# NOMURA BANK INTERNATIONAL PLC

## ANNUAL REPORT

## 31 MARCH 2011

NOMURA BANK INTERNATIONAL plc is an authorised institution under the Financial Services and Markets Act 2000

# NOMURA BANK INTERNATIONAL PLC

## YEAR ENDED 31 MARCH 2011

## DIRECTORS' REPORT

The Directors present their report and the financial statements of Nomura Bank International plc (the "Bank") for the year ended 31 March 2011.

### PRINCIPAL ACTIVITIES

The Bank's primary role is to support the Global Wholesale Business of the Nomura Group (Nomura Holdings Inc. ("NHI") and its consolidated subsidiaries). Its principal activities 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 loans and credit facilities in major currencies, repurchase and reverse repurchase transactions, letters of credit and guarantees; and
- Taking deposits (including foreign exchange and other reference linked deposits).

The Bank has branches in Milan, Italy and Labuan, Malaysia.

### RESULTS AND DIVIDENDS

The results for the year are set out on page 8. No interim dividend was paid during the year (2010: $ nil). The Directors do not recommend the payment of a final dividend (2010: $ nil).

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

During the year the Bank continued to grow its note issuance business. The Bank has a number of platforms for the issuance of its debt which allow the Bank to issue equity-linked notes and certificates, credit-linked notes and warrants to investors.

In addition to the above, the Bank continues to provide loan facilities to clients across a wide variety of industries, including power and gas, telecommunications and fast moving consumer goods.

The Bank has strengthened its balance sheet by lending proportionally more on a secured basis through the use of reverse repurchase transactions ('Securities purchased under agreements to resell'). As at 31 March 2011, 97% of funds were advanced on a secured basis, compared to 62% at 31 March 2010.

To support Nomura's Asian business franchise, a Labuan branch was established and granted an offshore banking licence by the Labuan Financial Services Authority in the Labuan International Business and Financial Centre on 28 June 2010.

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

| | Year ended 31 March 2011 $'000 | Year ended 31 March 2010 $'000 |
|---|---|---|
| Operating income/(loss) | 128,155 | (384,723) |
| Profit/(loss) on ordinary activities before taxation | 114,890 | (390,427) |
| Profit/(loss) on ordinary activities after taxation | 92,814 | (291,703) |
| Shareholders' funds | 777,199 | 684,347 |

## NOMURA BANK INTERNATIONAL PLC

## YEAR ENDED 31 MARCH 2011

## DIRECTORS' REPORT (CONTINUED)

The Bank reported a profit on ordinary activities before tax for the year of $114,890,364 (2010: loss of $390,427,495). This is largely 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 widening of Nomura's credit spreads during the year ended 31 March 2011 has impacted the valuation of the Bank's financial liabilities. As credit spreads have widened, the balance sheet value of notes issued has decreased and profit on ordinary activities has increased. The impact of own credit included within the profit on ordinary activities before tax was a profit of $106,824,907 (2010: loss of $391,288,167).

On 1 April 2010, the Bank changed its functional and presentation currency from Sterling to US Dollar. Please refer to note 1 of these financial statements for more detail.

In the June 2010 Budget, the UK government announced the introduction of a bank levy with effect from 1 January 2011 and the legislation was included in the Finance Bill 2011 enacted on 19 July 2011. The levy is based on total liabilities at the Bank's financial year end, less certain specified deductions. As the legislation was not enacted at the balance sheet date, no provision has been made for the levy in these accounts. Due to a number of uncertainties, it is not possible to estimate accurately the financial impact on the Bank at the time of signing of these financial statements.

For the year ending 31 March 2012, the Bank will focus on and expand its activities to support the Global Wholesale Business of the Nomura Group, including opportunities to expand the Bank's Asian franchise, organically or through acquisition.

### RISK MANAGEMENT

The Bank's market and credit risk is managed through its Credit & Risk Management Committee which is chaired by the Nomura Group's Head of Credit for the Europe, Middle East and Africa Region ("EMEA"). The Bank's operational risk is managed through the Board of Directors and the Executive Management Committee, both of which are attended by the Head of Operational Risk Management for EMEA upon invitation. The Bank's liquidity risk is managed by the Group's Treasury department.

In addition, the Bank's conflicts issues, legal risk, reputational risks and cross border booking risks are managed through the appropriate dedicated committees of Nomura Europe Holdings plc ("NEHS"), the Bank's immediate parent, pursuant to its outsourcing arrangements as well as Board delegation to the NEHS committees. The Bank's overall risk is also monitored by the NEHS Board Risk Committee which considers the current risk profile and risk appetite of NEHS and its subsidiaries and ensures the establishment and maintenance of an appropriate risk control framework for the NEHS Group. The Bank's financial risk management objectives and policies are disclosed in note 22.

### EMPLOYEE MATTERS

The Bank outsources some of its support services under service level agreements to departments of Nomura International plc ("NIP"). The Bank employs its own staff for certain administrative activities.

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

The Bank's aim is to ensure that each and every individual is shown respect, treated fairly and courteously and has equal access to further opportunity and reward based on contribution to the Bank.

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

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

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## NOMURA BANK INTERNATIONAL PLC

## YEAR ENDED 31 MARCH 2011

## DIRECTORS' REPORT (CONTINUED)

### ENVIRONMENT

As a group, Nomura is keen to follow environmental best practice guidelines and do what it can to reduce its environmental impact.

Environmental policy is a key consideration in managing our premises. Our UK head office, 1 Angel Lane in the City has been designed to the highest standard of environmental performance and has been awarded an "excellent" rating by the Building Research Establishment's BREEAM accreditation system and has also achieved a 'B' rating Energy Performance Certificate - one of the highest ratings possible for a London office building.

### CREDITOR PAYMENT POLICY

It is the policy of the Bank to meet industry standard terms of transaction related payments or to pay in accordance with the terms agreed with suppliers when orders for goods or services are placed. Creditor days as at 31 March 2011 were 14 (2010: 14).

### DONATIONS

The Bank made no charitable donations during the year (2010: $nil).

### EVENTS AFTER THE BALANCE SHEET DATE

On 1 June 2011, the Bank changed its registered office address to 1 Angel Lane, London EC4R 3AB, Nomura's European head office.

### DIRECTORS

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

| | |
|---|---|
| Dame Clara Furse * | – Non Executive Director and Chairman (appointed 26 April 2010) |
| Kieran Poynter * | – Non Executive Director (appointed 30 June 2010) |
| David Young | – Non Executive Director and Chairman (resigned 26 April 2010) |
| Antonio Pironti | – Non Executive Director (resigned 31 December 2010) |
| Sir Peter Walters | – Non Executive Director (resigned 30 September 2010) |
| John Phizackerley | – President and Chief Executive Officer |
| Carlo Pellerani | – Director |
| Paul Spanswick | – Director |
| Mark Basten | – Director (resigned 14 June 2011) |
| Mark Chapman | – Director (resigned 20 October 2010) |
| Kenji Yokoyama | – Director (resigned 31 March 2011) |
| Hiroshi Yoshizawa | – Director (resigned 25 May 2010) |

* Member of the Audit Committee of the Board

### DIRECTORS' INDEMNITIES

It is the Bank's policy to issue qualifying third party indemnity provisions to those Directors serving on the Board.

During the year the Bank paid a premium for a contract insuring the Directors and officers of the Bank against personal liabilities which may arise in the course of the performance of their duties. In addition, on 1 July 2011 NHI effected a global directors and officers liability insurance programme for their benefit.

# DIRECTORS' REPORT (CONTINUED)

## GOING CONCERN

The Bank's business activities, together with the factors likely to affect its future development, performance and position are set out in this Report. In addition, note 22 to the financial statements describes the Bank's objectives, policies and processes for risk management and capital management, as well as its exposures to credit and liquidity risk.

The Directors consider the Bank's capital position to be strong, given that the Bank hedges its market risk.

The Directors are not aware of any material uncertainties related to events or conditions that cast doubt about the ability of the Bank to continue as a going concern. They have therefore prepared the financial statements on a going concern basis.

## CORPORATE GOVERNANCE STATEMENT FOR INTERNAL CONTROLS

The Directors are responsible for internal control in the Bank and for reviewing the effectiveness of such controls within the overall corporate governance framework. Procedures and processes are in place for safeguarding assets against unauthorised use, for maintaining proper accounting records and for the reliability and usefulness of financial information used within the business or for publication. Such procedures and processes are designed to properly manage the risk of failure in order to achieve business objectives and can only provide reasonable, and not absolute assurance, against material misstatement, errors, losses or fraud. The procedures enable the Bank to comply with, amongst other things, its regulatory obligations. In addition, the Bank's senior Finance, Risk, Internal Audit, Legal and Compliance management and the external auditor participate in relevant Board and committee meetings of both the Bank and the NEHS group to consider, amongst other things, the Bank's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control, compliance and risk management.

## 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 Bank'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 Bank'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 Bank'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.

## 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). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing those 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; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**BY ORDER OF THE BOARD**

**Carlo Pellerani**

Director

21 July 2011

**Company Registered Number: 1981122**

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

We have audited the financial statements of Nomura Bank International plc ("the Bank") for the year ended 31 March 2011 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Movement in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

### OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

**David Canning-Jones** (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London

27 July 2011

## NOMURA BANK INTERNATIONAL PLC

## PROFIT AND LOSS ACCOUNT

## FOR THE YEAR ENDED 31 MARCH 2011

| Note | | Year ended 31 March 2011 $'000 | Year ended 31 March 2010 $'000 |
|---|---|---|---|
| | **INCOME** | | |
| 2 | Interest receivable and similar income | 356,184 | 152,014 |
| 2 | Interest payable and similar charges | (79,656) | (56,120) |
| | **NET INTEREST INCOME** | 276,528 | 95,894 |
| | Fee and commission income | 27,579 | 12,221 |
| | Fee and commission expense | (20,267) | (1,211) |
| 3 | Dealing loss | (155,685) | (491,627) |
| | **TOTAL OPERATING INCOME/(LOSS)** | 128,155 | (384,723) |
| 4 | Administrative expenses | (13,265) | (5,704) |
| | **PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION** | 114,890 | (390,427) |
| 6 | Tax (charge)/credit on profit/(loss) on ordinary activities | (22,076) | 98,724 |
| 21 | **PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION** | **92,814** | **(291,703)** |

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

Included within the dealing loss for the year is a profit of $106,824,907 in relation to changes in own credit risk (2010: loss of $391,288,167). These gains and losses arise on financial instruments designated at fair value through profit and loss.

The notes on pages 14 to 48 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2011

| | Year ended 31 March 2011 $'000 | Year ended 31 March 2010 $'000 |
|---|---|---|
| Profit/(loss) for the year | 92,814 | (291,703) |
| Foreign currency gains | 38 | 54,858 |
| **TOTAL RECOGNISED GAINS/(LOSSES) RELATING TO THE YEAR** | **92,852** | **(236,845)** |

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## NOMURA BANK INTERNATIONAL PLC

## RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2011

| Note | | Year ended 31 March 2011 $'000 | Year ended 31 March 2010 $'000 |
|---|---|---|---|
| | Opening Shareholders' funds | 684,347 | 621,192 |
| 21 | Profit/(loss) for the year | 92,814 | (291,703) |
| | Foreign currency gains | 38 | 54,858 |
| | New share capital subscribed | - | 300,000 |
| | Closing Shareholders' funds | **777,199** | **684,347** |

The notes on pages 14 to 48 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

## BALANCE SHEET - 31 MARCH 2011

| Note | | 31 March 2011<br>$'000 | 31 March 2011<br>$'000 | 31 March 2010<br>$'000 | 31 March 2010<br>$'000 |
|---|---|---|---|---|---|
| | **ASSETS** | | | | |
| 8 | Loans and advances to banks | | 7,571 | | 21,837 |
| 9 | Loans and advances to affiliates | | 1,295 | | 7,383,533 |
| 10 | Other loans and advances | | 4,980 | | 26,260 |
| | Securities purchased under agreements to resell | | 17,653,404 | | 12,132,489 |
| 11 | Financial assets designated at fair value through profit and loss | | | | |
| | - Bonds and medium term notes | 300,000 | | - | |
| | - Secured Lending | 3,784,851 | | 1,351,356 | |
| | - Other financial instruments | 746,046 | | 709,172 | |
| | | | 4,830,897 | | 2,060,528 |
| | Available for sale financial investments | | 152 | | 144 |
| 12 | Derivative financial instruments | | 1,760,156 | | 2,350,841 |
| 13 | Other assets | | 18,988 | | 25,378 |
| | Prepayments and accrued income | | 26,990 | | 26,535 |
| | **TOTAL ASSETS** | | 24,304,433 | | 24,027,545 |
| | **LIABILITIES** | | | | |
| 14 | Customer accounts | | 50,312 | | 48,932 |
| | Securities sold under agreements to repurchase | | 709,275 | | 1,351,850 |
| 15 | Borrowing from affiliates | | 3,369,133 | | 7,712,178 |
| 16 | Borrowing from others | | 106,315 | | 211,422 |
| 17 | Financial liabilities designated at fair value through profit and loss | | | | |
| | - Bonds and medium term notes | 12,327,298 | | 9,523,611 | |
| | - Other financial instruments | 729,833 | | 688,861 | |
| | | | 13,057,131 | | 10,212,472 |
| 12 | Derivative financial instruments | | 2,946,748 | | 2,602,252 |
| | Accruals and deferred income | | 130,123 | | 63,301 |
| 18 | Other liabilities | | 3,157,467 | | 1,140,791 |
| 19 | Deferred tax liability | | 730 | | - |
| | **TOTAL LIABILITIES** | | 23,527,234 | | 23,343,198 |
| | **CAPITAL AND RESERVES** | | | | |
| 20 | Called up share capital | | 555,000 | | 555,000 |
| 21 | Profit and loss account | | 215,834 | | 123,020 |
| 21 | Redenomination reserve | | 3,108 | | - |
| 21 | Other reserve | | 3,257 | | 6,327 |
| | **SHAREHOLDERS' FUNDS** | | 777,199 | | 684,347 |
| | **TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS** | | 24,304,433 | | 24,027,545 |

**APPROVED BY THE BOARD ON 21 JULY 2011**

Carlo Pellerani, Director (signed)

The notes on pages 14 to 48 form part of these financial statements.

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## NOMURA BANK INTERNATIONAL PLC

## CASH FLOW STATEMENT

## FOR THE YEAR ENDED 31 MARCH 2011

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

| | Year ended 31 March 2011 $'000 | Year ended 31 March 2011 $'000 | Year ended 31 March 2010 $'000 | Year ended 31 March 2010 $'000 |
|---|---|---|---|---|
| Profit/(loss) on Ordinary Activities before Taxation | | 114,890 | | (390,427) |
| *Adjustments for:* | | | | |
| *Operating activities:* | | | | |
| Net change in other loans and advances | 21,280 | | (11,198) | |
| Net change in loans and advances to affiliates | 7,382,238 | | (344,942) | |
| Net change in borrowing from banks and other customers | (61,735) | | 71,585 | |
| Net change in borrowings from affiliates | (4,343,045) | | 3,776,480 | |
| Net change in financial assets designated at fair value through profit and loss | (2,770,369) | | (374,126) | |
| Net change in financial liabilities designated at fair value through profit and loss | 2,858,395 | | 7,781,016 | |
| Net change in available for sale assets | (8) | | | |
| Net change in derivative assets | 590,685 | | (1,930,499) | |
| Net change in derivative liabilities | 344,496 | | 1,192,766 | |
| Net change in securities purchased under agreements to resell | (5,520,915) | | (12,789,325) | |
| Net change in securities sold under agreements to repurchase | (642,575) | | 1,425,037 | |
| Net change in other assets | 6,390 | | 30,240 | |
| Net change in other liabilities | 1,981,665 | | 1,154,917 | |
| Net change in prepayments and accrued income | (455) | | (27,064) | |
| Net change in accruals and deferred income | 66,822 | | 41,220 | |
| *Financing activities:* | | | | |
| Issuance of share capital | - | | 300,000 | |
| *Other non cash items:* | | | | |
| Foreign Exchange revaluation | (24) | | 29,923 | |
| | | (87,155) | | 326,030 |
| **Net cash flow from operating and financing activities** | | 27,735 | | (64,397) |

Cash interest received and paid during the year amounted to $317,600,844 and $35,175,029 respectively.

The notes on pages 14 to 48 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

## CASH FLOW STATEMENT (CONTINUED)
## FOR THE YEAR ENDED 31 MARCH 2011

**CASH FLOW STATEMENT**

| | Year ended 31 March 2011 $'000 | Year ended 31 March 2010 $'000 |
|---|---|---|
| Net cash flow from operating activities | **27,735** | **(64,397)** |
| Payments of Tax | (9) | (33,216) |
| **Increase/(decrease) in cash** | **27,726** | **(97,613)** |

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

**31 March 2011**

| | 31 March 2011 $'000 | Cash Flow $'000 | 31 March 2010 $'000 |
|---|---|---|---|
| Loans and advances to other banks repayable on demand (note 8) | 7,571 | (14,266) | 21,837 |
| Borrowing from other banks repayable on demand (note 16) | - | 41,992 | (41,992) |
| Net Overdraft | 7,571 | 27,726 | (20,155) |

**31 March 2010**

| | 31 March 2010 $'000 | Cash Flow $'000 | 31 March 2009 $'000 |
|---|---|---|---|
| Loans and advances to other banks repayable on demand (note 8) | 21,837 | (55,621) | 77,458 |
| Borrowing from other banks repayable on demand (note 16) | (41,992) | (41,992) | - |
| Net Overdraft | (20,155) | (97,613) | 77,458 |

The notes on pages 14 to 48 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011

### 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 section 396 of Schedule 2 of the Companies Act 2006.

The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008) came into force on 6 April 2008 and permit valuation of non-trading financial liabilities at fair value in accordance with IFRS as endorsed by the EU (or equivalent UK GAAP standards). Management has designated certain non-trading financial instruments at fair value through profit and loss. Interest receivable and payable on such instruments has been included as part of the dealing profit and not disclosed separately. This policy is in line with the requirements of the Companies Act 2006 as amended by SI 2008.

(b) **Changes in Accounting Policy**

**Settlement date accounting**

FRS 26 permits an entity to elect accounting for regular way purchases or sales of financial assets on a trade or settlement date basis. On 31 March 2011 the Bank changed its accounting policy for recognising and derecognising trading financial assets to use settlement date accounting. The Bank believes this change provides more relevant information about the effect of regular way purchases or sales since among other things it reflects on balance sheet only those assets to which it actually has legal title.

There was no significant impact on the Bank's balance sheet at either the current or previous year end.

**Change in functional and reporting currency**

Following the acquisition by Nomura of Lehman Brothers' European and Asian discrete businesses, the Bank decided to change its functional and presentation currency from Sterling to US Dollar. The business in key European entities significantly changed, resulting in a shift in the currency in which revenues will predominately be generated and expenses denominated. The change in functional and presentation currency is reported prospectively from 1 April 2010 with the opening balance sheet being translated at the US Dollar spot rate of exchange at that date.

For the purpose of prior year comparatives restated in the presentation currency of US Dollars, the Bank's shareholders' funds at 1 April 2009 and 31 March 2010 have been translated using the rate prevailing on those dates. The profit and loss accounts and cash flow statements for comparative periods are converted into US Dollars using the appropriate average rate for those periods. The share capital at 31 March 2010 is shown as $555,000,000, which is the legal issued share capital as at 1 April 2010, when it was redenominated into US Dollars. The restatement of prior year comparatives in the presentation currency of US Dollars has resulted in the reporting of foreign currency gains in the statement of total recognised gains and losses and the creation of a Foreign Currency Translation Reserve ("FCTR"). At 31 March 2010, an amount of $54,858,000 on the FCTR is presented in the Profit and Loss Reserve.

## 1. ACCOUNTING POLICIES

**Other presentational amendments**

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

### (c) Foreign Currencies

The financial statements are presented in US Dollar, 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. The rate of exchange between the US Dollar and Sterling at the reporting date was 1.6046.

### (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 and 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 and losses**

Income arising from gains and losses on financial instruments designated as fair value through profit and loss is included in dealing profits/(losses). 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 are 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 and 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.

## 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 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 through profit and loss including certain non-trading liabilities.

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 settlement date accounting.

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.

**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 in any of the other categories described above. They are recognised and derecognised using settlement 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 Bank'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 is 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 rate 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.

**1. ACCOUNTING POLICIES (CONTINUED)**

(g) **Derivatives (continued)**

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

Some hybrid contracts contain both a derivative and a non-derivative component. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, we designate the entire contract at fair value through profit and loss as outlined in 1(e) ii.

(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 asset's carrying amount and the present value of expected future cash flows discounted at the asset's 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.

## 1. ACCOUNTING POLICIES (CONTINUED)

### (i) Impairment (continued)

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 reflects the cash flows that may result from foreclosure cost for obtaining and selling the collateral whether or not foreclosure is possible.

### (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 can take 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. In addition, the Bank receives cash or securities collateral from Nomura group companies in respect of derivative exposure.

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

NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

(l) **Financial guarantees**

We issue financial guarantee contracts which require that we reimburse holders of such guarantees for any losses suffered due to a failure by specified debtors to make payments when due as specified by the terms of an underlying debt instrument. Such financial guarantees are initially recognized at fair value. The amount initially recognized includes an adjustment for transaction costs which are directly attributable to the issuance of the guarantee. On a subsequent measurement basis, value of the financial guarantee is adjusted to reflect the higher

of our best estimate of the amount required to settle the probable obligation at the reporting date. Any amount recognized is net of cumulative amortization previously recognized.

(m) **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, NIP. The scheme is run on a basis that does not enable the Bank 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 Bank should account for the scheme as a money purchase scheme.

(n) **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.

(o) **Cash flow statement**

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

(p) **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in current liabilities on the balance sheet.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 2. INTEREST INCOME AND EXPENSE

| | Year ended 31 March 2011 $'000 | Year ended 31 March 2010 $'000 |
|---|---|---|
| **Interest Income** | | |
| Interest receivable on deposits | 48,069 | 90,590 |
| Interest receivable on reverse repurchase transactions | 267,514 | 52,204 |
| Other interest income | 40,601 | 9,220 |
| | **356,184** | **152,014** |
| **Interest Expense** | | |
| Interest payable to banks and customers | 35,562 | 9,317 |
| Interest payable on funds borrowed | 28,443 | 33,448 |
| Interest payable on repo transactions | 8,192 | 11,021 |
| Other interest expense | 7,459 | 2,334 |
| | **79,656** | **56,120** |

Of the total interest receivable on deposits of $48,068,967, amounts with respect to group companies amounted to $46,708,053. Of the total interest payable on funds borrowed of $28,443,060, the amount payable to group companies is $27,558,859.

### 3. DEALING LOSS

| | Year ended 31 March 2011 $'000 | Year ended 31 March 2010 $'000 |
|---|---|---|
| Financial instruments held for trading | 85,538 | 666,837 |
| Financial instruments designated at fair value through profit and loss account | (241,223) | (1,158,464) |
| | **(155,685)** | **(491,627)** |

The current year impact of changes in own credit risk included in dealing loss on financial instruments designated at fair value through profit and loss was a profit of $106,824,907. For the year ended March 2010 a loss of $391,288,167 was included in dealing profit for the changes in own credit risk.

Whilst the Bank's notes are issued globally, substantially all of the Bank's gross and net assets and profit before taxation arose from banking business transacted within the United Kingdom.

## 4. ADMINISTRATIVE EXPENSES

| | Year ended 31 March 2011 $'000 | Year ended 31 March 2010 $'000 |
|---|---|---|
| Wages, salaries and other social security | (1,438) | (382) |
| Audit of financial statements | (312) | (320) |
| Other fees to auditors – other services | (166) | (136) |
| Support service charges | (11,349) | (4,866) |
| | **(13,265)** | **(5,704)** |

The Bank utilises the services of a number of executive and non-executive directors. The Bank employs its own staff for certain administrative activities (the number of direct employees at the end of the current financial year totalled nine (2010: eight)). In addition, the Bank uses the resources of NIP under a Service Level Agreement, for which a charge is paid.

In addition to the audit fees shown above, an amount of $305,527 (2010: $313,450) was borne by the Bank's ultimate parent company.

## 5. DIRECTORS' EMOLUMENTS

The aggregate emoluments of Directors were $852,998 (2010: $1,379,625).

The highest paid Director received emoluments of $194,477 (2010: $159,920). As at 31 March 2011 his accrued pension totalled $nil per annum (2010: $nil) and no contributions were made to the Group Personal Pension plan.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 6. TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

#### (a) TAX (CHARGE)/CREDIT

| | Year ended 31 March 2011 $'000 | Year ended 31 March 2010 $'000 |
|---|---|---|
| Current tax: | | |
| UK Corporation tax (charge)/credit at 28% (2010: 28%) | (21,429) | 97,720 |
| Adjustment in respect of previous periods | 96 | - |
| Foreign tax suffered | (13) | (107) |
| | (21,346) | 97,613 |
| Deferred taxation: | | |
| Current year timing differences | (787) | 1,111 |
| Effect of changes in tax rates | 56 | - |
| Adjustment in respect of previous periods | 1 | - |
| Tax (charge)/credit on profit/(loss) on ordinary activities | **(22,076)** | **98,724** |

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

| | Year ended 31 March 2011 $'000 | Year ended 31 March 2010 $'000 |
|---|---|---|
| Net profit/(loss) before tax | **114,890** | **(390,427)** |
| UK Corporation tax (charge)/credit at 28% (2010: 28%) | (32,169) | 109,320 |
| Effects of: | | |
| Timing differences | (144) | (133) |
| Utilisation of tax losses | 10,880 | - |
| Unutilised losses for the year carried forward | - | (11,467) |
| Foreign tax suffered | (13) | (107) |
| Effect of double tax relief | 4 | - |
| Adjustment in respect of previous periods | 96 | - |
| Current corporation tax (charge)/credit for the year | **(21,346)** | **97,613** |

## 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 2010 by William M Mercer Limited, qualified independent actuaries. During the current financial year Premier Pensions Management Ltd., a qualified independent actuary, was appointed by the Trustees of the scheme, in place of William M Mercer Limited.

At the 31 March 2011 and 31 March 2010 the plan assets exceeded the value of the plan liabilities, i.e. there was a surplus. The amount that can be recovered through reduced contributions in the future is the present value of the liability expected to arise from future service by current and future scheme members less the present value of future employee contributions. As the plan closed to all future accrual with effect 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 NIP's balance sheet.

The costs of the scheme are borne by NIP, and full disclosure of the scheme is presented in NIP's financial statements.

## 8. LOANS AND ADVANCES TO BANKS

| | 31 March 2011<br>$'000 | 31 March 2010<br>$'000 |
|---|---:|---:|
| Remaining maturity: | | |
| - Cash on demand | 7,571 | 21,837 |
| | **7,571** | **21,837** |

## 9. LOANS AND ADVANCES TO AFFILIATES

| | 31 March 2011<br>$'000 | 31 March 2010<br>$'000 |
|---|---:|---:|
| Remaining maturity: | | |
| - Less than 3 months | 1,295 | 7,382,219 |
| - Greater than 3 months | - | 1,314 |
| | **1,295** | **7,383,533** |

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 10. OTHER LOANS AND ADVANCES

| | 31 March 2011 $'000 | 31 March 2010 $'000 |
|---|---|---|
| Other loan | 4,980 | 10,990 |
| Cash collateral | - | 15,270 |
| | **4,980** | **26,260** |

The other loan above is classified as on demand at the balance sheet date.

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

| | 31 March 2011 $'000 | 31 March 2010 $'000 |
|---|---|---|
| Bonds and medium term notes | 300,000 | - |
| Secured lending | 3,784,851 | 1,351,356 |
| Other financial instruments | 746,046 | 709,172 |
| | **4,830,897** | **2,060,528** |

Included within other financial instruments are loans to the value of $746,046,450 (2010: $709,171,804).

### 12. Derivative financial instruments

Positive fair values

| | 31 March 2011 $'000 | 31 March 2010 $'000 |
|---|---|---|
| Analysis by counterparty | | |
| Affiliates | 1,753,249 | 2,350,841 |
| Other | 6,907 | - |
| | **1,760,156** | **2,350,841** |

Negative fair values

| | 31 March 2011 $'000 | 31 March 2010 $'000 |
|---|---|---|
| Analysis by counterparty | | |
| Affiliates | 2,062,846 | 2,554,278 |
| Other | 883,902 | 47,974 |
| | **2,946,748** | **2,602,252** |

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 13. OTHER ASSETS

| | 31 March 2011<br>$'000 | 31 March 2010<br>$'000 |
|---|---|---|
| Other assets | 18,988 | 25,378 |
| | **18,988** | **25,378** |

All amounts are receivable within one year.

### 14. CUSTOMER ACCOUNTS

| | 31 March 2011<br>$'000 | 31 March 2010<br>$'000 |
|---|---|---|
| Remaining maturity: | | |
| - Repayable on demand | 50,312 | 48,932 |
| | **50,312** | **48,932** |

### 15. BORROWING FROM AFFILIATES

| | 31 March 2011<br>$'000 | 31 March 2010<br>$'000 |
|---|---|---|
| Remaining maturity: | | |
| - Less than 3 months | 3,111,431 | 7,678,382 |
| - Greater than 3 months | 257,702 | 33,796 |
| | **3,369,133** | **7,712,178** |

### 16. BORROWING FROM OTHERS

| | 31 March 2011<br>$'000 | 31 March 2010<br>$'000 |
|---|---|---|
| Remaining maturity: | | |
| - On demand | - | 41,992 |
| - Less than 1 year | 95,517 | 161,158 |
| - Greater than 5 years | 10,798 | 8,272 |
| | **106,315** | **211,422** |

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

| | 31 March 2011 $'000 | 31 March 2010 $'000 |
|---|---|---|
| Bonds and medium term notes, by remaining maturity: | | |
| - Less than 1 year | 1,950,793 | 2,611,407 |
| - Less than 5 years but greater than 1 year | 4,792,234 | 1,240,293 |
| - Greater than 5 years | 5,584,271 | 5,671,911 |
| Other financial instruments | 729,833 | 688,861 |
| | **13,057,131** | **10,212,472** |

The current year impact of changes in own credit risk included in dealing losses on financial instruments designated at fair value through profit and loss account was a profit of $106,824,907. For the year ended March 2010 a loss of $391,288,167 was included in dealing losses for the changes in own credit risk. The balance sheet valuation adjustment resulting from own credit, included in the fair values of bonds and medium notes above, is a debit of $180,682,434 at 31 March 2011. The Bank calculates and applies an own credit adjustment based on movements in the credit spread of the Nomura Group.

## 18. OTHER LIABILITIES

| | 31 March 2011 $'000 | 31 March 2010 $'000 |
|---|---|---|
| Group relief payable | 21,429 | - |
| Collateral payable | 3,124,315 | 1,139,586 |
| Foreign tax payable | 11 | 103 |
| Others payables | 11,712 | 1,102 |
| | **3,157,467** | **1,140,791** |

The Bank has not breached or defaulted on any of its loan obligations with either third parties or fellow Group companies.

The collateral balance is in relation to collateral pledged by NIP to the Bank in respect of derivative exposure existing at the year end date.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 19. DEFERRED TAXATION

| | 31 March 2011<br>$'000 | 31 March 2010<br>$'000 |
|---|---|---|
| Capital allowances | 293 | 394 |
| General Provisions | 10 | 11 |
| Unutilised tax losses | - | 10,879 |
| FRS 26 adjustment | (1,033) | (1,335) |
| Deferred tax asset not recognised | - | (9,949) |
| | (730) | - |
| Balance as at 1 April | - | (1,054) |
| Deferred tax charge | (787) | - |
| Effect of changes in tax rates | 56 | - |
| Adjustment in respect of prior years | 1 | 1,054 |
| Balance at 31 March | **(730)** | **-** |

Deferred taxation has been recognised at 26% (2010: 28%) being the UK corporation tax rate from 1 April 2011.

On 23 March 2011 as part of the 2011 Budget, the UK government has announced its intention to legislate to reduce the main rate of corporation tax to 26% with effect from 1 April 2011 and further by 1% per annum falling to 23% with effect from 1 April 2014. The reduction to 26% was subsequently enacted prior to 31 March 2011 under the provisions of the Provisional Collection of Taxes Act 1968 and the effect of this reduction is therefore reflected in the above calculation of the deferred tax liability.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 20. SHARE CAPITAL

| 31 March 2011 | Authorised Number '000 | Allotted and fully paid Number '000 | Allotted and fully paid Consideration $'000 |
|---|---|---|---|
| US Dollar Ordinary shares of $1 each | 555,000 | 555,000 | 555,000 |

| 31 March 2010 | Authorised Number '000 | Allotted and fully paid Number '000 | Allotted and fully paid Consideration $'000 |
|---|---|---|---|
| Sterling Ordinary shares of £1 each | 370,000 | 370,000 | 555,000 |

| | 31 March 2011 $'000 | 31 March 2010 $'000 |
|---|---|---|
| As at 1 April | 555,000 | 255,000 |
| Issue of share capital during the year | - | 300,000 |
| | **555,000** | **555,000** |

### 21. RESERVES

| | Profit and loss account $'000 | Redenomination reserve $'000 | Other reserve $'000 | Total $'000 |
|---|---|---|---|---|
| As at 1 April 2010 | 123,020 | - | 6,327 | 129,347 |
| Transfer from Other reserve on redenomination of share capital | - | 3,108 | (3,108) | - |
| Foreign currency gains | - | - | 38 | 38 |
| Retained profit for the year | 92,814 | - | - | 92,814 |
| As at 31 March 2011 | **215,834** | **3,108** | **3,257** | **222,199** |
| As at 1 April 2009 | 359,865 | - | - | 359,865 |
| Restatement resulting from change in functional currency | 54,858 | - | 6,327 | 61,185 |
| Retained loss for the year | (291,703) | - | - | (291,703) |
| As at 31 March 2010 | **123,020** | **-** | **6,327** | **129,347** |

Effective on 1 April 2010 the Bank redenominated its issued share capital from Pound Sterling to USD by means of a shareholders resolution. The redenomination was effected at the Pound Sterling: USD spot rate of exchange on 22 March 2010 of £1 : USD 1.5084 and this is the rate at which the issued share capital is recorded in the balance sheet. Other reserves includes the difference arising as a result of translating share capital at the rate on the date of redenomination which was 22 March 2010 instead of the rate at the balance sheet date upon the change in functional currency.

## 22. 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.

**The Role of Financial Instruments**

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 offers traditional banking products to facilitate 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.

**Operational Risk**

The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition is based on the standard Basel definition and excludes strategic risk (the risk of loss as a result of poor strategic business decisions), but includes the risk of breach of legal and regulatory requirements, and the risk of damage to Nomura's reputation if caused by an operational risk.

The Bank uses the Nomura Group's Operational Risk framework for the management of the Bank's operational risk and this is outlined in the Global Operational Risk Management Minimum Standards and Policy of the Nomura Group.

The Operational Risk Management Framework consists of the following core products and services:

Operational Risk Event Reporting – a process for the identification, reporting and management of operational risk events which could have an impact on the Nomura Group.

Risk and Control Self Assessment ("RCSA") – a periodic self assessment of risks and control effectiveness including any specific remediation.

Key Risk Indicators ("KRIs") – metrics used to monitor and manage the business exposure to risk.

Scenario analysis – a process to identify low frequency and high severity events.

These core components are used to identify the operational risk profile within the Bank and ensure this is in accordance with the risk appetite set by the Group Integrated Risk Management Committee on behalf of the Nomura Group Board.

## 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Risk Management Structure

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 set up within the Bank or under service level agreements with affiliate companies.

**Committees/Departments**

*Capital Allocation*

Regional Business line requests for capital are approved in the first instance by the European Executive Management Committee before submission to the Global Wholesale Committee in Tokyo for approval as part of the Global Budgeting and Capital Allocation process.

*Treasury Department*

The Treasury department monitors compliance with the Bank'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.

*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 the Executive Management Committee. The Risks and Controls department is independent from the Internal Audit function.

## 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

*Internal Audit*

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

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

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

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

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

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

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

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

**The Bank's Committees**

*Audit Committee*

The Board of Directors of the Bank has established a committee, known as the Audit Committee, to ensure an effective internal control environment is maintained within NBI and to ensure corporate objectives are achieved and are consistent with those of the NEHS Group and the ultimate group holding company, Nomura Holdings, Inc.

*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 Risk Management Committee.

## 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

*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 and market 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.

**Risk Measurement and Reporting Systems**

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), Economic Capital (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.

### a) Market Risk

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

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 Value-at-Risk ("VaR") and numerous business focused risk limits, such as option risk factors. VaR is only applied to those risk positions for which a meaningful estimate of risk is provided.

The Bank uses 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 its 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 the purchase of 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 2011 (CONTINUED)

### 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below shows an analysis of the risks on a notional basis for non-trading items designated at fair value and those that are held for trading:

| **31 March 2011:** | **Equity Risk $'000** | **Credit Risk $'000** | **Total $'000** |
|---|---|---|---|
| Financial instruments designated at fair value through profit and loss and held for trading: | | | |
| - Financial liabilities | (4,846,988) | (8,092,595) | (12,939,583) |
| Financial instruments designated at fair value through profit and loss: | | | |
| - Financial assets | 3,784,851 | - | 3,784,851 |
| Financial instruments held for trading: | | | |
| - Derivative Financial Instruments: | | | |
| - Fixed income and credit derivatives | - | 8,092,595 | 8,092,595 |
| - Equity derivatives | 1,062,137 | - | 1,062,137 |
| | - | - | - |

| **31 March 2010:** | **Equity Risk $'000** | **Credit Risk $'000** | **Total $'000** |
|---|---|---|---|
| Financial instruments designated at fair value through profit and loss and held for trading: | | | |
| - Financial liabilities | (4,869,430) | (4,839,623) | (9,709,053) |
| Financial instruments designated at fair value through profit and loss: | | | |
| - Financial assets | 1,371,992 | - | 1,371,992 |
| Financial instruments held for trading: | | | |
| - Derivative Financial Instruments: | | | |
| - Fixed income and credit derivatives | - | 4,839,623 | 4,839,623 |
| - Equity derivatives | 3,497,438 | - | 3,497,438 |
| | - | - | - |

#### 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 and investment activities there is often a need to swap surplus flows in one currency into another currency, a process achieved using currency swap transactions in both outright and derivative forms.

The Bank will always attempt to minimise structural currency risk and Treasury does not take any views on definitive outright positions, but will always have a translational currency risk given the European nature of assets held on the Balance Sheet.

### 22. 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, NIP's Treasury department monitors compliance with interest rate gap policies, which are subsequently monitored independently by the Market Risk department. Almost all exposure is hedged to a 3 month LIBOR (or equivalent) position or shorter.

At 31 March 2011, 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 tenure 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 2011 no transactions meet these criteria.

The Bank mitigates its exposure to NIP requiring that cash lent is collateralised with securities (reverse repurchase transactions). At 31 March 2011 the fair value of securities pledged to the Bank by NIP was $18,288,000,000, and largely comprised highly rated European government bonds. None of this collateral was repledged or retransferred at the balance sheet date.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Credit Risk Exposure**

The Bank's maximum exposure to credit risk at the 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 |
|---|---|---|
| | 31 March 2011 | 31 March 2010 |
| | $'000 | $'000 |
| Loans and advances to banks | 7,571 | 21,837 |
| Loans and advances to affiliates | 1,295 | 7,383,533 |
| Other loans and advances | 4,980 | 26,260 |
| Securities purchased under agreements to resell | 17,653,404 | 12,132,489 |
| Financial assets designated at fair value through profit and loss | | |
| - Bonds and medium term notes | 300,000 | - |
| - Secured lending | 3,784,851 | 1,351,356 |
| - Other financial instruments | 746,046 | 709,172 |
| Available for sale financial investments | 152 | 144 |
| Derivative financial instruments | 1,760,156 | 2,350,841 |
| Other assets | 18,988 | 25,378 |
| Prepayments and accrued income | 26,990 | 26,535 |
| **Financial guarantee contracts** | **34,859** | **-** |
| **Off balance sheet commitments** | **1,717,137** | **1,177,392** |
| **Total exposure to credit risk** | **26,056,429** | **25,204,937** |

Taking into account collateral and other credit enhancements, the Bank's significant credit risk is to NIP. The Bank benefits from a written guarantee from its ultimate parent, NHI, over its exposure to NIP.

**Off balance sheet commitments**

In the normal course of business, the Bank provides corporate counterparties with loan commitment facilities. Undrawn commitments are held off balance sheet, until the point at which they become drawn. On being drawn, the facility will be carried at fair value on the balance sheet. In addition, the Bank provides certain financial guarantees to third parties over their exposure to Nomura group companies.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 22. 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 31 March 2011 $'000 | Maximum Exposure to Credit Risk 31 March 2010 $'000 |
|---|---|---|
| **Financial Assets** | | |
| AA | 295 | 871 |
| A | 2,890 | 67,097 |
| AAA | 357 | - |
| BBB | 24,233,697 | 23,883,192 |
| B | - | 114 |
| Not rated | 67,194 | 76,271 |
| **Total** | **24,304,433** | **24,027,545** |
| **Off balance sheet commitments and financial guarantee contracts** | | |
| AA | 212,782 | 290,648 |
| A | 1,351,860 | 705,573 |
| BBB | 187,259 | 139,972 |
| B | 95 | 41,199 |
| **Total** | **1,751,996** | **1,177,392** |
| **Total exposure to credit risk by credit rating** | **26,056,429** | **25,204,937** |

Within "not rated" are balances representing the pool of counterparties which individually do not generate material credit risk for the Bank.

Substantially all the financial assets with exposures rated BBB are collateralised using a mixture of securities collateral, largely comprising highly rated European government bonds, or cash. In addition, the Bank benefits from a written guarantee from its ultimate parent, NHI, over its exposure to NIP. A significant proportion of the Bank's BBB exposure is with NIP.

Included within "not rated" are two loans which are past due at the balance sheet date, carried at a total of $8,674,653. All credit risk arising on these positions is hedged with NIP; therefore there is no net impact on the profit and loss account of the Bank.

**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.

## 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

### c) Liquidity Risk

The Bank defines liquidity risk as the potential inability to meet financial obligations as they become due. We therefore seek to ensure adequate liquidity across market cycles and through periods of stress. This is achieved through a controlled process that ensures that cumulative financing requirements are restricted to pre-set levels. The Bank's liquidity management includes monitoring projected contractual and contingent cash flows and maintaining liquidity and funding contingency plans.

We assess the Bank's liquidity requirements under various stress scenarios with differing levels of severity over multiple time horizons. We evaluate these requirements under company-specific and broad market wide events, including potential credit rating downgrades at the parent company and subsidiary levels that may impact us by loss of access to unsecured capital markets, additional collateral posting requirements, limited or no access to secured funding markets and other events. We call this risk analysis our "Maximum Cumulative Outflow" framework.

The liquidity risk appetite for the Bank has been set and is fully integrated within the Bank's overall risk appetite framework, which defines the types and levels of risk the Bank is willing to accept in pursuit of its strategic objectives within the MCO framework

To ensure that the Bank has sufficient reserves to guard against any unforeseen event, the Treasury department requires that the businesses operate within unsecured funding limits that are 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 forced liquidation of 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, unencumbered securities that many be sold or pledged to provide liquidity to meet immediate requirements.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Contractual Maturity Table**

The table below shows the maturity profile of the Bank's financial assets. The analysis into maturity groupings is based on the remaining period to the contractual maturity date or, if earlier, the expected date the assets will be realised. Derivatives are disclosed at fair value on demand with the exception of gross settled derivatives, which are shown by contractual maturity remaining.

| 31 March 2011: | On demand $'000 | Less than 30 days $'000 | 31 days - 1 year $'000 | 1-5 year $'000 | Later than 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Loans and advances to banks | 7,571 | - | - | - | - | 7,571 |
| All other loans and advances | 4,980 | - | 1,295 | - | - | 6,275 |
| Financial assets designated at fair value | 3,550 | - | 2,356,825 | 1,071,557 | 1,398,965 | 4,830,897 |
| Securities purchased under agreement to resell | - | 8,787,464 | 8,865,940 | - | - | 17,653,404 |
| Available for sale financial investments | - | - | - | - | 152 | 152 |
| Derivatives held for trading | 1,739,537 | - | 17,556 | 2,134 | 929 | 1,760,156 |
| Other asset categories | 45,978 | - | - | - | - | 45,978 |
| **Total assets** | **1,801,616** | **8,787,464** | **11,241,616** | **1,073,691** | **1,400,046** | **24,304,433** |

| 31 March 2010: | On demand $'000 | Less than 30 days $'000 | 31 days - 1 year $'000 | 1-5 year $'000 | Later than 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Loans and advances to banks | 21,837 | - | - | - | - | 21,837 |
| All other loans and advances | | 7,397,489 | 12,304 | - | - | 7,409,793 |
| Financial assets designated at fair value | - | 548,586 | 802,770 | 677,654 | 31,518 | 2,060,528 |
| Securities purchased under agreement to resell | - | 10,780,639 | 1,351,850 | - | - | 12,132,489 |
| Available for sale financial investments | - | - | - | - | 144 | 144 |
| Derivative held for trading | 2,216,257 | 6,275 | 33,488 | 94,241 | 580 | 2,350,841 |
| Other asset categories | 51,913 | - | - | - | - | 51,913 |
| **Total assets** | **2,290,007** | **18,732,989** | **2,200,412** | **771,895** | **32,242** | **24,027,545** |

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 22. 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 at fair value on demand with the exception of gross settled derivatives, which are shown by contractual maturity remaining. Financial liabilities designated at fair value are disclosed based on their earliest redemption date. 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.

| 31 March 2011: | On demand $'000 | Less than 30 days $'000 | 31 days - 1 year $'000 | 1-5 year $'000 | Later than 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Customer accounts | 50,312 | - | - | - | - | 50,312 |
| Borrowing from affiliates | - | 3,027,676 | 302,792 | 8,665 | 30,000 | 3,369,133 |
| Borrowing from others | - | 95,044 | 473 | 6,058 | 4,740 | 106,315 |
| Financial liabilities designated at fair value through profit and loss | | | | | | |
| - Bonds and medium term notes | 1,810 | 84,654 | 1,864,330 | 4,792,233 | 5,584,271 | 12,327,298 |
| - Other financial instruments | - | - | 708,957 | - | 20,876 | 729,833 |
| Other liabilities | 3,124,315 | - | 33,152 | - | - | 3,157,467 |
| Derivative held for trading | 2,897,644 | 32,525 | 14,743 | 1,637 | 199 | 2,946,748 |
| Securities sold under agreements to repurchase | - | - | 709,275 | - | - | 709,275 |
| Other liability categories | 130,853 | - | - | - | - | 130,853 |
| **Total liabilities** | **6,204,934** | **3,239,899** | **3,633,722** | **4,808,593** | **5,640,086** | **23,527,234** |

| 31 March 2010: | On demand 2010 $'000 | Less than 30 days | 31 days - 1 year 2010 $'000 | 1-5 year 2010 $'000 | Later than 5 years 2010 $'000 | Total 2010 $'000 |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Customer accounts | 48,932 | - | - | - | - | 48,932 |
| Borrowing from affiliates | - | 7,319,928 | 392,250 | - | - | 7,712,178 |
| Borrowing from others | 41,992 | - | 161,158 | - | 8,272 | 211,422 |
| Financial liabilities designated at fair value through profit and loss | | | | | | |
| - Bonds and medium term notes | - | 76,593 | 2,534,814 | 2,694,469 | 4,217,735 | 9,523,611 |
| - Other financial instruments | - | - | 675,061 | - | 13,800 | 688,861 |
| Other liabilities | - | - | 1,140,791 | - | - | 1,140,791 |
| Derivative held for trading | 2,467,667 | 6,275 | 33,489 | 94,241 | 580 | 2,602,252 |
| Securities sold under agreements to repurchase | - | - | 1,351,850 | - | - | 1,351,850 |
| Other liability categories | 63,301 | - | - | - | - | 63,301 |
| **Total liabilities** | **2,621,892** | **7,402,796** | **6,289,413** | **2,788,710** | **4,240,387** | **23,343,198** |

The Bank is not aware of any breaches of loan payables during the year.

## 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

c) Financial assets and liabilities designated at fair value through profit and loss and derivatives are measured at fair value by reference to quoted market prices when available. Such models are based wherever possible on assumptions supported by observable market prices or rates. These valuation techniques are based on assumptions. As a result, the fair value calculated using these valuation techniques will change if the underlying assumptions change. The potential impact of using reasonably possible alternative assumptions to value these financial instruments has not been disclosed as, due to the Bank's transfer of risks to other Nomura Group companies, it is not deemed significant.

**Fair value hierarchy**

**Level 1** - quoted prices in active markets for the same instrument (ie without modification or repackaging).
**Level 2** - quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.
**Level 3** - valuation techniques for which any significant input is not based on observable market data.

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

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

**Fair value – Assets**

| 31 March 2011: | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets held for trading: | | | | |
| - Derivatives | - | 1,474,522 | 285,634 | 1,760,156 |
| Financial assets designated at fair value through profit and loss: | | | | |
| - Notes | - | 300,000 | - | 300,000 |
| - Secured Lending | - | 3,784,851 | - | 3,784,851 |
| - Loans and receivables | - | 711,080 | 34,966 | 746,046 |
| | **-** | **6,270,453** | **320,600** | **6,591,053** |

| 31 March 2010: | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets held for trading: | | | | |
| - Derivatives | - | 2,001,300 | 349,541 | 2,350,841 |
| Financial assets designated at fair value through profit and loss: | | | | |
| - Secured lending | - | 1,351,356 | - | 1,351,356 |
| - Loans and receivables | - | 677,654 | 31,518 | 709,172 |
| | **-** | **4,030,310** | **381,059** | **4,411,369** |

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

**Fair value hierarchy – Liabilities**

| 31 March 2011: | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial Liabilities** | | | | |
| Financial liabilities held for trading: | | | | |
| - Derivatives | - | 2,458,839 | 487,909 | 2,946,748 |
| Financial liabilities designated at fair value through profit and loss: | | | | |
| - Bonds and medium term notes | - | 12,162,314 | 164,984 | 12,327,298 |
| - Other | - | 708,957 | 20,876 | 729,833 |
| | **-** | **15,330,110** | **673,769** | **16,003,879** |

| 31 March 2010: | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial Liabilities** | | | | |
| Financial liabilities held for trading: | | | | |
| - Derivatives | - | 2,149,390 | 452,862 | 2,602,252 |
| Financial liabilities designated at fair value through profit and loss: | | | | |
| - Bonds and medium term notes | - | 9,127,237 | 382,638 | 9,509,875 |
| - Other | - | 675,061 | 13,800 | 688,861 |
| | **-** | **11,951,688** | **849,300** | **12,800,988** |

## 23. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

**Level 3 financial assets and financial liabilities**

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

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

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

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

| **31 March 2011:** | **At 1 April 2010** | **Total gains (losses) in P&L** | **Net cash (in)/out** | **Settle-ments** | **Net transfers in/(out) of level 3** | **At 31 March 2011** | **Unrealised Total gains (losses)in P&L** |
|---|---|---|---|---|---|---|---|
| **$'000s** | | | | | | | |
| **Financial assets** | | | | | | | |
| Financial assets held for trading: | | | | | | | |
| - Derivatives | 349,541 | 13,202 | - | 5,876 | (82,985) | 285,634 | 21,506 |
| Financial assets designated fair value through profit and loss: | | | | | | | |
| - Loans & receivables | 31,518 | 1,236 | 2,212 | - | - | 34,966 | 3,449 |
| | **381,059** | **14,438** | **2,212** | **5,876** | **(82,985)** | **320,600** | **24,955** |

| **31 March 2010:** | **At 1 April 2009** | **Total gains (losses) in P&L** | **Net cash (in)/out** | **Settle-ments** | **Net transfers in/(out) of level 3** | **At 31 March 2010** | **Unrealised Total gains (losses)in P&L** |
|---|---|---|---|---|---|---|---|
| **$'000s** | | | | | | | |
| **Financial assets** | | | | | | | |
| Financial assets held for trading: | | | | | | | |
| - Derivatives | 352,322 | 160,668 | - | (160,698) | (2,751) | 349,541 | 112,926 |
| Financial assets designated fair value through profit and loss: | | | | | | | |
| - Loans & receivables | 22,425 | (230) | 9,323 | - | - | 31,518 | 9,266 |
| | **374,747** | **160,438** | **9,323** | **(160,698)** | **(2,751)** | **381,059** | **122,192** |

Total gains and losses on financial assets included in the above table are included in 'Dealing (loss)/profit' in the profit and loss account.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

| | At 1 April 2010 | Total (gains)/ losses in P&L | Net issuance/ (redemption) | Settle-ments | Net transfers in/(out) of level 3 | At 31 March 2011 | Unrealised Total gains (losses) in P&L |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Financial liabilities held for trading: | | | | | | | |
| - Derivatives | 452,862 | 75,447 | - | 6,617 | (47,018) | 487,908 | 112,594 |
| Financial liabilities designated fair value through profit and loss: | | | | | | | |
| - Structured notes | 382,638 | (7,786) | 97,224 | - | (307,091) | 164,985 | (10,308) |
| - Other | 13,800 | 5,185 | 1,891 | - | - | 20,876 | 7,076 |
| | **849,300** | **72,846** | **99,115** | **6,617** | **(354,109)** | **673,769** | **109,362** |

| | At 1 April 2009 | Total (gains)/ losses in P&L | Net issuance/ redemption | Settle-ments | Net transfers in/(out) of level 3 | At 31 March 2010 | Unrealised Total gains (losses) in P&L |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Financial liabilities held for trading: | | | | | | | |
| - Derivatives | 582,769 | (65,986) | - | (65,753) | 1,832 | 452,862 | 80,416 |
| Financial liabilities designated fair value through profit and loss: | | | | | | | |
| - Structured notes | 1,449,695 | 12,962 | (281,923) | - | (798,096) | 382,638 | 32,083 |
| - Other | - | - | - | 13,800 | - | 13,800 | - |
| | **2,032,464** | **(53,024)** | **(281,923)** | **(51,953)** | **(796,264)** | **849,300** | **112,499** |

Total gains and losses on financial liabilities included in the above table are included in 'Dealing (loss)/profit' in the profit and loss account.

During the year a number of notes were transferred out of level 3 as a consequence of revisions to the observability of the valuation inputs.

## 24. 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.

The Bank is subject to and complies with the regulatory requirements of the UK Financial Services Authority (FSA).

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

**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 maintain Tier 2 or Tier 3 capital.

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| Tier 1 capital | 644,815 | 646,342 |
| Total capital resources | 644,815 | 646,342 |

## 25. CONTINGENT LIABILITIES AND COMMITMENTS

**Contingent Liabilities**

**HM Revenue and Customs**

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 2011, the additional interest on this tax assessment balance stands at an estimated £4.6 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.

## NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2011 (CONTINUED)

### 25. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

**WestLB**

On 11 November 2010, the High Court in London ruled in favour of NIP and the Bank, dismissing claims made by WestLB AG against them. WestLB first served the proceedings on NIP and the Bank in April 2009, claiming that under the terms of a note issued by the Bank and which matured in October 2008, WestLB was entitled to receive approximately $22million which it claimed to be the value of a fund of shares referable to the note. WestLB sought permission to appeal and this was granted by the Court of Appeal on 7 March 2011.

**Commitments**

The Bank had commitments as at 31 March 2011 amounting to $1,717,136,841 (2010: $1,177,392,485) in respect of undrawn note issuance facilities and loan commitments.

**Financial guarantee contracts**

The Bank provides certain financial guarantees to third parties over their exposure to Nomura group companies. At 31 March 2011 the exposure on these financial guarantee contracts amounted to $34,859,260 (2010: $nil).

### 26. 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.

### 27. 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 1 Angel Lane, London EC4R 3AB, respectively.