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# 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 3 Months Ended June 30, 2008 (JGAAP)

### 1. Overall business performance for the 3 months ended June 30, 2008

#### (1) Operating results (from April 1, 2008 to June 30, 2008)

(Millions of Yen except percentages)

	Operating revenue		Net operating revenue		Operating income	
FY2008 1Q (3 months)	56,561	-15.8%	54,675	-17.2%	13,682	-35.5%
FY2007 1Q (3 months)	67,158	6.2%	66,034	5.0%	21,206	6.3%

	Ordinary income		Quarterly Net income	
FY2008 1Q (3 months)	14,120	-35.2%	8,045	-33.8%
FY2007 1Q (3 months)	21,798	5.9%	12,147	6.9%

- Note: 1. The percentages noted in Operating revenue, Net operating revenue, Operating income, Ordinary income and Quarterly Net income represent the increase or decrease compared to the same period in the previous year.  
2. Figures are rounded down to the nearest whole number.

#### (2) Financial condition

(Millions of Yen except percentages)

	Total assets	Net assets	Equity ratio	Capital adequacy ratio
FY2008 1Q	1,481,896	404,806	27.3 %	579.9 %
FY2007	1,523,908	420,600	27.6	574.6

Equity ("Shareholders' equity" and "Valuation and translation adjustment")

FY 2008 1Q: 404,806 million yen      FY 2007: 420,600 million yen

### 2. Others

- (1) Adoption of simplified accounting method or accounting method peculiar to quarterly financial statements: None
- (2) Change of the accounting principles, procedures and presentation in the preparation of quarterly financial statements
- (i) Changes due to revised accounting standard : Yes
- (ii) Other changes : None

Note: See Operating Results and Financial Condition 3. Others (page 3) for details

## Operating Results and Financial Condition

### 1. Operating Results

#### Financial Overview

The company completed the merger with Citibank Securities Inc. in May 3, 2008 and took over securities brokerage business for high net worth and other retail customers.

Operating revenue for this period (from April 1, 2008 to June 30, 2008) totaled ¥56.5 billion or 16% decrease year on year. Net operating revenue, which subtracts interest expense from operating revenue, was ¥54.6 billion or 17% decrease from the same period last year. Selling, general and administrative expense was ¥40.9 billion or 9% down from the last year. Consequently, operating income was ¥13.6 billion, or 35% year-on-year decrease, and ordinary income after adjustment for non-operating revenue/expense was ¥14.1 billion or 35% down from the last year. Net income, which incorporates factors such as extraordinary gains (losses) and corporate taxes, was ¥8.0 billion or 34% down from the prior year.

Major revenues and expenses are as follows:

#### (1) Commissions

Commissions were ¥36.7 billion, 18% down from the previous year. Following are summaries by category:

##### *Brokerage Commissions*

Brokerage commissions were ¥6.4 billion, 34% year-on-year decrease. Brokerage commissions on equities were ¥6.3 billion or 34% decrease from the previous year due to smaller trading volume by individual investors in a downturn market.

##### *Subscription and Distribution Commissions*

Subscription and distribution commissions were ¥11.5 billion, 28% decrease from the year earlier. Commission revenues on equities were ¥0.4 billion or 119% year-on-year increase, and those on bonds were ¥1.4 billion or 93% increase from last year driven by brisk sales of Citigroup Samurai bonds. Commission revenues on mutual funds were ¥9.5 billion or 35% decrease from the previous year, due to reemerging fear of financial system meltdown in US, concern about economic recession, and shift of clients' preference to interest-linked products.

##### *Other Commissions*

Other commissions were ¥18.7 billion, 2% down from the previous year, mainly due to the decrease in agency commission on accumulated balances in mutual funds.

#### (2) Net Gain on Trading

Due to fewer FX-related transactions net gain on trading decreased by 13% from the last year to ¥17.2 billion. Trading gain on equities and bonds/foreign exchanges were ¥0.2 billion and ¥17.0 billion, respectively.

#### (3) Net Financial Income

Net financial income, ¥2.5 billion of interest and dividend income less ¥1.8 billion of interest expense, was ¥0.6 billion.

#### (4) Selling, General and Administrative Expense

Selling, general and administrative expense was ¥40.9 billion, 9% down from the last year. Employee compensation and benefits were ¥19.8 billion or 13% decrease from the previous year, as bonus for staff and salaries for particular employees such as FA/IFA who are paid on performance were dropped.

(5) Extraordinary gains and losses

The Company recorded extraordinary gains totaling ¥0.01 billion, including reversal of bad debt reserve and of provision for financial instruments transactions.

Extraordinary losses, such as loss on disposal of fixed assets and write-offs of investment securities, were ¥0.04 billion.

**2. Financial Condition**

Current assets at the end of this period amounted to ¥1,407.1 billion, a decrease of ¥41.2 billion compared to the end of the previous term, mainly due to fewer trading assets. Fixed assets were ¥74.7 billion, down by ¥0.7 billion from the previous term.

Current liabilities amounted to ¥1,071.8 billion, an increase of ¥26.2 billion compared to the end of the last term, mainly due to lower trading liabilities and short term borrowings. Long-term liabilities were ¥4.3 billion.

**3. Others**

<Change of the accounting principles, procedures and presentation in the preparation of quarterly financial statements>

Adoption of Accounting Standards for Lease Transaction

Previously the company treated finance lease transactions without ownership transfer to lessee as general lease transaction. Since it applied "Accounting Standards for Lease Transaction" (FASB, Financial Accounting Standard No.13, revised on March 30, 2007) and "Implementation Guidance on Accounting Standards for Lease Transaction" (FASB, Financial Accounting Standard No.16, revised on March 30, 2007) since the beginning of the current term, however, such leases are accounted for as general sales transaction.

Note that, for finance lease transactions without ownership transfer, the company continues to apply accounting principles for general lease transaction if such transaction commenced prior to the adoption of the new standards.

## 4. Financial Statements

## (1) Balance Sheet

(Millions of Yen except percentages)

	Jun. 30, 2008	<B> Mar. 31, 2008	<A> Net Change	<A> -<B> %
<b>(ASSETS)</b>				
<b>Current assets</b>	1,407,183	1,448,400	(41,217)	(2.8) %
Cash and cash deposits	83,830	58,711	25,118	42.8
Cash segregated and deposits	160,550	129,722	30,828	23.8
Trading assets:	686,314	761,500	(75,185)	(9.9)
<i>Trading securities</i>	604,517	654,526	(50,009)	(7.6)
<i>Derivatives</i>	81,797	106,973	(25,176)	(23.5)
Receivables related to margin transactions:	70,931	69,556	1,374	2.0
<i>Loans on margin transactions</i>	67,922	68,566	(644)	(0.9)
<i>Cash collateral pledged for securities borrowed on margin transactions</i>	3,008	989	2,019	204.1
Collateralized short-term financing agreements:	342,784	316,278	26,506	8.4
<i>Cash collateral pledged for securities borrowed</i>	342,784	316,278	26,506	8.4
Advance payments	595	721	(126)	(17.5)
Cash paid for subscriptions	10,989	6,055	4,934	81.5
Short-term loans	192	20,191	(19,998)	(99.0)
Deferred tax assets	3,059	7,494	(4,435)	(59.2)
Other current assets	48,034	78,273	(30,239)	(38.6)
Allowance for bad debts	(100)	(105)	4	-
<b>Fixed assets</b>	74,713	75,507	(793)	(1.1)
Tangible fixed assets	8,032	8,334	(301)	(3.6)
Intangible fixed assets	4,204	2,737	1,467	53.6
Investments and others:	62,476	64,435	(1,959)	(3.0)
<i>Investment securities</i>	13,180	13,099	80	0.6
<i>Investment in subsidiaries and affiliates</i>	14,740	14,740	-	-
<i>Long-term loans</i>	5,103	5,139	(35)	(0.7)
<i>Long-term guarantee deposits</i>	14,820	16,600	(1,780)	(10.7)
<i>Deferred tax assets</i>	8,052	8,173	(120)	(1.5)
<i>Other investments</i>	12,637	12,742	(104)	(0.8)
<i>Allowance for bad debts</i>	(6,058)	(6,059)	1	-
<b>Total assets</b>	1,481,896	1,523,908	(42,011)	(2.8)

(Millions of Yen except percentages)

	Jun. 30, 2008	<B> Mar. 31, 2008	<A> Net Change	<A> -<B>
<b>(LIABILITIES)</b>				
<b>Current liabilities</b>	1,071,845	1,098,115	(26,270)	(2.4) %
Trading liabilities:	186,680	227,570	(40,890)	(18.0)
<i>Trading securities</i>	106,500	120,917	(14,417)	(11.9)
<i>Derivatives</i>	80,180	106,653	(26,473)	(24.8)
Open trade payables, net	36,643	12,309	24,334	197.7
Payables related to margin transactions:	7,522	3,088	4,433	143.5
<i>Borrowings on margin transactions</i>	559	575	(16)	(2.9)
<i>Cash collateral received for securities loaned on margin transactions</i>	6,962	2,512	4,450	177.1
Collateralized short-term financing agreements:	414,209	418,648	(4,439)	(1.1)
<i>Cash collateral received for securities loaned</i>	98,065	161,343	(63,278)	(39.2)
<i>Borrowings on Gensaki transactions</i>	316,143	257,305	58,838	22.9
Deposits received	165,210	102,176	63,033	61.7
Guarantee deposits received	22,920	24,940	(2,020)	(8.1)
Short-term borrowings	146,300	216,200	(69,900)	(32.3)
Commercial paper	75,000	65,000	10,000	15.4
Income taxes payable	1,182	372	809	217.0
Other current liabilities	16,177	27,807	(11,630)	(41.8)
<b>Long-term liabilities</b>	4,319	4,292	26	0.6
Accrued pension benefits	2,655	2,639	16	0.6
Other long-term liabilities	1,663	1,652	10	0.6
<b>Statutory reserves</b>	926	900	26	2.9
<b>Total liabilities</b>	1,077,090	1,103,308	(26,217)	(2.4)
<b>(NET ASSETS)</b>				
<b>Shareholders' equity</b>	404,805	420,633	(15,827)	(3.8)
Common stock	100,000	100,000	-	-
Capital surplus:	291,007	290,880	126	0.0
<i>Legal capital reserve</i>	25,000	25,000	-	-
<i>Other capital reserve</i>	266,007	265,880	126	0.0
Retained earnings:	13,798	29,752	(15,954)	(53.6)
<i>Other retained earnings</i>	13,798	29,752	(15,954)	(53.6)
<i>Unappropriated retained earnings</i>	13,798	29,752	(15,954)	(53.6)
<b>Valuation and translation adjustments</b>	0	(33)	33	-
Net unrealized gain on investment securities	0	(33)	33	-
<b>Total net assets</b>	404,806	420,600	(15,794)	(3.8)
<b>Total liabilities and net assets</b>	1,481,896	1,523,908	(42,011)	(2.8)

## (2) Income Statement

(Millions of Yen except percentages)

	<B> For the 3 months ended Jun.30, 2007	For the 3 months ended Jun. 30, 2008	<A> Net Change	$\frac{\text{<A>}}{\text{<B>}}$
<b>Operating revenue</b>	67,158	56,561	(10,596)	(15.8) %
Commissions	44,795	36,733	(8,061)	(18.0)
Net gain on trading	19,916	17,290	(2,626)	(13.2)
Net gain on other trading	0	0	0	(97.8)
Interest and dividend income	2,445	2,537	91	3.7
Interest expense	1,124	1,886	761	67.7
<b>Net operating revenue</b>	66,034	54,675	(11,358)	(17.2)
<b>Selling, general and administrative expenses</b>	44,827	40,993	(3,834)	(8.6)
<i>Brokerage, communication and other transaction related costs</i>	4,864	4,115	(748)	(15.4)
<i>Employee compensation and benefits</i>	22,795	19,865	(2,930)	(12.9)
<i>Occupancy</i>	4,568	4,636	67	1.5
<i>Outsourcing and office supplies</i>	8,289	8,592	302	3.6
<i>Depreciation and amortization</i>	526	641	114	21.7
<i>Taxes, other than income taxes</i>	496	685	188	38.0
<i>Others</i>	3,285	2,456	(828)	(25.2)
<b>Operating income</b>	21,206	13,682	(7,524)	(35.5)
Non-operating income	686	539	(147)	(21.5)
Non-operating expenses	94	101	6	7.3
<b>Ordinary income</b>	21,798	14,120	(7,678)	(35.2)
Extraordinary gains	20	12	(8)	(41.6)
Extraordinary losses	624	49	(574)	(92.0)
<b>Quarterly Net income before provision for income taxes</b>	21,194	14,082	(7,112)	(33.6)
Income taxes-current	1,364	1,345	(18)	(1.4)
Income taxes-deferred	7,682	4,691	(2,991)	(38.9)
<b>Quarterly Net income</b>	12,147	8,045	(4,102)	(33.8)

**Notes to the financial statements**

The financial statements of Nikko Cordial Securities Inc. have been prepared in accordance with the "Regulations Concerning the Terminology, Forms and Preparation Methods of Financial Statements" (MOF Ordinance No.38, 1977) (the "regulations"), and based on the Regulations No.38 and No. 57 they also have been prepared in accordance with the "Cabinet Office Ordinance Concerning Financial Instruments Dealers" (Cabinet Office Ordinance No.52, 2007) and the "Rule concerning Uniform Accounting Standards for Securities Dealers" (Self-regulatory Rule of Japan Securities Dealers Association, November 14, 1974) .

**Basis of the financial statements**

## 1. Valuation of financial instruments

## (1) Trading securities and derivatives

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

## (2) Non-trading securities and derivatives

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

## (A) Investments in subsidiaries and affiliates

Recorded at cost method using the moving average method.

## (B) Other securities

## a. Securities with market value:

Recorded at market value at the end of this period. The difference between the cost using the moving average method and market value is recorded as Net unrealized gain on investment securities in Net assets on the statement of financial condition.

## b. Securities without market value:

Recorded at cost method using the moving average method. Investments in partnership funds are consolidated in proportion to the company's interests, but certain investments in partnerships which will not have material effect on financial statement are recorded as investment securities at net asset value based on its financial statements in proportion to the company's interests.

## 2. Depreciation method for fixed assets

## (1) Tangible fixed assets (exclude Leased Assets)

The declining-balance method is mainly applied.

## (2) Intangible fixed assets (exclude Leased Assets)

Intangible fixed assets are amortized on the straight-line method. The useful life of software is the estimated period for internal use, and the useful lives of other intangible fixed assets are the periods stipulated in the Corporate Tax Law.

## (3) Leased Assets

The straight-line method is applied for leased assets of financing leases without transfer of ownership. The useful life of that method is leasing period and the residual value is zero.

## 3. Accounting policies for provisions

## (1) Allowance for bad debts

To provide for possible losses from loans, the company estimated provision for performing loans with a prospected loss rate based on historical loss experiences, and estimated provision for non-performing loans from probable losses respectively.

## (2) Accrued bonuses

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

## (3) Accrued pension benefits

To provide for the payment of annuity holder retirement benefits, the company recorded accrued pension benefits in accordance with the estimated value of future obligations and plan assets at the end of this period.

## 4. Accounting Procedure for Lease transaction

The company applies accounting principles of general lease transaction for finance lease transactions without ownership transfer if the transaction commenced prior to the adaptation of the new standards.

## 5. Other basis of presentation

## (1) Accounting for consumption taxes

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

(2) Consolidated tax system

The company applies the consolidated tax return system with Nikko Citi Holdings Inc. as the consolidated parent corporation.

**Notes to the balance sheet**

	(Millions of Yen)	
	<u>Jun. 30, 2008</u>	<u>Mar. 31, 2008</u>
1. Accumulated depreciation of tangible fixed assets	11,266	11,146
2. Debt guarantees	23,479	25,229

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

**Notes to quarterly income statement**

	(Millions of Yen)	
	For the 3 months ended <u>Jun. 30, 2007</u>	For the 3 months ended <u>Jun. 30, 2008</u>
Details of extraordinary gains and losses		
Extraordinary gains		
Gain on sales of investment securities	20	-
Reversal of allowance for bad debts	-	6
Reversal of provision for financial instruments transactions	-	5
Extraordinary losses		
Loss on disposal of fixed assets	-	29
Loss from sales of investment securities	-	3
Write-off of investment securities	100	16
Expense of settlement for stock options granted in prior years	496	-
Provision for securities transaction	27	-



## 5. Reference data

### (1) Commissions

#### i) Breakdown by Categories

( Millions of Yen except percentages )

	<B> For the 3 months ended Jun. 30, 2007	For the 3 months ended Jun. 30, 2008	<A> Net Change	$\frac{\text{<A>}}{\text{<B>}}$
Brokerage commissions	9,655	6,414	-3,241	-33.6 %
< Equities >	< 9,578 >	< 6,328 >	< -3,249 >	< -33.9 >
< Bonds >	< 46 >	< 7 >	< -38 >	< -84.3 >
< Investment trusts >	< 30 >	< 78 >	< 47 >	< 155.4 >
Subscription & distribution commissions	15,902	11,522	-4,380	-27.5
< Investment trusts >	< 14,850 >	< 9,581 >	< -5,268 >	< -35.5 >
Other commissions	19,236	18,797	-439	-2.3
< Investment trusts >	< 11,336 >	< 9,075 >	< -2,260 >	< -19.9 >
Total	44,795	36,733	-8,061	-18.0

#### ii) Breakdown by Products

( Millions of Yen except percentages )

	<B> For the 3 months ended Jun. 30, 2007	For the 3 months ended Jun. 30, 2008	<A> Net Change	$\frac{\text{<A>}}{\text{<B>}}$
Equities	10,510	7,328	-3,182	-30.3 %
Bonds	983	1,730	747	76.0
Investment trusts	26,216	18,734	-7,481	-28.5
Others	7,084	8,939	1,854	26.2
Total	44,795	36,733	-8,061	-18.0

### (2) Gain / Loss on Trading

( Millions of Yen except percentages )

	<B> For the 3 months ended Jun. 30, 2007	For the 3 months ended Jun. 30, 2008	<A> Net Change	$\frac{\text{<A>}}{\text{<B>}}$
Equities, etc.	995	230	-764	-76.8 %
Bonds, forex, etc.	18,921	17,059	-1,861	-9.8
< Bonds, etc. >	< 8,312 >	< 15,919 >	< 7,606 >	< 91.5 >
< Forex, etc. >	< 10,609 >	< 1,140 >	< -9,468 >	< -89.2 >
Total	19,916	17,290	-2,626	-13.2

(3) Equity Trading Activity (excluding futures transactions)

(Millions of Yen and shares except percentage)

	For the 3 months ended Jun. 30, 2007		For the 3 months ended Jun. 30, 2008		Comparison ratio	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Total	1,499	1,623,639	1,222	1,224,419	-18.4 %	-24.6 %
< Proprietary >	< 99 >	< 169,279 >	< 146 >	< 200,622 >	< 47.6 >	< 18.5 >
< Agency >	< 1,400 >	< 1,454,359 >	< 1,076 >	< 1,023,796 >	< -23.1 >	< -29.6 >
Brokerage ratio	93.4 %	89.6 %	88.0 %	83.6 %		
TSE share	0.5 %	0.4 %	0.4 %	0.3 %		

(4) Subscription / Distribution

(Millions of Yen and shares except percentage)

		For the 3 months ended Jun. 30, 2007	For the 3 months ended Jun. 30, 2008	Comparison ratio
* Subscription and distribution	Equities ( Number of shares )	1	0	-85.4 %
	Equities ( Amounts )	13,400	17,096	27.6
	Bonds ( Face value )	234,698	461,166	96.5
	Invest. trusts ( Amounts )	1,871,395	1,368,906	-26.9
	Others ( Amounts )	192	4,138	-

\* Include distributions and private offerings

(5) Regulatory Capital Adequacy Ratio

		For the 3 months ended Jun. 30, 2008	For the 3 months ended Mar. 30, 2008
Basic items	Total capital (A)	404,805	420,600
Supplementary items	Unrealized gain on investment securities	0	-
	Statutory reserve	926	900
	Allowance for bad debts	53	55
	Sub-total (B)	979	955
Deductible assets	(C)	76,377	77,659
Net capital	(A) + (B) - (C) (D)	329,407	343,895
Risk total	Market Risk	4,042	3,881
	Counterparty Risk	10,689	11,873
	Basic Risk	42,072	44,093
	Sub-total (E)	56,803	59,848
Net capital ratio	(D) / (E)*100 (%)	579.9 %	574.6 %

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

## (6) Quarterly Statement of Operations

(Millions of Yen)

	FY2007 1Q 04/01/07 06/30/07	FY2007 2Q 07/01/07 09/30/07	FY2007 3Q 10/01/07 12/31/07	FY2007 4Q 01/01/08 03/31/08	FY2008 1Q 04/01/08 06/30/08
<b>Operating revenue</b>	67,158	58,219	56,321	41,110	56,561
Commissions	44,795	40,091	42,006	29,843	36,733
<i>Brokerage commissions</i>	9,655	7,869	8,207	5,652	6,414
<i>Subscription &amp; distribution commissions</i>	15,902	12,737	13,493	6,903	11,522
<i>Other commissions</i>	19,236	19,484	20,305	17,288	18,797
Net gain on trading	19,916	15,699	11,947	9,374	17,290
Net gain on other trading	0	0	0	0	0
Interest and dividend income	2,445	2,428	2,366	1,892	2,537
Interest expense	1,124	1,108	1,284	1,414	1,886
<b>Net operating revenue</b>	66,034	57,111	55,036	39,695	54,675
Selling, general and administrative expenses	44,827	42,536	41,749	37,819	40,993
<i>Brokerage, communication and other transaction related costs</i>	4,864	5,271	4,980	4,763	4,115
<i>Employee compensation and benefits</i>	22,795	20,262	19,992	15,784	19,865
<i>Occupancy</i>	4,568	4,633	4,594	4,519	4,636
<i>Outsourcing and office supplies</i>	8,289	8,495	8,373	8,479	8,592
<i>Depreciation and amortization</i>	526	571	627	636	641
<i>Taxes, other than income taxes</i>	496	516	308	381	685
<i>Others</i>	3,285	2,785	2,873	3,254	2,456
<b>Operating income</b>	21,206	14,575	13,287	1,876	13,682
Non-operating income	686	(148)	245	(1)	539
Non-operating expenses	94	(28)	77	401	101
<b>Ordinary income</b>	21,798	14,454	13,455	1,473	14,120
Extraordinary gains	20	160	123	92	12
Extraordinary losses	624	181	149	1,785	49
<b>Net income before provision for income taxes</b>	21,194	14,434	13,429	(219)	14,082
Income taxes-current	1,364	7,842	6,774	2,041	1,345
Income taxes-deferred	7,682	(1,478)	(934)	1,656	4,691
<b>Net income</b>	12,147	8,070	7,589	(3,917)	8,045