



28 April 2006

Summary of Consolidated Financial Statements for the Financial Year Ended 31 March 2006

Listed company's name: **Shinko Securities Co., Ltd.** Listing stock exchanges: Tokyo, Osaka, and Nagoya
 Code No.: 8606 Location of head office: Tokyo
 (URL: <http://www.shinko-sec.co.jp/>)
 Representative: Takashi Kusama, President
 Contact: Akihiko Furuta, General Manager of Treasury Dept. at (03) 5203-6000
 These financial statements were approved at a meeting of the Board of Directors on 28 April 2006.
 Name of parent company and other affiliated entities: Mizuho Financial Group, Inc. (Code: 8411) and one other company
 Percentage of company voting rights held by parent company and other affiliated entities: 27.5%
 These financial statements were not compiled in accordance with U.S. GAAP.

1. Summary of Consolidated Business Results for the Financial Year Ended 31 March 2006 (1 April 2005 to 31 March 2006)

(1) Consolidated results of business activities (Note) The amounts displayed below have been rounded off downwards to the nearest million yen.

	Operating revenues		Net operating revenues		Operating profit		Ordinary profit	
	mil. yen	%	mil. yen	%	mil. yen	%	mil. yen	%
Financial year to March 2006	152,915	(35.3)	148,520	(37.1)	39,263	(286.0)	43,184	(203.7)
Financial year to March 2005	113,052	(-1.7)	108,350	(-1.9)	10,170	(-50.1)	14,220	(-37.2)

	Net profit		Net profit per share	Net profit per share (diluted)	Return on Equity (ROE)
	mil. yen	%	yen	yen	%
Financial year to March 2006	34,962	(351.8)	44.77	44.68	13.8
Financial year to March 2005	7,737	(-50.4)	9.85	—	3.4

(Note) 1. Investment profit or loss from equity method: Financial year to March 2006: 217 million yen
 Financial year to March 2005: 101 million yen
 2. Average number of shares outstanding (consolidated): Financial year to March 2006: 770,796,576
 Financial year to March 2005: 768,152,743
 3. There has been changes in the accounting methods used to compile these financial statements.
 4. Percentage figures for operating revenues, net operating revenues, operating profit, ordinary profit, and net profit represent the percentage increase (or decrease) on the previous year.

(2) Consolidated financial status

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	mil. yen	mil. yen	%	yen
Financial year to March 2006	3,475,843	275,472	7.9	356.86
Financial year to March 2005	3,485,017	232,083	6.7	300.82

(Note) Number of shares outstanding as of end of financial year (consolidated): Financial year to March 2006: 770,670,430
 Financial year to March 2005: 770,938,777

(3) Consolidated cash flows

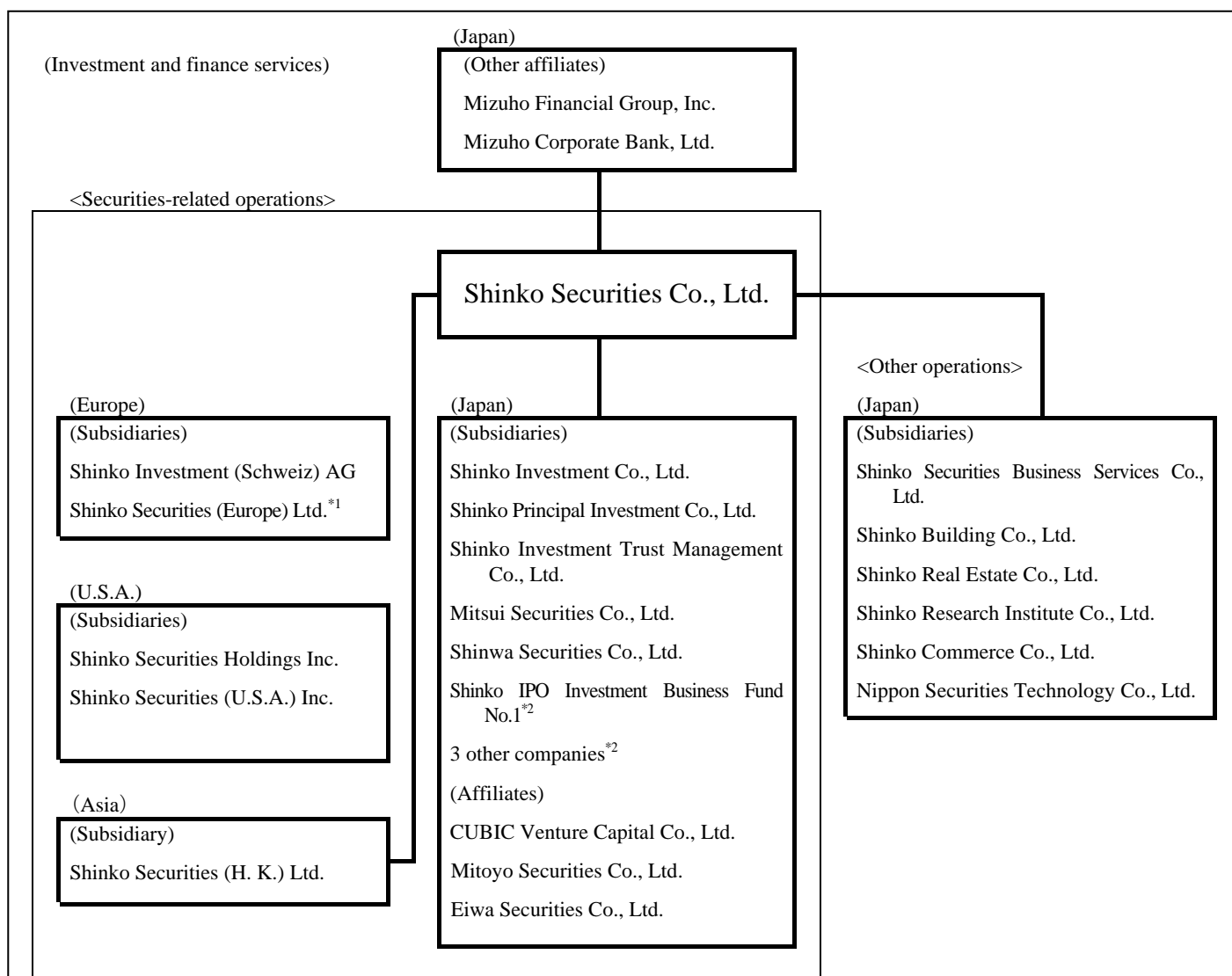
	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash & cash equivalents balance at term end
	mil. yen	mil. yen	mil. yen	mil. yen
Financial year to March 2006	-75,097	-8,278	149,448	117,524
Financial year to March 2005	-179,002	-14,270	135,322	51,656

- (4) Scope of full consolidation and partial consolidation under the equity method:
Number of fully consolidated subsidiaries: 16
Number of non-consolidated subsidiaries under the equity method: --
Number of equity-method affiliates: 3
- (5) Changes in scope of consolidation and application of the equity method:
Consolidation: Three companies were added and two companies were removed.
Equity method: One company was added and three companies were removed.
2. Forecast of consolidated business results for the full financial year ending 31 March 2007 (1 April 2006 - 31 March 2007):
Because the main business activity of our corporate group is the buying and selling of securities, our earnings are strongly influenced by market conditions, etc. For this reason, we do not conduct forecasts of our business results.

Our Corporate Group

Our corporate group is composed of 20 subsidiaries and 3 affiliates. The business activities of our company and of 14 of the subsidiaries and 3 of the affiliates consist mainly of trading securities, the commissioning of securities trading, the underwriting and selling of securities, offering and selling of securities, handling of private offerings, and other securities- and finance-related activities, as well as a wide range of services in the areas of raising and operating funds for customers. The other companies provide services related to and supportive of our company's activities, conduct market surveys and research, manage real estate, and more. Therefore, our corporate group's business activities all come under the single business segment of "investment and financial services."

Organizational Diagram of Corporate Group



*1 Shinko Securities (Europe) Ltd. was established in March 2006.

*2 Shinko IPO Investment Business Fund No.1 and the 3 other companies are non-consolidated affiliates to which the equity method does not apply.

[Business Policy]**1. Our Basic Business Policy**

Our corporate group's main field of business is the securities industry and related areas. In this field we provide a full line of services, from retail to wholesale, as a general securities company having multiple, integrated functions. As a securities company in the Mizuho Financial Group, moreover, we aim to maximize the synergy among group members and their departments, thereby providing high-value added financial service to a wide range of customers

2. Our Basic Policy Regarding Profit Distribution

Our company's main goal is to maximize corporate value. Our basic policy with regard to profit distribution is to provide a variable dividend, based on the results in this year in question.

3. Our View, Policy, etc., about Lowering the Investment Unit

Our company is aware that one effective way to expand the pool of investors and invigorate the stock market would be to lower the investment unit. However, in the current situation, the liquidity of our company's stock has been adequately ensured. Thus, if and when we judge, based on a consideration of such factors as corporate results, stock price fluctuations, stockholder distribution, and the economic advantages of lowering the stock unit, that lowering the stock unit is necessary, we will determine an appropriate method of dealing with it.

4. Numerical Targets

In our Fourth Medium-Term Management Plan, we have stipulated Medium-Term Management Targets (to be realized by the end of March 2009) for both company scale - (1) achieve over 20 trillion yen in assets under custody, (2) achieve over 50 billion yen in ordinary profit - and company quality - (3) achieve 10% or higher ROE, (4) achieve "A" or higher credit ratings.

5. Medium- and Long-Term Business Strategy

Our company established a The Fourth Medium-Term Management Plan for the period from April 2006 through March 2009. The Japanese economy has reached a major turning point in its post-bubble history: it is endeavoring to enter a new stage free of deflation. In keeping with this, and in accordance with the various deregulations and system improvements that have been enacted, this new Medium-Term Management Plan seeks to improve the efficiency of our operations and maximize the quality of services, thereby enabling us to conduct a securities business with high productivity and further solidify our standing in the industry. The essence of the Plan is outlined below.

- Fourth Medium-Term Management Plan (April 2006 - March 2009)
(New Corporate Vision)

➤ "Client First" - Act vigorously, act decisively, act boldly.

We believe that, by acting with the idea of "client first" in mind, we will be able to further enhance our company's reputation as a pillar in the capital market and increase our corporate value, thereby raising the level of satisfaction of all stakeholders. This is the essence of "Client First" and, ultimately, the "Shinko Way".

Moreover, a securities company's biggest assets are human resources, because the personality and attitude of each member of the Company, from senior officer to individual employee, determine the Company's real strength. We aspire to be a group of people with sound minds, aggressive business instincts and skills.

(Medium-Term Management Targets)

- Pursue scale: Achieve over 20 trillion yen in assets under custody.
 Achieve over 50 billion yen in ordinary income.
- Pursue quality: Achieve 10% or higher ROE.
 Achieve "A" or higher credit ratings.

(Targets for Each Earnings-Related Division)

- Retail Division

- Become the No.1 securities company in customer satisfaction.
- Achieve 12 trillion yen in retail assets under custody.

- Wholesale Division

- Establish a position as the "No.1 supporter of 'fresh, high-growth' companies".
- Establish the five core businesses of investment banking.
 - IPO business: Lead-manage as many IPOs as other league-leading competitors.
 - Corporate financing business: Become one of the top 3 lead managers in the sector. *

* For companies with market capitalization of under 100 billion yen.

- M&A business: Achieve top 10 ranking in terms of the number of deals closed.
- Asset management business: Expand profitability through new asset management business models.
- Expand the fund business.
- Financial Products Division
 - Solidify market presence, and to this end, work to establish a market share of 5%.

(Other Medium-Term Targets)

- Personnel Division
 - Improve quantity and quality of employees as a “high-motivated industry.”
 - Increase employment.
 - Motivate employees.
- IT and Clerical Division
 - Improve quality as an “equipment (data processing) industry.”
 - Ensure safety of the completely open network IT system.
 - Implement “Business Continuity Plan” countermeasures.
 - Work to establish new business channels.
 - Deal with settlement operations efficiently.
- Strengthen business relationship with outside channels
 - Utilize the business foundations of the Mizuho Financial Group and approach groups and companies through various channels in different industries.
 - Strengthen our ties with Mizuho Financial Group companies.
 - Expand the scope of our ties with partner companies.
 - Establish ties with other groups and companies.
- Financial strategy
 - Bolster capital base and solidify financing.
 - Establish back-up systems for fund raising from the capital markets study alternative fund raising methods.
- Strengthen corporate governance
 - Improve the internal control structure.
 - Promote cost controls.
 - Compliance.
 - Strategies for Shinko Groups companies.
- Branding strategy
 - Promote CSR activities.

6. The Year's Management Goals and Their State of Achievement

The period being reported represents the final year of our 3rd Medium-Term Management Plan (April 2004 - March 2006). During this period we sought to further realize our guiding ideal, “evolving into the security company which best serves society,” while seeking to establish ourselves as “a securities company that can achieve stable earnings in any business environment.” Accordingly, we worked to expand our business foundations and reform our profit structures.

In our Retail Division, in April 2005 we started a “New Business System” in the form of an enhanced “Retail Business Rebuilding Project”: a program for putting the 3rd Medium-Term Management Plan into practice in a concrete way. This was an endeavor aimed at further reforming our business style (something we have been working to do for some time) through, among other things, a branch office policy geared to the characteristics of the market and establishing such new business channels as a Consulting Section and an Asset Management Section. Thanks to our efforts to provide products, services and information tailored to the individual customer, our sales of investment trusts, variable annuity insurance and other products went well in this financial year, enabling us to greatly increase our new accounts and deposited assets. Moreover, “Shinko Asset Management Wrap,” a wrap product based on the concept of providing a portfolio customized to the customer, was well-received by numerous customers, so that both the number and total value of the contracts for this product increased significantly. In addition to the increased sale of such order-made products, we were also able to benefit from the stock market's upward trend. Thus, on the whole, our retail efforts during this financial year met with a very satisfying response. At the same time, moreover, we opened Customer Plaza Umeda, our second joint office, after Customer Plaza Marunouchi Chuo, with Mizuho Bank, Ltd., and we opened our first joint office, Customer Plaza Okayama, with TOMATO BANK, LTD., thus expanding the availability of our high-quality, general financial services through a kind of one-stop shopping.

In our Wholesale Division, we carried out various measures aimed at expanding our investment banking operations, and, as a result, were able to steadily achieve favorable results. In our stock underwriting operations, we maintained our position in the industry's upper echelon in terms of the number of IPOs (initial public offerings)

underwritten and the percentage of IPOs in which we participated. In addition, we dealt with the funds procurement needs of many of the increasingly diverse companies involved in POs (public offerings, subscriptions for listed companies, secondary distributions). In our bond underwriting operations, we achieved our best results ever in terms of both the number of cases in which we served as lead managing underwriter and our share of all bond underwriting. Moreover, our tie-up with the Mizuho Financial Group had a beneficial effect on our corporate results and helped us to enhance our market presence, and played a major role in the expansion of our business foundations as well. Furthermore, we made progress, mainly through regional financial institutions, with regard to contracts for securities brokerage services and market guidance services, which is expected to become a new profit source.

In our Financial Products Division, we endeavored to improve our presence in the industry, and increase our earnings, through dealing and trading. The Equity Group put effort into expanding our OTC business for companies (large over-the-counter transactions). Moreover, the Fixed Income Securities Group sought to increase its share of bond trading - mainly direct transactions with institutional investors and regional financial institutions - while working to expand its information communication operations and strengthen its product creation abilities so as to deal with the increasingly diverse and sophisticated needs of customers. This division also extended its lineup of high-value-added products, such as privately offered structured bonds, investment trusts, and insurance products, and endeavored to offer them in a timely fashion; as a result, sales of products other than equities rose, and we were able to increase our earnings of the type that are not readily affected by the market environment.

At the same time, we pushed ahead with streamlining our operations. For example, we continued with our efforts to upgrade the infrastructure of our branch offices, reform our retirement benefits system, build a new retail business system, and improve the efficiency of our settlement operations. Moreover, in order to strengthen our financial structure, we obtained a new rating (BBB+) from JCR (Japan Credit Rating Agency, Ltd.) in addition to our previous rating from R&I (Rating and Investment Information, Inc.), and we issued and registered straight bonds as an effective means of procuring funds, thereby raising 20 billion yen in March 2006. Furthermore, we worked to lower our capital procurement costs by, among other things, changing the terms of short-term loans payable.

Thus, positive effects have been steadily appearing from the various measures that we have been implementing, and we intend to continue to vigorously carry out those measures in the future.

7. Our tasks to be solved

Now that its financial system has grown more stable, the Japanese economy is finally escaping from the long-term recession that followed the collapse of the bubble. In order to further invigorate the economy and ensure solid economic growth led by the private sector, it is necessary, we believe, to further accelerate the flow of money “from indirect financing to direct financing” and “from savings to investment” by means of pushing ahead with reform of the financial system.

In order to maintain and increase Japan’s vitality in face of the unprecedented graying of society that is now imminent, how should personal financial assets, amounting to as much as 1,500 trillion yen, be shifted to the securities market? That is, what kinds of customer channels should our company establish, and what kinds of services should we provide? In today’s new legal environment, what kind of advice should we provide to stock-issuing companies and customers? As these questions suggest, the roles that our company should play, and the business opportunities that will arise from them, will, we believe, greatly increase in the future.

Based on an awareness of this prospect, we devised our 4th Medium-Term Management Plan (see “5. The company’s medium-term business strategy” above), which will serve as a compass for the vigorous business growth that is expected ahead.

Our company always harbors a sense of corporate mission in its breast. Based on the idea of “client first,” we cultivate an acute sensitivity, an instinctive feel, for the market, while at the same time doing work that we find refreshing and exhilarating. Moreover, we believe that all of our officers and employees should seek to be one at heart and to progress straight ahead without being prideful or getting misled.

We are aware that achieving this medium-term business plan is the most important task now facing our company. Thus, all of our officers and employees are determined to unite together and work towards attaining that goal.

8. Items related to the Parent Company and other Affiliated Entities

(1) Corporate name of parent company and other affiliated entities

As of 31 March 2006

Parent company / other related company	Relationship	Percentage of voting rights held by parent company or other related company	Stock exchanges listing the shares issued by the parent or other related company
Mizuho Financial Group, Inc.	Defined as “another company” related to a “listed company”	27.47 (27.47)	Tokyo Stock Exchange (First section) Osaka Stock Exchange (First section)
Mizuho Corporate Bank, Ltd.	Some as above	16.39 (5.31)	Not listed

Note) The figure in brackets in the “Percentage of voting rights held by parent company or other related company” column refers to the percentage of voting rights held indirectly.

(2) Influence of the parent or other related company

Name of the company with the largest influence over Shinko Securities	Mizuho Financial Group, Inc.
Reason	The above company is the holding company for the Mizuho Financial Group

(3) The position of Shinko Securities within the corporate group consisting of the parent company and other affiliated entities, and the relationships between other listed companies and the parent company and other affiliated entities

1) The position of Shinko Securities within the corporate group consisting of the parent company and other affiliated entities

The Mizuho Corporate Bank owns 11.07%; Mizuho Bank also owns 11.07% of the voting stock of the company; and the Mizuho Securities owns 5.31%. These three companies thus own a combined 27.47% of the voting stock. At the same time, the Mizuho Securities is a subsidiary of the Mizuho Corporate Bank; the Mizuho Corporate Bank and the Mizuho Bank are subsidiaries of the Mizuho Financial Group. Accordingly, of each the Mizuho Financial Group and the Mizuho Corporate Bank, our company is a consolidated company to which the equity method applies.

2) The advantages of belonging to a corporate group consisting of a parent company, etc., and its effects, etc., on our management and business activities

The role of Shinko Securities within the Mizuho Financial Group, in addition to making use of our strength in providing full-line securities to contribute to the group’s underwriting, product and sales strategies, is to use the group’s creditworthiness and brand strength to contribute to the group as a whole by finding new customers outside the group, actively developing business alliances, expanding the customer base, and strengthening profitability structures.

In addition, to strengthen the management organization of the company, we host executives from other group companies, exchange intermediate level managers, and carry out other personnel exchange through training programs. In addition, the company enters into important transactions with other group companies including the borrowing of capital and securities transactions.

3) Our view about maintaining a fixed independence from the parent company, etc., and measures for that purpose

Our transactions with our parent company include the borrowing of capital, securities transactions, etc. The related terms, etc., are rationally decided through discussions in which the two parties take into account such things as market fluctuations and market prices. Accordingly, we believe that these transactions do not affect our company’s management policy or the basis of our management foundations. The company has two major decision-making bodies, the Board of Directors, as prescribed by law, and the Management Committee, which is composed of board members and executive officers in charge of important business functions. These decisions making organs are governed respectively by the Board of Directors Rules and the Management Committee Regulations, and make decisions on legally required matters and other important matters arising in the course of business. Moreover, auditors participate in board of directors’ meetings and provide advice and proposals regarding the directors’ performance of their duties.

4) The conditions for maintaining a fixed independence from the parent company, etc.

Based on fixed rules, our company reports to the Mizuho Corporate Bank about our management policy and management strategy, about the various measures that are based on them, etc. However, this is not something that interferes with our independent managerial judgment. As mentioned above in (3), we have a system whereby we make decisions based on thorough investigations and mutual understanding, enabling us to maintain a fixed independence.

(4) Items related to transactions with the parent company and other affiliated entities

Relationship	Name	Address	Capital or invested capital (Mil.yen)	Business Area	% of voting rights held	Relationship		Transactions	Transaction amount (Mil.yen)	Item	Year-end balance (Mil.yen)
						Executives serving both companies	Business relationships				
Other affiliated company	Mizuho Corporate Bank, Ltd.	Chiyoda, Tokyo	1,070,965	Bank	Direct 11.07 Indirect 5.31	Transfer: 1 person (to us)	Borrowing of funds Sale of securities and other transactions	Borrowing of funds	—	Short-term loans	16,000
										Long-term loans	5,000
								Interest of borrowed capital	789	Advances	3
										Accounts payable	3
								Loan of bonds	—	Collateral for borrowed securities	13,253
										Amounts receivable on loan transactions	54,864

(Transaction conditions and policies for determining transaction conditions)

Conditions attached to the loan of capital and bonds are determined with reference to market interest rates and other conditions.

[Business Performance and Financial Position]**1. Business Performance**

During this financial year, the Japanese economy traced a path of recovery: domestic demand, including personal consumption and capital investment, generally continued to make a firm recovery; in the high-tech field, a round of inventory adjustments ended in early autumn; and exports rebounded. In the equity markets, the start of the financial year saw the Nikkei Stock Average fall below 10,900 yen in response to, among other things, the sudden drop in U.S. markets; in summer, however, against a backdrop of recovering corporate earnings and expectations for structural reform, stock prices, along with the volume of transactions, turned upwards, spurred by various factors, including stock purchasing by foreign investors and vigorous participation in the market by individual investors; so that by the end of the year, the Nikkei Average rose to over 16,000 yen. After the start of the current year, equity markets underwent a period of adjustment precipitated by such factors as “Livedoor Shock” - the effects of a corporate scandal originating in violations of the Securities and Exchange Law by the Livedoor Group - and concern about the Tokyo Stock Exchange’s computer system; but the markets then turned upwards again and continued to climb until the end of the financial year, which saw the Nikkei at over 17,000 yen for the first time in approximately five years and seven months.

On the other hand, in the bond market, a bullish situation prevailed amid a favorable demand environment in the beginning of the financial year; however, a softening trend set in during summer when the stock market turned upwards. From then until the end of the financial year, bond prices trended downwards, due mainly to the expectations for Bank of Japan’s elimination of its quantitative easing policy and that the zero-interest policy would be eliminated as well; by the end of the financial year, the yield on newly issued 10-year government bonds had risen to around 1.8%.

Meanwhile, overseas, the U.S. economy continued to move steadily ahead against a backdrop of strong consumer spending and capital investment, while the European economies continued on a course of recovery led by external demand based on a stable euro. With regard to equity markets, concern about high oil prices pushed U.S. markets down in early autumn, but, overall, markets in both the U.S. and Europe behaved favorably throughout the financial year, sustained in large part by solid corporate earnings.

Under these circumstances, our corporate group earned consolidated operating revenues for this financial year of 152.915 billion yen (135.3% of the previous year), an ordinary profit of 43.184 billion yen (303.7%), and a net profit of 34.962 billion yen (451.8%). A brief breakdown of these results follows:

(1) Commissions and fees received

Commissions and fees received during this year totaled 101.351 billion yen (128.3%). A breakdown of this income follows:

- Brokerage commissions

The average daily turnover during this year in the sections 1 and 2 of the Tokyo Stock Exchange was 2.3048 trillion yen (168.5%). Our company brokered the sale of 11.474 billion shares of stock (131.8%) worth 11.3126 trillion yen (149.1%), while our group commissions on the same totaled 56.742 billion yen (139.1%). Commissions earned on bond brokering totaled 135 million yen (68.3%).

- Underwriting and selling fees

In this financial year, we underwrote the offering and sale of shares issued by 98 newly floated companies. We lead managed 15 of these cases. We were also served as an underwriter for the offering and sale of stock from 90 already-listed firms, and were lead manager for 8 of these firms. As a result, our group income for underwriting and selling fees was 6.417 billion yen (77.5%).

In the bond market, our company served as lead manager for 21 bond issues from FILP agency, electric power companies, and general companies. As a result, our commissions from underwriting and selling bonds totaled 1.073 million yen (99.3%).

- Offering, selling, and other fees and commissions

This income is made up chiefly of fees and commissions we earn by selling investment trusts to our customers and service commissions.

In the area of distributed investment trusts, for which there is strong demand among individual investors due to Japan’s long-continuing super-low interest rates, we strengthened our lineup of products by newly offering the “Shinko Pictet World Income Equity Fund (Monthly Distributions),” which invests in foreign equities with a high dividend yield, and the “Frontier World Income Fund,” which invests in the bonds of emerging countries.

In addition, as investment trusts predicated on providing a complete payoff and that aim for an absolute return, we offered “U.S. Dollar Denominated Capital Preservation Strategy Matrix 10 (2005-05),” a foreign

investment trust that invests in hedge funds, “Shinko Japan Open II,” an investment trust that invests in high-quality Japanese stocks, and the “JPM BRICS 5 Fund,” an investment trust that invests in foreign stocks.

Moreover, we also offered investors new types of investment opportunities. For example, as an investment trust related to commodities, in which investor interest has been rising as commodity market conditions have improved, we introduced the “Energy- and Food-Related Fund.”

Furthermore, “Shinko Asset Management Wrap,” into which we have been putting effort since December 2004, is a product that has been well-received by many customers, as a result of which the value and number of contracts for it, along with its asset balance, have continued to increase steadily. Together with variable annuity insurance, it is one of our company’s most important strategic products.

As a result, commissions from the sale of investment trusts reached 16.655 billion yen (132.3%). Other fees and commissions totaled 20.261 billion yen (126.5%).

(2) Trading profits

This financial year saw us earn trading profits of 15.490 billion yen (154.3%) on equity trading, and 30.428 billion yen (146.5%) on the trading of bonds and other instruments. Total trading profits thus stood at 45.919 billion yen (149.0%).

(3) Financial profit/loss

Deducting financial expenses of 4.395 billion yen (93.5%) from financial revenues of 5.279 billion yen (186.5%) gives a financial profit of 883 million yen.

(4) Selling, general and administrative expenses

During this financial year, transaction costs increased due to the vitality of the equities markets, while expenses for performance related pay, depreciation, etc., also increased. As a result, selling, general and administrative expenses reached 109.256 billion yen (111.3%).

(5) Extraordinary profits and losses

As extraordinary profit, we recorded, among other things, 1.998 billion yen from the sale of fixed assets, 2.005 billion yen from the sale of investment securities, and 1.8 billion yen in software licensing fees. As extraordinary losses, we recorded, among other things, a 2.957 billion yen loss from the sale of fixed assets. Thus, overall, we posted an extraordinary profit of 2.649 billion yen.

2. Financial position

Factors such as a decrease in loans receivable secured by securities meant net cash used in operating activities was 75.097 billion yen.

Net cash used in investing activities totaled 8.278 billion yen on factors such as an increase in new IT system investments.

Net cash provided in financing activities was 149.448 billion yen due to such factors as an increase in short-term loans payable and our issue of commercial paper.

As a result of these flows, the balance of cash and cash equivalents stood at 117.524 billion yen at the end of this financial year.

3. Risk related to business, etc.

Below we have described the various types of risk, related to our corporate group’s business, that, we believe, are important for investors to know in making investment decisions. In the name of providing investors with relevant information for investment decisions, we have also discussed some other matters besides those related to risk. Our corporate group, aware of the possibility of such types of risk occurring, endeavors to avoid them or, if they do occur, to deal with them effectively. Although future events might affect them, the views presented below are based on our best judgment as of the release date of this latest settlement of accounts.

(1) Risk related to price fluctuations, etc., of securities

1) Risk related to trading operations, etc.

Our corporate group conducts trading operations, etc., involving various financial products, including derivatives; and fluctuations, etc., in the related stock prices, interest rates and exchange rates can affect the group’s business results and financial position.

2) Risk related to underwriting operations

Our corporate group conducts underwriting operations for equities and bonds. When, in the offering and selling activities involved, a remainder of unsold securities occurs, it can affect the market price of the securities, which can in turn cause a loss on their sale or appraisal and thus affect the group’s business results and financial position as well.

3) Investment securities

Our corporate group purchases stocks and other investment securities with the aim of holding them for a long time. When stock prices fall, investment capital depreciates and appraisal loss occurs, which can affect the group's business results and financial position.

(2) Risk related to the worsening of the investment recipient's credit

Should the entity in which an investment is made default, etc., such things as nonperformance of a swap contract, damage to the capital invested in a bond, a delay in interest payments, etc., can ensue, resulting in a loss, and this in turn can affect business results and financial position.

(3) Risk related to market shrinkage

When the stock market slumps, the volume of transactions may decrease, as may stock brokerage commissions. The issue market may also be similarly affected. Such a situation can have an impact on business results and financial position.

(4) Risk originating in subsidiary companies

Our company has various subsidiaries: Shinko Investment Co., Ltd., which conducts investment operations; Shinko Investment Trust Co., Ltd., which manages investment trusts; Shinko Building Co., Ltd., which operates a real estate business; etc. Accordingly, their business results can be greatly affected by fluctuations in the stock market, changes in real estate market conditions, and other factors, and this in turn can affect the business results and financial position of our corporate group.

(5) IT system risk and other types of operational risk

In accordance with our basic policy for IT system risk management, our company continually endeavors to strengthen our IT security in terms of preventing system malfunctions, improper computer use, etc. However, should unauthorized access from the outside, a fire, electrical circuit problems, or some other problem occur, then, depending on the extent of its damage to the system, it could affect our operations, which in turn could impact our business results and financial position.

Our company has prepared instruction manuals for its various operations, and we continually endeavor to strengthen our compliance system. However, should an employee be negligent in conducting operations or cause an accident or commit an irregularity, it could interfere with operations or generate a loss and thus affect our business results and financial position as well.

(6) Risk related to legal violations

In our corporate group, compliance is one of the most important themes of management, and we are continually working to strengthen it. However, should an officer or employee intentionally or unintentionally violate a law, our relationship of trust with clients could be damaged. Moreover, should we as a corporation violate a law, we could be ordered by the regulatory authorities to restrict or cease our operations, which could result in lawsuits being brought against us by clients and our having to pay damages, which could in turn affect our business results and financial position.

(7) Risk related to management of client information, etc.

Our corporate group, by establishing in-house regulations and conducting educational activities for employees, seeks to instill a clear understanding about how personal information and confidential information should be managed. However, should client information, etc., be divulged outside the company, it could greatly damage the group's reputation and affect its business results and financial position as well.

(8) Risk related to a decline in credit rating and a worsening of the terms for obtaining credit

Should a rating agency lower our company's credit rating, it could be expected to restrict the amount, and increase the cost, of the capital and funds that we can raise, and could thus affect our business results and financial position as well.

(9) Risk related to capital adequacy requirement ratio

Based on the Securities and Exchange Law, a securities company is required to maintain a capital adequacy requirement ratio of 120% or higher. If by chance this capital adequacy requirement ratio cannot be maintained, the company risks being ordered to discontinue business, etc. Furthermore, should the capital adequacy requirement ratio sharply decrease due to, for example, the posting of a loss caused by a deterioration of the business environment, then it will become difficult to actively take risks in pursuit of profit in order to maintain the ratio, and the possibility of losing profit opportunities will increase. As a result of this, moreover, the company's business activities could be affected, and its business results and financial position could be

impacted as well.

(10) Regarding changes in the law

Our corporate group conducts its operations in accordance with current regulations. Future changes, etc., in laws, rules, government policies, customary practices, interpretations, or other societal standards could result in a situation that affects the group's conduct of operations and its business results and financial position as well.

(11) Regarding competition

The securities industry expects business opportunities to increase as a result of, among other things, various kinds of system reforms and the lifting of the ban against financial institutions conducting intermediary businesses. However, when business opportunities increase so does competition in the industry, and companies from other industries also enter the fray, further intensifying the competition. If, in such a situation, our corporate group should be unable to prevail against the competition, its business results and financial position could suffer.

(12) Regarding retirement benefit obligations

Our corporate group's employee retirement benefit costs and obligations are calculated according to the discount rate, the expected rate of return on the investment of pension assets, and other factors set for the actuarial calculation. Should the yield on pension assets fall or their market value decline, or should the factors in the calculation be changed, it will affect the subsequent value of the costs and obligations.

(13) Event risk

Our corporate group conducts business activities at branch offices and business offices both inside and outside Japan. Should a terrorist act, a disaster, or some other such events occur, part or all of those activities might have to be discontinued, which could affect the group's business results and financial position.

Consolidated Balance Sheets

(In millions of yen)

	Financial year to 31 March 2006	Financial year to 31 March 2005	Year-on-year increase/decrease
Assets			
Current assets	3,301,765	3,330,329	-28,563
Cash and due from banks	117,742	51,881	65,861
Fund deposits	90,807	64,812	25,995
Trading products	1,129,989	1,376,233	-246,244
Trading securities, etc.	1,126,971	1,370,448	-243,476
Derivative assets	3,018	5,785	-2,767
Trade date accrual	35,000	—	35,000
Investment securities for sale	2,771	2,452	318
Margin transaction assets	154,683	86,420	68,262
Customers' loans receivable in margin transactions	143,473	77,742	65,731
Collateral for borrowed securities for margin transactions	11,210	8,678	2,531
Loans receivable secured by securities	1,731,751	1,724,082	7,668
Collateral for borrowed securities	1,681,659	1,713,952	-32,293
Loans receivable in gensaki transactions	50,092	10,130	39,961
Advances	410	561	-150
Cash paid for offering, etc.	12,204	6,244	5,959
Short-term guarantee deposits	3,334	4,694	-1,360
Accounts for non-delivered securities and others	42	—	42
Short-term loans receivable	229	218	11
Securities	900	2,026	-1,125
Accrued revenues	9,467	6,911	2,556
Deferred income tax assets	5,335	155	5,180
Other current assets	7,470	3,821	3,648
Allowance for bad debts	-377	-188	-189
Fixed assets	174,077	154,687	19,389
Tangible fixed assets	34,866	43,038	-8,172
Buildings	13,192	17,437	-4,245
Furniture and fixtures	2,531	4,011	-1,480
Land	19,001	21,589	-2,587
Construction in progress	140	—	140
Intangible fixed assets	32,050	26,802	5,247
Software	22,748	22,966	-218
Phone right, etc.	9,302	3,836	5,466
Investments and other assets	107,160	84,846	22,313
Investment securities	91,115	65,687	25,427
Long-term guarantee deposits	12,064	13,929	-1,865
Deferred income tax assets	335	264	71
Other investments	9,020	9,875	-854
Allowance for bad debts	-5,375	-4,909	-465
Total assets	3,475,843	3,485,017	-9,174

(In millions of yen)

	Financial year to 31 March 2006	Financial year to 31 March 2005	Year-on-year increase/decrease
Liabilities			
Current liabilities	3,118,025	3,175,427	-57,401
Trading products	1,108,796	1,220,685	-111,889
Trading securities, etc.	1,101,191	1,218,474	-117,282
Derivative liabilities	7,604	2,210	5,393
Trade date accrual	—	14,132	-14,132
Margin transaction liabilities	98,759	56,119	42,639
Customers' loans payable for margin transactions	92,622	51,280	41,342
Collateral for loaned securities for margin transactions	6,136	4,839	1,297
Loans payable secured by securities	1,316,664	1,475,857	-159,193
Amounts receivable on loan transactions	1,128,375	1,302,482	-174,106
Loans payable in gensaki transactions	188,288	173,375	14,913
Deposits received	62,392	56,108	6,283
Received margins	24,527	14,392	10,135
Accounts for non-received securities and others	—	0	-0
Short-term loans payable	389,690	265,905	123,785
Commercial paper	84,200	57,200	27,000
Accrued liability	3,226	1,041	2,184
Income taxes payable	15,601	919	14,682
Deferred tax liabilities	207	—	207
Reserve for bonus	7,089	3,857	3,232
Reserve for loss incurred on business reorganization	—	1,683	-1,683
Other current liabilities	6,871	7,524	-653
Fixed liabilities	75,084	71,027	4,056
Corporate bonds	20,000	—	20,000
Long-term loans payable	26,050	42,550	-16,500
Deferred tax liabilities	15,392	6,580	8,812
Reserves for retirement benefits	10,827	17,184	-6,357
Other fixed liabilities	2,814	4,712	-1,898
Statutory reserve	1,157	1,049	108
Reserve for securities transaction liabilities	1,157	1,049	108
Total liabilities	3,194,267	3,247,504	-53,237
Minority interest	6,103	5,428	674
Shareholders' equity			
Common stock	125,167	125,167	—
Capital surplus	82,544	82,541	2
Earned surplus	50,322	20,174	30,147
Difference in valuation of securities	24,713	11,491	13,221
Foreign exchange translation adjustment	422	283	138
Treasury stock	-7,696	-7,575	-121
Total shareholders' equity	275,472	232,083	43,389
Total liabilities, minority interest, and shareholders' equity	3,475,843	3,485,017	-9,174

Consolidated Statement of Income

(In millions of yen)

	Financial year from 1 April 2005 to 31 March 2006	Financial year from 1 April 2004 to 31 March 2005	% change from previous year
Operating revenues	152,915	113,052	135.3
Commissions and fees received	101,351	79,008	128.3
Trading profit or loss	45,919	30,814	149.0
Trading profit or loss on investment securities for sale	365	398	91.6
Financial revenues	5,279	2,830	186.5
Financial expenses	4,395	4,701	93.5
Net operating revenues	148,520	108,350	137.1
Selling, general and administrative expenses	109,256	98,179	111.3
Transaction expenses	14,982	13,949	107.4
Personnel expenses	56,742	50,675	112.0
Real estate expenses	14,554	14,373	101.3
Office expenses	6,862	6,492	105.7
Depreciation	10,323	7,913	130.5
Taxes and dues	1,465	1,196	122.5
Others	4,326	3,579	120.9
Operating profit	39,263	10,170	386.0
Non-operating revenues	6,218	6,689	93.0
Investment profit on equity method	217	101	214.4
Others	6,000	6,588	91.1
Non-operating expenses	2,297	2,639	87.0
Ordinary profit	43,184	14,220	303.7
Extraordinary profits	6,900	1,679	411.0
Extraordinary losses	4,251	7,127	59.6
Net profit before taxes, etc.	45,833	8,771	522.5
Income taxes	15,570	446	3,486.1
Adjustment amount for income taxes	-5,217	321	—
Minority interest	518	266	194.8
Net profit	34,962	7,737	451.8

Consolidated Statement of Earned Surplus

(In millions of yen)

	Financial year from 1 April 2005 to 31 March 2006	Financial year from 1 April 2004 to 31 March 2005
Capital surplus		
Balance of capital surplus at start of year	82,541	82,087
Increase in capital surplus	2	454
Gain/loss on disposal of treasury stock	2	454
Balance of capital surplus at end of year	82,544	82,541
Earned surplus		
Balance of earned surplus at start of year	20,174	16,497
Increase in earned surplus	34,962	7,737
Net profit	34,962	7,737
Decrease in earned surplus	4,814	4,061
Dividend	4,625	3,865
Officer's bonus	165	195
Decrease in earned surplus due to exclusion from consolidation and from application of equity method	22	—
Balance of earned surplus at end of year	50,322	20,174

Consolidated Cash Flow Statement

(In millions of yen)

	Financial year from 1 April 2005 to 31 March 2006	Financial year from 1 April 2004 to 31 March 2005
I Cash flows from operating activities		
Net profit before taxes, etc.	45,833	8,771
Depreciation	10,323	7,913
Adjustment for extraordinary profit and loss		
Profit from sale on fixed assets	-1,998	—
Loss from sale or disposition of fixed assets	3,152	608
Write-down of fixed assets	—	2,242
Loss from assets impairment	165	—
Profit from sale on investment securities	-2,005	-1,675
Write-down and loss from sale of investment securities	85	575
Write-down of golf club memberships	3	8
Loss from change in IT system	601	—
Software licensing fee	-1,800	—
Re-amortization of future retirement and severance pay obligations in line with a change to accounting standards	—	1,690
Profit from switchover of retirement benefits payment system	-344	—
Provision (reversal) of reserve for business reorganization loss	-316	1,683
Irregular depreciation expense	—	222
Provision (reversal) of reserve for securities transaction liabilities	108	-3
Provision of allowance for bad debts	24	96
Interest income and dividends receivable	-6,201	-3,558
Interest cost	4,395	4,701
Investment profit/loss on equity method	-217	-101
Increase/decrease in loans receivable	11	90
Increase/decrease in money held as customers' trust	-25,847	-11,619
Increase/decrease in advances and deposits received	6,442	14,356
Increase/decrease in trading products	87,250	-45,503
Increase/decrease in margin transaction assets	-68,262	-1,696
Increase/decrease in margin transaction liabilities	42,639	2,492
Increase/decrease in loans receivable secured by securities	-7,668	-592,825
Increase/decrease in loans payable secured by securities	-159,193	436,885
Increase/decrease in allowance for bad debts	733	-109
Increase/decrease in reserve for bonus	3,232	129
Increase/decrease in reserves for retirement benefits	-6,357	-1,256
Others	1,339	-711
Subtotal	-73,867	-176,593
Interest and dividends received	4,867	2,809
Interest paid	-4,388	-4,604
Income taxes, etc. paid	-1,708	-614
Cash flow from operating activities	-75,097	-179,002
II Cash flows from investing activities		
Payments for purchases of investment securities	-12,179	-6,626
Proceeds from the sale of investment securities	9,880	6,480
Payments for purchases of tangible fixed assets	-1,245	-712
Proceeds from the sale of tangible fixed assets	3,757	538
Payments for purchases of intangible fixed assets	-12,609	-13,576
Proceeds from sale of intangible fixed assets	—	0
Proceeds from return on long-term guarantee deposits	1,864	1,613
Proceeds from acquiring stock of subsidiaries upon a change in scope of consolidation	84	—
Others	2,168	-1,988
Cash flow from investing activities	-8,278	-14,270
III Cash flows from financing activities		
Increase/decrease in short-term loans payable	117,035	131,692
Increase/decrease in commercial paper	27,000	—
Proceeds from issue of corporate bonds	19,960	—
Proceeds from long-term loans payable	—	18,050
Payments for long-term loans payable	-9,750	-9,750
Payments for acquiring treasury stocks	-121	-2,502
Proceeds from sale of treasury stocks	—	1,735
Dividend paid	-4,625	-3,865
Proceeds from issuing stock to a small number of shareholders	30	—
Dividend paid to minority shareholders	-80	-36
Cash flow from financing activities	149,448	135,322
IV Effect of foreign exchange rate changes on cash and cash equivalents	188	50
V Increase/decrease in cash and cash equivalents	66,261	-57,900
VI Balance of cash and cash equivalents at start of year	51,656	109,557
VII Decrease in cash and cash equivalents resulting from exclusion from consolidation	-392	—
VIII Balance of cash and cash equivalents at end of year	117,524	51,656

[About the consolidated financial statements]

These consolidated financial statements follow the provisions of Ministry of Finance (MoF) Ordinance No.28 (1976) entitled “The Rules for Terms, Formats, and Preparation Method of Consolidated Financial Statements” and also comply with the provisions stipulated in Articles 46 and 68 of said ordinance. In addition, they are compiled in accordance with Prime Ministerial and MoF Ordinance No.32 (1998) entitled “Cabinet Ordinance Concerning Securities Companies” and the resolution entitled “Unification of Securities Business Accounting ” adopted by the Japan Securities Dealers Association on 14 November 1974.

[Basic Important Matters for Preparation of Consolidated Financial Statements]

1. Matters regarding the scope of consolidation

(1) Consolidated subsidiaries (16 subsidiaries)

Major subsidiaries

- Shinko Securities Business Services Co., Ltd.
- Shinko Investment Co., Ltd.
- Shinko Investment Trust Management Co., Ltd.
- Nippon Securities Technology Co., Ltd.
- (Newly added) Alternative Investment Research Institute, Inc.
- Shinko Principal Investment Co., Ltd.
- Shinko Securities (Europe) Ltd.
- (Removed) Kiiikogen Co., Ltd.
- Alternative Investment Research Institute, Inc.

(2) Non-consolidated subsidiaries (4 subsidiaries)

Major non-consolidated subsidiaries

- Shinko IPO Investment Business Fund No.1

2. Matters concerning the application of equity method

Equity-method affiliates (3 affiliates)

Major affiliates

- CUBIC Venture Capital Co., Ltd.
- Mitoyo Securities Co., Ltd.
- Eiwa Securities Co., Ltd.
- (Newly added) CUBIC Venture Capital Co., Ltd.
- (Removed) Alternative Investment Research Institute, Inc.
- New Japan System Service Co., Ltd.
- Financial System Solutions Co., Ltd.

3. Matters concerning the period of consolidated subsidiaries

The closing date of consolidated subsidiaries coincides with the consolidated closing date.

4. Matters concerning the accounting standard

(1) Standard and method of valuation for significant assets

1) Standard and method of valuation method for securities classed as trading products (securities held for trading purpose) etc:

Securities and derivative contracts classed as trading products and held by the parent company or subsidiaries are recorded at present market value.

2) Standard and method of valuation for securities not classed as trading products:

The following valuation standards and methods are applied to securities that are not held for trading purposes:

a) Bonds that are to be held to maturity.

The depreciable cost (straight-line) method is used.

b) Other securities

Securities, etc. that have market values:

The present market value is recorded on the consolidated balance sheets and differences between this and acquisition cost is incorporated into the capital account in full. The selling price is based on the moving-average cost method.

Securities, etc. that have no market values

Valued using the moving-average cost method.

Moreover, with regard to contributions to limited liability unions of the investment industry and similar unions (according to Article 2, Paragraph 2 of the Securities and Exchange Law, such contributions are regarded as negotiable securities), we use, as the acquisition price, the value of our holdings of union assets as designated on the union's most recent statement of accounts that we are able to obtain as of the day - stipulated in the union contract - on which the latest statement of accounts is reported. With regard to profit and loss obtained from the operations of the union, etc., we use a method whereby we record the value of our holdings under profit and costs.

(2) Depreciation methods used for significant depreciable assets

1) Tangible fixed assets

Both our company and domestic consolidated subsidiaries use mainly fixed-percentage depreciation.

However, buildings acquired from 1 April 1998 onward (excluding the equipment, etc. they contain) are depreciated using the straight-line (fixed amount) method.

2) Intangible fixed assets and long-term prepaid expenses

The straight-line method is used.

Moreover, software for our own use is depreciated using a straight-line method with the fixed amount of depreciation being determined by the duration of its potential internal use (up to 5 years).

(3) Method of handling deferred assets

The entire cost of issuing corporate bonds is handled as a cost at the time that it occurs.

(4) Accounting standards for significant reserves and allowances

1) Allowance for bad debts

In preparation for loss from bad debt in loans receivables, etc., the recoverable possibilities of general receivables are reviewed based on the ratio of past uncollectibles and those of specific receivables including the ones that are likely to become bad debts are individually reviewed, so that the irrecoverable amount can be estimated.

2) Reserve for bonus

To prepare for the payment of bonuses to employees, we calculated the estimated value of future payments and charged an appropriate portion of this obligation to the year.

3) Reserves for retirement benefits

To prepare for the payment of employee pensions, the difference between the value of such obligations and the total value of our pension assets at the end of this financial year was estimated, and the portion of the additional shortfall considered to have arisen in this year was charged to this year.

Past service liabilities are regarded at any time as being a number of years (10 years) that fall within the average number of years' service remaining for each employee. These liabilities are amortized and charged to the year for which it was calculated using the straight-line method.

Actuarial gains and losses are also charged after amortizing by the straight-line method a number of years (10 years) that fall within the average number of years' service remaining for each employee. However, in this case, the charges are recorded in the following consolidated financial year.

(Additional information)

In December 2005, our company and some of its domestic consolidated subsidiaries conducted a comprehensive review of their retirement benefit systems and, as a result, switched from a qualified retirement pension system and a lump-sum retirement grant system to a fixed-benefit corporate pension system (cash balance type), a fixed-contribution corporate pension system, and a lump-sum retirement grant system, by applying "Accounting for Switching Between Retirement Benefit Systems" (Corporate Accounting Standards Implementation Guidance No. 1).

The amount affected by this change, 344 million yen, was recorded under special profit as "Profit from switchover of retirement benefits payment system."

(5) Standards for translating significant assets and liabilities denominated in foreign currencies

Foreign currency denominated claims and obligations are translated into Japanese yen at the spot rate prevailing on the closing day of the year. Currency translation losses or gains are recorded on the income statement as such.

The assets, liabilities, revenues, and expenses of foreign subsidiaries are also translated into Japanese yen at the spot rate prevailing on the day the consolidated balance sheet was compiled. Any translation losses or gains are recorded in the capital account under the heading "Foreign exchange translation adjustment".

(6) Handling of significant lease transaction

In the case of finance leases where ownership is not deemed to have passed to the lessee, normal accounting procedures for leases are followed.

(7) Method of significant hedge accounting

In order to hedge our exposure to cash flow fluctuations caused by borrowing at variable interest rates, we enter into interest rate swap contracts. These are handled on a case-by-case basis.

(8) Accounting for consumption tax, etc.

The tax exclusion method is applied.

5. Valuation of assets and liabilities of consolidated subsidiaries

The valuation of asset and liabilities of consolidated subsidiaries is carried out entirely on a mark-to-market basis.

6. Amortization of the consolidation adjustment account

This account is amortized in the lump for the year when it occurred.

7. Matter concerning the handling of profit appropriation and the like

Regarding the disposal of surpluses at consolidated companies, the consolidated statement of earned surplus is compiled based on the appropriation of surpluses that have been determined during that consolidated financial year.

8. Scope of cash and cash equivalents included in the consolidated cash flow statement

The cash movements recorded in the consolidated cash flow statement are those of cash and cash equivalents. Assets classed as cash or cash equivalents are cash on hand, deposits for which no notice of withdrawal is required, and highly liquid short-term investments that carry next to no price risk and have a maturity of less than three months.

[Change in Accounting Method]

1. Starting from this financial year, we compiled these financial statements in accordance with "Accounting Standards Related to the Impairment of Fixed Assets" ("Written Opinion About the Establishment of Accounting Standards Related to the Impairment of Fixed Assets" (issued by the Business Accounting Deliberation Council on 9 August 2002) and "Implementation Guidance for Accounting Standard for Impairment of Fixed Assets" (Financial Accounting Standards Implementation Guidance No. 6, issued by the Business Accounting Deliberation Council on 31 October 2003.) As a result, our net profit for the year, prior to adjustments for taxes, etc., decreased by 165 million yen.

Moreover, the total amount of loss from asset impairment was directly deducted from the values of the corresponding assets.

2. In the past, our company and the group's domestic consolidated subsidiaries recorded their dividends, from stocks with a market price, in the financial year containing the day on which dividend payment was received. Beginning with this year, however, we switched to a method in which, on the day after the final sales day provided for by the dividend right of the stock in question (hereafter referred to as the "succeeding day"), we estimate and record the uncollected dividends based on the publicly announced prospective dividend amount per share.

Given the growing number of companies that are increasing or restoring their dividends as their business results recover, we undertook this change because recording dividends on the subsequent day makes it possible to minimize the time between the point when we evaluate a stock with a market price that will be evaluated according to the price at the end of the year, and the point when we learn of the actual dividend income, and therefore to calculate the year's profit and loss more appropriately.

Due to the use of this new method for the year, operating profit increased 471 million yen, and ordinary profit and net profit before taxes, etc., both increased 838 million yen, over what they would have been with the previous method.

[Notes on consolidated balance sheets]

	Financial year to 31 March 2006 (In millions of yen)	Financial year to 31 March 2005 (In millions of yen)
1. Accumulated depreciation of tangible fixed assets	16,311	23,547
2. Guarantee obligations (of which guarantee exercise anticipated)	1,232 (1,119)	1,542 (1,416)

In accordance with Report No.61 of the Auditing Committee of the Japanese Institute of Certified Public Accountants entitled “Auditing Procedures Concerning the Accounting for and Presentation of Guarantee Obligations and Similar”, we recognize that we bear effective responsibility for guaranteeing our obligations and therefore provide a footnote giving details of these obligations.

3. Subordinated borrowings

Among our long-term borrowings (including those that mature within one year), there are the following subordinated obligations (borrowings with special subordinating conditions) as defined in Article 2 of Cabinet Office Ordinance No.23 (2001) entitled “Orders Concerning the Capital Adequacy of Securities Companies”.

	Financial year to 31 March 2006 (In millions of yen)	Financial year to 31 March 2005 (In millions of yen)
	41,250	50,800
4. Securities related to non-consolidated subsidiaries and affiliates are indicated below.		
	Financial year to 31 March 2006 (In millions of yen)	Financial year to 31 March 2005 (In millions of yen)
Investment securities	7,878	5,218

[Notes on consolidated income statement]

	Financial year from 1 April 2005 to 31 March 2006 (In millions of yen)	Financial year from 1 April 2004 to 31 March 2005 (In millions of yen)
Extraordinary profits		
Profit from sale of fixed assets	1,998	—
Profit from sale of investment securities	2,005	1,675
Software licensing fees	1,800	—
Profit from switchover of retirement benefits payment system	344	—
Profit from recovery of bad debts	435	—
Reversal from reserve for securities transaction liabilities	—	3
Reversal from reserve for loss incurred on business reorganization	316	—
Extraordinary losses		
Loss from sale of fixed assets	2,957	13
Loss from disposition of fixed assets	195	594
Write-down of fixed assets	—	2,242
Loss from asset impairment	165	—
Loss from sale of investment securities	28	141
Write-down of investment securities	56	433
Write-down of golf club memberships	3	8
Re-amortization of future retirement and severance pay obligations in line with a change to accounting standards	—	1,690
Contribution to securities market foundation building fund	109	—
Loss from change in IT system	601	—
Irregular depreciation expense	—	222
Provision of reserve for securities transaction liabilities	108	—
Provision of reserve for loss incurred on business reorganization	—	1,683
Provision of allowance for bad debts	24	96

[Notes to the consolidated cash flow statement]

Relationship between the balance of cash and cash equivalents at the end of this financial year and balances of account items recorded on the consolidated balance sheets

	Financial year to 31 March 2006 (In millions of yen)	Financial year to 31 March 2005 (In millions of yen)
Cash and due from banks	117,742	51,881
Fixed deposits for periods exceeding 3 months	-218	-225
Cash and cash equivalents	117,524	51,656

Segment Information

1. Business segment information

This corporate group is carrying out global business activities mainly for securities, which include (1) selling and buying securities, (2) brokerage of the entrustment of selling and buying securities, etc., (3) underwriting and selling securities, (4) handling the offering and selling of securities, and (5) handling the private offering of securities. These business activities involve providing financial and other services. We earn profit based on these business activities combined with such services. Therefore, the segment information on business types is omitted because our corporate group's business activities all come under the single business segment of "investment and financial services."

2. Geographical segment information

For this financial year and the previous financial year, the segment information on locations is omitted because each of the total operating revenue and assets of consolidated companies in Japan exceeds 90% of those in all segments.

3. Overseas gross sales (operating revenues)

For this financial year and the previous financial year, the overseas operating revenue is omitted because it is less than 10% of the consolidated operating revenues.

Market or Fair Values of Securities and Derivatives

1. Trading-related

(1) Market values of trading securities, etc (securities for purchase and sale)

(In millions of yen)

Type	As of 31 March 2006		As of 31 March 2005	
	Assets	Liabilities	Assets	Liabilities
Equities and warrants	95,387	8,469	66,697	12,736
Bonds	1,018,585	1,092,144	1,295,013	1,205,587
CP and CD	10,998	—	6,905	—
Beneficiary securities, etc.	2,000	576	1,831	150

(2) Notional amounts and market values of derivative contracts

(In millions of yen)

Type	As of 31 March 2006				As of 31 March 2005			
	Assets		Liabilities		Assets		Liabilities	
	Notional amounts, etc.	Fair value	Notional amounts, etc.	Fair value	Notional amounts, etc.	Fair value	Notional amounts, etc.	Fair value
Options contracts	262,342	879	253,918	1,116	393,194	3,778	382,693	247
Forward exchange contracts	31,058	44	56,688	168	31,889	78	49,841	326
Futures/forward contracts	82,958	536	75,352	5,116	75,160	600	90,745	275
Swap contracts	74,245	1,557	64,359	1,203	79,911	1,328	92,911	1,361

Note: Deemed settlement values of forward exchange and futures contracts are recorded in the fair value column.

2. Non-trading-related

(1) Bonds with readily determinable market values that are to be held to maturity

(In millions of yen)

Type	As of 31 March 2006			As of 31 March 2005		
	Value on consolidated balance sheets	Market value	Balance	Value on consolidated balance sheets	Market value	Balance
Market value higher than value recorded on consolidated balance sheets	900	900	0	4,635	4,648	12
Governmental / local bonds	—	—	—	—	—	—
Corporate bonds	900	900	0	4,635	4,648	12
Others	—	—	—	—	—	—
Market value lower than or equal to value recorded on consolidated balance sheets	3,701	3,678	-23	—	—	—
Governmental / local bonds	500	496	-3	—	—	—
Corporate bonds	3,200	3,181	-19	—	—	—
Others	—	—	—	—	—	—

(2) Other securities with readily determinable market values

(In millions of yen)

Type	As of 31 March 2006			As of 31 March 2005		
	Acquisition cost	Value on consolidated balance sheets	Balance	Acquisition cost	Value on consolidated balance sheets	Balance
Market value higher than value recorded on consolidated balance sheets	24,909 (98)	65,137 (608)	40,227 (509)	23,633 (—)	41,948 (—)	18,315 (—)
Equities	22,656 (98)	61,782 (608)	39,125 (509)	20,395 (—)	38,091 (—)	17,695 (—)
Bonds	—	—	—	—	—	—
Governmental/local bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Others	2,253	3,355	1,102	3,237	3,857	619
Market value lower than or equal to value recorded on consolidated balance sheets	3,540	3,221	-318	2,971	2,585	-386
Equities	2,438	2,133	-304	2,820	2,437	-383
Bonds	—	—	—	—	—	—
Governmental/local bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Others	1,102	1,087	-14	151	148	-3

(Note) Figures in brackets refer to investment securities for sale. Investment securities for sale are recorded under “Current assets”.

(3) Securities without readily determinable market values and their recorded values on the consolidated balance sheets

(In millions of yen)

Type	As of 31 March 2006	As of 31 March 2005
	Value on consolidated balance sheets	Value on consolidated balance sheets
Bonds to be held to maturity	—	—
Governmental /local bonds	—	—
Corporate bonds	—	—
Others	—	—
Other securities	19,626 (2,163)	18,766 (2,452)
Unlisted equities	8,348 (2,159)	10,805 (2,416)
Unlisted bonds	3 (3)	36 (36)
Others	11,274	7,924

(Note) Figures in brackets refer to investment securities for sale. Investment securities for sale are recorded under “Current assets”.

Regarding retirement benefits

1. Summary of current retirement benefit system

Our company and its domestic consolidated subsidiaries have established a fixed-benefit corporate pension system (cash balance type, qualified retirement pensions), a fixed-contribution corporate pension system, and a lump-sum retirement grant system.

2. Items related to retirement benefit systems that are mentioned in the consolidated financial statements

	Financial year to 31 March 2006 (In millions of yen)	Financial year to 31 March 2005 (In millions of yen)
1) Items related to retirement allowance liabilities		
Retirement allowance reserve	10,827	17,184
2) Items related to retirement allowance expenses		
Retirement allowance expense	3,762	6,353

(Note) This financial year's retirement benefit costs include 344 million yen that was recorded under extraordinary profits as "Profit from switchover of retirement benefits payment system." Moreover, the previous financial year's retirement costs include 1.69 billion yen recorded under extraordinary losses as "Re-amortization of future retirement and severance pay obligations in line with a change to accounting standards."

3. Items related to the fundamental calculations of retirement allowance liabilities

1) Method of allocating retirement allowance costs over time	Fixed amount standard for year	Fixed amount standard for year
2) Discount rate	2.0%	2.0%
3) Expected profit from asset management	2.0%	2.0%
4) No. of years over which actuarial gains and losses are processed	10 years	10 years
(Retirement allowance liabilities are processed according to a straight-line method based on a certain number of years within the average remaining number of employee working years at the time the liabilities arise. However, expense processing starts the following year.)		
5) No. of years over which past service liabilities are processed	10 years	10 years
(Retirement allowance liabilities are processed according to a straight-line method based on a certain number of years within the average remaining number of employee working years at the time the liabilities arise.)		
6) No. of years over which future retirement and severance pay obligations in line with a change to accounting standards are processed	- years	5 years

Data on Consolidated Settlement of Accounts

1. Commissions and fees received

(1) Breakdown by account (In millions of yen)

	Financial year from 1 April 2005 to 31 March 2006	Financial year from 1 April 2004 to 31 March 2005	% change from previous year
Brokerage commissions	56,943	41,042	138.7
(Equities)	(56,742)	(40,798)	(139.1)
(Bonds)	(135)	(197)	(68.3)
Underwriting & selling fees	7,490	9,358	80.0
(Equities)	(6,417)	(8,277)	(77.5)
(Bonds)	(1,073)	(1,081)	(99.3)
Offering & selling fees and commissions	16,655	12,593	132.3
Other fees and commissions	20,261	16,014	126.5
Total	101,351	79,008	128.3

(2) Breakdown by instrument (In millions of yen)

	Financial year from 1 April 2005 to 31 March 2006	Financial year from 1 April 2004 to 31 March 2005	% change from previous year
Equities	63,625	49,622	128.2
Bonds	2,408	3,013	79.9
Beneficiary securities	27,772	20,944	132.6
Others	7,543	5,427	139.0
Total	101,351	79,008	128.3

2. Trading profits (In millions of yen)

	Financial year from 1 April 2005 to 31 March 2006	Financial year from 1 April 2004 to 31 March 2005	% change from previous year
Equities	15,490	10,036	154.3
Bonds, others	30,428	20,777	146.5
(Bonds)	(31,862)	(21,348)	(149.3)
(Others)	(-1,433)	(-570)	(—)
Total	45,919	30,814	149.0

(Reference)

Quarterly Changes in Consolidated Statement of Income

(In millions of yen)

	Fourth quarter of previous financial year	First quarter of current financial year	Second quarter of current financial year	Third quarter of current financial year	Fourth quarter of current financial year
Operating revenues	29,596	29,845	35,999	43,429	43,640
Commissions and fees received	21,097	18,526	22,975	30,781	29,067
Brokerage commissions	10,929	9,312	12,937	18,986	15,706
(Equities)	(10,889)	(9,278)	(12,887)	(18,936)	(15,640)
(Bonds)	(31)	(20)	(29)	(35)	(50)
Underwriting & selling fees	2,106	965	2,002	2,288	2,234
(Equities)	(1,879)	(773)	(1,823)	(2,004)	(1,816)
(Bonds)	(227)	(192)	(179)	(283)	(418)
Offering & selling fees and commissions	3,750	4,081	3,410	4,450	4,712
Other fees and commissions	4,311	4,167	4,625	5,055	6,413
Trading profit or loss	7,729	9,763	11,749	11,532	12,874
Equities, etc.	2,335	3,995	4,289	3,668	3,536
Bonds, exchange, etc.	5,393	5,767	7,460	7,863	9,337
(Bonds, etc.)	(5,575)	(6,596)	(8,360)	(8,130)	(8,774)
(Exchange, etc.)	(-181)	(-829)	(-900)	(-266)	(562)
Trading profit or loss on investment securities for sale	113	101	107	-3	160
Financial revenues	655	1,454	1,167	1,120	1,537
Financial expenses	1,095	1,037	1,174	1,104	1,079
Net operating revenues	28,501	28,808	34,825	42,324	42,560
Selling, general and administrative expenses	25,043	25,262	26,953	27,917	29,123
Transaction expenses	3,540	3,623	3,856	3,806	3,695
Personnel expenses	12,585	12,642	13,334	15,210	15,555
Real estate expenses	3,396	3,755	4,033	3,361	3,404
Office expenses	1,843	1,664	1,486	1,509	2,201
Depreciation	2,287	2,419	2,732	2,748	2,424
Taxes and dues	247	409	275	309	472
Others	1,143	747	1,236	972	1,369
Operating profit	3,458	3,546	7,871	14,407	13,437
Non-operating revenues	1,038	1,643	1,458	1,081	2,035
Investment profit on equity method	-19	7	46	134	28
Others	1,057	1,636	1,411	946	2,006
Non-operating expenses	713	585	656	397	657
Ordinary profit	3,783	4,604	8,673	15,090	14,815
Extraordinary profits	554	2,300	728	1,137	2,733
Extraordinary losses	5,310	188	176	43	3,842
Net profit before taxes, etc.	-973	6,716	9,225	16,185	13,706
Income taxes	90	85	2,363	5,907	7,213
Adjustment amount for income taxes	207	39	-2,453	-148	-2,654
Minority interest	-66	60	75	255	127
Net profit	-1,204	6,530	9,240	10,171	9,020