# NOMURA BANK INTERNATIONAL PLC

ANNUAL REPORT
**31 March 2017**

**COMPANY REGISTRATION NUMBER 1981122**

NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2017

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 2017. The Bank is incorporated in England and Wales and its registered office is at 1 Angel Lane, London, EC4R 3AB.

# STRATEGIC REPORT

## REVIEW OF THE BANK'S BUSINESS, DESCRIPTION OF PRINCIPAL RISKS AND INFORMATION REGARDING BRANCHES

### Review of the Business

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 has a branch in Milan;Italy, as well as a representative office in China, and a liaison office in Istanbul, Turkey. The Bank's principal activities include:

- issuance of guaranteed credit and equity linked notes and certificates;
- provision of sub-participations and structured loans (including bridge and warehouse financing);
- purchase of structured credit assets and structured loans;
- provision of traditional banking products such as loans and credit facilities in major currencies, repurchase and reverse repurchase transactions, letters of credit and guarantees; and
- taking deposits (including foreign exchange and other reference linked deposits).

During the year the Bank continued its note issuance business. The Bank has a number of platforms for the issuance of debt which allows it to issue equity-linked notes and certificates and credit-linked notes and warrants to investors, which includes notes that are traded on exchanges. In addition to the above, the Bank continues to provide loan facilities to clients across a wide variety of industries, including power and gas, telecommunications and fast moving consumer goods.

The Bank continues to lend predominantly on a secured basis through the use of reverse repurchase transactions ('Securities purchased under agreements to resell'). As at 31 March 2017, 86% of funds were advanced on a secured basis.

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

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Net interest income | 35,201 | 26,819 |
| Profit for the year | 14,615 | 94,915 |
| Total comprehensive (loss)/gain | (51,471) | 95,020 |
| Total assets | 7,772,643 | 10,131,382 |
| Total liabilities | 7,297,483 | 9,604,751 |
| Shareholders' funds | 475,160 | 526,631 |

## STRATEGIC REPORT (CONTINUED)

The Bank has reported a post tax profit of $14,615,000 for the year ending 31 March 2017. This profit is driven by fee income received for facilitating structured note issuance.

Following the European Union (EU) endorsement of International Financial Reporting Standards (IFRS) 9 "Financial Instruments: Classification and Measurement" in November 2016 the Bank has early adopted the IFRS 9 provisions relating to changes in own credit. Changes in own credit on structured notes issued, is now recognised in other comprehensive income, thus eliminating volatility in the profit and loss in relation to unrealised own credit adjustments on structured note liabilities.

As a like for like comparision, the Bank reported a total comprehensive loss for the year of $51,471,071 (2016: gain of $95,019,617). The most significant impact to the Bank's performance this year has been as a result of the tightening of the Nomura Group's own credit spreads. The impact of own credit has resulted in a loss for the year of $60,031,664 (2016: gain of $108,884,702).

The Bank's total assets reduced year on year by 23% to $7,772,643,000, as significant notes redemption during the year was not replaced by new issuances.

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

Looking forward, the Bank will continue to focus on its activities supporting the Global Wholesale Business, predominantly the Global Markets Division, of the Nomura Group.

### Description of Principal Risks

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. Further information on these risks and the Bank's risk management is provided in note 15 to the financial statements.

These risks are managed through sub-committees of the Board of Nomura Europe Holdings plc (NEHS), the Bank's immediate parent. These include a Prudential Risk Committee ("PRC") having oversight of, and providing advice to the Board on the NEHS Group's risk profile, risk appetite, future risk strategy and maintenance of an appropriate risk control framework. Additionally, there are committees dedicated to overseeing cross-border risk in relation to non-Europe Middle East and Africa ("non-EMEA") business booked into certain European entities, including the Bank.

### Future Developments

Following the Brexit referendum held in June 2016, the U.K. Prime Minister triggered Article 50 of the Treaty of the Functioning of the European Union to start the formal exit process on 29 March 2017, meaning that the U.K. is on a course to leave the EU by the end of March 2019. The terms of withdrawal and agreements outlining any new relationships between the U.K. and the EU will be negotiated during this two year period. In the meantime, the U.K. remains a full member of the EU. The U.K. financial services sector currently relies on access to the EU single market to conduct business across borders within the EU. However, the U.K. government has said that it will not seek to remain part of the single market after Brexit. It is not yet clear whether an agreement can be reached through other means in order to maintain a similar level access for U.K. based firms and so the precise impact of Brexit on financial services cannot yet be judged.

## EMPLOYEE MATTERS

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

The Bank is 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, religion or belief, marriage and civil partnership, pregnancy and maternity, sex and sexual orientation. Our recruitment, development and promotion procedures are based on the requirements of a particular position.

The Nomura Group has an established policy of communicating with all its employees regularly, including U.K. employees, in order to provide information relevant to them about their employment and Nomura. This includes regular Nomura news bulletins circulated to all U.K. employees as well as communication and updates on the employee training programmes that are available. All U.K. employees are encouraged to participate in the various employee committees and networks offered by the Nomura Group. The Nomura Group is not listed in the U.K. 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 financial performance is discussed.

## 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 minimize 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 reducing waste and the use of natural resources in order to minimize the impact of its footprint on the environment;
- is committed to continual improvement in energy performance;
- aims to maximize the efficiency of its property portfolio through effective asset management covering utilization, 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 20 JULY 2017**

**Christopher Barlow**
Company Secretary

20 July 2017

**Company Registration Number: 1981122**

NOMURA

NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2017

DIRECTORS' REPORT

## RESULTS AND DIVIDENDS

The results for the year are set out on page 10. The profit from continuing operations transferred to reserves for the year amounted to $14,615,240 (2016: gain of $95,019,617).

No interim dividend was paid (2016: $nil) and the Directors do not recommend the payment of a final dividend (2016: $nil).

## EVENTS SINCE THE BALANCE SHEET DATE

Representative office in China is in the process of de-registration.

## DONATIONS

No political donations were made during the year (2016: $nil).

## 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. Further analysis on financial instruments is disclosed in Notes 1,8,16 and 17.

## MATTERS DEALT WITH IN THE STRATEGIC REPORT

An indication of the likely future developments of the Bank, information pertaining to branches of the Bank outside of the United Kingdom and employee matters 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 Benson | Non-Executive Director |
| Jonathan Lewis | Director and Chief Executive officer (appointed on 30 September 2016) |
| John Tierney | Director |
| James Leng | Non-Executive Chairman (resigned on 07 April 2017)<br>Non-Executive Director (resigned on 07 April 2017) |
| Lewis O'Donald | Director |
| Jonathan Britton | Non-Executive Director (appointed 27 July 2016) |
| David Godfrey | Non-Executive Director (appointed 27 July 2016)<br>Non-Executive Chairman (appointed on 07 April 2017) |
| Paul Spanswick | Director (resigned on 30 September 2016) |
| Clare Jones | Director (resigned on 02 September 2016) |
| John Baker | Director (resigned on 27 July 2016) |

NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2017

DIRECTOR'S REPORT (CONTINUED)

## 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.

## 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, Note 16 and 18 of the statutory financial statements for the year to 31 March 2017 describes 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 but not own credit risk, the Directors consider the Bank's capital position to be strong. 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.

## 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 5. Having made enquiries of fellow Directors and of the Bank's Auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Bank's Auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Bank's Auditors are aware of the information.

## AUDITORS

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

NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2017

DIRECTOR'S REPORT (CONTINUED)

## 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 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 20 JULY 2017**

Christopher Barlow
Company Secretary

20 July 2017

**Company Registration Number: 1981122**

NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2017

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

We have audited the financial statements of Nomura Bank International for the year ended 31 March 2017 which comprise, the Income Statement, the 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 21. 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.

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

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (U.K. and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

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

NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2017

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

## OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- have been prepared in accordance with the requirements of the Companies Act 2006

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

In our opinion, 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

the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

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

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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

**Maurice McCormick** (Senior statutory auditor)

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

London

NOMURA BANK INTERNATIONAL PLC

## INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

| | Note | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|---|
| **INCOME** | | | |
| Interest income and similar income | 2 | 51,210 | 40,473 |
| Interest expense and similar charges | 2 | (16,009) | (13,654) |
| **NET INTEREST INCOME** | | 35,201 | 26,819 |
| Fee and commission income | | 53,777 | 87,514 |
| Fee and commission expense | | (4,160) | (4,404) |
| Dealing loss | 3 | (54,098) | (87,368) |
| **OPERATING INCOME EXCLUDING GAIN/(LOSS) DUE TO CHANGES IN OWN CREDIT RISK** | | (4,481) | (4,258) |
| Gain in relation to changes in own credit risk | | - | 108,885 |
| **TOTAL OPERATING INCOME** | | 30,720 | 131,446 |
| Administrative expenses | 4 | (12,354) | (13,119) |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | | 18,366 | 118,327 |
| Gain on sale of subsidiary | 13 | - | 796 |
| Tax charge on profit on ordinary activities | 6 | (3,751) | (24,208) |
| **PROFIT FOR THE YEAR** | | 14,615 | 94,915 |
| **ATTRIBUTABLE TO:** | | | |
| ***Equityholders of the parent*** | | | |
| Profit for the year from continuing operations | | 14,615 | 94,915 |

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

The previous year gain relating to own credit risk of $108,884,702 was included within operating income whereas the current year own credit loss in included in other comprehensive income.

The notes on pages 17 to 67 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

| | Note | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **14,615** | **94,915** |
| **OTHER COMPREHENSIVE INCOME** | | | |
| ***Items that will be reclassified to the income statement*** | | | |
| Foreign currency translation | | (153) | 105 |
| ***Items that will be not be reclassified to the income statement*** | | | |
| Change in fair value attributable to change in the credit risk of financial liabilities designated at fair value through profit and loss (net of related tax effects) | 10 | (65,933) | - |
| **OTHER COMPREHENSIVE INCOME/( LOSS) FOR THE YEAR** | | **(66,086)** | **105** |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | | **(51,471)** | **95,020** |

The notes on pages 17 to 67 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

| | Called-up share capital $'000 | Retained earnings $'000 | Other Reserve $'000 | Own Credit reserve $'000 | Total shareholders' equity $'000 |
|---|---|---|---|---|---|
| **As at 1 April 2016** | 555,000 | (28,237) | (132) | - | 526,631 |
| Changes on initial application of IFRS 9 in relation to Own credit risk adjustment | | 73,490 | - | (73,490) | - |
| **Restated as at 1 April 2016** | 555,000 | 45,253 | (132) | (73,490) | 526,631 |
| Profit for the year | - | 14,615 | - | - | 14,615 |
| Other Comprehensive loss | - | - | (153) | (65,933) | (66,086) |
| Transferred from own credit reserve to Retained Earnings during the year | | (28,011) | - | 28,011 | - |
| Total comprehensive loss | - | (13,396) | (153) | (37,922) | (51,471) |
| **As at 31 March 2017** | **555,000** | **31,857** | **(285)** | **(111,412)** | **475,160** |

| | Called-up share capital $'000 | Retained earnings $'000 | Other Reserve $'000 | Own Credit reserve $'000 | Total shareholders' equity $'000 |
|---|---|---|---|---|---|
| **As at 1 April 2015** | 555,000 | (123,152) | (237) | - | 431,611 |
| Gain for the year | - | 94,915 | - | - | 94,915 |
| Foreign currency Gain | - | - | 105 | - | 105 |
| Total comprehensive income/(loss) | - | 94,915 | 105 | - | 95,020 |
| **As at 31 March 2016** | **555,000** | **(28,237)** | **(132)** | - | **526,631** |

Foreign exchange gains and losses resulting from the retranslation will be recognised into the profit and loss on the disposal of the foreign entity. Foreign currency gains are due to the Bank's branch in Italy.

On early adoption of IFRS 9 provisions for financial liabilities designated at fair value through profit and loss, $73,489,970 was reclassified from Retained Earnings to Own credit reserve in relation to unrealised changes in fair value attributable to change in credit risk of financial liabilities designated at fair value through profit and loss (net of tax effects).

During the year $28,010,788 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 17 to 67 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

## STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2017

| | Note | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | | 6,559 | 5,372 |
| Derivative financial instruments | | 386,428 | 544,255 |
| Loans and advances to affiliates | | 1,515,739 | 1,638,444 |
| Securities purchased under agreements to resell | 9 | 5,745,431 | 7,702,901 |
| Loans and advances to others | | 86,198 | 196,163 |
| Prepayments and accrued income | | 2,496 | 1,973 |
| Other assets | | 29,781 | 42,241 |
| Available-for-sale financial investments | | 11 | 11 |
| Fixed assets | | - | 22 |
| **Total Assets** | | 7,772,643 | 10,131,382 |
| **Liabilities** | | | |
| Customer accounts | | 176 | 187 |
| Derivative financial instruments | | 1,243,861 | 1,534,398 |
| Accruals and deferred income | | 31,165 | 35,127 |
| Borrowing from affiliates | | 395,945 | 533,895 |
| Borrowing from others | | 47,100 | 107,560 |
| Securities sold under agreements to repurchase | 9 | 1,450,000 | 1,150,000 |
| Bonds and medium-term notes | 10 | 4,104,141 | 6,219,804 |
| Group relief payable | | 24,966 | 23,751 |
| Other liabilities | 11 | 129 | 29 |
| **Total Liabilities** | | 7,297,483 | 9,604,751 |
| **Shareholders' funds** | | | |
| Called up share capital | 14 | 555,000 | 555,000 |
| Retained earnings | | 31,857 | (28,237) |
| Own Credit Reserve | | (111,412) | - |
| Other reserve | | (285) | (132) |
| **Total Equity** | | 475,160 | 526,631 |
| **Total Liabilities and Equity** | | 7,772,643 | 10,131,382 |

In order to increase comparability and transparency the Bank has changed its presentation of the statement of financial position in accordance with IAS 1 and is presenting financial assets and liabilities designated at fair value through profit and loss in the notes rather than the face of the statement of financial position (Refer note 1-u). Comparatives have been restated and further details are provided in Note 8.

Approved by the Board of Directors on 20 July 2017 and subsequently signed on its behalf on 20 July 2017 by:

John Tierney,
Director
The notes on pages 17 to 67 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

| | Note | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | 18,366 | 118,327 |
| **Non-cash adjustments to reconcile profit for the year to net cash flows** | | | |
| Gain on sale of subsidiary | 13 | - | 796 |
| Depreciation on fixed assets | | 22 | 6 |
| **Change in operating assets and liabilities** | | | |
| Net change in loans and advances to affiliates | | 122,705 | (835,561) |
| Net change in loans and advances to others | | 109,965 | 7,749 |
| Net change in borrowing from others | | (60,460) | (124,651) |
| Net change in borrowings from affiliates | | (137,950) | (133,551) |
| Net change in bond and medium term notes | | (522,396) | 173,684 |
| Net change in derivative assets | | 157,827 | 167,772 |
| Net change in derivative liabilities | | (290,537) | 179,373 |
| Net change in securities purchased under agreements to resell | | 1,957,470 | 362,607 |
| Net change in securities sold under agreements to repurchase | | 300,000 | 21,995 |
| Net change in other assets | | 12,460 | (17,695) |
| Net change in group relief payable | | 89 | 57 |
| Net change in other liabilities | | 99 | (23,965) |
| Net change in prepayments and accrued income | | (523) | 72 |
| Net change in accruals and deferred income | | (3,962) | (9,236) |
| Income tax paid | | (367) | (507) |
| **Net cash flow generated by operating activities** | | **1,662,808** | **(112,728)** |
| **Investing activities** | | | |
| Net Cash inflow arising from disposal of the Bank's China Subsidiary | | - | 20,410 |
| **Net cash flow in relation to investing activities** | | **-** | **20,410** |
| **Financing activities** | | | |
| Proceeds of borrowings and issuance of debt | 10 | 494,643 | 1,840,008 |
| Repayments of borrowings and redemption of debt | 10 | (2,156,264) | (1,764,231) |
| **Net cash flow in relation to financing activities** | | **(1,661,621)** | **75,777** |

NOMURA BANK INTERNATIONAL PLC

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Net increase/(decrease) in cash and cash equivalents | 1,187 | (16,541) |
| Cash and cash equivalents at the beginning of the year | 5,372 | 21,913 |
| **Cash and cash equivalents at the end of the year** | **6,559** | **5,372** |
| **Included within operational cash flows** | | |
| Interest paid | (15,994) | (14,442) |
| Interest received | 50,042 | 41,156 |

The cash and cash equivalents mainly consist of nostro balance.

The notes on pages 17 to 67 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

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

31 March 2017

| | 31 March 2017<br>$'000 | Cash Flow<br>$'000 | 31 March 2016<br>$'000 |
|---|---|---|---|
| Loans and advances to other banks repayable on demand | 6,559 | 1,187 | 5,372 |
| Net cash balance | 6,559 | 1,187 | 5,372 |

31 March 2016

| | 31 March 2016<br>$'000 | Cash Flow<br>$'000 | 31 March 2015<br>$'000 |
|---|---|---|---|
| Loans and advances to other banks repayable on demand | 5,372 | (16,541) | 21,913 |
| Net cash balance | 5,372 | (16,541) | 21,913 |

The notes on pages 17 to 67 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2017

## 1. ACCOUNTING POLICIES

### a) Basis of Accounting

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

The financial statements have been prepared on a going concern basis. The financial statements are presented in United States Dollar ("USD") and all values are rounded to the nearest thousand USD except where otherwise stated.

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

### b) Significant accounting judgments, 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 judgments, which have the most significant effect on the amounts recognised in the financial statements:

- Where there is no active market for a financial instrument, fair value is determined using valuation techniques which could require judgement.
- Recoverability of deferred tax assets.

Additionally, the consolidation of structured entities requires significant judgement. A determination is required of whether the voting rights or other contractual agreements are the dominant factor in deciding who controls a special purpose entity. Judgement is required of when the Bank has power over a special purpose entity and when it has the ability to use its power over the special purpose entity to affect the amount of the Bank's returns.

## 1. ACCOUNTING POLICIES (Continued)

### c) Foreign Currencies

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

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 the USD and Sterling at the reporting date was 1.2519 (2016: 1.4381).

### d) Operating Income

#### (i) Interest receivable

Interest income is recognised in profit and loss for all interest bearing financial assets classified as other loans and advances using the effective interest method.

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

#### (ii) Interest payable

Interest expense is recognised in 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.

#### (iii) Dealing profits and losses

Income arising from gains and losses on financial instruments designated as fair value through profit and loss is included in dealing losses. Interest on these positions is included, as it is integral to the dealing profit and distinct from interest on banking activities.
Dealing profits arise 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 in the statement of financial position in accordance with the presentation requirements of International Accounting Standard 39 "Financial instruments: Recognition and Measurement" ("IAS 39").

## 1. ACCOUNTING POLICIES (CONTINUED)

d) Operating Income (continued)

(iv) **Additional interest charges**

When a financial asset is measured using the effective interest rate basis then net origination fee income is recognised over the life of the advance as part of Interest Income. Fees arising from the facilitation and servicing of note issuances are recognised in profit and loss as the service is provided.

(v) **Fee income and expense**

Fee income relating to loans and advances that are not measured at fair value through profit and loss is recognised in profit and loss to match the cost of providing a continuing service, except where the fee amounts in substance to an additional interest charge, when it is recognised on an effective interest rate basis over the life of the advance as part of Interest Income. Fees arising from the facilitation and servicing of note issuances are recognised in profit and loss as the service is provided.

e) Financial Assets and Liabilities

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

(i) **Loans and receivables**

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

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

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

## 1. ACCOUNTING POLICIES (CONTINUED)

e) Financial Assets and Liabilities (continued)

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

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

These instruments are recognised initially at fair value and transaction costs are taken directly to profit and loss. Gains and losses arising from changes in fair value are included in profit and loss, with the exception of fair value changes attributable to own credit on financial liabilities designated at fair value through profit and loss, which are included in other comprehensive income.

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

**Own credit**

The Bank has applied the option in IFRS 9 “Financial Instruments: Classification and Measurement” to recognise changes in own credit on financial liabilities designated at fair value through profit and loss in other comprehensive income from 1 April 2016. This will have no effect on net assets. Unrealised own credit relating to prior periods has been reclassified from retained earnings to other comprehensive income net of tax on 1 April 2016. Any realised and unrealised amounts recognised in other comprehensive income will not be reclassified to the income statement in future periods. However, 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 income statement.

### (iii) Available-for-sale investments

Available–for-sale investments are non-derivative financial assets that are designated as available-for-sale and are not in any of the other categories described above. They are recognised and derecognised using settlement date accounting. Amounts are initially recognised at fair value including any direct and incremental transaction costs and subsequently held at fair value.

Where applicable interest determined using the effective interest method and impairment losses are recognised in profit and loss. Gains and losses arising from changes in fair value are taken to other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss is transferred to profit and loss. Any reversal of impairment losses on non-equity available-for-sale investments is taken to profit and loss.

## 1. ACCOUNTING POLICIES (CONTINUED)

### e) Financial Assets and Liabilities (continued)

#### (iv) Other liabilities

Financial liabilities are initially recognised on settlement date at fair value including any direct and incremental transaction costs, and are derecognised on repayment. Such liabilities are measured at amortised cost using the effective interest method.

### f) Sale and repurchase agreements

The Bank enters into agreements to sell certain debt securities to counterparties and then repurchase them at a later date ("repo"), called "securities sold under agreements to repurchase" on the statement of financial position. These debt securities where they are originally recognised as long positions are retained on the statement of financial position, and the purchase price received by the Bank shown as a liability to the purchaser.

The Bank also enters into agreements to buy certain debt securities with counterparties and then sell them at a later date ("reverse repurchase transaction"), called "securities purchased under agreements to resell" on the statement of financial position. These debt securities are excluded from the Bank's inventory and the purchase price paid for the securities is shown as an amount receivable from the vendor.

These are carried at amortised cost and difference between sale and repurchase price is accrued over the life of the agreements using the effective interest rate method.

### g) Derivatives

All derivatives are recognised initially at fair value and subsequently carried in the Bank's statement of financial position at fair value. Derivatives are recorded as assets when their fair value on the reporting date is positive and as liabilities when their fair value is negative.

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

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

### h) Fair Values

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

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

The fair value of financial instruments is the 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.

1. ACCOUNTING POLICIES (CONTINUED)

h) Fair Values (continued)

(i) Valuation of fair value instruments (continued)

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

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

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

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" in IFRS 13.48 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.

(ii) Fair value option

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

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

2) Fair value will eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise result from measuring related financial instruments on different bases; or

## 1. ACCOUNTING POLICIES (CONTINUED)

h) Fair Values (continued)

(ii) Fair value option (continued)

3) The financial instrument is part of a group of financial instruments both managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Information about these financial instruments is provided internally on a fair value basis to the Bank's key management personnel.

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

i) Derecognition

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

j) Impairment

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

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

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

The calculation of the present value of the expected future cash flows of a collateralised financial asset reflects the cash flows that may result from obtaining and selling the underlying collateral.

## 1. ACCOUNTING POLICIES (CONTINUED)

### k) Collateral and offsetting

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

The Bank holds collateral in respect of credit-related instruments where this is considered desirable, given the customer's financial position and the overall banking relationship.

The collateral can take the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future liabilities. In addition, the Bank receives cash or securities collateral from Nomura Group companies in respect of derivative exposure.

Amounts due 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.

### l) Taxation

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

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

### m) Financial guarantees

The Bank issues financial guarantee contracts which require the Bank to reimburse holders of such guarantees for any losses suffered due to a failure by specified debtors to make payments when due as specified by the terms of an underlying debt instrument. Such financial guarantees are initially recognized at fair value. The amount initially recognized includes an adjustment for transaction costs which are directly attributable to the issuance of the guarantee. On a subsequent measurement basis, the value of the financial guarantee is adjusted to reflect the best estimate of the amount required to settle the probable obligation at the reporting date, if higher than the amount initially recognised. Any amount recognized is net of cumulative amortization previously recognized.

## 1. ACCOUNTING POLICIES (CONTINUED)

n) **Retirement Benefits**

The Bank is a member of a defined benefit scheme comprising certain U.K. 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.

o) **Provisions for liabilities and charges and contingent liabilities**

A provision is recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". A contingent liability is a possible obligation whose existence will only be confirmed in the future or it is a present obligation (legal or constructive) and either it is not probable that a transfer of economic benefits will be required to settle the obligation or a reliable estimate cannot be made of the amount of the obligation. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine if a provision should be recognised.

p) **Cash flow statement**

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

q) **Cash and cash equivalents**

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

## 1. ACCOUNTING POLICIES (CONTINUED)

### r) 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 loss before taxation reported in these financial statements has arisen from this segment.

### s) Reserves

The Bank has the following reserve accounts:

- Retained Earnings: Represents the accumulated retained earnings of the Bank.
- Other Reserve: The reserve contains the foreign currency gains and losses arising from the translation of foreign operations.
- 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.

### t) Standards issued but not yet effective

IFRS 9 "Financial Instruments: Classification and Measurement"

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard introduces new requirements for classification and measurement of financial assets, replaces the current rules for impairment of financial assets, and amends the requirements for hedge accounting. The standard also requires entities to provide users of financial statements with more informative and relevant disclosures.

IFRS 9 requires all financial assets, to be classified at amortized cost, fair value through other comprehensive income (OCI) or fair value through profit or loss, on the basis of the entity's business model for managing the financial assets and its contractual cash flow characteristics. IFRS 9 classification and measurement requirements for financial liabilities are unchanged with the exception of changes in own credit risk on financial liabilities designated at fair value through profit and loss as set out in note 1(e).

The Bank applies IFRS 9 impairment provisions to all financial assets measured at amortized cost, financial guarantees and loan commitments. IFRS 9 introduces a forward-looking expected credit loss (ECL) model that is expected to result in an impairment charge recognized in profit or loss that is more volatile than the IAS 39 impairment provisions. At initial recognition, a 12-month expected credit loss (12 month ECL) is generally recognized with the exception of credit-impaired financial assets where a lifetime loss allowance is always recognized. In the event of a significant deterioration in credit risk, a lifetime credit loss is recognized (lifetime ECL).

## 1. ACCOUNTING POLICIES (CONTINUED)

### t) Standards issued but not yet effective (continued)

IFRS 9 "Financial Instruments: Classification and Measurement" (continued)

The standard is effective for annual periods beginning on or after January 1, 2018 and has been endorsed by the EU. The Bank will adopt the new requirements relating to classification and measurement and impairment changes from April 1, 2018. The Bank does not apply hedge accounting. Based on the current status of Nomura's evaluation of IFRS 9, it is not expected to have a significant impact on the results of the Bank. Nomura continues to assess and evaluate the impact of IFRS 9 and as a result, additional impacts may be identified through to adoption date on April 1, 2018.

IFRS 9 permits early adoption to recognise changes in own credit on financial liabilities designated at fair value through profit and loss in other comprehensive income without early adoption of the rest of the Standard. The Bank has applied the option in IFRS 9 for changes in own credit from 1 April 2016. Refer to accounting policy note 1(e) for more details.

The Bank will not restate prior periods and will recognize the retrospective cumulative transition adjustments upon adoption of IFRS 9 in opening retained earnings.

Implementation program

The Nomura Group has a centrally managed IFRS 9 program sponsored by the Global Head of Accounting Policy, Global Head of Risk and Global Financial Accounting. Additional governance of the program's local implementation is through the EMEA IFRS 9 Steering Committee and includes representation from Finance and Risk.

The work to date includes an assessment of the classification and measurement requirements of IFRS 9 for financial assets and developing an impairment methodology to support the calculation of the Expected Credit Loss allowance.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 and has been endorsed by the EU.

The Bank will not restate prior periods and will recognize the retrospective cumulative transition adjustments upon adoption of IFRS 15 on 1 April 2018 in opening retained earnings. Based on the current status of Nomura's evaluation of IFRS 15 no significant impact is expected.

## 1. ACCOUNTING POLICIES (CONTINUED)

### t) Standards issued but not yet effective (continued)

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, "Leases", which introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There will be only minor changes to the current accounting for lessors. The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and is yet to be endorsed by the EU. The Bank will adopt the new requirements from April 1, 2019. IFRS 16 is expected to have no impact on the Bank.

Recognition of Deferred Tax Assets for Unrealised Losses issued

In January 2016, the IASB published final amendments to IAS 12 'Income Taxes'. The amendments in *Recognition of Deferred Tax Assets for Unrealised Losses* clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective for annual periods beginning on or after 1 January 2017. The Bank will adopt the new requirements from April 1, 2017. The Bank is currently assessing the impact of the amendments to IAS 12.

Amendments to IAS 7

In October 2015 the IASB issued a stand-alone amendment to IAS 7 "*Statement of Cash Flows*" as part of their disclosures initiative. The objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment requires a reconciliation of liabilities whose cash flows were, or future cash flows would be, classified as financing activities in the statement of cash flows. The Bank is currently assessing the impact of the amendments to IAS 7. The amendments are effective for annual periods beginning on or after 1 January 2017. The Bank will adopt the new requirements from April 1, 2017.

IFRS 12 Disclosure of Interests in Other Entities

In December 2016 The IASB issued *Annual Improvements to IFRS Standards 2014–2016 Cycle*. The improvement to IFRS 12 "*Disclosure of Interests in Other Entities*" clarifies the scope of the

## 1. ACCOUNTING POLICIES (CONTINUED)

### t) Standards issued but not yet effective (continued)

IFRS 12 Disclosure of Interests in Other Entities (continued)

Standard and the disclosure requirements apply to investees that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations".* The amendment is expected to have no impact on the Bank. The amendment is effective for annual periods beginning on or after 1 January 2017. The Bank will adopt the new requirements from April 1, 2017.

IAS 28 Investments in Associates and Joint Ventures

In December 2016 The IASB issued *Annual Improvements to IFRS Standards 2014–2016 Cycle*. The improvement to IAS 28 "*Investments in Associates and Joint Ventures"* clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition*.* The amendment is expected to have no impact on the Bank. The amendment is effective for annual periods beginning on or after 1 January 2018. The Bank will adopt the new requirements from April 1, 2018.

IFRIC 22 Foreign Currency Transactions and Advance Consideration issued

In December 2016, the IASB issued IFRIC 22 "*Foreign Currency Transactions and Advance Consideration issued*". IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. The Bank is currently assessing the impact of IFRIC 22. The amendments are effective for annual periods beginning on or after 1 January 2018. The Bank will adopt the new requirements from April 1, 2018.

## 1. ACCOUNTING POLICIES (CONTINUED)

### u) Change in presentation

In order to increase comparability and transparency the Bank has changed its presentation of the statement of financial position in accordance with IAS 1 and is presenting financial assets and liabilities designated at fair value through profit and loss in the notes rather than the face of the statement of financial position. Comparatives have been restated as provided below:

| | 2016<br>Prior year<br>$'000 | 2016<br>Reclassification<br>$'000 | 2016<br>Revised<br>$'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Financial assets designated at fair value through profit & loss | | | |
| Secured lending | 733,595 | (733,595) | - |
| Other financial instruments | 109,112 | (109,112) | - |
| Loans and advances to afiiliates | - | 738,074 | 738,074 |
| Loans and advances to others | | 104,633 | 104,633 |
| | 842,707 | - | 842,707 |
| **Financial liabilities** | | | |
| Financial liabilities designated at fair value through profit and loss | | | |
| Bonds and medium term notes | 6,219,804 | - | 6,219,804 |
| Borrowings | 51,273 | (51,273) | - |
| Other financial instruments | 4,479 | (4,479) | - |
| Borrowings from others | - | 55,752 | 55,752 |
| | 6,275,556 | - | 6,275,556 |

## 2. INTEREST INCOME AND EXPENSE

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| **Interest Income** | | |
| Interest on deposits | 17,756 | 7,683 |
| Interest on reverse repurchase transactions | 33,450 | 32,347 |
| Other interest income | 4 | 443 |
| | **51,210** | **40,473** |
| **Interest Expense** | | |
| Interest to banks and customers | 31 | 78 |
| Interest on funds borrowed | 1,621 | 1,936 |
| Interest on repo transactions | 13,575 | 9,757 |
| Other interest expense | 782 | 1,883 |
| | **16,009** | **13,654** |

Of the total interest income, amounts with respect to Nomura Group companies amounted to $49,943,381 (2016: $31,470,328). Of the total interest expenses, amounts with respect to Nomura Group companies amounted to $2,138,523 (2016: $4,167,824).

## 3. DEALING LOSS

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Financial instruments held for trading | 170,646 | (31,284) |
| Financial instruments designated at fair value through profit and loss account | (224,744) | (56,084) |
| | **(54,098)** | **(87,368)** |

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

## 4. ADMINISTRATIVE EXPENSES

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Wages, salaries and other social security costs | 885 | 1,315 |
| Audit of the financial statements | 308 | 325 |
| Audit related assurance services | 222 | 210 |
| Support service charges | 10,918 | 11,264 |
| Depreciation and amortisation | 21 | 5 |
| | **12,354** | **13,119** |

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 2 (2016: 2). In addition, the Bank uses the resources of NIP under a Service Level Agreement, for which a charge is paid.

In addition to the audit fees shown above, an amount of $218,897 (2016: $270,912) was borne by NHI.

## 5. DIRECTORS' EMOLUMENTS

The aggregate emoluments paid to the Directors were $503,786 (2016: $542,875).

The highest paid Director received emoluments of $163,870 (2016: $310,395). As at 31 March 2017 the accrued pension totalled $6,458 per annum (2016: $7,598) and no contributions were made to the Group Personal Pension plan.

The number of Directors who exercised share options during the year was 5 (2016: 4).

The number of Directors entitled to receive shares under a long-term incentive plan during the year was 3 (2016: 2).

## 6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

### (a) TAX CHARGE

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Current tax: | | |
| U.K. Corporation tax charge at 20% (2016: 20%) | 3,637 | 23,751 |
| Foreign tax suffered | 105 | 478 |
| Adjustment in respect of previous periods | 9 | (21) |
| **Tax charge on profit on ordinary activities** | **3,751** | **24,208** |
| Tax charge or (benefit) recognised in other comprehensive income: | | |
| Own credit adjustments | **(2,421)** | **-** |

### (b) RECONCILIATION OF CORPORATION TAX CHARGE

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Profit on ordinary activities before tax | 18,366 | 118,327 |
| U.K. Corporation tax charge at 20% (2016: 20%) | 3,673 | 23,665 |
| Effects of: | | |
| Expenses not deductible for tax purposes | - | 1 |
| Non-recognition of current year temporary differences | (18) | 160 |
| Capital gain from a group entity | 2,113 | - |
| Utilisation of unrecognised capital loss | (2,113) | - |
| Foreign tax relief | (18) | (75) |
| Foreign tax suffered | 105 | 478 |
| Adjustments in respect of previous years | 9 | (21) |
| **Income tax expense reported in statement of comprehensive income** | **3,751** | **24,208** |

## 7. RETIREMENT BENEFIT

The Bank participates in a group scheme which is operated for the former employees of the Bank and certain of its fellow subsidiaries. The scheme is a defined benefit scheme, funded by the payment of contributions to a separately administered trust fund. 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 2017 by Jeff Brown, 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 2017 and 31 March 2016 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.

## 8. FINANCIAL INSTRUMENTS

**Analysis of the Bank's financial assets and financial liabilities by IAS 39 classification**

| | 2017 | 2017 | 2017 | 2017 | 2017 | 2017 |
|---|---|---|---|---|---|---|
| | Available-for-sale investments | Held for trading | Designated at fair value through profit and loss | Financial Assets at amortised cost | Financial liabilities at amortised cost | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial Assets** | | | | | | |
| Loans and advances to banks | - | - | - | 6,559 | - | 6,559 |
| Derivative financial instruments | - | 386,428 | - | - | - | 386,428 |
| Loans and advances to affiliates | - | - | 625,403 | 890,336 | - | 1,515,739 |
| Securities purchased under agreements to resell | - | - | - | 5,745,431 | - | 5,745,431 |
| Loans and advances to others | - | - | 86,198 | - | - | 86,198 |
| Other assets | - | - | - | 29,781 | - | 29,781 |
| Available-for-sale Investments | 11 | - | - | - | - | 11 |
| **Financial Liabilities** | | | | | | |
| Derivative financial instruments | - | (1,243,861) | - | - | - | (1,243,861) |
| Borrowing from affiliates | - | - | - | - | (395,945) | (395,945) |
| Borrowing from others | - | - | (47,100) | - | | (47,100) |
| Securities sold under agreements to repurchase | - | - | - | - | (1,450,000) | (1,450,000) |
| Bonds and medium term notes | - | - | (4,104,141) | - | - | (4,104,141) |
| Other liabilities | - | - | - | - | (129) | (129) |
| | **11** | **(857,433)** | **(3,439,640)** | **6,672,107** | **(1,846,074)** | **528,971** |

The maximum credit exposure of the financial assets designated at fair value through profit and loss amounts to $711m (2016: $843m). The cumulative change in fair value of the assets attributable to changes in credit risk amounts to Nil (2016: loss of Nil) and the change for the current year is Nil (2016: loss of Nil). Included in financial assets designated at fair value through profit and loss is a loan which is guaranteed by NIP.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2017 (CONTINUED)

## 8. FINANCIAL INSTRUMENTS (CONTINUED)

| | 2016 | 2016 | 2016 | 2016 | 2016 | 2016 |
|---|---|---|---|---|---|---|
| | Available-for-sale investments | Held for trading | Designated at fair value through profit and loss | Financial Assets at amortised cost | Financial liabilities at amortised cost | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial Assets** | | | | | | |
| Loans and advances to banks | - | - | - | 5,372 | - | 5,372 |
| Derivative financial instruments | - | 544,255 | - | - | - | 544,255 |
| Loans and advances to affiliates | - | - | 738,074 | 900,370 | - | 1,638,444 |
| Securities purchased under agreements to resell | - | - | - | 7,702,901 | - | 7,702,901 |
| Loans and advances to others | - | - | 104,632 | 91,531 | - | 196,163 |
| Other assets | - | - | - | 42,241 | - | 42,241 |
| Available-for-sale Investments | 11 | - | - | - | - | 11 |
| **Financial Liabilities** | | | | | | |
| Derivative financial instruments | - | (1,534,398) | - | - | - | (1,534,398) |
| Borrowing from affiliates | - | - | - | - | (533,895) | (533,895) |
| Borrowing from others | - | - | (107,560) | - | - | (107,560) |
| Securities sold under agreements to repurchase | - | - | - | - | (1,150,000) | (1,150,000) |
| Bonds and medium term notes | - | - | (6,219,804) | - | - | (6,219,804) |
| Other liabilities | - | - | - | - | (29) | (29) |
| | **11** | **(990,143)** | **(5,484,658)** | **8,742,415** | **(1,683,924)** | **583,701** |

## 8. FINANCIAL INSTRUMENTS (CONTINUED)

**Analysis of the Bank's financial assets and financial liabilities by product type**

Included within the financial assets and financial liabilities above are the following positions with fellow Nomura Group undertakings:

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Financial assets** | | |
| Derivative financial instruments | 384,577 | 540,060 |
| Loans and advances to affiliates | 1,515,739 | 1,638,444 |
| Securities purchased under agreements to resell | 5,745,431 | 7,702,901 |
| Other assets | 29,254 | 41,312 |
| | **7,675,001** | **9,922,717** |
| **Financial liabilities** | | |
| Derivative financial instruments | 1,013,061 | 1,391,133 |
| Borrowing from affiliates | 395,945 | 533,895 |
| | **1,409,006** | **1,925,028** |

## 9. TRANSFERRED FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL

**Transferred financial assets that are not derecognized in their entirety**

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 2017 $'000 | Carrying value of associated liabilities 2017 $'000 | Fair value of transferred assets 2016 $'000 | Carrying value of associated liabilities 2016 $'000 |
|---|---|---|---|---|
| Relating to securities agreements to repurchase | 2,814,807 | (1,450,000) | 2,297,215 | (1,150,000) |
| **Total Assets transferred** | 2,814,807 | (1,450,000) | 2,297,215 | (1,150,000) |

*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 2017 $'000 | Carrying value of associated assets 2017 $'000 | Fair value of the collateral received 2016 $'000 | Carrying value of associated assets 2016 $'000 |
|---|---|---|---|---|
| Relating to securities agreements to repurchase | 7,967,315 | 5,745,431 | 10,077,487 | 7,702,901 |
| **Total Collateral Received** | 7,967,315 | 5,745,431 | 10,077,487 | 7,702,901 |

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

## 9. TRANSFERRED FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL (CONTINUED)

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 recognized 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 recognized liability represents the amount to be repaid to counterparties.

*Collateral arrangements*

Additionally, 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.

## 10. BONDS AND MEDIUM-TERM NOTES

| | 31 March 2017 $'000 | 31 March 2016 $'000 |
|---|---|---|
| Bonds and medium- term notes, by remaining maturity: | | |
| - Less than 1 year | 296,057 | 917,724 |
| - Less than 5 years but greater than 1 year | 1,395,805 | 1,555,664 |
| - Greater than 5 years | 2,412,279 | 3,746,416 |
| | 4,104,141 | 6,219,804 |

As of 31 March 2017, 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 $179,353,877 (2016: $195,574,131) 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 loss of $60,031,664 and realised loss of $8,321,210 (2016: gain of $108,884,702), as well as income tax of $2,420,563 arising due to redemption of notes 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 credit of $50,580,145 at 31 March 2017 (2016: debit of $9,451,518). The Bank calculates and applies an own credit adjustment based on movements in the credit spread 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.

| $'000 | Balance as at 31 March 2016 | Issuance | Redemption | Others | Balance as at 31 March 2017 |
|---|---|---|---|---|---|
| Bonds and medium term notes | 6,219,804 | 494,643 | (2,516,264) | (94,042) | 4,104,141 |

| $'000 | Balance as at 31 March 2015 | Issuance | Redemption | Others | Balance as at 31 March 2016 |
|---|---|---|---|---|---|
| Bonds and medium term notes | 5,970,343 | 1,655,817 | (1,437,820) | 31,464 | 6,219,804 |

## 10. BONDS AND MEDIUM-TERM NOTES (CONTINUED)

| Bonds and medium-term notes | 31 March 2017<br>$'000 | 31 March 2016<br>$'000 |
|---|---|---|
| Carrying amount | 4,104,141 | 6,219,804 |
| Amount the Bank is contractually obligated to pay to the holders of bonds at maturity | 4,321,030 | 6,474,800 |
| Difference between carrying amount and the amount the ank is contractually obligated to pay to the holders of bonds at maturity | 216,889 | 254,996 |

## 11. OTHER LIABILITIES

| | 31 March 2017<br>$'000 | 31 March 2016<br>$'000 |
|---|---|---|
| Foreign tax payable | - | (95) |
| Other payables | 129 | 124 |
| | 129 | 29 |

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

## 12. DEFERRED TAX

| | Unrecognised deferred tax balance | Unrecognised deferred tax balance |
|---|---|---|
| | 31 March 2017 | 31 March 2016 |
| | $'000 | $'000 |
| Capital allowances in excess of depreciation | (88) | (110) |
| Own credit adjustment | (8,599) | - |
| Transitional adjustment on the adoption of IFRS 9 on own credit adjustment | (964) | - |
| Unutilised tax losses | (66,616) | (70,534) |
| Capital losses | (8,267) | (10,583) |
| **Deferred tax not recognised** | **84,534** | **81,227** |

A deferred tax asset of $84,533,655 (2016: $81,227,385) has not been recognised on the trading losses and other temporary differences given the uncertainty surrounding future taxable profits.

Deferred tax has been disclosed at 17% in the accounts (2016: 18%) reflecting the reduction in the U.K. corporation tax rate to 17% which takes effect from 1 April 2020 and which has been enacted by the balance sheet date.

From 1 April 2015 there is a 50% restriction on the amount of taxable profits that can be relieved by brought forward losses in existence at 31 March 2015. This restriction was legislated by Finance (No.2) Act 2015. A further restriction to 25% on the on the amount of taxable profits that can be relieved by brought forward losses was enacted at the balance sheet date and took effect from 1 April 2016.

## 13. DISPOSAL OF SUBSIDIARY

During the year ended 31 March 2016, the Banks' subsidiary has been disposed of resulting in its deconsolidation.

As such, as at 31 March 2017, the Bank did not have any subsidiaries.

## 14. SHARE CAPITAL

| 31 March 2017 | Authorised | Allotted and fully paid | |
|---|---|---|---|
| | Number | Number | Consideration |
| | '000 | '000 | $'000 |
| US Dollar Ordinary shares of $1 each | 555,000 | 555,000 | 555,000 |

| 31 March 2016 | Authorised | Allotted and fully paid | |
|---|---|---|---|
| | Number | Number | Consideration |
| | '000 | '000 | $'000 |
| US Dollar Ordinary shares of $1 each | 555,000 | 555,000 | 555,000 |

## 15. FINANCIAL RISK MANAGEMENT

The Bank's activities involve both the assumption and transfer of certain risks which must be managed. The most important types of risk are market risk, credit risk, operational risk, model risk and liquidity risk.

The Capital Requirements Directive IV (CRD IV) - including the Capital Requirements Regulation (CRR) - requires the Bank 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. 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

*Capital Allocation*

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

*Treasury Department*

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

## 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

*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.

*Finance Department*

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

*Internal Audit*

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

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

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

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

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

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

## 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The 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.

### The Bank's Risk Committees

*Audit Committee*

The Audit Committee is responsible for ensuring that an effective internal control environment is maintained within the Bank, and for ensuring that corporate objectives are achieved and are consistent with those of the Nomura Group and the ultimate group holding Company, NHI.

### Risk Measurement and Reporting Systems

#### a) 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.

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

The primary sources of equity price risk and issuer credit risk for the Bank arise from the issuance of debt with returns linked to equity, credit instruments or other indices.

The bank mitigates such risks through the purchase of direct hedges or by transferring such risks to other Nomura Group companies using derivative products.

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

## 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

| 31 March 2017 | Equity Risk $'000 | Credit Risk $'000 | Total $'000 |
|---|---|---|---|
| Bonds and Medium-term notes | (604,959) | (3,716,070) | (4,321,029) |
| Financial assets with embedded derivatives | 604,959 | - | 604,959 |
| Derivative Financial Instruments: | | | |
| - Fixed income and credit derivatives | - | 3,716,070 | 3,716,070 |
| - Equity derivatives | - | - | - |
| | - | - | - |

| 31 March 2016 | Equity Risk $'000 | Credit Risk $'000 | Total $'000 |
|---|---|---|---|
| Bonds and Medium-term notes | (1,150,985) | (5,323,815) | (6,474,800) |
| Financial assets with embedded derivatives | 733,595 | - | 733,595 |
| Derivative Financial Instruments: | | | |
| - Fixed income and credit derivatives | - | 5,323,815 | 5,323,815 |
| - Equity derivatives | 417,390 | - | 417,390 |
| | - | - | - |

## 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

### ii. Currency Risk

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

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

### iii. Interest Rate Risk

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

It is the Bank's policy to mitigate such risk through minimising the mismatch of the dates on which interest receivable on financial assets and interest payable on liabilities are next reset to the market rates or, if earlier, the date on which the instruments mature. Where applicable, derivative transactions are used to reduce this interest rate gap. In accordance with the outsourcing contract, NIP's Treasury department monitors compliance with interest rate gap policies, which are subsequently monitored independently by the Market Risk department. Almost all exposure is hedged to a 3 month LIBOR (or equivalent) position or shorter.

At 31 March 2017, the Bank had no significant exposure to fair value interest rate risk.

### b) Credit Risk

Credit risk is the risk of loss 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 EMEA 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 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.

## 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

As described in note 1(h), the Bank enters into netting agreements with certain counterparties to mitigate its exposure 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 2017 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 2017 the fair value of securities pledged to the Bank by NIP was $10 billion, and largely comprised highly rated European government bonds. None of this collateral was repledged or retransferred at the reporting date. The exercise of collateral will lead to a significant reduction in the 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.

| | Maximum Exposure to Credit Risk<br>31 March 2017<br>$'000 | Maximum Exposure to Credit Risk<br>31 March 2016<br>$'000 |
|---|---|---|
| Financial guarantee contracts | 186,743 | 370,493 |

The Bank receives a combination of cash and securities collateral from NIP with respect to its net derivative exposure with NIP. At 31 March 2017, cash received amounted to $296,186,571 and as at 31 March 2016 the Bank received cash amounted to $423,288,877. Taking into account collateral and other credit enhancements, the Bank's significant credit risk is to NIP. The Bank benefits from a written guarantee from its ultimate parent, NHI, over its exposure to NIP.

## 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Off balance sheet commitments

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

### Maximum Exposure to Credit Risk by Credit Rating

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

| | Maximum Exposure to Credit Risk 31 March 2017 $'000 | Maximum Exposure to Credit Risk 31 March 2016 $'000 |
|---|---|---|
| **Financial Assets** | | |
| AA | 3,428 | 1,395 |
| A | 7,680,119 | 2,840 |
| BBB | 2,497 | 10,018,042 |
| Non-Investment | 86,204 | 104,633 |
| Not Rated | 395 | 4,472 |
| **Total** | **7,772,643** | **10,131,382** |
| **Off balance sheet commitments and financial guarantee contracts** | | |
| A | 847,437 | 723,825 |
| BBB | 195,733 | 688,466 |
| B | 129,753 | 127,247 |
| Not Rated | 96,775 | 39,652 |
| **Total** | **1,269,698** | **1,579,190** |
| **Total exposure to credit risk by credit rating** | **9,042,341** | **11,710,572** |

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

## 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Maximum Exposure to Credit Risk by Credit Rating (Continued)

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

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.

There is no loan which is past due at the reporting date 31 March 2017 as well as 31 March 2016.

### Concentrations of Credit Risk

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

### c) Liquidity Risk

The Bank defines liquidity risk as the potential inability to meet financial obligations as they become due. This risk could arise from various scenarios and could be due both to Nomura-specific and market-wide events. Liquidity risk management policy is based on the Board approved liquidity risk appetite. Our primary objective for liquidity risk management objective is to ensure continuous liquidity across market cycles and periods of market stress, and to ensure that all funding requirements and unsecured debt obligations that fall due within Board-established survival horizons and risk tolerances can be met without any reliance on additional unsecured funding or forced liquidation of assets.

The firm's Maximum Cumulative outflow (MCO) model quantifies the amount of liquidity required to survive the approved stress scenarios. The Bank manages liquidity risk on a self-sufficiency basis and controls liquidity usage via an unsecured funding limit framework. To ensure a readily available source of liquidity to meet the modelled liquidity requirements, we maintain a liquidity portfolio in the form of highly liquid, unencumbered securities ensures that sufficient liquidity is held locally to meet the modelled requirements.

NBI as a U.K. regulated entity is fully compliant with the U.K. PRA prescribed liquidity requirements.

### Contractual Maturity Table

The table on the following page 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.

## 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

| 31 March 2017: | On demand | Less than 30 days | 31 days - 1 year | 1-5 year | Later than 5 years | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial assets** | | | | | | |
| Loans and advances to banks | 6,559 | - | - | - | - | 6,559 |
| Derivative financial instruments | 363,659 | 22,769 | - | - | - | 386,428 |
| Loans and advances to affiliates | - | 891,575 | 203,814 | 420,350 | - | 1,515,739 |
| Securities purchased under agreements to resell | 2,540,390 | 298,150 | 2,731,121 | 175,770 | - | 5,745,431 |
| Loans and advances to others | - | - | - | - | 86,198 | 86,198 |
| Prepayments and accrued income | 2,496 | - | - | - | - | 2,496 |
| Other asset | 29,781 | - | - | - | - | 29,781 |
| Available-for-sale financial investments | - | - | - | - | 11 | 11 |
| **Total assets** | 2,942,885 | 1,212,494 | 2,934,935 | 596,120 | 86,209 | 7,772,643 |

| 31 March 2016: | On Demand | Less than 30 days | 31 days - 1 year | 1-5 year | Later than 5 years | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial assets** | | | | | | |
| Loans and advances to banks | 5,372 | - | - | - | - | 5,372 |
| Derivative financial instrument | 538,829 | - | 5,426 | - | - | 544,255 |
| Loans and advances to affiliates | - | 905,356 | 391,125 | 310,906 | 31,057 | 1,638,444 |
| Securities purchased under agreements to resell | 4,497,268 | 675,355 | 2,369,508 | 160,770 | - | 7,702,901 |
| Loans and advances to others | 1,765 | - | 89,765 | - | 104,633 | 196,163 |
| Prepayments and accrued income | 1,973 | - | - | - | - | 1,973 |
| Other asset | 42,241 | - | - | - | - | 42,241 |
| Fixed assets | - | - | - | - | 22 | 22 |
| Available-for-sale financial investments | - | - | - | - | 11 | 11 |
| **Total assets** | 5,087,448 | 1,580,711 | 2,855,824 | 471,676 | 135,723 | 10,131,382 |

The table on the following page 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.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2017 (CONTINUED)

## 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Contractual Maturity Table

| 31 March 2017: | On demand $'000 | Less than 30 days $'000 | 31 days - 1 year $'000 | 1-5 year $'000 | Later than 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Customer accounts | 176 | - | - | - | - | 176 |
| Derivative financial instruments | 1,225,870 | 17,838 | - | 153 | - | 1,243,861 |
| Accruals and deferred income | 31,165 | - | - | - | - | 31,165 |
| Borrowing from affiliates | 296,187 | 19,000 | 13,634 | - | 67,124 | 395,945 |
| Borrowing from others | - | - | 2,130 | 44,970 | - | 47,100 |
| Securities sold under agreements to repurchase | - | - | 131,000 | 1,319,000 | - | 1,450,000 |
| Bonds and medium-term notes | - | 3,747 | 291,768 | 1,434,509 | 2,591,006 | 4,321,030 |
| Group Relief Payable | 24,966 | - | - | - | - | 24,966 |
| Other liabilities | 129 | - | - | - | - | 129 |
| **Total liabilities** | **1,578,493** | **40,585** | **438,532** | **2,798,632** | **2,658,130** | **7,514,372** |
| Other Commitments | 186,743 | - | - | 524,653 | 94,199 | 805,595 |
| Standby letters of credit issued | - | - | - | - | 461,200 | 461,200 |

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

| 31 March 2016: | On demand $'000 | Less than 30 days $'000 | 31 days - 1 year $'000 | 1-5 year $'000 | Later than 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Customer accounts | 187 | - | - | - | - | 187 |
| Derivative financial instruments | 1,472,635 | - | 61,763 | - | - | 1,534,398 |
| Accruals and deferred income | 35,127 | - | - | - | - | 35,127 |
| Borrowing from affiliates | 423,289 | 33,000 | 13,634 | - | 63,972 | 533,895 |
| Borrowing from others | - | - | 56,960 | 43,435 | 7,165 | 107,560 |
| Securities sold under agreements to repurchase | - | - | - | 1,150,000 | - | 1,150,000 |
| Bonds and medium-term notes | - | 143,345 | 842,094 | 1,672,857 | 3,816,504 | 6,474,800 |
| Group Relief payable | 23,751 | - | - | - | - | 23,751 |
| Other liabilities | 29 | - | - | - | - | 29 |
| **Total liabilities** | **1,955,018** | **176,345** | **974,451** | **2,866,292** | **3,887,641** | **9,859,747** |
| Other Commitments | 370,493 | - | - | 539,988 | 118,959 | 1,029,440 |
| Standby letters of credit issued | - | - | - | 213,750 | 336,000 | 549,750 |

## 15. FINANCIAL 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.

| | 2017 Within 12 months $'000 | 2017 After 12 months $'000 | 2017 Total $'000 | 2016 Within 12 months $'000 | 2016 After 12 months $'000 | 2016 Total $'000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Loans and advances to banks | 6,559 | - | 6,559 | 5,372 | - | 5,372 |
| Derivative financial instruments | 386,428 | - | 386,428 | 544,255 | - | 544,255 |
| Loans and advances to affiliates | 1,095,389 | 420,350 | 1,515,739 | 1,296,481 | 341,963 | 1,638,444 |
| Securities purchased under agreements to resell | 5,569,661 | 175,770 | 5,745,431 | 7,542,131 | 160,770 | 7,702,901 |
| Loans and advances to others | - | 86,198 | 86,198 | 91,530 | 104,633 | 196,163 |
| Prepayments and accrued income | 2,496 | - | 2,496 | 1,973 | - | 1,973 |
| Other asset | 29,781 | - | 29,781 | 42,241 | - | 42,241 |
| Available-for-sale financial investments | - | 11 | 11 | - | 11 | 11 |
| Fixed assets | | | | | 22 | 22 |
| **Total** | **7,090,314** | **682,329** | **7,772,643** | **9,523,983** | **607,399** | **10,131,382** |
| **Financial liabilities** | | | | | | |
| Customer accounts | 176 | - | 176 | 187 | - | 187 |
| Derivative financial instruments | 1,243,708 | 153 | 1,243,861 | 1,534,398 | - | 1,534,398 |
| Accruals and deferred income | 31,165 | - | 31,165 | 35,127 | - | 35,127 |
| Borrowing from affiliates | 328,821 | 67,124 | 395,945 | 469,923 | 63,972 | 533,895 |
| Borrowing from others | 2,130 | 44,970 | 47,100 | 56,960 | 50,600 | 107,560 |
| Securities sold under agreements to repurchase | 131,000 | 1,319,000 | 1,450,000 | - | 1,150,000 | 1,150,000 |
| Bonds and medium-term notes | 296,056 | 3,808,085 | 4,104,141 | 917,723 | 5,302,081 | 6,219,804 |
| Group Relief Payable | 24,966 | - | 24,966 | 23,751 | - | 23,751 |
| Other liabilities | 129 | - | 129 | 29 | - | 29 |
| **Total** | **2,058,151** | **5,239,332** | **7,297,483** | **3,038,098** | **6,566,653** | **9,604,751** |
| **Net** | **5,032,163** | **(4,557,003)** | **475,160** | **6,485,885** | **(5,959,254)** | **526,631** |

## 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

### d) 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*

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 Nomura Group's operational risk strategy and framework 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*

- Risk and Control Self-Assessment ("RCSA"): The process used by business units to identify and assess the operational risks to which they are exposed, the controls in place to mitigate risks, and action plans to further reduce risk.
- Scenario Analysis: Process to identify and assess high impact, low probability 'tail events'.
- Event Reporting: Process to obtain information on and learn from actual events impacting Nomura and relevant external events. A key step is to identify appropriate action plans to prevent or mitigate future occurrence of events.
- Key Risk Indicators ("KRI"): Metrics which allow monitoring of certain key operational risks and trigger appropriate responses as thresholds are breached.

*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 Basel standards and local regulatory requirements.

## 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

### e) Model Risk

Model Risk is the risk of loss arising from Model errors or incorrect or inappropriate Model application with regard to Valuation Models and Risk Models.

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

The Nomura Group has documented policies and procedures in place, approved by the Group Integrated Risk Management Committee ("GIRMC") and/or Global Risk Strategic Committee ("GRSC"), which define the process and validation requirements for implementing changes to valuation and risk models. In addition, a Model Performance Monitoring process has been established to identify and assess specific events, that can indicate that a model is not performing as it should or is potentially unsuitable and to determine what actions (for example, additional validation work) might be necessary. For changes with an impact above certain materiality thresholds, model approval is required. MVG defines these materiality thresholds in a formal procedure and operates a control process to identify where the procedure is not followed. For certain material changes to risk models, backtesting of the new model, parallel running of both models and stress-testing of the new model are required prior to the model being approved.

### f) Business Risk

Business risk is the risk of failure of revenues to cover costs due to deterioration of the earnings environment or 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.

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

c) Financial assets and liabilities designated at fair value through profit and loss and derivatives are measured at fair value by reference to quoted market prices when available. 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.

The carrying amounts of financial instruments that are not measured at fair value approximate to their fair values.

### Fair value hierarchy

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

**Level 1** Unadjusted quoted prices in active markets for identical assets or liabilities accessible by the Bank at the measurement date.

**Level 2** Quoted prices in inactive markets or prices containing other inputs which are observable, either directly or indirectly. Valuation techniques using observable inputs reflect assumptions used by market participants in pricing financial instruments and are based on data obtained from independent market sources at the measurement date.

**Level 3** Unobservable inputs that are significant to the fair value measurement of the financial instrument. Valuation techniques using unobservable inputs reflect management's assumptions about the estimates used by other market participants in valuing similar financial instruments. These valuation techniques are developed based on the best available information at the measurement date.

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

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

### Fair value hierarchy – Assets

| 31 March 2017: | Level 1<br>$'000 | Level 2<br>$'000 | Level 3<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets held for trading: | | | | |
| - Derivatives | - | 232,075 | 154,353 | 386,428 |
| Loans and advances to affiliates | - | 625,403 | - | 625,403 |
| Loans and advances to others | - | 1,588 | 84,610 | 86,198 |
| | **-** | **859,066** | **238,963** | **1,098,029** |

| 31 March 2016: | Level 1<br>$'000 | Level 2<br>$'000 | Level 3<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets held for trading: | | | | |
| - Derivatives | - | 361,465 | 182,790 | 544,255 |
| Loans and advances to affiliates | - | 738,074 | - | 738,074 |
| Loans and advances to others | - | 3,500 | 101,132 | 104,632 |
| | **-** | **1,103,039** | **283,922** | **1,386,961** |

### Fair value hierarchy – Liabilities

| 31 March 2017: | Level 1<br>$'000 | Level 2<br>$'000 | Level 3<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Financial liabilities held for trading: | | | | |
| - Derivatives | - | 836,433 | 407,428 | 1,243,861 |
| Bonds and medium-term notes | - | 4,104,141 | - | 4,104,141 |
| Borrowings from others | - | 47,100 | - | 47,100 |
| | **-** | **4,987,674** | **407,428** | **5,395,102** |

| 31 March 2016: | Level 1<br>$'000 | Level 2<br>$'000 | Level 3<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Financial liabilities held for trading: | - | 1,124,093 | 410,305 | 1,534,398 |
| - Derivatives | | | | |
| Bonds and medium-term notes | - | 6,219,804 | - | 6,219,804 |
| Borrowings from others | - | 107,560 | - | 107,560 |
| | **-** | **7,451,457** | **410,305** | **7,861,762** |

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

### 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 Product Control 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 Model Validation Group ("MVG") 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.

***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 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.

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

### *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.

| 31 March 2017: | At 1 April 2016 | Total gains (losses) in P&L | Net cash (in)/out | Settle-ments | Net transfers in/(out) of level 3 | At 31 March 2017 | Unrealised Total gains (losses)in P&L |
|---|---|---|---|---|---|---|---|
| **$'000s** | | | | | | | |
| **Financial assets** | | | | | | | |
| Financial assets held for trading: | | | | | | | |
| - Derivatives | 182,790 | 19,104 | - | (50,209) | 2,668 | 154,353 | 6,365 |
| Loans and advances to others | 101,132 | (16,522) | - | - | - | 84,610 | (16,522) |
| | 283,922 | 2,582 | - | (50,209) | 2,668 | 238,963 | (10,157) |

| 31 March 2016: | At 1 April 2015 | Total gains (losses) in P&L | Net cash (in)/out | Settle-ments | Net transfers in/(out) of level 3 | At 31 March 2016 | Unrealised Total gains (losses)in P&L |
|---|---|---|---|---|---|---|---|
| **$'000s** | | | | | | | |
| **Financial assets** | | | | | | | |
| Financial assets held for trading: | | | | | | | |
| - Derivatives | 163,503 | 25,606 | - | (6,253) | (66) | 182,790 | (5,668) |
| Loans and advances to others | 102,763 | (1,631) | - | - | - | 101,132 | (1,630) |
| | 266,266 | 23,975 | - | (6,253) | (66) | 283,922 | (7,298) |

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

| 31 March 2017: | At 1 April 2016 | Total gains (losses) in P&L | Net cash (in)/out | Settle-ments | Net transfers in/(out) of level 3 | At 31 March 2017 | Unrealised Total gains (losses)in P&L |
|---|---|---|---|---|---|---|---|
| **$'000s** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Financial liabilities held for trading: | | | | | | | |
| - Derivatives | 410,305 | (13,385) | - | 9,403 | 1,105 | 407,428 | 15,541 |
| | 410,305 | (13,385) | - | 9,403 | 1,105 | 407,428 | 15,541 |

| 31 March 2016: | At 1 April 2015 | Total gains (losses) in P&L | Net cash (in)/out | Settle-ments | Net transfers in/(out) of level 3 | At 31 March 2016 | Unrealised Total gains (losses)in P&L |
|---|---|---|---|---|---|---|---|
| **$'000s** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Financial liabilities held for trading: | | | | | | | |
| - Derivatives | 370,505 | 1,410 | - | 39,369 | (979) | 410,305 | 39,529 |
| | 370,505 | 1,410 | - | 39,369 | (979) | 410,305 | 39,529 |

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

Transfer into level 3, due to valuation inputs which became unobservable. There are no transfer out from level 3.

During the year, no financial liabilities designated at fair value through profit and loss were transferred out of level 3.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2017 (CONTINUED)

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

***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 2017 and 31 March 2016:

31 March 2017

| Class of financial instrument | Fair value $'000 | Valuation techniques | Significant Unobservable inputs | Range |
|---|---|---|---|---|
| Financial Instruments held for trading | | | | |
| - Derivative Assets | 154,353 | DCF/Option Models | Dividend Yield | 0% - 6.1% |
| | | | Volatilities | 13.5% - 49.2% |
| - Derivative Liabilities | (407,428) | | Correlations | 0.37 – 0.82 |

31 March 2016

| Class of financial instrument | Fair value $'000 | Valuation techniques | Significant Unobservable inputs | Range |
|---|---|---|---|---|
| Financial Instruments held for trading | | | | |
| - Derivative Assets | 182,790 | DCF/Option Models | Credit Spread | 5.9%- 45.9% |
| | | | Recovery Rate | 5% - 40% |
| - Derivative Liabilities | (410,305) | | Dividend Yield | 0% - 10% |
| | | | Volatilities | 5.9% - 126.8% |
| | | | Correlations | (0.70) – 0.98 |

**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 at bank and in hand, Borrowings from fellow subsidiary undertakings, Cash collateral and other liabilities.

Cash at bank and in hand, 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.

## 16. 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 March 31, 2017 and 2016.

| | 2017 | 2017 | 2017 | 2017 | 2017 |
|---|---|---|---|---|---|
| | | | Fair value by level | | |
| | Carrying amount $'000 | Fair value $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 |
| **Financial Assets:** | | | | | |
| Loans and advances to banks | 6,559 | 6,559 | 6,559 | - | - |
| Loans and advances to affiliates | 890,336 | 890,336 | - | 890,336 | - |
| Securities purchased under agreements to resell | 5,745,431 | 5,745,431 | - | 5,745,431 | - |
| Other Assets | 29,781 | 29,781 | - | 29,781 | - |
| | 6,672,107 | 6,672,107 | 6,559 | 6,665,548 | - |
| **Financial Liabilities:** | | | | | |
| Borrowing from affiliates | (395,945) | (395,945) | - | (395,945) | - |
| Securities sold under agreements to repurchase | (1,450,000) | (1,450,000) | - | (1,450,000) | - |
| Other liabilities | (129) | (129) | - | (129) | - |
| | (1,846,074) | (1,846,074) | - | (1,846,074) | - |

| | 2016 | 2016 | 2016 | 2016 | 2016 |
|---|---|---|---|---|---|
| | | | Fair value by level | | |
| | Carrying amount $'000 | Fair value $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 |
| **Financial Assets:** | | | | | |
| Loans and advances to banks | 5,372 | 5,372 | 5,372 | - | - |
| Loans and advances to affiliates | 900,370 | 900,370 | - | 900,370 | - |
| Securities purchased under agreements to resell | 7,702,901 | 7,702,901 | - | 7,702,901 | - |
| Other Assets | 42,241 | 42,241 | - | 42,241 | - |
| | 8,650,884 | 8,650,884 | 5,372 | 8,645,512 | - |
| **Financial Liabilities:** | | | | | |
| Borrowing from affiliates | (533,895) | (533,895) | - | (533,895) | - |
| Securities sold under agreements to repurchase | (1,150,000) | (1,150,000) | - | (1,150,000) | - |
| Other liabilities | (29) | (29) | - | (29) | - |
| | (1,683,924) | (1,683,924) | - | (1,683,924) | - |

## 17. OFFSETTING DISCLOSURES

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

| 31 March 2017 | Securities purchased under agreements to resell | Loans and advances to affiliates | Derivatives Assets | Securities sold under agreements to repurchase | Derivatives Liabilities |
|---|---|---|---|---|---|
| **$'000s** | | | | | |
| Total gross balance (1) | 5,745,431 | 622,569 | 384,577 | - | (1,013,061) |
| Less: Additional amounts not offset in the bank balance sheet(2) | - | - | - | - | - |
| Financial instruments and non-cash collateral | (5,745,431) | (622,569) | (88,390) | - | 710,960 |
| Cash collateral | - | - | (296,187) | - | - |
| **Net amount** | **-** | **-** | **-** | **-** | **(302,101)** |

| 31 March 2016 | Securities purchased under agreements to resell | Loans and advances to affiliates | Derivatives Assets | Securities sold under agreements to repurchase | Derivatives Liabilities |
|---|---|---|---|---|---|
| **$'000s** | | | | | |
| Total gross balance (1) | 7,702,901 | 733,595 | 540,060 | - | (965,620) |
| Less: Additional amounts not offset in the bank balance sheet(2) | - | - | - | - | - |
| Financial instruments and non-cash collateral | (7,702,901) | (733,595) | (116,771) | - | 850,366 |
| Cash collateral | - | - | (423,289) | - | - |
| **Net amount** | **-** | **-** | **-** | **-** | **(115,254)** |

(1) Includes all recognized 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.

## 18. CAPITAL MANAGEMENT POLICY

### U.K. Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank is able to withstand losses due to extreme market movements. 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 desirable 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 of the FCA and PRA under CRDIV framework.

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

### U.K. 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

| | 2017<br>$'000s | 2016<br>$'000s |
|---|---|---|
| Tier 1 capital | 585,982 | 613,944 |
| **Total capital resources** | **585,982** | **613,944** |

## 19. CONTINGENT LIABILITIES AND COMMITMENTS

### Contingent Liabilities

*Financial guarantee contracts*

The Bank provides certain financial guarantees to third parties over their exposure to Nomura Group companies. At 31 March 2017 the exposure on these financial guarantee contracts amounted to $186,743,481 (2016: $370,492,811).

### Commitments

The Bank had commitments as at 31 March 2017 amounting to $1,080,355,543 (2016: $1,208,696,648) in respect of undrawn note issuance facilities and loan commitments. The loan commitments are sub-participated to NIP on commitment date.

## 20. RELATED PARTY TRANSACTIONS

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

### a. Transactions with NIP

i. The Bank has secured financing and collateralised lending receivables owing from NIP to the amount of $6,386,000,123 as of 31 March 2017 (2016: $8,436,496,653). Prepayments including interest receivables owed from NIP amounted to $2,480,407 as at March 2017 (2016: $1,327,659)

ii. The Bank enters into derivative agreements with NIP to hedge the market risk on medium term notes issued. The fair value of the derivatives assets with NIP is $384,577,291 as of 31 March 2017 (2016: $540,060,118) and fair value of derivative liabilities with NIP is $1,013,061,258 (2016: $1,391,133,052). The Bank receives a combination of cash and securities collateral from NIP with respect to its net derivative exposure with NIP.

iii. The Bank has other receivables due from NIP of $6,387,572 (2016: $12,091,300) as of 31 March 2017 and other payables due to NIP of $86,292,528 (2016: $103,122,799).

iv. The Bank advanced a loan to NIP to the amount of $890,335,991 (2016: $900,370,008) and has received a cash collateral $295,748,128 (2016: 423,288,877)

v. Interest income includes Interest on Reverse repo with NIP $49,943,381 (2016: $31,470,328)

vi. Interest expense includes Interest on Loan, Repo and Collateral with NIP $ 2,138,523 (2016: $ 4,074,435)

## 20. RELATED PARTY TRANSACTIONS (CONTINUED)

vii. Fee income includes arrangement fees received from NIP $50,169,085 (2016: $84,719,960)

viii. Fee expense includes commitment fee expense with NIP $ 2,939,579 (2016: $ 2,545,902)

ix. Administration expense include SLA & Technology charges paid to NIP $8,894,855 (2016: $8,894,855)

x. The Bank benefits from a written guarantee from its ultimate parent, NHI, over its exposure to NIP

xi. The Bank's obligation to pay the U.K. 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 U.K. tax group

**b. Transactions with other Nomura Group companies**

i. The Bank has overdrafts and borrowings due to other Nomura Group companies of $15,634,279 as at 31 March 2017 (31 March 2016: $17,529,697) and loans and advances due from other Nomura Group companies of $25,700,000 as at 31 March 2017 (31 March 2016: $33,700,000).

For the years ended 31 March 2017 and 31 March 2016, 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.

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

## 21. ULTIMATE PARENT COMPANY

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

Copies of the financial statements of Nomura Holdings, Inc. can be obtained from 9-1, Nihonbashi 1-Chome, Chuo-ku. Tokyo 103-8645.