

**NOMURA**

**NOMURA BANK INTERNATIONAL PLC**

**ANNUAL REPORT**

**31 MARCH 2010**

COMPANY REGISTERED NUMBER 1981122  
NOMURA BANK INTERNATIONAL plc is an  
authorised institution under the Financial Services  
and Markets Act 2000

# NOMURA BANK INTERNATIONAL PLC

## YEAR ENDED 31 MARCH 2010

### DIRECTORS' REPORT

The Directors present their report and the financial statements of Nomura Bank International plc (the "Bank", or "Company") for the year ended 31 March 2010.

### PRINCIPAL ACTIVITIES

The Bank's primary role is to support the Global Wholesale Business of the Nomura Group (Nomura Holdings Inc. and its consolidated subsidiaries). Its principal activities include:

- Issuance of guaranteed credit and equity linked notes and certificates;
- Provision of sub-participations and structured loans (including bridge and warehouse financing);
- Purchase of structured credit assets and structured loans;
- Traditional banking products such as loans and credit facilities in major currencies, letters of credit and guarantees;
- Taking deposits (including foreign exchange and other reference linked deposits).

The Bank has a branch in Italy, and on 17 March 2010, established a branch in Labuan, Malaysia.

### RESULTS AND DIVIDENDS

The results for the year are set out on page 9. No interim dividend was paid in the year (2009: £ nil). The Directors do not recommend the payment of a final dividend (2009: £ nil).

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

During the year the Bank significantly grew its note issuance and loan businesses.

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

	<u>Year ended</u> <u>31 March 2010</u> £'000	<u>Year ended</u> <u>31 March 2009</u> £'000	<u>Change</u> %
Operating (Loss)/Income	(240,567)	220,688	(209)%
(Loss)/Profit on ordinary activities before taxation	(244,134)	217,997	(212)%
(Loss)/Profit on ordinary activities after taxation	(182,402)	156,958	(216)%
Shareholders' funds	451,089	433,491	4%

The Bank reported a loss on ordinary activities before tax for the period of £244,134,453 (2009: profit of £217,996,810). The significant decrease in profitability is attributable to the impact of tightening credit spreads on the Bank's note issuance business. As the Bank's own credit is included in the fair value of the notes issued, the improvement of the credit market during the year ended 31 March 2010 has impacted the valuation of the Bank's financial liabilities. The impact of own credit included within the loss on ordinary activities before tax was a loss of £244,672,318 (2009: profit of £229,863,936).

At the end of the accounting period, the Company issued additional share capital of £200,000,000 to its existing parent, Nomura Europe Holdings plc ("NEHS") to support continued balance sheet growth.



**NOMURA BANK INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2010****DIRECTORS' REPORT (CONTINUED)**

On 17 March 2010, the Company registered a new branch in Labuan, Malaysia ("Labuan Branch"). The Labuan Branch was granted an offshore banking licence in the Labuan International Business and Financial Centre on 28 June 2010. The Labuan Branch intends to facilitate the marketing of non-MYR OTC derivative products to Malaysian residents.

For the year ending 31 March 2011, the Bank will explore further Asian growth opportunities and continue to focus on and expand its activities to support the Nomura Group's global wholesale business.

**EMPLOYEE MATTERS**

The Bank outsources some of its support services under service level agreements to the related departments of Nomura International plc ("NIP"). Towards the end of the current financial year, the Bank decided to employ its own staff for certain key activities. The number of employees at the end of the financial year totalled eight.

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

The Company operates an equal opportunities policy. The Company has taken steps to ensure all employees are fully aware of their obligations in ensuring that the environment remains an atmosphere that promotes and is conducive to good working and encourages high standards of conduct and work performance. The Company is committed to taking positive action to promote equality of opportunity, which includes provision for disabled people and those who have become disabled whilst employed by the Company.

The Company's recruitment, training and promotion procedures are all based on the requirements of a particular position and appointing the best person for the job.

**RISK MANAGEMENT**

The Bank's market and credit risk is managed through its Credit & Risk Management Committee which is chaired by the Global Head of Investment, Evaluation and Credit. The Bank's operational risk is managed through the Board of Directors and the Executive Management Committee, both of which are attended by the NIP Head of Risks & Controls upon invitation. The Bank's liquidity risk is managed by the Group's Treasury Department. In addition, the Bank's conflicts issues, legal risk, reputational risks and cross border booking risks are managed through the appropriate dedicated committees of NEHS pursuant to its outsourcing arrangements as well as board delegation to the NEHS committees. In addition, the Bank's overall risk is also monitored by the NEHS Board Risk Committee which considers the current risk profile, risk appetite of NEHS and its subsidiaries and ensures the establishment and maintenance of an appropriate risk control framework for the NEHS Group. The Bank's financial risk management objectives and policies are disclosed in note 22.

**ENVIRONMENT**

As a group, Nomura is keen to follow environmental best practice guidelines and do what it can to reduce its environmental impact. Environmental policy is a key consideration in managing our premises. The transformation of our UK head office, Nomura House, through an extensive refurbishment programme and the implementation of an ambitious environmental policy have led to many initiatives that reduce energy consumption and manage waste efficiently. Nomura House was awarded ISO 14001 Certification, the international standard for environmental management systems, demonstrating Nomura's continued commitment to the environment. At our Bank Street premises in Canary Wharf, working with the building management team there, we have developed good energy and waste management practices, as well as developing Nomura lead initiatives to support our commitment. We will shortly be occupying new premises at One Angel Lane, in the City. The building has been designed to the highest standard of environmental performance and has been awarded an "excellent" rating by the Building Research Establishment's BREEAM accreditation system and has also achieved a 'B' rating Energy Performance certificate - one of the highest ratings possible for a London office building.

**NOMURA BANK INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2010****DIRECTORS' REPORT (CONTINUED)****CREDITOR PAYMENT POLICY**

It is the policy of the Company to meet industry standard terms of transaction related payments or to pay in accordance with the terms agreed with suppliers when orders for goods or services are placed. Creditor days as at 31 March 2010 were 14 (2009: 14).

**EVENT SINCE THE BALANCE SHEET DATE**

NBI changed its functional and presentation currency from Sterling to US Dollars with effect from 1 April 2010. The change in the functional currency is reported prospectively from 1 April 2010 with the opening balance sheet and income statement being translated at the US Dollar spot rate of exchange at that date. The change in functional and presentation currency has no financial effect on the Company's financial statement balances or presentation of those balances for the year to 31 March 2010.

**DIRECTORS**

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

David Young*	– Non Executive Director and Chairman (resigned 26 April 2010)
Dame Clara Furse*	– Non Executive Director and Chairman (appointed 26 April 2010)
Antonio Pironti*	– Non Executive Director
Sir Peter Walters*	– Non Executive Director
Kenji Yokoyama	– Director (formerly President and Chief Executive Officer)
John Phizackerley	– President and Chief Executive Officer (appointed 24 June 2009)
Mark Basten	– Director
Mark Chapman	– Director
Paul Spanswick	– Director
Hiroshi Yoshizawa	– Director (resigned 25 May 2010)
Carlo Pellerani	– Director (appointed 8 January 2010)

\* Member of the Audit Committee of the Board

**CORPORATE GOVERNANCE STATEMENT FOR INTERNAL CONTROLS**

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



**NOMURA BANK INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2010****DIRECTORS' REPORT (CONTINUED)****DIRECTORS' INDEMNITIES**

In line with Nomura policy, each of the Directors is granted an indemnity against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

**DONATIONS**

The Bank made no charitable donations during the year (2009: £ nil).

**GOING CONCERN**

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

The directors consider the Company's capital position to be strong, following receipt of the capital injection from its parent company of £200,000,000 to support continued balance sheet growth. Furthermore, the Bank does not assume market risk on its portfolio of issued notes, as all notes and certificates are hedged using derivatives.

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

**DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

The directors who were members of the Board at the time of approving the Directors' Report are listed on the previous page. Having made enquiries of fellow directors and of the Company'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 Company'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 Company's Auditors are aware of the information.

**NOMURA BANK INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2010****DIRECTORS' REPORT (CONTINUED)****AUDITORS**

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

**BY ORDER OF THE BOARD**

Denise Dillon,

Secretary

21 July 2010



**NOMURA BANK INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2010****STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

# **NOMURA BANK INTERNATIONAL PLC**

## **YEAR ENDED 31 MARCH 2010**

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

We have audited the financial statements of Nomura Bank International Plc ("the Company") for the year ended 31 March 2010 which comprise the Profit and Loss Account, Reconciliation of Movement in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 (APB's) Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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



**NOMURA BANK INTERNATIONAL PLC****YEAR ENDED 31 MARCH 2010****INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOMURA BANK  
INTERNATIONAL PLC (CONTINUED)****MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

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

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

Ernst & Young LLP

David Canning-Jones (Senior statutory auditor)

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

London

27 July 2010

**NOMURA BANK INTERNATIONAL PLC**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 MARCH 2010**

Note	<u>Year ended</u> <u>31 March 2010</u>		<u>Year ended</u> <u>31 March 2009</u>	
	£'000	£'000	£'000	£'000
<b>INCOME</b>				
2	Interest receivable and similar income	95,054	90,092	
2	Interest payable and similar charges	(35,092)	(32,654)	
<b>NET INTEREST INCOME</b>		59,962	57,438	
	Fee and commission income	7,642	3,172	
	Fee and commission expense	(757)	(899)	
3	Dealing (loss)/profit	(307,414)	160,977	
<b>TOTAL OPERATING (LOSS)/INCOME</b>		(240,567)	220,688	
4	Administrative expenses	(3,567)	(2,691)	
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(244,134)	217,997	
6	Tax credit/(charge) on (loss)/ profit on ordinary activities	61,732	(61,039)	
21	<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	<b>(182,402)</b>	<b>156,958</b>	

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

There are no recognised gains or losses other than the loss or profit attributable to the shareholders of the Company as disclosed above.

Included within dealing (loss) / profit on financial instruments designated at fair value through profit and loss is a loss of £244,672,318 in relation to changes in own credit risk (2009: profit of £229,863,936).

The notes on pages 14 to 44 form part of these financial statements.



# **NOMURA BANK INTERNATIONAL PLC**

## **RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2010**

Note		<u>Year ended</u>	<u>Year ended</u>
		<u>31 March 2010</u>	<u>31 March 2009</u>
		£'000	£'000
21	Opening Shareholders' funds	433,491	276,533
	(Loss)/Profit for the year	(182,402)	156,958
	New share capital subscribed	200,000	-
	Closing Shareholders' funds	<b>451,089</b>	<b>433,491</b>

The notes on pages 14 to 44 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

### BALANCE SHEET - 31 MARCH 2010

Note	31 March 2010 £'000	31 March 2010 £'000	31 March 2009 £'000	31 March 2009 £'000
<b>ASSETS</b>				
8		14,394		54,053
9		5,757,622		5,541,930
10		17,309		10,308
		7,997,159		-
11				
			217,830	
	467,453		15,682	
		467,453		233,512
		95		95
12		1,549,562		342,422
13		16,728		35,637
		17,490		567
<b>TOTAL ASSETS</b>		<b>15,837,812</b>		<b>6,218,524</b>
<b>LIABILITIES</b>				
14		32,254		50,458
		891,075		-
15		5,083,500		2,722,070
16		139,359		48,715
17				
	6,268,456		1,857,055	
	454,065		-	
		6,722,521		1,857,055
12		1,715,280		969,444
		41,725		15,950
18		761,009		120,646
19		-		695
<b>TOTAL LIABILITIES</b>		<b>15,386,723</b>		<b>5,785,033</b>
<b>CAPITAL AND RESERVES</b>				
20		370,000		170,000
21		81,089		263,491
<b>SHAREHOLDERS' FUNDS</b>		<b>451,089</b>		<b>433,491</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>15,837,812</b>		<b>6,218,524</b>

APPROVED BY THE BOARD



21 July 2010

The notes on pages 14 to 44 form part of these financial statements.

## NOMURA BANK INTERNATIONAL PLC

### CASH FLOW STATEMENT

#### FOR THE YEAR ENDED 31 MARCH 2010

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

	<u>Year ended</u> <u>31 March</u> <u>2010</u> £'000	<u>Year ended</u> <u>31 March</u> <u>2010</u> £'000	<u>Year ended</u> <u>31 March</u> <u>2009</u> £'000	<u>Year ended</u> <u>31 March</u> <u>2009</u> £'000
(Loss)/Profit on Ordinary Activities before Taxation		(244,134)		217,997
<i>Adjustments for:</i>				
<i>Operating activities:</i>				
Net change in loans and advances to banks	(7,002)		6,941	
Net change in loans and advances to affiliates	(215,692)		(1,877,978)	
Net change in borrowing from banks and other customers	44,762		(401,545)	
Net change in borrowings from affiliates	2,361,431		1,422,038	
Net change in financial assets designated at fair value through profit and loss	(233,941)		460,988	
Net change in financial liabilities designated at fair value through profit and loss	4,865,466		(175,013)	
Net change in derivative assets	(1,207,140)		(134,371)	
Net change in derivative liabilities	745,836		532,122	
Net change in securities purchased under agreements to resell	(7,997,159)		-	
Net change in securities sold under agreements to repurchase	891,075		-	
Net change in other assets	18,909		(34,447)	
Net change in other liabilities	722,169		35,617	
Net change in prepayments and accrued income	(16,923)		2,022	
Net change in accruals and deferred income	25,775		1,414	
<i>Financing activities:</i>				
Issuance of share capital	200,000		-	
		197,566		(162,212)
<b>Net cash flow from operating and financing activities</b>		<b>(46,568)</b>		<b>55,785</b>

The notes on pages 14 to 44 form part of these financial statements.



## NOMURA BANK INTERNATIONAL PLC

### CASH FLOW STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2010

#### CASH FLOW STATEMENT

	<u>Year ended</u> <u>31 March 2010</u> £'000	<u>Year ended</u> <u>31 March 2009</u> £'000
Net cash flow from operating activities	(46,568)	55,785
Payments of Tax	(20,770)	(2,435)
<b>(Decrease)/increase in cash</b>	<b>(67,338)</b>	<b>53,350</b>

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

31 March 2010

	<u>31 March 2010</u> £'000	<u>Cash Flow</u> £'000	<u>31 March 2009</u> £'000
Loans and advances to other banks repayable on demand (note 8)	14,394	(39,659)	54,053
Borrowing from other banks repayable on demand (note 16)	(27,679)	(27,679)	-
Net Overdraft	(13,285)	(67,338)	54,053

31 March 2009

	<u>31 March 2009</u> £'000	<u>Cash Flow</u> £'000	<u>31 March 2008</u> £'000
Loans and advances to other banks repayable on demand	54,053	53,350	703

The notes on pages 14 to 44 form part of these financial statements.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010

### 1. ACCOUNTING POLICIES

#### (a) Basis of Accounting

The financial statements are prepared under the historic cost convention, as modified by the revaluation of trading securities, derivatives and other financial instruments, in accordance with applicable accounting standards, and Statements of Recommended Accounting Practice (SORPS) issued by the British Bankers' Association (BBA). With the exception of certain accounting and disclosure requirements detailed below, the financial statements have been prepared in accordance with section 396 of Schedule 2 of the Companies Act 2006.

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

#### (b) Changes in Accounting Policy

There are no changes to the Bank's accounting policies that require disclosure in this set of financial statements.

#### (c) Foreign Currencies

The financial statements are presented in Sterling, which was the functional currency of the Bank at 31 March 2010.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. All monetary assets and liabilities in foreign currencies are re-translated at rates of exchange ruling on the balance sheet date. Foreign exchange gains and losses resulting from the re-translation and settlement of these items are recognised in the profit and loss account.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (d) Operating Income

##### (i) Interest receivable

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

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

##### (ii) Interest payable

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

##### (iii) Dealing profits/(losses)

Income arising from gains and losses on financial instruments designated as fair value through profit and loss is included in dealing profits/(losses). Interest on these positions is included, as it is integral to the dealing profit and distinct from interest on banking activities.

Dealing profits arise on a strategy basis across a range of instruments, and are managed accordingly. It is presented on a net basis, even though the corresponding financial assets and liabilities may not have been offset on the balance sheet in accordance with the presentation requirements of FRS 25.

##### (iv) Fee income/(expense)

Fee income relating to loans and advances is recognised in the profit and loss account to match the cost of providing a continuing service, except where the fee amounts in substance to an additional interest charge, when it is recognised on an effective interest rate basis over the life of the advance as part of Interest Income.

Fees arising from the facilitation and servicing of note issuances are recognised in the profit and loss account as the service is provided.



# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (e) Financial assets and liabilities

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

#### (i) **Loans and receivables**

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

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

Loans and receivables specifically relate to the following balance sheet classifications: Loans and advances to banks, Loans and advances to affiliates and Other loans and advances.

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

Management designates certain non-derivative financial instruments in this category under the fair value option through profit and loss including certain non-trading liabilities.

These instruments are recognised initially at fair value and transaction costs are taken directly to the profit and loss account. Gains and losses arising from changes in fair value are included in the profit and loss account.

Financial assets are recognised and derecognised using trade date accounting, being the date on which the Bank commits to purchase or sell the asset, or settlement date as appropriate for cash and non-cash products.

Management designates certain groups of financial instruments as fair value through profit or loss, including certain non-trading liabilities, where doing so results in more relevant information. Instruments so designated are hybrid products whose risks are managed on a fair value basis using a mixture of derivative or non-derivative products. The designation is applied to all non-derivative financial instruments within the group.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (iii) Available for sale investments

Available for sale investments are non-derivative financial assets that are designated as available for sale and are not in any of the other categories described above. They are recognised and derecognised using trade date accounting, being the date on which the Bank commits to purchase or sell the asset. Amounts are initially recognised at fair value including any direct and incremental transaction costs and subsequently held at fair value.

Where applicable interest determined using the effective interest method and impairment losses are recognised in the profit and loss account. Gains and losses arising from changes in fair value are taken to the statement of recognised gains and losses until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss is transferred to the profit and loss account.

Any reversal of impairment losses on non-equity available for sale investments is taken to the profit and loss account. Reversals of impairment losses on equity available for sale investments are taken to the statement of recognised gains and losses.

#### (iv) Other liabilities

Financial liabilities, are initially recognised on settlement date at fair value including any direct and incremental transaction costs, and are derecognised on repayment.

Such liabilities are measured at amortised cost, using the effective interest method.

#### (f) Sale and repurchase agreements

The Bank enters into agreements to sell certain debt securities and then repurchase them at a later date. These debt securities are retained on the Company's balance sheet, and the purchase price received by the Bank shown as a liability to the purchaser.

The Bank also enters into agreements with counterparties for them to sell to the Bank certain debt securities, and then repurchase them at a later date. These debt securities are excluded from the Bank's inventory and the purchase price paid for the securities is shown as an amount receivable from the vendor.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest rate method.

#### (g) Derivatives

All derivatives are recognised initially and subsequently carried at fair value. Derivatives are recorded in the balance sheet at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The Bank uses derivatives to hedge interest rate, equity, credit and exchange rate exposures related to non-trading positions. These derivatives are treated in the same way as derivatives used for trading purposes unless they meet the specified criteria to obtain hedge accounting treatment. The Bank currently has no derivatives on which hedge accounting is applied.



# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (g) Derivatives (continued)

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

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

#### (h) Fair Values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values of quoted investments are determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions) at the close of business on the balance sheet date, without any deduction for transactions costs. Where there is no active market, fair value is determined using valuation techniques. The fair value of derivatives is determined using independent price sources and industry standard modelling techniques, as appropriate.

When entering into a transaction, the financial instrument is initially recognised at the transaction price which is the best indicator of fair value. Where the fair value obtained from a valuation model differs to the transaction price, this initial difference in fair value is recognised in the profit and loss account provided the market data used within the model is observable. Where the fair value obtained from the valuation model is not based solely on data from observable markets, this initial difference is not recognised in the profit and loss account until such data becomes observable.

#### (i) Impairment

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

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



# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (i) Impairment (continued)

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

The calculation of the present value of the expected future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure cost for obtaining and selling the collateral whether or not foreclosure is possible.

#### (j) Collateral and Netting

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

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

Amounts due/owed from counterparties are only netted if there is a legal right to offset and the entity intends to settle on a net basis, or to realise an asset and settle the liability simultaneously. At present, no transactions meet these criteria and no amounts due to/owed from other companies have been netted.

#### (k) Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are the differences between the Bank's taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent periods.

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

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### (l) Retirement Benefits

Defined Benefit Scheme:

The Bank is a member of a funded scheme comprising certain UK Nomura companies administered by a fellow subsidiary undertaking, NIP. The scheme is run on a basis that does not enable the Company to identify its share of assets and liabilities. Financial Reporting Standard 17 'Retirement Benefits' requires that for group schemes run on a basis that does not allow the individual companies participating within the group scheme to identify their share of the underlying assets and liabilities, the Company should account for the scheme as a money purchase scheme.

#### (m) Provisions for liabilities and charges

A provision can be recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

#### (n) Cash flow statement

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

#### (o) Cash and cash equivalents

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

### 2. INTEREST INCOME AND EXPENSE

	<u>Year ended</u> <u>31 March 2010</u> £'000	<u>Year ended</u> <u>31 March 2009</u> £'000
<b>Interest Income</b>		
Interest receivable on deposits	56,646	86,267
Interest on commercial term loans	-	3,783
Interest receivable on reverse repurchase transactions	32,643	-
Other interest income	5,765	42
	<b>95,054</b>	<b>90,092</b>
<b>Interest Expense</b>		
Banks and customers	5,826	17,832
Interest payable on funds borrowed	20,915	14,822
Interest payable on repo transactions	6,891	-
Other interest expense	1,460	-
	<b>35,092</b>	<b>32,654</b>

Of the total interest receivable on deposits of £56,645,939, amounts with respect to group companies amounted to £56,639,969. Of the total interest payable on funds borrowed of £20,915,174, the amount payable to group companies is £20,545,346.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 3. DEALING (LOSS)/PROFIT

	<u>Year ended</u> <u>31 March 2010</u> £'000	<u>Year ended</u> <u>31 March 2009</u> £'000
Financial instruments held for trading	416,973	(671,190)
Financial instruments designated at fair value through profit and loss account	(724,387)	832,167
	<u>(307,414)</u>	<u>160,977</u>

All amounts included within dealing profits arise from changes in fair values that have been estimated using valuation techniques.

The current year impact of changes in own credit risk included in dealing loss on financial instruments designated at fair value through profit and loss was a loss of £244,672,318. For the year ended March 2009 a profit of £229,863,936 was included in dealing profit for the changes in own credit risk.

With regard to segmental analysis, substantially all of the Bank's gross and net assets and profit before taxation arose from banking business transacted within the United Kingdom.

### 4. ADMINISTRATIVE EXPENSES

	<u>Year ended</u> <u>31 March 2010</u> £'000	<u>Year ended</u> <u>31 March 2009</u> £'000
Wages and salaries	(218)	(98)
Audit of financial statements	(200)	(102)
Other fees to auditors – other services	(85)	-
Social security costs	(21)	(20)
Support service charges	(3,043)	(2,471)
	<u>(3,567)</u>	<u>(2,691)</u>

The Bank utilises the services of a number of executive and non-executive directors. In the previous financial year, the Company did not have any of its own employees. Towards the end of the current financial year, the Bank decided to employ its own staff for certain key activities. The number of employees at the end of the financial year totalled eight. As the Bank only had employees from February 2010, an average number for the year is not considered of value, hence is not disclosed.

In addition to the audit fees shown above, an amount of £196,000 (2009: £127,000) was borne by the Bank's ultimate parent company.

### 5. DIRECTORS' EMOLUMENTS

The aggregate emoluments of directors borne by the Bank were £200,001 (2009: £98,000).

The highest paid director received emoluments of £100,000 (2009: £50,000). As at 31 March 2010 his accrued pension totalled £nil per annum (2009: £ nil) and no contributions were made to the Group Personal Pension plan.

In addition, other directors received total emoluments of £662,696 (2009: £520,249) for their services to the Bank, the cost of which was borne by NIP.



# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

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

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

	<u>Year ended</u> <u>31 March 2010</u> £'000	<u>Year ended</u> <u>31 March 2009</u> £'000
Current tax:		
UK Corporation tax credit/(charge) at 28% (2009: 28%)	61,104	(61,104)
Foreign tax suffered	(67)	-
	<hr/> 61,037	<hr/> (61,104)
Deferred taxation:		
Current year timing differences	695	65
	<hr/>	<hr/>
Tax credit/(charge) on (loss)/profit on ordinary activities	<b>61,732</b>	<b>(61,039)</b>

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

	<u>Year ended</u> <u>31 March 2010</u> £'000	<u>Year ended</u> <u>31 March 2009</u> £'000
Net (loss)/profit before tax	<b>(244,134)</b>	<b>217,997</b>
UK Corporation tax credit/(charge) at 28% (2009: 28%)	68,358	(61,039)
Effects of:		
Timing differences	(83)	(65)
Unutilised losses for the year carried forward	(7,171)	-
Higher tax rates on overseas earnings	(67)	-
	<hr/>	<hr/>
Current corporation tax credit/(charge) for the year	<b>61,037</b>	<b>(61,104)</b>

### 7. PENSION

The Bank participates in a group scheme which is operated for the former employees of the Bank and certain of its fellow subsidiaries. The scheme is a defined benefit scheme, funded by the payment of contributions to a separately administered trust fund. The contributions to the scheme are determined by a qualified actuary. A full actuarial valuation of the defined benefit pension scheme was undertaken at 31 March 2006 and updated to 31 March 2008 by William M Mercer Limited, qualified independent actuaries.

During the year ended 31 March 2009 (the previous reporting period), NIP made additional contributions in order to fully fund the defined benefit liability pension scheme and, as a consequence, as at the previous balance sheet date the value of the plan assets exceeded the value of the plan liabilities, i.e. there was a surplus. The amount that can be recovered through reduced contributions in the future is the present value of the liability expected to arise from future service by current and future scheme members less the present value of future employee contributions. As the plan closed to all future accrual with effect from 31 October 2005, there is no future benefit accrual and therefore the plan is subject to a net asset limit whereby in these circumstances it is not possible for any surplus to be recognised in NIP's balance sheet.

As at 31 March 2010 and 31 March 2009 the group scheme deficit was £nil.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 8. LOANS AND ADVANCES TO BANKS

	<u>31 March 2010</u>	<u>31 March 2009</u>
	£'000	£'000
Remaining maturity:		
- Cash on demand	14,394	54,053
	<u>14,394</u>	<u>54,053</u>

### 9. LOANS AND ADVANCES TO AFFILIATES

	<u>31 March 2010</u>	<u>31 March 2009</u>
	£'000	£'000
Remaining maturity:		
- 3 months or less	5,227,608	5,541,930
- Greater than 3 months	530,014	-
	<u>5,757,622</u>	<u>5,541,930</u>

### 10. OTHER LOANS AND ADVANCES

	<u>31 March 2010</u>	<u>31 March 2009</u>
	£'000	£'000
Other loan	7,244	10,308
Cash collateral	10,065	-
	<u>17,309</u>	<u>10,308</u>

The remaining maturity of the other loan is within one to five years of the balance sheet date.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

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

	<u>31 March 2010</u> £'000	<u>31 March 2009</u> £'000
Bonds and medium term notes, by remaining maturity:		
- less than 1 year	-	152,301
- 5 years or less but over 1 year	-	14,050
- over 5 years	-	51,479
Other financial instruments	467,453	15,682
	<u>467,453</u>	<u>233,512</u>

Included within other financial instruments are loans to the value of £467,452,247 (2009: £15,682,191).

### 12. Derivative financial instruments

#### Positive fair values

	<u>31 March 2010</u> £'000	<u>31 March 2009</u> £'000
Analysis by counterparty		
Affiliates	1,549,562	342,422
	<u>1,549,562</u>	<u>342,422</u>

#### Negative fair values

	<u>31 March 2010</u> £'000	<u>31 March 2009</u> £'000
Analysis by counterparty		
Affiliates	1,683,658	910,011
Other Financial Institutions	31,622	59,433
	<u>1,715,280</u>	<u>969,444</u>

As at 31 March 2010, the Company's treasury department transacted a number of overnight currency loans and deposits with another group company in the amount of £3,209,317,000. These transactions were executed as part of the treasury management process, in contemplation of each other and contemporaneously. The intention was to transact them as derivative transactions and they have therefore been accounted for as such.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 13. OTHER ASSETS

	<u>31 March 2010</u> £'000	<u>31 March 2009</u> £'000
Other assets	16,728	35,637
	<u>16,728</u>	<u>35,637</u>

All amounts are receivable within one year.

### 14. CUSTOMER ACCOUNTS

	<u>31 March 2010</u> £'000	<u>31 March 2009</u> £'000
Remaining maturity:		
- Repayable on demand	32,254	3,665
- 3 months or less	-	46,793
	<u>32,254</u>	<u>50,458</u>

### 15. BORROWING FROM AFFILIATES

	<u>31 March 2010</u> £'000	<u>31 March 2009</u> £'000
Remaining maturity:		
- 3 months or less	5,061,223	2,722,070
- 3 months or more	22,277	-
	<u>5,083,500</u>	<u>2,722,070</u>

### 16. BORROWING FROM OTHERS

	<u>31 March 2010</u> £'000	<u>31 March 2009</u> £'000
Remaining maturity:		
- less than 1 year	133,907	48,715
- greater than 5 years	5,452	-
	<u>139,359</u>	<u>48,715</u>



# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

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

	<u>31 March 2010</u> £'000	<u>31 March 2009</u> £'000
Bonds and medium term notes, by remaining maturity:		
- less than 1 year	1,712,261	453,631
- 5 years or less but over 1 year	817,542	504,856
- over 5 years	3,738,653	898,568
Other financial instruments	454,065	-
	<u>6,722,521</u>	<u>1,857,055</u>

The current year impact of changes in own credit risk included in dealing (losses)/profits on financial instruments designated at fair value through profit and loss account was a loss of £244,672,318. For the year ended March 2009 a profit of £229,863,936 was included in dealing profit for the changes in own credit risk.

### 18. OTHER LIABILITIES

	<u>31 March 2010</u> £'000	<u>31 March 2009</u> £'000
Corporation tax	-	81,873
Collateral payable	751,160	-
Foreign tax payable	68	-
Financial instruments in the course of settlement	9,054	38,717
Others payables	727	56
	<u>761,009</u>	<u>120,646</u>

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

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

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

#### 19. DEFERRED TAXATION

	<u>31 March 2010</u> £'000	<u>31 March 2009</u> £'000
Capital allowances	260	324
General Provisions	7	7
Unutilised tax losses	7,171	-
FRS 26 adjustment	(880)	(1,026)
Deferred tax asset not recognised	(6,558)	-
	-	(695)
Balance as at 1 April	(695)	(760)
Deferred tax movement to profit and loss account	695	65
	-	(695)
Balance at 31 March	-	(695)

Deferred taxation has been recognised at 28% (2009: 28%). The Company has unutilised tax losses arising of £25,611,862 (2009: nil) that are available for offset against future taxable profits. A deferred tax asset of £6,558,009 (2009: nil) has not been recognised in respect of these losses due to uncertainty surrounding the Company's future profitability.

#### 20. SHARE CAPITAL

<u>31 March 2010</u>	<u>Authorised Number '000</u>	<u>Allotted and fully paid Number '000</u>	<u>Consideration £'000</u>
Sterling Ordinary shares of £1 each	370,000	370,000	370,000
<u>31 March 2009</u>	<u>Authorised Number '000</u>	<u>Allotted and fully paid Number '000</u>	<u>Consideration £'000</u>
Sterling Ordinary shares of £1 each	200,000	170,000	170,000
		<u>31 March 2010</u> £'000	<u>31 March 2009</u> £'000
As at 1 April		170,000	170,000
Issue of share capital during the year		200,000	-
		<u>370,000</u>	<u>170,000</u>

#### 21. PROFIT AND LOSS RESERVES

	<u>31 March 2010</u> £'000	<u>31 March 2009</u> £'000
As at 1 April	263,491	106,533
Retained (loss)/profit for the year	(182,402)	156,958
	<u>81,089</u>	<u>263,491</u>

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

#### 21. PROFIT AND LOSS RESERVES (CONTINUED)

With regard to segmental analysis, substantially all of the Bank's gross and net assets and profit before taxation arose from banking business transacted within the United Kingdom.

#### 22. FINANCIAL RISK MANAGEMENT

The Bank's activities involve both the assumption and transfer of certain risks which must be managed. The most important types of risk are market risk, credit risk (including counterparty credit risk), liquidity risk and cash flow interest rate risk. Market risk includes currency risk, price risk and fair value interest rate risk.

##### The Role of Financial Instruments

The Bank's primary role is to support the Nomura Group's Global Wholesale business. To this end, 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 continues to offer traditional banking products to facilitate Global Wholesale customer business such as credit facilities, guarantees and letters of credit.

In addition to the debt issuance noted above, the Bank obtains financing from capital, bank and intercompany borrowings.

##### Operational Risk

The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. The loss event types which fall under this definition are Internal Fraud, External Fraud, Employment Practices and Workplace Safety, Clients, Products & Business Practices, Damage to Physical Assets, Business Disruption and System Failures, Execution and Delivery & Process Management.

The Bank uses the framework for the management of the Bank's operational risk that is outlined in the Operational Risk Management Policy of the Nomura Group.

Operational risk is managed on a day-to-day basis by the business areas through the maintenance of appropriate control environments.

The operational risk management framework consists of four elements: Identification, Assessment, Control and Monitoring of the risk. Nomura Group identifies the risk by capturing and analyzing internal and external loss data. Nomura Group assesses and controls risk appropriately through the analysis of losses and through the implementation of self assessments. Nomura Group monitors and reports operational risk to our senior management. Nomura Group continually informs and trains the Group's employees in awareness of operational risk and the potential impact to the organization.

As a result of meeting the Basel II requirements, Nomura Group, including the Bank, will be able to respond to and mitigate operational risk, improve our processes and systems, and so contribute to our corporate value.



# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Risk Management Structure

The board of directors is ultimately responsible for identifying and controlling risks through its overall risk management approach and approval of risk strategies and principles. Responsibility for risk reporting and control is undertaken by the following independent departments within NIP as well as committees set up within the Bank under the service level agreement with NIP.

#### **NIP Committees/Departments**

##### *Capital Allocation*

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

##### *Treasury Department*

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

##### *Corporate Risk Management Department*

The Corporate Risk Management Department monitors and reports compliance with internally set market risk limits.

##### *Investment Evaluation and Credit Department*

The Investment Evaluation and Credit Department monitors and reports compliance with internally set credit limits.

##### *Finance Department*

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

##### *Risks and Controls Department*

The Risks and Controls Department monitors, evaluates and conducts forensic investigations on operational risk issues and the internal control framework. It then reports on these to the Executive Management Committee. The Risks and Controls department is independent from the Internal Audit function.



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

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

##### *Internal Audit*

The Internal Audit Department has independent reporting lines to the Chairman of the Audit Committee of the Company's immediate parent. Internal Audit performs a comprehensive review of systems and processes on a periodic basis.

##### **The Bank's Committees**

##### *Audit Committee*

The Audit Committee assists in establishing and monitoring policies and procedures in relation to risk controls. It also monitors compliance with legislative and regulatory requirements, amongst others, as well as considering the adequacy of systems and controls as detailed under the outsourcing agreement with NIP.

##### *Executive Management Committee*

The Executive Management Committee under authority delegated by the board of directors is responsible for overseeing the management of the Bank. In this capacity it receives reports on a regular basis from the Credit Risk Management Committee.

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

The Credit & Risk Management Committee is a sub-committee of the Executive Management Committee. The Committee considers matters relating to credit, market, operational and reputational risk. The Bank's credit policy stipulates that any investment grade exposures which have not been hedged, collateralised or repackaged within 12 months of take-on must be fully hedged out to acceptable counterparties. Any non-investment grade risk may, subject to prior approval by the NBI Credit & Risk Management Committee, be held for up to nine months after which time it will be hedged, repackaged or disposed.

##### **Risk Measurement and Reporting Systems**

Risk reporting and control is administered via the Management Information System (MIS) which provides daily financial indicators including profit and loss, Value-at-Risk (VaR), Nomura Capital Allocation Target (NCAT), inventory, regulatory capital, unsecured funding and all related limits. Monitoring is applied at all levels in the business hierarchy, specifically business strategy, trading desk, division and company wide.

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

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

##### a) Market Risk

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

Within the Nomura European Group, there is a formal process for the allocation and management of Economic Capital (NCAT) which is facilitated through the capital allocation agenda discussed by the Capital Allocation Committee on a semi-annual basis.

The primary mechanism for measuring and reporting market risk is a framework consisting of Value-at-Risk ("VaR") and numerous business focused risk limits, such as option risk factors. The effectiveness of VaR is assessed by a comparison of actual daily trading gains/losses with the estimated VaR, a process known as backtesting. VaR is only applied to those risk positions for which a meaningful estimate of risk is provided.

The Bank uses VaR as one of the tools used to measure, monitor and review the market risk exposures of its trading portfolios. The Risk Management Department calculates VaR numbers daily for all relevant businesses and these figures are included in daily reporting to senior management.

The Bank transfers its risks to other Nomura Group companies using derivative products, therefore its market risk is immaterial. No additional VaR disclosures have been made.

##### i) **Equity Price Risk and Issuer Credit Risk**

The primary sources of equity price risk and issuer credit risk for the Bank arise from the issuance of debt with returns linked to equity, credit instruments or other indices. The Bank mitigates such risks through either the purchase of the underlying debt or equity products as direct hedges or by transferring such risks to other Nomura Group companies using derivative products.

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

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

<u>31 March 2010:</u>	<u>Equity Risk</u> £'000	<u>Credit Risk</u> £'000	<u>Total</u> £'000
Financial instruments designated at fair value through profit and loss and held for trading:			
- Financial liabilities	(4,560,820)	(1,838,925)	(6,399,745)
Financial instruments designated at fair value through profit and loss:			
- Financial assets	904,352	1,295,786	2,200,138
Financial instruments held for trading:			
- Derivative Financial Instruments:			
- Credit derivatives	-	515,325	515,325
- Equity swaps	3,656,468	27,814	3,684,282
	-	-	-
<u>31 March 2009:</u>	<u>Equity Risk</u> £'000	<u>Credit Risk</u> £'000	<u>Total</u> £'000
Financial instruments designated at fair value through profit and loss and held for trading:			
- Financial liabilities	(1,990,261)	(812,570)	(2,802,831)
Financial instruments designated at fair value through profit and loss:			
- Financial assets	310,537	90,014	400,552
Financial instruments held for trading:			
- Derivative Financial Instruments:			
- Credit derivatives	-	722,556	722,555
- Equity swaps	1,679,724	-	1,679,724
	-	-	-

#### 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 activities there is often a need to swap surplus flows in one currency into another currency, a process achieved using currency swap transactions.

It is always the Bank's intention to eliminate material structural or transactional currency risk.



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

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

##### iii) Interest Rate Risk

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

It is the Bank's policy to mitigate such risk through minimising the mismatch of the dates on which interest receivable on financial assets and interest payable on liabilities are next reset to the market rates or, if earlier, the date on which the instruments mature. Where applicable, derivative transactions are used to reduce this interest rate gap. In accordance with the outsourcing contract, NIP's Treasury department monitors compliance with interest rate gap policies.

At 31 March 2010, the Bank had no significant exposure to fair value interest rate risk.

##### b) Credit Risk

Credit risk refers to the potential loss in the value of a transaction because of a counterparty or issuer failing to perform its contractual commitment. This type of risk is reduced through diversification, effective credit analysis of counterparties, enforcement of credit limits by country and by counterparty, management of credit exposure through netting arrangements, and the maintenance of adequate collateral to secure the commitments of counterparties. Credit derivatives are also used to reduce exposure or to hedge credit risk with respect to issuers.

NIP's Investment Evaluation and Credit function is responsible for managing credit risks to which the Bank is exposed.

Counterparty exposure is managed through a process of limit setting and exception reporting with credit policy setting the maximum exposure and tenure based on credit rating. The Bank uses a scale of internal ratings that mirror the credit-rating agencies' rating scales. Changes to credit policy are presented to the Executive Management Committee, as are all credit actions.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet. Credit derivatives exposure is calculated taking into account the credit quality of the underlying issue and the counterparty. The Bank trades using market convention documentation and, where appropriate, credit enhancements will be added to the documentation.

Counterparty exposure limits are set within the external Large Exposure limit requirements laid down by the Bank's regulator, the Financial Services Authority.

As described in note 1(j), the Bank enters into netting agreements with certain counterparties to mitigate its exposure to credit loss. Amounts are only netted if there is a legal right to offset and the entity intends to settle on a net basis, or to realise an asset and settle the liability simultaneously. The impact of offsetting financial assets and financial liabilities which are subject to master netting agreements is not reflected in the balance sheet. At 31 March 2010 no transactions meet these criteria.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Credit Risk Exposure

The Bank's maximum exposure to credit risk at the balance sheet date is disclosed below, based on the carrying amount of the financial assets the Bank believes is subject to credit risk, without taking account of any collateral held or any other credit enhancements. Certain off balance sheet instruments which expose the Bank to a risk of loss due to default by the parties underlying these contracts are also disclosed.

	<u>Maximum Exposure to Credit Risk</u>	<u>Maximum Exposure to Credit Risk</u>
	<u>31 March 2010</u>	<u>31 March 2009</u>
	<u>£'000</u>	<u>£'000</u>
Loans and advances to banks	14,394	54,053
Loans and advances to affiliates	5,757,622	5,541,930
Other loans and advances	17,309	10,308
Securities purchased under agreements to resell	7,997,159	-
Financial assets designated at fair value through profit and loss		
- Bonds and medium term notes	-	217,830
- Other financial instruments	467,453	15,682
Available for sale financial investments	95	95
Derivative financial instruments	1,549,562	342,422
Other assets	16,728	35,637
Prepayments and accrued income	17,490	567
<b>Off balance sheet commitments</b>	<b>776,081</b>	<b>17,446</b>
<b>Total exposure to credit risk</b>	<b>16,613,893</b>	<b>6,235,970</b>

Taking into account collateral and other credit enhancements, the Bank's significant credit risk is to NIP.

#### Off balance sheet commitments

In the normal course of business, the Bank provides corporate counterparties with loan commitment facilities. Undrawn commitments are held off balance sheet, until the point at which they become drawn. On being drawn, the facility will be carried at fair value on the balance sheet.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

	<u>Maximum Exposure to Credit Risk 31 March 2010 £'000</u>	<u>Maximum Exposure to Credit Risk 31 March 2009 £'000</u>
<b>Financial Assets</b>		
AA	574	182
A	44,227	52,898
BBB	15,742,662	6,052,150
B	75	2,913
Not Rated	11,678	18,208
Unratable	38,596	92,173
<b>Total</b>	<b>15,837,812</b>	<b>6,218,524</b>
<b>Off balance sheet commitments</b>		
BB	776,081	17,446
<b>Total</b>	<b>776,081</b>	<b>17,446</b>
<b>Total exposure to credit risk by credit rating</b>	<b>16,613,893</b>	<b>6,235,970</b>

The unrated balance represents the pool of counterparties which individually do not generate material credit risk for the Bank.

There are no financial assets that are past due or impaired.

#### 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.



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

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

##### c) Liquidity Risk

Liquidity risk represents the risk that the Bank will be unable to meet its financial obligations as they become due as a result of difficulty in realising financial assets or otherwise obtaining funding to satisfy those financial liabilities.

The Bank manages liquidity to ensure that all foreseeable financial obligations can be met as they fall due. This includes repayment at maturity of securities issued, as well as meeting commitments to lend and any obligations to pay funds due on derivative transactions.

Liquidity risk is controlled by a process that ensures that cumulative financing requirements are restricted to pre-set levels. The Bank's liquidity management includes monitoring balance sheet liquidity ratios against internal and regulatory requirements, projecting future cash flows and maintaining liquidity and funding contingency plans.

To ensure that the Bank has sufficient reserves to guard against any unforeseen event, the Treasury Department operates within an unsecured funding limit that is set at a level significantly below what is estimated to be available.

In addition, a key operating principle of the Treasury Department is to withstand market shocks for periods lasting up to one year without either issuing new unsecured financing or liquidating trading assets. This is achieved by maintaining sufficient long-term debt and equity to meet the cash capital requirements of all the Bank's assets and holding a global portfolio of cash and highly liquid securities that could be monetised through either sale or pledge to meet immediate requirements.

# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Contractual Maturity Table

The table below shows the maturity profile of the Company's financial assets. The analysis into maturity groupings is based on the remaining period to the contractual maturity date or, if earlier, the expected date the assets will be realised.

<b>31 March 2010:</b>	<b><u>On demand</u></b>	<b><u>Less than 30 days</u></b>	<b><u>31-90 days</u></b>	<b><u>91 days - 1 year</u></b>	<b><u>Later than 5 years</u></b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial assets</b>						
Cash in bank and at hand	14,394	-	-	-	-	14,394
All loans and advances	-	-	5,774,931	-	-	5,774,931
Financial assets designated at fair value	-	-	-	446,678	20,775	467,453
Collateral paid for securities purchased under agreement to resell	-	7,106,084	-	891,075	-	7,997,159
Available for sale financial investments	-	-	-	-	95	95
Derivatives held for trading	1,549,562	-	-	-	-	1,549,562
Other asset categories	34,218	-	-	-	-	34,218
<b>Total undiscounted financial assets</b>	<b>1,598,174</b>	<b>7,106,084</b>	<b>5,774,931</b>	<b>1,337,753</b>	<b>20,870</b>	<b>15,837,812</b>

  

<b>31 March 2009:</b>	<b><u>On demand</u></b>	<b><u>Less than 30 days</u></b>	<b><u>31-90 days</u></b>	<b><u>91 days - 1 year</u></b>	<b><u>Later than 5 years</u></b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial assets</b>						
Cash in bank and at hand	54,053	-	-	-	-	54,053
All loans and advances	-	-	5,552,238	-	-	5,552,238
Financial assets designated at fair value	-	-	-	152,301	81,211	233,512
Available for sale financial investments	-	-	-	-	95	95
Derivative held for trading	342,422	-	-	-	-	342,422
Other asset categories	36,204	-	-	-	-	36,204
<b>Total undiscounted financial assets</b>	<b>432,679</b>	<b>-</b>	<b>5,552,238</b>	<b>152,301</b>	<b>81,306</b>	<b>6,218,524</b>

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

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

##### Contractual Maturity Table

The table below shows the Bank's financial liabilities by remaining contractual maturity, taking into account early redemption features. Derivatives and other instruments containing embedded derivatives including structured note issuances and other financial liabilities designated at fair value are presented at their fair values. Derivatives are disclosed on demand while 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 2010:</b>	<b><u>On demand</u></b>	<b><u>Less than 1 yr</u></b>	<b><u>1-5 yrs</u></b>	<b><u>5yrs+</u></b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Customer accounts	32,254	-	-	-	32,254
Borrowing from affiliates	-	5,083,500	-	-	5,083,500
Borrowing from others	-	133,907	-	5,452	139,359
Financial liabilities designated at fair value through profit and loss					
- Bonds and medium term notes	-	1,712,261	817,542	3,738,653	6,268,456
- Other financial instruments	-	444,968	-	9,097	454,065
Other liabilities	-	761,009	-	-	761,009
Derivative held for trading	1,715,280	-	-	-	1,715,280
Securities sold under agreements to repurchase	-	891,075	-	-	891,075
Other liability categories	41,725	-	-	-	41,725
<b>Total financial liabilities</b>	<b>1,789,259</b>	<b>9,026,720</b>	<b>817,542</b>	<b>3,753,202</b>	<b>15,386,723</b>

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<b>31 March 2009:</b>	<b><u>On demand</u></b>	<b><u>Less than 1 yr</u></b>	<b><u>1-5 yrs</u></b>	<b><u>5yrs+</u></b>	<b>Total</b>
	<b><u>2009</u> £'000</b>	<b><u>2009</u> £'000</b>	<b><u>2009</u> £'000</b>	<b><u>2009</u> £'000</b>	<b><u>2009</u> £'000</b>
Customer accounts	3,665	46,793	-	-	50,458
Borrowing from affiliates	-	2,722,070	-	-	2,722,070
Borrowing from others	-	48,715	-	-	48,715
Financial liabilities designated at fair value through profit and loss					
- Bonds and medium term notes	-	453,631	504,856	898,568	1,857,055
Other liabilities	-	38,717	-	-	38,717
Derivative held for trading	969,444	-	-	-	969,444
<b>Total financial liabilities</b>	<b>973,109</b>	<b>3,309,926</b>	<b>504,856</b>	<b>898,568</b>	<b>5,686,459</b>



## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

#### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

#### Fair value hierarchy

**Level 1** - quoted prices in active markets for the same instrument (ie without modification or repackaging).

**Level 2** - quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.

**Level 3** - valuation techniques for which any significant input is not based on observable market data.

The following table presents information about the Company'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 Company 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 2010 (CONTINUED)

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

<u>31 March 2010:</u>	<u>Level 1</u> £'000	<u>Level 2</u> £'000	<u>Level 3</u> £'000	<u>Total</u> £'000
<b>Financial assets</b>				
Financial assets held for trading:				
- Derivatives	-	1,319,161	230,401	1,549,562
Financial assets designated at fair value through profit and loss:				
- Loans and receivables	-	446,678	20,775	467,453
	-	1,765,839	251,176	2,017,015
	<u>Level 1</u> £'000	<u>Level 2</u> £'000	<u>Level 3</u> £'000	<u>Total</u> £'000
<b>Financial Liabilities</b>				
Financial liabilities held for trading:				
- Derivatives		1,416,775	298,505	1,715,280
Financial liabilities designated at fair value through profit and loss:				
- Bonds and medium term notes	-	6,016,239	252,217	6,268,456
- Other	-	444,968	9,097	454,065
	-	7,877,982	559,819	8,437,801

#### Level 3 financial assets and financial liabilities

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

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

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

## NOMURA BANK INTERNATIONAL PLC

### NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

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

	At 1 April 2009	Total gains (losses) in P&L	Net cash (in)/out	Settle- ments	Net transfers in/(out) of level 3	At 31 March 2010	Unrealised Total gains (losses) in P&L
<b>Financial assets</b>							
Financial assets held for trading:							
- Derivatives	246,379	100,468	-	(114,522)	(1,924)	230,401	70,614
Financial assets designated fair value through profit and loss:							
- Loans & receivables	15,682	(144)	5,237	-		20,775	5,794
	<b>262,061</b>	<b>100,324</b>	<b>5,237</b>	<b>(114,522)</b>	<b>(1,924)</b>	<b>251,176</b>	<b>76,408</b>

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

	At 1 April 2009	Total (gains)/ losses in P&L	Net issuance/ redemption	Settle- ments	Net transfers in/(out) of level 3	At 31 March 2010	Unrealised Total gains (losses) in P&L
<b>Financial liabilities</b>							
Financial liabilities held for trading:							
- Derivatives	407,531	(41,262)	-	(69,045)	1,281	298,505	50,285
Financial liabilities designated fair value through profit and loss:							
- Structured notes	1,013,773	8,105	(211,552)	-	(558,109)	252,217	20,062
- Other	-	-	-	9,097	-	9,097	-
	<b>1,421,304</b>	<b>(33,157)</b>	<b>(211,552)</b>	<b>(59,948)</b>	<b>(556,828)</b>	<b>559,819</b>	<b>(114,379)</b>

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

During the year a number of notes were transferred out of level 3 as a consequence of revisions to the observability of the valuation inputs, and a number of notes included in level 3 were redeemed, resulting in a significant reduction in level 3 liabilities.



# NOMURA BANK INTERNATIONAL PLC

## NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)

### 24. CAPITAL MANAGEMENT POLICY

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank is able to withstand losses due to extreme market movements. The Bank looks to mitigate risk through the use of derivative arrangements with other Nomura Europe group companies. The Bank reviews the appropriate level of capital adequacy, with senior management responsible for implementing and enforcing capital policies. The determination of balance sheet size and level of capital take into consideration regulatory requirements, economic risks inherent in its business and maintenance of a desirable debt rating. The allocation of available capital resource across the business is then based upon factors such as return on capital and regulatory requirements.

The Bank is subject to and has complied with the regulatory requirements imposed by the Financial Services Authority (FSA) under the Basel II framework.

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

#### Regulatory Capital

Regulatory guidelines developed by the Basel Committee and European Union Directives, as implemented by the FSA for supervisory purposes define three 'Tiers' of capital resources. Tier 1 capital is the highest tier and consists of, inter alia, ordinary share capital and audited retained earnings. The Bank does not currently maintain Tier 2 or Tier 3 capital.

	<u>2010</u> £'000	<u>2009</u> £'000
Tier 1 capital	426,038	240,825
Total capital resources	<u>426,038</u>	<u>240,825</u>

### 25. CONTINGENT LIABILITIES AND COMMITMENTS

#### Contingent Liabilities

##### HM Revenue and Customs

In 1998 the Bank sold its leasing business to a third party. HM Revenue & Customs has made an assessment of £6.4 million which remains unpaid by the new owners. As at 31 March 2010, the additional interest on this tax assessment balance stands at an estimated £4.1 million. The Bank's directors have sought legal advice and believe that the assessment has been wrongly made against the Bank. The Bank has, therefore, appealed the assessment and intends vigorously to contest the matter.

**NOMURA BANK INTERNATIONAL PLC****NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)****25. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)****WestLB**

On 17 April 2009 WestLB served proceedings on the Bank and NIP, claiming that under the terms of a note issued by NBI and maturing on 28 October 2008, they were entitled to receive approximately US\$22 million, which they claim to be the value of a fund of shares referable to the note. NIP, in its role as calculation agent, valued the shares in the fund at zero. WestLB are disputing this valuation and on 29 March 2010 amended their claim to add that the method of valuation, a dealer poll, was chosen by NIP, in its role as calculation agent, in order to produce a zero valuation and to favour the Bank and, as such, was an abuse of NIP's discretion and amounted to bad faith and fraud by NIP. NIP's directors and the Bank have sought legal advice in connection with this claim and are vigorously defending the action.

**Commitments**

The Bank had commitments as at 31 March 2010 amounting to £776,081,000 (2009: £17,446,000) in respect of undrawn note issuance facilities and loan commitments.

**26. EVENTS AFTER THE BALANCE SHEET DATE****Change in Functional and Reporting Currency**

NBI changed its functional currency from Sterling to US Dollars with effect from 1 April 2010. The change in the functional currency is reported prospectively from 1 April 2010 with the opening balance sheet and income statement being translated at the US Dollar spot rate of exchange at that date. The change in functional currency has no financial effect on the Company's financial statement balances or presentation of those balances for the year to 31 March 2010.

As a result of the above change in functional currency, the Company redenominated its ordinary share capital to US Dollar, effective 1 April 2010.

**Bank Levy**

In the Emergency Budget on 22 June 2010, the Chancellor announced the introduction of a bank levy from 1 January 2011. The levy will apply to the balance sheets of UK banking groups and building societies. It will be based on total liabilities, less Tier 1 capital, insured retail deposits, repos secured on sovereign debt and policyholder liabilities of retail insurance business within banking groups. The Company expects to be liable for this levy, but given the lack of detail available, it is not possible to accurately estimate the financial impact at the date of signing these financial statements.

**27. RELATED PARTY TRANSACTIONS**

The Bank has taken advantage of the exemption in FRS 8 from disclosing related party transactions with other entities included in consolidated financial statements for Nomura Holdings, Inc.

## **NOMURA BANK INTERNATIONAL PLC**

### **NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2010 (CONTINUED)**

#### **28. ULTIMATE PARENT COMPANY**

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

The parent that heads the smallest group of undertakings for which consolidated financial statements are prepared is Nomura Europe Holdings plc, a company which is incorporated in the United Kingdom.

Copies of the financial statements of Nomura Holdings, Inc. and Nomura Europe Holdings plc can be obtained from 9-1, Nihonbashi 1-chome, Chuo-ku. Tokyo 103-8645, and Nomura House, 1 St. Martin's-le-Grand, London EC1A 4NP, respectively.