

# 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, 2005

### 1. Basis of the preparation of quarterly financial statements

- (1) Adoption of simplified method for accounting treatment : None  
 (2) Change in accounting policy : None

### 2. Overall business performance for the nine months ended December 31, 2005.

- (1) Operating results ( from April 1, 2005 to December 31, 2005 )

( Millions of Yen except percentage )

	Operating revenue	Net operating revenue	Operating income
FY2005 3Q (9months)	183,693 [ 47.4% ]	182,583 [ 50.3% ]	68,986 [ 228.1% ]
FY2004 3Q (9months)	124,598	121,460	21,027
FY2004	172,653	169,125	32,034

	Ordinary income	Net income
FY2005 3Q (9months)	72,016 [ 193.5% ]	46,449 [ 234.7% ]
FY2004 3Q (9months)	24,533	13,876
FY2004	35,826	20,001

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

2. The percentages noted in Operating revenue, Net operating revenue etc. are the increase or decrease 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, 2005	1,405,247	444,122	31.6 %	576.2 %
As of Dec.31, 2004	1,259,444	394,312	31.3	389.6
As of Mar.31, 2005	1,387,220	400,840	28.9	343.3

STATEMENT OF FINANCIAL CONDITION

( Millions of Yen )

	Dec. 31, 2005 (A)	Dec. 31, 2004 (B)	variance (A) - (B)	Mar. 31, 2005
< ASSETS >				
<u>Current assets</u>	<u>1,327,643</u>	<u>1,134,783</u>	<u>192,860</u>	<u>1,262,008</u>
Cash on hand, Cash in banks	207,762	189,119	18,642	181,362
Cash segregated for customers and others	214,378	110,125	104,253	172,973
<u>Trading assets</u>	<u>417,155</u>	<u>514,784</u>	<u>(97,628)</u>	<u>545,597</u>
Trading securities	374,923	464,031	(89,107)	504,697
Derivatives	42,231	50,753	(8,521)	40,899
Trading receivables	4,259	-	4,259	-
<u>Margin account receivables</u>	<u>182,337</u>	<u>86,778</u>	<u>95,558</u>	<u>114,971</u>
Loans on margin transactions	171,887	74,177	97,710	98,620
Cash collateral pledged for securities borrowing on margin transactions	10,450	12,601	(2,151)	16,350
<u>Loans secured by securities</u>	<u>218,561</u>	<u>167,895</u>	<u>50,666</u>	<u>172,647</u>
Cash collateral pledged for securities borrowings	218,561	167,895	50,666	172,647
Advance payments	624	931	(306)	2,077
Cash paid for subscription	16,999	4,989	12,010	9,359
Short-term loans	519	687	(167)	950
Deferred tax assets	15,462	15,462	-	15,462
Others	49,615	44,027	5,588	46,629
Allowance for bad debts	(34)	(17)	(16)	(21)
<u>Non-current assets</u>	<u>77,604</u>	<u>124,661</u>	<u>(47,057)</u>	<u>125,212</u>
Tangible fixed assets	7,346	7,441	(95)	8,118
Intangible fixed assets	1,785	1,660	125	2,003
<u>Investments and others</u>	<u>68,471</u>	<u>115,558</u>	<u>(47,087)</u>	<u>115,090</u>
Investment securities	22,026	32,265	(10,239)	39,345
Investment in subsidiaries and affiliates	9,567	16,451	(6,883)	16,451
Long-term loans	11,010	50,911	(39,901)	50,997
Long-term guaranty deposits	17,035	20,770	(3,735)	18,018
Deferred tax assets	6,896	33,417	(26,521)	28,639
Others	13,072	12,900	171	12,819
Allowance for bad debts	(11,138)	(51,159)	40,021	(51,180)
<b>Total assets</b>	<b>1,405,247</b>	<b>1,259,444</b>	<b>145,803</b>	<b>1,387,220</b>

STATEMENT OF FINANCIAL CONDITION

( Millions of Yen )

	Dec. 31, 2005 (A)	Dec. 31, 2004 (B)	variance (A) - (B)	Mar. 31, 2005
< LIABILITIES >				
<u>Current liabilities</u>	<u>958,465</u>	<u>849,739</u>	<u>108,725</u>	<u>972,838</u>
Trading liabilities	142,691	167,954	(25,262)	178,464
Trading securities	99,756	111,018	(11,261)	139,836
Derivatives	42,934	56,935	(14,001)	38,628
Trading payables	-	7,043	(7,043)	24,686
Margin account payables	15,561	8,098	7,462	9,080
Borrowings on margin transactions	4,884	414	4,470	2,196
Cash received for securities lending on margin transactions	10,676	7,684	2,992	6,884
Borrowings pledged by securities	426,575	317,604	108,971	376,502
Cash collateral received for securities lendings	221,060	138,404	82,656	134,710
Borrowings on Gensaki transaction	205,515	179,200	26,315	241,791
Deposits received	215,692	103,732	111,959	133,225
Guaranty deposits received	44,224	28,558	15,665	27,601
Short-term borrowings	56,295	137,895	(81,600)	93,195
Commercial paper	-	60,000	(60,000)	105,000
Income taxes payable	12,499	919	11,579	949
Others	44,925	17,933	26,992	24,134
<u>Non-current liabilities</u>	<u>1,965</u>	<u>14,897</u>	<u>(12,931)</u>	<u>13,001</u>
Long-term borrowings	-	2,000	(2,000)	2,000
Accrued pension benefits	1,607	12,262	(10,654)	10,524
Others	358	635	(277)	476
<u>Statutory reserves</u>	<u>693</u>	<u>495</u>	<u>198</u>	<u>540</u>
<b>Total liabilities</b>	<b>961,124</b>	<b>865,132</b>	<b>95,992</b>	<b>986,380</b>
< SHAREHOLDERS' EQUITY >				
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	52,187	2,813	49,374	8,937
Unappropriated retained earnings	52,187	2,813	49,374	8,937
Net unrealized gain on investment securities	1,054	619	435	1,022
<b>Total shareholders' equity</b>	<b>444,122</b>	<b>394,312</b>	<b>49,810</b>	<b>400,840</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,405,247</b>	<b>1,259,444</b>	<b>145,803</b>	<b>1,387,220</b>

STATEMENT OF OPERATIONS

( Millions of Yen except percentage )

	FY2005 3Q <A> (4/1/05 ~ 12/31/05)	FY2004 3Q <B> (4/1/04 ~ 12/31/04)	Ratio <A> <B>	FY2004 (4/1/04~ 3/31/05)
Operating revenue	183,693	124,598	147.4 %	172,653
Commissions	139,727	95,317	146.6	134,218
Net gain on trading	38,610	24,056	160.5	31,209
Net gain on other trading	1	4	27.5	6
Interest and dividend income	5,354	5,220	102.6	7,219
Interest expense	1,109	3,137	35.4	3,528
Net operating revenue	182,583	121,460	150.3	169,125
Selling, general and administrative expense	113,596	100,433	113.1	137,090
Brokerage, communication and other transaction related costs	14,336	15,435	92.9	21,307
Employee compensation and benefits	58,635	45,184	129.8	62,200
Occupancy	10,342	10,373	99.7	13,738
Data processing and other services	20,404	20,220	100.9	27,423
Depreciation and amortization	1,243	1,224	101.6	1,663
Taxes, other than income taxes	1,506	1,198	125.7	1,309
Others	7,128	6,795	104.9	9,448
Operating income	68,986	21,027	328.1	32,034
Non-operating revenue	3,105	3,767	82.4	4,132
Non-operating expense	75	262	28.7	340
Ordinary income	72,016	24,533	293.5	35,826
Extraordinary gain	16,170	697	2,319.9	813
Extraordinary loss	8,505	585	1,452.7	1,336
Income before income taxes	79,681	24,644	323.3	35,304
Income taxes-current	11,511	98	11,746.2	131
Income taxes-deferred	21,720	10,669	203.6	15,171
Net income	46,449	13,876	334.7	20,001
Retained earnings at beginning of period	7,337	(11,063)	-	(11,063)
Interim Dividend	1,600	-	-	-
Retained earnings at end of period	52,187	2,813	1,855.2	8,937

## Notes to quarterly financial statements

The company's quarterly financial statements have been prepared in accordance with the "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.

## Significant accounting policies

### 1. Valuation of financial instruments

#### (1) Trading purposes

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

#### (2) Non-trading purposes

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

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

Recorded at cost using the moving average method.

##### (ii) Other securities

###### (a) Securities with market value:

Recorded at market value. The difference between cost using the moving average method and market value is recorded as net unrealized gains on investment securities in Shareholders' equity in the statement of financial condition.

###### (b) Securities without market value:

Recorded at cost using the moving average method. Investments in partnership funds are recorded at net asset values based on its financial statements in proportion to the company's interests.

### 2. Depreciation and amortization

#### (1) Tangible fixed assets

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

#### (2) Intangible fixed assets

Intangible fixed assets are amortized using the straight-line method. The useful life of software is the estimated period for internal use, 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 estimated a provision for performing loans using a projected loss rate based on historical loss experiences, and estimated a provision for non-performing loans based on probable losses for each specific loan.

#### (2) Accrued bonuses

To provide for employee and director 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 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

In general, unrealized gains and losses on hedging instruments are deferred as assets or liabilities until the gains or losses on the hedged items are realized.

## 6. Accounting for consumption taxes

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

Notes to statement of financial condition

	( Millions of Yen )		
	<u>Dec.31, 2005</u>	<u>Dec.31, 2004</u>	<u>Mar.31, 2005</u>
1. Accumulated depreciation of tangible fixed assets	12,611	13,671	13,151
2. Debt guarantees	23,901	21,319	22,056

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

## 3. Subordinated borrowings

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) were included in Short-term borrowings as set out below.

	( Millions of Yen )		
	<u>Dec.31, 2005</u>	<u>Dec.31, 2004</u>	<u>Mar.31, 2005</u>
Short-term borrowings	-	39,000	-

Notes to statement of operations

1. Net gains on trading for the current year includes ¥ 97 million of net unrealized losses.

	( Millions of Yen )		
	<u>FY2005 3Q</u>	<u>FY2004 3Q</u>	<u>FY2004</u>
	(9months)	(9months)	
2. Details of extraordinary gains and losses			
Extraordinary gains			
Gain on sales of investment securities	1,743	696	813
Gain on sales of investments in subsidiaries and affiliates	14,398	-	-
Reversal of bad debt provision	28	-	-
Reversal of provision for securities transaction liabilities	-	0	-
Extraordinary losses			
Loss on sales of fixed assets	113	-	-
Loss on disposal of fixed assets	361	223	460
Write-off of investment securities	2,757	331	353
Contribution to the securities market improvement fund	86	-	-
Repairment and anti-earthquake reinforcement cost on branches	-	-	448
Provision for directors' retirements	99	30	30
Loss on termination of retirement benefit system	4,932	-	-
Provision for securities transaction liabilities	153	-	44

Reference Data

## 1.Commissions

## (1) Breakdown by Categories

( Millions of Yen except percentage )

	FY2005 3Q <A> (4/1/05 ~ 12/31/05)	FY2004 3Q <A> (4/1/04 ~ 12/31/04)	Ratio $\frac{\text{<A>}}{\text{<B>}}$	FY2004 (4/1/04 ~ 3/31/05)
Brokerage commissions	47,094	31,967	147.3 %	43,436
< Equities >	< 46,754 >	< 31,568 >	< 148.1 >	< 42,930 >
< Bonds >	< 184 >	< 243 >	< 75.7 >	< 311 >
< Investment trusts >	< 155 >	< 156 >	< 99.9 >	< 194 >
Underwriting & selling commissions	4	1	312.9	3
< Bonds >	< 4 >	< 1 >	< 312.9 >	< 3 >
Subscription & distribution commissions	53,923	31,195	172.9	45,843
< Investment trusts >	< 41,008 >	< 19,103 >	< 214.7 >	< 28,515 >
Other commissions	38,704	32,152	120.4	44,934
< Investment trusts >	< 17,541 >	< 13,015 >	< 134.8 >	< 17,744 >
Total	139,727	95,317	146.6	134,218

## (2) Breakdown by Products

( Millions of Yen except percentage )

	FY2005 3Q <A> (4/1/05 ~ 12/31/05)	FY2004 3Q <A> (4/1/04 ~ 12/31/04)	Ratio $\frac{\text{<A>}}{\text{<B>}}$	FY2004 (4/1/04 ~ 3/31/05)
Equities	57,726	41,891	137.8 %	57,370
Bonds	4,417	4,876	90.6	6,713
Investment trusts	58,706	32,274	181.9	46,454
Others	18,877	16,274	116.0	23,679
Total	139,727	95,317	146.6	134,218

## 2.Net gain on Trading

( Millions of Yen except percentage )

	FY2005 3Q <A> (4/1/05 ~ 12/31/05)	FY2004 3Q <A> (4/1/04 ~ 12/31/04)	Ratio $\frac{\text{<A>}}{\text{<B>}}$	FY2004 (4/1/04 ~ 3/31/05)
Equities, etc.	8,958	5,085	176.1 %	7,632
Bonds, forex, etc.	29,652	18,970	156.3	23,577
< Bonds, etc. >	< 19,231 >	< 10,757 >	< 178.8 >	< 16,204 >
< Forex, etc. >	< 10,420 >	< 8,212 >	< 126.9 >	< 7,372 >
Total	38,610	24,056	160.5	31,209

## 3. Equity Trading Activity (Excluding futures)

(Millions of Shares, Millions of Yen except percentage)

	FY2005 3Q <A> (4/1/05~ 12/31/05)		FY2004 3Q <B> (4/1/04~ 12/31/04)		Ratio <A> ----- <B>		FY2004 (4/1/04 ~ 3/31/05)	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Total	9,833	8,110,222	7,766	6,622,595	126.6 %	122.5 %	10,382	8,725,766
< Proprietary >	< 999 >	< 1,192,927 >	< 599 >	< 790,243 >	< 166.8 >	< 151.0 >	< 864 >	< 1,128,283 >
< Agency >	< 8,834 >	< 6,917,294 >	< 7,166 >	< 5,832,351 >	< 123.3 >	< 118.6 >	< 9,517 >	< 7,597,482 >
Agent ratio	89.8 %	85.3 %	92.3 %	88.1 %			91.7 %	87.1 %
TSE share	0.9 %	0.8 %	1.2 %	1.1 %			1.1 %	1.1 %

## 4. Underwriting / Subscription / Selling

(Millions of Shares, Millions of Yen except percentage)

			FY2005 3Q <A> (4/1/05~ 12/31/05)	FY2004 3Q <B> (4/1/04~ 12/31/04)	Ratio <A> ----- <B>	FY2004 (4/1/04 ~ 3/31/05)
Underwriting	Bonds	< Face value >	70,784	27,407	258.3 %	30,572
* Subscription and distribution	Equities	< Number of shares >	42	226	18.7	342
	Equities	< Amounts >	429,225	375,394	114.3	516,785
	Bonds	< Face value >	1,272,038	1,245,592	102.1	1,566,312
	Invest. trusts	< Amounts >	5,480,431	3,850,813	142.3	5,174,829
	Others	< Amounts >	29,025	-	-	15,300

\* Including selling and distribution of private placement

## 5. Capital Adequacy Ratio

(Millions of Yen except percentage)

		Dec. 31, 2005	Dec. 31, 2004	Mar. 31, 2005
Basic items	Capital (A)	443,068	393,693	398,218
Supplementary items	Unrealized gain on investment securities	1,054	619	1,022
	Statutory reserves	693	495	540
	Allowance for bad debts	34	17	21
	Short-term subordinated borrowings	-	39,000	-
	Sub - total (B)	1,782	40,131	1,583
	Deductible assets (C)	75,169	121,488	119,340
	Net capital (A) + (B) - (C) (D)	369,681	312,336	280,461
Total risk	Market Risk	15,419	34,388	34,613
	Credit Risk	13,762	12,010	12,548
	Basic Risk	34,973	33,756	34,511
	Sub - total (E)	64,155	80,155	81,673
Capital adequacy ratio	(D) / (E)*100	576.2 %	389.6 %	343.3 %

Note: The table above shows calculation of the capital adequacy ratio based on financial results in accordance with the provision set out in the Securities and Exchange Law.



QUARTERLY STATEMENT OF OPERATIONS

( Millions of Yen )

	FY2005 1Q 04/01/05 06/30/05	FY2005 2Q 07/01/05 09/30/05	FY2005 3Q 10/01/05 12/31/05	FY2004 3Q 10/01/04 12/31/04	1/4 of FY2004 04/01/04 03/31/05
Operating revenue	48,694	60,811	74,186	40,266	43,163
Commissions	35,013	47,103	57,610	29,084	33,554
Brokerage commissions	9,270	15,125	22,698	8,859	10,859
Underwriting & selling commissions	1	1	1	1	0
Subscription & distribution commissions	15,081	17,798	21,043	10,318	11,460
Other commissions	10,659	14,177	13,866	9,905	11,233
Net gain on trading	11,814	11,919	14,876	9,684	7,802
Net gain on other trading	0	0	0	1	1
Interest and dividend income	1,866	1,788	1,699	1,496	1,804
Interest expense	367	427	313	504	882
Net operating revenue	48,326	60,383	73,873	39,762	42,281
Selling, general and administrative expense	34,888	37,807	40,901	33,510	34,272
Brokerage, communication and other transaction related costs	4,364	4,561	5,410	5,162	5,326
Employee compensation and benefits	17,359	19,778	21,496	15,243	15,550
Occupancy	3,294	3,457	3,590	3,267	3,434
Data processing and other services	6,526	6,853	7,024	6,974	6,855
Depreciation and amortization	486	337	419	420	415
Taxes, other than income taxes	426	507	572	263	327
Others	2,429	2,311	2,387	2,179	2,362
Operating income	13,438	22,576	32,971	6,251	8,008
Non-operating revenue	243	601	2,260	56	1,033
Non-operating expense	77	24	(26)	77	85
Ordinary income	13,604	23,153	35,258	6,231	8,956
Extraordinary gain	-	179	15,990	6	203
Extraordinary loss	264	214	8,025	129	334
Income before income taxes	13,340	23,118	43,223	6,109	8,826
Income taxes-current	37	36	11,437	32	32
Income taxes-deferred	5,494	9,792	6,432	2,761	3,792
Net income	7,807	13,289	25,352	3,315	5,000