# NOMURA BANK INTERNATIONAL PLC

**Annual Report**
**31 March 2020**

**COMPANY REGISTRATION NUMBER: 1981122**

STRICTLY PRIVATE AND CONFIDENTIAL

## NOMURA BANK INTERNATIONAL PLC

## YEAR ENDED 31 MARCH 2020

## STRATEGIC REPORT

The Directors of Nomura Bank International plc (the "Bank") present their Strategic Report, Directors' Report and the Financial Statements of the Bank for the year ended 31 March 2020. The Bank is incorporated in England and Wales and its registered office is at 1 Angel Lane, London, EC4R 3AB.

**REVIEW OF THE BANK'S BUSINESS, FINANCIAL PERFORMANCE AND FINANCIAL POSITION, DESCRIPTION OF PRINCIPAL RISKS AND INFORMATION REGARDING BRANCHES**

**Principal Activities**

The Bank's primary role is to support the Global Wholesale Business, predominantly the Global Markets Division, of the Nomura Group (Nomura Holdings, Inc. ("NHI") and its consolidated subsidiaries).

The Bank is a wholly owned subsidiary of Nomura Europe Holdings plc ("NEHS"). The Bank's ultimate parent undertaking and controlling entity is NHI. The Bank has a liaison office in Istanbul, Turkey. The Bank's core activities include:

- issuance of rates, credit and equity linked notes and certificates;
- issuance of commercial papers;
- provision of sub-participations and structured loans;
- purchase of structured credit assets and structured loans;
- provision of traditional banking products such as loans and credit facilities, repurchase and reverse repurchase transactions, letters of credit and guarantees; and
- taking deposits (including foreign exchange and other reference linked deposits).

From an operational standpoint, the Bank outsources a significant proportion of its support services under service level agreements to the related departments of Nomura International plc ("NIP"). The Treasury department continues to manage the liquidity of the Bank and provides asset and liability management for the balance sheet.

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

| | Year ended 31 March 2020 $'000 | Year ended 31 March 2019 $'000 |
|---|---:|---:|
| Net fee income | 53,624 | 52,190 |
| Profit after tax | 14,645 | 15,191 |
| Total comprehensive gain | 121,604 | 51,407 |
| Total assets | 7,134,357 | 6,638,475 |
| Total liabilities | 6,792,548 | 6,403,270 |
| Shareholders' funds | 341,809 | 235,205 |

## STRATEGIC REPORT (CONTINUED)

***Financial Performance:***

The Bank reported a profit after tax for the year of $14,645,482 (2019: $15,191,498), driven mainly by facilitation fee income for issuance facilities provided to NIP.

Coronavirus ("COVID-19") volatility led to a widening of Nomura’s own credit spreads, generating $106,958,988 (2019: $36,215,626) other comprehensive gain (net of tax) on the notes in issue during the year.

***Financial Position:***

The Bank's total assets increased year on year by 7% to $7,134,357,200 (2019: $6,638,474,735) following widening spreads and a corresponding increase in the Bank's derivative assets during the COVID-19 market volatility.

**BUSINESS ENVIRONMENT**

The heightened worry over United States (“US”)-China trade tensions destabilised financial markets during the summer of 2019, prompting major central banks to resume monetary easing. In September 2019, the European Central Bank (“ECB”) introduced a further interest rate cut along with resumption of quantitative easing. Expectations for a global economic recovery started to grow following the manufacturing sector entering into an upward cycle which eased US-China trade tension, alongside improved transparency over the United Kingdom (“UK”)’s expected departure from the European Union (“EU”) at the end of 2020. However the impact of COVID-19 between January to March 2020 impacted the growth expectations and all of the world's major economies reported severe contractions during this period.

In addition to the macro-economic uncertainties referenced above, the Bank continues to proactively manage the continued challenges of industry digitalisation by prioritising collaboration across division and regions along with investment in e-trading platforms.

**COVID-19 PANDEMIC**

As noted above, the Bank has been impacted by COVID-19 which was declared as a pandemic by the World Health Organisation on 11 March 2020. The Bank's pandemic plan was activated under the oversight of the NEHS Executive Committee. Evaluation of the situation was managed through the governance structures of the Operating Committee, which assessed issues and recommended actions and mitigants to the NEHS Executive Committee as necessary for ratification.

To date, the Bank’s contingency and business continuity arrangements are operating as planned and the Bank continues to operate on a business as usual basis.

## FUTURE DEVELOPMENTS

The United Kingdom's membership of the European Union ended on 31 January 2020 ("Brexit") in accordance with the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (the "Withdrawal Agreement"). The Withdrawal Agreement provides for a transition period until 31 December 2020 during which EU rules and regulations continue to apply to the UK. Whilst the future agreement between the UK and EU are currently under negotiation, its final form and substance remain uncertain at this time.

The Bank conducts a substantial level of business throughout Europe with London as its regional hub. The Bank has access to the entire European Economic Area ("EEA") through providing cross-border services under the relevant EU single market legislation known as "passporting rights". If the transition period ends without any agreement between the UK and EU in respect to continuation of access for financial services, including passporting rights, the Bank may lose access to the EEA, adversely affecting both the Bank's and the Group's revenue and profitability from business in the European region.

In response to the impacts of Brexit on both the Nomura Group and the Bank, and to provide continued services to clients both regionally and globally, a broker-dealer entity, Nomura Financial Products Europe GmbH ("NFPE") in the Federal Republic of Germany was established in 2019. NFPE is a subsidiary of NEHS and is eligible for passporting rights if no agreement is reached before the transition period ends.

## RISK MANAGEMENT

The Bank's risk management framework is closely aligned to the Nomura Group's risk management framework. However through its local governance framework, the Bank does apply specific risk management controls and defines its risk appetite, which is the maximum level and types of risk that the Bank is willing to assume in pursuit of its strategic objectives and business plan.

The Bank's activities involve the assumption and transfer of certain risks, including market risk, credit risk, operational risk, cross-border risk, model risk, liquidity and funding risks, and business risk. These risks are managed through sub-committees of the Board of NEHS, which include:

- the Board Risk Committee ("BRC"), which has oversight over the NEHS Group's risk profile, financial risk appetite, future risk strategy and maintenance of an appropriate risk control framework.
- cross-border risk committees in relation to non-Europe, Middle East and Africa ("non-EMEA") business booked into the Bank.

Further information on the management of these risks is provided in Note 13 of the Financial Statements.

## REGULATION AND REGULATORY CHANGES

### Regulations

The Bank is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. The Bank is regulated and has minimum capital adequacy requirements imposed on it on a standalone basis by the PRA. The Bank is in compliance with these requirements.

During the year, the Directors have noted, amongst other items, the following key regulatory updates and confirm the establishment of regulatory programs as appropriate to ensure compliance:

- On 23 November 2016, the European Commission published a comprehensive package of reforms to further strengthen the resilience of EU banking sector. The reforms implement many of the remaining parts of Basel III in the EU, as well as addressing issues identified with current prudential requirements. The European Commission introduced amendments to existing legislation in the form of the Capital Requirements Directive ("CRD V"), Capital Requirements Regulation ("CRR II"), Bank Recovery and Resolution Directive ("BRRD II") and Single Resolution Mechanism Regulation ("SRMR"). These updates entered into force in June 2019 with the majority of changes being introduced two years later in June 2021. Among other things these proposed changes include the introduction of binding minimum leverage and net stable funding ratios, changes to the calculations for counterparty credit risk of derivatives, a tightening of large exposure limits, introduction of new reporting requirements for market risk and the introduction of a new EU intermediate parent undertaking requirement. These reforms are generally expected to lead to an increase in local capital and liquidity requirements and increased costs of compliance. The Bank has a Regulatory change program which is managing the transition through to June 2021.

- The internal minimum requirement for eligible liabilities ("MREL") became applicable in the UK for all UK incorporated institutions from 1 January 2019 for firms whose failure would have a significant impact on the UK financial system and for certain overseas firms where the Bank of England ("BOE") would support a home resolution authority in carrying out a cross-border resolution.

- In July 2019, the BOE and UK PRA published a policy statement on the Resolvability Assessment Framework ("RAF"). The proposals for the RAF bring together existing policies such as MREL and Operational Continuity in Resolution ("OCIR") as well as other new resolution policies in order to follow the resolution principles set out by the FSB. Under the policy, it is expected firms perform an assessment of their preparations for resolution and the BOE provide a public statement concerning resolvability of each firm.

- The European Market Infrastructure Regulation ("EMIR") became effective on 16 August 2012, and applies to any entity established in the EU that is a legal counterparty to a derivative contract, even when trading with non-EU firms. EMIR was created with the intention of stabilizing OTC markets found within EU member states. Although the majority of EMIR regulations have already been implemented, on 28 May 2019, Regulation (EU) 2019/834 (EMIR REFIT) was published in the EU's Official Journal, with the aim of amending EMIR to make some of its requirements simpler and more proportionate. With a few exceptions, the majority of the provisions in the Regulation entered into force on 17 June 2019.

## STRATEGIC REPORT (CONTINUED)

### REGULATION AND REGULATORY CHANGES (CONTINUED)

- On 12 January 2016, the Securities Financing Transactions Regulation (“SFTR”), which forms part of the EU’s package of legislation targeted at reforming shadow banking and aims to improve transparency in the securities financing transactions (“SFTs”) market, came into force subject to a range of transitional provisions over a number of years. On 11 April 2019, the final regulatory technical standards entered into force and MiFID firms were due to commence their reporting one year later on 11 April 2020. However, due to the COVID-19 pandemic, the reporting under the SFTR has been extended until 13 July 2020. Furthermore, in preparation of post-EU withdrawal, the UK Government has stated that the UK will not be taking action to incorporate into UK law the reporting obligation of the EU’s SFTR for non-financial counterparties (NFCs).

- The Fifth Money Laundering Directive (“5MLD”), came into force in the EU on 26 April 2018 and for implementation by EU Member States by 10 January 2020. Not all Member States have yet been able to implement the changes. However the UK government has enacted the regulations bringing into force the 5MLD and the provisions are contained in the Money Laundering and Terrorist Financing (Amendment) Regulations 2019. The changes impose additional obligations within the financial services sector. 5MLD amends 4MLD, and includes provisions that enhance the required level of transparency around beneficial ownership of corporates and trusts, tightens some controls relating to Politically-Exposed Persons and high risk third countries and also addresses risks associated with certain technological innovation, particularly virtual currencies.

- The Senior Managers and Certification Regime (“SM&CR”) came into force on 7 March 2016 with the aim of reducing the risk of harm to consumers and strengthening market integrity by making firms, and individuals within those firms, more accountable for their conduct and competence. In July 2018, the UK FCA and UK PRA published near-final rules extending SM&CR to cover all financial services firms in the UK to apply from 9 December 2019. On 8 March 2019, the UK FCA announced its final rules on its proposed Directory - a new public register that will enable consumers, firms and other stakeholders to find information on key individuals working in financial services who are not otherwise appointed and publicly registered under the SM&CR. Firms were to submit data on Directory individuals in December 2019, and the Directory was expected to go live in March 2020. However, due to the COVID-19 pandemic, the implementation date of the directory of certified and assessed persons is currently under review.

- In November 2019, the EU Benchmark Regulation (“BMR”) was amended to include two new types of "climate benchmarks" - 'Paris-Aligned' Benchmarks (“PABs”) and Climate Transition Benchmarks (“CTBs”). The Low-Carbon Benchmarks Regulation introduced the requirement (under Article 13 of the BMR) that administrators of benchmarks (save interest rate and foreign exchange benchmarks) must provide an explanation of how the key elements of their benchmark methodologies reflect ESG factors. The requirements are to be complied with by 30 April 2020. However, since the draft regulatory technical standards are currently subject to public consultation and a number of important details are subject to these delegated acts, ESMA issued a ‘No Action Letter’ encouraging EU national regulators not to force these ‘Level 1’ requirements until these delegated acts are finalised.

- Interest rate benchmarks including, among others, the London Interbank Offered Rate (“LIBOR”), the Euro Interbank Offered Rate (EURIBOR), the Euro Overnight Index Average (EONIA) and certain other Interbank Offered Rates (“IBORs”) are being reformed. The UK is due to make the transition from LIBOR to Sterling Overnight Index Average (“SONIA”) by the end of 2021 although certain interim milestones have been extended due to the COVID-19 pandemic.

## EMPLOYEE MATTERS

The Bank outsources all of its support services under service level agreements to departments of NIP, an affiliated company.

The Bank is strongly committed to the principle of equal employment opportunity for all employees and to providing employees with a work environment free of discrimination and harassment regardless of age, disability, race, gender identity and gender expression, religion or belief, marriage and civil partnership, pregnancy and maternity, sex or sexual orientation. Our recruitment, development and promotion procedures embed these principles. The Bank's objective is to attract job applications from the best possible candidates and to retain the best people. We are also committed to having a diverse range of skills, values, knowledge, experience and geographical, educational and professional backgrounds amongst our employees.

The Nomura Group has an established policy of communicating with all its employees regularly, including UK employees, in order to provide information relevant to them about their employment and Nomura. This includes regular Nomura news bulletins circulated to all UK employees as well as communication and updates on the employee training programmes that are available. All UK employees are encouraged to participate in the various employee committees and networks offered by the Nomura Group. The Bank is not listed in the UK and therefore does not operate an employee share scheme. However employee involvement in the performance of the Bank is encouraged, in a number of ways, including through the provision of a discretionary bonus scheme, which is based on the employee's individual performance as well as their division as a whole and the overall Bank and Nomura Group performance. The Nomura Group's financial performance is regularly communicated to employees through quarterly town halls in which the NEHS Group's financial performance is discussed.

### SECTION 172 OF THE COMPANIES ACT 2006

Section 172 of the Companies Act 2006 requires directors to promote the success of the Bank for the benefit of its members as a whole and, in doing so, to have regard to the interests of stakeholders, including shareholders, clients, employees, suppliers, regulators and the wider society in which the Bank operates.

As a Board, we strive to take decisions for the long term, with the aim of understanding and respecting the views and needs of our clients, employees and suppliers along with the environment we operate in and the shareholders to whom we are accountable.

The Board ensures the Section 172 requirements are met and the interests of all stakeholder groups are considered and taken into account when making decisions. This is evidenced through a number of actions including but not limited to the following:

- There is an established policy of communicating with all employees regularly. The NEHS Group's purpose and its strategy and priorities are communicated at quarterly town halls, and throughout the year in leadership meetings, all employee email messages and Nomura news bulletins. In its communications, the NEHS Group actively promotes its commitment to: good governance; risk management; compliance; good conduct; client needs and shareholder requirements; social responsibility; equal opportunities; and diversity and inclusion.

- Nomura conducts an annual Founding Principles and Corporate Ethics Day, a global initiative with the aim of engaging with employees and obtaining feedback in relation to conduct matters. These sessions are held in teams and led by team leaders to facilitate open discussions. Over 200 sessions were held over the attestation period to discuss corporate ethics and conduct related issues and the Conduct team collated detailed employee feedback and condensed it into overall themes to address the feedback received.

- The Human Resources (“HR”) team conduct employee engagement surveys and review the output of the surveys, gather feedback and develop targeted action plans which are presented to Executive management. An overview is also presented to the Board. Both the NEHS Executive Committee (the Terms of Reference of which include the operations of the Bank within its scope) and the Board receives regular updates from HR to consider matters such as diversity and inclusion, and annual diversity monitoring surveys are conducted.

- An annual Health and Safety review of employee wellbeing is conducted by HR. The Director of the Board responsible for Health and Safety provides an annual update on Health, Safety and the Environment. Mental Health champions have been trained across the business and a firm-wide mental health resilience programme is in place.

- The Bank reviews and reports on its invoice payment practices to ensure suppliers are treated fairly by abiding to agreed payment terms.

- Pursuant to Section 54(1) of the Modern Slavery Act 2015 (the “MSA Act”), the Bank annually attests to the Act by publishing a statement outlining how the Bank mitigates the risk of slavery and human trafficking both within their business and their supply chains. As part of this process, the NEHS Group has in place a Modern Slavery and Human Trafficking Policy (the "MSA Policy"), which seeks to identify and manage such risk.

- The Board and its committees take their environmental responsibilities seriously and receive regular updates on climate change. The Board members have undergone training on financial risks associated with climate change and an SMF with responsibility for climate change has been appointed.

- Established in 2009, the Nomura Charitable Trust has been supporting disadvantaged young people in the local communities through both grant making and employee engagement in the form of volunteering and other engagement initiatives, making a significant impact both internally and externally. The Nomura Charitable Trust engages with the wider community by supporting three partner charities and provides strategic grants to charities in order to fund specific programmes or projects. The Nomura Charitable Trust’s mission is to ensure Nomura’s business goals are aligned with providing positive contribution to stakeholders and the wider communities in which Nomura operates.

The Board considers the interests of stakeholders as part of its overall long term business objectives and continues to align the Bank’s strategic direction with the shareholder’s aspirations for sustainability and growth.

The Board has an open, transparent and constructive relationship with the regulators and provide them with monthly Management Information (“MI”). The Board and its Committees receive regular updates to understand regulatory developments and Board members regularly meet with the regulators to ensure they are kept updated and informed.

When making principal decisions, the Directors have regard to the interests of relevant stakeholders. An example of this is in connection with NEHS Group's approach to operations post-Brexit. In deciding the future operating model, the Bank was required to take into account client requirements, employees and the impact on the wider business model. For clients, it was important to take into the account their needs in a post-Brexit environment, their requirements to be serviced by an entity authorised and regulated in the EU and the impact of transition. It was also important to ensure that there was appropriate resourcing in place to ensure client needs could continue to be met in an uninterrupted fashion. For employees, the Board needed to consider the impact of relocation, and the ability to attract and retain staff in new locations.

## ENVIRONMENT AND ENERGY

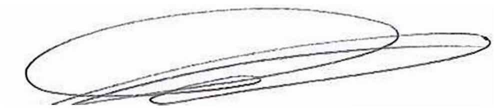
The Bank believes a healthy environment is the foundation of stable economic and social conditions for future generations. The Bank is committed to acting in an environmentally responsible manner and to achieving energy performance improvement.

The Nomura Group:

- encourages investment and constructive engagement in environmentally friendly and energy efficient goods and services;
- assesses environmental risks and continually strives to minimise pollution to mitigate our effect on climate change;
- complies with relevant environmental laws and regulations and engages with external stakeholders on environmental issues;
- is committed to continual improvement in energy performance;
- aims to maximise the efficiency of its property portfolio through effective asset management covering utilisation, maintenance, accessibility and disposals;
- promote the importance of biodiversity and a healthy ecosystem;
- communicates this policy to all its employees to raise awareness of environmental issues and encourages environmentally friendly initiatives;
- will make available the necessary resources to achieve our environmental and energy objectives and targets.

The Nomura Group makes this policy available for public viewing on request.

**BY ORDER OF THE BOARD AT A MEETING HELD ON 23 July 2020**



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Christopher Barlow
Company secretary

23 July 2020

Company Registration Number 1981122

# NOMURA BANK INTERNATIONAL PLC

# YEAR ENDED 31 MARCH 2020

## DIRECTORS' REPORT

The Directors present their report and Financial Statements of the Bank which comprises of the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Statement of Cash flow and related Notes 1 - 20.

### RESULTS AND DIVIDENDS

The results for the year are presented in the Statement of Comprehensive Income. The profit from continuing activities transferred to reserves for the year amounted to $14,645,482 (2019: $15,191,498).

The Directors recommend the payment of a final dividend of $12,000,000 (2019: $15,000,000), equivalent of $0.05 (2019: $0.06) per share.

### EVENTS SINCE THE STATEMENT OF FINANCIAL POSITION DATE

No events to report post balance sheet date.

### DONATIONS

No political donations were made during the year (2019: nil).

### RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Bank's approach to Risk Management is presented in Note 13 of the Financial Statements, with additional analysis on Financial Instruments disclosed in Notes 1, 9, 13 and 14 of the Financial Statements.

### MATTERS DEALT WITH IN THE STRATEGIC REPORT

An indication of the likely future developments of the Bank, along with information pertaining to principal risks, employee matters, section 172 of the Companies Act 2006, environment and energy have been discussed in the Bank's strategic report.

### DIRECTORS

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

| | |
|---|---|
| David Godfrey | Non-Executive Chairman |
| | Non-Executive Director |
| Jonathan Lewis | Director (resigned on 14 Jan 2020) |
| John Tierney | Director and Chief Executive Officer ("CEO") (appointed as CEO on 14 Jan 2020) |
| Lewis O'Donald | Director (resigned 26 April 2019) |
| Jonathan Britton | Non-Executive Director |
| Neeta Atkar | Non-Executive Director |
| Takeo Aoki | Director (appointed on 10 September 2019) |

## DIRECTORS' INDEMNITIES

As at the date of this report and during the relevant financial year, indemnities are and were in force under which the Bank has agreed to indemnify certain Directors of the Bank, Directors of certain associated Companies to the extent permitted by law and in accordance with the Bank'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 Bank. In addition, NHI effected a global Directors and Officers liability insurance programme for the benefit of the Nomura Group.

## ANTI-BRIBERY AND CORRUPTION POLICY

The Bank's policy against bribery and corruption requires employees and persons acting for or on behalf of the Company, to understand and to comply with laws, rules and regulations concerning bribery and corruption and to be neither involved with bribery nor corrupt activities.

The Bank maintains policies and procedures designed to mitigate the risk of the Bank becoming involved in bribery and/or corruption.

## BOARD RECRUITMENT POLICY

The NEHS Governance and Nomination Committee is responsible for having regard to a broad set of technical capabilities and competencies when recruiting members of the Boards of the Bank. The NEHS Governance and Nomination Committee is also responsible for putting in place a policy promoting diversity on the Board.

The Nomura Group is committed to providing equal opportunities throughout its Board appointments including in the recruitment, training and development of Board members. The objective is to attract the best possible candidates and to retain the best people.

## BOARD DIVERSITY POLICY

The Nomura Group is committed to fostering our corporate culture which respects our people's values regardless of their background, such as gender, nationality, ethnic origin, age, sexual orientation or gender identity. Today, Nomura's workforce includes employees of more than 70 different nationalities. This diverse group of personnel is our most important asset, and as such, we strive to offer equal opportunities to all personnel to enable each and every one of them to develop their capabilities and strengths as individuals to the fullest and perform as Nomura professionals.

The NEHS Governance and Nomination Committee has responsibility for leading the process for Board appointments and for identifying and nominating candidates for appointment to the Board. Board appointments will be based on merit and candidates will be considered against objective criteria. The Board currently has a diverse range of ages, geographical provenance, educational and professional backgrounds, skills, knowledge and experience which values input from all directors. The NEHS Governance and Nomination Committee will continue to ensure appropriate actions are taken to further broaden the diversity on the Bank's board.

## STAKEHOLDER ENGAGEMENT

Section 172 of the Companies Act 2006 requires directors to promote the success of the Bank for the benefit of its members as a whole and, in doing so, to have regard to the interests of stakeholders, including shareholders, clients, employees, suppliers, regulators and the wider society in which the Bank operates.

On pages 7 & 8, we have set out how we have engaged with our key stakeholders and how the Board has considered their interests during the year.

## GOING CONCERN

The Bank's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. In addition, Notes 13 and 16 of the statutory financial statements for the year to 31 March 2020 describe the Bank's objectives, policies and processes for risk management and capital management, as well as its exposures to credit and liquidity risk.

Given that the Bank hedges its market risk, the Directors consider the Bank's capital position to be strong. The Bank does not hedge its own credit risk, however this does not impact its capital. Whilst the Bank has significant exposure to Nomura Group companies, and in particular to NIP, this is minimised through significant collateralisation 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. Refer to Note 20 for more information regarding COVID-19 impact on the Bank.

## 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 10. 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 that information.

## AUDITORS

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

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

The Directors are responsible for preparing the Directors' Report, the Strategic Report and the Bank's financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare financial statements under International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing those financial statements, the Directors are required to:

- 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 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 Bank's 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 and the Strategic Report in accordance with the Companies Act 2006 and applicable regulations.

**BY ORDER OF THE BOARD AT A MEETING HELD ON 23 July 2020**

Christopher Barlow
Company secretary

23 July 2020

Company Registration number 1981122

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

### Opinion

We have audited the financial statements of Nomura Bank International plc ("the Bank", "NBI") for the year ended 31 March 2020 which comprise the Income Statement, Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the Statement of Cash Flows and the related Notes 1 to 20, including a summary of significant accounting policies 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.

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Overview of our audit approach

| | |
|---|---|
| Key audit matters | • Impact of Covid-19<br>• Risk of fraud in recognition of revenue in respect of Nomura Bank International plc's Own Credit Adjustment ("OCA") |
| Materiality | • Overall materiality of $5.1m which represents 1.5% of Net Assets. See Materiality section below. |

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

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Impact of COVID-19**<br><br>The recent outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has adversely impacted global commercial activity and contributed to significant declines in global equity and debt markets. It is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impact, including a global, regional or other economic recession, is increasingly uncertain and difficult to assess.<br><br>The outbreak and the resulting financial and economic market uncertainty described above could have a significant adverse impact on the operations and financial outlook of the Bank such as its ability to meet its financial obligations, which potentially could also lead to the improper application of the directors' going concern assumption. | We discussed with the Directors whether they had assessed the impact caused by COVID-19, on the going concern of the Bank, and reviewed the assessment that they had prepared challenging the assumptions and judgements that have been made.<br><br>We reviewed that the assessment and outcome was disclosed in the financial statements of the Bank.<br><br>We reviewed and challenged the inputs and assumptions to the Bank's going concern assessment which included forward looking assumptions and, as a result of the impact of COVID-19, stress testing scenarios in order to determine whether the Bank remains able to meet its financial obligations as they fall due and comply with its financial covenants over the next 12 months.<br><br>We assessed the level of involvement by the Parent (including past evidence) and their ability to support the Group in the absence of future profitability. | Based on the procedures performed, we are satisfied that the Directors have appropriately considered the impact of COVID-19 and that adequate disclosures have been presented in the financial statements of the Bank. |

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

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Risk of fraud in recognition of revenue in respect of Nomura Bank International plc's Own Credit Adjustment**<br><br>Own Credit Adjustment $121.8m (2019: $44.3m)<br><br>There is a risk that management could manipulate profit and loss recognition where recognition is subjective, e.g. judgements involving complex asset valuations. For NBI, this risk is specific to revenue recognition in respect of Nomura's Own Credit Adjustment. This is due to the fact that OCA represents the sole significant driver of NBI's other comprehensive income given the structure of the entity as market risk flat. As such, OCA is identified as the sole component of the other comprehensive income where there would be potential for management override to impact the other comprehensive income.<br><br>The risk has neither increased or decreased in the current year compared to the previous year.<br><br>**Impact of Covid-19:**<br>The volatility in the markets caused a widening of credit spreads resulting in a remarking of the OCA curve. | As general responses to the risks relating revenue and expense recognition, we performed the following procedures:<br><br>• Input testing of the OCA Curve and checking consistency with Nomura's policy<br><br>• Trend analysis and analytical procedures on the movements in the reserve<br><br>• Year-end substantiation of the reserve calculation sheet<br><br>• Balance sheet substantiation of the cumulative reserve amounts<br><br>• Our derivative valuation specialists reviewed the repricing for a sample of NBI Structured notes<br><br>• In addition to the above, we also assessed the appropriateness of the revised "Averaging Methodology" used to construct the OCA Curve and assessed whether the observed widening was reasonable | No material issues were identified from the execution of our audit procedures over the risk of fraud in recognition of revenue in respect of Nomura Bank International plc's Own Credit Adjustment.<br><br>Based on our extended procedures over the remarking of the NBI OCA curve, we have not identified additional fraud risks brought about by the COVID-19 pandemic.<br><br>We concluded that in the context of the inherent uncertainties as disclosed in the financial statements, the valuations of the entity's own issued liabilities and the inputs used within the own credit calculation are within a reasonable range of outcomes and as such the revenue arising from movements in the entity's own credit spread for the year ended 31 March 2020 are materially appropriate. |

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

**An overview of the scope of our audit**

**Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Bank. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Bank and effectiveness of controls, including controls and changes in the business environment, and other factors, such as recent Internal Audit findings, when assessing the level of work to be performed.

In assessing the risk of material misstatement to the Bank's financial statements, we reflect the Bank's geographic structure, headquartered in London, but whereby the Bank has trading activity originated in other locations (the Americas, Japan and Asia excluding Japan). To make sure that we had adequate coverage of significant accounts in the financial statements of the Bank, we selected regions to include in our audit scope, which represent the principal business units within the Bank. Regional components were selected based on their size or risk characteristics.

We performed an audit of the complete financial information for the "full scope" components and audit procedures on selected account balances on the "specific scope" components.

**Changes from the prior year**

| Region | Prior year scope | Current year scope |
|---|---|---|
| Europe | Full | Full |
| Asia excluding Japan | Full | Full |
| Americas | Specific | Specific |
| Japan | Out of Scope | Out of Scope |

There were no changes in regional scoping in the current year compared to prior year.

**Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

**Materiality**

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Bank to be $5.1 million (2019: $4.7 million), which is 1.5% (2019: 2%) of Net Assets. Net Assets (Equity) have been selected for the basis of materiality given the nature of NBI's booking model is such that Equity is relatively low in comparison to total assets as the entity acts as a note issuance vehicle where the market risk associated with external note issuance is transferred to Nomura International Plc (an affiliate). We believe that users of financial statements, including regulators and investors in NBI note issuances, would more likely assess the strength of the balance sheet to be of more interest, particularly given the purpose of the entity as described above.

During the course of our audit, we reassessed initial materiality and identified no basis for a change to the original assessment.

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

**Performance materiality**

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely $3.8m (2019: $3.5m). We have set performance materiality at this percentage due to our expectation of misstatements based on previous audits, likelihood and effects of misstatements, internal control environment and consideration of any changes in circumstances of the Bank.

**Reporting threshold**

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $0.2m (2019: $0.2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

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

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the Consolidated Financial Statements to be audited 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.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

**Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank, noting that the Bank is authorised by the Prudential Regulation Authority (“PRA”) and regulated by the Financial Conduct Authority (“FCA”) and the PRA. The Bank is subject to the regulatory requirements imposed by the PRA under the Capital Requirements Directive IV (“CRD IV”) framework.
- We understood how Nomura Bank International plc is complying with those frameworks. This include our assessment of the oversight of those charged with governance, the culture of honesty and ethical behaviour and whether a strong emphasis is placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.
- We assessed the susceptibility of the Bank’s financial statements to material misstatement, including how fraud might occur by management’s manipulation of profit and loss recognition, where recognition is judgemental and subjective.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved:
    - As part of our client and engagement acceptance and continuance procedures, we performed due diligence on the Bank’s key personnel to identify any adverse media that may be indicative of risk and exposure to non-compliance, including non-compliance with Anti-Money Laundering Legislation
    - Inspection of correspondences with the FCA and PRA
    - Inquiries of management and those charged with governance as to whether the entity is in compliance with applicable laws and regulations, including compliance with the Anti-Money Laundering Legislation
    - Obtaining an understanding of, and performing audit procedures to test the design and operating effectiveness of entity-level controls ("ELC") and considering the influence of the control environment.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

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

**Other matters we are required to address**

- We were appointed by the Bank on 4 July 2019 to audit the financial statements for the year ending 31 March 2020 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 18 years, covering the years ending 31 March 2003 to 31 March 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

**Use of our report**

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

Ernst & Young LLP

*Nicholas Dawes (Senior statutory auditor)*
*For and on behalf of Ernst & Young LLP, Statutory Auditor*
*London*
24 *July 2020*

Notes:

- The maintenance and integrity of the Nomura Bank International plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## NOMURA BANK INTERNATIONAL PLC

### INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

| | Note | Year ended 31 March 2020 $'000 | Year ended 31 March 2019[1] $'000 |
|---|---|---|---|
| **INCOME** | | | |
| Interest income calculated using effective interest method | 2 | 16,814 | 4,700 |
| Other interest and similar income | 2 | 52,807 | 73,806 |
| Interest expense calculated using effective interest method | 2 | (3,172) | (2,228) |
| Other interest and similar expenses | 2 | (12,262) | (16,800) |
| **NET INTEREST INCOME** | | **54,187** | **59,478** |
| Fee and commission income | 3 | 56,658 | 56,555 |
| Fee and commission expense | 3 | (3,034) | (4,365) |
| Dealing Loss | 4 | (79,051) | (80,440) |
| **TOTAL OPERATING INCOME** | | **28,760** | **31,228** |
| General and administrative expenses | 5 | (10,666) | (12,174) |
| Credit impairment charge | | (8) | (84) |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE TAX** | | **18,086** | **18,970** |
| Tax charge on profit on ordinary activities | 7 | (3,441) | (3,779) |
| **PROFIT FOR THE YEAR** | | **14,645** | **15,191** |
| **ATTRIBUTABLE TO:** | | | |
| **Equity holders of the parent** | | | |
| Profit for the year from continuing operations | | **14,645** | **15,191** |

All gains and losses in the current year noted above are derived from continuing activities.

The notes on pages 28 to 82 form part of these financial statements.

[1] 2019 includes a presentational reclassification between other interest and similar income and other interest and similar expenses. Refer to Note 2 for further details.

NOMURA BANK INTERNATIONAL PLC

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

| | Note | Year ended 31 March 2020 $'000 | Year ended 31 March 2019 $'000 |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **14,645** | **15,191** |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Items that will not be reclassified to the income statement** | | | |
| Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk (net of related tax effects) | 11 | 106,959 | 36,216 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | | **106,959** | **36,216** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **121,604** | **51,407** |

The notes on pages 28 to 82 form part of these financial statements.

**NOMURA BANK INTERNATIONAL PLC**

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

| | Called-up Share Capital $'000 | Retained Earnings $'000 | Own Credit Reserve $'000 | Total $ 000 |
|---|---|---|---|---|
| As at 1 April 2019 | 255,000 | 45,808 | (65,603) | 235,205 |
| Dividends paid during the year | - | (15,000) | - | (15,000) |
| Transferred from own credit reserve to retained earnings during the year | - | (22,316) | 22,316 | - |
| Profit for the year | - | 14,645 | - | 14,645 |
| Other Comprehensive Income | - | - | 106,959 | 106,959 |
| **At 31 March 2020** | **255,000** | **23,137** | **63,672** | **341,809** |

| | Called-up Share Capital $'000 | Retained Earnings $'000 | Own Credit Reserve $'000 | Total $ 000 |
|---|---|---|---|---|
| As at 1 April 2018 | 555,000 | 32,541 | (104,801) | 482,740 |
| Changes on initial application of IFRS 9 | - | 1,058 | - | 1,058 |
| Capital repaid during the year | (300,000) | - | - | (300,000) |
| Transferred from own credit reserve to retained earnings during the year | - | (2,982) | 2,982 | - |
| Profit for the year | - | 15,191 | - | 15,191 |
| Other Comprehensive Income | - | - | 36,216 | 36,216 |
| **At 31 March 2019** | **255,000** | **45,808** | **(65,603)** | **235,205** |

During the year, $22,316,573 (2019: $2,981,972) was transferred from Own Credit Reserve to Retained Earnings due to derecognition of financial liabilities designated at fair value through profit and loss (net of tax effects).

The notes on pages 28 to 82 form part of these financial statements.

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## NOMURA BANK INTERNATIONAL PLC

## STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2020

| | Note | Year ended 31 March 2020 $'000 | Year ended 31 March 2019 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | 9 | 17,158 | 3,048 |
| Derivative financial instruments | 9 | 1,895,104 | 449,130 |
| Loans and advances to affiliates | 9 | 751,089 | 1,564,136 |
| Securities purchased under agreements to resell | 9 | 4,376,355 | 4,535,216 |
| Loans and advances to others | 9 | 66,422 | 68,615 |
| Prepayments and accrued income | 9 | 3,370 | 13,138 |
| Other assets | 9 | 24,636 | 828 |
| Right-of-use assets | | 205 | - |
| Financial investments | 9 | 18 | 17 |
| Deferred tax asset | 7 | - | 4,347 |
| **Total Assets** | | **7,134,357** | **6,638,475** |
| **Liabilities** | | | |
| Customer Accounts | 9 | 156 | 184 |
| Derivative financial instruments | 9 | 1,929,734 | 653,887 |
| Accruals and deferred income | 9 | 14,100 | 20,593 |
| Borrowings from affiliates | 9 | 327,576 | 761,682 |
| Borrowings from others | 9 | 38,027 | 41,745 |
| Commercial papers issued | 9 | 758,858 | - |
| Securities sold under agreements to repurchase | 9 | 425,000 | 599,980 |
| Bonds and medium-term notes | 9, 11 | 3,284,183 | 4,321,854 |
| Group relief payable | 7 | 3,398 | 3,219 |
| Other liabilities | 9 | 271 | 126 |
| Deferred tax liability | 7 | 11,245 | - |
| **Total Liabilities** | | **6,792,548** | **6,403,270** |
| **Shareholders' funds** | | | |
| Called up share Capital | 12 | 255,000 | 255,000 |
| Retained earnings | | 23,137 | 45,808 |
| Own credit reserve | | 63,672 | (65,603) |
| **Total Equity** | | **341,809** | **235,205** |
| **Total Liabilities and Equity** | | **7,134,357** | **6,638,475** |

Approved by the board of Directors on 23 July 2020 and subsequently signed on its behalf on 23 July 2020

John Tierney,
Director

The notes on pages 28 to 82 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2020

| | Note | Year ended 31 March 2020 $'000 | Year ended 31 March 2019 $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | 18,086 | 18,970 |
| **Non-cash adjustments to reconcile profit for the period to net cash flows** | | | |
| Depreciation | | 148 | - |
| **Change in working capital adjustments** | | | |
| Net change in derivative assets | | (1,445,974) | 55,221 |
| Net change in loans and advances to affiliates | | 813,047 | (537,962) |
| Net change in securities purchased under agreements to resell | | 158,861 | 1,663,878 |
| Net change in loans and advances to others | | 2,193 | 11,878 |
| Net changes in prepayments and accrued income | | 9,768 | (3,389) |
| Net change in other assets | | (23,808) | 7,548 |
| Net change in financial investments | | (1) | (5) |
| Net change in customer accounts | | (28) | (16) |
| Net change in derivative liabilities | | 1,275,847 | (453,869) |
| Net change in accruals and deferred income | | (6,493) | (5,339) |
| Net change in borrowings from affiliates | | (434,106) | 515,197 |
| Net change in borrowings from others | | (3,718) | (1,490) |
| Net change in commercial papers issued | | (21,981) | - |
| Net change in securities sold under agreements to repurchase | | (174,980) | (851,236) |
| Net change in bonds and medium-term notes | | 88,814 | 48,676 |
| Net change in other liabilities | | (62) | (614) |
| Net change in income tax receivable and group relief payable | | (3,219) | (27,414) |
| **Net cash flow from operating activities** | | **252,394** | **440,034** |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of bonds and commercial papers | | 3,663,896 | 1,769,503 |
| Repayments of bonds and commercial papers | | (3,887,035) | (1,913,124) |
| Repayment of share capital | 12 | - | (300,000) |
| Dividends paid | | (15,000) | - |
| Payment of principal portion of operating lease liabilities | | (145) | - |
| **Net cash flows from financing activities** | | **(238,284)** | **(443,621)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **14,110** | **(3,587)** |
| **Cash and cash equivalents at the beginning of the year** | | **3,048** | **6,635** |
| **Cash and cash equivalents at the end of the year** | | **17,158** | **3,048** |
| **Included within operational cash flows** | | | |
| Interest paid | | (15,458) | (16,283) |
| Interest received | | 79,473 | 71,571 |

## NOMURA BANK INTERNATIONAL PLC

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

### RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | | | Non-cash changes | | |
|---|---|---|---|---|---|
| | 1 April 2019<br>$'000 | Cash flows<br>$'000 | Fair value changes<br>$'000 | Foreign exchange & other<br>$'000 | 31 March 2020<br>$'000 |
| Bonds and medium term notes | 4,321,854 | (1,003,978) | (122,507) | 88,814 | 3,284,183 |
| Commercial papers issued | - | 780,839 | - | (21,981) | 758,858 |
| Lease liabilities | 353 | (153) | - | 8 | 208 |
| **Total liabilities from financing activities** | **4,322,207** | **(223,292)** | **(122,507)** | **66,841** | **4,043,249** |

| | | | Non-cash changes | | |
|---|---|---|---|---|---|
| | 1 April 2018<br>$'000 | Cash flows<br>$'000 | Fair value changes<br>$'000 | Foreign exchange & other<br>$'000 | 31 March 2019<br>$'000 |
| Bonds and medium term notes | 4,460,415 | (143,622) | (43,615) | 48,676 | 4,321,854 |
| **Total liabilities from financing activities** | **4,460,415** | **(143,622)** | **(43,615)** | **48,676** | **4,321,854** |

The cash and cash equivalents mainly consist of nostro balance.

The notes on pages 28 to 82 form part of these financial statements.

## 1 ACCOUNTING POLICIES

### (a) Basis of Accounting

The financial statements of 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.

The financial statements have been prepared under the historical cost convention modified to include the fair valuation of particular financial instruments to the extent required or permitted under IFRS as set out in the relevant accounting policies.

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future for a period of the least 12 months from the date of the approval of the financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

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

The preparation of the Bank's financial statements requires management to make judgements, 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 estimates and assumptions 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 judgment, as listed in Note 14
- Recoverability of deferred tax assets, as per Note 7.

### (c) Foreign Currencies

The Bank's financial statements are presented in USD which is also the Bank's functional currency. Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Income and expenses denominated in a foreign currency are retranslated using appropriate weighted average exchange rates. All differences arising from the application of closing rates of exchange, together with exchange gains/losses from trading activities, are taken to profit and loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The rate of exchange between USD and Sterling at the reporting date was 1.2445 (2019: 1.3031).

**1 ACCOUNTING POLICIES (continued)**

**(d) Operating Income**

i. **Interest receivable:** Interest income is recognised in profit and loss for all interest bearing financial assets held at amortised cost using the effective interest method or secured financing transactions classified as fair value through profit and loss ("FVPL").

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.

The Bank holds certain financial assets which have been set with negative interest rates. Negative interest on financial assets is presented as interest payable and similar expenses.

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

The Bank holds certain financial liabilities which have been set with negative interest rates. Negative interest on financial liabilities is presented as interest receivable and similar income.

iii. **Dealing profits and losses:** Income arising from gains and losses on financial instruments measured at fair value through profit and loss is included in dealing losses. Interest on certain liabilities designated at fair value through profit and loss is also included, as it is integral to the dealing losses and distinct from interest on banking activities.

Dealing profits arise across a range of instruments, and are managed accordingly. They are presented on a net basis, even though the corresponding financial assets and liabilities may not have been offset.

iv. **Fee income and expense:** Fees and commission income includes fees earned from issuance facilitation services and other commission income.

Revenues are recognised when or as the customer obtains control of the service provided by Nomura which depends on when each of the key distinct substantive promises made by Nomura within the contract with the customer performance obligations are satisfied. Such performance obligations are generally satisfied at a particularly point in time or, if certain criteria are met, over a period of time.

Depending upon whether the Bank is acting as principal or agent in generating fees and commissions, costs are reported on a gross or net basis respectively.

**1 ACCOUNTING POLICIES (continued)**

**(e) Financial Instruments**

**(i) Classification and Measurement**

Financial instruments are classified either as financial assets or liabilities at amortised cost, financial assets mandatorily at fair value through profit or loss or financial liabilities designated at fair value through profit or loss. The classification and measurement of all financial assets, except equity instruments and derivatives, are assessed based on the Company's business model for managing the assets and the instruments' contractual cash flow characteristics.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

**Business Model**

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective, how information is reported to management of the Nomura reporting entity, frequency of sales of the financial assets and the complexity or potential differences in underlying business model.

There are three business models under IFRS 9 for financial assets:

- Hold to Collect - Financial assets held with the objective to collect contractual cash flows.
- Hold to Collect and Sell - Financial assets held with the objective of both collecting contractual cash flows and selling financial assets.
- Other - Financial assets held with trading intent or that do not meet the “hold to collect” and “hold to collect and sell” qualifying criteria.

The Bank manages a portfolio of financial assets through a hold to collect business model where all of the following criteria are met:

- The portfolio is not managed through a held for trading or fair value management business model;
- The portfolio of financial assets is managed to realise cash flows solely through collecting contractual payments over the life of the financial assets rather than managing the overall return on the portfolio by both holding and selling financial assets; and
- Any sales of financial assets are expected to be infrequent or insignificant.

**Solely Payments of Principal and Interest (SPPI):**

To meet the hold to collect business model, the portfolio of financial assets are to be held by the Bank with the strategy of collecting cash flows from the financial assets specified by contractual terms of the instrument. A financial asset can only be measured at amortised cost where the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

The most significant elements of interest within a basic lending arrangement are that it is consideration for the time value of money and credit risk. Interest may also include a profit margin.

## 1 ACCOUNTING POLICIES (continued)

### (e) Financial Instruments (continued)

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

Financial instruments at fair value through profit or loss includes financial instruments held for trading, financial assets mandatorily at fair value through profit or loss and financial assets or liabilities designated upon initial recognition as at fair value through profit and loss.

#### (iii) Financial instruments held for trading

Financial instruments are classified as held for trading if they are acquired for the purpose of selling in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. These instruments are generally recognised as regular way transactions, on a settlement date basis. Derivatives are also classified as held for trading.

Derivative instruments are used for trading and risk management purposes. All derivatives are recognised initially and subsequently carried at fair value, with derivatives having positive fair values carried as assets and derivatives with negative fair values carried as liabilities on the Statement of Financial Position.

#### (iv) Financial assets mandatorily at fair value through profit and loss

Financial assets are mandatorily held at fair value through profit and loss where the asset is managed on a fair value basis or if the asset fails the SPPI test. Such assets are generally recognised on settlement date at fair value. From the date the terms are agreed, until the financial asset is funded, the Bank recognises any unrealised fair value changes in the financial asset in the profit and loss. Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value.

#### (v) Financial liabilities designated at fair value through profit and loss

The Bank designates non-trading financial liabilities to be measured at fair value through profit and loss through election of the fair value option on initial recognition if measurement of the fair value through profit and loss represents the more relevant measurement basis for the financial liability because of how the financial liability is managed with other financial assets and financial liabilities or because of the purpose or the nature of the financial liability itself, the designation is made where any of the following criteria are met:

- It is part of a larger group of financial assets and financial liabilities which is managed on a fair value basis;
- The election would eliminate or significantly reduce a measurement or recognition inconsistency (i.e. accounting mismatch) that would otherwise arise from measuring financial assets or financial liabilities or recognising gains and losses on them on different bases; or
- It is a structured financial liability which contains one or more embedded derivatives where the economic characteristics and risks of the derivative(s) are not closely related to the host and require bifurcation.

## 1 ACCOUNTING POLICIES (continued)

### (e) Financial Instruments (continued)

The financial liability is initially measured at fair value and transaction costs are taken directly to profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. realised amounts recognised in other comprehensive income will be reclassified to Retained earnings net of tax within the 'Statement of Changes in Equity'. As the Bank does not hedge changes in own credit arising on financial liabilities designated at fair value, presenting own credit within other comprehensive income does not create or increase an accounting mismatch in the Profit and Loss.

#### (vi) Financial instruments at amortised cost

Financial assets are recognised at amortised cost when the Bank's business model objective is to collect the contractual cash flows of the assets and where these cash flows are Solely Payments of Principal and Interest on the principal amount outstanding until maturity, such assets are initially recognised on settlement date. The instruments are initially measured at fair value and subsequently measured at amortised cost less Expected Credit Loss ("ECL") allowance (See 1(c) ix). Interest is recognised in the Profit and Loss in 'Interest income', using the effective interest rate method. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL and reversals thereof are recognised in the Profit and Loss in 'Credit impairment (charge)/release'.

Financial liabilities at amortised cost are initially recognised on settlement date. After initial measurement, these instruments are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

#### Derecognition of financial assets and liabilities

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 Statement of Financial Position with an associated liability for the 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.

The Bank derecognises financial liabilities when the Bank's obligations are discharged or cancelled or when they expire.

**1 ACCOUNTING POLICIES (continued)**

**(f) 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:

**Valuation of fair value instruments**

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date.

The best evidence of fair value is quoted prices in an active market. Therefore, the fair value of financial instruments, including exchange-traded 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 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.

Fair value is usually determined on an individual financial instrument basis consistent with the unit of account of the financial instrument. However, certain financial instruments managed on a portfolio basis are valued as a portfolio, namely based on the price that would be received to sell a net long position (i.e. a net financial asset) or transfer a net short position (i.e. a net financial liability) consistent with how market participants would price the net risk exposure at the measurement date.

The Bank seeks to minimize market risks by entering into hedging derivatives to economically hedge the exposures of certain fair value option (FVO) elected notes. The Bank applies the "portfolio exception" to measure the fair value of this group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

**1 ACCOUNTING POLICIES (continued)**

**(g) 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 Statement of Financial Position with an associated liability for the 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.

The Bank derecognises financial liabilities when the Bank's obligations are discharged or cancelled or when they expire.

**(h) Impairment**

The Bank is required to record an allowance for expected credit losses for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts.

The general expected credit loss ("ECL") impairment model is used to measure expected credit losses against the majority of financial instruments held by the Bank which are subject to impairment though the ECL impairment model under IFRS 9.

Expected credit losses represent the difference between the cash flows that the Bank is entitled to receive in accordance with the contractual terms of the financial instrument and the cash flows that the Bank ultimately expects to receive based on the ECL impairment model which reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonably and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

In order to determine whether 12 month or lifetime expected credit losses are used, each financial asset and off-balance sheet financial instrument being individually or collectively assessed for impairment is classified at each reporting date into one of following three stages of credit quality deterioration since the financial asset was initially recognised.

- Stage 1 - Performing financial assets for which there has been no significant deterioration in credit quality since initial recognition;
- Stage 2 - Underperforming financial assets for which there has been a significant deterioration in credit quality since initial recognition but which are not credit-impaired; and
- Stage 3 - Non-performing financial assets for which there has been a significant deterioration in credit quality since initial recognition and which have become credit-impaired.

## 1 ACCOUNTING POLICIES (continued)

### (h) Impairment (continued)

The Bank did not purchase or originate any credit-impaired assets.

The allowance for expected credit losses recognised against stage 1 financial assets is determined using 12 month expected credit losses. Conversely, the allowance against stage 2 or stage 3 financial assets is based on lifetime expected credit losses.

Lifetime expected credit losses represent expected credit losses that would result from all possible default events over the expected life of the financial asset whereas 12 month expected credit losses are those life expected credit losses expected to occur within 12 months of balance sheet date.

A financial instrument that is not credit-impaired on initial recognition is initially classified into stage 1 and is typically subsequently continuously monitored to determine whether a significant increase in credit risk has occurred, at which point the financial instrument is reclassified to stage 2. A determination of whether a significant increase in credit risk has occurred at each reporting date will primarily be through a comparison of Nomura Group's internal credit rating applied to the financial instrument at acquisition, origination or issuance and the internal credit rating currently assigned to the financial instrument at the reporting date. A financial instrument will be reclassified into stage 2 where the internal credit rating has declined by more than a specific number of notches, in addition there is a rebuttable presumption that the credit risk of a financial instrument subject has significantly deteriorated since initial recognition when contractual payments of principal or interest are more than 30 days past due. If there is a further deterioration in credit risk such that the financial instrument becomes credit-impaired, the financial instrument is then reclassified into stage 3.

A stage 3 financial asset can only be classified out of stage 3 and into stage 2 or eventually stage 1 when it no longer meets the definition of being credit-impaired, namely when it is no longer probable that the Bank will not be able to collect all principal and interest amounts due in accordance with the original or modified contractual terms of the financial asset.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred since origination or purchase and it is no longer probable that the Bank will be able to collect all principal and interest amounts due in accordance with the contractual terms of the financial asset.

A default is defined as the failure of an obligor to make payments in full and on time of any financial obligations, markedly disadvantageous modification to a contractual term compared with the existing obligation, bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of business of an obligor or other similar situations. A small delay in payment would not automatically be considered a default for determination of whether a financial asset has been credit-impaired. In addition, there is a rebuttable presumption that regardless of the above definition, default is deemed to occur and a financial instrument is credit-impaired when the financial instrument is 90 days or more past due.

A financial instrument will continue to be credit-impaired until the obligor cures the reasons for credit-impairment or there has been a sustained observable period of repayment performance on the financial instrument. Determination of what constitutes a sustained period of repayment performance by the obligor depends on the nature of the financial instrument but will typically be for a period of 6 months or more.

**1 ACCOUNTING POLICIES (continued)**

**(h) Impairment (continued)**

Credit-impaired financial instruments individually assessed for impairment are typically written-off when further cash flows are deemed uncollectible and when all commercially reasonably means of recovering outstanding principle and interest balances have been exhausted. Such a determination is based on factors such as the occurrence of significant changes in the obligor's financial position such that the obligor can no longer pay the obligation, or that the proceeds from collateral will not be sufficient to pay amounts due.

Write-offs are initially recognised against any existing allowance for expected credit losses and can relate to a financial instrument in its entirety or to a portion of it.

Recoveries are recognised through the Profit and Loss in 'Credit impairment (charge) / release' during a reporting period.

For stage 1 and 2 financial assets, interest income is determined by applying the effective interest rate to the gross carrying value. For stage 3 financial assets, interest income is determined by applying the effective interest rate to net carrying amount of the financial asset namely the gross carrying amount less the allowance for expected credit losses.

**Measurement of expected credit losses:**

The measurement of expected credit losses through the general ECL impairment model is typically determined within the Bank using a loss rate model depending on the relevant staging of the financial instrument. A loss rate model measures expected credit losses for an individual or portfolio of similar financial instruments through development of loss rates calculated through an estimate of the probability of default ("PD") of the obligor and loss given default ("LGD") which is applied to the expected credit exposure of the obligor at default ("CEAD").

PD inputs are determined by internal Nomura credit rating applied to the financial instrument. PD inputs used by the Bank are sourced from industry data and validated based on Nomura's historical experience.

Nomura Group policy is that forward-looking information is incorporated into the PD inputs by forecasting economic scenarios and adjusting the base case inputs for at least one more optimistic and pessimistic scenario.

LGD inputs are determined by class of financial instrument based on historical experience of loss and recovery rates for similar financial instruments and other relevant industry data. Where appropriate, LGD inputs are adjusted to reflect the impact of collateral and other integral credit enhancements.

For revolving and non-revolving loan commitments, the relevant absolute measure of CEAD represents an estimate of the total amount of the facility which will be drawn by the obligor by the time of default.

Cash flows expected from collateral and other credit enhancements that are integral to contractual terms of the financial instrument and not recognised separately by the Bank are included in the measurement of expected credit losses.

**1 ACCOUNTING POLICIES (continued)**

**(h) Impairment (continued)**

For revolving and non-revolving loan commitments, the relevant absolute measure of CEAD represents an estimate of the total amount of the facility which will be drawn by the obligor by the time of default.

Cash flows expected from collateral and other credit enhancements that are integral to contractual terms of the financial instrument and not recognised separately by the Bank are included in the measurement of expected credit losses.

The Bank permits a low credit risk practical expedient to be used for measurement of expected credit losses, namely that expected credit losses for certain stage 1 financial instruments is determined using a 12 month ECL without formal consideration of whether a significant increase in credit risk has occurred. However, in the event that there is a significant increase in credit risk and subsequently the financial instrument becomes credit-impaired, the financial instrument is reclassified from stage 1 to stage 2 and then stage 3 where expected credit losses are determined using lifetime ECL. A similar approach is applied for certain financial instruments where expected credit losses are very low (either because of the nature of the obligor or the collateral provisions of the financial instrument).

Examples of balances to which the Bank applies this approach includes:

- Variation margin on derivative transactions and collateralised agreements accounted for at FVPL
- Cash at Bank and in hand
- Demand deposits and short term investments grade deposits

For those financial instruments the Bank identifies significant increases in credit risk through monitoring of observable events or indicators of default in relation to these counterparties.

If a financial asset has been the subject of modification which does not lead to its derecognition, significant increase in credit risk is assessed by comparing the risk of default of the financial instrument, based on the modified terms at the reporting date, with the risk of default of the financial instrument at inception, based on the financial instrument’s original, unmodified, terms.

Where the modification of contractual cash flows of a financial asset leads to its derecognition and the recognition of a new asset, the date of modification is treated as the date of initial recognition for the new financial asset when determining whether a significant increase in credit risk has occurred for that modified financial asset. In rare circumstances, after modification, the new asset is considered to be credit impaired, in which case it is treated as an asset which was credit-impaired at origination.

**1 ACCOUNTING POLICIES (continued)**

**(i) Leases**

Policy applicable after 1 April 2019

For any new contracts entered into on or after 1 April 2019, the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. At lease commencement date, the Bank recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Bank's incremental borrowing rate. Certain lease contracts include extension and termination options which are considered in determining the lease term and whether the Company is reasonably certain to exercise or not to exercise that option as well as variable lease payments.

Refer to Note 1(t) for further information relating to the recognition of right-of-use assets and lease liabilities.

Policy applicable before 1 April 2019

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases. Rental costs under operating leases are charged to profit and loss on a straight-line basis over the period of the lease.

**(j) 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 to / owed by counterparties are only netted if there is a legal right to offset and management 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 by counterparties have been netted.

**(k) Taxation**

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

## 1 ACCOUNTING POLICIES (continued)

### (k) Taxation (continued)

Deferred tax assets and liabilities are recognised for temporary differences 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 temporary differences are expected to be reversed based on tax rates and laws that have been enacted or substantively enacted at the reporting date.

The IFRIC 23 Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

### (l) 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 recognised at fair value. The amount initially recognised includes an adjustment for transaction costs which are directly attributable to the issuance of the guarantee. Financial guarantee contracts are subject to impairment under ECL.

### (m) Retirement Benefits

The Bank is a member of a defined benefit scheme comprising certain UK Nomura companies administered by NIP. The defined benefit plan administered by NIP is a plan that shares risks between entities under common control and 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”. There is no contractual agreement or stated policy for charging the net defined benefit cost to the Bank.

### (n) 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.

## 1 ACCOUNTING POLICIES (continued)

### (o) Cash flow statement

The Bank uses the indirect method to produce a cash flow statement in accordance with IAS 7 “Statement of Cash Flows”.

### (p) Cash and cash equivalents

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

### (q) 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.

### (r) Reserves

The Bank has the following reserve accounts:

- Retained Earnings: Represents the accumulated retained earnings of the Bank.
- Own credit reserve: The reserve contains unrealised own credit adjustments net of tax in relation to financial liabilities designated at fair value through profit and loss.

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

At the date of authorisation of these financial statements, the following standards, amendments to standards and interpretations relevant to the Bank’s operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2020.

In March 2018, the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the Framework). The Framework sets out the fundamental concepts of financial reporting and will be used by the IASB in developing IFRS standards. Preparers use the Framework as a point of reference to develop accounting policies in rare instances where a particular business transaction is not covered by existing IFRS standards. The adoption of the Framework by the Bank on 1 April 2020 is not expected to have any effect on the Bank’s financial statements.

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The amendments to the definition of material is not expected to have a significant impact on the Bank’s financial statements.

**1 ACCOUNTING POLICIES (continued)**

**(t) Changes in accounting policies and disclosures**

The following standards, amendments to standards and interpretation relevant to the Bank's operations were adopted during the year. Except where otherwise stated, these standards, amendments to standards and interpretations did not have a material impact on the Bank's financial statements.

**i. IFRS 16 Leases**

IFRS 16 'Leases' which replaced IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases - Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease' have been applied effective from 1 April 2019. The adoption of the new Standards have resulted in the Bank recognising a right-of-use asset and related lease liability in connection with all former operating leases.

The Bank applied the following practical expedients that are permitted on transition to IFRS 16 where the company is a lessee in a lease previously classified as an operating lease:

- to not reassess whether or not a contract contained a lease;
- to rely on previous assessments of whether such contracts were considered onerous;
- to rely on previous sale-and-leaseback assessments;
- to adjust lease terms with the benefit of hindsight with respect to whether extension or termination options are reasonably certain of being exercised;
- to discount lease liabilities using the Group's incremental borrowing rate in each currency as of 1 April 2019;
- to initially measure the RoU asset at an amount equal to the lease liability for leases previously classified as operating leases, adjusted for existing lease balances, such as rent prepayments, rent accruals, lease incentives and onerous lease provisions, but excluding initial direct costs; and
- to not apply IFRS 16 to leases the remaining term of which will end within 12 months from the transition date.

The Bank's leases principally relate to real estate and vehicle, which were previously classified as operating leases under IAS 17. The Bank has no such leases identified as low-value or having a remaining lease term of less than 12 months from the date of initial application. The new Standard has been applied using the modified retrospective approach. Prior periods have not been restated.

The adoption of IFRS 16 increased assets of the Bank by $353,271 and increased liabilities of the Bank by $353,271; there was no effect on the retained earnings of the Bank. Right-of-use assets are presented in the statement of financial position, and are depreciated on a straight-line basis over the life of the lease. Lease liabilities recognised for leases for which the Bank is lessee are presented in "other liabilities".

The amounts recognised in profit or loss in respect of these leases is included in interest expense (Note 2), and general and administrative expenses (Note 5).

The total cash outflow recognised in the statement of cash flows was $152,964, comprising $145,412 payment of principal portion of lease liabilities recognised as cash flows from financing activities and $7,552 interest expense recognised as cash flows from operating activities.

## 1 ACCOUNTING POLICIES (continued)

### i. IFRS 16 Leases (continued)

**Reconciliation of opening operating lease liabilities with the lease commitments as at March 2019:**

| | **Amounts** **$'000** |
|---|---|
| **Total undiscounted operating lease commitments disclosed at 31 March 2019** | 367 |
| Total undiscounted lease payments | 367 |
| Discounted at a weighted average incremental borrowing rate (2.66%) | (14) |
| **Total lease liabilities recognised under IFRS 16 as at 1 April 2019** | **353** |

There were no other standards, amendments to standards or interpretations relevant to the Bank's operations which were adopted during the year.

## 2 INTEREST INCOME AND EXPENSE

| | Year ended 31 March 2020 $'000 | Year ended 31 March 2019[1] $'000 |
|---|---|---|
| **Interest income calculated using the effective interest method** | | |
| Interest on loans [2] | 16,814 | 4,700 |
| **Other interest and similar income** | | |
| Interest on reverse repurchase transactions [2] | 52,807 | 73,806 |
| | **69,621** | **78,506** |
| **Interest expense calculated using the effective interest method** | | |
| Interest to banks and customers | 32 | 47 |
| Interest on funds borrowed [3] | 3,140 | 2,181 |
| **Other interest and similar expenses** | | |
| Interest on repo transactions [3] | 12,262 | 16,800 |
| | **15,434** | **19,028** |

[1]2019 includes a presentational reclassification within net interest income.

[2]Includes $907,605 (2019: $948,658) of interest income on financial liabilities with negative interest rates for the year ended 31 March 2020. The Bank now determines negative interest amounts at a currency level which were previously determined at a financial product level and accordingly prior period has been restated by $3,714,249, relating to $826,548 of interest income on repo transactions and $122,110 of interest income funds borrowed with negative interest rate; as well as $2,765,591 of interest expense on reverse repurchase transactions with negative interest rate; with no impact on overall financial performance.

[3]Includes $5,094,188 (2019: $2,765,591) of interest expense on financial assets with negative interest rates for the year ended 31 March 2020. The Bank now determines negative interest amounts at a currency level which were previously determined at a financial product level and accordingly prior period has been restated by $3,714,249, relating to $2,765,591 of interest expense on reverse repurchase transactions with negative interest rate; as well as $826,548 of interest income on repo transactions and $122,110 of interest income on funds borrowed with negative interest rate; with no impact on overall financial performance.

## 3 FEE INCOME

| | Year ended 31 March 2020 $'000 | Year ended 31 March 2019 $'000 |
|---|---|---|
| Facilitation fee income | 54,831 | 49,110 |
| Other fee income | 1,827 | 7,445 |
| | **56,658** | **56,555** |

Fee expenses related to commitment, guarantee and other fees of $3,034,179 (2019: $4,364,801).

## 4 DEALING PROFIT/(LOSS)

| | Year ended 31 March 2020 $'000 | Year ended 31 March 2019 $'000 |
|---|---|---|
| Financial instruments held for trading | 128,668 | 137,405 |
| Financial instruments measured at fair value through profit and loss | (207,719) | (217,845) |
| | **(79,051)** | **(80,440)** |

Substantially all of the Bank's profit before taxation and gross and net assets are driven 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.

## 5 ADMINISTRATIVE EXPENSES

| | Year ended 31 March 2020 $'000 | Year ended 31 March 2019 $'000 |
|---|---|---|
| Wages, salaries and other social security costs | 572 | 895 |
| Audit of the financial statements | 313 | 450 |
| Audit related assurance services | 142 | 145 |
| Support service charges | 9,491 | 10,684 |
| Deprecation on right-of-use assets | 148 | - |
| | **10,666** | **12,174** |

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 3 (2019: 3). In addition, the Bank uses the resources of NIP under a Service Level Agreement (SLA), for which a charge is paid.

In addition to the audit fees shown above, an amount of $209,924 (2019: $216,331) was borne by NHI and an amount of $83,860 (2019: $84,420) relating to CASS audit was borne by NIP.

## 6 DIRECTORS' EMOLUMENTS

The aggregate emoluments paid to the Directors were $279,996 (2019: $320,789).

The highest paid Director received emoluments of $142,995 (2019: $120,614). As at 31 March 2020, the accrued pension totalled $1,615 per annum (2019: $2,215) and no contributions were made to the Group Personal Pension plan.

The number of Directors who exercised share options during the year was 2 (2019: 2).

The number of Directors who were entitled to receive shares under a long-term incentive plan during the year was nil (2019: nil).

The number of Directors accruing retirement benefits under money purchase pension schemes during the year was 2 (2019: 2).

The above amounts were borne by another Nomura Group undertaking.

## 7 TAXATION

### Tax expense

| | Year ended 31 March 2020 $'000 | Year ended 31 March 2019 $'000 |
|---|---|---|
| **Current tax** | | |
| UK Corporation tax charge | 3,452 | 3,621 |
| Adjustment in respect of prior of years | - | (9) |
| **Current tax charge** | **3,452** | **3,612** |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | (14) | (17) |
| Effect of tax rate change | 3 | (17) |
| Adjustment in respect of prior years | - | 201 |
| **Deferred tax (credit)/charge** | **(11)** | **167** |
| **Tax charge in the income statement** | **3,441** | **3,779** |
| **Tax charge in the other comprehensive income** | **15,549** | **7,401** |

### Tax reconciliation

The tax charged to the income statement differs from the tax charge that would apply if all profits had been charged at UK corporation tax rate as follows:

| | Year ended 31 March 2020 $'000 | Year ended 31 March 2019 $'000 |
|---|---|---|
| **Profit before taxation** | **18,086** | **18,970** |
| **UK corporation tax credit at 19% (2019: 19%)** | **3,437** | **3,604** |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | 1 | - |
| Tax rate change relating to recognised deferred tax balances | 3 | (17) |
| Adjustment in respect of prior years | - | 192 |
| **Tax (credit)/charge on profit on ordinary activities** | **3,441** | **3,779** |

## 7 TAXATION (continued)

**Movement of recognised deferred tax assets/(liabilities)**

| | Decelerated capital allowance | Deferred emoluments | Own credit - transitional adjustment | Own credit - unrealised loss | Trade loss | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Asset as at April 1 2019 | 108 | 6 | 176 | 4,057 | - | 4,347 |
| Income statement | 12 | (5) | 4 | - | - | 11 |
| Other comprehensive income | - | - | (161) | (22,674) | 7,232 | (15,603) |
| **Liability as at 31 March 2020** | **120** | **1** | **19** | **(18,617)** | **7,232** | **(11,245)** |
| Asset as at 1 April 2018 | 108 | 9 | 609 | 11,591 | - | 12,317 |
| Income statement | - | (3) | (164) | - | - | (167) |
| Other comprehensive income | - | - | (269) | (7,534) | - | (7,803) |
| **Asset as at 31 March 2019** | **108** | **6** | **176** | **4,057** | **-** | **4,347** |

**Unrecognised deferred tax assets**

| | 31 March 2020 | 31 March 2019 |
|---|---|---|
| | $'000 | $'000 |
| Unused trade loss | 67,221 | 66,616 |
| **Total unrecognised deferred tax assets** | **67,221** | **66,616** |

On 11 March 2020 the UK government announced in Budget 2020 that the headline corporation tax rate will remain at 19% in 2020. This rate was deemed to be substantively enacted on the same date. Deferred tax assets and liabilities as at the balance sheet date are calculated by reference to the most appropriate rates based on forecast.

Under UK tax rules, unused trade losses can be carried forward indefinitely. The amount of current year taxable profits that can be relieved by unused tax losses incurred by 31 March 2015 is restricted to 25% of such profits. The utilisation of unused tax losses incurred on or after 1 April 2015 against current year taxable profits is restricted to 50% of such profits subject to an annual £5 million allowance. Trade losses incurred on or after 1 April 2018 and carried forward to subsequent years can be surrendered as group relief subject to the 50% restriction and the annual £5 million allowance.

The Bank has unused trade losses of $391.8 million (2019: $391.8 million). A deferred tax asset of $67.2 million (2019: $66.6 million) is not recognised in respect of these losses due to uncertainty surrounding the availability of future taxable profits.

## 8 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. The defined benefit plan administered by NIP is a plan that shares risks between entities under common control and 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 2020 by qualified independent actuaries. The Trustee of the scheme is Premier Pensions Management Ltd., a qualified independent actuary.

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

At 31 March 2020 and 31 March 2019 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. The Bank does not recognise the pension surplus as an unconditional right to a refund does not exist. The right to a refund requires the approval of the third party plan trustees and as such is contingent upon factors beyond the Bank's control. To the extent the right is contingent, no asset is recognised.

## 9 FINANCIAL INSTRUMENTS

**Analysis of the Company's financial assets and financial liabilities by IFRS 9 classification**

| | 2020 | 2020 | 2020 | 2020 |
|---|---|---|---|---|
| | Held for trading | Mandatorily at fair value through profit or loss | Amortised cost | Total |
| | $'000 | $'000 | $'000 | $'000 |
| **Financial Assets** | | | | |
| Loans and advances to banks | - | - | 17,158 | 17,158 |
| Derivative financial instruments | 1,895,104 | - | - | 1,895,104 |
| Loans and advances to affiliates | - | 104,118 | 646,971 | 751,089 |
| Securities purchased under agreements to resell | - | 4,376,355 | - | 4,376,355 |
| Loans and advances to others | - | 66,422 | - | 66,422 |
| Prepayments and accrued income[1] | - | 1,120 | 1,988 | 3,108 |
| Other assets[1] | - | - | 24,247 | 24,247 |
| Financial investments | - | 18 | - | 18 |
| | **1,895,104** | **4,548,033** | **690,364** | **7,133,501** |

| | Held for trading | Designated at fair value through profit or loss | Amortised cost | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Financial Liabilities** | | | | |
| Customer accounts | - | - | (156) | (156) |
| Derivative financial instruments | (1,929,734) | - | - | (1,929,734) |
| Accruals and deferred income | - | (5,314) | (8,681) | (13,995) |
| Borrowings from affiliates | - | - | (327,576) | (327,576) |
| Borrowings from others | - | (35,491) | (2,536) | (38,027) |
| Commercial papers issued | - | - | (758,858) | (758,858) |
| Securities sold under agreements to repurchase | - | (425,000) | - | (425,000) |
| Bonds and medium-term notes | - | (3,284,183) | - | (3,284,183) |
| Other liabilities | - | - | (208) | (208) |
| | **(1,929,734)** | **(3,749,988)** | **(1,098,015)** | **(6,777,737)** |

[1] Excludes non-financial assets of $262,147 (2019: $154) from 'Prepayments and accrued income', and $389,106 (2019: nil) from 'Other assets'.

**9 FINANCIAL INSTRUMENTS (continued)**

| | 2019 | 2019 | 2019 | 2019 |
|---|---|---|---|---|
| | Held for trading | Mandatorily at fair value through profit or loss | Amortised cost | Total |
| | $'000 | $'000 | $'000 | $'000 |
| **Financial Assets** | | | | |
| Loans and advances to banks | - | - | 3,048 | 3,048 |
| Derivative financial instruments | 449,130 | - | - | 449,130 |
| Loans and advances to affiliates | - | 560,042 | 1,004,094 | 1,564,136 |
| Securities purchased under agreements to resell | - | 4,535,216 | - | 4,535,216 |
| Loans and advances to others | - | 65,618 | 2,997 | 68,615 |
| Prepayments and accrued income | - | 12,687 | 451 | 13,138 |
| Other assets | - | - | 828 | 828 |
| Financial investments | - | 17 | - | 17 |
| | **449,130** | **5,173,580** | **1,011,418** | **6,634,128** |

| | Held for trading | Designated at fair value through profit or loss | Amortised cost | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Financial Liabilities** | | | | |
| Customer accounts | - | - | (184) | (184) |
| Derivative financial instruments | (653,887) | - | - | (653,887) |
| Accruals and deferred income | - | (13,401) | (7,192) | (20,593) |
| Borrowings from affiliates | - | - | (761,682) | (761,682) |
| Borrowings from others | - | (38,370) | (3,375) | (41,745) |
| Securities purchased under agreements to resell | - | (599,980) | - | (599,980) |
| Bonds and medium-term notes | - | (4,321,854) | - | (4,321,854) |
| Other liabilities | - | - | (126) | (126) |
| | **(653,887)** | **(4,973,605)** | **(772,559)** | **(6,400,051)** |

## 10 TRANSFERRED FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL

The following table for the Bank provides a summary of financial assets that have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition, together with the associated liabilities:

| Transferred financial asset | Fair value of transferred assets 2020 $'000 | Carrying value of associated liabilities 2020 $'000 | Fair value of transferred assets 2019 $'000 | Carrying value of associated liabilities 2019 $'000 |
|---|---|---|---|---|
| Relating to securities agreements to repurchase | 518,833 | (425,000) | 696,537 | (599,980) |

*Repurchase agreements*
The Bank has a program to sell securities under agreements to repurchase (repos) and to purchase securities under agreements to resell (reverse repos). All securities purchased in the table above have been obtained from NIP through reverse repo transactions.

The following table for the Bank provides a summary of financial assets obtained from NIP through reverse repo transactions:

| Collateral received | Fair value of the collateral received 2020 $'000 | Carrying value of associated assets 2020 $'000 | Fair value of the collateral received 2019 $'000 | Carrying value of associated assets 2019 $'000 |
|---|---|---|---|---|
| Relating to securities agreements to resell | 5,439,860 | 4,376,355 | 5,425,781 | 4,535,216 |

The collateral received above has not been re-hypothecated and does not carry any rights of re-hypothecation.

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange, or other financial assets. These transactions are conducted under terms based on the applicable repo master agreement. If the securities increase or decrease in value the Bank may, in certain circumstances, require, or be required, to pay additional cash collateral. The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for the cash received as collateral. Generally, the counterparty’s recourse is not limited to the transferred assets. The carrying value and the fair value of securities under agreements to repurchase are the same. Transactions whereby financial assets are transferred, but continue to be recognised in their entirety on the Bank’s balance sheet include repurchase agreements and securities transferred to collateralize derivative transactions as well as other financial asset transfers. The transferred financial assets include assets received in reverse repurchase arrangements in which case the associated recognised liability represents the amount to be repaid to counterparties.

## 11 BONDS AND MEDIUM-TERM NOTES

| | 31 March 2020<br>$'000 | 31 March 2019<br>$'000 |
|---|---|---|
| **Bonds and medium- term notes, by remaining maturity:** | | |
| - Less than 1 year | 133,244 | 840,884 |
| - Less than 5 years, but greater than 1 year | 474,716 | 480,716 |
| - Greater than 5 years | 2,676,223 | 3,000,254 |
| | **3,284,183** | **4,321,854** |

As of 31 March 2020, 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 $48,781,267 (2019: $122,349,307) more than the principal balance of such long-term borrowings.

The impact of changes in own credit risk during the year included in other comprehensive income on financial liabilities designated at fair value through profit and loss account was an unrealised gain of $121,847,951 (2019: $44,316,723) and realised gain of $659,640 (2019: loss of $701,055), as well as a UK corporation tax charge of $15,548,603 (2019: $7,400,642) arising during the year. The cumulative 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 $97,984,974 at 31 March 2020 (2019: credit of $23,862,977). The Bank calculates and applies an own credit adjustment based on movements in the credit spreads of the Nomura Group.

**Movement in bonds and medium term notes**

The Bank typically hedge the returns obliged to pay with derivatives and/or the underlying assets to obtain funding equivalent to unsecured long-term debt.

Structured notes are debt securities which contain embedded features that alter the return to the investor from simply receiving a fixed or floating rate of interest to a return that depends upon some other variable(s) such as an equity or equity index, commodity price, foreign exchange rate, credit rating of a third party or more complex interest rate calculation.

| | Balance as at 31 March 2019<br>$'000 | Issuance<br>$'000 | Redemption<br>$'000 | Fair value changes<br>$'000 | Balance as at 31 March 2020<br>$'000 |
|---|---|---|---|---|---|
| Bonds and medium-term notes | 4,321,854 | 2,660,802 | (3,664,780) | (33,693) | 3,284,183 |

| | Balance as at 31 March 2018<br>$'000 | Issuance<br>$'000 | Redemption<br>$'000 | Fair value changes<br>$'000 | Balance as at 31 March 2019<br>$'000 |
|---|---|---|---|---|---|
| Bonds and medium-term notes | 4,460,415 | 1,769,503 | (1,913,124) | 5,060 | 4,321,854 |

## 11 BONDS AND MEDIUM-TERM NOTES (continued)

| | 31 March 2020 $'000 | 31 March 2019 $'000 |
|---|---|---|
| Carrying amount | 3,284,183 | 4,321,854 |
| Amount the bank is contractually obligated to pay to the holders of bonds at maturity | 3,467,659 | 4,391,838 |
| **Difference between carrying amount and the amount the bank is contractually obligated to pay to the holders of bonds at maturity** | **183,476** | **69,984** |

## 12 SHARE CAPITAL

| | Authorised | Allotted and fully paid | |
|---|---|---|---|
| | Number '000 | Number '000 | Consideration $'000 |
| **31 March 2020** | | | |
| US Dollar Ordinary shares of $1 each | 255,000 | 255,000 | 255,000 |
| **31 March 2019** | | | |
| US Dollar Ordinary shares of $1 each | 255,000 | 255,000 | 255,000 |

**Reconciliation of number of shares outstanding at the beginning and end of the period**

| | 31 March 2019 | Number '000 Cancelled during the year | 31 March 2020 |
|---|---|---|---|
| **2020** | | | |
| US dollar ordinary shares of $1 each | 255,000 | - | 255,000 |

| | 31 March 2018 | Number '000 Cancelled during the year | 31 March 2019 |
|---|---|---|---|
| **2019** | | | |
| US dollar ordinary shares of $1 each | 555,000 | (300,000) | 255,000 |

During the previous year, 300,000,000 shares of $1 each were cancelled and the Bank repatriated $300 million of share capital to its immediate parent, NEHS.

## 13 RISK MANAGEMENT

The Bank's activities involve both the assumption and transfer of certain risks which must be managed.

The Capital Requirements Directive IV (CRD IV), including the Capital Requirements Regulation (CRR), requires the Company to publish both Pillar 3 and country by country reporting disclosures. This information has been made publically available on the below website:

http://www.nomuraholdings.com/company/group/europe

**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.

**Risk Management Structure**

The Directors are ultimately responsible for identifying and controlling risks through their overall risk management approach and approval of risk strategies and principles. The Board Risk Committee, as delegated by the Board, ensures an effective internal control and risk management environment is maintained in respect of all the risks impacting the NEHS Group. Responsibility for risk reporting and control are undertaken by the following independent departments set up within the Bank or under service level agreements with affiliate companies.

**Departments**

*Finance department*

The Finance department monitors compliance with internally and externally set regulatory limits and guidelines. The annual process for budgeting entity level capital needs is part of the Internal Capital Adequacy Assessment Process ("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, including the Bank, is coordinated and challenged by the Financial and Regulatory 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.

**13 RISK MANAGEMENT (continued)**

*Treasury Function*

Treasury is part of Finance, reporting to the Chief Financial Officer (CFO), and operates purely as a cost-centre. Treasury is responsible for assessing and monitoring liquidity risks, and ensuring appropriate liquidity reserves are held to protect against modelled outflows in stress. The Treasury funding team are responsible for maintaining a sufficient Liquidity Portfolio, held in the form of highly liquid, unencumbered securities and supporting the structured note issuance program.

*Risk Management*

The Risk Management Division comprises various departments in charge of risk management established independently from Nomura's business units. The Risk Management Division is responsible for establishing and operating risk management processes, establishing and enforcing risk management policies and regulations, verifying the effectiveness of risk management methods, as well as reporting to regulatory bodies where required, and handling regulatory applications concerning risk management methods and other items as necessary. Risks at the Bank's level are mainly managed through sub-committees of the Board of NEHS, the Bank's immediate parent.

*Internal Audit*

The Nomura Group Internal Audit Department has responsibility to examine, evaluate and raise issues 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 Nomura Holdings, Inc. Audit Committee and the Audit Mission Directors in Tokyo.

In EMEA, the Head of Internal Audit has an independent reporting line to the Chairman of the Audit Committee of NEHS. 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. The annual Audit Plan is reviewed and approved by the NEHS Audit Committee.

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.

## 13 RISK MANAGEMENT (continued)

*Internal Audit (continued)*

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

The status of outstanding issues is reviewed regularly and reported to Management periodically. Internal Audit also performs validation work for issues which Management represents as having been completed, again using a risk-based approach.

The Audit Committee, a sub-committee of the Board, has satisfied itself as to the adequacy and sufficiency of Internal Audit resources. A copy of the Internal Audit Charter is available upon request.

**Risk Measurement and Reporting Systems**

**Market Risk**

Market risk is the risk of loss arising from fluctuations in values of financial assets and liabilities (including off-balance sheet items) due to fluctuations in market risk factors (interest rates, foreign exchange rates, prices of securities and others). The Bank uses the Nomura Group’s Market Risk Management (“MRM”) framework for managing market risk, with some specific criteria applied to the Bank where relevant.

Within the Nomura European Holdings 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.

The Bank uses a variety of statistical risk measurement tools to assess and monitor market risk on an ongoing basis including, but not limited, to Value at Risk (“VaR”), Stressed VaR (“SVaR”) and Incremental Risk Charge (“IRC”). The Risk Management Division calculates VaR and NCAT numbers daily for all businesses. These figures are included in weekly 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.

**A 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.

## 13 RISK MANAGEMENT (continued)

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

| 31 March 2020 | Equity Risk | Credit & Other Risk | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Bonds and medium-term notes | (232,375) | (3,235,284) | (3,467,659) |
| Financial assets with embedded derivatives | 104,118 | - | 104,118 |
| **Derivative financial instruments:** | | | |
| - Fixed income and credit derivatives | - | 3,235,284 | 3,235,284 |
| - Equity derivatives | 128,257 | - | 128,257 |
| | - | - | - |

| 31 March 2019 | Equity Risk | Credit & Other Risk | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Bonds and medium-term notes | (618,681) | (3,773,157) | (4,391,838) |
| Financial assets with embedded derivatives | 560,042 | - | 560,042 |
| **Derivative financial instruments:** | | | |
| - Fixed income and credit derivatives | - | 3,773,157 | 3,773,157 |
| - Equity derivatives | 58,639 | - | 58,639 |
| | - | - | - |

### Currency risk

During the course of the Treasury department's financing activities, there is often a need to swap surplus flows in one currency into another currency, achieved using currency swap transactions. This is undertaken in accordance with approved market risk limits.

### 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. The Board has established stress test limits to constrain the interest rate risk taken by non-trading books. Positions are monitored on a regular basis and hedging strategies may be implemented to ensure that the risk is maintained within the established limits.

## 13 RISK MANAGEMENT (continued)

### Credit Risk

Credit risk is the risk of loss arising from an obligor's default, insolvency or administrative proceeding which results in the obligor's failure to meet its contractual obligations in accordance with agreed terms. This includes both on and off-balance sheet exposures. It is also the risk of loss arising through a Credit Valuation Adjustment ("CVA") associated with deterioration in the creditworthiness of a counterparty. The Bank uses the Nomura Group's Credit Risk Management ("CRM") framework for managing credit risk, with some specific criteria applied to the Bank where relevant.

CRM operates as a credit risk control function within the Risk Management Division, reporting to the NEHS Chief Risk Officer ("CRO"). The process for managing credit risk at the Bank includes:

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

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.

The Bank is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. Counterparty exposure limits are set within the external Large Exposure limit requirements laid down by the Bank's regulator, the FCA and PRA.

The Bank enters into netting agreements with certain counterparties to mitigate its credit exposure. 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 2020 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 2020 the fair value of securities pledged to the Bank by NIP was $5.4 billion (2019: $5.4 billion). None of this collateral was repledged or retransferred at the reporting date. The collateral will mitigate any potential loss in the value of the corresponding financial asset in the event of a counterparty failing to perform its contractual commitment.

### 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.

## 13 RISK MANAGEMENT (continued)

### Credit risk exposure (continued)

In the normal course of business, the Bank provides corporate counterparties with loan commitment facilities. The notional amount of undrawn commitments is 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.

Credit enhancements such as loan commitment sub-participations are considered integral to the contractual terms of the underlying loan commitment, and as a result the credit enhancement would be taken into account in the determination of the ECL charge. There is no loan which is past due at the reporting date 31 March 2020 as well as 31 March 2019.

| | Gross Exposure | *Of which: Subject to ECL Model* | Related ECL Provision: Stage 1 | Gross Exposure |
|---|---|---|---|---|
| | 31 March 2020 $'000 | 31 March 2020 $'000 | 31 March 2020 $'000 | 31 March 2019 $'000 |
| Loans and advances to banks | 17,158 | 17,158 | - | 3,048 |
| Financial assets held for trading | 1,895,104 | - | - | 449,130 |
| Loans and advances to affiliates | 751,118 | 647,000 | (29) | 1,564,136 |
| Securities purchased under agreements to resell | 4,376,355 | - | - | 4,535,216 |
| Loans and advances to others | 66,422 | - | - | 68,615 |
| Prepayments and accrued income | 3,108 | 1,988 | - | 13,138 |
| Other assets | 24,247 | 24,247 | - | 828 |
| Financial investments | 18 | - | - | 17 |
| | **7,133,530** | **690,393** | **(29)** | **6,634,128** |
| Off Balance Sheet commitments and financial guarantee contracts | 1,616,956 | 191,475 | (63) | 1,781,902 |
| | **8,750,486** | **881,868** | **(92)** | **8,416,030** |

* All exposure subject to ECL model are all classified as Stage 1.

Credit impairment charge of $92,086 (2019: $83,776) comprises of $63,455 (2019: $83,776) pertaining to changes in credit risk and $28,630 (2019: nil) pertaining to new originations.

The Bank receives a combination of cash and securities collateral from NIP with respect to its net derivative exposure with NIP. At 31 March 2020, cash received amounted to $147,785,378 (2019: $171,120,833). Taking into account collateral and other credit enhancements, the Bank’s residual credit risk is to NIP. However, the Bank benefits from a written guarantee from its ultimate parent, NHI, over its exposure to NIP.

## 13 RISK MANAGEMENT (continued)

### Maximum Exposure to Credit Risk by Credit Rating

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

| | 31 March 2020<br>$'000 | 31 March 2019<br>$'000 |
|---|---|---|
| **Financial Assets** | | |
| AA | 1,861 | 1,879 |
| A | 80,535 | 6,606,150 |
| BBB | 7,043,153 | 22,636 |
| Non-investment grade | 679 | 2,829 |
| Not rated | 7,273 | 634 |
| **Total Balance Sheet exposure** | **7,133,501** | **6,634,128** |
| **Off Balance Sheet commitments and financial guarantee contracts** | | |
| AA | - | 85,308 |
| A | 938,717 | 489,921 |
| BBB | 126,382 | 347,674 |
| Non-investment grade | 550,175 | 691,615 |
| Not rated | 1,682 | 167,384 |
| **Total Off Balance Sheet exposure** | **1,616,956** | **1,781,902** |
| **Total maximum exposure to credit risk by credit rating** | **8,750,457** | **8,416,030** |

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

Substantially all the financial assets with exposures rated BBB are collateralised using a mixture of securities collateral, 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. 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.

**13 RISK MANAGEMENT (continued)**

**Liquidity Risk**

The Bank’s approach to liquidity risk management is founded on the 3 lines of defence principle, ensuring a clear ownership and strong connection between the business (1st line), Treasury (2nd line) and Internal Audit / governance committees (3rd line) both globally and locally. The Bank’s primary Liquidity Risk Management objective is to ensure continuous liquidity across market cycles and periods of market and idiosyncratic stress, ensuring that all contractual and modelled funding requirements and unsecured debt obligations that fall due within Board-established survival horizons and risk appetite can be met without any reliance on sourcing additional unsecured funding or forced liquidation of assets.

The MCO (Maximum Cumulative Outflow model) is Nomura’s primary tool to measure and monitor liquidity risk on a daily basis, defining the level of liquid assets required to meet contractual and contingent liquidity needs in the event of a stress. The MCO incorporates consistent assumptions at an entity, regional and global level, modelling stressed liquidity outflows over three scenarios of increasing severity, ranging from normal business conditions to a combination of both a market-wide and Nomura-specific liquidity stress.

NBI is a UK regulated entity and is fully compliant with PRA prescribed liquidity requirements.

**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. Loans advances to others and financial assets with embedded derivatives are presented at fair value. All the others assets are presented at carrying value.

**13 RISK MANAGEMENT (continued)**

**Contractual Maturity Table**

| | On demand $'000 | Less than 30 days $'000 | 31 - 90 days $'000 | 91 days - 1 year $'000 | 1 - 5 years $'000 | Later than 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | |
| Loans and advances to banks | 17,158 | - | - | - | - | - | 17,158 |
| Derivative financial instruments | 1,779,168 | 4,804 | 110,181 | 951 | - | - | 1,895,104 |
| Loans and advances to affiliates | - | 300,000 | 146,105 | 237,811 | 67,173 | - | 751,089 |
| Securities purchased under agreements to resell | 1,483,211 | 425,000 | - | 2,468,144 | - | - | 4,376,355 |
| Loans and advances to others | 1,754 | - | - | - | 1,819 | 62,849 | 66,422 |
| Prepayments and accrued income | 3,108 | - | - | - | - | - | 3,108 |
| Other assets | 24,247 | - | - | - | - | - | 24,247 |
| Financial investments | 18 | - | - | - | - | - | 18 |
| **Total assets** | **3,308,664** | **729,804** | **256,286** | **2,706,906** | **68,992** | **62,849** | **7,133,501** |
| **2019** | | | | | | | |
| Loans and advances to banks | 3,048 | - | - | - | - | - | 3,048 |
| Derivative financial instruments | 421,076 | 8,206 | 19,680 | 168 | - | - | 449,130 |
| Loans and advances to affiliates | 54,780 | 548,443 | 797,546 | 101,767 | 61,600 | - | 1,564,136 |
| Securities purchased under agreements to resell | 1,074,851 | 534,705 | - | 2,736,312 | 189,348 | - | 4,535,216 |
| Loans and advances to others | 3,032 | - | - | - | 1,951 | 63,632 | 68,615 |
| Prepayments and accrued income | 13,138 | - | - | - | - | - | 13,138 |
| Other assets | 828 | - | - | - | - | - | 828 |
| Financial investments | - | - | - | - | - | 17 | 17 |
| **Total assets** | **1,570,753** | **1,091,354** | **817,226** | **2,838,247** | **252,899** | **63,649** | **6,634,128** |

## 13 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, other instruments containing embedded derivatives and borrowing from others 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. Structured note issuances are presented at their undiscounted cash flows and remaining liabilities are presented at carrying value.

| | On demand | Less than 30 days | 31 - 90 days | 91 days - 1 year | 1 - 5 years | Later than 5 years | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2020** | | | | | | | |
| Customer accounts | 156 | - | - | - | - | - | 156 |
| Derivative financial instruments | 1,754,795 | 2,047 | 119,286 | 28,808 | 24,798 | - | 1,929,734 |
| Accruals and deferred income | 13,995 | - | - | - | - | - | 13,995 |
| Borrowings from affiliates | 147,785 | 89,000 | - | - | - | 90,791 | 327,576 |
| Borrowings from others | 2,536 | - | - | 29,330 | 6,161 | - | 38,027 |
| Commercial papers issued | - | 297,609 | 461,249 | - | - | - | 758,858 |
| Securities sold under agreements to repurchase | - | 425,000 | - | - | - | - | 425,000 |
| Bonds and medium-term notes | - | 2,583 | 42,737 | 88,895 | 680,789 | 2,652,655 | 3,467,659 |
| Other liabilities - Lease | - | 12 | 19 | 83 | 94 | - | 208 |
| **Total liabilities** | **1,919,267** | **816,251** | **623,291** | **147,116** | **711,842** | **2,743,446** | **6,961,213** |
| Other commitments | 207,964 | - | 125,000 | 14,071 | 288,170 | 523,751 | 1,158,956 |
| Standby letters of credit issued | - | - | - | - | 100,000 | 358,000 | 458,000 |

## 13 RISK MANAGEMENT (continued)

### Contractual Maturity Table

| | On demand | Less than 30 days | 31 - 90 days | 91 days - 1 year | 1 - 5 years | Later than 5 years | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2019** | | | | | | | |
| Customer accounts | 184 | - | - | - | - | - | 184 |
| Derivative financial instruments | 475,843 | 5,571 | 44,723 | 105,890 | 21,860 | - | 653,887 |
| Accruals and deferred income | 20,593 | - | - | - | - | - | 20,593 |
| Borrowings from affiliates | 225,901 | 225,995 | 224,495 | - | - | 85,291 | 761,682 |
| Borrowings from others | 3,375 | - | - | 1,256 | 37,114 | - | 41,745 |
| Securities sold under agreements to repurchase | - | - | - | 175,000 | 424,980 | - | 599,980 |
| Bonds and medium-term notes | - | 321,933 | 54,458 | 415,675 | 640,404 | 2,959,369 | 4,391,839 |
| Other liabilities - Non-lease | 126 | - | - | - | - | - | 126 |
| **Total liabilities** | **726,022** | **553,499** | **323,676** | **697,821** | **1,124,358** | **3,044,660** | **6,470,036** |
| Other commitments | 114,577 | 376,815 | - | - | 680,676 | 195,833 | 1,367,901 |
| Standby letters of credit issued | - | - | - | - | 100,000 | 314,000 | 414,000 |

**13 RISK MANAGEMENT (continued)**

**Maturity analysis of assets and liabilities**

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

| | 2020 Within 12 months $'000 | 2020 After 12 months $'000 | 2020 Total $'000 | 2019 Within 12 months $'000 | 2019 After 12 months $'000 | 2019 Total $'000 |
|---|---|---|---|---|---|---|
| Loans and advances to banks | 17,158 | - | 17,158 | 3,048 | - | 3,048 |
| Derivative financial instruments | 1,895,104 | - | 1,895,104 | 449,130 | - | 449,130 |
| Loans and advances to affiliates | 683,916 | 67,173 | 751,089 | 1,502,536 | 61,600 | 1,564,136 |
| Securities purchased under agreements to resell | 4,376,355 | - | 4,376,355 | 4,345,868 | 189,348 | 4,535,216 |
| Loans and advances to others | 1,754 | 64,668 | 66,422 | 3,032 | 65,583 | 68,615 |
| Prepayments and accrued income | 3,370 | - | 3,370 | 13,138 | - | 13,138 |
| Other assets | 24,636 | - | 24,636 | 828 | - | 828 |
| Right-of-use assets | 205 | - | 205 | - | - | - |
| Financial investments | 18 | - | 18 | - | 17 | 17 |
| Deferred tax assets | - | - | - | 4,347 | - | 4,347 |
| **Total Assets** | **7,002,516** | **131,841** | **7,134,357** | **6,321,927** | **316,548** | **6,638,475** |
| Customer accounts | 156 | - | 156 | 184 | - | 184 |
| Derivative financial instruments | 1,904,936 | 24,798 | 1,929,734 | 632,027 | 21,860 | 653,887 |
| Accruals and deferred income | 14,100 | - | 14,100 | 20,593 | - | 20,593 |
| Borrowings from affiliates | 236,785 | 90,791 | 327,576 | 676,391 | 85,291 | 761,682 |
| Borrowings from others | 31,866 | 6,161 | 38,027 | 4,631 | 37,114 | 41,745 |
| Commercial papers issued | 758,858 | - | 758,858 | - | - | - |
| Securities sold under agreements to repurchase | 425,000 | - | 425,000 | 175,000 | 424,980 | 599,980 |
| Bonds and medium-term notes | 133,244 | 3,150,939 | 3,284,183 | 840,884 | 3,480,970 | 4,321,854 |
| Group relief payable | 3,398 | - | 3,398 | 3,219 | - | 3,219 |
| Other liabilities | 177 | 94 | 271 | 126 | - | 126 |
| Deferred tax liability | 11,245 | - | 11,245 | - | - | - |
| **Total Liabilities** | **3,519,765** | **3,272,783** | **6,792,548** | **2,353,055** | **4,050,215** | **6,403,270** |

## 13 RISK MANAGEMENT (continued)

### Operational Risk

The Bank defines operational risk as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It excludes strategic risk (the risk of loss as a result of poor strategic business decisions), but includes the risk of breach of legal and regulatory requirements, and the risk of damage to Nomura's reputation if caused by an operational risk. The Bank uses the Nomura Group's Operational Risk Management ("ORM") framework for the management of the Bank's operational risk.

*The Three Lines of Defence*

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

(1) 1st Line of Defence: The business which owns and manages its risks,
(2) 2nd Line of Defence: The ORM function, which defines and co-ordinates the Nomura Group's operational risk framework and its implementation, and provides challenge to the 1st Line of Defence,
(3) 3rd Line of Defence: Internal Audit, who provide independent assurance.

The Nomura Group's ORM framework is set out below:

*Infrastructure of the framework*

- Policy framework: sets standards for managing operational risk and details how to monitor adherence to these standards.
- Training and awareness: Action taken by ORM to improve business understanding of operational risk.

*Products and Services*

- Event Reporting: This process is used to identify and report any event which resulted in or had the potential to result in a loss or gain or other impact associated with inadequate or failed internal processes, people and systems, or from external events.
- Risk and Control Self-assessment ("RCSA"): This process is used to identify the inherent risks the business faces, the key controls associated with those risks and relevant actions to mitigate the residual risks. Global ORM are responsible for developing the RCSA process and supporting the business in its implementation.
- Key Risk Indicators ("KRI"): KRIs are metrics used to monitor the business' exposure to operational risk and trigger appropriate responses as thresholds are breached.
- Scenario Analysis: This process is used to assess and quantify potential high impact, low likelihood operational risk events. During the process, actions may be identified to enhance the control environment, which are then tracked via the Operational Risk Management framework.

*Outputs*

- Analysis and reporting: A key aspect of ORM's role is to analyse, report, and challenge operational risk information provided by business units, and work with business units to develop action plans to mitigate risks.
- Operational risk capital calculation: Calculate operational risk capital as required under applicable Basel standards and local regulatory requirements.

**13 RISK MANAGEMENT (continued)**

**Model Risk**

Model Risk is the risk of financial loss, incorrect decision making, or damage to the firm's credibility arising from Model errors or incorrect or inappropriate Model application.

To effectively manage the Firm's Model Risk, Nomura has established a Model Risk Management Framework to govern the development, ownership, validation, approval, usage, ongoing monitoring, and periodic review of the Firm's Models. The framework is supported by a set of policies and procedures that articulate process requirements for the various elements of the model lifecycle, including monitoring of model risk with respect to the Firm's appetite.

New models and material changes to approved models must be independently validated prior to official use. Thresholds to assess the materiality of model changes are defined in Model Risk Management's procedures. During independent validation, validation teams analyze a number of factors to assess a model's suitability, identify model limitations, and quantify the associated model risk, which is ultimately mitigated through the imposition of approval conditions, such as usage conditions, model reserves and capital adjustments. Approved models are subject to Model Risk Management's annual re-approval process and ongoing performance monitoring to assess their continued suitability. Appropriately delegated Model Risk Management Committees provide oversight, challenge, governance, and ultimate approval of validated Models.

**Business Risk**

Business risk is the risk of failure of revenues to cover costs due to a deterioration of the earnings environment or a deterioration of the efficiency or effectiveness of Nomura's business operations. Business risk is managed by the senior management of the Bank, including the Board of Directors.

## 13 RISK MANAGEMENT (continued)

### Climate Risk

The Bank is aware of the impact climate change related risks including physical[1] and transition risks[2] can have on our businesses. Below are some of the assumed risks which can be classified as financial[3] or non-financial[4].

*Physical risk*

- Damage to Bank's facilities, interruptions to business and increased expenses due to major natural disasters
- Business partners suffering damages and a decline in their business due to natural disasters
- Loss of collateral value in asset-based finance transactions, e.g. real estate

*Transition risk*

- Price fluctuation in trading positions, etc., difficulty selling underwriting positions as climate change risk is integrated into the market
- Impact of stranded assets such as coal mines, oil fields and natural gas reserves, resulting in negative business performance and creditworthiness of clients and investments
- Reputational risk arising from project finance transactions, decreased opportunities for reselling
- Change in client needs and products becoming obsolete due to climate change, loss of competitive advantage in new product development
- Decrease in existing businesses due to changes in legislation and the regulatory environment, higher costs due to increased burden on capital, etc.

[1] Physical risk: Risk of extreme weather events, fire and flooding caused by rising sea levels and other physical climate change factors damaging the assets or operating base of Nomura Group, our clients and business partners; risk of operational capabilities being impaired

[2] Transition risk: Impact of accelerated regulations, new technologies, and other changes in external environment in the move to address climate change, on Nomura Group's operating environment (including damage to assets or businesses unable to respond to changes in government and industrial policies, introduction of carbon tax and rapid technological innovation)

[3] Financial risk: Market risk, credit risk, model risk

[4] Non-financial risk: Reputational risk, operational risk (including compliance risk and conduct risk)

**13 RISK MANAGEMENT (continued)**
**Climate Risk (continued)**

*Risk Management of Climate Risk*

The NEHS Group has launched the Climate Risk Working Group comprising members from risk management and related departments. This working group will build a global framework to identify, understand and manage climate change risks based on the Bank's strategy. The person responsible for these risk management frameworks is the CRO. Current proposed methods include:

- **Process for new transactions:** Due diligence process will be strengthened, particularly for new transactions, incorporating sustainability considerations into the process. Exposure will be mainly recognised by region and sector.
- **Credit evaluation:** Credit risk management processes will be enhanced to include an assessment of physical and transition risks with consideration of the ESG factors.
- **Scenario analysis:** Scenario for climate change relating to physical risk and transition risk will be incorporated in the analysis with exposure categorised mainly by region and sector.

## 14 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 financial assets and liabilities at amortised cost due within 12 months are assumed to approximate to their carrying values.

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

**Fair value hierarchy**

**Level 1** 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.

**14 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

Fair Value Heirarchy - Financial Assets

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **2020** | | | | |
| Derivative financial instruments | - | 1,870,643 | 24,461 | 1,895,104 |
| Securities purchased under agreements to resell | - | 4,376,355 | - | 4,376,355 |
| Loans and advances to affiliates | - | 104,118 | - | 104,118 |
| Loans and advances to others | - | - | 66,422 | 66,422 |
| Prepayments and accrued income | - | 1,120 | - | 1,120 |
| Financial investments | - | - | 18 | 18 |
| | **-** | **6,352,236** | **90,901** | **6,443,137** |
| **2019** | | | | |
| Derivative financial instruments | - | 357,028 | 92,102 | 449,130 |
| Securities purchased under agreements to resell | - | 4,535,216 | - | 4,535,216 |
| Loans and advances to affiliates | - | 560,042 | - | 560,042 |
| Loans and advances to others | - | - | 65,618 | 65,618 |
| Prepayments and accrued income | - | 12,687 | - | 12,687 |
| Financial investments | - | 17 | - | 17 |
| | **-** | **5,464,990** | **157,720** | **5,622,710** |

Fair Value Heirarchy - Financial Liabilities

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **2020** | | | | |
| Derivative financial instruments | - | 1,714,947 | 214,787 | 1,929,734 |
| Accruals and deferred income | - | 5,314 | - | 5,314 |
| Bonds and medium-term notes | - | 3,284,183 | - | 3,284,183 |
| Securities sold under agreements to repurchase | - | 425,000 | - | 425,000 |
| Borrowings from others | - | 35,491 | - | 35,491 |
| | **-** | **5,464,935** | **214,787** | **5,679,722** |
| **2019** | | | | |
| Derivative financial instruments | - | 456,603 | 197,284 | 653,887 |
| Accruals and deferred income | - | 13,401 | - | 13,401 |
| Bonds and medium-term notes | - | 4,321,854 | - | 4,321,854 |
| Securities sold under agreements to repurchase | - | 599,980 | - | 599,980 |
| Borrowings from others | - | 38,370 | - | 38,370 |
| | **-** | **5,430,208** | **197,284** | **5,627,492** |

## 14 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### Valuation techniques by major class of financial instrument

The valuation techniques used by Nomura to estimate fair value for major classes of financial instruments, together with the significant inputs which determine classification in the fair value hierarchy, are as follows.

### Bank and corporate debt securities and loans carried at fair value

The fair value of bank and corporate debt securities and loans carried at fair value either as trading assets or through election of the fair value option is primarily determined using DCF valuation techniques but also using broker or dealer quotations and recent market transactions of identical or similar debt securities, if available. Consideration is given to the nature of the broker and dealer quotations, namely whether these are indicative or executable, the number of available quotations and how these quotations compare to any available recent market activity or alternative pricing sources. The significant valuation inputs used for DCF valuations are yield curves, asset swap spreads, recovery rates and credit spreads of the issuer. Bank and corporate debt securities are generally classified in Level 2 of the fair value hierarchy because these valuation inputs are usually observable or market-corroborated. Certain bank and corporate debt securities will be classified in Level 3 because they are traded infrequently and there is insufficient information from comparable securities to classify them in Level 2, or credit spreads or recovery rates of the issuer used in DCF valuations are unobservable.

### Derivatives

Nomura enters into both exchange-traded and OTC equity, interest rate, credit and foreign exchange derivative transactions. Where these derivatives are traded in active markets and the exchange price is representative of fair value, the fair value of exchange-traded derivatives is determined using an unadjusted exchange price and classified in Level 1 of the fair value hierarchy. The fair value of exchange-traded equity derivatives which are traded in inactive markets or where the exchange price is not representative of fair value is determined using a model price and are classified in Level 2. The fair value of OTC equity derivatives is determined through option models such as Black-Scholes and Monte Carlo simulation. The significant valuation inputs used include equity prices, dividend yields, volatilities correlations, interest rates, credit spreads, recovery rates and foreign exchange rates. Valuation adjustments are also made to model valuations in order to reflect counterparty credit risk on derivative assets and Nomura's own creditworthiness on derivative liabilities. OTC derivatives are generally classified in Level 2 because all significant valuation inputs and adjustments are observable or market-corroborated. Certain less liquid vanilla or more complex equity derivatives are classified in Level 3 where dividend yield, interest rate, credit spread, recovery rate, volatility or correlation valuation inputs are significant and unobservable.

Nomura includes valuation adjustments in its estimation of fair value of certain OTC derivatives relating to funding costs associated with these transactions to be consistent with how market participants in the principal market for these derivatives would determine fair value.

### Bonds and medium-term notes ("Structured notes")

Structured notes are debt securities issued by Nomura which contain embedded features that alter the return to the investor from simply receiving a fixed or floating rate of interest to a return that depends upon some other variables, such as an equity or equity index, commodity price, foreign exchange rate, credit rating of a third party or a more complex interest rate (i.e., an embedded derivative).

**14 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**
**Valuation techniques by major class of financial instrument (continued)**

The fair value of structured notes is determined using a quoted price in an active market for the identical liability if available, and where not available, using a mixture of valuation techniques that use the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities, similar liabilities when traded as assets, or an internal model which combines DCF valuation techniques and option pricing models, depending on the nature of the embedded features within the structured note. Where an internal model is used, Nomura estimates the fair value of both the underlying debt instrument and the embedded derivative components. The significant valuation inputs used to estimate the fair value of the debt instrument component include yield curves, prepayment rates, default probabilities and loss severities. The significant valuation inputs used to estimate the fair value of the embedded derivative component are the same as those used for the relevant type of freestanding OTC derivative discussed above. A valuation adjustment is also made to the entire structured note in order to reflect Nomura’s own creditworthiness. This adjustment is determined based on recent observable secondary market transactions and executable broker quotes involving Nomura debt instruments and is therefore typically treated as a Level 2 valuation input. Structured notes are generally classified in Level 2 of the fair value hierarchy as all significant valuation inputs and adjustments are observable.

**Valuation processes**

In order to ensure the appropriateness of any fair value measurement of a financial instrument used within these financial statements including those classified as Level 3 within the fair value hierarchy, the Bank operates a governance framework which mandates determination or validation of a fair value measurement by control and support functions independent of the businesses assuming the risk of the financial instrument. Such functions within Nomura Group with direct responsibility for either defining, implementing or maintaining valuation policies and procedures are as follows:

- The Product Control Valuations Group (“PCVG”) within Nomura’s Finance Department has primary responsibility for determining and implementing valuation policies and procedures in connection with determination of fair value measurements. In particular, this group will ensure that valuation policies are documented for each type of financial instrument. While it is the responsibility of our businesses to price our financial instruments, the PCVG are responsible for independently verifying or validating these prices. In the event of a difference in opinion or where the estimate of fair value requires judgement, the valuation used within these financial statements is made by senior managers independent of the businesses. This group reports to the Global Head of Middle Office and ultimately to the Chief Financial Officer (“CFO”) of Nomura Group;

- The Accounting Policy Group (“APG”) within Nomura’s Finance Department defines the Group’s accounting policies and procedures, including those associated with determination of fair value. This group reports to the Global Head of Accounting Policy and ultimately to the CFO of Nomura Group; and

- The Global Valuation Model Validation Group (“VMVG”) within Nomura’s Risk Management Department validates the appropriateness and consistency of pricing models used to determine fair value measurements independently of those who design and build the models. The group reports to the Global Head of Market and Quantitative Risk of Nomura Group.

## 14 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### Sensitivity of fair value to changes in unobservable inputs

Level 3 financial instruments are often hedged with instruments within Level 1 or Level 2 of the fair value hierarchy and the gains or losses 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.

***Movements in Level 3 financial instruments***

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.

| 2020 | At 1 April 2019 $'000 | Total gains / (losses) in P&L $'000 | Net cash (in)/out $'000 | Settlements $'000 | Net transfers into level 3 $'000 | At 31 March 2020 $'000 | Unrealised total gains / (losses) in P&L $'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Derivative financial instruments | 92,102 | (939) | - | (72,110) | 5,408 | 24,461 | (3,470) |
| Loans and advances to others | 65,618 | (914) | 1,718 | - | - | 66,422 | (914) |
| Financial investments | - | 1 | - | - | 17 | 18 | 1 |
| | **157,720** | **(1,852)** | **1,718** | **(72,110)** | **5,425** | **90,901** | **(4,383)** |
| **2019** | | | | | | | |
| **Financial assets** | | | | | | | |
| Derivative financial instruments | 264,794 | 16,448 | - | (138,444) | (50,696) | 92,102 | 8,465 |
| Loans and advances to others | 79,694 | (14,076) | - | - | - | 65,618 | (14,076) |
| | **344,488** | **2,372** | **-** | **(138,444)** | **(50,696)** | **157,720** | **(5,611)** |

During the year, financial assets were transferred into Level 3, as certain parameters became unobservable or more significant. No financial assets were transferred out of level 3 during the year.

## 14 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

| 2020 | At 1 April 2019 | Total (gains) / losses in P&L | Net cash in/(out) | Settlements | Net transfers into level 3 | At 31 March 2020 | Unrealised total (gains) / losses in P&L |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial liabilities** | | | | | | | |
| Derivative financial instruments | 197,284 | 89,765 | - | (74,341) | 2,079 | 214,787 | 105,526 |
| | **197,284** | **89,765** | **-** | **(74,341)** | **2,079** | **214,787** | **105,526** |
| **2019** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Derivative financial instruments | 549,768 | (28,452) | - | (311,071) | (12,961) | 197,284 | 11,357 |
| | **549,768** | **(28,452)** | **-** | **(311,071)** | **(12,961)** | **197,284** | **11,357** |

Total gains and losses on financial assets included in the above table are included in ‘Dealing loss’ in the profit and loss account.

The Bank assumes that all transfers of financial instruments from one level to another level within the fair value hierarchy occur at the beginning of the relevant quarter in which the transfer takes place.

During the year, no financial liabilities were transferred out of level 3.

## 14 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### A Level 3 quantitative disclosures on significant unobservable inputs

The following table presents quantitative information about the significant unobservable inputs and assumptions used by the Bank for Level 3 financial instruments as of 31 March 2020 and 31 March 2019 .

| Class of financial instrument | Fair value $'000 | Valuation techniques | Significant unobservable inputs | Range |
|---|---|---|---|---|
| **2020** | | | | |
| Derivative financial instruments | | | | |
| -Assets | 24,461 | DCF / Option | Dividend Yield | 1.7% - 10.0% |
| -Liabilities | (214,787) | Models | Volatilities | 10.1% - 90.4% |
| | | | Correlations | (0.66) - 0.97 |
| Loans and advances to others[1] | 66,422 | | No significant unobservable inputs | |
| Financial investments | 18 | | No significant unobservable inputs | |
| **2019** | | | | |
| Derivative financial instruments | | | | |
| -Assets | 92,102 | DCF / Option | Dividend Yield | 2.1% - 7.8% |
| -Liabilities | (197,284) | Models | Volatilities | 9.2% - 23.6% |
| | | | Correlations | (0.27) - 0.90 |
| Loans and advances to others[1] | 65,618 | | No significant unobservable inputs | |

[1]The position is valued with a significant adjustment to theoretical value to reflect likely exit level. Whilst this is significant to the valuation no individual input is seen as significant and unobservable.

### B Estimated fair value of financial instruments not carried at fair value

Certain financial instruments are not carried at fair value on a recurring basis in the Statement of Financial Position since they are neither held for trading purposes nor are elected for the fair value option. These are typically carried at contractual amounts due or amortised cost.

The carrying value of the majority of the financial instruments detailed below will approximate fair value since they are short-term in nature and contain minimal credit risk. These financial instruments include financial assets reported within loans, debtors, cash and cash equivalent, borrowings from fellow subsidiary undertakings, cash collateral and other liabilities.

Cash and cash equivalent, other debtors, borrowings from fellow subsidiary undertakings and cash collateral, in the Statement of Financial Position would generally be classified in either level 1 or level 2 within the fair value hierarchy.

## 14 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following tables present carrying values, fair values and classification within the fair value hierarchy for certain classes of financial instruments of which a portion of the ending balance was carried at fair value as of 31 March 2020 and 2019.

| | | | Fair value by level | | |
|---|---|---|---|---|---|
| | Carrying amount $'000 | Fair value $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 |
| **2020** | | | | | |
| **Financial Assets:** | | | | | |
| Loans and advances to banks | 17,158 | 17,158 | - | 17,158 | - |
| Loans and advances to affiliates | 646,971 | 646,971 | - | 646,971 | - |
| Prepayments and accrued income | 1,988 | 1,988 | - | 1,988 | - |
| Other assets | 24,247 | 24,247 | - | 24,247 | - |
| | **690,364** | **690,364** | **-** | **690,364** | **-** |
| **Financial Liabilities:** | | | | | |
| Customer accounts | (156) | (156) | - | (156) | - |
| Accruals and deferred income | (8,681) | (8,681) | - | (8,681) | - |
| Borrowing from affiliates | (327,576) | (327,576) | - | (327,576) | - |
| Borrowing from others | (2,536) | (2,536) | - | (2,536) | - |
| Other liabilities | (208) | (208) | - | (208) | - |
| Commercial papers issued | (758,858) | (758,858) | - | (758,858) | - |
| | **(1,098,015)** | **(1,098,015)** | **-** | **(1,098,015)** | **-** |
| **2019** | | | | | |
| **Financial Assets:** | | | | | |
| Loans and advances to banks | 3,048 | 3,048 | - | 3,048 | - |
| Loans and advances to affiliates | 1,004,094 | 1,004,094 | - | 1,004,094 | - |
| Loans and advances to others | 2,997 | 2,997 | - | 2,997 | - |
| Prepayments and accrued income | 451 | 451 | - | 451 | - |
| Other assets | 828 | 828 | - | 828 | - |
| | **1,011,418** | **1,011,418** | **-** | **1,011,418** | **-** |
| **Financial Liabilities:** | | | | | |
| Customer accounts | (184) | (184) | - | (184) | - |
| Accruals and deferred income | (7,192) | (7,192) | - | (7,192) | - |
| Borrowing from affiliates | (761,682) | (761,682) | - | (761,682) | - |
| Borrowing from others | (3,375) | (3,375) | - | (3,375) | - |
| Other liabilities | (126) | (126) | - | (126) | - |
| | **(772,559)** | **(772,559)** | **-** | **(772,559)** | **-** |

## 15 OFFSETTING DISCLOSURES

The Bank does not perform any balance sheet netting. The tables presented below provide a summary of financial assets and liabilities subject to enforceable master netting and similar agreements.

The Bank has entered into various collateral arrangements with its derivative counterparties or other transactions whereby non cash collateral may be posted. These transactions are conducted under terms based on the applicable derivative agreement (e.g. ISDA Collateral Guidelines). The Bank has determined that it retains substantially all the risks and rewards of the posted non-cash collateral, which include credit risk and market risk. The non-cash collateral is not derecognised. Generally, the counterparty's recourse is not limited to the transferred assets.

| | Securities purchased under agreements to resell $'000 | Loans and advances to affiliates $'000 | Derivative assets $'000 | Securities sold under agreements to repurchase $'000 | Derivative liabilities $'000 |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Total gross balance(1) | 4,376,355 | 104,118 | 1,895,104 | (425,000) | (1,929,734) |
| Less: Additional amounts not offset in the Bank balance sheet(2) | - | - | (1,895,104) | - | 1,895,104 |
| Financial instruments and non-cash collateral | (4,376,355) | (104,118) | - | 425,000 | - |
| Cash collateral(3) | - | - | - | - | - |
| Net Amount | - | - | - | - | (34,630) |
| **2019** | | | | | |
| Total gross balance | 4,535,216 | 560,042 | 449,130 | (599,980) | (653,887) |
| Less: Additional amounts not offset in the Bank balance sheet | - | - | (449,130) | - | 449,130 |
| Financial instruments and non-cash collateral | (4,535,216) | (560,042) | - | 599,980 | - |
| Cash collateral | - | - | - | - | 57,777 |
| **Net Amount** | - | - | - | - | (146,980) |

(1) Includes all recognised balances irrespective of whether they are transacted under legally enforceable master netting agreements. Amounts include transactions carried at fair value through election of the fair value option and amounts carried at amortized cost.

(2) Represents amounts which are not permitted to be offset on the face of the balance sheet but which provide the Bank with the right of offset in the event of counterparty default.

(3) Cash collateral payable of $150,321,841 received from NIP is not utilised due to no derivative asset exposure after counterparty netting.

## 16 CAPITAL MANAGEMENT POLICY

### UK Capital Management

The primary objectives of the Bank's capital management policies 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. To achieve these goals, sufficient capital is maintained to support the Bank's business. 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 sufficiency, 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 the business and maintenance of a debt rating appropriate to a global financial institution. 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 has complied with the regulatory requirements imposed by the PRA under the Capital Requirements Directive IV ("CRD IV") framework.

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 FCA and PRA for supervisory purposes define two 'Tiers' of capital resources. Tier 1 capital is the highest tier and mainly consists of ordinary share capital and audited retained earnings. The Bank does not currently maintain Tier 2 capital. Capital can be used to support non-trading activity and all market and counterparty risks

| | 31 March 2020<br>$'000 | 31 March 2019<br>$'000 |
|---|---|---|
| Tier 1 capital | 277,632 | 300,392 |
| **Total capital resources** | **277,632** | **300,392** |

## 17 CONTINGENT LIABILITIES AND COMMITMENTS

**Contingent Liabilities:**

The Bank provides certain financial guarantees to third parties over their exposure to Nomura Group companies. At 31 March 2020 the exposure on these financial guarantee contracts amounted to $191,475,320 (2019: $114,577,466).

The Bank has also provided a guarantee in respect of certain commercial papers issued by another Nomura Group company. At 31 March 2020, the maximum exposure on this guarantee amounted to $16,489,134 (2019: nil)

**Commitments:**

The Bank had commitments as at 31 March 2020 amounting to $1,408,991,792 (2019: $1,667,324,087) in respect of undrawn note issuance facilities and loan commitments. The loan commitments are sub-participated to NIP on commitment date.

## 18 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. Included within the Bank's statement of financial position are the following transactions with Nomura group entities:

| | 31 March 2020 $'000 | 31 March 2019 $'000 |
|---|---|---|
| **Assets** | | |
| Derivative financial instruments | 1,880,178 | 429,495 |
| Loans and advances to affiliates | 751,089 | 1,564,136 |
| Securities purchased under agreements to resell | 4,376,355 | 4,535,216 |
| Prepayments and accrued income | 3,104 | 12,959 |
| Other assets | 16,998 | 404 |
| | **7,027,724** | **6,542,210** |
| **Liabilities** | | |
| Derivative financial instruments | 1,753,550 | 480,218 |
| Accruals and deferred income | 8,236 | 6,350 |
| Borrowings from affiliates | 327,576 | 761,682 |
| | **2,089,362** | **1,248,250** |

Additionally, the Bank benefits from a written guarantee from its ultimate parent, NHI, over its exposure to NIP. The Bank's obligation to pay the UK Bank Levy in both the current year and prior year has been settled by NIP, who are responsible for reporting and paying the bank levy on behalf of the Nomura UK tax group.

For the years ended 31 March 2020 and 31 March 2019, there were no impairment losses on any of the above disclosed related party receivables. 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.

Included within the Bank's statement of comprehensive income are the following transactions with Nomura group entities:

| | 31 March 2020 $'000 | 31 March 2019 $'000 |
|---|---|---|
| Interest income | 69,609 | 78,283 |
| Interest expense | (6,520) | (4,098) |
| Fee income | 55,024 | 49,229 |
| Fee expense | (2,670) | (3,954) |
| Administrative expenses towards SLA & Technology charges | (7,829) | (9,429) |
| | **107,614** | **110,031** |

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 SLA. The premises where the Bank is registered and operates are leased by Nomura Properties plc.

## 19 ULTIMATE PARENT COMPANY

The Bank's ultimate parent undertaking and controlling party, and the parent that heads the largest group of undertakings for which consolidated financial statements are prepared, is Nomura Holdings Inc., incorporated in Japan. Copies of the group financial statements of Nomura Holdings, Inc. can be obtained from 9-1, Nihonbashi 1-Chome, Chuo-ku, Tokyo 103-8645, Japan.

The parent that heads the smallest group of undertakings is Nomura Europe Holdings plc, a company registered at 1 Angel Lane, London, EC4R 3AB, United Kingdom.

## 20 COVID-19 PANDEMIC

On 11 March 2020, COVID-19 was declared as a global pandemic by the World Health Organisation. Credit spreads widened sharply, equity prices declined to 2016 levels and liquidity tightened across international financial markets. Consequently, both the Bank and the Nomura Group implemented their respective Business Continuity Plans to prioritise the Bank's role;

- as a capital market intermediary and liquidity provider;
- to support the recovery of the economy whilst ensuring the safety of our clients, employees and their families;
- to ensure uninterrupted business operations across all business and corporate functions;
- to maintain a robust capital and liquidity position, as details in the capital management policy as detailed in note 16 and risk management in note 13.

Given the Bank's strong capital and liquidity positions, together with continued parental support, the Bank will be able to meet all prudential requirements amid the market volatility driven by COVID-19. Therefore, the Directors have a reasonable expectation that the Bank is able to continue in operational existence for the foreseeable future and continue to prepare the Financial Statements on a going concern basis.