



**NOMURA**

# **NOMURA BANK INTERNATIONAL PLC**

**ANNUAL REPORT**  
**31 March 2016**

**COMPANY REGISTRATION NUMBER 1981122**

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## NOMURA BANK INTERNATIONAL PLC

### YEAR ENDED 31 MARCH 2016

The Directors of Nomura Bank International plc (the “Bank”) present their Strategic Report, Directors’ Report, and the consolidated financial statements for the Bank and its consolidated subsidiaries (the “Group”) for the year ended 31 March 2016. 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 Turkey. The Bank’s Labuan branch was closed during the year. 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 provides 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 2016, 99% of funds were advanced on a secured basis.

The Group’s key financial indicators during the year were as follows:

|  | <u>Year ended</u><br><u>31 March 2016</u><br>\$’000 | <u>Year ended</u><br><u>31 March 2015</u><br>\$’000 |
|--|---|---|
| Operating income                                     | 133,136   | 2,326   |
| Profit/(loss) on ordinary activities before taxation | 120,058   | (44,688)  |
| Profit/(loss) for the year                           | 95,572  | (45,761)  |
| Total assets   | 10,131,382  | 9,852,820   |
| Total liabilities                                    | 9,604,751   | 9,421,866   |
| Shareholders’ funds                                  | 526,631   | 430,954   |

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2016**

### **STRATEGIC REPORT (CONTINUED)**

The Group reported a gain on ordinary activities before tax for the year of \$120,057,470 (2015: loss of \$44,688,203). As part of the Nomura Group's ongoing reviews of its legal entity strategy, during the year, the Bank's investment in its Chinese subsidiary was sold. Further details have been provided in Note 16.

The most significant impact to the Bank's performance this year has been as a result of the widening in the Nomura Group's own credit spreads. The impact of own credit has resulted in a gain for the year of \$108,884,702 (2015: loss of \$23,172,433). This impact is included within the gain on ordinary activities before tax.

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

For the year ending 31 March 2017, 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 18 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 outcome of the European Union (EU) referendum on 23 June 2016, the United Kingdom remains a member of the EU and will continue to be bound by European law and treaties until it formally exits. The Bank will continue to closely monitor developments and evaluate appropriate actions to safeguard client interests as the terms of the UK's future relationship with the EU becomes clearer.

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2016**

### **STRATEGIC REPORT (CONTINUED)**

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

**NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2016**

**STRATEGIC REPORT (CONTINUED)**

**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 Bank:

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

<http://www.nomuraholdings.com/csr/citizenship/environment/management>

**BY ORDER OF THE BOARD AT A MEETING HELD ON 19 JULY 2016**

**Andrew Eames**  
Company Secretary

19 July 2016

**Company Registration Number: 1981122**

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2016**

### **DIRECTORS' REPORT**

#### **RESULTS AND DIVIDENDS**

The results for the year are set out on page 10. The gain transferred to reserves for the year amounted to \$95,676,732 (2015: loss of \$46,101,984).

No interim dividend was paid (2015: \$nil) and the Directors do not recommend the payment of a final dividend (2015: \$nil).

#### **EVENTS SINCE THE BALANCE SHEET DATE**

There are no events to report.

#### **DONATIONS**

No political donations were made during the year (2015: \$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 are disclosed in Notes 1,9,18 and 19.

#### **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:

|                |  |
|----------------|--|
| Paul Spanswick | Director   |
| Clare Jones    | Director   |
| John Baker     | Director (appointed 24 June 2015)  |
| David Benson   | Non-Executive Director and Non-Executive Chairman (appointed 28 August 2015) |
|                | Non-Executive Chairman (resigned 8 February 2016)                            |
| John Tierney   | Director (appointed 16 October 2015)   |
| James Leng     | Non-Executive Chairman (appointed 8 February 2016)                           |
|                | Non-Executive Director (appointed 10 December 2015)                          |
| Lewis O'Donald | Director (appointed 21 December 2015)  |
| Devesh Mehta   | Director (resigned 13 November 2015)   |
| Kieran Poynter | Non-Executive Director (resigned on 12 June 2015)                            |

## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2016**

### **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 18 of the statutory financial statements for the year to 31 March 2016 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 2016**

### **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 consolidated financial statements in accordance with applicable United Kingdom law and regulations.

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

Under company law the Directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group 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 Group;
- 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 Group's financial position and financial performance; and
- state whether the consolidated financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group 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 19 JULY 2016**

**Andrew Eames**  
Company Secretary

19 July 2016

**Company Registration Number: 1981122**



## **NOMURA BANK INTERNATIONAL PLC**

**YEAR ENDED 31 MARCH 2016**

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

We have audited the financial statements of Nomura Bank International plc (together with its subsidiary undertakings the "Group") for the year ended 31 March 2016 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Cash Flows and the related Notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND 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 (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements 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 2016**

### **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 Group's and of the Parent Company's affairs as at 31 March 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

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

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

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

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

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

**Maurice McCormick** (Senior statutory auditor)

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

London

NOMURA BANK INTERNATIONAL PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME / (Loss) FOR THE YEAR ENDED 31 MARCH 2016

| Note          | <u>Group</u><br><u>Year ended</u><br><u>31 March 2016</u><br>\$'000 | <u>Group</u><br><u>Year ended</u><br><u>31 March 2015</u><br>\$'000 |
|---------------|---|---|
| <b>INCOME</b> |   |   |
| 2             | Interest income and similar income                                  | 40,568  |
| 2             | Interest expense and similar charges                                | (13,654)  |
|               | <b>NET INTEREST INCOME</b>  | <b>26,914</b>   |
|               | Fee and commission income   | 89,163  |
|               | Fee and commission expense  | (4,404)   |
| 3             | Dealing gain / (loss)   | 21,463  |
|               | <b>TOTAL OPERATING INCOME</b>                                       | <b>133,136</b>  |
| 4             | Administrative expenses   | (13,722)  |
|               | Impairment of goodwill and intangible assets                        | -   |
| 16            | Gain on sale of the Bank's subsidiary                               | 644   |
|               | <b>PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>       | <b>120,058</b>  |
| 6             | Tax charge on profit on ordinary activities                         | (24,486)  |
|               | <b>PROFIT / (LOSS) FOR THE YEAR</b>                                 | <b>95,572</b>   |
|               | Foreign currency gain/(loss)  | 105   |
|               | <b>TOTAL COMPREHENSIVE INCOME / (Loss)</b>                          | <b>95,677</b>   |

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

Included within the dealing gain for the year is a gain of \$108,884,702 in relation to changes in own credit risk (2015: loss of \$23,172,433). These gains and losses arise on financial instruments designated at fair value through profit and loss.

The notes on pages 17 to 64 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2016

|                                      | <u>Called-up<br/>share capital</u> | <u>Retained<br/>earnings</u> | <u>Other<br/>Reserve</u> | <u>Total<br/>shareholders'<br/>equity</u> |
|--------------------------------------|------------------------------------|------------------------------|--------------------------|---|
|                                      | \$'000                             | \$'000                       | \$'000                   | \$'000                                    |
| <b>As at 1 April 2015</b>            | 555,000                            | (123,809)                    | (237)                    | 430,954                                   |
| Gain for the year                    | -                                  | 95,572                       | -                        | 95,572                                    |
| Foreign currency gain/<br>(Loss)     | -                                  | -                            | 105                      | 105                                       |
| Total comprehensive<br>income/(Loss) | -                                  | 95,572                       | 105                      | 95,677                                    |
| <b>As at 31 March 2016</b>           | <b>555,000</b>                     | <b>(28,237)</b>              | <b>(132)</b>             | <b>526,631</b>                            |

|                                      | <u>Called-up<br/>share capital</u> | <u>Retained<br/>earnings</u> | <u>Other<br/>Reserve</u> | <u>Total<br/>shareholders'<br/>equity</u> |
|--------------------------------------|------------------------------------|------------------------------|--------------------------|---|
|                                      | \$'000                             | \$'000                       | \$'000                   | \$'000                                    |
| <b>As at 1 April 2014</b>            | 555,000                            | (78,048)                     | 103                      | 477,055                                   |
| Loss for the year                    | -                                  | (45,761)                     | -                        | (45,761)                                  |
| Foreign currency Gain/<br>(Loss)     | -                                  | -                            | (340)                    | (340)                                     |
| Total comprehensive<br>income/(Loss) | -                                  | (45,761)                     | (340)                    | (46,101)                                  |
| <b>As at 31 March 2015</b>           | <b>555,000</b>                     | <b>(123,809)</b>             | <b>(237)</b>             | <b>430,954</b>                            |

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.

The notes on pages 17 to 64 form part of these financial statements.

The Bank's Statement of Changes in Equity has not been prepared for the years ended 31 March 2016 or 2015 as there are no material differences to the above Consolidated Statements.

NOMURA BANK INTERNATIONAL PLC

STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2016

|   |             | <u>Group</u>                |                             | <u>Company</u>              |                             |
|---|-------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <u>Note</u> | <u>March 2016</u><br>\$'000 | <u>March 2015</u><br>\$'000 | <u>March 2016</u><br>\$'000 | <u>March 2015</u><br>\$'000 |
| <b>Assets</b>   |             |                             |                             |                             |                             |
| Loans and advances to banks   |             | 5,372                       | 21,913                      | 5,372                       | 21,913                      |
| Derivative financial instruments  | 9           | 544,255                     | 712,027                     | 544,255                     | 712,027                     |
| Loans and advances to affiliates  |             | 900,370                     | 30,348                      | 900,370                     | 30,348                      |
| Securities purchased under agreements to resell                         | 10          | 7,702,901                   | 8,065,508                   | 7,702,901                   | 8,065,508                   |
| Loans and advances to others  |             | 91,530                      | 93,940                      | 91,530                      | 93,940                      |
| Prepayments and accrued income  |             | 1,973                       | 2,045                       | 1,973                       | 2,045                       |
| Other assets  |             | 42,241                      | 24,518                      | 42,241                      | 24,518                      |
| Financial assets designated at fair value through profit and loss       | 8           |                             |                             |                             |                             |
| - Secured lending   |             | 733,595                     | 772,535                     | 733,595                     | 772,535                     |
| - Other financial instruments   |             | 109,112                     | 109,972                     | 109,112                     | 109,972                     |
| Available-for-sale financial investments                                |             | 11                          | 11                          | 11                          | 11                          |
| Goodwill and intangible assets  | 11          | -                           | -                           | -                           | -                           |
| Fixed assets  |             | 22                          | 28                          | 22                          | 28                          |
| Investments in group undertakings                                       |             | -                           | -                           | -                           | 20,410                      |
| Assets classified as held for sale                                      | 15          | -                           | 19,975                      | -                           | -                           |
| <b>Total assets</b>   |             | <u>10,131,382</u>           | <u>9,852,820</u>            | <u>10,131,382</u>           | <u>9,853,255</u>            |
| <b>Liabilities</b>  |             |                             |                             |                             |                             |
| Customer accounts   |             | 187                         | 177                         | 187                         | 177                         |
| Derivative financial instruments  | 9           | 1,534,398                   | 1,355,025                   | 1,534,398                   | 1,355,025                   |
| Accruals and deferred income  |             | 35,127                      | 44,363                      | 35,127                      | 44,363                      |
| Borrowing from affiliates   |             | 533,895                     | 667,446                     | 533,895                     | 667,446                     |
| Borrowing from others   |             | 51,808                      | 179,019                     | 51,808                      | 179,019                     |
| Securities sold under agreements to repurchase                          | 10          | 1,150,000                   | 1,128,005                   | 1,150,000                   | 1,128,005                   |
| Financial liabilities designated at fair value through profit and loss  | 12          |                             |                             |                             |                             |
| - Bonds and medium-term notes   |             | 6,219,804                   | 5,970,343                   | 6,219,804                   | 5,970,343                   |
| - Borrowings  |             | 51,273                      | 49,947                      | 51,273                      | 49,947                      |
| - Other financial instruments   |             | 4,479                       | 3,245                       | 4,479                       | 3,245                       |
| Group Relief Payable  |             | 23,751                      | -                           | 23,751                      | -                           |
| Other liabilities   | 13          | 29                          | 24,071                      | 29                          | 24,110                      |
| Liabilities directly associated with assets classified as held for sale |             | -                           | 225                         | -                           | -                           |
| <b>Total liabilities</b>  |             | <u>9,604,751</u>            | <u>9,421,866</u>            | <u>9,604,751</u>            | <u>9,421,680</u>            |
| <b>Shareholders' funds</b>  |             |                             |                             |                             |                             |
| Called up share capital   | 17          | 555,000                     | 555,000                     | 555,000                     | 555,000                     |
| Retained earnings   |             | (28,237)                    | (123,809)                   | (28,237)                    | (123,188)                   |
| Other reserve   |             | (132)                       | (237)                       | (132)                       | (237)                       |
| <b>Total equity</b>   |             | <u>526,631</u>              | <u>430,954</u>              | <u>526,631</u>              | <u>431,575</u>              |
| <b>Total liabilities and equity</b>                                     |             | <u>10,131,382</u>           | <u>9,852,820</u>            | <u>10,131,382</u>           | <u>9,853,255</u>            |

**NOMURA BANK INTERNATIONAL PLC**

**STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2016 (CONTINUED)**

Approved by the Board of Directors on 19 July 2016 and subsequently signed on its behalf on 19 July 2016 by:

Paul Spanswick  
Director

19 July 2016

The notes on pages 17 to 64 form part of these financial statements.

**NOMURA BANK INTERNATIONAL PLC**
**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2016**

|  | Note | <u>Group<br/>2016<br/>\$'000</u> | <u>Group<br/>2015<br/>\$'000</u> |
|--|------|----------------------------------|----------------------------------|
| <b>Operating activities</b>  |      |                                  |                                  |
| Profit/(loss) before tax   |      | 120,058                          | (44,688)                         |
| <b>Non-cash adjustments to reconcile profit for the period to net cash flows</b>     |      |                                  |                                  |
| Impairment of goodwill and other intangibles   |      | -                                | 33,076                           |
| Gain on sale of the Bank's China subsidiary  | 16   | (644)                            | -                                |
| Amortisation other intangibles   |      | -                                | 407                              |
| Depreciation on fixed assets   |      | 6                                | 20                               |
| Foreign Exchange Revaluation   |      | 105                              | (340)                            |
| <b>Change in operating assets and liabilities</b>                                    |      |                                  |                                  |
| Net change in loans and advances to affiliates                                       |      | (870,022)                        | 804                              |
| Net change in loans and advances to others   |      | 2,410                            | 62,560                           |
| Net change in borrowing from banks and other customers                               |      | (127,211)                        | 159,725                          |
| Net change in borrowings from affiliates   |      | (133,551)                        | 349,799                          |
| Net change in financial assets designated at fair value through profit and loss      |      | 39,800                           | (72,528)                         |
| Net change in financial liabilities designated at fair value through profit and loss |      | 176,244                          | (198,535)                        |
| Net change in available-for-sale assets  |      | -                                | 3                                |
| Net change in Equity securities held for trading                                     |      | -                                | 565                              |
| Net change in derivative assets  |      | 167,772                          | 66,830                           |
| Net change in derivative liabilities   |      | 179,373                          | 227,786                          |
| Net change in securities purchased under agreements to resell                        |      | 362,607                          | 751,567                          |
| Net change in securities sold under agreements to repurchase                         |      | 21,995                           | (550,518)                        |
| Net change in other assets   |      | (17,726)                         | 45,955                           |
| Net change in other liabilities  |      | (23,978)                         | 66,498                           |
| Net change in prepayments and accrued income   |      | 72                               | 10,906                           |
| Net change in accruals and deferred income   |      | (9,236)                          | (76,703)                         |
| Net change in assets classified as held for sale                                     |      | 19,588                           | (19,975)                         |
| Net change in liabilities classified as held for sale                                |      | (225)                            | 225                              |
| Income tax paid  |      | (786)                            | (1,477)                          |
| <b>Net cash flow generated by operating activities</b>                               |      | <u>(93,349)</u>                  | <u>811,962</u>                   |
| <b>Investing activities</b>  |      |                                  |                                  |
| Net Cash inflow arising from disposal of the Bank's China Subsidiary                 | 16   | <u>1,031</u>                     | <u>-</u>                         |
| <b>Net cash received/used in investing activities</b>                                |      | <u>1,031</u>                     | <u>-</u>                         |

The notes on pages 17 to 64 form part of these financial statements

NOMURA BANK INTERNATIONAL PLC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH  
2016 (CONTINUED)

|   | <u>Group</u><br><u>2016</u><br>\$'000 | <u>Group</u><br><u>2015</u><br>\$'000 |
|---|---------------------------------------|---------------------------------------|
| <b>Financing activities</b>                       |                                       |                                       |
| Proceeds of borrowings and issuance of debt       | 1,840,008                             | 1,877,165                             |
| Repayments of borrowings and redemption of debt   | (1,764,231)                           | (2,681,812)                           |
| <b>Net cash flow used in financing activities</b> | <u><b>75,777</b></u>                  | <u><b>(804,647)</b></u>               |
| Net increase in cash and cash equivalents         | (16,541)                              | 7,314                                 |
| Cash and cash equivalents at 1 April              | 21,913                                | 14,599                                |
| <b>Cash and cash equivalents at 31 March</b>      | <u><b>5,372</b></u>                   | <u><b>21,913</b></u>                  |
| <b>Included within operational cash flows</b>     |                                       |                                       |
| Interest paid                                     | (14,442)                              | (84,270)                              |
| Interest received                                 | 41,156                                | 62,476                                |

The cash and cash cash equivalents mainly consist of nostro balance.

The notes on pages 17 to 64 form part of these financial statements.

No Bank's Statement of Cash Flows for the years ended 31 March 2016 or 2015 has been prepared as there are no material differences to the above Consolidated Statements.



**NOMURA BANK INTERNATIONAL PLC**

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2016  
(CONTINUED)**

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

**31 March 2016**

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

**31 March 2015**

|  | <u>31 March 2015</u><br>\$'000 | <u>Cash Flow</u><br>\$'000 | <u>31 March 2014</u><br>\$'000 |
|--|--------------------------------|----------------------------|--------------------------------|
| Loans and advances to other banks<br>repayable on demand | 21,913                         | 7,314                      | 14,599                         |
| Borrowing from other banks repayable on demand           | -                              | -                          | -                              |
| Net cash balance   | 21,913                         | 7,314                      | 14,599                         |

The notes on pages 17 to 64 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016

#### 1. ACCOUNTING POLICIES

##### a) Basis of Accounting

The consolidated financial statements of Nomura Bank International plc (the "Bank") have been prepared in accordance with International Financial Reporting Standards ("IFRS") including all International Accounting Standards ("IAS"), Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union.

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

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

The notes to the financial statements state when the Group and Company amounts are the same. Where, for a given note, the Group amount differs to the Company only amount, no Company only note is disclosed where there are no material differences to the Consolidated Statements.

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

##### b) New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards and interpretations as of 1 April 2015, noted below:

###### IFRS 8 Operating Segments

The Annual improvements 2010-2012 Cycle clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'; and
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in paragraph 12 of IFRS 8. As such these amendments will not impact the Group's financial position or performance. The Group adopted these amendments from 1 April 2015.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (Continued)

##### IFRS 13 Fair Value Measurement

The Annual improvements 2010-2012 Cycle clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The amendment is applied prospectively. This amendment will not impact the Group's financial position or performance. The Group adopted this amendment from 1 April 2015.

#### c) Significant accounting judgments, estimates and assumptions

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

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

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

- Where there is no active market for a financial instrument, fair value is determined using valuation techniques which could require judgement.
- The recovery of the carrying value of goodwill; and
- 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 Group 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 Group's returns.

#### d) Foreign Currencies

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

The foreign currency transactions of each group entity are translated into the functional currency of that entity using the exchange rates prevailing at the date of the transaction. All monetary assets and liabilities in foreign currencies are retranslated at rates of exchange ruling on the reporting date. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in profit and loss. The rate of exchange between the USD and Sterling at the reporting date was 1.4381 (2015: 1.4849).

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (Continued)

##### e) 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").

###### (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.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### e) Operating Income (continued)

###### (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.

##### f) Financial Assets and Liabilities

The Group 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.

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

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

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

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

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.

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

##### (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.

##### (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.

##### g) 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.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### h) Derivatives

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

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

##### i) 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.

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.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### i) Fair Values (continued)

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 Company 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
- 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.



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### j) Derecognition

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

##### k) 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.

##### l) 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.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### l) Collateral and offsetting (Continued)

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.

##### m) 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.

##### n) 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 recognized. Any amount recognized is net of cumulative amortization previously recognized.

##### o) Retirement Benefits

The Bank is a member of a defined benefit scheme comprising certain UK Nomura companies administered by NIP. The defined benefit plan administered by NIP is a plan that shares risks between entities under common control and is run on a basis that does not allow the individual companies participating within the scheme to identify their shares of the underlying assets and liabilities. As a result, the Bank is not required to apply defined benefit accounting and therefore has applied defined contribution accounting to the scheme in accordance with IAS 19 "Employee Benefits". There is no contractual agreement or stated policy for charging the net defined benefit cost to the Bank.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### p) 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.

##### q) Cash flow statement

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

##### r) Cash and cash equivalents

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

##### s) Investments in Group Undertakings

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

##### t) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary undertaking. Subsidiaries are fully consolidated from the date on which control is transferred to the parent company and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiary are prepared for the same accounting period as the parent company, using consistent accounting policies. All intra-group balances, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full. The Bank has no consolidated subsidiaries as of 31 March 2016. The Group has still prepared consolidated financial statements for the years ended 31 March 2015 and 2016.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### t) Basis of consolidation (Continued)

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. The Group does not consolidate any structured entities nor does it have any variable interests in unconsolidated structured entities. The Group does not provide financial support to SPEs beyond its contractual obligations.

##### u) Intangible assets

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

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

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives. The restricted bank licence has a useful life of 35 years. The banking license forms part of the disposal group that has been classified as held for sale so that it is not currently being amortized for the year ended 31 March 2015. The intangible asset was disposed of as part of the sale of the Bank's China subsidiary during the financial year ended 31 March 2016.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

##### w) Segment reporting

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

##### x) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

Held-for-sale assets are generally measured at the lower of their carrying amount and fair value less cost to sell, except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. Whilst a non-current asset is classified as held for sale or forms part of a disposal group that is classified as held for sale then it will not be depreciated or amortised. The Group does not have any operations classified as discontinued operations as at 31 March 2016.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### y) 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 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. Additionally, financial liabilities that are designated at fair value through profit and loss will have their changes in own credit risk recognised directly into other comprehensive income.

The standard is effective for annual periods beginning on or after January 1, 2018. The Group will adopt the new requirements from April 1, 2018.

###### 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. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group will adopt the new requirements from April 1, 2018. The Group is currently assessing the impact of IFRS 15.

###### IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) may be disposed of either through sale or through distribution to owners. The Annual improvements 2012-2014 Cycle clarifies that under IFRS 5 changing from one of these disposal methods to the other should not be considered to be a new plan of disposal; rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively. The Group is currently assessing the impact of these amendments. This improvement is effective for annual periods beginning on or after January 1, 2016. The Bank will adopt the new requirements from April 1, 2016.

###### Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The impact of adopting these amendments is not expected to be material. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group will adopt the new requirements from April 1, 2016.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

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

###### IFRS 7 Financial Instruments Transfers Disclosures - Servicing contracts

IFRS 7 requires the Group to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Annual improvements 2012-2014 Cycle clarifies that servicing contracts can constitute continuing involvements for the purposes of applying these disclosure requirements where the Group retains any of the contractual rights or obligations or obtains any new contractual rights or obligations inherent in the transferred financial asset. The amendment must be applied retrospectively. The impact of adopting these amendments is not expected to be material. This improvement is effective for annual periods beginning on or after January 1, 2016. The Group will adopt the new requirements from April 1, 2016.

###### IFRS 7 Financial Instruments Offsetting Disclosures – Interim Financial Statements

IFRS 7 requires certain disclosures around the offsetting of financial assets and financial liabilities. The Annual improvements 2012-2014 Cycle clarifies that that these IFRS 7 disclosures are not required in the condensed interim financial report. However, IAS 34 requires the Group to disclose an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period'. Therefore, if the IFRS 7 offsetting disclosures provide a significant update to the information reported in the most recent annual report then the disclosures must be included in the Group's condensed interim financial report. The amendment must be applied retrospectively. The impact of adopting these amendments is not expected to be material. This improvement is effective for annual periods beginning on or after January 1, 2016. The Group will adopt the new requirements from April 1, 2016.

###### IAS 34 Interim Financial Reporting

The Annual improvements 2012-2014 Cycle clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference to wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment should be applied retrospectively. The impact of adopting these amendments is not expected to be material. This improvement is effective

for annual periods beginning on or after January 1, 2016. The Group will adopt the new requirements from April 1, 2016.

###### Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 1. ACCOUNTING POLICIES (CONTINUED)

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

- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group will adopt the new requirements from April 1, 2016. These amendments are not expected to have any impact on the Group. The Group is currently assessing the impact of these amendments.

##### Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

##### z) Retained Profit for the year

In accordance with S.408 Companies Act 2006, the Bank has taken advantage of the dispensation not to produce its own statement of comprehensive income. Of the profit transferred to reserves, a gain \$95,055,782 of (2015: \$45,557,653) has been dealt with in the accounts of the Bank.



NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

2. INTEREST INCOME AND EXPENSE

|   | <u>Year ended</u><br><u>31 March 2016</u> | <u>Year ended</u><br><u>31 March 2015</u> |
|---|---|---|
|   | <u>Group</u>                              | <u>Group</u>                              |
|   | \$'000                                    | \$'000                                    |
| <b>Interest Income</b>                      |   |   |
| Interest on deposits                        | 7,778                                     | 4,720                                     |
| Interest on reverse repurchase transactions | 32,347                                    | 46,726                                    |
| Other interest income                       | 443                                       | 127                                       |
|   | <hr/> <b>40,568</b>                       | <hr/> <b>51,573</b>                       |
| <b>Interest Expense</b>                     |   |   |
| Interest to banks and customers             | 78  | 40  |
| Interest on funds borrowed                  | 1,936                                     | 977                                       |
| Interest on repo transactions               | 9,757                                     | 11,648                                    |
| Other interest expense                      | 1,883                                     | 2,041                                     |
|   | <hr/> <b>13,654</b>                       | <hr/> <b>14,706</b>                       |

Of the total interest income, amounts with respect to Nomura Group companies amounted to \$31,470,328 (2015: \$41,132,897). Of the total interest expenses, amounts with respect to Nomura Group companies amounted to \$4,167,824 (2015: \$7,490,313).

3. DEALING GAIN / (LOSS)

|  | <u>Year ended</u><br><u>31 March 2016</u>    | <u>Year ended</u><br><u>31 March 2015</u>    |
|--|--|--|
|  | <u>Group</u><br><u>and</u><br><u>Company</u> | <u>Group</u><br><u>and</u><br><u>Company</u> |
|  | \$'000                                       | \$'000                                       |
| Financial instruments held for trading   | (31,284)                                     | 284,139                                      |
| Financial instruments designated at fair value through profit and loss account | 52,747                                       | (422,758)                                    |
|  | <hr/> <b>21,463</b>                          | <hr/> <b>(138,619)</b>                       |

The impact of changes in own credit risk included in dealing loss on financial instruments designated at fair value through profit and loss was a gain of \$108,884,702 (2015: loss of \$23,172,433).

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.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

4. ADMINISTRATIVE EXPENSES

|   | <u>Year ended</u><br><u>31 March 2016</u> | <u>Year ended</u><br><u>31 March 2015</u> |
|---|---|---|
|   | <u>Group</u><br>\$'000                    | <u>Group</u><br>\$'000                    |
| Wages, salaries and other social security costs | 1,537                                     | 1,710                                     |
| Audit of the financial statements               | 325                                       | 399                                       |
| Audit related assurance services                | 228                                       | 188                                       |
| Support service charges                         | 11,621                                    | 11,589                                    |
| Depreciation and amortisation                   | 11  | 52  |
|   | <hr/> <b>13,722</b> <hr/>                 | <hr/> <b>13,938</b> <hr/>                 |

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 8 (2015: 15). 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 \$270,912 (2015: \$289,091) was borne by NHI.

5. DIRECTORS' EMOLUMENTS

The aggregate emoluments paid to the Directors were \$542,875 (2015: \$325,355).

The highest paid Director received emoluments of \$310,395 (2015: \$165,749). As at 31 March 2016 the accrued pension totalled \$7,598 per annum (2015: \$9,415) and no contributions were made to the Group Personal Pension plan.

The number of Directors who exercised share options during the year was 4 (2015: 2).

The number of Directors entitled to receive shares under a long-term incentive plan during the year was 2 (2015: nil).

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

(a) TAX CHARGE

|  | <u>Year ended</u><br><u>31 March 2016</u> | <u>Year ended</u><br><u>31 March 2015</u> |
|--|---|---|
|  | <u>Group</u>                              | <u>Group</u>                              |
|  | <u>\$'000</u>                             | <u>\$'000</u>                             |
| Current tax:                                       |   |   |
| UK Corporation tax charge at 20% (2015: 21%)       | 23,751                                    | -   |
| Foreign tax suffered                               | 757                                       | 1,073                                     |
| Adjustment in respect of previous periods          | (22)                                      | -   |
|  | <hr/> <b>24,486</b>                       | <hr/> <b>1,073</b>                        |
| Deferred taxation:                                 |   |   |
| Current year temporary differences                 | -   | -   |
| Adjustment in respect of previous periods          | -   | -   |
|  | <hr/> <b>24,486</b>                       | <hr/> <b>1,073</b>                        |
| <b>Tax charge on profit on ordinary activities</b> | <hr/> <b>24,486</b>                       | <hr/> <b>1,073</b>                        |

(b) RECONCILIATION OF CORPORATION TAX CHARGE

|   | <u>Year ended</u><br><u>31 March 2016</u> | <u>Year ended</u><br><u>31 March 2015</u> |
|---|---|---|
|   | <u>Group</u>                              | <u>Group</u>                              |
|   | <u>\$'000</u>                             | <u>\$'000</u>                             |
| Gain/(Loss) on ordinary activities before tax         | <hr/> 120,058                             | <hr/> (44,688)                            |
| UK Corporation tax charge at 20% (2015: 21%)          | 24,010                                    | (9,385)                                   |
| Expenses not deductible for tax purposes              | 1   | 6,510                                     |
| Income not taxable for tax purposes                   | (346)                                     | (78)                                      |
| Unutilised tax losses                                 | -   | 2,878                                     |
| Non-recognition of short-term temporary differences   | 160                                       | 168                                       |
| Foreign tax relief                                    | (75)                                      | (93)                                      |
| Foreign tax suffered                                  | 757                                       | 1,073                                     |
| Adjustments in respect of previous years              | (21)                                      | -   |
|   | <hr/> <b>24,486</b>                       | <hr/> <b>1,073</b>                        |
| <b>Income tax expense reported in profit and loss</b> | <hr/> <b>24,486</b>                       | <hr/> <b>1,073</b>                        |

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)**

**7. RETIREMENT BENEFIT**

The Bank participates in a group scheme which is operated for the former employees of the Bank and certain of its fellow subsidiaries. The scheme is a defined benefit scheme, funded by the payment of contributions to a separately administered trust fund. 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 2016 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 2016 and 31 March 2015 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 Company 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 Company's control. To the extent the right is contingent, no asset is recognised

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

|                             | <u>31 March 2016</u><br><u>Group</u><br><u>and</u><br><u>Company</u><br><u>\$'000</u> | <u>31 March 2015</u><br><u>Group</u><br><u>and</u><br><u>Company</u><br><u>\$'000</u> |
|-----------------------------|---|---|
| Secured lending             | 733,595   | 772,535   |
| Other financial instruments | 109,112   | 109,972   |
|                             | <hr/> <b>842,707</b> <hr/>  | <hr/> <b>882,507</b> <hr/>  |

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

9. DERIVATIVE FINANCIAL INSTRUMENTS

Positive fair values

|                          | <u>31 March 2016</u><br><u>Group</u><br><u>and</u><br><u>Company</u><br><u>\$'000</u> | <u>31 March 2015</u><br><u>Group</u><br><u>and</u><br><u>Company</u><br><u>\$'000</u> |
|--------------------------|---|---|
| Analysis by counterparty |   |   |
| Group companies          | 540,060   | 712,027   |
| Other                    | 4,195   | -   |
|                          | <hr/> <b>544,255</b>  | <hr/> <b>712,027</b>  |

Negative fair values

|                          | <u>31 March 2016</u><br><u>Group</u><br><u>and</u><br><u>Company</u><br><u>\$'000</u> | <u>31 March 2015</u><br><u>Group</u><br><u>and</u><br><u>Company</u><br><u>\$'000</u> |
|--------------------------|---|---|
| Analysis by counterparty |   |   |
| Group companies          | 1,391,133   | 995,404   |
| Other                    | 143,265   | 359,621   |
|                          | <hr/> <b>1,534,398</b>  | <hr/> <b>1,355,025</b>  |

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

10. 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<br>2016<br>\$'000 | Carrying value of associated liabilities<br>2016<br>\$'000 | Fair value of transferred assets<br>2015<br>\$'000 | Carrying value of associated liabilities<br>2015<br>\$'000 |
|---|--|--|--|--|
| Relating to securities agreements to repurchase | 2,297,215  | (1,150,000)  | 1,800,379  | (1,128,005)  |
| <b>Total Assets transferred</b>                 | <b>2,297,215</b>                                   | <b>(1,150,000)</b>   | <b>1,800,379</b>                                   | <b>(1,128,005)</b>   |

*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<br>2016<br>\$'000 | Carrying value of associated assets<br>2016<br>\$'000 | Fair value of the collateral received<br>2015<br>\$'000 | Carrying value of associated assets<br>2015<br>\$'000 |
|---|---|---|---|---|
| Relating to securities agreements to repurchase | 10,077,487  | 7,702,901   | 9,643,217   | 8,065,508   |
| <b>Total Collateral Received</b>                | <b>10,077,487</b>                                       | <b>7,702,901</b>                                      | <b>9,643,217</b>  | <b>8,065,508</b>                                      |

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

The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange, or other financial assets. These transactions are conducted under terms based on the applicable repo master agreement. If the securities increase or decrease in value the Bank may, in certain circumstances, require, or be required, to pay additional cash collateral. The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for the cash received as collateral. Generally, the counterparty's recourse is not limited to the transferred assets. The carrying value and the fair value of securities under agreements to repurchase are the same.

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)**

**10. TRANSFERRED FINANCIAL ASSETS AND ASSETS HELD OR PLEDGED AS COLLATERAL (CONTINUED)**

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.

**11. GOODWILL AND OTHER INTANGIBLE ASSETS**

|  | Goodwill<br>\$'000 | Other intangible<br>assets<br>\$'000 | Total<br>\$'000 |
|--|--------------------|--------------------------------------|-----------------|
| Cost:  |                    |                                      |                 |
| At 31 March 2015                               | 59,590             | 2,700                                | 62,290          |
| Additions                                      |                    |                                      |                 |
| Disposals                                      |                    |                                      |                 |
| Deconsolidation of the Bank's China subsidiary | (59,590)           | (2,700)                              | (62,290)        |
| <b>At 31 March 2016</b>                        | <b>-</b>           | <b>-</b>                             | <b>-</b>        |
| Amortisation and impairment:                   |                    |                                      |                 |
| At 31 March 2015                               | (59,590)           | (2,338)                              | (61,928)        |
| Amortisation Charge for the year               |                    |                                      |                 |
| Impairment loss for the year                   |                    |                                      |                 |
| Deconsolidation of the Bank's China subsidiary | 59,590             | 2,338                                | 61,928          |
| <b>At 31 March 2016</b>                        | <b>-</b>           | <b>-</b>                             | <b>-</b>        |
| Net book value:                                |                    |                                      |                 |
| At 31 March 2016                               | -                  | -                                    | -               |

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

11. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

|                                  | Goodwill<br>\$'000 | Other intangible<br>assets<br>\$'000 | Total<br>\$'000 |
|----------------------------------|--------------------|--------------------------------------|-----------------|
| Cost:                            |                    |                                      |                 |
| At 31 March 2014                 | 59,590             | 2,700                                | 62,290          |
| Additions                        | -                  | -                                    | -               |
| Disposals                        | -                  | -                                    | -               |
| <b>At 31 March 2015</b>          | <b>59,590</b>      | <b>2,700</b>                         | <b>62,290</b>   |
| Amortisation and impairment:     |                    |                                      |                 |
| At 31 March 2014                 | (28,640)           | (167)                                | (28,807)        |
| Amortisation Charge for the year | -                  | (45)                                 | (45)            |
| Impairment loss for the year     | (30,950)           | (2,126)                              | (33,076)        |
| <b>At 31 March 2015</b>          | <b>(59,590)</b>    | <b>(2,338)</b>                       | <b>(61,928)</b> |
| Net book value:                  |                    |                                      |                 |
| At 31 March 2015                 | -                  | 362*                                 | 362*            |

\*Balance has been reported under Assets classified as held for sale

The intangible asset represents the China banking license that was included in the acquisition of the Bank's China subsidiary for the year ended 31 March 2015. As part of the Nomura Group's ongoing reviews of its legal entity strategy, the Bank's investment in its Chinese subsidiary was reviewed for impairment during the period. Following this, in March 2015 the goodwill and intangible assets relating to this investment had been impaired by \$30,950,205 and \$2,126,147 respectively, resulting in the Bank reporting an overall impairment loss of \$33,076,352.

The intangible asset has been derecognised for the year ended 31 March 2016 due to the deconsolidation of the Bank's China subsidiary following its disposal during the year.



**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)**

**12. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS**

|  | <u>31 March 2016</u><br><u>Group</u><br><u>and</u><br><u>Company</u><br><u>\$'000</u> | <u>31 March 2015</u><br><u>Group</u><br><u>and</u><br><u>Company</u><br><u>\$'000</u> |
|--|---|---|
| Bonds and medium- term notes, by remaining maturity: |   |   |
| - Less than 1 year                                   | 917,724   | 1,264,599   |
| - Less than 5 years but greater than 1 year          | 1,555,664   | 2,126,599   |
| - Greater than 5 years                               | 3,746,416   | 2,579,145   |
|  | <hr/> 6,219,804   | <hr/> 5,970,343   |
| Borrowings   | 51,273  | 49,947  |
| Other financial instruments                          | 4,479   | 3,245   |
|  | <hr/> <b>6,275,556</b>  | <hr/> <b>6,023,535</b>  |

As of 31 March 2016, 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 \$195,574,131 (2015: \$159,679,414) more than the principal balance of such long-term borrowings.

The impact of changes in own credit risk included in dealing gain on financial liabilities designated at fair value through profit and loss account was a gain of \$108,884,702 (2015: loss of \$23,172,433). The valuation adjustment resulting from own credit, included in the fair values of bonds and medium notes in the statement of financial position, is a debit of \$9,451,518 at 31 March 2016 (2015: credit of \$99,433,184). The Bank calculates and applies an own credit adjustment based on movements in the credit spread of the Nomura Group.

**13. OTHER LIABILITIES**

|                     | <u>31 March 2016</u><br><u>Group</u><br><u>\$'000</u> | <u>31 March 2015</u><br><u>Group</u><br><u>\$'000</u> |
|---------------------|---|---|
| Foreign tax payable | (95)  | 64  |
| Other payables      | 124   | 24,007  |
|                     | <hr/> 29  | <hr/> 24,071  |

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

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

14. DEFERRED TAXATION

|                         | <u>Deferred tax</u><br><u>balance</u>    | <u>Income</u><br><u>statement</u><br><u>effect</u> | <u>Deferred tax</u><br><u>balance</u>    | <u>Income</u><br><u>statement effect</u><br><u>31 March 2015</u> |
|-------------------------|--|--|--|--|
|                         | <u>31 March</u><br><u>2016</u><br>\$'000 | <u>31 March</u><br><u>2016</u><br>\$'000           | <u>31 March</u><br><u>2015</u><br>\$'000 | \$'000   |
| Capital allowances      | (110)                                    | 11   | (121)                                    | (1)  |
| IAS 39 adjustment       | -  | (159)  | 159                                      | (159)  |
| Unutilised tax losses   | (70,534)                                 | 7,837  | (78,371)                                 | (2,670)  |
| Capital losses          | (10,583)                                 | (10,583)   | -  | -  |
| Unprovided deferred tax | 81,227                                   | 2,894  | 78,333                                   | 2,830  |
|                         | -  | -  | -  | -  |

On disposal of Bank's subsidiary, tax capital losses of \$58,794,519 arise. Given future uncertainty surrounding capital gains, deferred tax asset has not been recognised on these capital losses.

A deferred tax asset of \$70,644,372 (2015:\$78,333,407) has not been recognised on the trading losses and other timing differences given the uncertainty surrounding future taxable profits.

Deferred tax has been disclosed at 18% in the accounts (2015: 20%) reflecting the reduction in the UK corporation tax rate to 18% which takes effect from 1 April 2020 and which was enacted by the balance sheet date. A further 1% reduction to 17% effective 1st April 2020 has been announced but not substantially enacted at the balance sheet date. The potential impact to this 1% reduction will be to reduce the unrecognised deferred tax asset by \$4,512,632

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) Bill 2015, which was substantially enacted on 26 March 2015. A further restriction to 25% on the on the amount of taxable profits that can be relieved by brought forward losses has been announced but not substantially enacted at the balance sheet date.

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)**

**15. ASSETS CLASSIFIED AS HELD FOR SALE**

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

| <b>Name of subsidiary</b>      | <b>Country of incorporation</b> | <b>Nature of business</b> | <b>% equity interest at 31 March 2016</b> | <b>% equity interest at 31 March 2015</b> |
|--------------------------------|---------------------------------|---------------------------|---|---|
| Starbright Finance Co. Limited | China                           | Banking                   | N.A                                       | 100                                       |

For the year ended 31 March 2015, as part of the Nomura Group's review of its legal entity strategy, the Bank had classified its investment in this subsidiary as held for sale; hence it is measured at the lower of its carrying amount or fair value less costs to sell. As a result, the Bank recognised an impairment loss of \$33,076,351 of which \$30,950,205 was allocated to its goodwill and \$2,126,147 was allocated to Intangible Assets.

The carrying amounts of the major classes of assets and liabilities of the Bank's subsidiary, post the impairment event, as at 31 March 2015 are as follows:

|  | <b>Carrying amount</b> |
|--|------------------------|
|  | \$'000                 |
| Assets                                     |                        |
| Loans and advances to banks                | 19,190                 |
| Intangible assets                          | 362                    |
| Other Asset                                | 423                    |
| Total assets                               | <u>19,975</u>          |
| Liabilities                                |                        |
| Other liabilities                          | (225)                  |
| Total liabilities                          | <u>(225)</u>           |
| Net Assets of Held for sale disposal group | <u>19,750</u>          |

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

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)**

**16. DISPOSAL OF SUBSIDIARY**

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

The carrying amounts of the major classes of assets and liabilities of the subsidiary, post the impairment event, as at the date of the disposal is as follows:

|   | <b>Carrying amount</b> |
|---|------------------------|
|   | \$'000                 |
| Assets  |                        |
| Loans and advances to banks                         | 20,174                 |
| Intangible assets                                   | 356                    |
| Other Asset   | 166                    |
| Total assets  | <u>20,696</u>          |
| Liabilities   |                        |
| Other liabilities                                   | (135)                  |
| Total liabilities                                   | <u>(135)</u>           |
| Net Assets  | 20,561                 |
| Gain on sale  | 644                    |
| Cash consideration received                         | 21,205                 |
| Net cash and cash equivalents in subsidiary         | <u>20,174</u>          |
| Net cash inflow from the disposal of the subsidiary | <u>1,031</u>           |

As such, as at 31 March 2016, the Bank did not have any subsidiaries.

**17. SHARE CAPITAL**

| <u>31 March 2016</u>                  | <u>Authorised<br/>Number<br/>'000</u> | <u>Allotted and fully paid<br/>Number<br/>'000</u> | <u>Consideration<br/>\$'000</u> |
|---------------------------------------|---------------------------------------|--|---------------------------------|
| US Dollar Ordinary shares of \$1 each | 555,000                               | 555,000  | 555,000                         |
| <u>31 March 2015</u>                  | <u>Authorised<br/>Number<br/>'000</u> | <u>Allotted and fully paid<br/>Number<br/>'000</u> | <u>Consideration<br/>\$'000</u> |
| US Dollar Ordinary shares of \$1 each | 555,000                               | 555,000  | 555,000                         |

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 18. 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 UK-regulated entities is coordinated and challenged by the Financial and Regulator Control functions within EMEA Finance. The Financial and Regulatory Control functions are also responsible for monitoring compliance with capital usage limits to ensure capital adequacy targets are met.

###### *Treasury Department*

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

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 18. 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.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 18. 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 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 the value 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(f) (ii) management designates such debt instruments, together with related non-derivative hedges, as fair value through profit and loss. Related derivative hedges are accounted for as Held for Trading items.

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)**

**18. 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:

| <b><u>31 March 2016:</u></b>   | <b><u>Equity Risk</u></b><br><b><u>\$'000</u></b> | <b><u>Credit Risk</u></b><br><b><u>\$'000</u></b> | <b><u>Total</u></b><br><b><u>\$'000</u></b> |
|--|---|---|---|
| Financial instruments designated at fair value through profit and loss and held for trading: |   |   |   |
| - Financial liabilities  | (1,150,985)                                       | (5,323,815)                                       | (6,474,800)                                 |
| Financial instruments designated at fair value through profit and loss:                      |   |   |   |
| - Financial assets   | 733,595   | -   | 733,595                                     |
| Financial instruments held for trading:  |   |   |   |
| - Derivative Financial Instruments:  |   |   |   |
| - Fixed income and credit derivatives  |   | 5,323,815   | 5,323,815                                   |
| - Equity derivatives   | 417,390   | -   | 417,390                                     |
|  | -   | -   | -   |
| <b><u>31 March 2015:</u></b>   | <b><u>Equity Risk</u></b><br><b><u>\$'000</u></b> | <b><u>Credit Risk</u></b><br><b><u>\$'000</u></b> | <b><u>Total</u></b><br><b><u>\$'000</u></b> |
| Financial instruments designated at fair value through profit and loss and held for trading: |   |   |   |
| - Financial liabilities  | (1,451,046)                                       | (5,189,617)                                       | (6,640,663)                                 |
| Financial instruments designated at fair value through profit and loss:                      |   |   |   |
| - Financial assets   | 772,535   | -   | 772,535                                     |
| Financial instruments held for trading:  |   |   |   |
| - Derivative Financial Instruments:  |   |   |   |
| - Fixed income and credit derivatives  | -   | 5,189,617   | 5,189,617                                   |
| - Equity derivatives   | 678,511   | -   | 678,511                                     |
|  | -   | -   | -   |



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 18. 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 2016, the Bank had no significant exposure to fair value interest rate risk.

##### a) 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 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 including margin terms; and
- Use of appropriate credit risk mitigants including netting, collateral and hedging.

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)**

**18. 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(l), 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 2016 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 2016 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.

|                               | <u>Maximum Exposure<br/>to Credit Risk</u> | <u>Maximum Exposure to<br/>Credit Risk</u> |
|-------------------------------|--|--|
|                               | <u>31 March 2016</u>                       | <u>31 March 2015</u>                       |
|                               | \$’000                                     | \$’000                                     |
| Financial guarantee contracts | 370,493                                    | 271,101                                    |

The Bank receives a combination of cash and securities collateral from NIP with respect to its net derivative exposure with NIP. At 31 March 2016, cash received amounted to \$423,288,877 and as at 31 March 2015 the Bank received cash amounted to \$478,588,545. Taking into account collateral and other credit enhancements, the Bank’s

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)**

**18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

significant credit risk is to NIP. The Bank benefits from a written guarantee from its ultimate parent, NHI, over its exposure to NIP.

**Off balance sheet commitments**

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

|  | <u>Maximum Exposure<br/>to Credit Risk<br/>31 March 2016</u><br>\$'000 | <u>Maximum Exposure<br/>to Credit Risk<br/>31 March 2015</u><br>\$'000 |
|--|--|--|
| <b>Financial Assets</b>  |  |  |
| AA   | 1,395  | 4,480  |
| A  | 2,840  | 32,814   |
| BBB  | 10,119,174   | 9,800,820  |
| Not rated  | 7,973  | 14,706   |
| <b>Total</b>   | <b>10,131,382</b>  | <b>9,852,820</b>   |
| <b>Off balance sheet commitments and financial guarantee contracts</b> |  |  |
| A  | 723,825  | 674,957  |
| BBB  | 688,466  | 599,771  |
| BB   | -  | 10,000   |
| B  | 127,247  | 76,849   |
| Not Rated  | 39,652   | -  |
| <b>Total</b>   | <b>1,579,190</b>   | <b>1,361,577</b>   |
| <b>Total exposure to credit risk by credit rating</b>                  | <b>11,710,572</b>  | <b>11,214,394</b>  |

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

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 18. FINANCIAL RISK MANAGEMENT (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<sup>st</sup> March 2016 as well as 31<sup>st</sup> March 2015.

##### 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.

#### b) 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 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 one year 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 that may be sold or pledged to provide liquidity called "the liquidity pool".

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

##### **Contractual Maturity Table**

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

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

| <u>31 March 2016:</u>   | <u>On demand</u> | <u>Less than 30 days</u> | <u>31 days - 1 year</u> | <u>1-5 year</u> | <u>Later than 5 years</u> | <u>Total</u>      |
|---|------------------|--------------------------|-------------------------|-----------------|---------------------------|-------------------|
| <u>Group</u>  | <u>\$'000</u>    | <u>\$'000</u>            | <u>\$'000</u>           | <u>\$'000</u>   | <u>\$'000</u>             | <u>\$'000</u>     |
| <b>Financial assets</b>   |                  |                          |                         |                 |                           |                   |
| Loans and advances to banks                                       | 5,372            | -                        | -                       | -               | -                         | 5,372             |
| All other loans and advances                                      | 1,765            | -                        | 89,765                  | -               | -                         | 91,530            |
| Loans and advances to affiliates                                  | -                | 900,000                  | 370                     | -               | -                         | 900,370           |
| Financial assets designated at fair value through profit and loss |                  |                          |                         |                 |                           |                   |
| - Secured lending   | -                | 5,356                    | 390,755                 | 306,427         | 31,057                    | 733,595           |
| - Other financial instruments                                     | -                | -                        | -                       | 4,479           | 104,633                   | 109,112           |
| Securities purchased under agreement to resell                    | 4,497,268        | 675,355                  | 2,369,508               | 160,770         | -                         | 7,702,901         |
| Available-for-sale financial investments                          | -                | -                        | -                       | -               | 11                        | 11                |
| Derivatives held for trading                                      | 538,829          | -                        | 5,426                   | -               | -                         | 544,255           |
| Assets classified as held for Sale                                | -                | -                        | -                       | -               | -                         | -                 |
| Other asset categories  | 44,214           | -                        | -                       | -               | 22                        | 44,236            |
| <b>Total assets</b>   | <b>5,087,448</b> | <b>1,580,711</b>         | <b>2,855,824</b>        | <b>471,676</b>  | <b>135,723</b>            | <b>10,131,382</b> |

| <u>31 March 2015:</u>   | <u>On Demand</u> | <u>Less than 30 days</u> | <u>31 days - 1 year</u> | <u>1-5 year</u>  | <u>Later than 5 years</u> | <u>Total</u>     |
|---|------------------|--------------------------|-------------------------|------------------|---------------------------|------------------|
| <u>Group</u>  | <u>\$'000</u>    | <u>\$'000</u>            | <u>\$'000</u>           | <u>\$'000</u>    | <u>\$'000</u>             | <u>\$'000</u>    |
| <b>Financial assets</b>   |                  |                          |                         |                  |                           |                  |
| Loans and advances to banks                                       | 21,913           | -                        | -                       | -                | -                         | 21,913           |
| All other loans and advances                                      | -                | -                        | -                       | 93,940           | -                         | 93,940           |
| Loans and advances to affiliates                                  | -                | -                        | -                       | 348              | 30,000                    | 30,348           |
| Financial assets designated at fair value through profit and loss |                  |                          |                         |                  |                           |                  |
| - Secured lending   | -                | 1,399                    | 62,605                  | 671,730          | 36,801                    | 772,535          |
| - Other financial instruments                                     | -                | -                        | -                       | 7,205            | 102,767                   | 109,972          |
| Securities purchased under agreement to resell                    | 3,909,116        | -                        | 3,156,392               | 1,000,000        | -                         | 8,065,508        |
| Available-for-sale financial investments                          | -                | -                        | -                       | -                | 11                        | 11               |
| Derivatives held for trading                                      | 623,928          | -                        | 88,099                  | -                | -                         | 712,027          |
| Assets classified as held for Sale                                | 19,975           | -                        | -                       | -                | -                         | 19,975           |
| Other asset categories  | 26,563           | -                        | -                       | -                | 28                        | 26,591           |
| <b>Total assets</b>   | <b>4,601,495</b> | <b>1,399</b>             | <b>3,307,096</b>        | <b>1,773,223</b> | <b>169,607</b>            | <b>9,852,820</b> |

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)**

**18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Contractual Maturity Table**

The table below shows the Bank's liabilities by remaining contractual maturity, taking into account early redemption features. Derivatives and other instruments containing embedded derivatives including structured note issuances and other financial liabilities designated at fair value are presented at their fair values. Derivatives are disclosed at fair value on demand with the exception of gross settled derivatives, which are shown by contractual maturity remaining. Financial liabilities designated at fair value are disclosed based on their earliest redemption date. Given the complex nature of the Bank's financial liabilities designated at fair value and the volatility in relation to the performance of the underlying instruments, fair value is deemed an appropriate measure of the contractual amount at maturity.

| <b>31 March 2016:</b>   | <b><u>On</u><br/><u>demand</u></b> | <b><u>Less</u><br/><u>than 30</u><br/><u>days</u></b> | <b><u>31 days -</u><br/><u>1 year</u></b> | <b><u>1-5</u><br/><u>year</u></b> | <b><u>Later</u><br/><u>than 5</u><br/><u>years</u></b> | <b><u>Total</u></b>  |
|---|------------------------------------|---|---|-----------------------------------|--|----------------------|
| <b>Group</b>  | <b><u>\$'000</u></b>               | <b><u>\$'000</u></b>                                  | <b><u>\$'000</u></b>                      | <b><u>\$'000</u></b>              | <b><u>\$'000</u></b>                                   | <b><u>\$'000</u></b> |
| <b>Financial liabilities</b>  |                                    |   |   |                                   |  |                      |
| Customer accounts   | 187                                | -   | -   | -                                 | -  | 187                  |
| Borrowing from affiliates   | 423,289                            | 33,000  | 13,634                                    | -                                 | 63,972   | 533,895              |
| Borrowing from others   | -                                  | -   | 5,687                                     | 38,956                            | 7,165  | 51,808               |
| Financial liabilities designated at fair value through profit and loss  |                                    |   |   |                                   |  |                      |
| - Bonds and medium-term notes   | -                                  | 130,926   | 786,797                                   | 1,555,665                         | 3,746,416  | 6,219,804            |
| - Other financial instruments   | -                                  | -   | -   | 4,479                             | -  | 4,479                |
| - Borrowing   | -                                  | -   | 51,273                                    | -                                 | -  | 51,273               |
| Derivative held for trading   | 1,472,635                          | -   | 61,763                                    | -                                 | -  | 1,534,398            |
| Securities sold under agreements to repurchase                          | -                                  | -   | -   | 1,150,000                         | -  | 1,150,000            |
| Liabilities directly associated with assets classified as held for sale | -                                  | -   | -   | -                                 | -  | -                    |
| Other liability categories  | 58,907                             | -   | -   | -                                 | -  | 58,907               |
| <b>Total liabilities</b>  | <b>1,955,018</b>                   | <b>163,926</b>  | <b>919,154</b>                            | <b>2,749,100</b>                  | <b>3,817,553</b>                                       | <b>9,604,751</b>     |
| Other Commitments   | 370,493                            |   |   | 539,988                           | 118,959  | 1,029,440            |
| Standby letters of credit issued  |                                    |   |   | 213,750                           | 336,000  | 549,750              |

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

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

| <u>31 March 2015:</u>   | <u>On demand</u> | <u>Less than 30 days</u> | <u>31 days - 1 year</u> | <u>1-5 year</u>  | <u>Later than 5 years</u> | <u>Total</u>     |
|---|------------------|--------------------------|-------------------------|------------------|---------------------------|------------------|
| Group   | <u>\$'000</u>    | <u>\$'000</u>            | <u>\$'000</u>           | <u>\$'000</u>    | <u>\$'000</u>             | <u>\$'000</u>    |
| <b>Financial liabilities</b>  |                  |                          |                         |                  |                           |                  |
| Customer accounts   | 177              | -                        | -                       | -                | -                         | 177              |
| Borrowing from affiliates   | 478,589          | 72,000                   | 33,634                  | -                | 83,223                    | 667,446          |
| Borrowing from others   | -                | 881                      | 158,210                 | 15,744           | 4,184                     | 179,019          |
| Financial liabilities designated at fair value through profit and loss  |                  |                          |                         |                  |                           |                  |
| - Bonds and medium-term notes   | -                | 449,797                  | 814,802                 | 2,126,600        | 2,579,144                 | 5,970,343        |
| - Other financial instruments   | -                | -                        | -                       | 3,245            | -                         | 3,245            |
| - Borrowing   | -                | -                        | 49,947                  | -                | -                         | 49,947           |
| Derivative held for trading   | 1,316,513        | -                        | 38,512                  | -                | -                         | 1,355,025        |
| Securities sold under agreements to repurchase                          | -                | -                        | 128,005                 | 1,000,000        | -                         | 1,128,005        |
| Liabilities directly associated with assets classified as held for sale | 225              | -                        | -                       | -                | -                         | 225              |
| Other liability categories  | 68,434           | -                        | -                       | -                | -                         | 68,434           |
| <b>Total liabilities</b>  | <b>1,863,938</b> | <b>522,678</b>           | <b>1,223,110</b>        | <b>3,145,589</b> | <b>2,666,551</b>          | <b>9,421,866</b> |
| Other Commitments   | 271,102          | -                        | 10,000                  | 487,793          | 58,934                    | 827,829          |
| Standby letters of credit issued  | -                | -                        | -                       | 238,750          | 295,000                   | 533,750          |

c) Operational Risk

The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. 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 and External Audit, who provide independent assurance

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

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

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.

#### 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 in place, which define the process and validation procedures required in order to implement new or amend existing valuation and risk models. Before models are put into official use, the Model Validation Group ("MVG") is responsible for validating their integrity and comprehensiveness independently from those who design and build them. All models are also subject to an annual re-approval process by MVG to ensure they remain suitable. For changes with an impact above certain materiality thresholds, model approval is required.

#### f) **Business Risk**

Business risk is the risk of failure of revenues to cover costs due to deterioration in the earnings environment or deterioration in the efficiency or effectiveness of Nomura's business operations. Managing business risk is the responsibility of Nomura's Executive Managing Directors and Senior Managing Directors.



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- a) The fair value of loans and receivables and other liabilities due within 12 months are assumed to approximate to their carrying values.
- b) Financial assets classified as available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated using a valuation model.
- c) Financial assets and liabilities designated at fair value through profit and loss and derivatives are measured at fair value by reference to quoted market prices when available. Such models are based wherever possible on assumptions supported by observable market prices or rates. These valuation techniques are based on assumptions. As a result, the fair value calculated using these valuation techniques will change if the underlying assumptions change. The potential impact of using reasonably possible alternative assumptions to value these financial instruments has not been disclosed as, due to the Bank's transfer of risks to other Nomura Group companies, it is not deemed significant.

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

##### Fair value hierarchy

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

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

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

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Group

Fair value hierarchy – Assets

| <u>31 March 2016:</u>  | <u>Level 1</u><br>\$'000 | <u>Level 2</u><br>\$'000 | <u>Level 3</u><br>\$'000 | <u>Total</u><br>\$'000 |
|--|--------------------------|--------------------------|--------------------------|------------------------|
| <b>Financial assets</b>  |                          |                          |                          |                        |
| Financial assets held for trading:                                 |                          |                          |                          |                        |
| - Derivatives  | -                        | 361,465                  | 182,790                  | 544,255                |
| Financial assets designated at fair value through profit and loss: |                          |                          |                          |                        |
| - Secured lending  | -                        | 733,595                  | -                        | 733,595                |
| - Other financial instruments                                      | -                        | 7,980                    | 101,132                  | 109,112                |
|  | -                        | <b>1,103,040</b>         | <b>283,922</b>           | <b>1,386,962</b>       |
| <br>   |                          |                          |                          |                        |
| <u>31 March 2015:</u>  | <u>Level 1</u><br>\$'000 | <u>Level 2</u><br>\$'000 | <u>Level 3</u><br>\$'000 | <u>Total</u><br>\$'000 |
| <b>Financial assets</b>  |                          |                          |                          |                        |
| Financial assets held for trading:                                 |                          |                          |                          |                        |
| - Derivatives  | -                        | 548,524                  | 163,503                  | 712,027                |
| Financial assets designated at fair value through profit and loss: |                          |                          |                          |                        |
| - Secured lending  | -                        | 772,535                  | -                        | 772,535                |
| - Other financial instruments                                      | -                        | 7,209                    | 102,763                  | 109,972                |
|  | -                        | <b>1,328,268</b>         | <b>266,266</b>           | <b>1,594,534</b>       |

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Group

Fair value hierarchy – Liabilities

| <u>31 March 2016:</u>   | <u>Level 1</u> | <u>Level 2</u>   | <u>Level 3</u> | <u>Total</u>     |
|---|----------------|------------------|----------------|------------------|
|   | <u>\$'000</u>  | <u>\$'000</u>    | <u>\$'000</u>  | <u>\$'000</u>    |
| <b>Financial Liabilities</b>  |                |                  |                |                  |
| Financial liabilities held for trading:                                 |                |                  |                |                  |
| - Derivatives   | -              | 1,124,093        | 410,305        | 1,534,398        |
| 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   | -              | 4,479            | -              | 4,479            |
|   | -              | <b>7,399,649</b> | <b>410,305</b> | <b>7,809,954</b> |

| <u>31 March 2015:</u>   | <u>Level 1</u> | <u>Level 2</u>   | <u>Level 3</u> | <u>Total</u>     |
|---|----------------|------------------|----------------|------------------|
|   | <u>\$'000</u>  | <u>\$'000</u>    | <u>\$'000</u>  | <u>\$'000</u>    |
| <b>Financial Liabilities</b>  |                |                  |                |                  |
| Financial liabilities held for trading:                                 |                |                  |                |                  |
| - Derivatives   | -              | 984,520          | 370,505        | 1,355,025        |
| Financial liabilities designated at fair value through profit and loss: |                |                  |                |                  |
| - Bonds and medium-term notes   | -              | 49,947           | -              | 49,947           |
| - Other   | -              | 3,245            | -              | 3,245            |
|   | -              | <b>7,008,055</b> | <b>370,505</b> | <b>7,378,560</b> |

**Level 3 financial assets and financial liabilities**

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

These financial instruments are often hedged with instruments within level 1 or level 2 of the fair value hierarchy and the gains or losses below do not reflect the offsetting gains or losses for these hedging instruments. Additionally, due to these hedging arrangements no effect of reasonably possible alternative assumptions has been disclosed as a change in any assumption would cause a similar offsetting effect to the hedging instruments' fair value. Level 3 instruments are also measured using both observable and unobservable inputs. Fair value changes presented below, therefore, reflect realised and unrealised gains and losses resulting from movements in both observable and unobservable parameters.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

| <u>31 March 2016:</u><br><u>Group</u>                           | <u>At 1 April</u><br><u>2015</u> | <u>Total</u><br><u>gains</u><br><u>(losses) in</u><br><u>P&amp;L</u> | <u>Net</u><br><u>cash</u><br><u>(in)/out</u> | <u>Settle-</u><br><u>ments</u> | <u>Net</u><br><u>transfers</u><br><u>in/(out) of</u><br><u>level 3</u> | <u>At</u><br><u>31 March</u><br><u>2016</u> | <u>Unrealised</u><br><u>Total gains</u><br><u>(losses) in</u><br><u>P&amp;L</u> |
|---|----------------------------------|--|--|--------------------------------|--|---|---|
| <b>\$'000s</b>  |                                  |  |  |                                |  |   |   |
| <b>Financial assets</b>   |                                  |  |  |                                |  |   |   |
| Financial assets held for trading:                              |                                  |  |  |                                |  |   |   |
| - Equity Securities   | -                                | -  | -  | -                              | -  | -   | -   |
| - Derivatives   | 163,503                          | 25,606   | -  | (6,253)                        | (66)   | 182,790                                     | (5,668)   |
| Financial assets designated fair value through profit and loss: |                                  |  |  |                                |  |   |   |
| - Loans and receivables   | 102,763                          | (1,631)  | -  | -                              | -  | 101,132                                     | (1,630)   |
|   | 266,266                          | 23,975   | -  | (6,253)                        | (66)   | 283,922                                     | (7,298)   |
| <b>31 March 2015:</b>   |                                  |  |  |                                |  |   |   |
| <u>Group</u>  | <u>At 1 April</u><br><u>2014</u> | <u>Total</u><br><u>gains</u><br><u>(losses) in</u><br><u>P&amp;L</u> | <u>Net</u><br><u>cash</u><br><u>(in)/out</u> | <u>Settle-</u><br><u>ments</u> | <u>Net</u><br><u>transfers</u><br><u>in/(out) of</u><br><u>level 3</u> | <u>At</u><br><u>31 March</u><br><u>2015</u> | <u>Unrealised</u><br><u>Total gains</u><br><u>(losses) in</u><br><u>P&amp;L</u> |
| <b>\$'000s</b>  |                                  |  |  |                                |  |   |   |
| <b>Financial assets</b>   |                                  |  |  |                                |  |   |   |
| Financial assets held for trading:                              |                                  |  |  |                                |  |   |   |
| - Equity Securities   | 565                              | -  | -  | (565)                          | -  | -   | -   |
| - Derivatives   | 197,713                          | (10,759)   | -  | 22,156                         | (45,607)   | 163,503                                     | (32,732)  |
| Financial assets designated fair value through profit and loss: |                                  |  |  |                                |  |   |   |
| - Loans and receivables   | 213,713                          | 2,401  | (113,351)                                    | -                              | -  | 102,763                                     | 2,392   |
|   | 411,991                          | (8,358)  | (113,351)                                    | 21,591                         | (45,607)   | 266,266                                     | (30,340)  |

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

| <u>31 March 2016:</u><br><u>Group</u>   | <u>At 1 April</u><br><u>2015</u> | <u>Total gains</u><br><u>(losses) in</u><br><u>P&amp;L</u> | <u>Net cash</u><br><u>(in)/out</u> | <u>Settle-</u><br><u>ments</u> | <u>Net</u><br><u>transfers</u><br><u>in/(out) of</u><br><u>level 3</u> | <u>At</u><br><u>31 March</u><br><u>2016</u> | <u>Unrealised</u><br><u>Total gains</u><br><u>(losses) in</u><br><u>P&amp;L</u> |
|---|----------------------------------|--|------------------------------------|--------------------------------|--|---|---|
| <b>\$'000s</b>                          |                                  |  |                                    |                                |  |   |   |
| <b>Financial liabilities</b>            |                                  |  |                                    |                                |  |   |   |
| 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  |
| <b>31 March 2015:</b>                   |                                  |  |                                    |                                |  |   |   |
| <u>Group</u>                            | <u>At 1 April</u><br><u>2014</u> | <u>Total gains</u><br><u>(losses) in</u><br><u>P&amp;L</u> | <u>Net cash</u><br><u>(in)/out</u> | <u>Settle-</u><br><u>ments</u> | <u>Net</u><br><u>transfers</u><br><u>in/(out) of</u><br><u>level 3</u> | <u>At</u><br><u>31 March</u><br><u>2015</u> | <u>Unrealised</u><br><u>Total gains</u><br><u>(losses) in</u><br><u>P&amp;L</u> |
| <b>\$'000s</b>                          |                                  |  |                                    |                                |  |   |   |
| <b>Financial liabilities</b>            |                                  |  |                                    |                                |  |   |   |
| Financial liabilities held for trading: |                                  |  |                                    |                                |  |   |   |
| - Derivatives                           | 423,615                          | 32,316   | -                                  | (128,136)                      | 42,710   | 370,505                                     | (58,997)  |
|   | 423,615                          | 32,316   | -                                  | (128,136)                      | 42,710   | 370,505                                     | (58,997)  |

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.

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 2016 (CONTINUED)**

**20. 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.

| <u>31 March 2016</u><br><u>Group</u>   | <u>Securities</u><br><u>purchased under</u><br><u>agreements to</u><br><u>resell</u> | <u>Secured</u><br><u>lending</u> | <u>Derivatives</u><br><u>Assets</u> | <u>Securities sold</u><br><u>under</u><br><u>agreements to</u><br><u>repurchase</u> | <u>Derivatives</u><br><u>Liabilities</u> | <u>Other</u> |
|--|--|----------------------------------|-------------------------------------|---|--|--------------|
| <b>\$'000s</b>   |  |                                  |                                     |   |  |              |
| Total gross balance <sup>(1)</sup>   | 7,702,901  | 733,595                          | 540,060                             | -   | (965,620)                                | -            |
| Less: Additional amounts not offset in the consolidated balance sheet <sup>(2)</sup> | -  | -                                | -                                   | -   | -  | -            |
| Financial instruments and non-cash collateral  | (7,702,901)  | (733,595)                        | (116,771)                           | -   | 850,366                                  | -            |
| Cash collateral  | -  | -                                | (423,289)                           | -   | -  | -            |
| <b>Net amount</b>  | <b>-</b>   | <b>-</b>                         | <b>-</b>                            | <b>-</b>  | <b>(115,254)</b>                         | <b>-</b>     |

(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.

| <u>31 March 2015</u><br><u>Group</u>   | <u>Securities</u><br><u>purchased under</u><br><u>agreements to</u><br><u>resell</u> | <u>Secured</u><br><u>lending</u> | <u>Derivatives</u><br><u>Assets</u> | <u>Securities sold</u><br><u>under</u><br><u>agreements to</u><br><u>repurchase</u> | <u>Derivatives</u><br><u>Liabilities</u> | <u>Other</u> |
|--|--|----------------------------------|-------------------------------------|---|--|--------------|
| <b>\$'000s</b>   |  |                                  |                                     |   |  |              |
| Total gross balance <sup>(1)</sup>   | 7,937,502  | 772,535                          | 712,027                             | -   | (961,633)                                | -            |
| Less: Additional amounts not offset in the consolidated balance sheet <sup>(2)</sup> | -  | -                                | -                                   | -   | -  | -            |
| Financial instruments and non-cash collateral  | (7,937,502)  | (772,535)                        | (189,097)                           | -   | 961,633                                  | -            |
| Cash collateral  | -  | -                                | (477,826)                           | -   | -  | -            |
| <b>Net amount</b>  | <b>-</b>   | <b>-</b>                         | <b>45,104</b>                       | <b>-</b>  | <b>-</b>                                 | <b>-</b>     |

**NOMURA BANK INTERNATIONAL PLC**

**NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2015 (CONTINUED)**

**21. CAPITAL MANAGEMENT POLICY**

**UK Capital Management**

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

**UK Regulatory Capital**

Regulatory guidelines developed by the Basel Committee and European Union Directives, as implemented by the FCA and PRA for supervisory purposes define two 'Tiers' of capital resources. Tier 1 capital is the highest tier and mainly consists of ordinary share capital and audited retained earnings. The Bank does not currently maintain Tier 2 capital. Capital can be used to support both trading and non-trading activity and all market and counterparty risks

|                                | <u>2016</u>    | <u>2015</u>    |
|--------------------------------|----------------|----------------|
|                                | <u>\$'000s</u> | <u>\$'000s</u> |
| Tier 1 capital                 | 613,944        | 606,734        |
| <b>Total capital resources</b> | <b>613,944</b> | <b>606,734</b> |

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 22. 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 2016 the exposure on these financial guarantee contracts amounted to \$370,492,811 (2015: \$271,101,423).

##### Commitments

The Bank had commitments as at 31 March 2016 amounting to \$1,208,696,648 (2015: \$1,090,475,841) in respect of undrawn note issuance facilities and loan commitments. The loan commitments are sub-participated to NIP on commitment date.

#### 23. 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 \$8,436,496,653 as of 31 March 2016 (2015: \$8,710,037,451). Prepayments including interest receivables owed from NIP amounted to \$1,327,659 as at March 2016 (2015: \$nil)
- 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 \$540,060,118 as of 31 March 2016 (2015: \$712,026,741) and fair value of derivative liabilities with NIP is \$1,391,133,052 (2015: \$995,435,541). 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 \$12,091,300 (2015: \$24,932,934) as of 31 March 2016 and other payables due to NIP of \$103,122,799 (2015: \$120,468,028).
- iv. The Bank advanced a loan to NIP to the amount of \$900,370,008 (2015: \$347,695).



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2016 (CONTINUED)

#### 23. RELATED PARTY TRANSACTIONS (CONTINUED)

- v. The Bank has secured financing payables owing to NIP of \$NIL as of 31 March 2016 (2015: \$128,005,358).
- vi. Interest income includes Interest on Reverse repo with NIP \$31,470,328 (2015: \$41,132,897)
- vii. Interest expense includes Interest on Loan, Repo and Collateral with with NIP \$ 4,074,435 (2015: \$6,678,330)
- viii. Fee income includes arrangement fees received from NIP \$84,719,960 (2015: \$101,392,014)
- ix. Fee expense includes commitment fee expense with NIP \$ 2,545,902 (2015: \$1,518,481)
- x. Administration expense include SLA & Technology charges paid to NIP \$8,894,855 (2015: \$8,628,207)
- xi. The Bank benefits from a written guarantee from its ultimate parent, NHI, over its exposure to NIP
- xii. The Bank's obligation to pay the UK Bank Levy in both the current year and prior year has been settled by NIP, who are responsible for reporting and paying the bank levy on behalf of the Nomura UK tax group

#### b. Transactions with other Nomura group companies

- i. The Bank has borrowings and payable due to other Nomura group companies of \$17,529,697 (2015: \$80,438,377) and receivables from other Nomura group companies of \$33,700,000 (2015: \$30,000,000).

For the years ended 31 March 2016 and 31 March 2015, 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.

#### 24. 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.