

# 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, 2006

## 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, 2006

(1) Operating results ( from April 1, 2006 to December 31, 2006 )

( Millions of Yen except percentage )

	Operating revenue	Net operating revenue	Operating income
FY2006 3Q (9 months)	187,954 [ 2.3% ]	186,234 [ 2.0% ]	57,548 [ -16.6% ]
FY2005 3Q (9 months)	183,693	182,583	68,986
FY2005	247,748	246,359	91,299

	Ordinary income	Net income
FY2006 3Q (9 months)	58,783 [ -18.4% ]	32,716 [ -29.6% ]
FY2005 3Q (9 months)	72,016	46,449
FY2005	95,480	59,992

Note: 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	Net assets	Equity ratio	Capital adequacy ratio
As of Dec. 31, 2006	1,394,049	430,026	30.8 %	570.9 %
As of Dec. 31, 2005	1,405,247	444,122	31.6	576.2
As of Mar. 31, 2006	1,319,130	457,885	34.7	557.6

Note: The figures as of December 31, 2005 and March 31, 2006 previously stated as Shareholders' equity and Shareholders' equity ratio are stated as Net assets and Equity ratio, respectively.

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

STATEMENT OF FINANCIAL CONDITION

( Millions of Yen )

	Dec. 31, 2006 (A)	Dec. 31, 2005 (B)	variance (A) - (B)	Mar. 31, 2006
< ASSETS >				
<b>Current assets</b>	<b>1,311,505</b>	<b>1,327,643</b>	<b>(16,137)</b>	<b>1,242,783</b>
Cash on hand, Cash in banks	148,386	207,762	(59,376)	227,419
Cash segregated for customers and others	156,205	214,378	(58,172)	203,142
Trading assets	478,344	417,155	61,189	339,240
Trading securities	453,741	374,923	78,817	304,142
Derivatives	24,603	42,231	(17,627)	35,098
Trading receivables	-	4,259	(4,259)	-
Margin account receivables	126,968	182,337	(55,369)	202,181
Loans on margin transactions	124,680	171,887	(47,207)	200,451
Cash collateral pledged for securities borrowing on margin transactions	2,287	10,450	(8,162)	1,730
Loans secured by securities	340,762	218,561	122,200	199,772
Cash collateral pledged for securities borrowings	340,762	218,561	122,200	199,772
Advance payments	4,576	624	3,951	259
Cash paid for subscription	10,839	16,999	(6,159)	7,913
Short-term loans	523	519	4	310
Deferred tax assets	10,182	15,462	(5,279)	15,657
Others	34,857	49,615	(14,757)	47,022
Allowance for bad debts	(142)	(34)	(108)	(138)
<b>Non-current assets</b>	<b>82,543</b>	<b>77,604</b>	<b>4,939</b>	<b>76,346</b>
Tangible fixed assets	8,605	7,346	1,258	7,976
Intangible fixed assets	2,163	1,785	377	1,897
Investments and others	71,775	68,471	3,303	66,472
Investment securities	19,782	22,026	(2,244)	21,057
Investment in subsidiaries and affiliates	13,475	9,567	3,907	8,817
Long-term loans	5,206	11,010	(5,803)	11,077
Long-term guarantee deposits	17,483	17,035	448	15,988
Deferred tax assets	8,226	6,896	1,330	7,712
Others	12,966	13,072	(105)	12,974
Allowance for bad debts	(5,365)	(11,138)	5,772	(11,154)
<b>Total assets</b>	<b>1,394,049</b>	<b>1,405,247</b>	<b>(11,198)</b>	<b>1,319,130</b>

## STATEMENT OF FINANCIAL CONDITION

( Millions of Yen )

	Dec. 31, 2006 (A)	Dec. 31, 2005 (B)	variance (A) - (B)	Mar. 31, 2006
<b>&lt; LIABILITIES &gt;</b>				
<b>Current liabilities</b>	961,203	958,465	2,738	858,471
Trading liabilities	146,739	142,691	4,047	128,162
Trading securities	120,139	99,756	20,382	93,968
Derivatives	26,599	42,934	(16,334)	34,193
Trading payables	6,556	-	6,556	6,463
Margin account payables	5,637	15,561	(9,923)	8,907
Borrowings on margin transactions	1,166	4,884	(3,718)	5,137
Cash received for securities lending on margin transactions	4,471	10,676	(6,205)	3,770
Borrowings pledged by securities	308,113	426,575	(118,462)	325,088
Cash collateral received for securities lendings	165,419	221,060	(55,640)	235,458
Borrowings on Gensaki transaction	142,694	205,515	(62,821)	89,630
Deposits received	183,887	215,692	(31,804)	196,892
Guaranty deposits received	32,492	44,224	(11,731)	47,367
Short-term borrowings	190,475	56,295	134,180	76,395
Commercial paper	50,000	-	50,000	-
Income taxes payable	7,502	12,499	(4,996)	23,140
Others	29,798	44,925	(15,127)	46,054
<b>Non-current liabilities</b>	2,015	1,965	50	2,028
Accrued pension benefits	1,706	1,607	99	1,675
Others	309	358	(49)	353
<b>Statutory reserves</b>	803	693	109	744
<b>Total liabilities</b>	964,022	961,124	2,897	861,244
<b>&lt; SHAREHOLDERS' EQUITY &gt;</b>				
Common stock	-	100,000	-	100,000
Additional paid-in capital	-	290,880	-	290,880
Legal capital reserve	-	290,880	-	290,880
Retained earnings	-	52,187	-	65,730
Unappropriated retained earnings	-	52,187	-	65,730
Net unrealized gain on investment securities	-	1,054	-	1,274
<b>Total shareholders' equity</b>	-	444,122	-	457,885
<b>Total liabilities and shareholders' equity</b>	-	1,405,247	-	1,319,130
<b>&lt; NET ASSETS &gt;</b>				
<b>Shareholders' equity</b>	429,327	-	-	-
Common stock	100,000	-	-	-
Additional paid-in capital	290,880	-	-	-
Legal capital reserve	25,000	-	-	-
Other capital reserve	265,880	-	-	-
Retained earnings	38,446	-	-	-
Other retained earnings	38,446	-	-	-
Unappropriated retained earnings	38,446	-	-	-
Valuation and translation adjustments	699	-	-	-
Net unrealized gain on investment securities	699	-	-	-
<b>Total Net Assets</b>	430,026	-	-	-
<b>Total Liabilities and Net Assets</b>	1,394,049	-	-	-

STATEMENT OF OPERATIONS

( Millions of Yen except percentage )

	FY2006 3Q <A> (4/1/06 ~ 12/31/06)	FY2005 3Q <B> (4/1/05 ~ 12/31/05)	Ratio A/B	FY2005 (4/1/05~ 3/31/06)
Operating revenue	187,954	183,693	102.3 %	247,748
Commissions	150,628	139,727	107.8	192,965
Net gain on trading	31,830	38,610	82.4	47,651
Net gain on other trading	0	1	43.1	1
Interest and dividend income	5,494	5,354	102.6	7,129
Interest expense	1,719	1,109	155.0	1,388
Net operating revenue	186,234	182,583	102.0	246,359
Selling, general and administrative expense	128,686	113,596	113.3	155,060
Brokerage, communication and other transaction related costs	16,112	14,336	112.4	20,221
Employee compensation and benefits	65,092	58,635	111.0	79,179
Occupancy	12,883	10,342	124.6	14,596
Data processing and other services	23,573	20,404	115.5	27,239
Depreciation and amortization	1,423	1,243	114.5	1,690
Taxes, other than income taxes	1,356	1,506	90.0	1,948
Others	8,243	7,128	115.6	10,183
Operating income	57,548	68,986	83.4	91,299
Non-operating revenue	1,357	3,105	43.7	4,400
Non-operating expense	122	75	162.8	219
Ordinary income	58,783	72,016	81.6	95,480
Extraordinary gain	142	0	0.0	16,026
Extraordinary loss	1,857	8,505	21.8	8,758
Income before income taxes	57,068	79,681	71.6	102,748
Income taxes-current	18,997	11,511	165.0	22,197
Income taxes-deferred	5,354	21,720	24.7	20,558
Net income	32,716	46,449	70.4	59,992
Retained earnings at beginning of period	-	7,337	-	7,337
Interim dividend	-	0	-	1,600
Retained earnings at end of period	-	52,187	-	65,730

STATEMENT OF CHANGES IN NET ASSETS

FY2006 (from April 1, 2006 to December 31, 2006)

( Millions of Yen )

	Shareholders' Equity					Valuation and translation adjustments	Total Net Assets
	Common stock	Additional paid-in capital		Retained earnings	Total		
		Legal capital reserve	Other capital reserve	Other retained earnings			
				Unappropriated retained earnings			
Net unrealized gain on investment securities							
Balance at beginning of period	100,000	290,880	-	65,730	456,610	1,274	457,885
Changes during the period							
Addition to Other capital reserve from Legal capital reserve		(265,880)	265,880		-		-
Dividends from retained earnings				(60,000)	(60,000)		(60,000)
Net income				32,716	32,716		32,716
Net changes of Net Assets other than Shareholders' equity						(575)	(575)
Total changes	-	(265,880)	265,880	(27,283)	(27,283)	(575)	(27,858)
Balance at end of period	100,000	25,000	265,880	38,447	429,327	699	430,026

## Notes to interim 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.

## Accounting policies

### 1. Valuation of financial instruments

#### (1) Trading purposes

Securities and derivative contracts 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 the cost using the moving average method and market value is recorded as Net unrealized gain on investment securities in Net assets on the statement of financial condition.

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

Recorded at cost using the moving average method. Investments in partnership funds are consolidated in proportion to the company's interests, but certain investments in partnerships which will not have material effect on financial statement are recorded as investment securities at net asset value 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 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 in accordance with 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 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 provision for performing loans with a prospected loss rate based on historical loss experiences, and estimated provision for non-performing loans from probable losses respectively.

#### (2) Accrued bonuses

To provide for employee, director and executive officer bonus payments, accrued bonuses are estimated based on prescribed calculation methods.

#### (3) Accrued pension benefits

To provide for the payment of annuities, 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 rental.

### 5. Accounting for hedging activities

In general, unrealized gains and losses on hedging instrument are 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.

Changes in basis for the financial statements**Presentation of Net Assets in the Balance Sheet**

The Company adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan, Statement No. 5, December 9, 2005), and "Implementation Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan, Statement No. 8, December 9, 2005) from this fiscal interim period. Total shareholders' equity under the previous accounting standards at end of this period was ¥430,124million.

Notes to statement of financial condition

	( Millions of Yen )		
	<u>Dec. 31, 2006</u>	<u>Jun. 30, 2005</u>	<u>Mar. 31, 2006</u>
1. Accumulated depreciation of tangible fixed assets	12,390	12,611	12,378
2. Debt guarantees	20,586	23,901	22,715

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.

Notes to statement of operations

## Details of extraordinary gains and losses

	( Millions of Yen )		
	<u>FY2006 3Q</u> <u>(9 months)</u>	<u>FY2005 3Q</u> <u>(9 months)</u>	<u>FY2005</u>
Extraordinary gains			
Gain on sales of investment securities	132	1,743	1,743
Gain on sales of investments in subsidiaries and affiliates	-	14,398	14,282
Reversal of allowance for bad debts	10	28	-
Extraordinary losses			
Loss on sales of fixed assets	-	113	113
Loss on disposal of fixed assets	344	361	528
Write-off of investment securities	579	2,757	2,758
Contribution to the securities market improvement fund	-	86	86
Reorganizing cost for overseas subsidiaries and affiliates	800	-	-
Provision for directors' retirements	73	99	99
Loss on termination of retirement benefit system	-	4,932	4,967
Provision for securities transaction liabilities	59	153	204

Reference Data

## 1.Commissions

## (1) Breakdown by Categories

( Millions of Yen except percentage )

	FY2006 3Q <A> (4/1/06 ~ 12/31/06)	FY2005 3Q <B> (4/1/05 ~ 12/31/05)	Ratio $\frac{\text{<A>}}{\text{<B>}}$	FY2005 (4/1/05 ~ 3/31/06)
Brokerage commissions	29,264	47,094	62.1 %	65,195
< Equities >	< 28,808 >	< 46,754 >	< 61.6 >	< 64,700 >
< Bonds >	< 333 >	< 184 >	< 181.1 >	< 305 >
< Investment trusts >	< 122 >	< 155 >	< 78.6 >	< 189 >
Underwriting & selling commissions	-	4	-	5
< Bonds >	< - >	< 4 >	< - >	< 5 >
Subscription & distribution commissions	67,755	53,923	125.7	71,660
< Investment trusts >	< 53,596 >	< 41,008 >	< 130.7 >	< 54,688 >
Other commissions	53,608	38,704	138.5	56,103
< Investment trusts >	< 29,577 >	< 17,541 >	< 168.6 >	< 25,557 >
Total	150,628	139,727	107.8	192,965

## (2) Breakdown by Products

( Millions of Yen except percentage )

	FY2006 3Q <A> (4/1/06 ~ 12/31/06)	FY2005 3Q <B> (4/1/05 ~ 12/31/05)	Ratio $\frac{\text{<A>}}{\text{<B>}}$	FY2005 (4/1/05 ~ 3/31/06)
Equities	40,827	57,726	70.7 %	79,054
Bonds	4,655	4,417	105.4	5,836
Investment trusts	83,296	58,706	141.9	80,435
Others	21,848	18,877	115.7	27,637
Total	150,628	139,727	107.8	192,965

## 2.Net gain on Trading

( Millions of Yen except percentage )

	FY2006 3Q <A> (4/1/06 ~ 12/31/06)	FY2005 3Q <B> (4/1/05 ~ 12/31/05)	Ratio $\frac{\text{<A>}}{\text{<B>}}$	FY2005 (4/1/05 ~ 3/31/06)
Equities, etc.	2,364	8,958	26.4 %	10,802
Bonds, forex, etc.	29,466	29,652	99.4	36,848
< Bonds, etc. >	< 17,020 >	< 19,231 >	< 88.5 >	< 23,199 >
< Forex, etc. >	< 12,446 >	< 10,420 >	< 119.4 >	< 13,649 >
Total	31,830	38,610	82.4	47,651



## 3. Equity Trading Activity (Excluding futures)

(Millions of Shares, Millions of Yen except percentage)

	FY2006 3Q <A> (4/1/06~ 12/31/06)		FY2005 3Q <B> (4/1/05~ 12/31/05)		Ratio <A> ----- <B>		FY2005 (4/1/05 ~ 3/31/06)	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Total	4,699	5,229,662	9,833	8,110,222	47.8 %	64.5 %	12,499	11,165,497
< Proprietary >	< 445 >	< 694,000 >	< 999 >	< 1,192,927 >	< 44.6 >	< 58.2 >	< 1,250 >	< 1,624,475 >
< Agency >	< 4,253 >	< 4,535,662 >	< 8,834 >	< 6,917,294 >	< 48.1 >	< 65.6 >	< 11,249 >	< 9,541,022 >
Agent ratio	90.5 %	86.7 %	89.8 %	85.3 %			90.0 %	85.5 %
TSE share	0.5 %	0.5 %	0.9 %	0.8 %			0.9 %	0.8 %

## 4. Underwriting / Subscription / Selling

(Millions of Shares, Millions of Yen except percentage)

			FY2006 3Q <A> (4/1/06~ 12/31/06)	FY2005 3Q <B> (4/1/05~ 12/31/05)	Ratio <A> ----- <B>	FY2005 (4/1/05 ~ 3/31/06)
Underwriting	Bonds	< Face value >	-	70,784	- %	72,901
* Subscription and distribution	Equities	< Number of shares >	334	42	793.2	111
	Equities	< Amounts >	552,481	429,225	128.7	553,493
	Bonds	< Face value >	1,087,300	1,272,038	85.5	1,641,283
	Invest. trusts	< Amounts >	5,519,701	5,480,431	100.7	7,533,532
	Others	< Amounts >	18,775	29,025	64.7	37,284

\* Including selling and distribution of private placement

## 5. Capital Adequacy Ratio

(Millions of Yen except percentage)

		Dec. 31, 2006	Dec. 31, 2005	Mar. 31, 2006
Basic items	Capital (A)	429,327	443,068	426,610
Supplementary items	Unrealized gain on investment securities	699	1,054	1,274
	Statutory reserves	803	693	744
	Allowance for bad debts	142	34	138
	Sub - total (B)	1,644	1,782	2,156
Deductible assets (C)	84,273	75,169	72,725	
Net capital (A) + (B) - (C) (D)	346,698	369,681	356,041	
Total risk	Market Risk	6,237	15,419	13,304
	Credit Risk	12,252	13,762	14,556
	Basic Risk	42,233	34,973	35,987
	Sub - total (E)	60,723	64,155	63,848
Capital adequacy ratio (D) / (E)*100	570.9 %	576.2 %	557.6 %	

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 )

	FY2006 1Q 04/01/06 06/30/06	FY2006 2Q 07/01/06 09/30/06	FY2006 3Q 10/01/06 12/31/06	FY2005 3Q 10/01/05 12/31/05	1/4 of FY2006 04/01/05 03/31/06
Operating revenue	63,255	58,214	66,484	74,186	61,937
Commissions	52,950	45,682	51,994	57,610	48,241
Brokerage commissions	11,188	8,278	9,797	22,698	16,298
Underwriting & selling commissions	-	-	-	1	1
Subscription & distribution commissions	26,411	19,203	22,140	21,043	17,915
Other commissions	15,351	18,200	20,056	13,866	14,025
Net gain on trading	8,594	10,669	12,567	14,876	11,912
Net gain on other trading	0	0	0	0	0
Interest and dividend income	1,709	1,861	1,922	1,699	1,782
Interest expense	392	588	738	313	347
Net operating revenue	62,862	57,625	65,746	73,873	61,589
Selling, general and administrative expense	42,909	41,043	44,733	40,901	38,765
Brokerage, communication and other transaction related costs	5,364	5,434	5,312	5,410	5,055
Employee compensation and benefits	22,321	19,616	23,154	21,496	19,794
Occupancy	4,102	4,566	4,214	3,590	3,649
Data processing and other services	7,554	7,804	8,214	7,024	6,809
Depreciation and amortization	455	462	505	419	422
Taxes, other than income taxes	423	452	480	572	487
Others	2,686	2,705	2,850	2,387	2,545
Operating income	19,953	16,581	21,013	32,971	22,824
Non-operating revenue	775	273	309	2,260	1,100
Non-operating expense	136	(45)	31	(26)	54
Ordinary income	20,592	16,900	21,291	35,258	23,870
Extraordinary gain	10	137	(4)	15,990	4,006
Extraordinary loss	901	430	525	8,025	2,189
Income before income taxes	19,700	16,607	20,761	43,223	25,687
Income taxes-current	500	4,883	13,613	11,437	5,549
Income taxes-deferred	7,839	2,194	(4,679)	6,432	5,139
Net income	11,360	9,529	11,826	25,352	14,998