

# 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 three months ended June 30, 2003

(1) Operating results ( from April 1, 2003 to June 30, 2003 )

( Millions of Yen )

	Operating revenue	Net operating revenue	Operating income
FY2003 1Q (3months)	42,481 [33.1%]	40,296 [31.9%]	9,408 [385.1%]
FY2002 1Q (3months)	31,916	30,541	1,939
FY2002	124,988	119,189	6,592

	Ordinary income	Net income
FY2003 1Q (3months)	9,437 [309.0%]	8,519 [71.1%]
FY2002 1Q (3months)	2,307	4,980
FY2002	6,751	337

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

2. The percentage noted in Operating revenue, Net operating revenue, Operating income, Ordinary income, and Net income is the rate of the increase or decrease compared to the same period in the previous year.

(2) Financial condition

( Millions of Yen except percentage )

	Total assets	Shareholders' equity	Shareholders' equity ratio	Capital adequacy ratio
As of Jun.30, 2003	1,330,752	358,364	26.9 %	431.9 %
As of Jun.30, 2002	1,317,234	354,463	26.9	335.6
As of Mar.31,2003	1,524,809	349,536	22.9	418.0

**STATEMENT OF FINANCIAL CONDITION**

( Millions of Yen )

	Jun.30, 2003 (A)	Jun.30, 2002 (B)	varinace (A) - (B)	Mar.31, 2003
< ASSETS >				
Current assets	1,175,470	1,134,908	40,561	1,367,420
Cash on hand, Cash in banks	174,661	105,727	68,933	140,212
Cash segregated for customers and others	86,908	94,119	(7,211)	81,940
Trading assets	427,055	519,943	(92,888)	581,355
Trading securities	371,679	462,951	(91,272)	530,037
Derivatives	55,376	56,992	(1,616)	51,317
Trading receivables	620	11,521	(10,900)	32,127
Margin account receivables	68,594	89,008	(20,414)	59,822
Loans on margin transactions	56,351	83,792	(27,441)	50,446
Cash collateral pledged for securities borrowing on margin transactions	12,243	5,215	7,027	9,375
Loans secured by securities	357,636	184,646	172,989	411,097
Cash collateral pledged for securities borrowings	357,636	184,646	172,989	411,097
Advance payments	4,990	2,724	2,266	970
Cash paid for subscription	8,112	6,259	1,852	2,315
Short-term loans	1,253	71,437	(70,183)	1,246
Deferred tax assets	15,849	15,853	(3)	15,853
Other current assets	30,001	33,951	(3,950)	40,692
Allowance for bad debts	(214)	(286)	71	(213)
Non-current assets	155,282	182,326	(27,043)	157,389
Tangible fixed assets	7,567	8,723	(1,156)	7,816
Intangible fixed assets	1,420	1,639	(219)	1,307
Investments and others	146,294	171,963	(25,668)	148,265
Investment securities	25,514	33,089	(7,575)	25,103
Investment in subsidiaries and affiliates	15,510	14,754	756	15,510
Long-term loans	66,906	66,984	(78)	66,908
Long-term guaranty deposits	24,247	38,478	(14,231)	26,110
Deferred tax assets	60,902	63,414	(2,512)	61,189
Other investments	19,438	21,020	(1,582)	19,682
Allowance for bad debts	(66,223)	(65,777)	(446)	(66,238)
Total assets	1,330,752	1,317,234	13,518	1,524,809

**STATEMENT OF FINANCIAL CONDITION**

( Millions of Yen )

	Jun.30, 2003 (A)	Jun.30, 2002 (B)	varinace (A) - (B)	Mar.31, 2003
< LIABILITIES >				
Current liabilities	769,866	760,068	9,797	974,332
Trading liabilities	163,075	187,605	(24,529)	218,977
Trading securities	108,755	107,978	777	168,495
Derivatives	54,320	79,626	(25,306)	50,481
Margin account payables	26,085	25,761	323	21,078
Borrowings on margin transactions	5,733	13,689	(7,955)	8,504
Cash received for securities lending on margin transactions	20,351	12,071	8,279	12,574
Borrowings pledged by securities	411,109	333,479	77,630	522,841
Cash collateral received for securities lendings	305,647	307,740	(2,092)	254,782
Borrowings on Gensaki transaction	105,461	25,738	79,722	268,059
Deposits received	86,526	82,256	4,270	71,343
Guaranty deposits received	25,994	25,410	583	18,681
Short-term borrowings	12,595	8,695	3,900	39,495
Commercial paper	30,000	70,000	(40,000)	65,000
Income taxes payable	40	41	(1)	160
Other current liabilities	14,440	26,819	(12,379)	16,754
Non-current liabilities	202,220	202,564	(343)	200,719
Corporate debts	100,000	100,000	-	100,000
Long-term borrowings	90,000	90,000	-	90,000
Deferred tax liabilities	-	311	(311)	-
Accrued pension benefits	11,401	12,253	(851)	10,719
Other non-current liabilities	819	-	819	-
Statutory reserves	301	137	163	221
Total liabilities	972,388	962,771	9,617	1,175,273
< SHAREHOLDERS' EQUITY >				
Common stock	100,000	100,000	-	100,000
Additional paid-in capital	290,880	290,880	-	290,880
Legal capital reserve	290,880	290,880	-	290,880
Retained earnings	(32,974)	(36,852)	3,877	(41,494)
Unappropriated retained earnings	(32,974)	(36,852)	3,877	(41,494)
[ Net income ]	[ 8,519 ]	[ 4,980 ]	[ 3,539 ]	[ 337 ]
Net unrealized gain on investment securities	458	435	23	150
Total shareholders' equity	358,364	354,463	3,900	349,536
Total liabilities and shareholders' equity	1,330,752	1,317,234	13,518	1,524,809

**STATEMENT OF OPERATIONS**

( Millions of Yen )

	FY2003 <A> (4/1/03 ~ 6/30/03)	FY2002 <B> (4/1/02 ~ 6/30/02)	Ratio — <A> — <B> %	FY2002 (4/1/02 ~ 3/31/03)
Operating revenue	42,481	31,916	133.1	124,988
Commissions	28,189	23,422	120.4	90,449
Net gain on trading	12,171	6,522	186.6	26,756
Net gain on other trading	1	0	111.4	3
Interest and dividend income	2,119	1,970	107.5	7,778
Interest expense	2,185	1,375	158.9	5,799
Net operating revenue	40,296	30,541	131.9	119,189
Selling, general and administrative expense	30,887	28,601	108.0	112,597
Floor brokerage, communication and other transaction related costs	3,484	3,743	93.1	14,133
Employee compensation and benefits	17,066	12,941	131.9	52,403
Occupancy and equipment	3,728	4,261	87.5	16,232
Data processing and other services	3,952	4,610	85.7	17,570
Depreciation and amortization	430	552	77.9	2,134
Taxes, other than income taxes	205	204	100.8	644
Other expenses	2,019	2,288	88.2	9,476
Operating income	9,408	1,939	485.1	6,592
Non-operating revenue	347	528	65.8	1,386
Non-operating expense	319	160	199.4	1,226
Ordinary income	9,437	2,307	409.0	6,751
Extraordinary gain	140	2,980	4.7	2,684
Extraordinary loss	942	275	341.7	6,824
Income before income taxes	8,635	5,012	172.3	2,611
Income taxes-current	36	32	112.5	152
Income taxes-deferred	79	-	-	2,121
Net income	8,519	4,980	171.1	337
Retained earnings at the beginning of period	(41,494)	(41,832)	-	(41,832)
Retained earnings at the end of period	(32,974)	(36,852)	-	(41,494)

## **Notes to financial statements**

The company's quarterly financial statements have been prepared in accordance with "Regulations Concerning the Terminology, Forms and Preparation Methods of Interim Financial Statements" (MOF Ordinance No.38, 1977) 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 recorded at market value.

#### (2) Non-trading purposes

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

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

Recorded at cost using the moving average method.

##### (ii) Other securities

*Securities with market value:*

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

*Securities without market value:*

Recorded at cost using the moving average method.

### 2. Depreciation and amortization

#### (1) Tangible fixed assets

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

#### (2) Intangible fixed assets

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

### 3. Accounting policies for provisions

#### (1) Allowance for bad debts

To provide for possible losses from loans, the company 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 company recorded accrued pension benefits in accordance with the present value of estimated future obligations and the fair value of plan assets.

4. Accounting for certain lease transactions

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

5. Accounting for hedging activities

In principle unrealized gains and losses on hedging instrument are deferred as assets or liabilities until the gains or losses on hedged instruments are realized.

6. Accounting for consumption taxes

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

**Notes to statement of financial condition**

( Millions of Yen )

	Jun.30, 2003	Jun.30, 2002	Mar.31, 2003
1. Accumulated depreciation of Tangible fixed assets	13,368	14,345	13,264

2. Debt Guarantees	25,096	22,887	23,081
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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).

( Millions of Yen )

	Jun.30, 2003	Jun.30, 2002	Mar.31, 2003
Long-term borrowings	39,000	39,000	39,000

**Notes to statement of operations**

( Millions of Yen )

Details of extraordinary gain or loss	FY2003 1Q (3months)	FY2002 1Q (3months)	FY2002
Extraordinary gain			
Gain on sales of investment securities	127	2,980	2,646
Liquidation gain of affiliates	-	-	37
Reversal of allowance for bad debts	13	-	-
Extraordinary loss			
Loss on disposal of fixed assets	-	-	155
Write-off of investment securities	-	62	2,518
Provision for bad debts	-	-	200
Restructuring cost on branches and offices	-	-	1,070
Provision for directors' retirements	862	166	304
Additional payment for employees' retirements	-	-	2,446
Provision for securities transaction liabilities	79	46	129

**Reference Data** < Non-consolidated >

1. Commissions

(1) Breakdown by Categories

( Millions of Yen except percentage )

	FY2003 1Q <A> (4/1/03 ~ 6/30/03)	FY2002 1Q <B> (4/1/02 ~ 6/30/02)	Ratio $\frac{\text{<A>}}{\text{<B>}}$ %	FY2002 (4/1/02 ~ 3/31/03)
Brokerage commissions	8,539	8,223	103.8	27,516
< Equities >	< 8,061 >	< 7,876 >	< 102.4 >	< 25,329 >
< Bonds >	< 157 >	< 253 >	< 62.1 >	< 706 >
< Investment trusts >	< 320 >	< 93 >	< 341.0 >	< 1,480 >
Underwriting & selling commissions	0	2	32.9	7
< Bonds >	< 0 >	< 2 >	< 32.9 >	< 7 >
Subscription & distribution commissions	9,314	3,429	271.6	18,624
< Investment trusts >	< 7,719 >	< 2,471 >	< 312.4 >	< 12,613 >
Other commissions	10,335	11,767	87.8	44,300
< Investment trusts >	< 3,201 >	< 4,359 >	< 73.4 >	< 15,071 >
Total	28,189	23,422	120.4	90,449

(2) Breakdown by Products

( Millions of Yen except percentage )

	FY2003 1Q <A> (4/1/03 ~ 6/30/03)	FY2002 1Q <B> (4/1/02 ~ 6/30/02)	Ratio $\frac{\text{<A>}}{\text{<B>}}$ %	FY2002 (4/1/02 ~ 3/31/03)
Equities	10,057	9,321	107.9	32,465
Bonds	823	782	105.2	4,076
Investment trusts	11,241	6,924	162.3	29,165
Others	6,066	6,393	94.9	24,740
Total	28,189	23,422	120.4	90,449

2. Net gain (loss) on trading

( Millions of Yen except percentage )

	FY2003 1Q <A> (4/1/03 ~ 6/30/03)	FY2002 1Q <B> (4/1/02 ~ 6/30/02)	Ratio $\frac{\text{<A>}}{\text{<B>}}$ %	FY2002 (4/1/02 ~ 3/31/03)
Equities, etc.	2,239	1,067	209.9	6,343
Bonds, forex, etc.	9,931	5,455	182.1	20,412
< Bonds, etc. >	< 8,169 >	< 137 >	< 5,929.6 >	< 12,430 >
< Forex, etc. >	< 1,762 >	< 5,317 >	< 33.1 >	< 7,981 >
Total	12,171	6,522	186.6	26,756

3. Equity Trading Activity (Excluding futures)

(Millions of Shares, Millions of Yen except percentage)

	FY2003 1Q <A> (4/1/03~ 6/30/03)		FY2002 1Q <B> (4/1/02~ 6/30/02)		Ratio $\frac{\text{<A>}}{\text{<B>}}$ %		FY2002 (4/1/02 ~ 3/31/03)	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
	Total	4,214	2,048,715	2,545	1,905,920	165.6	107.5	11,051
< Proprietary >	< 284 >	< 276,914 >	< 185 >	< 248,388 >	< 153.2 >	< 111.5 >	< 1,611 >	< 2,073,743 >
< Agency >	< 3,930 >	< 1,771,801 >	< 2,360 >	< 1,657,532 >	< 166.5 >	< 106.9 >	< 9,439 >	< 6,392,066 >
Agent ratio	93.3 %	86.5 %	92.7 %	87.0 %			85.4 %	75.5 %
TSE share	2.3 %	1.8 %	2.1 %	1.5 %			2.1 %	1.7 %

4. Underwriting / Subscription / Selling

(Millions of Shares, Millions of Yen except percentage)

			FY2003 1Q	FY2002 1Q	Ratio	FY2002
			<A> (4/1/03~ 6/30/03)	<B> (4/1/02~ 6/30/02)	$\frac{\text{<A>}}{\text{<B>}}$ %	(4/1/02 ~ 3/31/03)
Underwriting	Bonds	< Face value >	16,848	12,546	134.3	33,330
* Subscription and distribution	Equities	< Number of shares >	36	3	1,285.1	170
	Equities	< Amounts >	51,101	48,577	105.2	204,333
	Bonds	< Face value >	302,848	245,378	123.4	960,570
	Invest. trusts	< Amounts >	1,095,016	803,743	136.2	3,202,348

\* Including selling and distribution of private placement

5. Capital Adequacy Ratio

(Millions of Yen except percentage)

		Jun.30, 2003	Jun.30, 2002	Mar.31, 2003
Basic items	Capital (A)	357,905	354,028	349,385
Supplementary items	Unrealized gain on investment securities	458	435	150
	Statutory reserves	301	137	221
	Allowance for bad debts	42	94	41
	Short-term subordinated borrowings	39,000	39,000	39,000
	Sub - total (B)	39,802	39,667	39,413
	Deductible assets (C)	150,846	171,287	154,960
	Net capital (A) + (B) - (C) (D)	246,861	222,407	233,838
Total risk	Market Risk	15,216	13,763	13,858
	Credit Risk	13,232	16,687	13,494
	Basic Risk	28,701	35,806	28,588
	Sub - total (E)	57,150	66,257	55,941
	Capital adequacy ratio (D) / (E)*100	431.9 %	335.6 %	418.0 %

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

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

Amount : 39,000 million yen

Effective date : March 27, 2002

Maturity date : March 28, 2005



**QUARTERLY STATEMENT OF OPERATIONS**

( Millions of Yen )

	FY2002 1Q 04/01/02 06/30/02	FY2002 2Q 07/01/02 09/30/02	FY2002 3Q 10/01/02 12/31/02	FY2002 4Q 01/01/03 03/31/03	FY2003 1Q 04/01/03 06/30/03
Operating revenue	31,916	30,967	30,816	31,287	42,481
Commissions	23,422	21,748	24,501	20,776	28,189
Brokerage commissions	8,223	6,225	8,102	4,964	8,539
Underwriting & selling commissions	2	2	2	0	0
Subscription & distribution commissions	3,429	4,088	5,205	5,901	9,314
Other commissions	11,767	11,432	11,190	9,910	10,335
Net gain on trading	6,522	7,280	4,443	8,509	12,171
Net gain on other trading	0	0	1	1	1
Interest and dividend income	1,970	1,937	1,870	2,000	2,119
Interest expense	1,375	1,374	1,499	1,549	2,185
Net operating revenue	30,541	29,593	29,316	29,738	40,296
Selling, general and administrative expense	28,601	28,580	27,021	28,392	30,887
Floor brokerage, communication and other transaction related costs	3,743	3,671	3,246	3,472	3,484
Employee compensation and benefits	12,941	12,473	12,987	14,001	17,066
Occupancy and equipment	4,261	4,339	3,821	3,810	3,728
Data processing and other services	4,610	4,679	4,117	4,162	3,952
Depreciation and amortization	552	553	539	489	430
Taxes, other than income taxes	204	151	148	140	205
Other expenses	2,288	2,711	2,160	2,316	2,019
Operating income	1,939	1,012	2,294	1,345	9,408
Non-operating revenue	528	327	80	450	347
Non-operating expense	160	485	320	260	319
Ordinary income	2,307	854	2,054	1,535	9,437
Extraordinary gain	2,980	180	(46)	(430)	140
Extraordinary loss	275	168	715	5,665	942
Income (loss) before income taxes	5,012	865	1,292	(4,559)	8,635
Income taxes-current	32	40	41	39	36
Income taxes-deferred	-	824	674	622	79
Net income (loss)	4,980	1	577	(5,221)	8,519