

# NIKKO CORDIAL SECURITIES INC.



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URL: [http://www.nikko.co.jp/SEC/e\\_home.html](http://www.nikko.co.jp/SEC/e_home.html)

## Non-Consolidated financial summary under Japanese GAAP for the nine months ended December 31, 2004

1. Change in accounting policy: Yes

2.(1) Operating results ( from April 1, 2004 to December 31, 2004 )

( Millions of Yen )

	Operating revenue	Net operating revenue	Operating income
FY2004 3Q (9months)	124,598 [(6.4%)]	121,460 [(5.2%)]	21,027 [(40.1%)]
FY2003 3Q (9months)	133,115	128,109	35,084
FY2003	179,182	172,892	49,222

	Ordinary income	Net income
FY2004 3Q (9months)	24,533 [(30.7%)]	13,876 [(38.8%)]
FY2003 3Q (9months)	35,379	22,688
FY2003	49,655	30,430

Note: 1. Figures are rounded down to the nearest.

2. The percentage noted in Operating revenue, Net operating revenue, Operating income, Ordinary income, and Net income indicates the rate of the change compared to the same period in the previous year.

(2) Financial condition

( Millions of Yen except percentage )

	Total assets	Shareholders' equity	Shareholders' equity ratio	Capital adequacy ratio
As of Dec 31, 2004	1,259,444	394,312	31.3 %	389.6 %
As of Dec. 31, 2003	1,422,350	373,842	26.3	424.0
As of Mar.31,2004	1,416,276	382,430	27.0	442.8

**STATEMENT OF FINANCIAL CONDITION**

( Millions of Yen )

	Dec. 31, 2004 (A)	Dec. 31, 2003 (B)	variance (A) - (B)	Mar. 31, 2004
< ASSETS >				
Current assets	1,134,783	1,269,092	(134,309)	1,281,031
Cash on hand, Cash in banks	189,119	275,961	(86,841)	213,010
Cash segregated for customers and others	110,125	108,417	1,707	128,015
Trading assets	514,784	473,111	41,672	504,153
Trading securities	464,031	424,824	39,206	460,032
Derivatives	50,753	48,287	2,465	44,120
Margin account receivables	86,778	128,561	(41,782)	142,922
Loans on margin transactions	74,177	121,681	(47,503)	132,326
Cash collateral pledged for securities borrowing on margin transactions	12,601	6,880	5,721	10,595
Loans secured by securities	167,895	220,028	(52,133)	234,161
Cash collateral pledged for securities borrowings	167,895	220,028	(52,133)	234,161
Advance payments	931	2,474	(1,542)	647
Cash paid for subscription	4,989	3,907	1,081	4,030
Short-term loans	687	1,033	(346)	1,151
Deferred tax assets	15,462	15,592	(129)	15,462
Others	44,027	40,298	3,728	37,505
Allowance for bad debts	(17)	(295)	277	(28)
Non-current assets	124,661	153,257	(28,596)	135,244
Tangible fixed assets	7,441	7,064	377	7,211
Intangible fixed assets	1,660	1,313	347	1,402
Investments and others	115,558	144,879	(29,321)	126,630
Investment securities	32,265	24,928	7,337	24,768
Investment in subsidiaries and affiliates	16,451	15,518	932	15,518
Long-term loans	50,911	66,874	(15,962)	66,873
Long-term guaranty deposits	20,770	23,399	(2,628)	22,182
Deferred tax assets	33,417	59,854	(26,437)	42,718
Others	12,900	20,530	(7,629)	21,585
Allowance for bad debts	(51,159)	(66,226)	15,066	(67,017)
Total assets	1,259,444	1,422,350	(162,905)	1,416,276

**STATEMENT OF FINANCIAL CONDITION**

( Millions of Yen )

	Dec. 31, 2004 (A)	Dec. 31, 2003 (B)	variance (A) - (B)	Mar. 31, 2004
<b>&lt; LIABILITIES &gt;</b>				
<b>Current liabilities</b>	<b>849,739</b>	<b>990,486</b>	<b>(140,747)</b>	<b>1,016,885</b>
Trading liabilities	167,954	125,585	42,368	117,092
Trading securities	111,018	74,379	36,639	70,532
Derivatives	56,935	51,206	5,729	46,559
Trading payables	7,043	1,900	5,142	3,999
Margin account payables	8,098	16,841	(8,743)	24,719
Borrowings on margin transactions	414	5,334	(4,920)	7,714
Cash received for securities lending on margin transactions	7,684	11,507	(3,822)	17,005
Borrowings pledged by securities	317,604	386,485	(68,880)	401,848
Cash collateral received for securities lendings	138,404	262,333	(123,929)	211,439
Borrowings on Gensaki transaction	179,200	124,151	55,048	190,409
Deposits received	103,732	74,313	29,419	99,005
Guaranty deposits received	28,558	29,893	(1,335)	29,568
Short-term borrowings	137,895	100,595	37,300	89,495
Commercial paper	60,000	120,000	(60,000)	125,000
Current portion of corporate debts	-	100,000	(100,000)	100,000
Income taxes payable	919	11,390	(10,470)	160
Others	17,933	23,481	(5,547)	25,996
<b>Non-current liabilities</b>	<b>14,897</b>	<b>57,599</b>	<b>(42,701)</b>	<b>16,465</b>
Long-term borrowings	2,000	44,000	(42,000)	5,000
Accrued pension benefits	12,262	12,779	(517)	10,741
Others	635	819	(183)	723
Statutory reserves	495	422	73	495
<b>Total liabilities</b>	<b>865,132</b>	<b>1,048,507</b>	<b>(183,375)</b>	<b>1,033,846</b>
<b>&lt; SHAREHOLDERS' EQUITY &gt;</b>				
Common stock	100,000	100,000	-	100,000
Additional paid-in capital	290,880	290,880	-	290,880
Legal capital reserve	290,880	290,880	-	290,880
Retained earnings	2,813	(18,806)	21,619	(11,063)
Unappropriated retained earnings	2,813	(18,806)	21,619	(11,063)
Net unrealized gain on investment securities	619	1,768	(1,149)	2,613
<b>Total shareholders' equity</b>	<b>394,312</b>	<b>373,842</b>	<b>20,469</b>	<b>382,430</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,259,444</b>	<b>1,422,350</b>	<b>(162,905)</b>	<b>1,416,276</b>

**STATEMENT OF OPERATIONS**

( Millions of Yen )

	FY2004 <A> (4/1/04 ~ 12/31/04)	FY2003 <B> (4/1/03 ~ 12/31/03)	Ratio $\frac{\text{<A>}}{\text{<B>}}$ %	FY2003 (4/1/03 ~ 3/31/04)
Operating revenue	124,598	133,115	93.6	179,182
Commissions	95,317	98,507	96.8	133,978
Net gain on trading	24,056	28,835	83.4	37,378
Net gain on other trading	4	2	188.0	3
Interest and dividend income	5,220	5,770	90.5	7,822
Interest expense	3,137	5,005	62.7	6,290
Net operating revenue	121,460	128,109	94.8	172,892
Selling, general and administrative expense	100,433	93,025	108.0	123,669
Floor brokerage, communication and other transaction related costs	15,435	11,320	136.4	15,788
Employee compensation and benefits	45,184	49,748	90.8	63,802
Occupancy and equipment	10,373	10,702	96.9	14,371
Data processing and other services	20,220	13,704	147.6	19,457
Depreciation and amortization	1,224	1,301	94.1	1,726
Taxes, other than income taxes	1,198	419	286.0	513
Others	6,795	5,829	116.6	8,011
Operating income	21,027	35,084	59.9	49,222
Non-operating revenue	3,767	802	469.4	1,219
Non-operating expense	262	507	51.8	786
Ordinary income	24,533	35,379	69.3	49,655
Extraordinary gain	697	609	114.4	1,025
Extraordinary loss	585	1,314	44.5	2,922
Income before income taxes	24,644	34,674	71.1	47,758
Income taxes-current	98	11,500	0.9	155
Income taxes-deferred	10,669	486	2,194.3	17,172
Net income	13,876	22,688	61.2	30,430
Retained earnings at the beginning of period	(11,063)	(41,494)	-	(41,494)
Retained earnings at the end of period	2,813	(18,806)	-	(11,063)

### **Notes to quarterly financial statements**

The company's quarterly financial statements have been prepared in accordance with "Regulations Concerning the Terminology, Forms and Preparation Methods of Interim Financial Statements" (MOF Ordinance No.38, 1977) (the "regulations") as well as with the "Cabinet Office Ordinance Concerning Securities Companies" (Prime Minister's Office Ordinance and MOF Ordinance No.32, 1998) and the "Uniform Accounting Standard for Broker Dealers" (approved by the board of directors of the Japan Securities Dealers Association, November 14, 1974), subject to the provisions of Article 38 and 57 of the regulations.

### **Basis of quarterly financial statements**

#### 1. Valuation of financial instruments

##### (1) Financial instruments for trading purposes

Securities, derivative contracts and other financial instruments classified as trading assets and liabilities are recorded at market value.

##### (2) Financial instruments for non-trading purposes

Securities held for non-trading purposes are accounted for as follows.

###### (i) Investment in subsidiaries and affiliates

Recorded at cost using the moving average method.

###### (ii) Other securities

*Securities with market value:*

Recorded at market value. The difference between the cost using the moving average method and market value is recorded as Net unrealized gains on investment securities in Shareholders' equity on the balance sheet.

*Securities without market value:*

Recorded at cost using the moving average method.

#### 2. Depreciation and amortization

##### (1) Tangible fixed assets

Tangible fixed assets are depreciated on the declining-balance method by using the useful lives and remaining balances stipulated in the Corporate Tax Law. However, the buildings acquired after April 1, 1998 (excluding facilities attached to buildings) are depreciated on the straight-line method according to the amendments of the Corporate Tax Law in FY1998.

##### (2) Intangible fixed assets

Intangible fixed assets are amortized on the straight-line method. The useful life of software is the period during which it may be used internally, and the useful lives of other intangible fixed assets are the periods stipulated in the Corporate Tax Law.

#### 3. Accounting policies for provisions

##### (1) Allowance for bad debts

To provide for possible losses from loans, the company assessed provision for performing loans with a prospected loss rate based on historical loss experiences, and estimated provision for identified loans from probable losses respectively.

##### (2) Accrued bonuses

To provide for employee bonus payments, estimated bonuses are provided based on prescribed calculation methods.

##### (3) Accrued pension benefits

To provide for the payment of employees' retirement benefits, the company recorded accrued pension benefits in accordance with the present value of estimated future obligations and the fair value of plan assets.

#### 4. Accounting for certain lease transactions

Financing leases other than those for which the ownership of the leased property transfers to the lessee are accounted for as ordinary rental transactions.

5. Accounting for hedging activities

Unrealized gains and losses on hedging instrument are principally deferred as assets or liabilities until the gains or losses on hedged instruments are realized.

6. Accounting for consumption taxes

Consumption taxes are accounted for based on the tax exclusion method.

**Significant change for the basis of financial statements**

Accounting policy for impairment of fixed assets

The company applied policies for impairment of fixed assets into this quarterly financial statements in advance of compulsory implementation, subject to "Accounting Standard for Impairment of Fixed Assets" (Accounting Standards Board of Japan August 9, 2002) and "Guideline for the application of Accounting Standards for Impairment of Fixed Assets" (Guideline for the application of Accounting Standard No.6, October 13, 2003). There is no impact on income before income taxes by adapting this new accounting standards.

**Notes to statement of financial condition**

(Millions of Yen )

	Dec.31, 2004	Dec.31, 2003	Mar.31, 2004
1. Accumulated depreciation of Tangible fixed assets	13,671	13,840	13,636
2. Debt Guarantees	21,319	27,244	23,462

In accordance with Auditing Committee Report No.61 "Audit Treatment of Accounting and Reporting of Debt Guarantees and Similar Acts" issued by Japanese Institute of Certified Public Accountant, items that are substantially recognized as debt guarantee are included in the notes as Debt Guarantees.

3. Subordinated borrowings

Short-term borrowings and Long-term borrowings include subordinated debts (subordinated borrowings) provided in Article 2 of the "Cabinet Office Ordinance on the Capital Adequacy Rule for Securities Companies" (the Prime Ministers Office Ordinance No.23, 2001).

(Millions of Yen )

	Dec.31, 2004	Dec.31, 2003	Mar.31, 2004
Short-term borrowings	39,000	-	39,000
Long-term borrowings	-	39,000	-

**Notes to statement of operations**

	( Millions of Yen)		
Details of extraordinary gain or loss	FY2004 3Q (9months)	FY2003 3Q (9months)	FY2003
Extraordinary gain			
Gain on sales of investment securities	696	578	750
Gain on sales of investment in subsidiaries and affiliates	-	30	30
Reversal of allowance for bad debts	-	-	244
Reversal of securities transaction liabilities	0	-	-
Extraordinary loss			
Loss on sale of fixed assets	-	57	91
Loss on disposal of fixed assets	223	40	202
Write-off of investment securities	331	53	220
Reorganising cost for overseas subsidiaries and affiliates	-	-	187
Provision for bad debts	-	100	910
Restructuring cost on branches and offices	-	-	174
Provision for directors' retirements	30	862	862
Provision for securities transaction liabilities	-	200	274

**Reference Data < Non-consolidated >**

## 1. Commissions

## (1) Breakdown by Categories

( Millions of Yen except percentage )

	FY2004 3Q	FY2003 3Q	Ratio	FY2003
	<A> (4/1/04 ~ 12/31/04)	<B> (4/1/03 ~ 12/31/03)	$\frac{\text{<A>}}{\text{<B>}}$ %	(4/1/03 ~ 3/31/04)
Brokerage commissions	31,967	34,978	91.4	47,487
< Equities >	< 31,568 >	< 33,709 >	< 93.6 >	< 46,008 >
< Bonds >	< 243 >	< 334 >	< 72.7 >	< 444 >
< Investment trusts >	< 156 >	< 934 >	< 16.7 >	< 1,034 >
Underwriting & selling commissions	1	1	129.2	1
< Bonds >	< 1 >	< 1 >	< 129.2 >	< 1 >
Subscription & distribution commissions	31,195	32,218	96.8	43,956
< Investment trusts >	< 19,103 >	< 23,095 >	< 82.7 >	< 30,266 >
Other commissions	32,152	31,309	102.7	42,533
< Investment trusts >	< 13,015 >	< 10,380 >	< 125.4 >	< 14,326 >
Total	95,317	98,507	96.8	133,978

## (2) Breakdown by Products

( Millions of Yen except percentage )

	FY2004 3Q	FY2003 3Q	Ratio	FY2003
	<A> (4/1/04 ~ 12/31/04)	<B> (4/1/03 ~ 12/31/03)	$\frac{\text{<A>}}{\text{<B>}}$ %	(4/1/03 ~ 3/31/04)
Equities	41,891	42,785	97.9	59,190
Bonds	4,876	3,759	129.7	5,554
Investment trusts	32,274	34,411	93.8	45,628
Others	16,274	17,550	92.7	23,605
Total	95,317	98,507	96.8	133,978

## 2. Net gain on trading

( Millions of Yen except percentage )

	FY2004 3Q	FY2003 3Q	Ratio	FY2003
	<A> (4/1/04 ~ 12/31/04)	<B> (4/1/03 ~ 12/31/03)	$\frac{\text{<A>}}{\text{<B>}}$ %	(4/1/03 ~ 3/31/04)
Equities, etc.	5,085	6,814	74.6	9,379
Bonds, forex, etc.	18,970	22,020	86.2	27,999
< Bonds, etc. >	< 10,757 >	< 15,823 >	< 68.0 >	< 20,343 >
< Forex, etc. >	< 8,212 >	< 6,196 >	< 132.5 >	< 7,655 >
Total	24,056	28,835	83.4	37,378



3. Equity Trading Activity (Excluding futures)

(Millions of Shares, Millions of Yen except percentage)

	FY2004 3Q <A> (4/1/04~ 12/31/04)		FY2003 3Q <B> (4/1/03~ 12/31/03)		Ratio <A> /<B> %		FY2003 (4/1/03 ~ 3/31/04)	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Total	7,766	6,622,595	13,937	9,055,140	55.7	73.1	19,291	12,967,277
< Proprietary >	< 599 >	< 790,243 >	< 868 >	< 998,778 >	< 69.0 >	< 79.1 >	< 1,062 >	< 1,271,572 >
< Agency >	< 7,166 >	< 5,832,351 >	< 13,068 >	< 8,056,361 >	< 54.8 >	< 72.4 >	< 18,229 >	< 11,695,705 >
Agent ratio	92.3 %	88.1 %	93.8 %	89.0 %			94.5 %	90.2 %
TSE share	1.2 %	1.1 %	2.4 %	2.0 %			2.4 %	2.0 %

4. Underwriting / Subscription / Selling

(Millions of Shares, Millions of Yen except percentage)

		FY2004 3Q <A> (4/1/04~ 12/31/04)	FY2003 3Q <B> (4/1/03~ 12/31/03)	Ratio <A> /<B> %	FY2003 (4/1/03 ~ 3/31/04)
Underwriting	Bonds < Face value >	27,407	30,971	88.5	45,033
* Subscription and distribution	Equities < Number of shares >	226	148	151.8	246
	Equities < Amounts >	375,394	309,423	121.3	479,569
	Bonds < Face value >	1,245,592	851,598	146.3	1,291,869
	Invest. trusts < Amounts >	3,850,813	3,653,903	105.4	5,138,749

\* Including selling and distribution of private placement

5. Capital Adequacy Ratio

(Millions of Yen except percentage)

		Dec.31, 2004	Dec.31, 2003	Mar.31, 2004
Basic items	Capital (A)	393,693	372,074	379,816
Supplementary items	Unrealized gain on investment securities	619	1,768	2,613
	Statutory reserves	495	422	495
	Allowance for bad debts	17	80	28
	Short-term subordinated borrowings	39,000	39,000	39,000
	Sub - total (B)	40,131	41,270	42,137
	Deductible assets (C)	121,488	149,291	130,538
	Net capital (A) + (B) - (C) (D)	312,336	264,053	291,414
Total risk	Market Risk	34,388	20,159	23,192
	Credit Risk	12,010	13,810	14,120
	Basic Risk	33,756	28,294	28,485
	Sub - total (E)	80,155	62,264	65,799
Capital adequacy ratio	(D) / (E)*100	389.6 %	424.0 %	442.8 %

Note.1 The table above shows calculation of capital adequacy ratio based on financial result in accordance with the provision in Securities and Exchange Law.

Note.2 "Short-term subordinated borrowings" described above is borrowings under a subordinated contract.

Amount : 39,000 million yen

Effective date : March 27, 2002

Maturity date : March 28, 2005

**QUARTERLY STATEMENT OF OPERATIONS**

( Millions of Yen )

	FY2004 1Q 04/01/04 06/30/04	FY2004 2Q 07/01/04 09/30/04	FY2004 3Q 10/01/04 12/31/04	FY2003 3Q 10/01/03 12/31/03	1/4 of FY2003
Operating revenue	44,884	39,447	40,266	44,112	44,795
Commissions	34,697	31,535	29,084	35,193	33,494
Brokerage commissions	14,855	8,252	8,859	12,631	11,871
Underwriting & selling commissions	0	0	1	0	0
Subscription & distribution commissions	9,781	11,095	10,318	11,863	10,989
Other commissions	10,060	12,187	9,905	10,697	10,633
Net gain on trading	8,057	6,314	9,684	7,050	9,344
Net gain on other trading	0	2	1	0	0
Interest and dividend income	2,128	1,595	1,496	1,868	1,955
Interest expense	1,455	1,177	504	1,355	1,572
Net operating revenue	43,428	38,269	39,762	42,756	43,223
Selling, general and administrative expense	32,934	33,988	33,510	30,053	30,917
Floor brokerage, communication and other transaction related costs	4,791	5,481	5,162	3,945	3,947
Employee compensation and benefits	14,882	15,058	15,243	14,640	15,950
Occupancy and equipment	3,552	3,553	3,267	3,479	3,592
Data processing and other services	6,412	6,834	6,974	5,603	4,864
Depreciation and amortization	395	407	420	435	431
Taxes, other than income taxes	543	391	263	115	128
Others	2,355	2,260	2,179	1,834	2,002
Operating income	10,494	4,281	6,251	12,703	12,305
Non-operating revenue	3,123	588	56	333	304
Non-operating expense	52	132	77	16	196
Ordinary income	13,565	4,736	6,231	13,020	12,413
Extraordinary gain	657	33	6	35	256
Extraordinary loss	313	143	129	127	730
Income before income taxes	13,909	4,626	6,109	12,928	11,939
Income taxes-current	33	33	32	7,800	38
Income taxes-deferred	6,079	1,827	2,761	(1,727)	4,293
Net income	7,796	2,765	3,315	6,856	7,607