NOMURA BANK INTERNATIONAL PLC

ANNUAL REPORT

31 MARCH 2006

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

NOMURA BANK INTERNATIONAL PLC

BOARD OF DIRECTORS

David Young*	– Non Executive Director and Chairman
Kenji Yokoyama*	– President and Chief Executive Officer
David Benson*	– Director
Paul Spanswick *	– Director
Hirofumi Misawa	– Director
James Barratt	– Director

* Member of the Audit Committee of the Board

NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2006

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 2006.

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The Bank's primary role is to support the Nomura Group's Global Wholesale Business. The principal activities identified under this strategy 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 credit facilities in major currencies, letters of credit and guarantees;
- Taking deposits (including foreign exchange and other reference linked deposits).

The Bank has focussed on those transactions that add value to Nomura Group clients and to the Nomura Group. During the year the Bank continued to grow its note issuance and loan business.

Going forward the Bank will continue to concentrate on and expand its activities.

The Bank made a profit before tax of £13,246,000 in the year, an increase of £1,301,000 on the prior year. This was primarily due to an increase in net interest income resulting from a higher cash balance due to the increased note issuance business.

The Bank has outsourced all of its support services to Nomura International plc under Service Level Agreements.

Nomura International plc's Treasury department continued to manage the liquidity of the Bank and provided asset and liability management for the balance sheet with a limited amount of market risk exposure. The main Treasury products offered included placing and accepting deposits in major currencies, currency and interest rate swaps, forward rate agreements and spot and forward foreign exchange transactions.

RESULTS AND DIVIDEND

The results for the year are set out on page 7. No interim dividend was paid in the year (2005: £ nil). The directors do not recommend the payment of a final dividend (2005: £ nil).

RISK MANAGEMENT

The Bank's market, operational and credit risk is managed by the Credit Risk Management Committee of the Bank, which under its outsourcing arrangements uses a wide range of models and techniques to manage market risk, some of which are proprietary and others widely used in the market. In addition, the Bank's conflicts issues, legal and reputational risk are managed through the appropriate dedicated committees of Nomura International plc via its outsourcing arrangements.

The Bank's financial risk management objectives and policies are disclosed in note 27.

NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2006

DIRECTORS REPORT (CONTINUED)

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are as shown below:

David Young	– Non Executive Director and Chairman
David Benson	– Director (and Chief Executive Officer until 3/3/06)
Paul Spanswick	– Director
Terence Kyle	– Director (resigned on 3/3/06)
Brian Lawson	– Director (resigned on 3/3/06)
Kenji Yokoyama	– President and Chief Executive Officer (appointed on 3/3/06)
Hirofumi Misawa	– Director (appointed on 3/3/06)
James Barratt	– Director (appointed on 3/3/06)

None of the directors had any interest in the shares of the Bank or in any Group companies requiring disclosure under Schedule 7 to the Companies Act 1985 during the year.

DONATIONS

During the year, the Bank made charitable donations of £ nil (2005: £ nil).

CREDITORS' PAYMENT POLICY

The Bank's policy is to settle bills immediately on receipt of invoices from suppliers, dealing quickly with complaints and advising suppliers of disputes.

The components of the calculation specified under the Companies Act 1985 are not readily identifiable from the Bank's accounts which are prepared under Schedule 9 of the Companies Act 1985. However, by identifying as closely as possible the amounts that would equate to trade creditors and purchases and using the calculation specified in the Act, the trade creditor payment days for the Bank for 2006 were approximately 14 days (2005: 14 days).

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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.

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

F Speight
Secretary

26 June 2006

NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2006

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 United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which 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 these financial statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2006

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

We have audited the company's financial statements for the year ended 31 March 2006 which comprise the Profit and Loss Account, Reconciliation of Movement in Shareholders', Balance Sheet and the related notes 1 to 34. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and that information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

NOMURA BANK INTERNATIONAL PLC

YEAR ENDED 31 MARCH 2006

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

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company as at 31 March 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
26 June 2006

NOMURA BANK INTERNATIONAL PLC

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2006

Note		Year ended 31 March 2006 £'000	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000	Year ended 31 March 2005 £'000
	INCOME				
2	Interest receivable and similar income	16,006		12,426	
2	Interest payable and similar charges	(3,794)		(2,461)	
	NET INTEREST INCOME		12,212		9,965
	Fees and commissions receivable		281		133
	Fees and commissions payable		(38)		-
3	Dealing profits		2,471		175
	Other income		6		-
	TOTAL OPERATING INCOME		14,932		10,273
4	Administrative expenses		(1,669)		(1,346)
	OPERATING PROFIT BEFORE PROVISIONS		13,263		8,927
6	Provisions for bad and doubtful debts		(17)		3,018
	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		13,246		11,945
7	Tax on profit on ordinary activities		(4,163)		(8,830)
25	**PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION**		**9,083**		**3,115**

All profits noted above are derived from continuing activities.

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

The notes on pages 10 to 40 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2006

Note		Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
	Opening Shareholders' funds	203,992	200,877
33	Adjustment to opening Shareholders' funds due to adopting FRS 26	3,665	-
	Opening Shareholders' funds as restated	207,657	200,877
25	Profit for the year	9,083	3,115
	Closing Shareholders' funds	**216,740**	**203,992**

The notes on pages 10 to 40 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

BALANCE SHEET - 31 MARCH 2006

Note		Year ended 31 March 2006 £'000	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
	ASSETS			
9	Loans and advances to banks		252,254	192,854
10	Loans and advances to affiliates		30,000	30,314
11	Other loans and advances		141,958	-
12	Reverse repurchase agreements		144,374	-
14	Financial assets designated at fair value through profit and loss			
	- Bonds and medium term notes	245,928		
	- Other financial instruments	3,960		
			249,888	
15	Debt securities held			174,199
	Less: non-recourse financing			(174,199)
	Available for sale financial investments		95	
13	Derivative financial instruments		42,074	
16	Other assets		64,504	1,884
	Prepayments and accrued income		91	6,401
17	Deferred taxation		-	1,029
	TOTAL ASSETS		925,238	232,482
	LIABILITIES			
18	Deposits by banks		-	30
19	Customer accounts		1,900	10,334
20	Financial liabilities designated at fair value through profit and loss			
	- Bonds and medium term notes	591,241		
	- Other financial instruments	2,594		
			593,835	
21	Debt securities issued			2,647
13	Derivative financial instruments		38,364	
	Accruals and deferred income		1,902	7,296
22	Other liabilities		66,894	3,568
23	Provision for liabilities and charges		4,804	4,615
17	Deferred tax liability		799	-
	TOTAL LIABILITIES		708,498	28,490
	CAPITAL AND RESERVES			
24	Called up share capital		170,000	170,000
25	Profit and loss account		46,740	33,992
	SHAREHOLDERS' FUNDS		216,740	203,992
	TOTAL LIABILTIES AND SHAREHOLDERS' FUNDS		925,238	232,482

APPROVED BY THE BOARD ON: 26 June 2006

KENJI YOKOYAMA, DIRECTOR

The notes on pages 10 to 40 form part of these financial statements.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006

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 the special provisions of Part VII and Schedule 9 of the Companies Act 1985 relating to banking companies.

As detailed in note 1 (e)(ii) below, management has designated certain non-trading financial instruments as fair value through profit and loss. Interest receivable and payable on such instruments has been included as part of dealing profit and not disclosed separately. In so far as the disclosure of interest receivable and payable on such instruments and the valuation of those financial instruments that constitute non-trading liabilities represent a departure from the accounting requirements of the Companies Act 1985, the directors consider it necessary for the financial statements to show a true and fair view.

This follows the guidance of the Accounting Standards Board in implementation note 19 of FRS 26 which recommends the use of the true and fair override in circumstances where there would otherwise be potential for substantial artificial volatility in the financial statements. The directors believe this situation arises in relation to the Bank's issuance of credit and equity linked notes in support of client investment activity.

The impact of fair valuing certain of the Bank's non trading liabilities is a credit of £5,460,000 to retained profits as at 1 April 2005 (as shown in Note 34), and a debit to profit and loss of £4,124,000 for the year ended 31 March 2006. If the true and fair override were not utilised the bank would be required to report these non-trading liabilities at amortised cost and identify the terms of any embedded derivatives. In accordance with the requirements of FRS 26, 'Financial Instruments: Measurement' certain of these embedded derivatives would require separation and reporting at fair value with movements taken to the profit and loss. On the basis of the complexity involved in identifying and fair valuing embedded derivatives, the impact on the financial statements of not adopting the true and fair override has not been quantified.

(b) **Changes in Accounting Policy**

During the year the following accounting policy changes have been applied.

The Bank has adopted FRS 23 'The Effect of Changes in Foreign Exchange Rates', with effect from 1 April 2005.

The Bank has adopted FRS 25, 'Financial Instruments: Disclosure and Presentation' and FRS 26, 'Financial Instruments: Measurement' in these financial statements, with effect from 1 April 2005. The Bank has utilised the exemption not to present comparative information in accordance with these standards.

Grey boxes are used in the financial statements to denote new line items where no comparatives existed in the year ended 31 March 2005. These are also used to denote old line items where no comparative exists in the year ended 31 March 2006.

The adoption of these standards represents a change in accounting policy. Details of the prior year effect of adoption are given in note 34. The effect on the current year results was an additional charge of £3,509,000.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(c) **Foreign Currencies**

The financial statements are presented in Sterling, which is the functional currency of the Bank.

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.

(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 or 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**

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

Dealing profits arises on a strategy basis across a range of instruments, and is 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 on loans and advances**

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.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (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 at initial recognition and re-evaluates this designation at each financial year end. The Bank has not restated comparative amounts on first applying FRS 25 and FRS 26 as permitted. 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 to a debtor 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.

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

This category has two sub-categories: financial instruments held for trading and those designated at fair value through profit or loss at inception. Derivatives are categorised as held for trading unless they are designated as hedges. Management designates certain non-derivative financial instruments in this category under the fair value option including non-trading liabilities as detailed in note 1(a) above.

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.

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 “structured” type 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.

(iii) **Available for sale**

Available for sale investments are non-derivative financial assets that are designated as available for sale and are not categorised into 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.

1. ACCOUNTING POLICIES (CONTINUED)

(iv) **Other liabilities**

Financial liabilities, except for those designated as fair value through profit and loss, 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 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 method.

(g) Derivatives

All derivatives are recognised initially and subsequently carried at fair value with resulting positive and negative fair values reported gross in separate lines in the balance sheet.

The Bank uses derivatives for trading purposes. These include interest rate swaps, forward rate agreements, credit derivatives and futures and options, as well as combinations of these instruments. Any realised and unrealised gains and losses are recognised in the profit and loss account.

The Bank also 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.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the hybrid contract itself is not carried at fair value, the embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the profit and loss account.

(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 at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(h) **Fair Values (continued)**

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 and debt securities classified as Available for sale, the amount of impairment loss is measured as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the assets 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.

The calculation of the present value of the expected future cash flows of a collateralised financial asset reflect 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 master 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 non-group companies 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.

1. ACCOUNTING POLICIES (CONTINUED)

(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 at 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.

(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, Nomura International plc. 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 has taken advantage of the exemption under FRS 1 (revised) and has not produced a cash flow statement, since the company has more than 90% of its voting rights controlled by Nomura Holdings, Inc. in whose publicly available financial statements it is consolidated.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

2. INTEREST INCOME

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Interest Income		
Deposits	9,840	3,447
Reverse repos	1,051	379
Other	5,115	8,600
	16,006	**12,426**
Interest expense		
Banks and customers	40	18
Loans	3,754	648
Other	-	1,795
	3,794	**2,461**

3. DEALING PROFITS

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Dealing gains[3]		175
Financial instruments held for trading[4]	6,279	-
Financial instruments designated at fair value through profit and loss[4]	(3,808)	
	2,471	**175**

[3]This line item is no longer used from 1 April 2005, the FRS 25/26 transition date.

[4]This line item is only used from 1 April 2005, the FRS 25/26 transition date.

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

There were no significant gains or losses attributable to changes in own credit risk included in Dealing profits on Financial instruments designated at fair value through profit and loss in 2006.

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

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

4. ADMINISTRATIVE EXPENSES

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Administrative expenses		
Staff costs		
Wages and salaries	35	20
Social security costs	4	2
Support service charges	1,535	1,226
Audit fees	50	50
Other expenses	45	48
	1,669	**1,346**

The Bank has outsourced all its support services and has no employees but utilises the services of five executive directors and one non-executive director.

5. DIRECTORS' EMOLUMENTS

The aggregate emolument of directors was £35,000 (2005: £20,000).

The highest paid director received emoluments of £35,000 (2005: £20,000). As at 31 March 2006 his accrued pension totalled £ nil per annum (2005: £ nil).

The highest paid director did not receive retirement benefits under the defined benefit scheme (2005: £ nil). No contributions in respect of directors were made to the money purchase scheme (2005: £ nil).

6. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	31 March 2006			31 March 2005		
	Specific £000	General £000	Total £000	Specific £000	General £000	Total £000
At the beginning of year	-	-	-	2,310	-	2,310
Charge/(Credit) against income	17	-	17	(3,018)	-	(3,018)
Amounts written off	-	-	-	(525)	-	(525)
Recoveries of amounts written off in previous years	-	-	-	1,233	-	1,233
At end of year	**17**	**-**	**17**	**-**	**-**	**-**

7. TAXATION ON PROFIT ON ORDINARY ACTIVITES

(a) TAX CHARGE

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
UK Corporation tax at 30% (2005: 30%)	(3,906)	(8,487)
Deferred taxation – timing differences	(257)	(343)
Total tax charge for the year	**(4,163)**	**(8,830)**

(b) RECONCILIATION OF CORPORATION TAX CREDIT

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Net Profit before Tax	**13,246**	**11,945**
UK Corporate tax charge at 30% (2005: 30%)	(3,974)	(3,584)
Effects of:		
Permanent differences	(189)	(338)
Adjustment relating to prior year	-	(1,710)
Deferred taxation adjustments	257	343
Disallowed charge	-	(3,198)
Current corporation tax charge for the year	**(3,906)**	**(8,487)**

8. 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 was undertaken as at 31 March 2004 and updated to 31 March 2006, details of which are disclosed in the accounts of Nomura Europe Holdings plc, the parent company. As at the 31 March 2006 the group deficit was £19,070,000 net of deferred tax. The Bank has no liability with regard to this deficit.

No pension contributions were made in the year as disclosed in note 5. (2005: £ nil)

9. LOAN AND ADVANCES TO BANKS

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Repayable on demand	471	18
Remaining maturity:		
- 3 months or less	251,783	192,836
	252,254	**192,854**

10. LOAN AND ADVANCES TO AFFILIATES

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Repayable on demand	-	314
Remaining maturity:		
- 3 months or less	30,000	30,000
	30,000	**30,314**

Included within loans and advances to affiliates are subordinated loans of £30,000,000 (2005: £30,000,000). The legal nature of the subordinated loan differs from that usually associated with debt. In a winding up of the borrower, no amount will be paid to the bank in respect of the subordinated loan until all other creditors of the borrower have been paid in full.

The interest rate on the subordinated loan is based on local inter bank borrowing rates and includes a margin to reflect the subordination.

11. OTHER LOANS AND ADVANCES

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Commercial term loan	129,633	-
Other loan	11,585	-
Cash collateral	740	-
	141,958	**-**

The commercial term loan relates to a collateralised loan. The collateral is corporate bonds which are guaranteed by the Federal Republic of Germany. It has an interest rate of Libor plus 25 basis points and is due to mature 11th April 2010.

The remaining maturity of both the commercial term loan and other loan is within two to five years of the balance sheet date.

12. REVERSE REPURCHASE AGREEMENTS

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Remaining maturity:		
- 3 months or less	144,374	-
	144,374	**-**

None of the collateral received has been repledged or sold at the balance sheet date. All the collateral received is in the form of OECD Government securities.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into various types of transactions in the ordinary course of business that involve derivative financial instruments with off-balance sheet risk. These instruments are used by the Bank for trading purposes, both on its own account and on behalf of its customers. The Bank also uses derivative financial instruments for market risk management of certain non-trading assets and liabilities.

Analysis by maturity of the notional principal amounts and the positive and negative fair values of the Bank's derivative financial instruments:-

	Notional principal amounts				Positive fair values				Negative fair values			
	< 1 year £'000	1-5yr £'000	5yr + £'000	Total £'000	< 1 year £'000	1-5yr £'000	5yr + £'000	Total £'000	< 1 year £'000	1-5yr £'000	5yr + £'000	Total £'000
Derivatives												
Interest rate swaps	-	25,678	-	25,678	-	800	1,043	1,843	-	(194)	(1,148)	(1,342)
Credit derivatives	-	2,878	-	2,878	-	32	-	32	-	-	-	-
Equity derivatives	4,675	43,818	121,712	170,205	451	3,425	6,507	10,383	(14)	(2,597)	(3,080)	(5,691)
FX options	(1,019,736)	-	-	(1,019,736)	-	-	-	-	(29,791)	-	-	(29,791)
FX forwards	994,309	-	-	994,309	29,789	-	-	29,789	-	-	-	-
FX funding swaps	(179,591)	-	-	(179,591)	27	-	-	27	(1,540)	-	-	(1,540)
Total derivative financial instruments	**(200,343)**	**72,374**	**121,712**	**(6,257)**	**30,267**	**4,257**	**7,550**	**42,074**	**(31,345)**	**(2,791)**	**(4,228)**	**(38,364)**

	Notional Total	Positive Total	Negative Total
Analysis by counterparty			
Financial institutions	(6,257)	42,074	(38,364)
Total derivative financial instruments	**(6,257)**	**42,074**	**(38,364)**

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

14. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Bonds and medium term notes, by remaining maturity:		
- less than 1 year	150,009	
- 5 years or less but over 1 year	81,531	
- over 5 years	14,388	
Other financial instruments	3,960	
	249,888	

This line item is only used from 1 April 2005, the FRS25/26 transition date.

15. DEBT SECURITIES HELD

	Year ended 31 March 2006		Year ended 31 March 2005	
	£'000	£'000	£'000	£'000
Investment issued by other issuers due 1 year and over:				
- unlisted debt securities subject to financing arrangements			174,199	
Less: non recourse financing			(174,199)	
				-

This line item is no longer used from 1 April 2005, the FRS 25/26 transition date.

16. OTHER ASSETS

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Financial instruments in the course of settlement	64,257	-
Other assets	247	1,884
	64,504	**1,884**

All amounts are receivable within one year.

17. DEFERRED TAXATION

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Capital allowances	772	1,029
FRS 26 adjustment	(1,571)	-
	(799)	**1,029**

Deferred taxation movements are:		
Balance at 31 March	1,029	1,372
Accounting policy adjustment	(1,571)	-
Balance as at 1 April	(542)	1,372
Credit to profit and loss account	(257)	(343)
Balance at 31 March	**(799)**	**1,029**

Deferred tax has been recognised at 30% (2005: 30%) being the rate at which the timing differences are expected to reverse.
There is no unprovided deferred taxation in the Bank as at 31 March 2006 (2005: £ nil).

The accounting policy adjustment represents additional corporation tax which is due to the revaluation of financial instruments designated as fair value through profit and loss due to the adoption of FRS 26 (see note 33).

18. DEPOSITS BY BANKS

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
By banks:		
- Repayable on demand	-	30
	-	**30**

Balances above include £ nil (2005: £ nil) due to fellow subsidiary undertakings.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

19. CUSTOMER ACCOUNTS

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Customer accounts:		
- Repayable on demand	1,900	10,068
- 3 months or less	-	266
	1,900	**10,334**

20. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Bonds and medium term notes, by remaining maturity:		
- less than 1 year	12,196	
- 5 years or less but over 1 year	325,085	
- over 5 years	253,960	
Other financial instruments	2,594	
	593,835	

This line item is only used from 1 April 2005, the FRS25/ 26 transition date.

There were no significant gains or losses attributable to changes in own credit risk on Financial instruments designated at fair value through profit and loss in 2006.

21. DEBT SECURITIES IN ISSUE

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Bonds and medium term notes, by remaining maturity:		
- 5 years or less but over 1 year	-	2,647
- over 5 years	-	-
	-	**2,647**

This line item is no longer used from 1 April 2005, the FRS 25/26 transition date.

22. OTHER LIABILITIES

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Foreign exchange and interest rate contracts	2	966
Corporation tax	3,707	2,602
Financial Instruments in the course of settlement	57,551	-
Payable to others	533	-
Collateral payable	5,000	-
Other	101	-
	66,894	**3,568**

23. PROVISION FOR LIABILITIES AND CHARGES

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Balance at 1 April	4,615	-
Provisions during the year	189	4,615
	4,804	**4,615**

The information usually required by FRS 12 is not disclosed as the directors feel that it could prejudice the outcome of discussions with the Inland Revenue.

24. SHARE CAPITAL

31 March 2006	**Authorised**	**Allotted and fully paid**	
	Number '000	**Number '000**	**Consideration £'000**
Sterling Ordinary shares of £1 each	200,000	170,000	170,000

31 March 2005	**Authorised**	**Allotted and fully paid**	
	Number '000	**Number '000**	**Consideration £'000**
Sterling Ordinary shares of £1 each	200,000	170,000	170,000

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

25. PROFIT AND LOSS RESERVES

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
At 31 March	33,992	30,877
Adjustment due to adopting FRS 26	3,665	-
As at 1 April	37,657	30,877
Retained Profit for the year	9,083	3,115
	46,740	**33,992**

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

The impact of new accounting standards is disclosed in note 33.

26. DERIVATIVE TRANSACTIONS

This disclosure is no longer used from 1 April 2005, the FRS 25/26 transition date. See note 13 for Derivative Financial Instruments.

As at 31 March 2005

Trading
Derivative financial instruments, which form part of trading activities, are recorded at fair market value within the financial statements.

At 31 March 2005 the notional principal amounts of instruments entered into were as follows:

Interest Rate Contracts

	31 March 2006 Interest Rate Swaps £'000	31 March 2006 Total £'000	31 March 2005 Interest Rate Swaps £'000	31 March 2005 Total £'000
Less than 1 year			90,000	90,000
1 to 5 years			10,000	10,000
Over 5 years			10,000	10,000
At 31st March			110,000	110,000

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

26. DERIVATIVE TRANSACTIONS (CONTINUED)

An analysis of the replacement cost of instruments entered into by counterparty type is set out below:

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
OECD Banks		83
		83

At 31 March 2005, the replacement cost of instruments held is set out below:

	Year ended 31 March 2006 Replacement Cost £'000	Year ended 31 March 2005 Replacement Cost £'000
Interest rate contracts		83
		83

In respect of trading transactions

	31 March 2006 Interest Rate Contracts £'000	31 March 2006 Exchange Rate Contracts £'000	31 March 2006 Total £'000	31 March 2005 Total £'000
Aggregate positive fair values				1,049
Aggregate negative fair values				(966)
Aggregate net fair values				**83**

26. DERIVATIVE TRANSACTIONS (CONTINUED)

Non Trading

At 31 March 2005 the notional principal amounts of instruments entered were as follows:

Exchange Rate Contracts

	31 March 2006			31 March 2005		
	Forward FX	Currency Swaps	Total	Forward FX	Currency Swaps	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Less than 1 year				193,300	-	193,330
				193,330	**-**	**193,330**

26. DERIVATIVE TRANSACTIONS (CONTINUED)

Credit Derivative Contracts

	31 March 2006 Credit Default Swaps £'000	31 March 2006 Total £'000	31 March 2005 Total £'000
1 to 5 years			2,647
Over 5 years			-
			2,647

Interest Rate Contracts

	31 March 2006 Interest Rate Swaps £'000	31 March 2006 Total £'000	31 March 2005 Total £'000
Less than 1 year			-
1 to 5 years			265,269
			265,269

An analysis of the replacement cost of instruments entered into by counterparty type is set out below:

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
OECD Banks		(1,299)
		(1,299)

At 31 March 2005, the replacement cost of instruments held is set out below:

	Year ended 31 March 2006 Replacement Cost £'000	Year ended 31 March 2005 Replacement Cost £'000
Interest rate contracts		(1,200)
Credit derivative contracts		23
Exchange rate contracts		(122)
		(1,299)

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

26. DERIVATIVE TRANSACTIONS (CONTINUED)

In respect of non-trading transactions

	31 March 2006 Exchange Rate Contracts £'000	31 March 2006 Credit Derivative Contracts £'000	31 March 2006 Total £'000	31 March 2005 Total £'000
Aggregate positive fair values				1,049
Aggregate negative fair values				(966)
Aggregate net fair values				**83**

	31 March 2006 Exchange Rate Contracts £'000	31 March 2006 Credit Derivative Contracts £'000	31 March 2006 Interest Rate Contracts £'000	31 March 2006 Total £'000	31 March 2005 Total £'000
Aggregate positive fair values					5,956
Aggregate negative fair values					(7,255)
					(1,299)

27. 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 currency and 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.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

27. THE ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)

Risk Policies

The Bank's activities involve both the assumption and transfer of certain risks. 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 equity price risk, issuer credit risk, currency risk and fair value interest rate risk.

The Board of directors formulates high level risk policies which require that the Bank, wherever possible, retains no significant market or sub-investment grade credit risk. Mitigation of such risks is achieved by transferring such risks to other Nomura Group companies. The Bank ensures that it maintains sufficient liquidity to meet its obligations as they fall due.

The Management Committee of the Bank, under authority delegated by the Board of directors, receives reports on a regular basis to ensure these risk policies are adhered to.

All new credit risk exposures where the credit risk is retained by NBI, with the exception of counterparty credit risk, are subject to prior approval by the NBI Credit Risk Committee.

Risk Management

The Bank has outsourced all of its support services to Nomura International plc. Responsibility for risk reporting and control is undertaken by the following departments within Nomura International plc:

- The Treasury department monitors compliance with the Bank's liquidity, currency and cash flow and fair value interest rate risk policies.
- The Corporate Risk Management Department, which is completely independent of the business areas, monitors and reports compliance with market risk limits and credit limits
- The Finance department monitors compliance with regulatory limits and guidelines

Risk reporting and control is administered via the Management Information System (MIS) which provides daily financial indicators including profit and loss, VaR, ARC, inventory, regulatory capital, unsecured funding and all related limits.

27. THE ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)

Market Risk

Within Nomura Bank International plc, the formal process for the management of Asset Risk Capital (ARC) is facilitated through Nomura's European Financial Resources Committee, which is chaired by the CEO of Nomura International plc. Day to day responsibility rests with the independent risk management function, the head of which reports to the CEO and the global head of risk management in Tokyo.

Nomura's European Financial Resources Committee approves and allocates ARC limits to strategies, desks and divisions of Nomura's European operations.

ARC is the potential economic loss over a one-year horizon given a confidence interval of 97.7%. ARC captures market, liquidity, credit and event risk. The ARC regime was introduced in April 2000 to provide a consistent group wide framework for performance evaluation and risk control.

The primary mechanism for measuring and reporting market risk is VaR. The effectiveness of VaR is assessed by a comparison of actual daily trading gains/losses with the estimated VaR, a process known as backtesting.

The table below illustrates the VaR during the financial year ended 31 March 2005. It shows the highest, lowest and average VaR during the financial year.

	As at 31 March 2005 VaR £'000
Average in the year	8
Highest	39
Lowest	3.5
At 31 March	5

This disclosure is no longer used from 1 April 2005, the FRS 25/26 transition date.

All statistical models, including VaR have a degree of uncertainty associated with assumptions employed.

a) Equity Price Risk and Issuer Credit Risk

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

27. THE ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)

An analysis of the risks for non-trading liabilities designated at fair value on a notional basis at 31 March 2006 is shown in the table below:

	Equity Risk £'000	Credit Risk £'000	Total £'000
Financial instruments designated at fair value through profit and loss:			
- Financial liabilities	(593,459)	(2,878)	(596,337)
- Financial assets	246,892	-	246,892
Derivative Financial Instruments			
- Credit derivatives	-	2,878	2,878
- Equity swaps	346,567	-	346,567
	-	-	-

b) Currency Risk

During the course of financing activities there is often a need to swap surplus flows in one currency into another. This is achieved through the use of currency swap transactions. It is always the Bank's intention to eliminate material structural or transactional currency risk.

c) Fair Value Interest Rate Risk

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, derivatives transactions are used to reduce this interest rate gap. In accordance with the outsourcing contract, Nomura International plc's Treasury department monitors compliance with interest rate gap policies.

At 31 March 2006, the Bank had no significant exposure to fair value interest rate risk.

The table below summarises these re-pricing mismatches on the Bank's non-trading book as at 31 March 2005. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. Short term debtors and creditors have been included within this table.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

27. THE ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)

	Not more Than 3 months	More than 3 months but not more than 6 months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets:							
Loans & Advances to Banks	192,854	-	-	-	-	-	192,854
Loans & Advances to Customer	30,314	-	-	-	-	-	30,314
Debt Securities subject to financing arrangements	-	-	-	-	-	174,199	174,199
Non-recourse financing	-	-	-	-	-	(174,199)	(174,199)
Other Assets	-	-	-	-	-	9,314	9,314
Total Assets	**223,168**	**-**	**-**	**-**	**-**	**9,314**	**232,482**
Liabilities:							
Deposits by Banks	(30)	-	-	-	-	-	(30)
Customer Accounts	(10,334)	-	-	-	-	-	(10,334)
Debt Securities in Issue	(2,647)	-	-	-	-	-	(2,647)
Other Liabilities	-	-	-	-	-	(15,479)	(15,479)
Shareholders' Funds	-	-	-	-	-	(203,992)	(203,992)
Total Liabilities	**(13,011)**	**-**	**-**	**-**	**-**	**(219,471)**	**(232,482)**
Off Balance Sheet items	-	-	-	-	-	-	-
Interest Rate Sensitivity Gap	210,157	-	-	-	-	(210,157)	-
Cumulative Gap	210,157	210,157	210,157	210,157	210,157	-	-

This disclosure is no longer used from 1 April 2005, the FRS 25/26 transition date.

Counterparty Credit Risk

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

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 master netting agreements with certain counterparties to mitigate its exposure to credit loss. 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 2006, the impact of offsetting such contracts is not considered to be significant.

Maximum credit exposure relating to Financial Assets is represented by the carrying value at the Balance Sheet date.

27. THE ROLE OF FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity Risk

The Bank manages liquidity to ensure all foreseeable funding commitments can be met as they fall repayment at maturity of securities issued. In addition, the Bank must meet commitments to lend and any obligations to pay funds due on derivative transactions.

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.

Cash Flow Interest Rate Risk

Future net interest income is affected by movements in interest rates. The Bank's exposure to changes in its net interest income from movements in interest rates arises from the management of its capital, this is managed through the use of interest rate swaps.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

	Year ended 31 March 2006		Year ended 31 March 2005	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Non Derivative Instruments:				
Assets				
Loans and receivables				
- Loan and advances to banks	252,254	252,254		
- Loans and advances to affiliates	30,000	30,000		
- Other loans and advances[1]	141,958	141,958		
- Reverse repurchase agreements	144,374	144,374	-	-
-Deposits placed on banking business[2]	-	-	223,168	223,168
Financial assets designated fair value through profit and loss[1]	249,888	249,888	-	-
Debt securities held[2]	-	-	174,199	173,417
Financial assets classified as available for sale[1]	95	95		
Liabilities				
Other liabilities[1]				
- Deposits by banks	-	-		
- Customer accounts	1,900	1,900		
- Other liabilities	66,894	66,894		
Deposits held on banking business[2]	-	-	10,364	10,364
Financial liabilities designated fair value through profit and loss[1]	593,835	593,835		
Loans and securities issued to finance the Bank's operations[2]	-	-	176,846	169,106
Derivative financial instruments held or issued to hedge the interest rate and currency profile of the Bank				
Derivative financial assets[1]	42,074	42,074		
Derivative financial liabilities[1]	38,364	38,364	-	-
Interest rate swaps[2]			1,741	122
Credit derivatives[2]			3	23
Exchange rate derivative contracts[2]			78	1,200
Derivative financial instruments held or issued for trading				
Interest rate derivative contracts[2]			83	83

[1]This line item is only used from 1 April 2005, the FRS 25/26 transition date.

[2]This line item is no longer used from 1 April 2005, the FRS 25/26 transition date.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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 markets prices when available. If quoted market prices are not available, then fair values are estimated using a valuation model.

c) Financial assets and liabilities designated at fair value through profit and loss and derivatives are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated using a valuation model. Such models are based wherever possible on assumptions supported by observable market prices or rates. At the balance sheet date, all fair values have been calculated using such a model.

29. GAINS AND LOSSES ON HEDGES

The Bank uses interest rate, equity and credit default swaps for hedging purposes. Changes in the fair value of instruments used specifically as hedges are recognised in the financial statements over the life of the underlying asset or liability being hedged. An analysis of these unrecognised gains and losses is as follows:

	Gains £'000	(Losses) £'000	Total net gains/ (Losses) £'000
Unrecognised gains and losses on hedges at 1st April 2004	3,706	(9,865)	(6,159)
Gains and losses arising in previous years that were recognised in 2004/05	1,888	(6,242)	(4,354)
Gains and losses arising before 1st April 2004 that were not recognised in 2004/05	1,818	(3,622)	(1,804)
Gains and losses arising in 2004/05 that were not recognised in 2003/04	2,423	(3,633)	(1,210)
Unrecognised gains and losses on hedges at 31st March 2005	4,241	(7,255)	(3,014)
Of which:			
Gains and losses expected to be recognised in 2005/06	1,474	(2,450)	(976)
Gains and losses expected to be recognised in 2006/07 or later	2,767	(4,805)	(2,038)

This disclosure is no longer used from 1 April 2005, the FRS 25/26 transition date.

30. CONTINGENT LIABILITIES

In 1998 the Bank sold its leasing business to a third party. The Inland Revenue has made an assessment for taxes and interest of £8.6 million owed by that business, which remains unpaid by the new owners.

31. 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.

32. 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.

33. IMPACT OF NEW STANDARDS

The Bank has applied FRS 23, FRS 25 and FRS 26 from the 1st April 2005. The adoption of these standards represents a change in accounting policy.

The adoption of FRS 23 has not had an impact on the closing position of 2005.

As described below the adoption of FRS 25 and FRS 26 has resulted in changes to certain accounting policies and disclosure requirements. The Bank has utilised the exemption not to present comparative information in accordance with FRS 25 and FRS 26.

FRS 25

Adoption of FRS 25 has resulted in certain changes to disclosures related to financial instruments. The adoption of the presentational requirements of FRS 25 has had no impact on the opening position as at 1 April 2005.

FRS 26

The adoption of FRS 26 has caused a net increase of £3,665,000 to the Profit and Loss Reserve. This increase results from the following adjustments:

33. IMPACT OF NEW STANDARDS (CONTINUED)

(i) Accounting for derivatives

Under FRS 26 all derivative financial instruments are categorised as held for trading unless they are designated as hedges. Accordingly, upon adoption of FRS 26 those derivatives previously reported on an accruals basis are now carried at fair value. This has resulted in an increase of assets of £391,000 and an increase of liabilities of £215,000 resulting in a net gain of £176,000 which has been taken to the Profit and Loss Reserve.

(ii) Accounting for structured trades

The Bank has elected to designate as fair value through profit and loss certain debt securities held, debt securities issued and other financial instruments related to specific structuring arrangements. Accordingly, upon adoption of FRS 26 those debt securities held, debt securities issued and other financial instruments previously reported on an accruals basis are now carried at fair value. This has resulted in a net gain of £5,060,000 which has been taken to the Profit and Loss Reserve.

(iii) Taxation

The taxation liability is assessed on the basis of FRS 26 compliant numbers. The resulting tax debit of £1,571,000, on transition, has been treated in accordance with guidance from the Inland Revenue and will be unwound on a straight-line basis over 10 years.

NOMURA BANK INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2006 (CONTINUED)

34. RECONCILIATION SHOWING THE IMPACT OF FRS 25 AND FRS 26 ADJUSTMENTS AS AT 1 APRIL 2005

	As at 31 March 2005 £'000	FRS 26 adjustments				As at 1 April 2005 £'000
		Reclassification	Accounting for derivatives	Accounting for structured trades	Increase in corporation tax	
ASSETS						
Loans and advances to banks	192,854	-	-	-	-	**192,854**
Loans and advances to customers	30,314	-	-	-	-	**30,314**
Other loans and advances		740	-	-	-	**740**
Debt securities	174,199	(174,199)	-	-	-	
Less: non-recourse financing	(174,199)	174,199	-	-	-	**-**
Financial assets designated fair value through profit and loss		174,199	-	1,376	-	**175,575**
Other assets available for sale		95	-	-	-	**95**
Other assets	1,884	(835)	(941)	-	(33)	**75**
Derivative financial instruments		-	1,535	(54)	-	**1,481**
Prepayments and accrued income	6,401	-	(203)	(6,077)	-	**121**
Deferred income tax asset	1,029	-	-	-	(1,029)	**-**
Total Assets	**232,482**					**401,255**
LIABILITIES						
Deposit by banks	**(30)**	-	-	-	-	**(30)**
Customer accounts	**(10,334)**	-	-	-	-	**(10,334)**
Debt securities in issue	**(2,647)**	2,647	-	-	-	
Accruals and deferred income	**(7,296)**	-	1,396	4,355	-	**(1,545)**
Derivative financial instruments		-	(2,577)	-	1	**(2,576)**
Other financial liabilities designated fair value through profit and loss		(176,846)	-	5,460	-	**(171,386)**
Other liabilities	**(3,568)**	-	966	-	-	**(2,602)**
Provision for liabilities and charges	**(4,615)**	-	-	-	-	**(4,615)**
Deferred tax liability	**-**	-	-	-	(510)	**(510)**
Total Liabilities	**(28,490)**					**(193,598)**
CAPITAL AND RESERVES						
Called up share capital	**(170,000)**	-	-	-	-	**(170,000)**
Profit and loss account	**(33,992)**	-	(176)	(5,060)	1,571	**(37,657)**
Total Shareholders' funds	**(203,992)**					**(207,657)**
Total Liabilities and Shareholders' funds	**(232,482)**					**(401,255)**