

# 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 six months ended September 30, 2002

### (1) Operating results ( from April 1, 2002 to September 30, 2002 )

( Millions of Yen )

	Operating revenue	Net operating revenue	Operating income (loss)
FY2002 2Q (6 months)	62,884	60,134	2,952
FY2001	58,339	55,399	(10,297)

	Ordinary income (loss)	Net income (loss)
FY2002 2Q (6 months)	3,161	4,981
FY2001	(9,685)	(41,829)

### (2) Financial condition

( Millions of Yen except percentage )

	Total assets	Shareholders' equity	Shareholders' equity ratio	Capital adequacy ratio
As of Sep.30, 2002	1,381,412	353,496	25.6 %	409.6 %
As of Mar.31,2002	1,281,191	351,376	27.4	276.9

(Note)

On October 1, 2001, the company launched its business operations following the transfer all of securities and other business from Nikko Cordial Corporation.

**STATEMENT OF FINANCIAL CONDITION**

( Millions of Yen )

	Sep.30, 2002	Mar.31, 2002
< ASSETS >		
Current assets	1,215,975	1,076,376
Cash on hand, Cash in banks	106,299	89,090
Cash segregated for customers and others	79,278	103,937
Trading assets	609,867	487,547
Trading securities	565,868	434,483
Derivatives	43,999	53,063
Trading receivable	3,688	-
Margin account receivables	93,028	59,286
Loans on margin transactions	84,366	50,723
Cash collateral pledged for securities borrowing on margin transaction	8,662	8,563
Loans secured by securities	263,811	198,682
Cash collateral pledged for securities borrowing	263,811	198,682
Advance payments	1,867	1,520
Cash paid for subscription	4,806	2,700
Short-term loans	1,078	71,699
Deferred tax assets	15,853	15,853
Other current assets	36,644	46,335
Allowance for bad debts	(251)	(276)
Fixed assets	165,437	204,814
Tangible fixed assets	8,768	8,878
Intangible fixed assets	1,531	1,771
Investments and others	155,137	194,164
Investment securities	27,240	52,168
Investment in subsidiaries and affiliates	14,803	14,754
Long-term loans	66,909	67,013
Long-term guaranty deposits	27,953	41,155
Deferred tax assets	62,975	63,414
Other investments	21,283	21,359
Allowance for bad debts	(66,028)	(65,700)
Total assets	1,381,412	1,281,191

**STATEMENT OF FINANCIAL CONDITION**

( Millions of Yen )

	Sep.30, 2002	Mar.31, 2002
< LIABILITIES >		
<u>Current liabilities</u>	<u>825,184</u>	<u>726,379</u>
Trading liabilities	294,623	220,437
Trading securities	217,621	136,825
Derivatives	77,002	83,612
Trading payables	-	1,128
Margin account payables	24,132	30,436
Borrowings on margin transactions	11,563	15,704
Cash received for securities lending on margin transactions	12,569	14,731
Borrowings pledged by securities	321,154	344,220
Cash collateral received for securities lending	298,623	317,062
Borrowings on Gensaki transaction	22,531	27,157
Deposits received	70,125	70,255
Guaranty deposits received	19,559	19,986
Short-term borrowings	15,695	17,495
Commercial paper	62,000	-
Income taxes payable	81	90
Other current liabilities	17,810	22,328
<u>Long-term liabilities</u>	<u>202,629</u>	<u>203,343</u>
Corporate debts	100,000	100,000
Long-term borrowings	90,000	90,000
Deferred tax liabilities	-	1,667
Accrued pension benefits	12,629	11,676
Statutory reserves	101	91
<b>Total liabilities</b>	<b>1,027,915</b>	<b>929,814</b>
< SHAREHOLDERS' EQUITY >		
Common stock	100,000	-
Additional paid-in capital	290,880	-
Legal capital reserve	290,880	-
Retained earnings	(36,851)	-
Unappropriated retained earnings	(36,851)	-
[ Net income ]	[ 4,981 ]	[ - ]
Net unrealized loss on investments	(532)	-
Common stock	-	100,000
Legal capital reserve	-	290,880
Other retained earnings	-	(41,832)
Unappropriated retained earnings	-	(41,832)
[ Net loss ]	[ - ]	[ (41,829) ]
Net unrealized gain on investments	-	2,329
<b>Total shareholders' equity</b>	<b>353,496</b>	<b>351,376</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,381,412</b>	<b>1,281,191</b>

**STATEMENT OF OPERATIONS**

( Millions of Yen )

	FY2002 2Q (4/1/02 ~ 9/30/02)	FY2001 (4/1/01 ~ 3/31/02)
Operating revenue	62,884	58,339
Commissions	45,171	46,431
Net gain on trading	13,803	8,613
Net gain on other trading	1	2
Interest and dividend income	3,908	3,291
Interest expense	2,749	2,939
Net operating revenue	60,134	55,399
Selling, general and administrative expense	57,182	65,697
Floor brokerage, communication and other transaction related costs	7,414	7,887
Employee compensation and benefits	25,414	29,078
Occupancy and equipment	8,601	10,070
Data processing and other services	9,290	11,563
Depreciation and amortization	1,106	1,262
Taxes, other than income taxes	355	440
Other expenses	4,999	5,394
Operating income (loss)	2,952	(10,297)
Non-operating income	855	775
Non-operating expense	645	163
Ordinary income (loss)	3,161	(9,685)
Extraordinary gain	3,160	601
Extraordinary loss	443	32,654
Income (Loss) before income taxes	5,878	(41,739)
Income taxes-current	72	90
Income taxes-deferred	824	-
Net income (loss)	4,981	(41,829)
Term unappropriated retained earnings carry forward	(41,832)	(3)
Term unappropriated retained earnings	(36,851)	(41,832)

Note: The business results for the previous year present the results for 6 months (From October 1, 2001 to March 31, 2002), since the company took over all of the securities business and other businesses of Nikko Cordial Corporation on October 1, 2001.

## **Notes to financial statements**

The company's interim 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) 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), in accordance with the provisions of Article 38 and 57 of the same regulations.

## **Basis of financial statements**

### 1. Valuation of financial instruments

#### (1) Trading purposes

Securities, derivative contracts and other financial instruments classified as trading assets and liabilities are accounted for based on the Mark-to-market method.

#### (2) Non-trading purposes

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

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

Recorded at cost using the moving average method.

##### (b) Other securities

*Securities with market value:*

Recorded at market value. The difference between the cost using the moving average method or amortized cost and market value less deferred taxes is recorded as Net unrealized gain (loss) on investments in Shareholders' equity on the balance sheet.

*Securities without market value:*

Recorded at cost using the moving average method.

### 2. Depreciation and amortization

#### (1) Tangible fixed assets

Tangible fixed assets are depreciated primarily on the declining-balance method by using the useful lives and remaining balances stipulated in the Corporate Tax Law. However, the straight-line method of depreciation has been adopted for buildings acquired after April 1, 1998 (excluding facilities attached to buildings) consistent 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 period during which it may be used within the company, and the useful lives of other intangible fixed assets are the periods stipulated in the Corporate Tax Law.

### 3. Accounting policies for various provisions

#### (1) Allowance for bad debts

To provide for possible losses from loans, the company accounted allowance for bad debts based on an estimate of the uncollectible amount calculated by using its historical default ratio or a reasonable estimate based on financial evaluation of individual borrowers.

#### (2) Accrued bonuses

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

#### (3) Accrued pension benefits

To provide for the payment of employees' retirement benefits, the present value of estimated future obligations less the fair value of current pension assets are recorded as a reserve for employee retirement benefit.

### 4. Accounting for certain lease transactions

Financing leases other than those for which the ownership of the leased property is deemed as transfers to the

lessee are accounted for primarily as ordinary rental transactions.

5. Accounting for hedging activities

Mark-to-market profits and losses on hedging instrument are principally deferred as assets or liabilities until the gain or loss on hedged instruments are realized.

6. Accounting for consumption taxes

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

**Notes to statement of financial condition**

( Millions of Yen )

	Sep.30, 2002	Mar.31, 2002
1. Accumulated depreciation of Tangible fixed assets	14,432	14,373
2. Debt Guarantee	22,100	21,642
In accordance with Auditing Committee Report No.61 "Audit Treatment of Accounting and Reporting of Debt Guarantees and Similar Acts" issued by Japanese Institute of Certified Public Accountant, items that are recognized to constitute the equivalent of a debt guarantee are included in the notes as Debt Guarantees.		
3. Subordinated borrowings		
Long-term borrowings include subordinated debts (subordinated borrowings) provided in Article 2 of the "Cabinet Office Ordinance on the Capital Adequacy Rule for Securities Companies" (the Prime Ministers Office Ordinance No.23, 2001).		
	Sep.30, 2002	Mar.31, 2002
	39,000	39,000
4. As a result of the amendment of "Regulations Concerning the Terminology, Forms and Preparation Methods of Interim Financial Statements" (MOF Ordinance No.38, 1977), "Additional paid-in capital" has begun to be used since this fiscal year, and "Capital legal reserve" has been used as a breakdown of "Additional paid-in capital". Also, "Other retained earnings" has been changed to "Retained earnings".		

**Notes to statement of operations**

	( Millions of Yen)	
Details of extraordinary gain or loss	FY2002 2Q	FY2002
	(6months)	
Extraordinary gain		
Gain on sales of investment securities	3,160	-
Gain on sales of investment in subsidiaries and affiliates	-	600
Reversal of allowance for bad debts	-	1
Extraordinary loss		
Loss on sales of fixed assets	-	915
Loss on disposal of fixed assets	*1     80	271
Loss on sales of investment securities	-	14,834
Write-off of investment securities	*2     86	1,266
Write-off of long-term guaranty deposits	*3     -	417
Provision for bad debts	*4    100	700
Restructuring cost on branches and offices	*5     -	4,938
Payment for directors' retirements	166	-
Additional payment for employees' retirements	*6     -	9,217
Provision for securities transaction liabilities	10	91

\*1 Loss on disposal of fixed assets included loss on disposal of software.

\*2 Write-off of investment securities included write-off of golf club memberships.

\*3 Write-off of long-term guaranty deposits resulted from those guarantees issued in connection with rental of storefront space that were not recoverable due to a deterioration of the financial condition of lessor .

\*4 Provision for bad debts was the provision for loan to “The Nikko System Center,Ltd.” in this first half period and was the provision for loan to “The Nikko Building Co., Ltd.” and “The Nikko System Center, Ltd.” in prior fiscal year.

\*5 Restructuring cost on branches and offices were posted as temporary costs and losses incurred with the disposition of fixed assets following the transfer of storefronts, surrender of excess space and combination of stores compatible with the scale of operations.

\*6 Additional payment for employees' retirement posted additional amounts of retirement benefits and costs for assistance in locating new employment for employees retiring under the voluntary retirement system implemented in conjunction with the revised human resources and compensation system.

## Reference Data < Non-consolidated >

The results of the FY2001 2Q in the settlement report material below record the individual results of Nikko Cordial Corporation. Also, the business results for the previous year present the results for 6 months (From October 1, 2001 to March 31, 2002), since the company took over all of the securities business and other businesses of Nikko Cordial Corporation on October 1, 2001.

### 1. Commissions

#### (1) Breakdown by Categories

	( Millions of Yen )		
	FY2002 2Q (4/1/02 ~ 9/30/02)	FY2001 2Q (4/1/01 ~ 9/30/01)	FY2001 (4/1/01 ~ 3/31/02)
Brokerage commissions	14,449	21,165	13,660
< Equities >	< 13,197 >	< 20,635 >	< 12,965 >
< Bonds >	< 412 >	< 433 >	< 588 >
< Investment trusts >	< 839 >	< 96 >	< 106 >
Underwriting & selling commissions	4	10	15
< Bonds >	< 4 >	< 10 >	< 15 >
Subscription & distribution commissions	7,517	10,265	7,751
< Investment trusts >	< 5,171 >	< 6,459 >	< 5,125 >
Other commissions	23,200	26,702	25,003
< Investment trusts >	< 8,452 >	< 13,833 >	< 10,540 >
Total	45,171	58,143	46,431

#### (2) Breakdown by Products

	( Millions of Yen )		
	FY2002 2Q (4/1/02 ~ 9/30/02)	FY2001 2Q (4/1/01 ~ 9/30/01)	FY2001 (4/1/01 ~ 3/31/02)
Equities	16,290	24,448	15,568
Bonds	1,672	2,849	3,003
Investment trusts	14,463	20,390	15,773
Others	12,744	10,455	12,086
Total	45,171	58,143	46,431

### 2. Net gain (loss) on trading

	( Millions of Yen )		
	FY2002 2Q (4/1/02 ~ 9/30/02)	FY2001 2Q (4/1/01 ~ 9/30/01)	FY2001 (4/1/01 ~ 3/31/02)
Equities, etc.	5,637	1,161	2,308
Bonds, forex, etc.	8,165	5,450	6,304
< Bonds, etc. >	< 2,678 >	< 3,297 >	< 11,129 >
< Forex, etc. >	< 5,487 >	< 2,152 >	< (4,824) >
Total	13,803	6,611	8,613

3. Equity Trading Activity (Excluding futures)

(Millions of Shares, Millions of Yen)

	FY2002 2Q (4/1/02~ 9/30/02)		FY2001 2Q (4/1/01~ 9/30/01)		FY2001 (4/1/01 ~ 3/31/02)	
	Number of shares	Amounts	Number of shares	Amounts	Number of shares	Amounts
Total	5,073	4,042,423	4,434	3,760,985	4,568	4,553,892
< Proprietary >	< 759 >	< 936,846 >	< 295 >	< 411,390 >	< 415 >	< 1,116,648 >
< Agency >	< 4,313 >	< 3,105,576 >	< 4,139 >	< 3,349,595 >	< 4,152 >	< 3,437,244 >
Agent ratio	85.0 %	76.8 %	93.4 %	89.1 %	90.9 %	75.5 %
TSE share	2.0 %	1.6 %	1.9 %	1.6 %	1.9 %	1.6 %
Commission per share	¥ 3.03		¥ 4.95		¥ 3.08	

4. Underwriting / Subscription / Selling

(Millions of Shares, Millions of Yen)

		FY2002 2Q (4/1/02 ~ 9/30/02)	FY2001 2Q (4/1/01 ~ 9/30/01)	FY2001 (4/1/01 ~ 3/31/02)
Underwriting	Bonds < Face value >	19,716	18,625	32,003
* Subscription and distribution	Equities < Number of shares >	55	27	13
	Equities < Amounts >	99,852	105,220	42,984
	Bonds < Face value >	430,121	442,049	498,790
	Investment trusts < Amounts >	1,494,244	5,283,800	3,306,027

\* Including selling and distribution of private placement

5. Capital Adequacy Ratio

(Millions of Yen)

		Sep.30, 2002	Sep.30, 2001	Mar.31, 2002
Basic items	Capital (A)	353,496	714,503	349,047
Supplementary items	Unrealized gain on investment securities	-	-	2,329
	Statutory Reserves	101	603	91
	Allowance for bad debts	61	59	80
	Short-term subordinated borrowings	39,000	55,000	39,000
	Sub - total (B)	39,162	55,662	41,501
Deductible assets (C)		159,004	391,740	168,880
Net capital (A) + (B) - (C) (D)		233,655	378,425	221,668
Total risk	Market Risk	13,287	23,662	16,777
	Credit Risk	12,258	21,040	24,045
	Basic Risk	31,492	41,313	39,211
	(E)	57,039	86,015	80,032
Capital adequacy ratio (D) / (E) × 100		409.6 %	439.9 %	276.9 %

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

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

Amount : 39,000 million yen  
 Effective date : March.27, 2002  
 Maturity date : March.28, 2005

**QUARTERLY STATEMENT OF OPERATIONS**

( Millions of Yen )

	FY2001 1Q	FY2001 2Q	FY2001 3Q	FY2001 4Q	FY2002 1Q	FY2002 2Q
	04/01/01 06/30/01	07/01/01 09/30/01	10/01/01 12/31/01	01/01/02 03/31/02	04/01/02 06/30/02	07/01/02 09/30/02
Operating revenue	77,519	30,188	29,980	28,358	31,916	30,967
Commissions	32,082	26,060	23,561	22,870	23,422	21,748
Brokerage commissions	13,349	7,815	7,083	6,576	8,223	6,225
Underwriting & selling commissions	4	5	8	7	2	2
Subscription & distribution commissions	5,672	4,592	4,012	3,739	3,429	4,088
Other commissions	13,055	13,647	12,456	12,547	11,767	11,432
Net gain on trading	3,976	2,635	4,857	3,756	6,522	7,280
Net gain on other trading	0	1	1	1	0	0
Interest and dividend income	41,458	1,491	1,560	1,730	1,970	1,937
Interest expense	2,067	1,951	1,470	1,468	1,375	1,374
Net operating revenue	75,452	28,236	28,510	26,889	30,541	29,593
Selling, general and administrative expense	38,550	38,068	32,897	32,771	28,601	28,580
Floor brokerage, communication and other transaction related costs	4,739	5,919	3,858	4,028	3,743	3,671
Employee compensation and benefits	18,190	14,741	14,526	14,552	12,941	12,473
Occupancy and equipment	5,621	6,596	4,979	5,090	4,261	4,339
Data processing and other services	5,959	6,172	5,939	5,623	4,610	4,679
Depreciation and amortization	710	418	544	717	552	553
Taxes, other than income taxes	451	178	310	104	204	151
Other expenses	2,878	4,042	2,737	2,653	2,288	2,711
Operating income(loss)	36,901	(9,831)	(4,387)	(5,881)	1,939	1,012
Non-operating income	941	494	828	(52)	528	327
Non-operating expense	120	2,030	118	44	160	485
Ordinary income(loss)	37,722	(11,367)	(3,677)	(5,979)	2,307	854
Extraordinary gain	41	9,211	679	(78)	2,980	180
Extraordinary loss	111	28,906	9,325	23,328	275	168
Income(Loss) before income taxes	37,651	(31,062)	(12,323)	(29,386)	5,012	865
Income taxes-current	351	412	44	45	32	40
Income taxes-deferred	-	-	-	-	-	824
Net income(loss) for the current period	37,300	(31,474)	(12,368)	(29,431)	4,980	1

(Note) The results of the FY2001 1Q and the FY2001 2Q in the settlement report record the individual results of the former Nikko Securities Co., Ltd. (the current Nikko Cordial Corporation).