

# NOMURA BANK INTERNATIONAL PLC

ANNUAL REPORT

31 March 2012

# NOMURA



COMPANY REGISTERED NUMBER 1981122

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## NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2012

### DIRECTORS' REPORT

The Directors present their report and the consolidated financial statements of Nomura Bank International plc (the "Bank") for the year ended 31 March 2012. The Bank is incorporated in the United Kingdom and its registered office address is 1 Angel Lane, London EC4R 3AB.

### 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;
- Provision of 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, as well as a subsidiary in China.

### RESULTS AND DIVIDENDS

The results for the year are set out on page 9. No interim dividend was paid during the year (2011: \$nil). The Directors do not recommend the payment of a final dividend (2011: \$ nil).

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

On 13 February 2012, the Bank acquired GE Capital Finance (China) Co., Ltd ("the Bank's China subsidiary") which is a finance company established in Shanghai, China, with a view to converting it into a fully licensed wholly foreign owned bank in China. On acquisition of the Bank's China subsidiary, the Bank converted to International Financial Reporting Standards ("IFRSs") and produced additional consolidated financial statements under IFRS as required by Regulation (EC) No 1606/2002. The name of the Bank's China subsidiary will be changed to reflect Nomura branding in due course. In addition, the Bank was granted approval by the China Banking Regulatory Commission ("CBRC") on 23 May 2011 to establish a representative office in Beijing, China.

During the year the Bank continued its note issuance business. The Bank has a number of platforms for the issuance of debt which allow the Bank to issue equity-linked notes and certificates and 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 continues to lend predominantly on a secured basis through the use of reverse repurchase transactions ('Securities purchased under agreements to resell'). As at 31 March 2012, 94% of funds were advanced on a secured basis. The Bank's key financial performance indicators during the year were as follows:

	<u>Year ended</u> <u>31 March 2012</u>	<u>Year ended</u> <u>31 March 2011</u>	<u>% Variance</u>
	<u>\$'000</u>	<u>\$'000</u>	
Operating income	166,453	128,155	29.9%
Profit on ordinary activities before taxation	153,694	114,890	33.8%
Profit for the year	113,764	92,814	22.6%
Shareholders' funds	890,944	777,199	14.6%

## NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2012

### DIRECTORS' REPORT (CONTINUED)

The Bank reported a profit on ordinary activities before tax for the year of \$153,693,596 (2011: \$114,890,364). 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 bonds and medium term notes issued, the widening of Nomura's credit spreads during the year ended 31 March 2012 has impacted the valuation of the Bank's financial liabilities. As credit spreads have widened, the fair value of bonds and medium term notes issued in the statement of financial position 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 \$144,905,376 (2011: \$106,824,907).

For the year ending 31 March 2013, the Bank will focus on its activities to support the Global Wholesale Business of the Nomura Group.

### 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 Bank's Treasury department.

In addition, the Bank's conflicts, legal risk, reputational risks and cross border booking risks are delegated to, and managed through the appropriate committees of Nomura Europe Holdings plc ("NEHS"), the Bank's immediate parent. The Bank's risk appetite is also monitored by the NEHS Board Risk Committee which considers the current risk profile and risk appetite of NEHS and its subsidiaries and oversees 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 17.

### EMPLOYEE MATTERS

The Bank outsources some of its support services under service level agreements to departments of Nomura International plc ("NIP"), an affiliated company. 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.

## NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2012

### DIRECTORS' REPORT (CONTINUED)

#### ENVIRONMENT

The Nomura Group believes a healthy environment is the foundation of stable economic and social conditions for future generations. We are committed to acting in an environmentally responsible manner and therefore approach environmental issues positively.

- We encourage investment and constructive engagement in environmentally friendly goods and services;
- We assess environmental risks and continually strive to minimize pollution and improve the environment;
- We comply with relevant environmental laws and regulations and engage with external stakeholders on environmental issues;
- We are committed to reducing waste and conserving energy and natural resources to minimize the impact of our footprint on the environment;
- We communicate this policy to all employees to raise awareness of environmental issues and encourage environmentally friendly initiatives;
- We make this policy available for public review.

#### 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 2012 were 14 (2011: 14).

#### DONATIONS

The Bank made no charitable donations during the year (2011: \$nil).

#### EVENTS AFTER THE BALANCE SHEET DATE

On 17 April 2009 WestLB served proceedings on NIP and the Bank claiming that, on maturity of a note issued by the Bank and maturing in October 2008, WestLB were entitled to receive approximately \$22 million, which it claims to be the value of a fund of shares referable to the note. On 11 November 2010, the High Court in London dismissed WestLB's claim. WestLB obtained leave to appeal on 7 March 2011. Following the year end, on 24 April 2012, the Court of Appeal in London dismissed WestLB's appeal.

## NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2012

### DIRECTORS' REPORT (CONTINUED)

#### DIRECTORS

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

Dame Clara Furse *	– Non Executive Director and Chairman
Kieran Poynter *	– Non Executive Director
Paul Spanswick	– President and Chief Executive Officer (appointed President and Chief Executive Officer 22 March 2012)
John Phizackerley	– President and Chief Executive Officer (resigned from the Board 22 March 2012)
Christopher Flanagan	– Director (appointed 7 November 2011)
David Harper	– Director (appointed 19 August 2011)
Masafumi Nakada	– Director (appointed 19 August 2011)
Mark Basten	– Director (resigned 14 June 2011)
Kenji Kimura	– Director (appointed 3 October 2011)
Carlo Pellerani	– Director (resigned 28 February 2012)

\* Member of the Audit Committee of the Board

#### DIRECTORS' INDEMNITIES

As at the date of this report and during the relevant financial year, indemnities are and were in force under which the company has agreed to indemnify certain directors of the company to the extent permitted by law and in accordance with the company's articles of association, in respect of certain losses and liabilities arising out of, in connection with, the execution of their powers, duties and responsibilities, as directors of the company. In addition, NHI effected a global Directors and Officers liability insurance programme for the benefit of the Nomura Group

#### 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 17 of the statutory financial statements for the year to 31 March 2012 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. Whilst the Bank has significant exposure to group companies, and in particular to NIP, this is significantly collateralised to minimise the Bank's exposure. The Bank's net exposures with NIP are supported by a limited written guarantee from the Bank's ultimate parent, NHI.

The maturity profile of the Bank's liabilities is typically much longer dated than that of its assets, minimising the risk of the Bank not being able to meet its obligations as they fall due.

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.

**NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2012**

## **DIRECTORS' REPORT (CONTINUED)**

### **CORPORATE GOVERNANCE STATEMENT FOR INTERNAL CONTROLS**

The Directors are responsible for the Bank's internal controls 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 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 statutory and regulatory obligations. In addition, the Bank's senior Finance, Risk, Legal and Compliance management and the internal and external auditors 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 page 4. 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.

### **BY ORDER OF THE BOARD**

**Andrew Eames**

Company Secretary

16 July 2012

**Company Registered Number: 1981122**



## NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2012

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

The Directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare consolidated financial statements for each financial year. Under that law, the Directors are required to prepare consolidated financial statements under IFRSs as adopted by the European Union.

Under company law the Directors must not approve the consolidated 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:

- present fairly the financial position, financial performance and cash flows of the Bank;
- select suitable accounting policies in accordance with IAS 8 "Accounting policies, Changes in accounting Estimates and Errors" and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- state whether the consolidated financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate 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 consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. 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.

The Directors are also responsible for preparing the Directors' Report, the Directors' Remuneration Report and the Corporate Governance Statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

### BY ORDER OF THE BOARD

Paul Spanswick  
Director

16 July 2012

Company Registered Number: 1981122

## NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2012

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

We have audited the financial statements of Nomura Bank International plc (together with its subsidiary undertakings the "Group") for the year ended 31 March 2012 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Cash Flows and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company'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 company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 and the parent company'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.



## NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2012

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

#### OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2012 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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.

#### 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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

## NOMURA BANK INTERNATIONAL PLC

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

Note		<u>Group</u> <u>Year ended</u> <u>31 March 2012</u> \$'000	<u>Company</u> <u>Year ended</u> <u>31 March 2011</u> \$'000
	<b>INCOME</b>		
2	Interest income and similar income	212,612	356,184
2	Interest expense and similar charges	(32,738)	(79,656)
	<b>NET INTEREST INCOME</b>	179,874	276,528
	Fee and commission income	113,599	27,579
	Fee and commission expense	(10,285)	(20,267)
3	Dealing loss	(116,735)	(155,685)
	<b>TOTAL OPERATING INCOME</b>	166,453	128,155
4	Administrative expenses	(12,759)	(13,265)
	<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	153,694	114,890
6	Tax charge on profit on ordinary activities	(39,930)	(22,076)
	<b>PROFIT FOR THE YEAR</b>	<b>113,764</b>	<b>92,814</b>
	Foreign currency (loss) / gain	(19)	38
	<b>TOTAL COMPREHENSIVE INCOME</b>	<b>113,745</b>	<b>92,852</b>

The statement of comprehensive income for the Bank has been presented for the year ended 31 March 2011 as a comparative because in the prior year the Bank had no subsidiaries.

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

Included within the dealing loss for the year is a profit of \$144,905,376 in relation to changes in own credit risk (2011: profit of \$106,824,907). These gains and losses arise on financial instruments designated at fair value through profit and loss.

The notes on pages 16 to 58 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2012

	<u>Called-up share capital</u>	<u>Retained earnings</u>	<u>Other Reserve</u>	<u>Total shareholder's equity</u>
	\$'000	\$'000	\$'000	\$'000
<b>As at 1 April 2011</b>	555,000	222,161	38	777,199
Profit for the year	-	113,764	-	113,764
Foreign currency losses	-	-	(19)	(19)
Total comprehensive income	-	113,764	(19)	113,745
<b>As at 31 March 2012</b>	555,000	335,925	19	890,944

No comparative for the above consolidated statement has been presented as March 2012 is the first year ended that the Bank has consolidated a subsidiary.

Foreign currency losses are due to the Bank's branch in Italy.

	<u>Called-up share capital</u>	<u>Retained earnings</u>	<u>Other Reserve</u>	<u>Total shareholder's equity</u>
	\$'000	\$'000	\$'000	\$'000
<b>As at 1 April 2010</b>	555,000	129,347	-	684,347
Profit for the year	-	92,814	-	92,814
Foreign currency gains	-	-	38	38
Total comprehensive income	-	92,814	38	92,852
<b>As at 31 March 2011</b>	555,000	222,161	38	777,199

No Company statement of changes in equity for the year ended 31 March 2012 has been prepared as there are no material differences to the above consolidated statement for the period ended 31 March 2012.

Foreign currency gains are due to the Bank's branch in Italy.

The notes on pages 16 to 58 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

### STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012

		<u>Group</u>		<u>Company</u>	
	<u>Note</u>	<u>March 2012</u> \$'000	<u>March 2011</u> \$'000	<u>March 2012</u> \$'000	<u>March 2011</u> \$'000
<b>Assets</b>					
Loans and advances to banks		22,278	7,571	5,250	7,571
Derivative financial instruments	9	1,647,530	1,760,156	1,647,530	1,760,156
Loans and advances to affiliates		260,433	1,295	260,433	1,295
Securities purchased under agreements to resell		9,773,529	17,653,404	9,773,529	17,653,404
Prepayments and accrued income		7,322	26,990	6,722	26,990
Other assets		144,807	18,988	144,683	18,988
Financial assets designated at fair value through profit and loss	8				
- Secured lending		3,675,676	3,784,851	3,675,676	3,784,851
- Other financial instruments		634,733	751,026	634,733	751,026
- Bonds and medium-term notes		300,000	300,000	300,000	300,000
Available-for-sale financial investments		4	152	4	152
Goodwill and intangible assets	11	62,277	-	-	-
Fixed assets		100	-	50	-
Investments in group undertakings	12	-	-	80,000	-
<b>Total assets</b>		<u>16,528,689</u>	<u>24,304,433</u>	<u>16,528,610</u>	<u>24,304,433</u>
<b>Liabilities</b>					
Customer accounts		1,274	50,312	1,274	50,312
Derivative financial instruments	9	2,154,500	2,946,748	2,154,500	2,946,748
Accruals and deferred income		115,187	130,123	115,134	130,123
Borrowing from affiliates		580,899	6,493,448	580,899	6,493,448
Borrowing from others		11,705	106,315	11,705	106,315
Securities sold under agreements to repurchase		916,580	709,275	916,580	709,275
Financial liabilities designated at fair value through profit and loss	13				
- Bonds and medium-term notes		10,951,565	12,327,298	10,951,565	12,327,298
- Other financial instruments		825,265	729,833	825,265	729,833
Other liabilities	14	80,252	33,152	80,896	33,152
Deferred tax liabilities	15	518	730	538	730
<b>Total liabilities</b>		<u>15,637,745</u>	<u>23,527,234</u>	<u>15,638,356</u>	<u>23,527,234</u>
<b>Shareholders' funds</b>					
Called up share capital	16	555,000	555,000	555,000	555,000
Retained earnings		335,925	222,161	335,235	222,161
Other reserve		19	38	19	38
<b>Total equity</b>		<u>890,944</u>	<u>777,199</u>	<u>890,254</u>	<u>777,199</u>
<b>Total liabilities and equity</b>		<u>16,528,689</u>	<u>24,304,433</u>	<u>16,528,610</u>	<u>24,304,433</u>

## NOMURA BANK INTERNATIONAL PLC

### STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012 (CONTINUED)

The “Company” comparative is comparable to the “Group” current year balances, as there were no consolidated accounts at 31 March 2011 (due to the acquisition of the Bank’s China subsidiary occurring during 2012).

Approved by the board of Directors on 12 July 2012 and signed on its behalf by:

Paul Spanswick, Director

The notes on pages 16 to 58 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2012

	<u>Group</u> <u>2012</u> \$'000	<u>Company</u> <u>2011</u> \$'000
<b>Operating activities</b>		
Profit before tax	153,694	114,890
<b>Non-cash adjustments to reconcile profit for the period to net cash flows</b>		
Foreign Exchange Revaluation	(19)	38
<b>Change in operating assets and liabilities</b>		
Net change in loans and advances to affiliates	(259,138)	7,382,238
Net change in loans and advances to others	4,980	14,636
Net change in borrowing from banks and other customers	(96,702)	(61,735)
Net change in borrowings from affiliates	(2,788,234)	(1,218,730)
Net change in financial assets designated at fair value through profit and loss	220,488	(2,763,725)
Net change in financial liabilities designated at fair value through profit and loss	259,219	35,620
Fixed asset purchases	(100)	-
Net change in available-for-sale assets	148	(8)
Net change in derivative assets	112,626	590,685
Net change in derivative liabilities	(792,248)	344,496
Net change in securities purchased under agreements to resell	7,879,875	(5,520,915)
Net change in securities sold under agreements to repurchase	207,305	(642,575)
Net change in other assets	(125,819)	6,390
Net change in other liabilities	(3,070,962)	(1,128,976)
Net change in prepayments and accrued income	19,668	(455)
Net change in accruals and deferred income	(14,936)	66,822
Income tax paid	(1)	(9)
<b>Net cash flow used in operating activities</b>	<u>1,709,844</u>	<u>(2,781,313)</u>
<b>Investing activities</b>		
Acquisitions of subsidiaries, net of cash acquired	10 (62,277)	-
<b>Net cash used in investing activities</b>	<u>(62,277)</u>	<u>-</u>

The notes on pages 16 to 58 form part of these financial statements.



## NOMURA BANK INTERNATIONAL PLC

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

	<u>Group</u> <u>2012</u> \$'000	<u>Company</u> <u>2011</u> \$'000
<b>Financing activities</b>		
Proceeds of borrowings and issuance of debt	3,799,154	7,508,629
Repayments of borrowings and redemption of debt	(5,434,105)	(4,699,590)
<b>Net cash flow (used in)/ from financing activities</b>	<b>(1,634,951)</b>	<b>2,809,039</b>
Net increase in cash and cash equivalents	12,616	27,726
Cash and cash equivalents at 1 April	7,571	(20,155)
<b>Cash and cash equivalents at 31 March</b>	<b>20,187</b>	<b>7,571</b>
<b>Included within operational cash flows</b>		
Interest paid	24,173	35,175
Interest received	232,031	317,601

No comparative for the consolidated statement of cash flows has been presented as the year ended 31 March 2012 is the first year in which the Bank has consolidated a subsidiary. No Company statement of cash flows for the year ended 31 March 2012 has been prepared as there are no material differences to the above consolidated statement for the period ended 31 March 2012.

The notes on pages 16 to 58 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2012 (CONTINUED)

#### ANALYSIS OF THE BALANCES OF CASH AS SHOWN IN THE STATEMENT OF FINANCIAL POSITION:

##### 31 March 2012

	<u>31 March 2012</u> \$'000	<u>Cash Flow</u> \$'000	<u>31 March 2011</u> \$'000
Loans and advances to other banks repayable on demand	22,278	14,707	7,571
Borrowing from other banks repayable on demand	(2,091)	(2,091)	-
Net cash balance	20,187	12,616	7,571

##### 31 March 2011

	<u>31 March 2011</u> \$'000	<u>Cash Flow</u> \$'000	<u>31 March 2010</u> \$'000
Loans and advances to other banks repayable on demand	7,571	(14,266)	21,837
Borrowing from other banks repayable on demand	-	41,992	(41,992)
Net cash balance / (overdraft)	7,571	27,726	(20,155)

The notes on pages 16 to 58 form part of these financial statements.

Within the Loans and advances to other banks of \$5,478,000 is a Cash Ratio Deposit with the Bank of England of \$1,556,609. The maturity of this deposit is 1 June 2012.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012

#### 1. ACCOUNTING POLICIES

##### (a) Basis of Accounting

The consolidated financial statements of Nomura Bank International plc (the "Bank") have been prepared in accordance with International Financial Reporting Standards ("IFRS") including all International Accounting Standards ("IAS"), Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union. Comparative information included for the prior year is for the "Company" only, as there were previously no subsidiaries.

For all periods up to and including the year ended 31 March 2011, the Bank prepared its financial statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). These financial statements for the year ended 31 March 2012 are the first financial statements the Bank has prepared in accordance with IFRS. The date of transition to IFRS is 1 April 2010, with comparative information prepared in accordance with IFRS.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments held at fair value through profit and loss, derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

The consolidated financial statements have been prepared on a going concern basis. The consolidated financial statements are presented in United States dollar ("USD"), and all values are rounded to the nearest thousand USD except where otherwise stated. The Bank and Group accounts are presented in accordance with the Companies Act 2006.

##### (b) Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period.

However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

- Where there is no active market for a financial instrument, fair value is determined using valuation techniques which could require judgement.
- The recovery of the carrying value of goodwill;
- Realization of deferred tax assets; and
- Other matters that affect the reported amounts of assets and liabilities.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### (c) Foreign Currencies

The Group's consolidated financial statements are presented in USD which is also the functional currency of the Bank.

The foreign currency transactions of each group entity are translated into the functional currency of that entity using the exchange rates prevailing at the date of the transaction. All monetary assets and liabilities in foreign currencies are retranslated at rates of exchange ruling on the reporting date. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the statement of comprehensive income. The rate of exchange between the USD and Sterling at the reporting date was 1.5993 (2011: 1.6046).

##### (d) Operating Income

###### (i) **Interest receivable**

Interest income is recognised in the statement of comprehensive income 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 statement of comprehensive income 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 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 in the statement of financial position in accordance with the presentation requirements of International Accounting Standard 39 "Financial instruments: Recognition and Measurement" ("IAS 39").

###### (iv) 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 consolidated statement of comprehensive income as the service is provided.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### (iv) Fee income and expense

Fee income relating to loans and advances that are not measured at fair value through profit and loss is recognised in the statement of comprehensive income 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 consolidated statement of comprehensive income as the service is provided.

##### (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 permitted, and appropriate, management re-evaluates this designation at each financial year end. The recognition and derecognition 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 statement of comprehensive income, when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recorded within the following statement of financial position classifications: Loans and advances to banks, Loans and advances to affiliates, Other loans and advances and Other assets.

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

Management designates certain non-derivative financial instruments and certain non-trading liabilities as fair value through profit and loss where doing so results in more relevant information. Instruments so designated are hybrid products whose risks are hedged using a mixture of derivative or non-derivative products.

These instruments are recognised initially at fair value and transaction costs are taken directly to the statement of comprehensive income. Gains and losses arising from changes in fair value are included in the statement of comprehensive income.

Financial assets are recognised and derecognised on settlement date for regular way transactions.

**NOMURA BANK INTERNATIONAL PLC****NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)****1. ACCOUNTING POLICIES (CONTINUED)****(iii) Available-for-sale investments**

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale and are not 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 statement of comprehensive income. Gains and losses arising from changes in fair value are taken to the other comprehensive income 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 statement of comprehensive income.

Any reversal of impairment losses on non-equity available-for-sale investments is taken to the statement of comprehensive income.

**(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 to counterparties and then repurchase them at a later date ("repo"), called "securities sold under agreements to repurchase" on the statement of financial position. These debt securities are retained on the statement of financial position, and the purchase price received by the Bank shown as a liability to the purchaser.

The Bank also enters into agreements to buy certain debt securities with counterparties and then sell them at a later date ("reverse repurchase transaction"), called "securities purchased under agreements to resell" on the statement of financial position. 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 at fair value and subsequently carried in the consolidated statement of financial position at fair value. Derivatives are recorded as assets when their fair value on the reporting date is positive and as liabilities when their fair value is negative.

The Bank uses derivatives to economically hedge interest rate, equity, credit and exchange rate exposures related to non-trading positions. All derivatives held for trading are currently used for hedging purposes. The Bank currently has no derivatives for which hedge accounting is applied. Any realised and unrealised gains and losses are recognised in the statement of comprehensive income.



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### (g) Derivatives (continued)

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

The Bank holds a significant portion of financial instruments at fair value, as described below. A description of the Bank's policies with regards to its application of fair value measurements to significant financial instruments is as follows:

##### (i) Valuation of fair value instruments

The fair value of financial instruments is the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The best evidence of fair value is quoted prices in an active market. Therefore, the fair value of financial instruments, including exchange-trading securities and derivatives is based on quoted market prices on exchanges or other broker/dealer quotations.

Where quoted market prices or broker/dealer quotations are not available, prices for similar instruments or valuation pricing models are considered in the determination of fair value. Valuation pricing models consider contractual terms, position size, underlying asset prices, interest rates, dividend rates, time value, volatility and other statistical measurements for the relevant instruments or for instruments with similar characteristics. These models also incorporate adjustments relating to counterparty and the Bank's own credit risk, the administrative costs of servicing future cash flow and market liquidity adjustments. These adjustments are fundamental components of the fair value calculation process. The valuation technique used maximises the use of market inputs and minimises the use of entity-specific inputs which are unobservable in the market.

Valuation pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognised, and the use of different valuation pricing models or underlying assumptions could produce different financial results. Any changes in the fixed income, equity, foreign exchange and commodity markets can impact the Bank's estimates of fair value in the future, potentially affecting trading and non-trading gains and losses. The Bank's estimates of fair value may involve greater subjectivity due to the lack of transparent market data available upon which to base assumptions underlying valuation pricing models.

##### (ii) Fair value option

Certain financial instruments may be designated at fair value by management when one of the following criteria is met:

- 1) The financial instrument contains an embedded derivative that significantly modifies the cash flows resulting from the financial instrument; or

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### (h) Fair Values (continued)

###### (ii) Fair value option (continued)

- 2) Fair value will eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring related financial instruments on different bases; or
- 3) The financial instrument is part of a group of financial instruments both managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Information about these financial instruments is provided internally on a fair value basis to the Bank's key management personnel.

The fair value option election is undertaken on a product-by-product basis. This only applies to those instruments that meet one or more of the above criteria, where fair value would provide a fairer representation of the risks associated with those instruments. Once made, the fair value option election is irrevocable.

##### (i) Derecognition

Transfers of financial assets and liabilities are assessed to determine if assets can be derecognised. The Bank derecognises financial assets when significantly all the risks and rewards of the asset are transferred. If significantly all the risks and rewards of the asset are retained, the Bank retains the financial assets on its consolidated statement of financial position with an associated liability for consideration received. If the Bank neither transfers nor retains significantly all the risks and rewards of the transferred asset, but retains control over the asset, it recognises the transferred asset and an associated liability measured on a basis that reflects the rights and obligations retained by the Bank.

##### (j) Impairment

The Bank assesses at the reporting 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 reporting 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 statement of comprehensive income. 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 statement of comprehensive income.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### (j) 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 consolidated statement of comprehensive income.

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 obtaining and selling the underlying collateral.

##### (k) Collateral and offsetting

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 counterparties have been netted.

##### (l) 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 on or before the reporting date.

Deferred tax assets and liabilities are recognised for temporary difference between the carrying amounts in the statement of financial position and the tax base. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Deferred tax is measured on an undiscounted 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 reporting date.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### (m) Financial guarantees

The Bank issues financial guarantee contracts which require the Bank to 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, the value of the financial guarantee is adjusted to reflect the best estimate of the amount required to settle the probable obligation at the reporting date, if higher than the amount initially recognised. Any amount recognized is net of cumulative amortization previously recognized.

##### (n) Retirement Benefits

The Bank is a member of a defined benefit scheme comprising certain UK Nomura companies administered by NIP. It is a multi-employer scheme that is run on a basis that does not allow the individual companies participating within the scheme to identify their shares of the underlying assets and liabilities. As a result, the Bank is not required to apply defined benefit accounting and therefore has applied defined contribution accounting to the scheme in accordance with IAS 19 "Employee Benefits".

##### (o) Provisions for liabilities and charges and contingent liabilities

A provision is 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 in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

A contingent liability is a possible obligation whose existence will only be confirmed in the future or it is a present obligation (legal or constructive) and either it is not probable that a transfer of economic benefits will be required to settle the obligation or a reliable estimate cannot be made of the amount of the obligation. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine if a provision should be recognised.

##### (p) Cash flow statement

The Bank uses the indirect method to produce a cash flow statement in accordance with IAS 7 "Statement of Cashflows".

##### (q) 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 consolidated statement of financial position.

##### (r) Investments in Group Undertakings

The Bank's investments in subsidiary undertakings, which are outside the scope of IAS 39, are stated at original cost less amounts written off where there has been impairment.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### (s) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary undertaking. Subsidiaries are fully consolidated from the date on which control is transferred to the parent company and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiary are prepared for the same accounting period as the parent company, using consistent accounting policies. All intra-group balances, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

The Bank sponsors the formation of various special purpose entities ("SPEs"), which may or may not be directly or indirectly owned subsidiaries. The Bank consolidates those SPEs it controls. In assessing and determining if the Bank controls the SPEs, judgement is exercised to determine the following:

- Whether the activities of the SPE are being conducted on behalf of the Bank to obtain benefits from the SPE's operation;
- Whether the Bank has the decision-making powers to control or to obtain control of the SPE or its assets;
- Whether the Bank has rights to obtain the majority of the benefits of the SPE's activities; and
- Whether the Bank retains the majority of the risks related to the SPE or its assets in order to obtain benefits from its activities

The Bank has not consolidated any SPEs as at 31 March 2012.

##### (t) Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructurings) of the acquired business at fair value on the acquisition date. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the statement of comprehensive income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. A cash generating unit ("CGU") is the lowest level at which a group of assets generates cash inflows independently of other assets. Each CGU to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 "Operating Segments". The goodwill acquired through the business combination has been allocated to the Bank's China subsidiary as its CGU for impairment testing.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### (u) Intangible assets

The Bank's intangible assets include the value of a restricted bank licence acquired in a business combination. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the administrative expenses category.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives. The restricted bank licence has a useful life of 35 years and a remaining amortization period of 34 years and 11 months at 31 March 2012.

##### (v) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. Impairment losses relating to goodwill cannot be reversed in future periods.



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### (w) Segment reporting

For management purposes, the Bank has only one operating and reportable segment involving financing activities. Substantially all of the Bank's gross and net assets and profit before taxation reported in these financial statements has arisen from this segment.

##### (x) Standards issued but not yet effective

###### IFRS 9 "Financial Instruments"

IFRS 9, as issued, reflects the first phase of the IASB work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. In subsequent phases, the IASB will address impairment and hedge accounting. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the Bank's financial assets. Additionally, financial liabilities that are designated at fair value through profit and loss will have their changes in own credit risk recognised directly into other comprehensive income.

The standard is effective for annual periods beginning on or after 1 January 2015. The Bank will adopt the new requirements from April 1, 2015. The Bank is currently assessing the impact of adopting IFRS 9. However, as the impact of adoption depends on the assets held by the Bank at the date of adoption, it is not practical to quantify the effect.

###### IFRS 10 "Consolidated Financial Statements"

The standard replaces the requirements of IAS 27 "Consolidated and Separate Financial Statements" that address the accounting for consolidated financial statements and SIC 12 "Consolidation – Special Purpose Entities". The Bank is currently assessing the impact of adopting IFRS 10.

The standard is effective for annual periods beginning on or after 1 January 2013. The Bank will adopt the new requirements from April 1, 2013. However, as the impact of adoption depends on the nature of relationships between the Bank and other entities at the date of adoption, it is not practical to quantify the effects.

###### IFRS 11 "Joint Arrangements"

The standard replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers". Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. The standard becomes effective for annual periods beginning on or after 1 January 2013. The Bank will adopt the new requirements from 1 April 2013. The impact of adopting IFRS 11 is not expected to be material.

###### IFRS 12 "Disclosure of Involvement with Other Entities"

The new standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 "Interests in Joint Ventures" and IAS 28 "Investment in Associates". These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. On adoption of this standard, even if the Bank concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the

**NOMURA BANK INTERNATIONAL PLC****NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)****1. ACCOUNTING POLICIES (CONTINUED)****(x) Standards issued but not yet effective**

Bank to reach a different conclusion regarding consolidation – by providing more information about unconsolidated entities. The standard becomes effective for annual periods beginning on or after 1 January 2013. The Bank will adopt the new requirements from 1 April 2013. The Bank is currently assessing the impact of adopting IFRS 12. However, as the impact of adoption depends on the nature of relationships between the Bank and other entities at the date of adoption, it is not practical to quantify the effect.

**IFRS 13 “Fair Value measurement”**

IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. Many of the concepts in IFRS 13 are consistent with current practice. The disclosure requirements are substantial.

The standard becomes effective for annual periods beginning on or after 1 January 2013. The Bank will adopt the new requirements from 1 April 2013. In the past the Bank has used various methodologies to measure fair value based on the guidance within the requisite standard and/or industry practice for the type of financial or non-financial item. This standard will require the Bank to review its fair value measurement policies across all asset and liability classes. The impact of adopting IFRS 13 is not expected to be material.

**IAS 1 “Financial Statement Presentation” – Presentation of Items of Other Comprehensive Income**

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income (“OCI”). Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Bank’s financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012. The Bank will adopt the new requirements from 1 April 2013.

**IAS 27 “Separate Financial Statements (as revised in 2011)”**

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Bank does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank will adopt the new requirements from 1 April 2013.

**IAS 28 “Investments in Associates and Joint Ventures (as revised in 2011)”**

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 “Investments in Associates and Joint Ventures”, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank will adopt the new requirements from 1 April 2013 and the impact is expected to be immaterial.

**Amendments to IFRS 7 “Financial instruments: Disclosures”**

In October 2010, the IASB issued revised IFRS 7 “Financial Instruments: Disclosures” to provide additional disclosures around transfers of financial assets, including those transfers in which the Bank retains a continuing interest in the transferred assets at the reporting date. The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

The effective date for mandatory adoption is for annual periods beginning on or after July 2011, with early adoption permitted. The Bank will adopt the amendments from 1 April 2012, and the impact is not expected to be material.

##### IAS 32 and IFRS 7 amendments from 1 April 2012

Clarification of when netting is permitted has been provided and disclosures on offsetting have been considerably expanded. The amendments on offsetting are effective from 1 January 2014 and those on disclosures from 1 January 2013 so that the Bank will adopt these amendments from 1 April 2014 and 1 April 2013 respectively. The Bank is currently assessing the impact of these amendments.

#### (y) Retained Profit for the year

In accordance with S.408 Companies Act 2006, the Bank has taken advantage of the dispensation not to produce its own income statement. Of the profit transferred to reserves, a profit of \$113,074,000 (2011: \$92,814,067) has been dealt with in the accounts of the Company.

#### 2. INTEREST INCOME AND EXPENSE

	<u>Year ended</u> <u>31 March 2012</u> <u>Group</u> \$'000	<u>Year ended</u> <u>31 March 2011</u> <u>Company</u> \$'000
<b>Interest Income</b>		
Interest on deposits	1,583	48,069
Interest on reverse repurchase transactions	201,562	267,514
Other interest income	9,467	40,601
	<b>212,612</b>	<b>356,184</b>
<b>Interest Expense</b>		
Interest to banks and customers	9,850	35,562
Interest on funds borrowed	5,518	28,443
Interest on repo transactions	9,982	8,192
Other interest expense	7,388	7,459
	<b>32,738</b>	<b>79,656</b>

Of the total interest income on deposits of \$1,582,769, amounts with respect to Nomura Group companies amounted to \$635,548. Of the total interest expense on funds borrowed of \$5,518,334, the amount with respect to Nomura Group companies is \$5,510,240.

#### 3. DEALING LOSS

	<u>Year ended</u> <u>31 March 2012</u> <u>Group</u> \$'000	<u>Year ended</u> <u>31 March 2011</u> <u>Company</u> \$'000
Financial instruments held for trading	(1,016,634)	85,538
Financial instruments designated at fair value through profit and loss account	899,899	(241,223)
	<b>(116,735)</b>	<b>(155,685)</b>

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 3. DEALING LOSS (CONTINUED)

The 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 \$144,905,376 (2011: profit of \$106,824,907).

Substantially all of the Bank's gross and net assets and profit before taxation arose from one business segment involving financing activities. The majority of the notes are issued to European institutions. Certain receivables and derivatives are transacted with the Nomura Group. Consequently, a significant portion of the revenues are derived from within the Nomura Group.

#### 4. ADMINISTRATIVE EXPENSES

	<u>Year ended</u> <u>31 March 2012</u> <u>Group</u> <u>\$'000</u>	<u>Year ended</u> <u>31 March 2011</u> <u>Company</u> <u>\$'000</u>
Wages, salaries and other social security costs	1,273	1,438
Audit of the financial statements	407	312
Other fees: all other services	144	166
Support service charges	10,916	11,349
Depreciation and amortisation	19	-
	<u>12,759</u>	<u>13,265</u>

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 five (2011: nine)). 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 \$326,351 (2011: \$305,527) was borne by NHI.

#### 5. DIRECTORS' EMOLUMENTS

The aggregate emoluments of Directors were \$884,048 (2011: \$852,998).

The highest paid Director received emoluments of \$257,291 (2011: \$194,477). As at 31 March 2012 his accrued pension totalled \$nil per annum (2011: \$nil) and no contributions were made to the Group Personal Pension plan.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

##### (a) TAX CHARGE

	<u>Year ended</u> <u>31 March 2012</u> <u>Group</u> <u>\$'000</u>	<u>Year ended</u> <u>31 March 2011</u> <u>Company</u> <u>\$'000</u>
Current tax:		
UK Corporation tax charge at 26% (2011: 28%)	(40,109)	(21,429)
Adjustment in respect of previous periods	13	96
Foreign tax suffered	(27)	(13)
	<hr/> (40,123)	<hr/> (21,346)
Deferred taxation:		
Current year temporary differences	148	(787)
Effect of changes in tax rates	45	56
Adjustment in respect of previous periods	-	1
	<hr/>	<hr/>
Tax charge on profit on ordinary activities	<hr/> (39,930)	<hr/> (22,076)

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

	<u>Year ended</u> <u>31 March 2012</u> <u>Group</u> <u>\$'000</u>	<u>Year ended</u> <u>31 March 2011</u> <u>Company</u> <u>\$'000</u>
Net profit before tax	153,694	114,890
UK Corporation tax charge at 26% (2011: 28%)	(39,961)	(32,169)
Utilisation of previously unrecognised tax losses	-	9,950
Foreign tax suffered	(27)	(13)
Effect of double tax relief	-	4
Adjustments in respect of previous years	13	96
Effect of change in tax rates	45	56
	<hr/>	<hr/>
Income tax expense reported in the statement of comprehensive income	<hr/> (39,930)	<hr/> (22,076)

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 7. RETIREMENT BENEFIT

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. It is a multi-employer scheme that is run on a basis that does not allow the individual company participating within the scheme to identify its share of the underlying assets and liabilities so that it is accounted for by the Bank as a defined contribution scheme. 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 previous 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.

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

At the 31 March 2012 and 31 March 2011 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.

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

	<b><u>31 March 2012</u></b>	<b><u>31 March 2011</u></b>
	<b><u>Group</u></b>	<b><u>Company</u></b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Bonds and medium-term notes	300,000	300,000
Secured lending	3,675,676	3,784,851
Other financial instruments	634,733	751,026
	<b><u>4,610,409</u></b>	<b><u>4,835,877</u></b>



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 9. DERIVATIVE FINANCIAL INSTRUMENTS

##### Positive fair values

	<u>31 March 2012</u> <u>Group</u> \$'000	<u>31 March 2011</u> <u>Company</u> \$'000
Analysis by counterparty		
Group companies	1,594,526	1,753,249
Other	53,004	6,907
	<u>1,647,530</u>	<u>1,760,156</u>

##### Negative fair values

	<u>31 March 2012</u> <u>Group</u> \$'000	<u>31 March 2011</u> <u>Company</u> \$'000
Analysis by counterparty		
Group companies	1,842,477	2,062,846
Other	312,023	883,902
	<u>2,154,500</u>	<u>2,946,748</u>

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 10. BUSINESS COMBINATIONS

The Bank acquired the Bank's China subsidiary on 13 February 2012, with a view to converting it into a fully licensed wholly foreign owned bank in China.

##### Assets acquired and liabilities assumed

	Carrying value before acquisition \$'000	Fair value adjustments \$'000	Fair value at acquisition date \$'000
<b>Assets</b>			
Other assets	17,780	-	17,780
<b>Total assets</b>	<u>17,780</u>	<u>-</u>	<u>17,780</u>
<b>Liabilities</b>			
Other liabilities	70	-	70
<b>Total liabilities</b>	<u>70</u>	<u>-</u>	<u>70</u>
<b>Net Assets acquired (100%)</b>			17,710
Goodwill and intangible fixed asset arising on acquisition			<u>62,290</u>
<b>Total cash consideration paid</b>			<u>80,000</u>
Cash and cash equivalents acquired			<u>17,723</u>
<b>Net cash outflow on acquisitions</b>			<u>62,277</u>
<b>Total transaction costs of the acquisition (included in administrative expenses in the statement of comprehensive income)</b>			<u>-</u>

The fair value of the receivables with inter-banks amounts to \$17,107,848 which equals their gross amount receivable. None of the receivables with inter-banks were impaired and their contractual amounts were expected to be collected.

On acquisition, both goodwill of \$59,590,205 and an intangible fixed asset of \$2,700,000, arise. The goodwill of \$59,590,205 comprises the value of future expected synergies arising from the acquisition. For impairment testing purposes, the goodwill is allocated entirely to the Bank's China subsidiary as its cash generating unit. None of the goodwill recognised is expected to be deductible for income tax purposes. The intangible fixed asset of \$2,700,000 will be amortised over a period of 35 years.

From the date of acquisition, the Bank's China subsidiary has contributed an immaterial amount of revenue and net profit before tax to the Bank. If the combination had taken place at the beginning of the year, revenue from continuing operations would not have materially impacted the profit from continuing operations of the Bank.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 11. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill \$'000	Other intangible assets \$'000	Total \$'000
Cost:			
At 31 March 2011	-	-	-
Additions	59,590	2,700	62,290
Disposals	-	-	-
At 31 March 2012	59,590	2,700	62,290
Amortisation and impairment:			
At 31 March 2011	-	-	-
Disposals	-	-	-
Amortisation charge for the year	-	13	13
At 31 March 2012	-	13	13
Net book value:			
At 31 March 2012	59,590	2,687	62,277

For the year ended 31 March 2012 there was no impairment of the goodwill as the Bank's China subsidiary was acquired shortly before the 31 March 2012 so that the purchase price approximates the fair value less costs to sell of the Bank's China subsidiary's CGU to which the goodwill have been allocated to. As the carrying amount of the Bank's China subsidiary does not exceed its fair value less costs to sell, no impairment is required.

#### 12. INVESTMENTS IN GROUP UNDERTAKINGS

	\$'000
At 1 April 2011	-
Acquisitions	80,000
At 31 March 2012	80,000

The consolidated financial statements include the financial statements of the Bank and the subsidiaries in the following table:

Name of subsidiary	Country of incorporation	Nature of business	% equity interest at 31 March 2012	% equity interest at 31 March 2011
GE Capital Finance (China) Co., Ltd	China	Banking	100	-

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

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

	<u>31 March 2012</u> <u>Group</u> \$'000	<u>31 March 2011</u> <u>Company</u> \$'000
Bonds and medium- term notes, by remaining maturity:		
- Less than 1 year	1,604,447	1,950,793
- Less than 5 years but greater than 1 year	5,399,540	4,792,234
- Greater than 5 years	3,947,578	5,584,271
Other financial instruments	825,265	729,833
	<b>11,776,830</b>	<b>13,057,131</b>

As of 31 March 2012, the fair value of the aggregate unpaid principal balance (which is contractually principally protected) of long-term borrowings for which the fair value option was elected was \$22,711,320 (2011: \$407,915,085) less than the principal balance of such long-term borrowings.

The impact of changes in own credit risk included in dealing losses on financial liabilities designated at fair value through profit and loss account was a profit of \$144,905,376 (2011: profit of \$106,824,907). The valuation adjustment resulting from own credit, included in the fair values of bonds and medium notes in the statement of financial position, is a debit of \$325,587,812 at 31 March 2012 (2011: \$180,682,434). The Bank calculates and applies an own credit adjustment based on movements in the credit spread of the Nomura Group.

#### 14. OTHER LIABILITIES

	<u>31 March 2012</u> <u>Group</u> \$'000	<u>31 March 2011</u> <u>Company</u> \$'000
Group relief payable	61,455	21,429
Foreign tax payable	35	11
Other payables	18,762	11,712
	<b>80,252</b>	<b>33,152</b>

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

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 15. DEFERRED TAXATION

	<u>Deferred tax</u> <u>balance</u>	<u>Income</u> <u>statement</u> <u>effect</u>	<u>Deferred tax</u> <u>balance</u>	<u>Income</u> <u>statement</u> <u>effect</u>
	<u>31 March</u> <u>2012</u> \$'000	<u>31 March</u> <u>2012</u> \$'000	<u>31 March</u> <u>2011</u> \$'000	<u>31 March 2011</u> \$'000
Capital allowances	216	(76)	293	(100)
General Provisions	9	(1)	10	(1)
Utilisation of tax losses	-	-	-	(10,880)
IAS 39 adjustment	(763)	270	(1,033)	301
Accrued pension and severance cost	19	-	-	-
Rate difference	1	-	-	-
Deferred tax asset not previously recognised	-	-	-	9,950
	<u>(518)</u>	<u>193</u>	<u>(730)</u>	<u>(730)</u>
	<u>31 March 2012</u> <u>Group</u> \$'000		<u>31 March 2011</u> <u>Company</u> \$'000	
Balance as at 1 April	(730)		-	
Acquisition of Subsidiary	19		-	
Deferred tax charge	148		(787)	
Effect of changes in tax rates	45		56	
Adjustment in respect of prior years	-		1	
Balance at 31 March	<u>(518)</u>		<u>(730)</u>	

The brought forward deferred tax balance at 1 April 2011 has changed by \$18,500 due to the inclusion of deferred tax balances in the Bank's China subsidiary, acquired in February 2012.

Deferred taxation has been recognised at 24% (2011: 26%) being the UK corporation tax rate from 1 April 2012.

On 21 March 2012 as part of the 2012 Budget, the UK government has announced its intention to legislate to reduce the main rate of corporation tax to 24% with effect from 1 April 2012 and further by 1% per annum falling to 22% with effect from 1 April 2014. The reduction to 24% was subsequently enacted prior to 31 March 2012 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. The directors estimate that the effect of these changes will be to reduce the Company's deferred tax liability to \$474,000.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 16 SHARE CAPITAL

<u>31 March 2012</u>	<u>Authorised Number '000</u>	<u>Allotted and fully paid Number '000</u>	<u>Consideration \$'000</u>
US Dollar Ordinary shares of \$1 each	555,000	555,000	555,000

<u>31 March 2011</u>	<u>Authorised Number '000</u>	<u>Allotted and fully paid Number '000</u>	<u>Consideration \$'000</u>
US Dollar Ordinary shares of \$1 each	555,000	555,000	555,000

#### 17. 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.

For further detail, please refer to the below website where Nomura Group Pillar 3 disclosures are made:

<http://www.nomuraholdings.com/company/group/europe/pdf/p3d.pdf>

##### 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 debt issuances 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. As defined by the "Regulations for System Risk Management", System Risk is considered to be a component of operational risk as defined above. 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 Combined Policy, Minimum Standards and Procedures of the Nomura Group.

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

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Operational Risk Event Capture – 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 Company and ensure this is in accordance with the risk appetite set by the Nomura Group Integrated Risk Management Committee on behalf of the Nomura Group Board.

#### **Risk Management Structure**

The Directors are 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*

The annual process for budgeting entity level capital needs is part of the ICAAP exercise which takes place in conjunction with the budget related processes. The setting of all current and budgeted capital requirements relating to UK-regulated entities is coordinated and challenged by the Financial and Regulator Control functions within EMEA Finance. The Financial and Regulatory Control functions are also responsible for monitoring compliance with capital usage limits to ensure capital adequacy targets are met.

##### *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.

**NOMURA BANK INTERNATIONAL PLC****NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)****17. FINANCIAL RISK MANAGEMENT (CONTINUED)***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.

*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 Nomura Europe Holdings plc ("NEHS"), the Bank's immediate parent, and the Bank. The EMEA Head of Internal Audit also reports to the Global Head of Internal Audit and locally to the Chief Executive Officer of EMEA.

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



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### *Executive Management Committee*

The Executive Management Committee under authority delegated by the 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.

##### *Credit & Risk Management Committee*

The Credit & Risk Management Committee ("CRMC") is a sub-committee of the Executive Management Committee. The CRMC 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 Bank's 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.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 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.

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:

<b>31 March 2012:</b>	<b><u>Equity Risk</u></b> <b>\$'000</b>	<b><u>Credit Risk</u></b> <b>\$'000</b>	<b><u>Total</u></b> <b>\$'000</b>
Financial instruments designated at fair value through profit and loss and held for trading:			
- Financial liabilities	(4,192,908)	(7,491,952)	(11,684,860)
Financial instruments designated at fair value through profit and loss:			
- Financial assets	3,675,676	-	3,675,676
Financial instruments held for trading:			
- Derivative Financial Instruments:			
- Fixed income and credit derivatives		7,491,952	
- Equity derivatives	517,232		7,491,952
			517,232
	-	-	-
<b>31 March 2011:</b>	<b><u>Equity Risk</u></b> <b>\$'000</b>	<b><u>Credit Risk</u></b> <b>\$'000</b>	<b><u>Total</u></b> <b>\$'000</b>
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
	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)****17. FINANCIAL RISK MANAGEMENT (CONTINUED)****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 statement of financial position.

**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 2012, 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 Credit Risk Management Department 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.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### b) Credit Risk

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. 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 ("FSA").

As described in note 1(k), 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 Statement of Financial Position. At 31 March 2012 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 2012 the fair value of securities pledged to the Bank by NIP was \$10.3 billion, and largely comprised highly rated European government bonds. None of this collateral was repledged or retransferred at the reporting date.

##### **Credit Risk Exposure**

Generally, the Bank's maximum exposure to credit risk at the balance sheet date approximates the financial instruments' carrying amount. However, the below discloses the maximum exposure to credit risk for financial instruments where their carrying amount differs to their maximum exposure 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.

	<u>Maximum Exposure to Credit Risk</u>	<u>Maximum Exposure to Credit Risk</u>
	<u>31 March 2012</u>	<u>31 March 2011</u>
	<u>\$'000</u>	<u>\$'000</u>
Financial guarantee contracts	123,282	34,859

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank receives a combination of cash and securities collateral from NIP with respect to its net derivative exposure with NIP. At 31 March 2012, cash received amounted to \$486,874,554 and the fair value of securities received totalled \$3,376,765,978. At 31 March 2011 the Bank received cash only, amounting to \$3,124,359,764.

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. The notional amount of undrawn commitments are held off balance sheet, until the point at which they become drawn. The fair value of the commitments and the drawn facility are carried at fair value on the Statement of Financial Position. In addition, the Bank provides certain financial guarantees to third parties over their exposure to Nomura group companies.

#### Maximum Exposure to Credit Risk by Credit Rating

The credit quality of 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.

	<b>Maximum Exposure to Credit Risk 31 March 2012 \$'000</b>	<b>Maximum Exposure to Credit Risk 31 March 2011 \$'000</b>
<b>Financial Assets</b>		
AA	17,547	295
A	3,270	2,890
AAA	1,304	357
BBB	16,304,342	24,233,697
Not rated	202,226	67,194
<b>Total</b>	<b>16,528,689</b>	<b>24,304,433</b>
<b>Off balance sheet commitments and financial guarantee contracts</b>		
AA	199,974	212,782
A	1,152,215	1,351,860
BBB	325,569	187,259
B	14,130	95
<b>Total</b>	<b>1,691,888</b>	<b>1,751,996</b>
<b>Total exposure to credit risk by credit rating</b>	<b>18,220,577</b>	<b>26,056,429</b>

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Within “not rated” are balances representing the pool of counterparties which individually do not generate material credit risk for the Bank. In addition, the goodwill and intangible fixed asset arising on acquisition of the Bank’s China subsidiary is included within “not rated”

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 reporting date, carried at a total of \$5,777,162. 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.

#### **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. The Bank’s liquidity management includes monitoring projected contractual and contingent cash flows and maintaining liquidity and contingency funding 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 a variety of other events. We call this risk analysis our “Maximum Cumulative Outflow” (“MCO”) framework.

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

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 may be sold or pledged to provide liquidity to meet immediate requirements.

The Bank is compliant with the UK regulatory requirements on liquidity.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Contractual Maturity Table

The table below shows the maturity profile of the Bank's 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.

<b>31 March 2012:</b>	<b>On demand</b>	<b>Less than 30 days</b>	<b>31 days - 1 year</b>	<b>1-5 year</b>	<b>Later than 5 years</b>	<b>Total</b>
Group	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
Loans and advances to banks	5,478	-	16,800	-	-	22,278
All other loans and advances	56,000	-	204,433	-	-	260,433
Financial assets designated at fair value through profit and loss						
- Bonds and medium-term notes	-	-	-	-	300,000	300,000
- Secured lending	-	5,093	759,743	2,079,710	831,130	3,675,676
- Other financial instruments	-	-	609,666	25,067	-	634,733
Securities purchased under agreement to resell	-	2,288,184	6,568,759	916,586	-	9,773,529
Available-for-sale financial investments	-	-	-	-	4	4
Derivatives held for trading	1,634,194	13,330	6	-	-	1,647,530
Other asset categories	152,129	-	-	-	62,377	214,506
<b>Total assets</b>	<b>1,847,801</b>	<b>2,306,607</b>	<b>8,159,407</b>	<b>3,021,363</b>	<b>1,193,511</b>	<b>16,528,689</b>

<b>31 March 2011:</b>	<b>On demand</b>	<b>Less than 30 days</b>	<b>31 days - 1 year</b>	<b>1-5 year</b>	<b>Later than 5 years</b>	<b>Total</b>
Company	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
Loans and advances to banks	7,571	-	-	-	-	7,571
All other loans and advances	-	-	1,295	-	-	1,295
Financial assets designated at fair value through profit and loss						
- Bonds and medium-term notes	-	-	-	-	300,000	300,000
- Secured lending	-	-	1,645,745	1,051,175	1,087,930	3,784,850
- Other financial instruments	8,530	-	711,080	20,382	11,035	751,027
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
<b>Total assets</b>	<b>1,801,616</b>	<b>8,787,464</b>	<b>11,241,616</b>	<b>1,073,691</b>	<b>1,400,046</b>	<b>24,304,433</b>



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Contractual Maturity Table

The table below shows the Bank's 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.

<b>31 March 2012:</b>	<b><u>On</u></b>	<b><u>Less than</u></b>	<b><u>31 days -</u></b>	<b><u>1-5</u></b>	<b><u>Later than</u></b>	<b><u>Total</u></b>
<b>Group</b>	<b><u>demand</u></b>	<b><u>30 days</u></b>	<b><u>1 year</u></b>	<b><u>year</u></b>	<b><u>5 years</u></b>	<b><u>\$'000</u></b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>Financial liabilities</b>						
Customer accounts	1,274	-	-	-	-	1,274
Borrowing from affiliates	496,745	46,000	-	8,146	30,008	580,899
Borrowing from others	2,092	-	-	6,748	2,865	11,705
Financial liabilities designated at fair value through profit and loss						
- Bonds and medium-term notes	11	37,894	1,566,542	5,399,539	3,947,579	10,951,565
- Other financial instruments	-	-	800,198	25,067	-	825,265
Derivative held for trading	2,105,012	49,488	-	-	-	2,154,500
Securities sold under agreements to repurchase	-	-	-	916,580	-	916,580
Other liability categories	195,439	-	-	-	518	195,957
<b>Total liabilities</b>	<b>2,800,573</b>	<b>133,382</b>	<b>2,366,740</b>	<b>6,356,079</b>	<b>3,980,994</b>	<b>15,637,745</b>
<b>31 March 2011:</b>	<b><u>On</u></b>	<b><u>Less than</u></b>	<b><u>31 days -</u></b>	<b><u>1-5</u></b>	<b><u>Later than 5</u></b>	<b><u>Total</u></b>
<b>Company</b>	<b><u>demand</u></b>	<b><u>30 days</u></b>	<b><u>1 year</u></b>	<b><u>year</u></b>	<b><u>years</u></b>	<b><u>\$'000</u></b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>Financial liabilities</b>						
Customer accounts	50,312	-	-	-	-	50,312
Borrowing from affiliates	3,124,315	3,027,676	302,792	8,665	30,000	6,493,448
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	-	-	33,152	-	-	33,152
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	130,123	-	-	-	730	130,853
<b>Total liabilities</b>	<b>6,204,204</b>	<b>3,239,899</b>	<b>3,633,722</b>	<b>4,808,593</b>	<b>5,640,816</b>	<b>23,527,234</b>

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

**NOMURA BANK INTERNATIONAL PLC****NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)****18. 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.

There are no financial instruments whose carrying amounts differ materially to their fair values.

**Fair value hierarchy**

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

- Level 1** - Unadjusted quoted prices in active markets for identical assets or liabilities accessible by the Bank at the measurement date.
- Level 2** - Quoted prices in inactive markets or prices containing other inputs which are observable, either directly or indirectly. Valuation techniques using observable inputs reflect assumptions used by market participants in pricing financial instruments and are based on data obtained from independent market sources at the measurement date.
- Level 3** - Unobservable inputs that are significant to the fair value measurement of the financial instrument. Valuation techniques using unobservable inputs reflect management's assumptions about the estimates used by other market participants in valuing similar financial instruments. These valuation techniques are developed based on the best available information at the measurement date.

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 2012 (CONTINUED)

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

##### Fair value – Assets

<u>31 March 2012:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Group	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Financial assets held for trading:				
- Derivatives	-	1,243,159	404,372	1,647,530
Financial assets designated at fair value through profit and loss:				
- Notes	-	300,000	-	300,000
- Secured lending	-	3,675,676	-	3,675,676
- Other financial instruments	-	631,907	3,628	635,536
	-	5,850,742	408,000	6,258,742
 <u>31 March 2011:</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
Company	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
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

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

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

##### Fair value hierarchy – Liabilities

<u>31 March 2012:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Group	\$'000	\$'000	\$'000	\$'000
<b>Financial Liabilities</b>				
Financial liabilities held for trading:				
- Derivatives	-	1,659,219	495,273	2,154,492
Financial liabilities designated at fair value through profit and loss:				
- Bonds and medium-term notes	-	10,900,440	51,126	10,951,566
- Other	-	828,216	-	828,216
	-	13,387,875	546,399	13,934,274

<u>31 March 2011:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Company	\$'000	\$'000	\$'000	\$'000
<b>Financial Liabilities</b>				
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

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)****18. 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. Additionally, due to these hedging arrangements no effect of reasonably possible alternative assumptions has been disclosed as a change in any assumption would cause a similar offsetting effect to the hedging instruments' fair value. 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 2012 (CONTINUED)

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

<u>31 March 2012</u> <u>Group</u>	At 1 April 2011	Total gains (losses) in P&L	Net cash (in)/out	Settle- ments	Net transfers in/(out) of level 3	At 31 March 2012	Unrealised Total gains (losses) in P&L
<b>\$'000s</b>							
<b>Financial assets</b>							
Financial assets held for trading:							
- Derivatives	285,634	303,260	-	(226,370)	41,848	404,372	263,556
Financial assets designated fair value through profit and loss:							
- Loans and receivables	34,966	(28,978)	(2,360)	-	-	3,628	(41,043)
	<b>320,600</b>	<b>274,282</b>	<b>(2,360)</b>	<b>(226,370)</b>	<b>41,848</b>	<b>408,000</b>	<b>222,512</b>
 <u>31 March 2011</u> <u>Company</u>	 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
<b>\$'000s</b>							
<b>Financial assets</b>							
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 and receivables	31,518	1,236	2,212	-	-	34,966	3,449
	<b>381,059</b>	<b>14,438</b>	<b>2,212</b>	<b>5,876</b>	<b>(82,985)</b>	<b>320,600</b>	<b>24,955</b>

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

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

<b>31 March 2012 Group</b>	<b>At 1 April 2011</b>	<b>Total (gains)/ losses in P&amp;L</b>	<b>Net issuance/ (redemption)</b>	<b>Settle- ments</b>	<b>Net transfers in/(out) of level 3</b>	<b>At 31 March 2012</b>	<b>Unrealised Total gains (losses) in P&amp;L</b>
<b>\$'000s</b>							
<b>Financial liabilities</b>							
Financial liabilities held for trading:							
- Derivatives	487,908	5,246	-	128,695	(126,577)	495,272	4,334
Financial liabilities designated fair value through profit and loss:							
- Structured notes	164,985	6,812	(36,477)	-	(84,194)	51,126	(3,098)
- Other	20,876	-	-	(20,876)	-	-	-
	<b>673,769</b>	<b>12,057</b>	<b>(36,477)</b>	<b>107,819</b>	<b>(210,771)</b>	<b>546,398</b>	<b>1,236</b>

<b>31 March 2011 Company</b>	<b>At 1 April 2010</b>	<b>Total (gains)/ losses in P&amp;L</b>	<b>Net issuance/ redemption</b>	<b>Settle- ments</b>	<b>Net transfers in/(out) of level 3</b>	<b>At 31 March 2011</b>	<b>Unrealised Total gains (losses) in P&amp;L</b>
<b>\$'000s</b>							
<b>Financial liabilities</b>							
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
	<b>849,300</b>	<b>72,846</b>	<b>99,115</b>	<b>6,617</b>	<b>(354,109)</b>	<b>673,769</b>	<b>109,362</b>

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

During the year, approximately \$1,674,000 of structured notes classified as financial liabilities designated at fair value through profit and loss were transferred out of level 3 as certain market parameters became observable (2011: \$73,533,000).



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 19. CAPITAL MANAGEMENT POLICY

##### UK Capital Management

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 asset 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 FSA.

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

##### UK 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.

	<u>2012</u> \$'000	<u>2011</u> \$'000
Tier 1 capital	650,683	644,815
<b>Total capital resources</b>	<b>650,683</b>	<b>644,815</b>

##### The Bank's China subsidiary's Capital Management

The Bank's China subsidiary's approved capital as of 31 March 2012 amounted to US\$24.2 million. The subsidiary bank monitors its total equity to maintain a solid capital base to support the operations and development of its business in the long term.

**NOMURA BANK INTERNATIONAL PLC****NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)****20. 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 2012 the additional interest on this tax assessment balance stands at an estimated £4.7 million. The Bank's Directors have sought legal advice and believe that the assessment has been wrongly made against the Bank. The Bank has appealed the assessment and vigorously contests the matter.

**WestLB**

On 17 April 2009 WestLB served proceedings on NIP and the Bank claiming that, on maturity of a note issued by the Bank and maturing in October 2008, WestLB were entitled to receive approximately \$22 million, which it claims to be the value of a fund of shares referable to the note. On 11 November 2010, the High Court in London dismissed WestLB's claim. WestLB obtained leave to appeal on 7 March 2011. On 24 April 2012 the Court of Appeal in London dismissed WestLB's appeal.

**Commitments**

The Bank had commitments as at 31 March 2012 amounting to \$1,568,605,919 (2011: \$1,717,136,841) in respect of undrawn note issuance facilities and loan commitments. The loan commitments are sub-participated to NIP on commitment date.

**Financial guarantee contracts**

The Bank provides certain financial guarantees to third parties over their exposure to Nomura Group companies. At 31 March 2012 the exposure on these financial guarantee contracts amounted to \$123,282,005 (2011: \$34,859,260).

**NOMURA BANK INTERNATIONAL PLC****NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)****21. RELATED PARTY TRANSACTIONS**

The Bank enters into various transactions with other companies under common control within the Nomura Group which are at an arm's length basis.

**a. Transactions with Nomura International plc (NIP)**

- i. The Bank has secured financing and collateralised lending receivables owing from NIP to the amount of \$12,799,205,263 as of 31 March 2012 (2011: \$21,438,255,000).
- ii. The Bank enters into derivative agreements with NIP to hedge the market risk on medium term notes issued. The fair value of the derivatives assets with NIP is \$1,279,383,493 as of 31 March 2012 (2011: \$1,380,571,808) and fair value of derivative liabilities with NIP is \$1,460,710,185 (2011: \$1,610,011,808). The Bank receives a combination of cash and securities collateral from NIP with respect to its net derivative exposure with NIP, disclosed on page 44 within note 17.
- iii. The Bank has other receivables due from NIP of \$141,785,261 (2011: \$63,314,942) as of 31 March 2012 and other payables due to NIP of \$62,341,656 (2011: \$121,450,059).
- iv. The Bank advanced a loan to NIP to the amount of \$204,432,664 (2011 : \$1,295,000)

**b. Transactions with Nomura Bank (Luxembourg) S.A. (NBL)**

- i. The Bank has secured financing payables owing to NBL of \$666,579,567 as of 31 March 2012 (2011: \$709,275,192).
- ii. The Bank has overdrafts and borrowings due to NBL of \$nil as of 31 March 2012 (2011: \$1,896,650,148).

**c. Transactions with Nomura Securities International, Inc (NSI)**

- i. The Bank entered into a secured financing receivable with NSI of \$650,000,000 as of 31 March 2012 (2011:\$ nil).

**d. Transactions with other Nomura group companies**

- i. The Bank entered into derivative agreements with other Nomura group companies. The fair value of these derivative assets is \$340,214,355 as of 31 March 2012 (2011: \$364,709,325), and the fair value of derivative liabilities owed to these related parties is \$372,146,302 as of 31 March 2012 (2011: \$420,124,372).
- ii. The Bank has an investment of \$300,000,000 in vanilla floating rate notes issued by a related party (2011: \$ 300,000,000)
- iii. The Bank has overdrafts and borrowings due to other Nomura group companies of \$39,878,434 as of 31 March 2012 (2011: \$1,387,857,408).
- iv. The Bank had paid cash collateral on its derivatives and a related receivable from Nomura Group companies is \$56,000,000 (2011 : Nil)

For the years ended 31 March 2012 and 31 March 2011, there were no impairment losses on any of the above disclosed related party receivables.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 21. RELATED PARTY TRANSACTIONS

The risk on the Bank's transactions is predominantly retained by other Nomura Group companies. Therefore many "back-to-back" transactions exist between the Bank and other Nomura Group companies.

In addition to the above, the Bank has significant dependencies with other Nomura Group companies. Certain Corporate services, including the use of IT systems, are provided by NIP through service level agreements. The premises where the Bank is registered and operates are leased by Nomura Properties plc.

#### 22. FIRST-TIME ADOPTION OF IFRS

The Directors have prepared financial information for the year ended 31 March 2012 in accordance with IFRS. For periods up to and including the year ended 31 March 2011, the Bank previously prepared its financial statements in accordance with UK GAAP. Accordingly, the Bank has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 March 2012, together with the comparative period data as at and for the year ended 31 March 2011, as described in the accounting policies. This note explains the principal adjustments made by the Bank in restating its UK GAAP statement of financial position as at 1 April 2010 and its previously published UK GAAP financial statements as at and for the year ended 31 March 2011. No assets and liabilities have been disclosed in the below tables as there are no material differences to their UK GAAP amounts.

##### Reconciliation of total comprehensive income for the year ended 31 March 2011

There are no material differences to the statement of comprehensive income presented between IFRS and that previously reported under UK GAAP.

##### Statement of financial position

No assets and liabilities have been disclosed in the below tables as there are no differences to their UK GAAP amounts.

##### Statement of cash flows

Cash flows of financial liabilities designated at fair value through profit and loss were previously presented as operating cash flows under UK GAAP but its redemptions and repayments are now presented gross as financing activities. There are no other material differences in the statement of cash flows presented between IFRS and that previously reported under UK GAAP.

##### Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRSs as effective for 31 March 2011 retrospectively. The Bank has taken the following exemptions:

- Upon transition to IFRS, a loan was elected under Fair Value Option but its carrying amounts were equal to its fair value as of 1 April 2010 and 31 March 2011, \$11.8m and \$5.1m, respectively.
- Cumulative currency translation differences in equity were deemed to be zero as at 1 April 2010. A reconciliation of equity is presented below to explain the effect of transition to IFRS.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2012 (CONTINUED)

#### 22. FIRST-TIME ADOPTION OF IFRS (CONTINUED)

##### Reconciliation of equity as at 1 April 2010 (Date of transition to IFRS)

		UK GAAP	Effect of transition to IFRS	IFRS
	Note	\$'000	\$'000	\$'000
<b>Equity</b>				
Share capital		555,000	-	555,000
Retained earnings	A	123,020	6,327	129,347
Redenomination reserve		-	-	-
Other reserve	A	6,327	(6,327)	-
<b>Total equity</b>		<u>684,347</u>	<u>-</u>	<u>684,347</u>

##### Reconciliation of equity as at 31 March 2011

		UK GAAP	Effect of transition to IFRS	IFRS
	Note	\$'000	\$'000	\$'000
<b>Equity</b>				
Share capital		555,000	-	555,000
Retained earnings	A	215,834	6,327	222,161
Redenomination reserve		3,108	(3,108)	-
Other reserve	A	3,257	(3,219)	38
<b>Total equity</b>		<u>777,199</u>	<u>-</u>	<u>777,199</u>

##### Note to reconciliation of equity as at 1 April 2010 and 31 March 2011

#### A. Other reserves

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 reporting date upon the change in functional currency. The Bank has elected to deem these translation differences to be nil and transferred the balance to retained earnings.

#### 23. 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.