Mar 2021 | 31 Mar 2020 |
|---|---|---|
| 10-day VaR 99% | 730.835 | 789,717 |
| 10-day stressed VaR 99% | 1,343,644 | 2,148,999 |

*Incremental risk charge ("IRC")*

IRC is a measure of the potential loss from credit migration and default events on debt securities over a one-year time horizon and 99.9% confidence interval. The IRC is calculated in a Monte Carlo simulation of correlated migration and default events. A two-factor copula model is used which implies an inter-asset (cross-sectoral) correlation and an intra-asset (intra-sectoral) correlation. These correlations are calibrated to empirically observed default events. P&L from migration is computed by applying credit spread shocks based on initial and final credit rating, adjusted for basis risk by product, recovery and maturity. P&L from default is simulated including stochastic recovery, correlated with overall default rates. A key determinant of IRC on a position is the credit rating of the obligor, which is based on NHI's IRB Internal Rating system. The latter is based on the Nomura Group's Internal Rating system and is also used for the internal ratings-based approach at the Nomura Group and has been approved by the JFSA. The IRC scope covers all debt securities as approved by BaFin in the "non-objection phase". All positions in the IRC model are assumed to have a one-year liquidity horizon. At the end of the fiscal year, the IRC amounted to EUR 95,854 (prior year-end: EUR 108,482).

### Credit risk

Credit risk is the of loss arising from an obligor's default which results in the obligor's failure to meet its contractual obligations in accordance with agreed terms. This includes both on and off-balance sheet exposures. It is also the risk of loss arising through a credit valuation adjustment ("CVA") associated with deterioration in the creditworthiness of a counterparty. The Institution applies the Nomura Group's credit risk management policies for its credit risk management ("CRM"), with due consideration being given to specific local factors. The Institution's credit risk profile is shaped by counterparty credit risk as NFPE does not engage in traditional lending business. All credit risk management processes and methods described below refer to counterparty credit risk and not to lending business in the narrower sense.

The process for managing credit risk at the Institution includes:

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

Daily monitoring of credit exposure against approved credit limits and ongoing monitoring of the creditworthiness of counterparties take place. Any change in circumstance that alters the Institution's risk appetite for any particular counterparty, sector, industry or country is reflected in changes to the internal rating and credit limit as appropriate. Close monitoring of all borrowers was carried out during the COVID-19 crisis, but there are currently no indications of a significant deterioration in credit quality in the portfolio.

Internal ratings are an integral part of the assignment of credit limits to counterparties in order to ensure that the risk appetite is not exceeded. Global credit policies and NFPE-specific policies define the delegated authorities that establish the maximum aggregated limit amounts and granular limits that may be set for any single counterparty group based on their internal rating.

The Institution utilises financial instruments and netting agreements to manage credit risk. Given the potential for loss resulting from unsecured exposures, as a general rule, all extensions of credit by the Institution should be collateralised. However, in certain cases where there is sufficient risk appetite, an unsecured exposure may be approved by the relevant credit risk managers, albeit with the safeguard that local regulatory laws and regulations are complied with.

Legal agreements should ensure that margin agreements and collateral accepted from clients provide the best possible protection for the Institution. Any non-standard collateral that gets approved must also be reviewed by all relevant departments to ensure that the operational capability is in place to properly control the new collateral type, and that concentration, reuse and liquidity implications are understood. Concentrations of collateral by issuer, country and counterparty are monitored and reported to senior management. Haircuts are applied to collateral and set according to the volatility of the asset. Haircut levels are determined through quantitative and historical analysis.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

*Risk assessment*

As described above, counterparty credit risk relating to derivatives and securities financing transactions is the key determinant for the Institution's credit risk. As of 30 June 2020, the Institution was granted permission by BaFin to use the internal model method ("IMM") in combination with the standardised approach in the calculation of the counterparty credit risk requirements for certain derivative and securities financing transactions; previously this was only permitted during the "non-objection phase". In the calculation of risk-weighted exposure amounts under the standardised approach to credit and counterparty risk, the ratings of Fitch, Moody's and Standard and Poor's are used for all applicable exposure classes.

For derivatives and securities financing transactions, the Institution measures credit risk primarily by way of a Monte Carlo-based simulation model that determines a potential exposure profile.

In addition, during the non-objection phase, the Institution is using the advanced approach to calculate the capital requirements for credit valuation adjustment risk (CVA risk). This approach is based on both the IMM and the IMA models described above.

The following table gives an overview of the credit risk in accordance with the credit risk standardised approach for the various exposure classes as of 31 March 2021.

| Exposure class | RWA (in EUR k) 31 Mar 2021 | RWA (in EUR k) 31 Mar 2020 |
|---|---|---|
| **Credit risk** | **805,708** | **210,895** |
| **Credit risk standardised approach** | **804,882** | **210,227** |
| Central governments or central banks | 3,986 | 0 |
| Regional governments or local authorities | 0 | 0 |
| Administrative bodies and non-commercial undertakings | 0 | 0 |
| Multilateral development banks | 0 | 0 |
| International organisations | 0 | 0 |
| Institutions | 177,364 | 133,025 |
| Corporates | 618,809 | 71,395 |
| Retail | 0 | 0 |
| Secured by real estate property | 0 | 0 |
| Past due items | 0 | 0 |
| Items belonging to regulatory high-risk categories | 0 | 0 |
| Covered bonds | 0 | 0 |
| Securitisation positions | 0 | 0 |
| Short-term claims on institutions and corporates | 0 | 0 |
| Collective investment undertakings (CIU) | 0 | 0 |
| Equity | 0 | 0 |
| Other items | 4,723 | 5,807 |
| **Exposure value for contributions to the default fund of a CCP** | **826** | **668** |

*Wrong way risk*

Wrong way risk ("WWR") occurs when exposure to a counterparty is highly correlated with the deterioration of creditworthiness of that counterparty. The Nomura Group has established policies that govern the management of any WWR exposures, which also apply to the Institution. Stress testing is used to support the assessment of any WWR embedded within existing portfolios of NFPE and adjustments are made to credit exposures and regulatory capital, as appropriate.

WWR analysis is performed by the Risk Management department. The analysis is provided to assist the Management Board in determining whether the level of wrong way risk is a concern and action should be taken to reduce it.

*Concentrations of credit risks*

Concentrations of credit risks can arise from the Institution's trading in derivatives, the financing of securities and exposures to central counterparties and clearing houses and are affected by changes in political or economic factors. At the Institution, concentrations of credit risks typically occur with highly rated credit institutions and affiliates in the Nomura Group. Such concentrations are considered by the models for quantifying credit risk in the economic perspective of the ICAAP.

## Liquidity risk

***Liquidity risk management***

The Institution defines liquidity risk as the risk of failing to meet financial obligations as and when they become due. This risk can arise due to either idiosyncratic or market-driven negative events. The Institution's prime goal in liquidity risk management is to preserve liquidity at all times and in all stress scenarios and to ensure that the Institution is able to meet all financial obligations which fall due within the survival period defined by the Management Board.

The Institution's internal stress model quantifies the liquidity buffer necessary to survive the defined stress scenarios. The Institution manages liquidity risk independently using the internal stress model and regulatory ratios. The liquidity portfolio, which comprises highly liquid, unencumbered securities and central bank deposits, acts as a liquidity buffer and ensures that sufficient liquidity is available to satisfy the modelled requirements. Given the surplus liquidity from the injection of capital, NFPE's aggregate liquidity exposure was at all times higher than its risk appetite. Where possible, NFPE makes its surplus liquidity available to the Nomura Group in order to reduce the level of locked-in liquidity. The monthly ALCO makes all decisions relating to the liquidity buffer on the basis of medium and long-term forecasts.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

During this fiscal year, the liquidity requirement rose in line with the enlarged client base and the related increase in business volume, primarily in derivatives and securities trading.

In March 2020, when markets were highly volatile in response to the COVID-19 pandemic, the Institution decided to raise a loan of EUR 100m from NIP. This additional liquidity helped to fund the Institution's increased turnover from buying and selling securities.

The Institution anticipates that its liquidity requirements will be even higher in the coming fiscal year as, when the Brexit transition period ends in December 2020, more clients will migrate their portfolios to the Institution.

## Non-financial risk

NFPE is inevitably exposed to non-financial risks as a result of its business activities. The Management Board ensures that an adequate non-financial framework is in place to appropriately manage, minimise and prevent such risks.

Non-financial risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It excludes strategic risk (the risk of loss as a result of poor strategic business decisions), but includes the risk of breach of legal and regulatory requirements and causing damage to the Nomura Group's reputation if caused by an operational risk. The Institution applies the group-wide framework for non-financial risk management (NFRM) to manage non-financial risks.

*Three lines of defence*

The Nomura Group adopts the industry standard "Three Lines of Defence" for the management of non-financial risk, comprising the following elements:

- 1st line (divisions): Initiation and management of risks
- 2nd line (Operational Risk/Non-Financial Risk Management function): Definition of the framework and coordination of the Nomura Group's management of operational risk
- 3rd line (Internal Audit): In accordance with IDW Auditing Standard 340, this is an independent function with an independent and objective perspective on the entity which evaluates internal controls and the work of the first two lines of defence. It is also tasked with reporting to the Management Board and the oversight functions.

The non-financial framework encompasses

- A policy framework laying down rules for managing NFPE's non-financial risk categories and defining how compliance with these rules should be monitored
- Regular training aimed at raising employee awareness of non-financial risks and how they can be avoided

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

On the basis of the framework, the process for managing and monitoring the Institution's non-financial risk comprises:

- Event reporting to identify events which have or could have led to a loss or profit or other effect in conjunction with inadequate or failed internal processes, people and systems or external events
- Independent monitoring and challenging of the relevant activities, and cooperation with the business units to develop action plans to mitigate risks In this process
  - key risk indicators ("KRIs") are used to observe the entity's exposure to non-financial risks;
  - early warning metrics are used to assess the probability of a breach of the risk appetite;
  - and the metrics used are constantly reviewed to ensure that they are relevant and suitable for providing decision-makers with a comprehensive overview of the risk profile.
- Self-assessment of risks and controls (RCSA) to identify the inherent risks to which the entity is exposed, the controls in place to mitigate risks, and action plans to further reduce risk
- Calculating the operational risk capital in accordance with current regulatory and supervisory requirements
- Defining the appetite for the above non-financial risks to set quantitative and qualitative limits
- Analytical reporting to supervisory and control bodies

## Model risk

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

NFPE has adapted the Nomura Group's model risk management policy, which defines the requirements for model validation when implementing new or modified valuation and risk models, and for their regular review. Furthermore, a process has been established to monitor model performance in order to identify and evaluate specific events which suggest that a model is not functioning as it should or could be unsuitable and to identify which measures could be necessary to remedy any model deficiencies. For changes with an impact above a specific predefined materiality threshold, change approval is required. The Model Validation department defines these limits in a formal process and controls their application.

## Business risk

Business risk is the risk of failure of revenues to cover costs due to deterioration in the earnings environment or deterioration in the efficiency or effectiveness of the Institution's business operations. Managing business risk is the responsibility of NFPE's Management Board.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

RISKS (CONTINUED)

## Internal audit

NFPE Internal Audit is responsible for performing internal audit work at NFPE and its branches. This includes the risk-based and process-independent audit and assessment of the design and operating effectiveness of the risk management system in general and specifically the internal control system. It encompasses all activities and processes carried out by NFPE in performing its business activities, regardless of whether or not they have been outsourced. Internal Audit follows a global methodology and is guided by the standards issued by the Institute of Internal Auditors ("IIA") and Information Systems Audit and Control Association ("ISACA") and by the guidelines and recommendations of other relevant organisations such as the Basel Committee on Banking Supervision. Quality control tests are performed by a global team which is independent of the internal audit employees who are responsible for the audit to ensure that the audits by the Internal Audit function meet the requirements of the IA methodology and other applicable standards. An annual risk assessment is carried out which covers all activities of NFPE and its branches. The results are used to develop the internal audit plan which has to be approved by the NFPE Management Board and the Audit and Risk Committee.

The Nomura Group's Internal Audit function is responsible for auditing and assessing the design and operating effectiveness of internal control over all business and operational activities within the Group. The Global Head of Internal Audit is on the same independent reporting level as the Internal Controls Committee, the Chairman of the Audit Committee of Nomura Holdings, Inc., and the Global Head of Internal Audit in Tokyo. The Head of Global Wholesale Division Internal Audit is on the same independent reporting level as the Chairman of the Audit Committee of NEHS and also reports to the Global Head of Internal Audit. NFPE is fully covered by the activities of the Internal Audit function of the Nomura Group, to which a Frankfurt-based internal audit team belongs. The Head of NFPE Internal Audit reports to the local Management Board and the Supervisory Board of NFPE and also to the functional Head of Global Wholesale Division Internal Audit.

Audits are performed using a risk-based method. Key controls are determined and numerous techniques are employed to assess the appropriate design and operating effectiveness of the controls. These include identifying and observing, sample testing and, in some cases, substantive testing. NFPE Internal Audit reports in accordance with the requirements of Nomura's internal audit methodology. A full and a condensed audit report are prepared and made available to the Management Board, the Supervisory Board and the heads of the departments concerned. The status of open points is reviewed regularly and reported to the Management Board and the Supervisory Board, as well as to the department heads who are responsible for remedying the points in question. Since September 2020, Internal Audit has been carrying out work to test and confirm problematic points which have been resolved, according to management.

The Management Board has satisfied itself of the appropriateness and adequacy of Internal Audit's resources. A copy of the Internal Audit Charter is available on request.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

## FUTURE DEVELOPMENTS

### Regulatory changes

### European banking reforms

On 23 November 2016, the EU Commission published a comprehensive reform package aimed at strengthening the stability of the EU banking sector. The reforms implement many elements of Basel III in the EU. The EU Commission has made changes to the existing legislation in the form of the Capital Requirements Directive (CRD V) and the Capital Requirements Regulation (CRR II).

The new rules include more risk-sensitive capital requirements, especially for market and counterparty credit risks, and the introduction of a binding leverage ratio (LR) and a binding net stable funding ratio (NSFR).

The European Commission has already started work on CRR III and CRD VI to enforce new approaches for determining risk-weighted assets and thus for capital requirements for credit risk, operational risk and credit valuation adjustments in derivatives business.
An output floor for capital requirements applicable to institutions which calculate their risks using internal models will also be introduced.

On 5 December 2019, the new Regulation on the prudential requirements of investment firms ("IFR") and the Directive on the prudential supervision of investment firms ("IFD") were published in the Official Journal of the European Union.

They are designed to simplify the requirements for small investment firms by adapting them more closely to their risk profile. These new prudential requirements apply to entities which provide services under MiFID and which are neither banks nor fund companies and come into force mid-2021.

In light of these developments there is uncertainty as to which rules will apply to the Institution in the long term, especially in relation to the proportionality of the requirements given the size and extent of its activities.

The Institution also monitors all new and changed regulatory requirements in relation to environmental, social and governance (ESG) risks which are now featuring more prominently in many regulatory projects.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

## INDEMNIFICATION OF THE MANAGING DIRECTORS (NOT AUDITED BY THE AUDITOR)

On the date of this report and in the fiscal year in question, some of the managing directors of the Institution and of certain affiliates were indemnified to the extent permitted by law and in conformity with the Institution's articles of incorporation in relation to specific losses and liabilities arising under or in connection with the exercise of their powers, duties and responsibilities as managing directors. In addition, NHI has established a global directors' and officers' insurance scheme for the entire Nomura Group.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

MANAGEMENT REPORT (CONTINUED)

GOING CONCERN

The Institution's business activities and the factors which are likely to impact its future development, performance and position are specified in this report. Its objectives, policies and procedures for risk management and its exposure to credit and liquidity risk, its asset management procedures and available capital resources are also described in this report.

The Management Board expects that the Institution will be able to continue operating for the foreseeable future. The financial statements were therefore prepared on a going concern basis.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

## BALANCE SHEET AS OF 31 March 2021

| Assets | EUR | EUR | Mar 2021<br>EUR | Mar 2020<br>EUR |
|---|---|---|---|---|
| Cash reserve | | | 608,766,681 | 49,903,087 |
| a) Cash | | 1,131 | | 1,345 |
| b) Balances at central banks | | 608,765,550 | | 49,901,742 |
| *thereof at Deutsche Bundesbank* | *608,765,550* | | | *49,901,742* |
| Receivables from banks | | | 840,034,855 | 503,840,750 |
| a) Payable on demand | | 471,884,931 | | 455,433,071 |
| b) Other receivables | | 368,149,924 | | 48,407,679 |
| Receivables from customers | | | 12,630 | 1,150,000 |
| *thereof: secured by real property liens* | | | - | - |
| *Public-sector loans* | | | - | - |
| Trading assets | | | 8,866,645,585 | 540,918,821 |
| Property and equipment | | | 2,809,984 | 3,053,505 |
| Other assets | | | 15,211,593 | 10,453,383 |
| Prepaid expenses | | | 1,077,914 | 1,160,106 |
| **Total assets** | | | **10,334,559,243** | 1,110,479,652 |

## NOMURA FINANCIAL PRODUCTS EUROPE GmbH

## BALANCE SHEET AS OF 31 March 2021

| | | | Mar 2021 | Mar 2020 |
|---|---|---|---|---|
| **Liabilities and equity** | EUR | EUR | EUR | EUR |
| Liabilities to banks | | | 1,053,408,858 | 154,108,813 |
| a) Payable on demand | | 116,837,185 | | 53,871,911 |
| b) with an agreed term or period of notice | | 936,571,673 | | 100,236,902 |
| Liabilities to customers | | | 30,600,000 | 401 |
| d) Other liabilities | | | | |
| *thereof: payable on demand* | | 30,600,000 | | - |
| *with an agreed term or period of notice* | | - | | 401 |
| Trading liabilities | | | 8,619,056,434 | 371,700,892 |
| Other liabilities | | | 1,099,518 | 1,394,334 |
| Provisions | | | 67,735,586 | 55,602,524 |
| a) Provisions for pensions and similar obligations | | 17,525,129 | | 17,744,410 |
| b) Tax provisions | | 14,841,759 | | 8,160,682 |
| c) Other provisions | | 35,368,698 | | 29,697,432 |
| Fund for general banking risks | | | 2,743,114 | 365,504 |
| *Thereof: special item pursuant to Sec. 340e (4) HGB* | | | *2,743,114* | *365,504* |
| Equity | | | | |
| a) Subscribed capital | | | 50,000,000 | 50,000,000 |
| b) Capital reserves | | | 450,000,000 | 450,000,000 |
| c) Revenue reserves | | | 27,307,184 | 3,120,682 |
| d) Net retained profit | | | 32,608,549 | 24,186,502 |
| **Total equity** | | | 559,915,733 | 527,307,184 |
| **Total liabilities and equity** | | | 10,334,559,243 | 1,110,479,652 |
| **Contingent liabilities** | | | 7,655 | 7,655 |
| Guarantees | | 7,655 | | 7,655 |
| **Other obligations** | | | | - |
| Irrevocable loan commitments | | | 51,728,265 | - |

## NOMURA FINANCIAL PRODUCTS EUROPE GmbH

## INCOME STATEMENT FOR FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

| | | | April 2020 to March 2021 | | 2019 to 2020 |
|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR |
| Interest income from | | | | | |
| a) Lending and money market business | 6,279 | | | | 33,729 |
| less negative interest from lending and money market business | -1,650,039 | | | | -926,931 |
| | | -1,643,760 | | | -893,652 |
| b) Fixed-income securities and government-inscribed debt | 1,668,314 | | | | 530,840 |
| *less negative interest on securities and government-inscribed debt* | *-2,163,814* | | | | *-880,576* |
| | | -495,500 | | | -349,736 |
| Total interest income | | | -2,139,261 | | -1,242,938 |
| | | | | | |
| Interest expenses from | | | | | |
| a) fixed-income securities and government-inscribed debt | | 4,308,214 | | | 819,856 |
| *less negative interest on fixed-income securities and government-inscribed debt* | | *-200* | | | *-2,754* |
| Total interest expenses | | | 4,308,014 | | 817,102 |
| | | | | | |
| Net interest income/expenses | | | | -6,447,274 | -2,060,040 |
| | | | | | |
| Commission income | | | | 103,700,525 | 91,364,005 |
| | | | | | |
| Net income from trading book positions | | | | 21,398,493 | 3,289,533 |
| | | | | | |
| Other operating income | | | | 24,862,052 | 23,820,493 |
| | | | | | |
| General and administrative expenses | | | | 89,385,100 | 81,231,703 |
| a) Personnel expenses | | | 63,317,397 | | 53,281,633 |
| aa) Wages and salaries | | 51,436,734 | | | 43,255,033 |
| bb) Social security, pension and other benefit costs | | 11,880,663 | | | 10,026,600 |
| thereof: for old-age pensions | 1,299,167 | | | | |
| b) Other administrative expenses | | | 26,067,702 | | 27,950,070 |
| Amortisation, depreciation and impairment of intangible assets and property and equipment | | | | 581,954 | 562,173 |
| Other operating expenses | | | | 3,633,669 | 28,656 |

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

## INCOME STATEMENT FOR FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

| | | | April 2020 to March 2021 | 2019 to 2020 |
|---|---|---|---|---|
| | EUR | EUR | EUR | EUR |
| **Result from ordinary activities** | | | **49,913,074** | **34,591,460** |
| Income taxes | | | 15,744,860 | 9,675,533 |
| Other taxes not shown under operating expenses | | | 1,559,666 | 729,425 |
| **Net income for the year** | | | **32,608,549** | **24,186,502** |
| Profit/loss carryforward from the prior year | | | 24,186,502 | 3,120,682 |
| Allocations to the revenue reserves | | | | |
| d) To other revenue reserves | | | 24,186,502 | 3,120,682 |
| **Net retained profit/accumulated loss** | | | **32,608,549** | **24,186,502** |

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

# NOTES TO THE FINANCIAL STATEMENTS

## 1. BASIS OF ACCOUNTING

Nomura Financial Products Europe GmbH, having its registered office in Frankfurt am Main, is registered in the commercial register of Frankfurt am Main Local Court under HRB no. 110223. The financial statements as of 31 March 2021 were prepared in accordance with the provisions set out in the HGB ["Handelsgesetzbuch": German Commercial Code], the RechKredV ["Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute": German Bank Accounting Directive] and the GmbHG ["Gesetz betreffend die Gesellschaften mit beschränkter Haftung": German Limited Liability Companies Act].

Due to the expansion of the operating business after Brexit described in the management report, some balance sheet and income statement figures changed significantly on the prior year. This must be taken into account with regard to the comparative figures.

## 2. ACCOUNTING POLICIES

### Cash reserve

The cash reserve is carried at nominal value.

### Receivables from banks

Loans and deposits are valued at amortised cost less impairment.

### Unlisted debt securities

Bonds and other fixed-income securities held in the liquidity portfolio and not held for trading are valued individually at the lower of amortised cost or market (lower of cost or market principle).

Bonds and other fixed-income securities held in the investment portfolio and not held for trading are carried at amortised cost less impairment losses if permanent (modified lower of cost or market principle). This is an accounting election to recognise impairment losses if the impairment is temporary.

The Institution's policy is to recognise purchases of debt securities as of the settlement date. Consequently, trading with debt instruments can give rise to holdings as of the reporting date due to the difference in settlement times between purchase and sale.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Trading book

All financial instruments classified as held for trading, including derivatives, loans, debt instruments and equity instruments, are recognised at fair value through profit or loss less the risk discount in accordance with Sec. 340e (3) HGB. Upon first-time recognition, the Institution classifies its financial assets according to the purpose for which the financial instruments were acquired and their features. The financial instruments of the trading book are valued at their fair value plus deferred interest.

### Fair value of financial instruments

The fair value is the market price. If there is no active market on which to determine the market price, the fair value is determined using generally accepted valuation methods.

Trading assets are generally valued at the (lower) bid price and trading liabilities at the (higher) ask price. However, for convenience, valuations at average rates are also permitted. It the valuation is performed at average rates, an adjustment of the fair value between offer and demand is made for significant back-to-back cash positions.

Valuation models take into account contractual terms, position size, prices of underlying assets, interest rates, dividend rates, fair value, volatility and other statistical metrics for the instruments in question or for instruments with similar features. These models also include adjustments with regard to the credit risk of counterparties and the Institution's own credit risk, administrative expenses for the servicing of future cash flows and market liquidity adjustments. These adjustments are key components of the process used to determine fair value. The valuation method applied maximises the use of market data and minimises the use of institution-specific data not observable on the market.

Valuation models and their underlying assumptions influence the amount and timing of the unrealised profits and losses recorded. The use of different valuation models or underlying assumptions could lead to different results. The Institution's fair value estimates or valuation parameters entail a greater measure of subjectivity if they lack transparent market data.

## 2. ACCOUNTING POLICIES (CONTINUED)

For OTC derivatives held in the trading portfolio, the counterparty credit risk is managed by taking into account credit valuation adjustments (CVAs), while Nomura's non-performance risk is covered by taking into account debt value adjustments (DVAs). In case of a funding valuation adjustment (FVA), the refinancing costs or benefits of unsecured derivatives and partly secured derivatives, which are only covered by a partial hedge or the hedge cannot be used for refinancing purposes, are accounted for at fair value. The FVA takes into account the Nomura Group's funding risk. To determine fair value, CVAs, DVAs and FVAs are based on available observable market data (e.g., credit default swap spreads). NFPE's own credit spread is also used for liabilities in the trading portfolio. Changes in fair value in the trading portfolio are netted and disclosed in the net trading result. Fair value adjustments due to changes in NFPE's own creditworthiness are also recognised in the income statement.

NFPE nets positive and negative fair values of trading book derivatives and the related margin payments (cash collateral) of OTC derivatives, both with central counterparties and with non-central counterparties. Netting with non-central counterparties may be performed if an agreement with an enforceable credit support annex (CSA) is in place, cash collateral is exchanged on a daily basis and therefore no material residual credit or liquidity risk remains. In a first step, the Bank offsets positive fair values from derivative financial instruments with negative fair values. In a second step, compensation payments received, the repayment obligations of which are recognised in liabilities to banks, are offset against positive fair values from derivative financial instruments. Moreover, security payments with refund claims recognised in loans and advances to banks are netted with the negative fair values from derivative financial instruments. The amounts derived from netting compensation payments with fair values in this way are recognised in trading assets or liabilities as a net figure.

Repo transactions in the trading book are measured at fair value. Receivables and liabilities from and to customers under repo and reverse repo agreements are recognised as gross amounts. Borrowed or loaned securities are not recognised in NFPE's balance sheet, since they are not economically attributable to the Institution.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Risk discount

The risk discount for held-for-trading financial instruments measured at fair value is recognised as of each reporting date on the basis of the internal value at risk method (VaR) used for internal risk management.

The calculation is based on

- a 99% confidence level;
- a 10-day holding period and
- a minimum observation period of one year.

The adjustments are recognised in the income statement as a reduction of trading profit and as a single amount in an offsetting item for the higher amount of trading assets or trading liabilities.

Property and equipment and intangible assets

Property and equipment held for use are valued at amortised cost less depreciation. Property and equipment are depreciated straight line over their estimated useful lives, generally on the basis of the depreciation tables published by the tax authorities. Low-value assets with an individual net value not exceeding EUR 800 are fully expensed in the year of acquisition.

Specific bad debt allowances are recognised if there are indications that the asset may be impaired. The impairment loss of an individual asset is the difference between the book value of an asset and the lower of its replacement cost or market value. If the difference is considered to be permanent, the impairment loss is recognised in the income statement.

Purchased intangible assets are valued at amortised cost less accumulated amortisation. Intangible assets are amortised straight line over their estimated useful lives down to their estimated residual value.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Other assets

Other assets are stated at nominal value. Interest-based financial instruments not held in the trading book are checked cumulatively using an approach based on the net present value for surplus liabilities on an annual basis. This valuation within the meaning of of IDW AcP BFA 3 did not indicate any need to recognise a provision for potential losses. Banking book derivatives were not included in this valuation.

Liabilities to banks

Liabilities are recognised at their settlement value plus accrued interest and only derecognised if they are repaid, i.e., when the contractually specified obligations have been discharged or cancelled or have expired.

Other liabilities

Other liabilities are stated at their settlement value.

Provisions

Provisions are only recognised if they meet all of the following criteria:

- There is an existing or likely present obligation to third parties
- The obligation is based on legal or contractual provisions
- The cash outflow from the obligation is predictable (i.e., reasonably certain)
- The cash outflow cannot be recognised as an asset
- Recognising a provision is not prohibited

Unrealised losses from financial derivative items in the banking book are recognised under other provisions.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

Equity

Equity is stated at nominal value.

Other

Intragroup sales credits from trades with NFPE customers are recognised as trading income. Sales credits in connection with NFPE's investment banking activities and in connection with NFPE's trading activities with Nomura Group customers are recognised under commission income.

Fund for general banking risks

An allocation in accordance with Sec. 340e (4) HGB was required in the reporting year. This was performed at the expense of the net income from trading book positions and increases the item fund for general banking risk.

Contingent liabilities/irrevocable loan commitments

Contingent off-balance sheet liabilities and irrevocable loan commitments are disclosed at nominal value. The irrevocable loan commitments relate to new reverse repo transactions concluded as of the reporting date due to start after the reporting date.

Foreign currencies

All foreign currency transactions are initially valued in EUR at the actual exchange rate on the transaction date, with the income or expense item being recognised either at the actual rate or the average rate.

Property and equipment and intangible assets are subsequently revalued at historical rates, while other items are revalued at the current mean market closing rate as of the reporting date.

Held-for-trading financial instruments which are measured at fair value are revalued at the current mean market closing rate.

Exchange gains and losses from the revaluation of non-trading balances at the mean spot rate are recognised separately as part of other income or other expenses.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. Foreign currency translation

Amounts in foreign currencies are translated in accordance with the provisions of Sec. 256a HGB. Assets and liabilities as well as income and expenses denominated in foreign currency are translated as of the reporting date at the exchange rates used by the Group. The resulting gains and losses are recognised in the income statement.

Assets and liabilities denominated in foreign currency:

| | 31 Mar 2021<br>EUR k | 31 Mar 2020<br>EUR k |
|---|---|---|
| - Assets | 1,094,825 | 165,011 |
| - Liabilities | 1,431,646 | 162,111 |

### 4. Maturity profile

| | 31 Mar 2021<br>EUR k | 31 Mar 2020<br>EUR k |
|---|---|---|
| **Receivables from banks due in** | | |
| - payable on demand | 471,885 | 455,433 |
| - up to 3 months | 368,150 | 48,408 |
| - more than 3 months up to 1 year | - | - |
| **Receivables from customers due in** | | |
| - payable on demand | - | 1,150 |
| - up to 3 months | 13 | - |
| - more than 3 months up to 1 year | - | - |
| - more than 1 year up to 5 years | - | - |
| - more than 5 years | - | - |

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Maturity profile (continued)

| | 31 Mar 2021<br>EUR k | 31 Mar 2020<br>EUR k |
|---|---|---|
| **Liabilities to banks due in** | | |
| - payable on demand | 116,837 | 53,872 |
| - up to 3 months | 936,572 | 100,237 |
| - more than 3 months up to 1 year | - | - |
| **Liabilities to customers with an agreed term or period of notice of** | | |
| - payable on demand | 30,600 | - |
| - up to 3 months | - | 0 |
| - more than 3 months up to 1 year | - | - |
| - more than 1 year up to 5 years | - | - |
| - more than 5 years | - | - |

5. Relationships with other Nomura Group companies

| | 31 Mar 2021<br>EUR k | 31 Mar 2020<br>EUR k |
|---|---|---|
| - Bank loans and deposits | 578,389 | 377,946 |
| - Loans and advances to customers | - | - |
| - Liabilities to banks | 948,280 | 129,667 |
| - Liabilities to customers | - | - |

NFPE has loans and deposits at banks within the Nomura Group, mainly relating to the reverse repo balance with Nomura International Plc (NIP) of EUR 388,213k for the management of the liquidity pool and cash collateral of EUR 122,081k for derivative trading transactions.

In addition, this item also includes EUR 40,836k for invoices issued to Nomura Group companies.

The amounts from reverse repo transactions with Nomura International plc, London, relate to treasury activities and trading activities and constitute loans to managers, etc. The market conformity checks performed for these transactions did not give rise to any indications of conditions that were not in line with the market.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NFPE has liabilities to banks at group companies in the UK and Japan, **which are recognised in** liabilities to banks. They mainly include unsecured loans raised from NIP of EUR 900,000k and cash collateral of EUR 31,574k received from NFPS, which has its registered office in Tokyo.

## 6. Receivables from banks

The balance of receivables from banks mainly comprises intragroup reverse repo transactions (EUR 400,135k), cash collateral paid for currency contracts not suitable for offsetting against the negative fair value of trading derivatives (EUR 226,434k) and various receivables from customers in the banking sector (EUR 138,460k).

## 7. Trading book positions

As of 31 March 2021, the trading book mainly contains trading activities of the Global Markets division as part of derivatives and repurchase transactions (repos and reverse repos) with customers in the EU and corresponding transactions with companies of the Nomura Group with a view to transferring market risk using the back-to-back model. The market risk is transferred to companies belonging to the Nomura Group on the basis of back-to-back transactions. As a result, the trading activities do not contribute significantly to the income of NFPE. NFPE mainly generates income from sales credits from Global Markets. Spot bond positions at the end of the year result from time differences between purchase and sale at settlement.

The financial instruments in the trading book break down as follows:

| | Mar 2021 | | Mar 2020 | |
|---|---|---|---|---|
| | Trading assets | Trading liabilities | Trading assets | Trading liabilities |
| | EUR k | EUR k | EUR k | EUR k |
| Financial derivatives | 93,882 | 57,364 | 68,716 | 78,664 |
| Reverse repos/repos | 8,697,738 | 8,556,426 | 375,674 | 285,284 |
| Spot bond positions | 75,742 | 5,266 | 96,792 | 7,752 |
| Risk discount | -716 | - | -263 | - |
| | 8,866,646 | 8,619,056 | 540,919 | 371,701 |

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 7. Trading book (continued)

Breakdown of financial instrument maturities by product as of the end of March 2021:

| | Derivative assets EUR k | Derivative liabilities EUR k | Nominal value EUR k |
|---|---|---|---|
| Interest rate swaps maturing in | | | |
| - less than one year | 52,944 | 52,929 | 75,735,931 |
| - more than one year up to five years | 270,723 | 270,772 | 57,728,379 |
| - more than five years | 1,798,029 | 1,796,720 | 96,084,529 |
| Currency products maturing in | | | |
| - less than one year | 363,653 | 363,680 | 51,499,406 |
| - more than one year up to five years | 7,866 | 7,853 | 474,711 |
| - more than five years | 24,173 | 23,289 | 678,784 |
| Credit default swaps and other instruments maturing in | | | |
| - less than one year | 15,399 | 14,361 | 3,271,167 |
| - more than one year up to five years | 65,250 | 66,326 | 10,052,872 |
| - more than five years | 472,014 | 480,789 | 22,870,994 |
| Equity derivatives and other options due in | | | |
| - less than one year | 2,465 | 2,470 | 44,296 |
| - more than one year up to five years | 1,511 | 1,511 | 29,431 |
| - more than five years | 277 | 277 | 9,402 |
| Total | **3,074,305** | **3,080,978** | **318,479,902** |
| Bilateral and variation margin netting | -2,980,423 | -3,023,614 | - |
| | **93,882** | **57,364** | **318,479,902** |

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Breakdown of financial instrument maturities by product as of the end of March 2020:

| | Derivative assets | Derivative liabilities | Nominal value |
|---|---|---|---|
| | EUR k | EUR k | EUR k |
| Interest rate swaps maturing in | | | |
| - less than one year | 18,625 | 18,625 | 13,941,502 |
| - more than one year up to five years | 104,577 | 104,589 | 19,661,326 |
| - more than five years | 468,101 | 468,704 | 24,116,314 |
| Currency products maturing in | | | |
| - less than one year | 35,859 | 35,863 | 3,501,228 |
| - more than one year up to five years | 3,928 | 3,948 | 390,668 |
| - more than five years | - | - | - |
| Credit default swaps and other instruments maturing in | | | |
| - less than one year | 18,154 | 17,916 | 4,940,332 |
| - more than one year up to five years | 43,700 | 44,103 | 1,655,088 |
| - more than five years | 356,712 | 358,719 | 13,083,955 |
| Equity derivatives and other options due in | | | |
| - less than one year | 6,616 | 6,616 | 146,901 |
| Total | **1,056,272** | **1,059,082** | **81,437,314** |
| Bilateral and variation margin netting | (987,557) | (980,418) | - |
| | **68,716** | **78,664** | **81,437,314** |

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 8. Property and equipment

Property and equipment are used by the headquarters and its branches.

| | Assets under construction | Furniture, fixtures and office equipment | Total |
|---|---|---|---|
| **Acquisition and production cost** | EUR k | EUR k | EUR k |
| As of 1 April 2020 | | 3,915 | 3,915 |
| Additions | 4 | 338 | 342 |
| Disposals | 4 | 7 | 11 |
| Reclassifications | | | |
| As of 31 March 2021 | | 4,246 | 4,246 |
| **Depreciation and impairment** | | | |
| As of 1 April 2020 | | 862 | 862 |
| Additions | | 582 | 582 |
| Disposals | | 7 | 7 |
| Reclassifications | | | |
| As of 31 March 2021 | | 1,436 | 1,436 |
| **Book values** | | | |
| As of 31 March 2020 | | 3,054 | 3,054 |
| As of 31 March 2021 | | 2,810 | 2,810 |

## 9. Other assets

Other assets mainly comprise tax prepayments of EUR 8,316k and amounts from employer's pension liability insurance of EUR 5,613k.

## 10. Liabilities to banks

Liabilities to banks mainly relate to intragroup loans of EUR 900,000k (prior year: EUR 100,000k) and debit balances on bank accounts of EUR 68,300k (prior year: EUR 0k), as well as cash collateral received for derivative transactions of EUR 69,042k (prior year: EUR 53,872k).

### 11. Liabilities to customers

Liabilities to customers result from cash collateral received for derivative transactions.

### 12. Other liabilities

Other liabilities mainly comprise short-term payment obligations from taxes and to suppliers and employees.

### 13. Provisions for pensions and similar obligations

Pension obligations were valued according to actuarial principles using the projected unit credit method (PUC method). The provision amount factored in assumptions regarding the future benefit entitlements and pension increases as well as turnover probabilities. The assumptions used in the valuation were as follows:

| | Assumptions |
|---|---|
| Actuarial interest rate p.a. | 2.19% p.a. |
| Salary trend p.a. | 1.50% p.a. |
| Increase in the income threshold p.a. | 2.20% p.a. |
| Increase in pensions p.a.: | 1.50% p.a. |

Mortality tables used: Heubeck mortality tables (2018 G)

Turnover probabilities based on age and sex were used to account for employee turnover.

The difference in accordance with Sec. 253 (6) HGB based on an average interest rate of 1.51% over seven years amounts to EUR 3,025k.

### 14. Other provisions

Other provisions of EUR 35,369k (prior year: EUR 29,697k) mainly comprise provisions for services and deliveries of EUR 19,257k (prior year: EUR 17,964k), for outstanding bonus payments of EUR 13,700k (prior year: EUR 10,149k) and financial statement audit costs of EUR 1,300k (prior year: EUR 1,100k).

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 15. Equity

NEHS holds 47,541,970 shares carrying equal rights and NIP holds 2,458,030 shares also carrying equal rights in the capital stock of the Institution, which has the legal form of a German limited liability company ["Gesellschaft mit beschränkter Haftung": GmbH]. Its capital stock of EUR 50,000,000 is divided into 50,000,000 shares.

| | 2021<br>Subscribed capital<br>EUR k | 2020<br>Subscribed capital<br>EUR k |
|---|---|---|
| As of 1 April | 50,000 | 50,000 |
| Issued in the course of the year: | - | - |
| As of 31 March | 50,000 | 50,000 |

## 16. Net interest income/expense

The Institution's interest result mainly relates to negative interest expenses from deposits with Deutsche Bundesbank, money market deposits, treasury activities in the form of intragroup bond and repo transactions as well as interest on cash collateral for derivatives. The Institution has a range of negative-interest bearing financial assets and liabilities. Negative interest on financial assets is recognised separately under interest income and negative interest on financial liabilities is recognised separately under interest expenses.

| | 2020/2021<br>EUR k | 2019/2020<br>EUR k |
|---|---|---|
| Interest on deposits at Deutsche Bundesbank | -1,136 | -237 |
| Interest on money market deposits | -548 | -340 |
| Interest on intragroup loans | -2,138 | -677 |
| Interest on receivables from reverse repo transactions | -2,127 | -657 |
| Interest on collateral provided for CCPs for derivative transactions | -499 | -150 |
| Total | -6,447 | -2,060 |

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 17. Commission income

Commission income comprises the income component of the Nomura Group's Investment Banking division of EUR 48,615k and income from the Global Market division's sales activities which leads to the conclusion of transactions with other companies belonging to the Nomura Group of EUR 55,086k. Commission income from global market and investment banking is calculated using the Nomura Group's global transfer pricing agreements.

## 18. Net income/net expense from trading book positions

Net income from trading book positions includes commission income from trading activities with clients and exchange gains and losses from transactions to manage the CVA/FVA risks. This item also includes the VaR discount and allocation to the special item through profit and loss in accordance with Sec. 340e (4) HGB. In the course of the year, 10% of trading income (EUR 2,378k; prior year: EUR 366k) was allocated to the fund for general banking risks.
Also included in net income from trading book positions is the recognition and reversal of reserves in the balance sheet for XVA risks.

## 19. Other operating income

This item mainly includes cost refunds including financing costs under a cost allocation arrangement with NIP, a UK affiliate, of EUR 23,063k (prior year: EUR 23,820k).

## 20. General and administrative expenses

Personnel expenses mainly comprise wages and salaries of EUR 63,317k (prior year: EUR 43,255k) for employees working at the head office and branches as well as social security and pension costs of EUR 11,881k (prior year: EUR 10,027k). Other administrative expenses of EUR 26,068k (prior year: EUR 27,950k) largely relate to fees under service level agreements with NIP and other agreements, market data services, rent and travel expenses.

## 21. Other operating expenses

In the fiscal year, other operating expenses came to EUR 3,634k (prior year: EUR 29k) and largely include realised losses from financial derivatives positions in the non-trading book of EUR 3,216k.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 22. Income taxes

| | Fiscal year 2020/2021<br>EUR k | Fiscal year 2019/2020<br>EUR k |
|---|---|---|
| Corporate income tax | 15,045 | 8,965 |
| Trade tax | 665 | 677 |
| Solidarity surcharge | 34 | 34 |
| Tax on investment income | - | - |
| **Total** | 15,745 | 9,676 |

## 23. Auditor's fees

The auditor's fees recognised as of 31 March 2021 break down as follows:

| | Fiscal year 2020/2021<br>EUR k | Fiscal year 2019/2020<br>EUR k |
|---|---|---|
| Audit services | 1,300 | 1,100 |
| Audit-related services | 130 | 130 |
| Tax services | - | - |
| Other services | - | - |

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 24. Appropriation of profit/loss

A resolution was proposed to allocate a share of EUR 32,608,549 of the net income for fiscal year 2020/2021 to the profit reserves and carry forward the remaining amount of EUR 15,733 to new account.

No interim dividends were distributed and the Management Board recommended that no final dividend be paid for the fiscal year ending 31 March 2021.

## 25. Employees, Management Board and Supervisory Board

There were an average of 196 employees (prior year: 184). At the end of the fiscal year, the Bank had 215 employees (prior year: 190 employees) working in the following areas:

| | Fiscal year as of 31 Mar 2021 | Fiscal year as of 31 Mar 2020 |
|---|---|---|
| Investment Banking | 59 | 56 |
| Global Markets | 56 | 37 |
| Administration | 100 | 97 |
| **Total** | **215** | **190** |

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 25. Employees, Management Board and Supervisory Board (CONTINUED)

During the fiscal year and at the time of preparing the financial statements, the Management Board was composed of the following persons:

| Name | Function | Further activities |
|---|---|---|
| Hirofumi Misawa | Chief Executive Officer | Senior Managing Director of Nomura Holdings Inc.<br>Member of the Board of Directors of Nomura Financial Products & Services, Inc. |
| Markus Möbius | Chief Risk Officer | Non-Executive Director:<br>Nomura Reinsurance ICC Limited<br>Nomura Reinsurance 1 IC Limited<br>Nomura Reinsurance 3 IC Limited<br>Nomura Reinsurance 5 IC Limited<br>Nomura 6 IC Limited<br>Nomura 7 IC Limited<br>US CB Reinsurance 1 IC Limited |
| Markus Sauerland | Chief Operating Officer | Supervisory Board member of suchdialog AG<br>Member of the Board, Nomura Saudi Arabia<br>British Chamber of Commerce, Member of the Regional Committee Rhein Main<br>Member of the Hesse state government's Advisory Board for Development Policy |
| Michael Schmelzer | Chief Financial Officer | - |
| Shogo Ohira (since 1 April 2021) | Chief Client Management Officer | - |

The remuneration paid to the members of the Institution's Management Board in the course of the year came to EUR 1,664k (prior year: EUR 2,124k). In the reporting year, pension commitments of EUR 146k were added (prior year: EUR 309k).

None of NFPE's other employees performed any supervisory board work in another organisation in the reporting period.

NOMURA FINANCIAL PRODUCTS EUROPE GmbH

FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 25. Employees, Management Board and Supervisory Board (CONTINUED)

During the fiscal year and at the time of preparing the balance sheet, the Supervisory Board was composed of the following persons:

| Supervisory Board members | Further activities | Function |
|---|---|---|
| **Paul Spanswick (Chairman)** | Instinet Europe Limited | Non-Executive Director |
| | Instinet International Limited | Non-Executive Director |
| | Nomura Reinsurance IC Limited | Non-Executive Director |
| | Teenage Cancer Trust | Non-Executive Director |
| | The Teenage Trust (Trading) Limited | Non-Executive Director |
| | Levrara Consulting Group | Chair/Non-Executive Director |
| | Lineten Ltd | Non-Executive Director |
| **Toru Otsuka** | Nomura Holdings Inc. | Executive Managing Director |
| | Nomura Securities Co., Ltd. | Senior Corporate Managing Director |
| **Neeta Atkar** | Nomura Europe Holdings plc | Non Executive Director |
| | Nomura Bank International plc | Non-Executive Director |
| | Nomura International Plc | Non Executive Director |
| | Yorkshire Building Society Group | Non Executive Director |
| | National Skills Academy for Financial Services | Trustee |
| | British Business Finance Limited | Non Executive Director |
| | British Business Financial Services Ltd | Non Executive Director |
| | British Business Bank Plc | Non Executive Director |
| **Marija Korsch** | Aareal Bank AG | Supervisory Board |
| | Just Software AG | Supervisory Board |
| | Instone Real Estate Group AG | Supervisory Board |

The remuneration paid to the members of the Institution's Supervisory Board in the course of the year came to EUR 235,000 (including VAT) (prior year: EUR 200,000). No pension commitments were made to the members of the Supervisory Board.

## 26. Subsequent events

On 18 June 2021, a long-term subordinated loan of EUR 185m was concluded with the group parent Nomura Europe Holdings plc. On the same date, EUR 40m was contributed to the Institution's capital reserves in accordance with Sec. 272 (2) No. 4 HGB.

No further significant events that would have an impact on the Institution's assets, liabilities, financial performance and financial position occurred after the close of the fiscal year. The ongoing dynamic developments in the COVID-19 pandemic did not change the assumptions underlying these financial statements.

# NOMURA FINANCIAL PRODUCTS EUROPE GmbH

# FISCAL YEAR FROM 1 APRIL 2020 TO 31 MARCH 2021

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 27. Intercompany relationships

The ultimate parent company and controlling party that controls the largest group of companies for which consolidated financial statements are prepared is NHI, which is registered in Japan. A copy of the consolidated financial statements of Nomura Holdings, Inc. is available from 9-1, Nihonbashi 1-Chome, Chuo-ku, Tokyo 103-8645, Japan.

The parent company which controls the smallest group of companies is NEHS, having its registered office at 1 Angel Lane in London, EC4R 3AB, UK.

Frankfurt am Main, 23 July 2021

Nomura Financial Products Europe GmbH

The Managing Directors

Hirofumi Misawa

Shogo Ohira

Markus Moebius

Markus Sauerland

Michael Schmelzer

NOMURA

# Independent auditor's report

To Nomura Financial Products Europe GmbH, Frankfurt am Main

## Opinions

We have audited the annual financial statements of Nomura Financial Products Europe GmbH, Frankfurt am Main, which comprise the balance sheet as at 31 March 2021, and the income statement for the fiscal year from 1 April 2020 to 31 March 2021 (fiscal year 2020/2021), and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Nomura Financial Products Europe GmbH for the fiscal year from 1 April 2020 to 31 March 2021. In accordance with the German legal requirements, we have not audited the section "INDEMNIFICATION OF THE MANAGING DIRECTORS" of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Institution as at 31 March 2021 and of its financial performance for the fiscal year from 1 April 2020 to 31 March 2021 in compliance with German legally required accounting principles, and

- the accompanying management report as a whole provides an appropriate view of the Institution's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the section referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB ["Handelsgesetzbuch": German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Institution in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Other information

The Supervisory Board and the executive directors are responsible for the other information. The other information comprises the section "INDEMNIFICATION OF THE MANAGING DIRECTORS".

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the Supervisory Board for the annual financial statements and the management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Institution's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Institution's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Institution's financial reporting process for the preparation of the annual financial statements and of the management report.

**Auditor's responsibilities for the audit of the annual financial statements and of the management report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Institution's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution.

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

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

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Institution's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Frankfurt am Main, 26 July 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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| Müller-Tronnier | Kujath |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
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