# Nomura Bank International plc
# Annual Report

31 March 2008

COMPANY REGISTERED NUMBER 1981122

# NOMURA BANK INTERNATIONAL PLC

## BOARD OF DIRECTORS

| | |
|---|---|
| David Young* | – Non Executive Director and Chairman |
| Antonio Pironti* | – Non Executive Director |
| Sir Peter Walters* | – Non Executive Director |
| Kenji Yokoyama* | – President and Chief Executive Officer |
| Mark Basten | – Director |
| Mark R.Chapman | – Director |
| Paul Spanswick* | – Director |
| Hiroshi Yoshizawa | – Director |

* Member of the Audit Committee of the Board

# NOMURA BANK INTERNATIONAL PLC

## YEAR ENDED 31 MARCH 2008
## DIRECTORS' REPORT

The Directors present their report and the financial statements of Nomura Bank International plc (the "Bank", or "Company") for the year ended 31 March 2008.

### PRINCIPAL ACTIVITIES

The Bank's primary role is to support the Nomura Group's Global Wholesale Business. The principal activities identified under this strategy include:

- Issuance of guaranteed credit and equity linked notes and certificates;
- Provision of sub-participations and structured loans (including bridge and warehouse financing);
- Purchase of structured credit assets and structured loans;
- Traditional banking products such as credit facilities in major currencies, letters of credit and guarantees;
- Taking deposits (including foreign exchange and other reference linked deposits).

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

During the year the Bank continued to grow its note issuance and loan businesses and focussed on those transactions that add value to both the Nomura Group and its clients.

The Bank's key financial performance indicators during the year were as follows:

| | **Year ended 31 March 2008 £'000** | **Year ended 31 March 2007 £'000** | **Change %** |
|---|---|---|---|
| Operating Income | 73,148 | 9,884 | 640% |
| Profit on ordinary activities before taxation | 70,446 | 8,043 | 776% |
| Profit on ordinary activities after taxation | 54,204 | 5,589 | 870% |
| Shareholders' funds | 276,533 | 222,329 | 24% |

The Bank reported a profit on ordinary activities before tax for the period of £70,446,000 (2007: £8,043,000). The significant increase in profitability is attributable to the impact of widening credit spreads on the Bank's note issuance business. As the Bank's own credit is included in the fair value of the notes issued, the deterioration of the credit market during the year ended 31 March 2008 has impacted the valuation of the Bank's financial liabilities. As credit spreads widened the balance sheet value of notes issued has reduced and profits have increased. The impact of own credit included in profit on ordinary activities before tax of £51,000,000 will unwind as the notes reach maturity or at early redemption.

On 1 January 2008 the Bank adopted the Basel II framework for calculating minimum capital and other regulatory requirements. The Bank has adopted the standardised approaches to both credit and operational risk available under this new framework.

In April 2008, the Bank of Italy confirmed the registration of the Bank's Italian Branch allowing the Bank to establish its activities in Italy.

During 2008, within its principal activities, the Bank has commenced a new business line of short-term warehousing for senior European leveraged loans. As at 31 March 2008 no loans had been funded although the Bank had entered into loan commitments.

## NOMURA BANK INTERNATIONAL PLC

## YEAR ENDED 31 MARCH 2008

## DIRECTORS’ REPORT (CONTINUED)

The Bank outsources all of its support services under service level agreements to the related departments of Nomura International plc (“NIP”).The Treasury department continues to manage the liquidity of the Bank and provide asset and liability management for the balance sheet.

For the year ending 31 March 2009, the Bank will continue to focus on and expand its activities to support the Nomura Group’s Global Wholesale Business.

**RESULTS AND DIVIDENDS**

The results for the year are set out on page 8. No interim dividend was paid in the year (2007: £ nil). The Directors do not recommend the payment of a final dividend (2007: £ nil).

**RISK MANAGEMENT**

The Bank’s market and credit risk is managed through its Credit & Risk Management Committee which is chaired by the Chief Credit Officer. The Bank's operational risk is managed through the Board of Directors and the Executive Management Committee, both of which are attended by the NIP Head of Risks & Controls upon invitation. In addition, the Bank’s conflicts issues, legal risk and reputational risks are managed through the appropriate dedicated committees of Nomura International plc pursuant to its outsourcing arrangements. The Bank’s financial risk management objectives and policies are disclosed in note 23.

**DONATIONS**

During the year, the Bank made charitable donations of £ nil (2007: £ nil).

**DIRECTORS AND THEIR INTERESTS**

The Directors who served during the year are as shown below:

| | |
|---|---|
| Kenji Yokoyama | – President and Chief Executive Officer |
| David Young | – Non Executive Director and Chairman |
| Sir Peter Walters | – Non Executive Director (appointed 04/12/2007) |
| Antonio Pironti | – Non Executive Director (appointed 01/02/2008) |
| Paul Spanswick | – Director |
| Hiroshi Yoshizawa | – Director (appointed 16/08/2007) |
| Mark Basten | – Director (appointed 13/03/2008) and Chief Credit Officer |
| Mark R. Chapman | – Director (appointed 13/03/2008) |
| David Benson | – Director (resigned 28/09/2007) |
| Hirofumi Misawa | – Director (resigned 16/08/2007) |
| James Barratt | – Director (resigned 13/03/2008) |

None of the directors had any interest in the shares of the Bank or in any Group companies requiring disclosure under Schedule 7 of the Companies Act 1985 during the year.

**DIRECTORS’ INDEMNITIES**

The Bank has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 and 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors’ report.

## NOMURA BANK INTERNATIONAL PLC

## YEAR ENDED 31 MARCH 2008

## DIRECTORS REPORT (CONTINUED)

### CREDITORS' PAYMENT POLICY

The Bank's policy is to settle bills immediately on receipt of invoices from suppliers, dealing quickly with complaints and advising suppliers of disputes.

The components of the calculation specified under the Companies Act 1985 are not readily identifiable from the Bank's accounts which are prepared under Schedule 9 of the Companies Act 1985. However, by identifying as closely as possible the amounts that would equate to trade creditors and purchases and using the calculation specified in the Act, the trade creditor payment days for the Bank for 2008 were approximately 14 days (2007: 14 days).

### DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

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

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

### AUDITORS

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

### BY ORDER OF THE BOARD

Denise Dillon (Signed)
Company Secretary
17 July 2008

## NOMURA BANK INTERNATIONAL PLC

## YEAR ENDED 31 MARCH 2008

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## NOMURA BANK INTERNATIONAL PLC

## YEAR ENDED 31 MARCH 2008

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOMURA BANK INTERNATIONAL PLC

We have audited the financial statements of Nomura Bank International plc for the year ended 31 March 2008 which comprise the Profit and Loss Account, Reconciliation of Movement in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

# NOMURA BANK INTERNATIONAL PLC

## YEAR ENDED 31 MARCH 2008

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

### OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP (Signed)
Registered Auditor
London
17 July 2008

## NOMURA BANK INTERNATIONAL PLC

## PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 MARCH 2008

| Note | | Year ended 31 March 2008 £'000 | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|---|---|---|
| | **INCOME** | | | | |
| 2 | Interest receivable and similar income | 95,555 | | 41,406 | |
| 2 | Interest payable and similar charges | (21,143) | | (786) | |
| | **NET INTEREST INCOME** | | 74,412 | | 40,620 |
| | Fees and commissions receivable | | 2,548 | | 1,626 |
| | Fees and commissions payable | | (456) | | (319) |
| 3 | Dealing losses | | (3,356) | | (32,043) |
| | **TOTAL OPERATING INCOME** | | 73,148 | | 9,884 |
| 4 | Administrative expenses | | (2,702) | | (1,858) |
| | **OPERATING PROFIT BEFORE PROVISIONS** | | 70,446 | | 8,026 |
| | Provisions for bad and doubtful debts | | - | | 17 |
| | **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | | 70,446 | | 8,043 |
| 6 | Tax on profit on ordinary activities | | (16,242) | | (2,454) |
| 22 | **PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION** | | **54,204** | | **5,589** |

All profits noted above are derived from continuing activities.

There are no recognised gains or losses other than the profit attributable to the Shareholders of the Company as disclosed above.

Included within dealing losses on financial instruments designated at fair value through profit and loss is a profit of £51,000,000 (2007: £ nil) in relation to changes in own credit risk.

The notes on pages 13 to 37 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

## RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2008

| Note | | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|---|
| | Opening Shareholders' funds | 222,329 | 216,740 |
| 22 | Profit for the year | 54,204 | 5,589 |
| | Closing Shareholders' funds | **276,533** | **222,329** |

The notes on pages 13 to 37 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

## BALANCE SHEET - 31 MARCH 2008

| Note | | Year ended 31 March 2008 £'000 | Year ended 31 March 2008 £'000 | Restated Year ended 31 March 2007 £'000 | Restated Year ended 31 March 2007 £'000 |
|---|---|---|---|---|---|
| | **ASSETS** | | | | |
| 8 | Loans and advances to banks | | 736 | | 56,897 |
| 9 | Loans and advances to affiliates | | 3,663,952 | | 1,010,734 |
| 10 | Other loans and advances | | 17,216 | | 133,415 |
| 11 | Financial assets designated at fair value through profit and loss | | | | |
| | - Bonds and medium term notes | 558,641 | | 555,795 | |
| | - Other financial instruments | 135,859 | | 94,533 | |
| | | | 694,500 | | 650,328 |
| | Available for sale financial investments | | 95 | | 95 |
| 12 | Derivative financial instruments | | 208,051 | | 62,460 |
| 13 | Other assets | | 1,190 | | 832 |
| | Prepayments and accrued income | | 2,589 | | 2,215 |
| | **TOTAL ASSETS** | | 4,588,329 | | 1,916,976 |
| | **LIABILITIES** | | | | |
| 14 | Customer accounts | | 274,149 | | 2,611 |
| 15 | Borrowing from affiliates | | 1,300,032 | | 33,862 |
| 16 | Borrowing from others | | 226,569 | | - |
| 17 | Financial liabilities designated at fair value through profit and loss | | | | |
| | - Bonds and medium term notes | 2,026,887 | | 1,555,180 | |
| | - Other financial instruments | 5,180 | | 2,335 | |
| | | | 2,032,067 | | 1,557,515 |
| 12 | Derivative financial instruments | | 437,322 | | 76,720 |
| | Accruals and deferred income | | 14,536 | | 4,790 |
| 18 | Other liabilities | | 26,360 | | 13,580 |
| 19 | Provision for liabilities and charges | | - | | 4,749 |
| 20 | Deferred tax liability | | 761 | | 820 |
| | **TOTAL LIABILITIES** | | 4,311,796 | | 1,694,647 |
| | **CAPITAL AND RESERVES** | | | | |
| 21 | Called up share capital | | 170,000 | | 170,000 |
| 22 | Profit and loss account | | 106,533 | | 52,329 |
| | **SHAREHOLDERS' FUNDS** | | 276,533 | | 222,329 |
| | **TOTAL LIABILTIES AND SHAREHOLDERS' FUNDS** | | 4,588,329 | | 1,916,976 |

**APPROVED BY THE BOARD ON:** 17 July 2008

Kenji Yokoyama (Signed)
President & Chief Executive Officer

The notes on pages 13 to 37 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

## CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 MARCH 2008

**Reconciliation of operating profit to net operating cash flows**

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|---|---|
| Profit on Ordinary Activities before Taxation | | 70,446 | | 8,043 |
| Adjustments for: | | | | |
| Provision for bad and doubtful debts | - | | (17) | |
| Net change in loans and advances to banks and other customers | 139,917 | | 236,589 | |
| Net change in loans and advances to affiliates | (2,653,218) | | (980,734) | |
| Net change in reverse repurchase agreements | - | | 144,374 | |
| Net change in borrowing from banks and other customers | 498,107 | | 711 | |
| Net change in borrowings from affiliates | 1,266,170 | | 33,862 | |
| Net change in financial assets designated at fair value through profit and loss | (44,172) | | (400,440) | |
| Net change in financial liabilities designated at fair value through profit and loss | 474,552 | | 963,680 | |
| Net change in available for sale financial investments | - | | - | |
| Net change in derivative assets | (145,591) | | (20,386) | |
| Net change in derivative liabilities | 360,602 | | 38,356 | |
| Net change in other assets | (358) | | 63,672 | |
| Net change in other liabilities | (6,754) | | (53,260) | |
| Net change in prepayments and accrued income | (374) | | (2,124) | |
| Net change in accruals and deferred income | 9,746 | | 2,888 | |
| Net change in provisions for liabilities and charges | (1,550) | | 435 | |
| | | (102,923) | | 27,606 |
| **Net cash flow from operating activities** | | (32,477) | | 35,649 |

The notes on pages 13 to 37 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

## CASH FLOW STATEMENT (CONTINUED)
## FOR THE YEAR ENDED 31 MARCH 2008

**CASH FLOW STATEMENT**

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Net cash flow from operating activities | **(32,477)** | **35,649** |
| Taxation | 34 | (2,960) |
| **(Decrease)/Increase in cash** | **(32,443)** | **32,689** |

**ANALYSIS OF THE BALANCES OF CASH AS SHOWN IN THE BALANCE SHEET:**

| 31 March 2008 | Year ended 31 March 2008 £'000 | Cash Flow £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|---|
| Loans and advances to other banks repayable on demand | 703 | (32,443) | 33,146 |

| 31 March 2007 | Year ended 31 March 2007 £'000 | Cash Flow £'000 | Year ended 31 March 2006 £'000 |
|---|---|---|---|
| Loans and advances to other banks repayable on demand | 33,146 | 32,689 | 457 |

The notes on pages 13 to 37 form part of these financial statements.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008

### 1. ACCOUNTING POLICIES

(a) **Basis of Accounting**

The financial statements are prepared under the historic cost convention, as modified by the revaluation of trading securities, derivatives and other financial instruments, in accordance with applicable accounting standards, and Statements of Recommended Accounting Practice (SORPS) issued by the British Bankers' Association (BBA). With the exception of certain accounting and disclosure requirements detailed below, the financial statements have been prepared in accordance with the special provisions of Part VII and Schedule 9 of the Companies Act 1985 relating to banking companies.

As detailed in note 1 (e)(ii) below, management has designated certain non-trading financial instruments as fair value through profit and loss. Interest receivable and payable on such instruments has been included as part of dealing profit and not disclosed separately. In so far as the disclosure of interest receivable and payable on such instruments and the valuation of those financial instruments that constitute non-trading liabilities represent a departure from the accounting requirements of the Companies Act 1985, the directors consider it necessary for the financial statements to show a true and fair view.

This follows the guidance of the Accounting Standards Board in implementation note 19 of FRS 26 which recommends the use of the true and fair override in circumstances where there would otherwise be potential for substantial artificial volatility in the financial statements. The directors believe this situation arises in relation to the Bank's issuance of credit and equity linked notes in support of client investment activity. If the true and fair override were not utilised the bank would be required to report these non-trading liabilities at amortised cost and identify the terms of any embedded derivatives. In accordance with the terms of FRS 26, 'Finanical Instruments: Measurement' certain of these embedded derivatives would require separation and reporting at fair value with movements taken to the profit and loss. On the basis of the complexity involved in identifying and fair valuing embedded derivatives, as well as separately disclosing interest receivable and payable on financial liabilities designated as fair value through profit and loss, the impact on the financial statements of not adopting the true and fair override has not been quantified.

(b) **Changes in Accounting Policy**

The Bank has adopted FRS 29 "Financial Instruments: Disclosures" with effect from 1 April 2007. The adoption of this standard represents a change in accounting policy and, accordingly, the Bank has restated comparative information affected by the adoption of this standard.

FRS 29 replaces the disclosure requirements of FRS 25 'Financial Instruments: Disclosure and Presentation' and applies to those entities applying FRS 26 'Financial Instruments: Measurement'. The disclosures required by the new Standard include information about exposures to risks arising from financial instruments, together with management's objectives, policies and processes for managing market, credit and liquidity risks. The adoption of FRS 29 had no impact for the measurement or recognition of financial instruments.

As of 31 March 2008, the Bank has adopted the amendments to FRS 26 "Financial Instruments: Recognition and Measurement". As a result, financial liabilities are now initially recognised on settlement date. This change in accounting policy has been accounted for retrospectively, and the comparative statements for 2007 have been restated. The effect of the change on 2007 is shown below. There has been no impact to the prior year's results.

| | 31-Mar-07 | Restated 31-Mar-07 |
|---|---|---|
| | £'000 | £'000 |
| Other assets | 32,167 | 832 |
| Financial liabilities designated at fair value through profit and loss | 1,588,850 | 1,557,515 |

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

(c) **Foreign Currencies**

The financial statements are presented in Sterling, which is the functional currency of the Bank.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. All monetary assets and liabilities in foreign currencies are re-translated at rates of exchange ruling on the balance sheet date. Foreign exchange gains and losses resulting from the re-translation and settlement of these items are recognised in the profit and loss account.

(d) **Operating Income**

(i) **Interest receivable**

Interest income is recognised in the profit and loss account for all interest bearing financial assets classified as Available for sale or Other loans and advances using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or a group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

(ii) **Interest payable**

Interest expense is recognised in the profit and loss account for all interest bearing financial liabilities using the effective interest method, except for liabilities held at fair value through profit and loss.

(iii) **Dealing profits/losses**

Income arising from gains and losses on trading positions and financial instruments designated as fair value through profit and loss is included in dealing profits. Interest on these positions is included, as it is integral to the dealing profit and distinct from interest on banking activities.

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

(iv) **Fee income/(expense)**

Fee income relating to loans and advances is recognised in the profit and loss account to match the cost of providing a continuing service, except where the fee amounts in substance to an additional interest charge, when it is recognised on an effective interest rate basis over the life of the advance as part of Interest Income.

Fees arising from the facilitation and servicing of note issuances are recognised in the profit and loss account as the service is provided.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

(e) **Financial assets and liabilities**

The Bank classifies its financial instruments in the following categories: financial instruments at fair value through profit and loss, loans and receivables, available for sale financial assets and other financial liabilities. Management determines the classification of financial assets and liabilities on initial recognition depending upon the purpose for which the financial instruments were acquired and their characteristics. Where allowed and appropriate, management re-evaluates this designation at each financial year end. The recognition and de-recognition policies of financial assets and liabilities are set out below.

(i) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides loans and advances directly to a debtor with no intention of trading the receivable. Loans are initially recognised on settlement date at fair value including any direct and incremental transaction costs, and are derecognised on repayment or when all significant benefits and risks have been transferred to a third party.

Such assets are carried at amortised cost, using the effective interest method if the time value of money is significant. Gains and losses are recognised in the profit and loss account, when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables specifically relate to the following balance sheet classifications: Loans and advances to banks, Loans and advances to affiliates and Other loans and advances.

(ii) **Financial instruments designated at fair value through profit and loss**

Management designates certain non-derivative financial instruments in this category under the fair value option including non-trading liabilities as detailed in note 1(a) above.

These instruments are recognised initially at fair value and transaction costs are taken directly to the profit and loss account. Gains and losses arising from changes in fair value are included in the profit and loss account.

Financial assets are recognised and derecognised using trade date accounting, being the date on which the Bank commits to purchase or sell the asset, or settlement date. as appropriate for cash and non-cash products.

Management designates certain groups of financial instruments as fair value through profit or loss, including certain non-trading liabilities, where doing so results in more relevant information. Instruments so designated are hybrid products whose risks are managed on a fair value basis using a mixture of derivative or non-derivative products. The designation is applied to all non-derivative financial instruments within the group.

During the year the company has revised its estimates of credit risk in relation to certain non-trading financial instruments designated as fair value through profit and loss. The cumulative effect of this change in accounting estimate was to increase profit on ordinary activities before taxation by £51,011,167.

An implied bond spread is used to calculate the effect of own credit spread on the financial liabilities designated as fair value through profit and loss issued by the Bank.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

(iii) **Available for sale investments**

Available for sale investments are non-derivative financial assets that are designated as available for sale and are not categorised into any of the other categories described above. They are recognised and derecognised using trade date accounting, being the date on which the Bank commits to purchase or sell the asset. Amounts are initially recognised at fair value including any direct and incremental transaction costs and subsequently held at fair value.

Where applicable interest determined using the effective interest method and impairment losses are recognised in the profit and loss account. Gains and losses arising from changes in fair value are taken to the statement of recognised gains and losses until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss is transferred to the profit and loss account.

Any reversal of impairment losses on non Equity available for sale investments is taken to the profit and loss account. Reversals of impairment losses on Equity available for sale investments are taken to the statement of recognised gains and losses.

(iv) **Other liabilities**

Financial liabilities, are initially recognised on settlement date at fair value including any direct and incremental transaction costs, and are derecognised on repayment.

Such liabilities are measured at amortised cost, using the effective interest method.

(f) **Sale and repurchase agreements**

The Bank enters into agreements to sell certain debt securities and then repurchase them at a later date. These debt securities are retained on the company's balance sheet, and the purchase price received by the Bank shown as a liability to the purchaser.

The Bank also enters into agreements with counterparties for them to sell to the Bank certain debt securities, and then repurchase them at a later date. These debt securities are excluded from the Bank's inventory and the purchase price paid for the securities shown as an amount receivable from the vendor.

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

(g) **Derivatives**

All derivatives are recognised initially and subsequently carried at fair value. Derivatives are recorded in the balance sheet at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The Bank uses derivatives to hedge interest rate, equity, credit and exchange rate exposures related to non-trading positions. These derivatives are treated in the same way as derivatives used for trading purposes unless they meet the specified criteria to obtain hedge accounting treatment. The Bank currently has no derivatives on which hedge accounting is applied.

No derivatives are currently used for trading purposes. Any realised and unrealised gains and losses would be recognised in the profit and loss account.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

(g) **Derivatives (continued)**

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the hybrid contract itself is not carried at fair value, the embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the profit and loss account.

(h) **Fair Values**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values of quoted investments are determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions) at the close of business on the balance sheet date, without any deduction for transactions costs. Where there is no active market, fair value is determined using valuation techniques. The fair value of derivatives is determined using independent price sources and industry standard modelling techniques, as appropriate.

When entering into a transaction, the financial instrument is initially recognised at the transaction price which is the best indicator of fair value. Where the fair value obtained from a valuation model differs to the transaction price, this initial difference in fair value is recognised in the profit and loss account provided the market data used within the model is observable. Where the fair value obtained from the valuation model is not based solely on data from observable markets, this initial difference is not recognised in the profit and loss account until such data becomes observable.

(i) **Impairment**

The Bank assesses at the balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date and that loss event has had an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For loans and receivables, the amount of impairment loss is measured as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the assets original effective interest rate. The amount of the loss is included in the profit and loss account. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised the previously recognised impairment loss is reversed in the profit and loss account.

For debt securities classified as Available for sale the amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss in that investment previously recognised in the profit and loss account.

The calculation of the present value of the expected future cash flows of a collateralised financial asset reflect the cash flows that may result from foreclosure cost for obtaining and selling the collateral whether or not foreclosure is possible.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

**1. ACCOUNTING POLICIES (CONTINUED)**

(j) **Collateral and Netting**

The Bank enters into agreements with counterparties whenever possible and, when appropriate, obtains collateral.

The Bank holds collateral in respect of credit-related instruments where this is considered desirable, given the customer's financial position and the overall banking relationship. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future liabilities.

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

(k) **Taxation**

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are the differences between the Bank's taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent periods.

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

(l) **Retirement Benefits**

Defined Benefit Scheme:
The Bank is a member of a funded scheme comprising certain UK Nomura companies administered by a fellow subsidiary undertaking, Nomura International plc. The scheme is run on a basis that does not enable the Company to identify its share of assets and liabilities. Financial Reporting Standard 17 'Retirement Benefits' requires that for group schemes run on a basis that does not allow the individual companies participating within the group scheme to identify their share of the underlying assets and liabilities, the company should account for the scheme as a money purchase scheme.

(m) **Provisions for liabilities and charges**

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

(n) **Cash flow statement**

The Bank uses the indirect method to produce a cash flow statement in accordance with FRS 1 (revised).

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 2. INTEREST INCOME

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| **Interest Income** | | |
| Deposits | 93,270 | 31,109 |
| Reverse repos | - | 3,697 |
| Interest on commercial term loans | 2,137 | 6,560 |
| Other interest income | 148 | 40 |
| | 95,555 | 41,406 |
| **Interest expense** | | |
| Banks and customers | 2,809 | 209 |
| Loans | 19,531 | 12 |
| Interest on tax provision | (1,197) | 434 |
| Other interest expense | - | 131 |
| | 21,143 | 786 |

### 3. DEALING LOSSES

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Financial instruments held for trading | (303,953) | (41,413) |
| Financial instruments designated at fair value through profit and loss | 300,597 | 9,370 |
| | **(3,356)** | **(32,043)** |

All amounts included within dealing losses arise from changes in fair values that have been estimated using valuation techniques.

The cumulative and current year impact of changes in own credit risk included in dealing losses on financial instruments designated at fair value through profit and loss was a profit of £51,000,000 (2007: £ nil).

With regard to segmental analysis, substantially all of the Bank's gross and net assets and profit before taxation arose from banking business transacted within the United Kingdom.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 4. ADMINISTRATIVE EXPENSES

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Wages and salaries | 58 | 40 |
| Social security costs | 7 | 5 |
| Support service charges | 2,569 | 1,758 |
| Audit fees | 68 | 55 |
| | **2,702** | **1,858** |

The Bank has outsourced all its support services and has no employees but utilises the services of five executive directors and three non-executive directors.

### 5. DIRECTORS' EMOLUMENTS

The aggregate emolument of directors borne by the Bank was £57,917 (2007: £40,000).

The highest paid director received emoluments of £46,667 (2007: £40,000). As at 31 March 2008 his accrued pension totalled £ nil per annum (2007: £ nil) and no contributions were made to the Group Personal Pension plan.

In addition, other directors received total emoluments of £495,043.51 (2007: £317,681) for their services to the Bank, the cost of which was borne by Nomura International plc.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

#### (a) TAX CHARGE

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Current tax: | | |
| UK Corporation tax at 30% (2007: 30%) | (20,769) | (2,502) |
| Adjustment in respect of prior years | 4,468 | 68 |
| | (16,301) | (2,434) |
| Deferred Taxation: | | |
| Adjustment in respect of prior years | - | 21 |
| Effect of change in tax rate | 54 | - |
| Current year timing differences | 5 | (41) |
| Tax on profit on ordinary activities | (16,242) | (2,454) |

#### (b) RECONCILIATION OF CORPORATION TAX CHARGE

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Net Profit before Tax | **70,446** | **8,043** |
| UK Corporate tax charge at 30% (2007: 30%) | (21,134) | (2,413) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 370 | (130) |
| Adjustment relating to prior year | 4,468 | 68 |
| Timing differences | (5) | 41 |
| Current corporation tax charge for the year | **(16,301)** | **(2,434)** |

### 7. PENSION

The Bank participates in a group scheme which is operated for the former employees of the Bank and certain of its fellow subsidiaries. The scheme is a defined benefit scheme, funded by the payment of contributions to a separately administered trust fund. The contributions to the scheme are determined by a qualified actuary. A full actuarial valuation of the defined benefit pension scheme was undertaken at 31 March 2006 and updated to 31 March 2008 by William M Mercer Limited, qualified independent actuaries.

During the year ended 31 March 2008, the Company has made additional contributions in order to fully fund the defined benefit liability pension scheme and, as a consequence, as at the balance sheet date the value of the plan assets exceeded the value of the plan liabilities, i.e. there was a surplus. However, FRS 17 limits the defined benefit asset that can be recognised in the balance sheet to the maximum amount that can be recovered through reduced contributions in the future expected to arise from future benefits to be accrued by active members. As the plan closed to all future accrual with effect from 31 October 2005, there is no future benefit accrual and therefore the plan is subject to a net asset limit whereby in these circumstances it is not possible for any surplus to be recognised in the Company's balance sheet.

As at 31 March 2007 the group scheme deficit was £19,519,500.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 8. LOANS AND ADVANCES TO BANKS

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Remaining maturity: | | |
| - Repayable on demand | 703 | 33,146 |
| - 3 months or less | 33 | 23,751 |
| | **736** | **56,897** |

### 9. LOANS AND ADVANCES TO AFFILIATES

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Remaining maturity: | | |
| - 3 months or less | 3,663,952 | 1,010,734 |
| | **3,663,952** | **1,010,734** |

### 10. OTHER LOANS AND ADVANCES

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Commercial term loans | - | 114,641 |
| Other loan | 16,476 | 18,035 |
| Cash collateral | 740 | 740 |
| | **17,216** | **133,415** |

The remaining maturity of the Other loan is within one to five years of the balance sheet date.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 11. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Bonds and medium term notes, by remaining maturity: | | |
| - less than 1 year | 521,489 | 176,501 |
| - 5 years or less but over 1 year | 7,796 | 81,347 |
| - over 5 years | 29,356 | 297,947 |
| Other financial instruments | 135,859 | 94,533 |
| | **694,500** | **650,328** |

Included within Bonds and medium term notes - less than 1 year is a bond with a contractual maturity of over 5 years which will be redeemed in June 2008. As at 31 March 2008, the issuer of the note has issued a notice to redeem the bond. The notice is irrevocable as at 15 May 2008.

Included within financial assets designated at fair value through profit and loss are loans to the value of £132,934,348 (2007: £90,563,991).

.

### 12. Derivative financial instruments

Positive fair values

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Analysis by counterparty | | |
| Affiliates | 206,138 | 62,445 |
| Other Financial Institutions | 1,913 | 15 |
| | **208,051** | **62,460** |

Negative fair values

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Analysis by counterparty | | |
| Affiliates | 372,346 | 57,763 |
| Other Financial Institutions | 64,976 | 18,957 |
| | **437,322** | **76,720** |

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 13. OTHER ASSETS

| | Year ended 31 March 2008 £'000 | Restated Year ended 31 March 2007 £'000 |
|---|---|---|
| Other assets | 1,190 | 832 |
| | **1,190** | **832** |

All amounts are receivable within one year.

### 14. CUSTOMER ACCOUNTS

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Remaining maturity; | | |
| - Repayable on demand | 4,978 | 2,611 |
| - 3 months or less | 269,171 | - |
| | **274,149** | **2,611** |

### 15. BORROWING FROM AFFILIATES

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Remaining maturity: | | |
| - 3 months or less | 1,300,032 | 33,862 |
| | **1,300,032** | **33,862** |

### 16. BORROWING FROM OTHERS

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Remaining maturity: | | |
| - less than 1 year | 226,569 | - |
| | **226,569** | **-** |

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 17. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

| | Year ended 31 March 2008 £'000 | Restated Year ended 31 March 2007 £'000 |
|---|---|---|
| Bonds and medium term notes, by remaining maturity: | | |
| - less than 1 year | 649,859 | 196,183 |
| - 5 years or less but over 1 year | 626,281 | 941,511 |
| - over 5 years | 750,747 | 417,486 |
| Other financial instruments | 5,180 | 2,335 |
| | **2,032,067** | **1,557,515** |

The cumulative and current year impact of changes in own credit risk included in dealing losses on financial instruments designated at fair value through profit and loss was a profit of £51,000,000 (2007: £ nil).

### 18. OTHER LIABILITIES

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Corporation tax | 23,204 | 3,670 |
| Financial Instruments in the course of settlement | 1,805 | 8,996 |
| Payable to others | 1,351 | 914 |
| | **26,360** | **13,580** |

### 19. PROVISION FOR LIABILITIES AND CHARGES

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Balance at 1 April | 4,749 | 4,804 |
| Provision movements during the year | (4,749) | (55) |
| | **-** | **4,749** |

The information usually required by FRS 12 is not disclosed as the directors feel that it could prejudice the outcome of discussions with HM Revenue & Customs.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 20. DEFERRED TAXATION

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| Capital allowances | 405 | 579 |
| General Provisions | 7 | 15 |
| FRS 26 adjustment | (1,173) | (1,414) |
| | (761) | (820) |
| Balance as at 1 April | (820) | (799) |
| Effect of change in tax rate | 54 | - |
| Deferred tax movement to profit and loss account | 5 | (21) |
| Balance at 31 March | **(761)** | **(820)** |

There is no un-provided deferred taxation in the Bank as at 31 March 2008 (2007: £ nil). Deferred tax has been provided at 28% (2007:30%).

### 21. SHARE CAPITAL

| 31 March 2008 | Authorised Number '000 | Allotted and fully paid Number '000 | Allotted and fully paid Consideration £'000 |
|---|---|---|---|
| Sterling Ordinary shares of £1 each | 200,000 | 170,000 | 170,000 |

| 31 March 2007 | Authorised Number '000 | Allotted and fully paid Number '000 | Allotted and fully paid Consideration £'000 |
|---|---|---|---|
| Sterling Ordinary shares of £1 each | 200,000 | 170,000 | 170,000 |

### 22. PROFIT AND LOSS RESERVES

| | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £'000 |
|---|---|---|
| As at 1 April | 52,329 | 46,740 |
| Retained Profit for the year | 54,204 | 5,589 |
| | **106,533** | **52,329** |

With regard to segmental analysis, substantially all of the Bank's gross and net assets and profit before taxation arose from banking business transacted within the United Kingdom.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 23. FINANCIAL RISK MANAGEMENT

The Bank's activities involve both the assumption and transfer of certain risks which must be managed. The most important types of risk are market risk, credit risk (including counterparty credit risk), liquidity risk and cash flow interest rate risk. Market risk includes currency risk, price risk and fair value interest rate risk.

**<u>The Role of Financial Instruments</u>**

The Bank's primary role is to support the Nomura Group's Global Wholesale business. To this end, the Bank issues debt with returns linked to equity, credit instruments or other indices. The Bank actively manages the resultant risk on a fair value basis using a combination of derivative and non-derivative financial instruments with the express intention of eliminating significant market risk arising from such transactions.

The Bank also continues to offer traditional banking products to facilitate Global Wholesale customer business such as credit facilities, guarantees and letters of credit.

In addition to the debt issuance noted above, the Bank obtains financing from capital, bank and intercompany borrowings.

**<u>Risk Management Structure</u>**

The Board of Directors is ultimately responsible for identifying and controlling risks through its overall risk management approach and approval of risk strategies and principles. Responsibility for risk reporting and control is undertaken by the following independent departments within NIP as well as committees set up within the Bank under the service level agreement with NIP.

**NIP Committees/Departments**

*Capital Allocation Committee*

This Committee is a sub-committee of the Executive Committee and meets semi-annually to consider the level and allocation of capital resources across the Company. This forum sets the appropriate internal risk and regulatory limits with the assistance of the departments listed below.

*Treasury Department*

The Treasury Department monitors compliance with the Company's liquidity, currency and cash flow policies.

*Corporate Risk Management Department*

The Corporate Risk Management Department monitors and reports compliance with internally set market risk limits.

*Investment Evaluation and Credit Department*

The Investment Evaluation and Credit Department monitors and reports compliance with internally set credit limits.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

*Finance Department*

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

*Risks and Controls Department*

The Risks and Controls Department monitors, evaluates and conducts forensic investigations on operational risk issues and the internal control framework. It then reports on these to both the Audit Committee and the Executive Committee. The Risks and Controls department is independent from the Internal Audit function.

*Internal Audit*

The Internal Audit Department has independent reporting lines to the Chairman of the Audit Committee of the Company's immediate parent. Internal audit performs a comprehensive review of systems and processes on a periodic basis.

**The Bank's Committees**

*Audit Committee*

The Audit Committee assists in establishing and monitoring policies and procedures in relation to risk controls. It also monitors compliance with legislative and regulatory requirements, amongst others, as well as considering the adequacy of systems and controls as detailed under the out sourcing agreement with NIP.

*Executive Management Committee*

The Executive Management Committee under authority delegated by the Board of Directors is responsible for overseeing the management of the Bank. In this capacity it receives reports on a regular basis from the Credit and Risk Management Committee.

*Credit & Risk Management Committee*

The Credit & Risk Management Committee is a sub-committee of the Executive Management Committee. The Committee considers matters relating to credit, market, operational and reputational risk. The Bank's credit policy stipulates that any investment grade exposures which have not been hedged, collateralised or repackaged within 12 months of take-on must be fully hedged out to acceptable counterparties. Any non-investment grade risk, may subject to prior approval by the NBI Credit & Risk Management Committee, be held for up to nine months after which time it will be hedged, repackaged or disposed.

**<u>Risk Measurement and Reporting Systems</u>**

Risk reporting and control is administered via the Management Information System (MIS) which provides daily financial indicators including profit and loss, Value-at-Risk (VaR), Nomura Capital Allocation Target (NCAT), inventory, regulatory capital, unsecured funding and all related limits. Monitoring is applied at all levels in the business hierarchy, specifically business strategy, trading desk, division and company wide.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

### a) Market Risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

Within the Nomura European Group, there is a formal process for the allocation and management of Economic Capital (NCAT) which is facilitated through the capital allocation agenda discussed by the Capital Allocation Committee on a semi-annual basis

The primary mechanism for measuring and reporting market risk is a framework consisting of VaR and numerous business focused risk limits, such as option risk factors. The effectiveness of VaR is assessed by a comparison of actual daily trading gains/losses with the estimated VaR, a process known as backtesting. VaR is only applied to those assets for which it provides a meaningful estimate of risk.

The Bank uses the statistical technique known as Value-at-Risk (VaR) as one of the tools used to measure, monitor and review the market risk exposures of its trading portfolios. The Risk Management Department calculates VaR numbers daily for all relevant businesses and these figures are included in daily reporting to senior management.

The Bank transfers its risks to other Nomura Group companies using derivative products therefore the market risk is immaterial. No additional VaR disclosures have been made.

#### i) Equity Price Risk and Issuer Credit Risk

The primary sources of equity price risk and issuer credit risk for the Bank arise from the issuance of debt with returns linked to equity, credit instruments or other indices. The Bank mitigates such risks through either the purchase of the underlying debt or equity products as direct hedges or by transferring such risks to other Nomura Group companies using derivative products.

As described in note 1(e)(ii) management designates such debt instruments, together with related non-derivative hedges, as fair value through profit and loss. Related derivative hedges are accounted for as Held For Trading items.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

An analysis of the risks for non-trading liabilities designated at fair value on a notional basis at 31 March 2008 is shown in the table below:

| | Equity Risk £'000 | Credit Risk £'000 | Total £'000 |
|---|---|---|---|
| Financial instruments designated at fair value through profit and loss: | | | |
| - Financial liabilities | (2,011,654) | (308,048) | (2,319,702) |
| Financial instruments designated at fair value through profit and loss: | | | |
| - Financial assets | 289,505 | 110,308 | 399,813 |
| Derivative Financial Instruments | | | |
| - Credit derivatives | - | 197,740 | 197,740 |
| - Equity swaps | 1,722,149 | - | 1,722,149 |
| | - | - | - |

**Restated**

| 31 March 2007: | Equity Risk £'000 | Credit Risk £'000 | Total £'000 |
|---|---|---|---|
| Financial instruments designated at fair value through profit and loss: | | | |
| - Financial liabilities | (1,364,078) | (199,565) | (1,563,643) |
| Financial instruments designated at fair value through profit and loss: | | | |
| - Financial assets | 262,615 | 89,065 | 351,680 |
| Derivative Financial Instruments | | | |
| - Credit derivatives | - | 110,500 | 110,500 |
| - Equity swaps | 1,101,463 | - | 1,101,463 |
| | - | - | - |

**ii) Currency Risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. During the course of the Treasury department's financing activities there is often a need to swap surplus flows in one currency into another currency, a process achieved using currency swap transactions.

It is always the Bank's intention to eliminate material structural or transactional currency risk.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### iii) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Fair value interest rate risk arises from mismatches between the future yield on financial assets and their associated funding costs as a result of interest rate changes.

It is the Bank's policy to mitigate such risk through minimising the mismatch of the dates on which interest receivable on financial assets and interest payable on liabilities are next reset to the market rates or, if earlier, the date on which the instruments mature. Where applicable, derivative transactions are used to reduce this interest rate gap. In accordance with the outsourcing contract, Nomura International plc's Treasury department monitors compliance with interest rate gap policies.

At 31 March 2008, the Bank had no significant exposure to fair value interest rate risk.

### b) Credit Risk

Credit risk refers to the potential loss in the value of a transaction because of a counterparty or issuer failing to perform its contractual commitment. This type of risk is reduced through diversification, effective credit analysis of counterparties, enforcement of credit limits by country and by counterparty, management of credit exposure through netting arrangements, and the maintenance of adequate collateral to secure the commitments of counterparties. Credit derivatives are also used to reduce exposure or to hedge credit risk with respect to issuers.

NIP's Investment Evaluation and Credit function is responsible for managing credit risks to which the Bank is exposed.

Counterparty exposure is managed through a process of limit setting and exception reporting with credit policy setting the maximum exposure and tenor based on credit rating. The Bank uses a scale of internal ratings that mirror the credit-rating agencies' rating scales. Changes to credit policy are presented to the Executive Management Committee, as are all credit actions.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet. Credit derivatives exposure is calculated taking into account the credit quality of the underlying issue and the counterparty. The Bank trades using market convention documentation and, where appropriate, credit enhancements will be added to the documentation.

Counterparty exposure limits are set within the external Large Exposure limit requirements laid down by the Bank's regulator, the Financial Services Authority.

As described in note 1(j), the Bank enters into netting agreements with certain counterparties to mitigate its exposure to credit loss. Amounts are only netted if there is a legal right to offset and the entity intends to settle on a net basis, or to realise an asset and settle the liability simultaneously. The impact of offsetting financial assets and financial liabilities which are subject to master netting agreements is not reflected in the balance sheet. At 31 March 2008 no transactions meet these criteria.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Credit Risk Exposure**

The Bank's maximum exposure to credit risk at balance sheet date is disclosed below, based on the carrying amount of the financial assets the Bank believes is subject to credit risk, without taking account of any collateral held or any other credit enhancements. Certain off balance sheet instruments which expose the Bank to a risk of loss due to default by the parties underlying these contracts are also disclosed.

| | Maximum Exposure to Credit Risk | Maximum Exposure to Credit Risk |
|---|---|---|
| | 2008 | 2007 |
| | £'000 | £'000 |
| Loans and advances to banks | 736 | 56,897 |
| Loans and advances to affiliates | 3,663,952 | 1,010,734 |
| Other loans and advances | 17,216 | 133,415 |
| Financial assets designated at fair value through profit and loss | | |
| - Bonds and medium term notes | 558,641 | 555,795 |
| - Other financial instruments | 135,859 | 94,533 |
| Available for sale financial investments | 95 | 95 |
| Derivative financial instruments | 208,051 | 62,460 |
| Other assets | 1,190 | 832 |
| Prepayments and accrued income | 2,589 | 2,215 |
| Off balance sheet commitments | 48,217 | - |
| **Total exposure to credit risk** | **4,636,546** | **1,916,976** |

Taking into account collateral and other credit enhancements, the significant credit risk is to NIP.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Maximum Exposure to Credit Risk by Credit Rating**

The credit quality of financial assets and off balance sheet commitments which are subject to credit risk is summarised below. The credit ratings are determined by the Bank's internally determined public rating agency equivalents.

| | Maximum Exposure to Credit Risk 2008 £'000 | Maximum Exposure to Credit Risk 2007 £'000 |
|---|---|---|
| **Credit Rating** | | |
| AAA | - | 114,640 |
| AA | 740 | 740 |
| A | 4,320,477 | 1,598,432 |
| BBB | | |
| BB | 73,409 | - |
| B | 40,364 | 90,564 |
| Not Rated | 21,464 | 8,234 |
| Unratable | 131,875 | 104,366 |
| **Total** | **4,588,329** | **1,916,976** |
| **Off balance sheet commitments** | | |
| BB | 48,217 | - |
| **Total** | **48,217** | **-** |
| **Total exposure to credit risk by credit rating** | **4,636,546** | **1,916,976** |

The unrated balance represents the pool of counterparties which individually do not generate material credit risk for the Bank.

There are no financial assets that are past due or impaired.

**Concentrations of Credit Risk**

Due to the Bank's approach to mitigating risk, it is not exposed to any significant concentration risk other than that from other Nomura group companies.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

**c) <u>Liquidity Risk</u>**

Liquidity risk represents the risk that the Bank will be unable to meet its financial obligations as they become due as a result of difficulty in realising financial assets or otherwise obtaining funding to satisfy those financial liabilities.

The Bank manages liquidity to ensure that all foreseeable financial obligations can be met as they fall due. This includes repayment at maturity of securities issued, as well as meeting commitments to lend and any obligations to pay funds due on derivative transactions.

Liquidity risk is controlled by a process that ensures that cumulative financing requirements are restricted to pre-set levels. The Bank's liquidity management includes monitoring balance sheet liquidity ratios against internal and regulatory requirements, projecting future cash flows and maintaining liquidity and funding contingency plans.

To ensure that the Bank has sufficient reserves to guard against any unforeseen event, the Treasury department operates within an unsecured funding limit that is set at a level significantly below what is estimated to be available.

In addition, a key operating principle of the Treasury department is to withstand market shocks for periods lasting up to one year without either issuing new unsecured financing or liquidating trading assets. This is achieved by maintaining sufficient long-term debt and equity to meet the cash capital requirements of all the Bank's assets and holding a global portfolio of cash and highly liquid securities that could be monetised through either sale or pledge to meet immediate requirements.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Contractual Maturity Table**

The table below shows the Bank's financial liabilities by remaining contractual maturity, taking into account early redemption features. Derivatives and other instruments containing embedded derivatives including structured note issuances and other financial liabilities designated at fair value are presented at their fair values. Derivatives are disclosed on demand while financial liabilities designated at fair value are disclosed based on their earliest redemption date. All other instruments are presented on an undiscounted cash flow basis. This presentation is considered to reflect the liquidity risk arising from the Bank's financial liabilities and is consistent with how this risk is managed by the Bank. Given the complex nature of the Bank's financial liabilities designated at fair value and the volatility in relation to the performance of the underlying instruments, fair value is deemed an appropriate measure of the contractual amount at maturity.

| | On demand | Less than 1 yr | 1-5 yrs | 5yrs+ | Total |
|---|---|---|---|---|---|
| | 2008 £'000 | 2008 £'000 | 2008 £'000 | 2008 £'000 | 2008 £'000 |
| Customer accounts | 4,978 | 269,171 | - | - | 274,149 |
| Borrowing from affiliates | - | 1,300,032 | - | - | 1,300,032 |
| Borrowing from others | - | 226,569 | - | - | 226,569 |
| Financial liabilities designated at fair value through profit and loss | | | | | |
| - Bonds and medium term notes | - | 649,807 | 625,359 | 748,211 | 2,023,377 |
| - Other financial instruments | - | 5,180 | - | - | 5,180 |
| Other liabilities | - | 1,805 | - | - | 1,805 |
| Derivative financial instruments | 437,322 | - | - | - | 437,322 |
| **Total financial liabilities** | **442,300** | **2,452,564** | **625,359** | **748,211** | **4,268,434** |

| | On demand | Less than 1 yr | 1-5 yrs | 5yrs+ | Total |
|---|---|---|---|---|---|
| | 2007 £'000 | 2007 £'000 | 2007 £'000 | 2007 £'000 | 2007 £'000 |
| Customer accounts | 2,611 | - | - | - | 2,611 |
| Borrowing from affiliates | - | 33,862 | - | - | 33,862 |
| Financial liabilities designated at fair value through profit and loss | | | | | |
| - Bonds and medium term notes | - | 196,183 | 941,511 | 417,486 | 1,555,180 |
| - Other financial instruments | - | 2,335 | - | - | 2,335 |
| Other liabilities | - | 8,996 | - | - | 8,996 |
| Derivative financial instruments | 76,720 | - | - | - | 76,720 |
| **Total financial liabilities** | **79,331** | **241,376** | **941,511** | **417,486** | **1,679,704** |

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 24. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

c) Financial assets and liabilities designated at fair value through profit and loss and derivatives are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated using a valuation model. Such models are based wherever possible on assumptions supported by observable market prices or rates. At the balance sheet date, all fair values have been calculated using such a model.

### 25. CAPITAL MANAGEMENT POLICY

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank is able to withstand losses due to extreme market movements. The Bank looks to mitigate risk through the use of derivative arrangements with other Nomura Europe Group companies. The Bank reviews the appropriate level of capital adequacy, with senior management responsible for implementing and enforcing capital policies. The determination of balance sheet size and level of capital take into consideration regulatory requirements, economic risks inherent in its business and maintenance of a desirable debt rating. The allocation of available capital resource across the business is then based upon factors such as return on capital and regulatory requirements.

During the year ended March 2008 the Bank made minor policy modifications in order to permit the inclusion of non-investment grade risk in specific circumstances. This modification facilitates a new business line of short-term warehousing for senior European leveraged loans. This business is closely monitored by the Credit & Risk Management Committee under the service level agreement.

The Bank is subject to and has complied with the regulatory requirements imposed by the Financial Services Authority (FSA) under the Basel II framework.

No changes were made in the objectives, policies or processes for managing capital during the year other than to facilitate the new loan warehouse business above.

**Regulatory Capital**

Regulatory guidelines developed by the Basel Committee and European Union Directives, as implemented by the FSA for supervisory purposes define three 'Tiers' of capital resources. Tier 1 capital is the highest tier and consists of, inter alia, ordinary share capital, and audited retained earnings. The Bank does not currently contain Tier 2 or Tier 3 capital.

| | 2008<br>£'000 | 2007<br>£'000 |
|---|---|---|
| Tier 1 capital | 222,329 | 216,740 |
| Total capital resources | **222,329** | **216,740** |

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2008 (CONTINUED)

### 26. CONTINGENT LIABILITIES AND COMMITMENTS

**Contingent Liabilities**

In 1998 the Bank sold its leasing business to a third party. HM Revenue & Customs has made an assessment of £6.4 million which remains unpaid by the new owners. As at 31 March 2008, the additional interest on this tax assessment balance stands at an estimated £3.6 million. The Bank's directors have sought legal advice and believe that the assessment has been wrongly made against the Bank. The Bank has, therefore, appealed the assessment and intends vigorously to contest the matter.

**Commitments**

The Bank had commitments as at 31 March 2008 amounting to £48,217,071 (2007: £nil) in respect of undrawn note issuance facilities and loan commitments.

### 27. RELATED PARTY TRANSACTIONS

The Bank has taken advantage of the exemption in FRS 8 from disclosing related party transactions with other entities included in consolidated financial statements for Nomura Holdings, Inc.

### 28. ULTIMATE PARENT COMPANY

The Bank’s ultimate parent company and controlling party, and the parent that heads the largest group of undertakings for which consolidated financial statements are prepared, is Nomura Holdings, Inc., which is incorporated in Japan.

The parent that heads the smallest group of undertakings for which consolidated financial statements are prepared is Nomura Europe Holdings plc, a company which is incorporated in the United Kingdom.

Copies of the financial statements of Nomura Holdings, Inc. and Nomura Europe Holdings plc can be obtained from 9-1, Nihonbashi 1-chome, Chuo-ku. Tokyo 103-8645, and Nomura House, 1 St. Martin’s–le-Grand, London EC1A 4NP, respectively.