



January 27, 2006

Consolidated financial summary
 (For the third quarter ended December 31, 2005)

1. (1) Change in accounting policy: None
 (2) Change in scope of consolidation and equity method:
 Scope of consolidation and equity method
 Consolidated subsidiaries: 45 companies
 Affiliates applicable of equity method: 5 companies
 Consolidated subsidiaries: Exclusion: 1 company
 Equity method: Addition: 1 company, Exclusion: 1 company

2. Consolidated financial results (from April 1, 2005 to December 31, 2005)
 (Note) All figures in the financial statements are rounded down to the nearest millionth.
 '- ' indicates a loss or negative figure.

(1) Operating results (from April 1, 2005 to December 31, 2005)

(Millions of yen except for per share data and yr/yr % change)

	Operating revenues		Net operating revenues		Operating income		Ordinary income	
Third quarter (2005/12)	576,096	(59.5)%	392,745	(43.8)%	156,370	(119.5)%	162,363	(115.7)%
Third quarter (2004/12)	361,248	(9.2)%	273,201	(6.8)%	71,238	(10.2)%	75,282	(11.5)%
Fiscal 2004 (2005/3)	519,337		390,432		114,887		120,433	

	Net income		Earnings/share		Fully diluted earnings/share		Return on shareholders' equity (annual basis)	
Third quarter (2005/12)	84,625	(151.6)%	63.60	Yen	60.38	Yen	16.2	%
Third quarter (2004/12)	33,630	(18.4)%	25.27	Yen	24.11	Yen	7.3	%
Fiscal 2004 (2005/3)	52,665		39.03	Yen	37.36	Yen	8.4	%

(Note)

1. Equity in earnings
 Third quarter (2005/12): 1,068 million yen, Third quarter (2004/12): 1,574 million yen, Fiscal 2004 (2005/3): 1,893 million yen
 2. Average number of shares outstanding (shares)
 Third quarter (2005/12): 1,330,556,443 Third quarter (2004/12): 1,330,694,283 Fiscal 2004 (2005/3): 1,330,674,648

(2) Financial conditions

(Millions of yen except for per share data and percentage)

	Total assets	Shareholders' equity	Shareholders' equity ratio		Shareholders' equity/share
As of Dec. 31, 2005	14,486,363	742,387	5.1	%	557.98 Yen
As of Dec. 31, 2004	12,856,244	620,472	4.8	%	466.29 Yen
As of Mar. 31, 2005	12,378,961	648,332	5.2	%	486.70 Yen

(Note)

Number of shares outstanding (shares)

As of Dec. 31, 2005 : 1,330,489,176 As of Dec. 31, 2004 : 1,330,639,687 As of Mar. 31, 2005 : 1,330,602,933

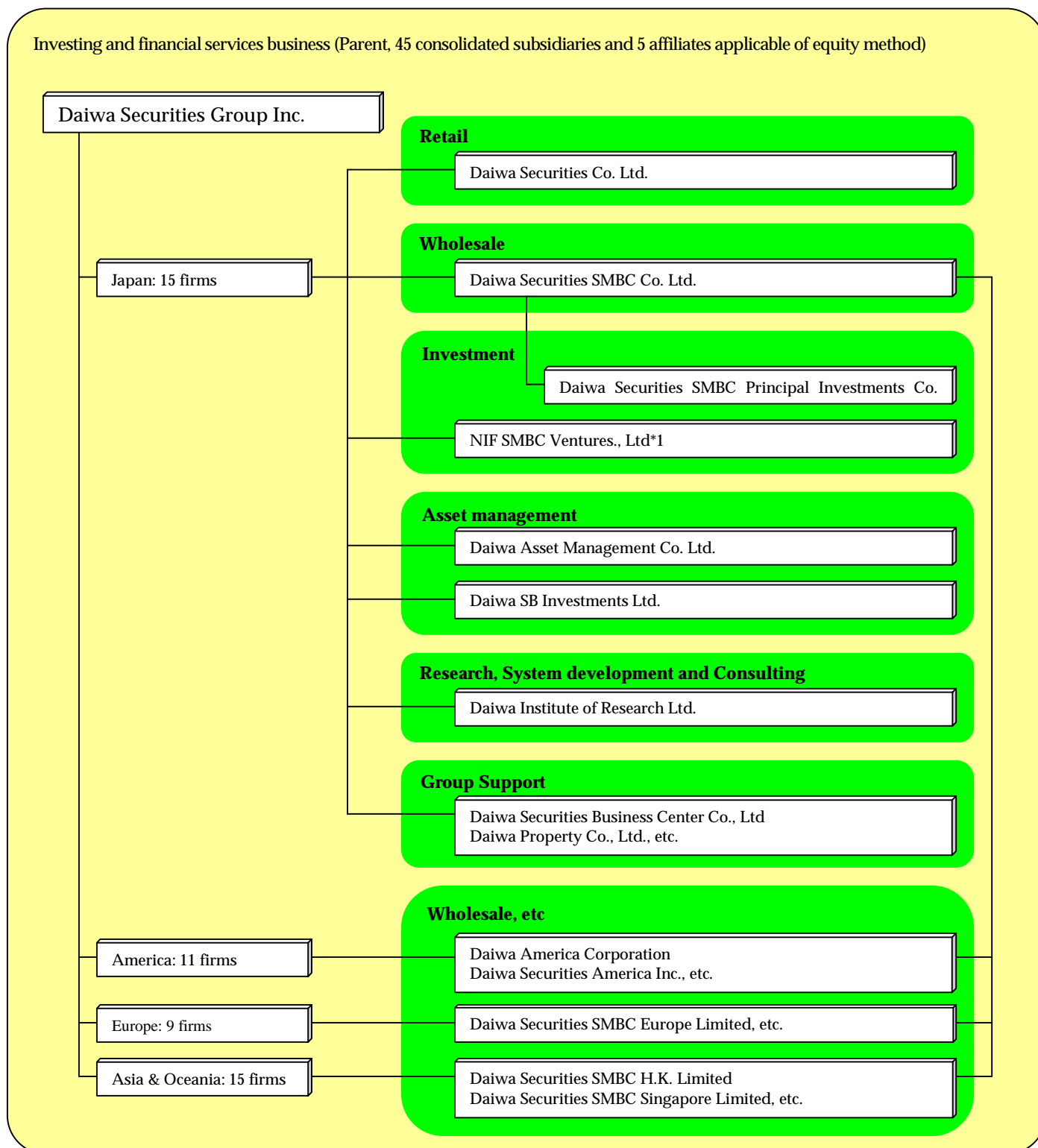
(Note) The Group's principal business is securities business, and the performance is influenced by the economic and market environment. Therefore, the Group doesn't disclose the estimated operating result, considering the difficulty to forecast the performance.

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Information on Group Companies

Daiwa Securities Group Inc. (the ‘Company’) and its related companies, 45 consolidated subsidiaries and 5 affiliates applicable of equity method (collectively the ‘Group’), predominantly operate in the investment and financial segment, focusing on securities businesses such as trading and brokerage of securities and derivatives, underwriting of securities, distribution of securities, private offering of securities and other business related to the securities and financial fields. The Group provides wide range of services, to meet the worldwide customer needs for raising and investing of funds through its global networks linking major financial markets in Japan, America, Europe and Asia and Oceania.



*1 NIF Ventures Co., Ltd. changed the company name to NIF SMBC Ventures., Ltd. following the merger of SMBC Capital Co., Ltd. on October 1, 2005.

Results of Operation and Financial Conditions

a. Consolidated operating results for the third quarter of fiscal 2005

1. Summary of operating results for 9 months (comparison with the third quarter of fiscal 2004)

Net operating revenues increased 43.8% to 392,745 million yen mainly because commissions, net gains on trading and net gain on private equity and other securities grew. Selling, general and administrative expenses increased 17.0% to 236,374 million yen. As a result, ordinary income increased 115.7% to 162,363 million yen and net income increased 151.6% to 84,625 million yen.

(1) Commissions

(i) Brokerage commission

Daily average trading value on the Tokyo Stock Exchange increased 55.7% to 2,159.5 billion yen in line with the active market condition. Brokerage commission increased 35.8% to 83,038 million yen.

(ii) Underwriting commission

Underwriting commission derived from fixed income increased 16.5% to 6,699 million yen. Underwriting commission derived from equity declined because public offerings diminished. As a result, underwriting commission decreased 21.6% to 30,831 million yen.

(iii) Distribution commission

Distribution commission grew 92.2% to 30,034 million yen because distribution commissions in investment trust increased 114.6% to 28,477 million yen, due to an increase in commission arising from sale of beneficiary certificate.

(iv) Other commission

Other commission increased 41.9% to 53,933 million yen due to an increase in trust fee in line with expanded outstanding balance of equity-related beneficiary certificate, and due to contribution of M&A and life insurance sales fee.

(2) Net gains on trading

Net gains on trading in stock and other increased 124.7% to 77,580 million yen. Net gains on trading in bond, forex and other increased 17.1% to 84,521 million yen. As a result, total net gains on trading increased 51.9% to 162,101 million yen.

(3) Financial income

Interest and dividend income increased 120.9% to 169,318 million yen and interest expenses increased 121.5% to 158,464 million yen. Net financial income increased 112.6% to 10,853 million yen due to an increase in interests received on securities borrowed.

(4) Selling, general and administrative expenses

Employees' compensation and benefits increased 19.2% due to an increase in accrued bonuses in line with operating result. Commission and other expenses increased 35.0% to 45,406 million yen due to an increase in bond commission paid. As a result, selling, general and administrative expenses increased 17.0% to 236,374 million yen.

2. Summary of operating results for 3 months (comparison with the second quarter of fiscal 2005)

Consolidated net operating revenues for the third quarter of fiscal 2005 increased 17.4% to 162,773 million yen as a result of an increase in brokerage commission and underwriting commission. Selling, general and administrative expenses for the third quarter increased 7.8% to 86,389 million yen. As a result, consolidated ordinary income increased 30.3% to 78,407 million yen. Net income increased 13.5% to 38,803 million yen for the third quarter of fiscal 2005, posting extraordinary gains/losses, income taxes, and minority interest.

3. Operating results of overseas subsidiaries for the third quarter of fiscal 2005 (9 months)

Ordinary income by geographic area (millions of yen)

America	Europe	Asia & Oceania	Total
956	5,195	1,949	8,101

b. Financial conditions (comparison with March 31, 2005)

Total assets increased by 2,107,402 million yen to 14,486,363 million yen, because trading assets and collateralized short-term financing agreements increased by 523,947 million yen and 1,229,850 million yen, respectively. Total liabilities increased by 1,981,332 million yen to 13,522,767 million yen, because trading liabilities and collateralized short-term financing agreements increased by 734,915 million yen and 1,288,138 million yen, respectively.

Consolidated balance sheets

(millions of yen)	Third quarter Dec. 31, 2005	Third quarter Dec. 31, 2004	Increase/ Decrease	Fiscal 2004 Mar. 31, 2005
Assets				
Current assets:	13,993,098	12,325,076	1,668,021	11,936,024
Cash and deposits	337,486	379,546	-42,060	398,688
Cash segregated as deposits for regulatory purposes	262,464	123,727	138,736	153,516
Notes receivable and trade accounts receivable	10,339	6,383	3,956	8,635
Securities	61,788	17,280	44,508	15,037
Trading assets:	5,766,267	5,384,447	381,819	5,242,319
Trading securities and others	4,563,866	4,858,932	-295,066	4,690,548
Derivative assets	1,202,400	525,514	676,886	551,771
Trading receivables, net	-	-	-	9,419
Private equity and other securities	254,032	50,854	203,177	149,598
Less: Allowance for possible investment losses	-7,816	-4,300	-3,516	-7,051
Other inventories	1,942	1,875	66	816
Receivables related to margin transactions:	501,429	252,702	248,726	312,144
Customer margin loans	300,775	87,783	212,992	126,686
Cash deposits as collateral for securities borrowed	200,653	164,919	35,734	185,457
Collateralized short-term financing agreements:	6,578,766	5,717,590	861,176	5,348,915
Cash deposits as collateral for securities borrowed	6,577,648	5,717,590	860,058	5,348,915
Receivables related to gensaki transactions	1,117	-	1,117	-
Receivables	27,586	5,831	21,755	11,458
Short-term loans receivable	40,596	54,969	-14,372	75,781
Accrued income	28,201	16,712	11,488	17,463
Deferred tax assets-current	11,018	10,837	181	9,076
Other current assets	119,454	306,929	-187,474	190,531
Less: Allowance for doubtful accounts-current	-458	-311	-147	-328
Non-current assets:	493,265	531,167	-37,902	442,937
Tangible fixed assets	136,488	138,445	-1,956	137,619
Intangible fixed assets	65,207	60,140	5,067	62,052
Investments and others:	291,569	332,582	-41,012	243,265
Investment securities	231,954	188,988	42,966	178,163
Long-term loans receivable	11,896	11,817	79	11,681
Long-term guarantee deposits	24,059	24,315	-256	23,410
Deferred tax assets-non-current	6,409	21,717	-15,308	12,839
Other investments	19,704	98,295	-78,590	25,715
Less: Allowance for doubtful accounts-non-current	-2,454	-12,551	10,097	-8,546
Total assets	14,486,363	12,856,244	1,630,119	12,378,961

(millions of yen)	Third quarter Dec. 31, 2005	Third quarter Dec. 31, 2004	Increase/ Decrease	Fiscal 2004 Mar. 31, 2005
<i>Liabilities</i>				
Current liabilities:	12,536,402	11,214,880	1,321,522	10,685,604
Notes payable and trade accounts payable	4,301	2,966	1,335	3,369
Trading liabilities:	4,393,459	3,918,718	474,741	3,658,544
Trading securities and others	3,285,661	3,461,931	-176,270	3,196,633
Derivative liabilities	1,107,798	456,786	651,011	461,911
Trading payables, net	42,578	296,755	-254,177	-
Payables related to margin transactions:	184,123	133,932	50,190	141,972
Payable to securities finance companies	6,862	1,373	5,488	2,981
Proceeds of securities sold for customers' accounts	177,261	132,558	44,702	138,991
Collateralized short-term financing agreements:	5,165,869	3,991,451	1,174,418	3,877,730
Cash deposits as collateral for securities loaned	4,743,948	3,836,075	907,872	3,687,840
Payables related to gensaki transactions	421,920	155,375	266,545	189,890
Deposits received	185,716	118,100	67,616	110,415
Cash deposits received as guarantee	94,132	46,099	48,033	53,302
Short-term borrowings	2,045,217	2,196,039	-150,822	2,295,928
Commercial paper	117,299	98,700	18,599	200,220
Bonds and notes due within one year	130,669	121,356	9,312	129,401
Income taxes payable	41,728	2,231	39,497	10,596
Deferred tax liabilities-current	5,207	549	4,657	951
Accrued bonuses	22,436	10,729	11,707	22,811
Other current liabilities	103,660	277,249	-173,589	180,359
Non-current liabilities:	980,334	836,301	144,033	850,180
Bonds and notes	760,874	646,955	113,918	666,136
Convertible bonds	-	79,986	-79,986	79,985
Long-term debt	156,947	75,523	81,423	74,195
Deferred tax liabilities-non-current	39,162	8,980	30,182	6,225
Retirement benefits	19,802	18,785	1,017	19,173
Other non-current liabilities	3,548	6,070	-2,522	4,465
Statutory reserves	6,031	5,279	751	5,650
Total liabilities	13,522,767	12,056,461	1,466,306	11,541,435
Minority interests	221,208	179,311	41,896	189,193
<i>Shareholders' equity</i>				
Common stock	138,436	138,431	4	138,432
Capital surplus	117,946	117,940	5	117,941
Retained earnings	420,893	343,913	76,980	362,948
Net unrealized gain (loss) on securities, net of tax effect	67,345	28,795	38,549	35,674
Translation adjustments	-1,332	-7,849	6,516	-5,877
Treasury stock	-901	-759	-141	-786
Total shareholders' equity	742,387	620,472	121,915	648,332
Total liabilities, minority interests and shareholders' equity	14,486,363	12,856,244	1,630,119	12,378,961

Consolidated statements of operations

(millions of yen)	Third quarter Apr. 1, 2005 - Dec. 31, 2005	Third quarter Apr. 1, 2004 - Dec. 31, 2004	Yr/yr % change	Fiscal 2004 Apr. 1, 2004- Mar. 31, 2005
Operating revenues:	576,096	361,248	59.5	519,337
Commissions	197,837	154,118	28.4	216,386
Net gain (loss) on trading	162,101	106,720	51.9	151,117
Net gain (loss) on private equity and other securities (*1)	15,117	-	-	-
Net gain (loss) on private equity and other securities (*2)	-	1,735	-	171
Interest and dividend income	169,318	76,645	120.9	118,019
Other sales revenues	31,721	22,028	44.0	33,641
Interest expenses	158,464	71,539	121.5	103,676
Cost of sales	24,886	16,507	50.8	25,228
Net operating revenues	392,745	273,201	43.8	390,432
Selling, general and administrative expenses:	236,374	201,963	17.0	275,544
Commission and other expenses	45,406	33,634	35.0	46,720
Employees' compensation and benefits	124,801	104,715	19.2	142,751
Occupancy and rental	24,102	24,253	-0.6	32,697
Data processing and office supplies	12,703	12,233	3.8	16,804
Depreciation expenses	16,809	16,371	2.7	22,129
Taxes other than income taxes	5,708	5,199	9.8	6,755
Others	6,843	5,556	23.2	7,685
Operating income	156,370	71,238	119.5	114,887
Non-operating income:	6,859	6,018	14.0	7,909
Equity in earnings	1,068	1,574	-32.1	1,893
Others	5,790	4,443	30.3	6,015
Non-operating expenses	866	1,974	-56.1	2,363
Ordinary income	162,363	75,282	115.7	120,433
Extraordinary gains	13,904	4,245	227.5	9,552
Extraordinary losses	2,482	3,774	-34.2	17,383
Income before income taxes and minority interests	173,785	75,753	129.4	112,603
Income taxes-current	46,117	2,137	-	11,933
Income taxes-deferred	17,982	26,694	-32.6	28,233
Minority interest	-25,060	-13,291	-	-19,770
Net income	84,625	33,630	151.6	52,665

Net financial income included in net operating revenues	10,853	5,105	112.6	14,342
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Note:

*1. Includes share of net income raised by the investments in limited partnerships and similar partnerships.

*2. Excludes share of net income raised by the investments in limited partnerships and similar partnerships.

The details are mentioned in 'Change in presentation'.

Consolidated statements of capital surplus and retained earnings

(millions of yen)	Third quarter Apr. 1, 2005- Dec. 31, 2005	Third quarter Apr. 1, 2004- Dec. 31, 2004	Fiscal 2004 Apr. 1, 2004- Mar. 31, 2005
<i>Capital surplus</i>			
Beginning balance of capital surplus	117,941	117,939	117,939
Increase in capital surplus	5	0	1
Conversion of convertible bonds	4	-	0
Net gains on sales of treasury stock	0	0	1
Decrease in capital surplus	-	-	-
Ending balance of capital surplus	117,946	117,940	117,941
<i>Retained earnings</i>			
Beginning balance of retained earnings	362,948	330,780	330,780
Increase in retained earnings:	85,235	33,630	52,665
Net income	84,625	33,630	52,665
Increase due to merger of subsidiaries	609	-	-
Decrease in retained earnings:	27,290	20,497	20,497
Cash dividends paid	26,611	19,960	19,960
Bonuses to directors	678	536	536
Ending balance of retained earnings	420,893	343,913	362,948

Notes to consolidated financial statements

The consolidated financial statements of the Company for the third quarter ended December 31, 2005 are prepared in accordance with the 'Cabinet Office Ordinance Concerning Securities Companies' (Prime Minister's Office Ordinance and Ministry of Finance Ordinance No. 32, 1998), and the 'Uniform Accounting Standards of Securities Companies' (set by the board of directors of the Japan Securities Dealers' Association, November 14, 1974), based on the 'Regulations of Consolidated Financial Statements' (Ministry of Finance Ordinance No. 24, 1999) and its Article 48 and 69.

Basis of consolidated financial statements

1. Scope of consolidation

Consolidated subsidiaries: 45 companies

Major companies:

Daiwa Securities Co. Ltd.
 Daiwa Securities SMBC Co. Ltd.
 Daiwa Asset Management Co. Ltd.
 Daiwa Institute of Research Ltd.
 NIF SMBC Ventures Co., Ltd.
 Daiwa Securities Business Center Co. Ltd.
 Daiwa Property Co., Ltd.
 Daiwa Securities SMBC Europe Limited
 Daiwa Securities Trust and Banking (Europe) plc
 Daiwa America Corporation
 Daiwa Securities America Inc.
 Daiwa Securities SMBC Asia Holding B.V.
 Daiwa Securities SMBC H.K. Limited
 Daiwa Securities SMBC Singapore Limited

One consolidated subsidiary is excluded from the scope of consolidation, as two consolidated subsidiaries merged with a non-consolidated subsidiary during this third quarter. Each amount of total assets, operating revenues (or sales), net income corresponding to equity holdings and retained earnings corresponding to equity holdings of non-consolidated subsidiaries has little influence on the consolidated financial statements and has little materiality as a whole.

2. Application of equity method

Affiliates applicable of equity method: 5 companies

Major companies:

Daiwa SB Investments Ltd.
 Daiwa SMBC-SSC Securities Co. Ltd.
 Totan Holdings Co., Ltd.
 The Tokyo Tanshi Co., Ltd.

One company is newly added to the scope of equity method due to purchase of shares during this third quarter. One affiliate is excluded from the scope of equity method due to merger with a consolidated subsidiary during this third quarter. Each amount of net income corresponding to equity holdings and retained earnings corresponding to equity holdings of both non-consolidated subsidiaries and affiliates inapplicable of equity method has little influence on the consolidated financial statements and has little materiality as a whole.

For affiliates applicable of equity method with the third quarter ending other than December 31, 2005, the financial statements for the relevant third quarter are reflected.

3. Fiscal period of subsidiaries

For subsidiaries with the third quarter ending other than December 31, 2005, the financial statements for the relevant third quarter are employed and important transactions occurred by discrepancies with closing account date are adjusted for this consolidated financial statements.

4. Accounting policies

(1) Valuation of financial instruments and inventories

(i) Valuation of trading assets and liabilities

Trading assets and liabilities, including securities and financial derivatives for trading purposes held by securities companies are recorded mainly on a trade date basis in the consolidated balance sheet at either market or fair value.

(ii) Valuation of non-trading assets and liabilities

The Group examines the intent of holding each securities and classifies those securities as (a) debt and equity securities intended to held for trading by non-securities companies ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, or (d) all other securities not classified in any of the above categories ("available-for-sale securities").

Trading securities are carried at fair value with unrealized gains or losses included in income. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost.

Available-for-sale securities with market value are stated at market value, based on quoted market prices. Realized gains and losses on sale of such securities are computed using the moving-average cost. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity. Debt in available-for-sale securities for which a market value is not available, are stated at the amortized cost, net of the amount considered not collectible. Equity in available-for-sale securities for which a market value is not available, are stated at the moving-average cost.

Of those securities with no fair value available, share of net income raised by the investments in limited partnerships is reflected on consolidated statements of operations and share of net unrealized profits and losses on securities held by the partnerships is directly posted into stockholders' equity. Private equity and other securities held by certain consolidated subsidiaries are categorized in current assets.

(iii) Valuation of other inventories

Cost method determined by the specific identification method is mainly applied.

(2) Depreciation of depreciable assets

(i) Tangible fixed assets

Property and equipment are stated at cost. The Company and domestic consolidated subsidiaries compute depreciation principally by the declining-balance method over estimated useful lives as stipulated by Corporation Tax Law of Japan. Depreciation for buildings purchased in Japan after April 1, 1998 is computed by the straight-line method. In overseas consolidated subsidiaries, depreciation is mainly computed by the straight-line method.

(ii) Intangible fixed assets

Intangible fixed assets are generally amortized under the straight-line method. The Company and domestic consolidated subsidiaries compute amortization over estimated useful lives as stipulated by Corporation Tax Law of Japan, and over internally estimated useful lives (5 years) for software of in-house use.

(3) Accounting policies for various provisions

(i) Provision for doubtful accounts

Provisions for doubtful accounts are provided based on the estimated historical default rate for normal loans, and based on individually assessed amounts for doubtful accounts.

(ii) Allowance for possible investment losses

Some consolidated subsidiaries provide the allowances based on estimated losses on private equity and other securities held at the third quarter end, assessing the financial conditions of investee companies.

(iii) Accrued bonuses

The Company and domestic consolidated subsidiaries follow the Japanese practice of paying bonuses to employees in June and December. Accrued employees' bonuses represent liabilities estimated as of the balance sheet date. Bonuses to directors and corporate executive officers of the Company, which are subject to approval at the Compensation Committee, represent liabilities as of the balance sheet date. Compensation Committee sets policies for deciding compensation of individual directors and corporate executive officers and determines compensation content for each individual. The Chairman of the Board chairs the committee, while three out of five committee members are outside directors. Bonuses to directors of consolidated subsidiaries, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

(iv) Retirement benefits

The Company and most of domestic consolidated subsidiaries provide an unfunded defined contribution plan to their employees in return for services rendered each year, where the amount to be contributed to the individual employee's account is defined by the plan. Contributions by the Company and most of domestic consolidated subsidiaries under the unfunded defined contribution plan are accumulated on an annual basis and earn a guaranteed hypothetical return at a rate predetermined by the Company and most of domestic consolidated subsidiaries each year. As for the closed pension fund, accrued retirement benefits for the portion of 9 months are provided based on the difference between projected benefit obligation and fund fair value expected on March 31, 2006.

(4) Accounting for certain lease transactions

Financial leases, whose ownership does not transfer to the lessee at the end of the lease term (non-capitalized finance leases) are not capitalized and are accounted for in the same manner as operating leases.

(5) Hedging transaction

The Group states derivative financial instruments at fair value and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are mainly deferred as assets or liabilities until the gains or losses on the underlying hedged instruments are realized. Interest received or paid on interest swaps for hedging purposes is accrued without being marked-to-market. The premium or discount on forward foreign exchange for hedging purpose is allocated to each fiscal term without

- (6) Other material items
- (i) Accounting for consumption taxes
Consumption taxes are separately recorded.
 - (ii) Deferred assets
Stock issue costs and bond issue costs are amortized in a lump sum when incurred.
 - (iii) Consolidated tax payments system
The consolidated tax payments system is applied.

Change in presentation

Regarding the investments in limited partnerships and similar partnerships regarded as securities, the profits and losses related to these investments had been included in 'Interest and dividend income' until fiscal 2004, but those are included in 'Net gain (loss) on private equity and other securities' since the beginning of this fiscal year. 'Interest and dividend income' decreased by 10,281 million yen, due to this change in presentation.

Notes to consolidated balance sheets

1. Accumulated depreciation of tangible fixed assets
- | | As of Dec. 31, 2005 | As of Dec. 31, 2004 | As of Mar. 31, 2005 |
|--|---------------------|---------------------|---------------------|
| | 101,392 million yen | 102,624 million yen | 97,300 million yen |
2. Guarantee
- | | As of Dec. 31, 2005 | As of Dec. 31, 2004 | As of Mar. 31, 2005 |
|--|---------------------|---------------------|---------------------|
| | 2,858 million yen | 3,773 million yen | 3,513 million yen |
3. Short-term and long-term borrowings include the subordinated borrowings stipulated by Article 2 of the 'Cabinet Office Ordinance on the Capital Adequacy Rule for Securities Companies' (Cabinet Office Ordinance No. 23, 2001).
- Short-term borrowings
- | | As of Dec. 31, 2005 | As of Dec. 31, 2004 | As of Mar. 31, 2005 |
|--|---------------------|---------------------|---------------------|
| | 20,000 million yen | 40,000 million yen | 40,000 million yen |
- Long-term borrowings
- | | As of Dec. 31, 2005 | As of Dec. 31, 2004 | As of Mar. 31, 2005 |
|--|---------------------|---------------------|---------------------|
| | 82,000 million yen | 20,000 million yen | 20,000 million yen |

Notes to consolidated statements of operations

Details of extraordinary gains/losses

(million of yen)

	<u>Third quarter</u> Apr. 1, 2005- Dec. 31, 2005	<u>Third quarter</u> Apr. 1, 2004- Dec. 31, 2004	<u>Fiscal 2004</u> Apr. 1, 2004- Mar. 31, 2005
Extraordinary gains:			
Gain on sale of fixed assets	-	1,804	2,000
Gain on liquidation of related companies	-	599	599
Gain on sale of related companies' stock	3,714	-	-
Gain on sale of investment securities	5,464	1,340	6,451
Reversal of reserve for financial futures transaction liabilities	-	0	-
Reversal of stock purchase warrant	-	501	501
Gain on change in stake in subsidiary	4,725	-	-
Extraordinary losses:			
Loss on litigation settlement	1,279	-	-
Write-down of related companies stocks	-	40	40
Write-down of investment securities	112	435	3,430
Valuation loss of fixed assets	-	60	114
Loss on sale or disposal of fixed assets	372	269	1,535
Loss on liquidation of related companies	-	650	650
Loss on sale of investment securities	44	676	892
Loss on sale of loans receivable	-	-	7,595
Provision for doubtful accounts	-	809	1,638
Reorganization costs for overseas banking subsidiary	-	495	779
Multiemployer pension plan settlement cost in consolidated subsidiaries	-	189	188
Provision for securities transaction liabilities	381	147	517
Others	292	-	-

Supplemental information for the third quarter of fiscal 2005**1. Breakdown of commissions****Third quarter ended December 31, 2005 (A)**

(millions of yen)	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Brokerage commission	82,011	786	239	-	-	83,038
Underwriting commission	-	-	-	30,831	-	30,831
(Stock and other)	(-)	(-)	(-)	(22,667)	(-)	(22,667)
(Bond and other)	(-)	(-)	(-)	(6,699)	(-)	(6,699)
Distribution commission	-	-	28,477	1,557	-	30,034
Other commission	1,330	1,679	27,627	10,867	12,428	53,933
(Agency commission)	(-)	(1,666)	(15,315)	(-)	(-)	(16,982)
Total	83,342	2,466	56,343	43,255	12,428	197,837

Third quarter ended December 31, 2004 (B)

(millions of yen)	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Brokerage commission	59,980	1,024	129	-	-	61,134
Underwriting commission	-	-	-	39,337	-	39,337
(Stock and other)	(-)	(-)	(-)	(32,667)	(-)	(32,667)
(Bond and other)	(-)	(-)	(-)	(5,749)	(-)	(5,749)
Distribution commission	-	-	13,267	2,359	-	15,626
Other commission	1,408	1,934	18,752	8,477	7,447	38,019
(Agency commission)	(-)	(1,868)	(10,105)	(-)	(-)	(11,973)
Total	61,388	2,958	32,149	50,173	7,447	154,118

Yr/yr percentage change ((A) / (B) - 1)

(percentage)	Equity	Fixed income (Bond)	Investment Trust	Investment banking	Others	Total
Brokerage commission	36.7	-23.2	84.6	-	-	35.8
Underwriting commission	-	-	-	-21.6	-	-21.6
(Stock and other)	(-)	(-)	(-)	(-30.6)	(-)	(-30.6)
(Bond and other)	(-)	(-)	(-)	(16.5)	(-)	(16.5)
Distribution commission	-	-	114.6	-34.0	-	92.2
Other commission	-5.6	-13.2	47.3	28.2	66.9	41.9
(Agency commission)	(-)	(-10.8)	(51.6)	(-)	(-)	(41.8)
Total	35.8	-16.6	75.3	-13.8	66.9	28.4

Fiscal 2004 ended March 31, 2005

(millions of yen)	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	Total
Brokerage commission	81,919	1,463	159	-	-	83,542
Underwriting commission	-	-	-	54,743	-	54,743
(Stock and other)	(-)	(-)	(-)	(44,659)	(-)	(44,659)
(Bond and other)	(-)	(-)	(-)	(8,573)	(-)	(8,573)
Distribution commission	-	-	19,687	3,597	-	23,285
Other commission	1,967	2,800	25,793	12,828	11,425	54,815
(Agency commission)	(-)	(2,748)	(14,014)	(-)	(-)	(16,763)
Total	83,887	4,263	45,640	71,170	11,425	216,386

2. Breakdown of net gains on trading

(millions of yen)	Third quarter (2005/12)	Third quarter (2004/12)	Yr/yr % change	Fiscal 2004 (2005/3)
Stock and other	77,580	34,526	124.7	56,104
Bond, forex and other	84,521	72,193	17.1	95,012
(Bond and other)	(34,554)	(53,876)	(-35.9)	(62,407)
(Forex and other)	(49,967)	(18,317)	(172.8)	(32,605)
Total	162,101	106,720	51.9	151,117

Quarterly consolidated statements of operation

(millions of yen)	3rd quarter Oct. 1, 2004- Dec. 31, 2004	4th quarter Jan. 1, 2005- Mar. 31, 2005	1st quarter Apr.1, 2005- Jun. 30, 2005	2nd quarter Jul.1, 2005- Sep. 30, 2005	3rd quarter Oct.1, 2005- Dec. 31, 2005
Operating revenues	118,067	158,088	135,435	195,376	245,284
Commissions	46,702	62,268	45,039	62,944	89,853
Brokerage commission	16,757	22,408	17,756	26,209	39,072
(Stock and other)	16,322	21,939	17,467	25,916	38,628
(Bond and other)	404	439	251	228	307
Underwriting commission	11,801	15,405	5,320	9,132	16,378
(Stock and other)	9,822	11,991	2,501	6,661	13,504
(Bond and other)	1,764	2,824	2,410	2,011	2,277
Distribution commission	5,617	7,659	7,515	9,305	13,214
(Beneficiary certificates)	4,691	6,420	6,949	8,900	12,627
Other commission	12,524	16,795	14,447	18,297	21,188
(Beneficiary certificates)	6,491	7,006	7,663	9,049	10,796
Net gain (loss) on trading	30,452	44,397	35,804	68,547	57,749
(Stock and other)	5,635	21,577	7,435	39,042	31,102
(Bond and other)	18,216	8,531	20,566	8,236	5,751
(Forex and other)	6,600	14,288	7,802	21,268	20,896
Net gain (loss) on private equity and other securities (*1)	-	-	4,009	2,071	9,037
Net gain (loss) on private equity and other securities (*2)	201	-1,563	-	-	-
Interest and dividend income	33,385	41,374	42,965	52,483	73,869
Other sales revenues	7,326	11,612	7,616	9,330	14,774
Interest expenses	30,466	32,137	38,531	49,507	70,425
Cost of sales	5,420	8,720	5,621	7,178	12,085
Net operating revenues	82,180	117,230	91,282	138,689	162,773
Selling, general and administrative expenses:	66,002	73,581	69,878	80,106	86,389
Commission and other expenses	11,295	13,086	13,748	15,509	16,148
Employees' compensation and benefits	33,472	38,036	34,961	42,485	47,355
Occupancy and rental	7,992	8,443	7,746	8,312	8,042
Data processing and office supplies	4,225	4,571	4,309	4,014	4,379
Depreciation expenses	5,486	5,758	5,551	5,588	5,669
Taxes other than income taxes	1,617	1,556	1,594	2,004	2,109
Others	1,911	2,129	1,966	2,191	2,685
Operating income	16,177	43,649	21,404	58,582	76,383
Non-operating income	2,436	1,891	2,705	1,957	2,196
Non-operating expenses	591	389	308	384	172
Ordinary income	18,022	45,151	23,800	60,155	78,407
Extraordinary gains	2,043	5,307	321	10,562	3,020
Extraordinary losses	1,388	13,608	-	614	1,867
Income before income taxes and minority interests	18,676	36,850	24,122	70,102	79,560
Income taxes-current	307	9,795	2,698	22,478	20,940
Income taxes-deferred	6,683	1,539	6,690	4,104	7,187
Minority interests	-2,221	-6,479	-3,096	-9,333	-12,629
Net income	9,464	19,035	11,636	34,185	38,803
Net financial income included in net operating revenues	2,918	9,236	4,434	2,975	3,444

Note:

*1. Includes share of net income raised by the investments in limited partnerships and similar partnerships.

*2. Excludes share of net income raised by the investments in limited partnerships and similar partnerships.

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Tokyo 100-8101, Japan

(URL <http://www.daiwa.jp/ir/english/>)

January 27, 2006

Non-consolidated financial summary
(For the third quarter ended December 31, 2005)

(1) Operating results (from April 1, 2005 to December 31, 2005)

(Note) All figures in the financial statements are rounded down to the nearest millionth.

‘-’ indicates a loss or negative figure.

(Millions of yen except for per share data and yr/yr % change)

	Operating revenues		Operating income		Ordinary income	
Third quarter (2005/12)	34,419	(41.1)%	25,300	(68.3)%	27,575	(61.7)%
Third quarter (2004/12)	24,395	(80.1)%	15,034	(475.8)%	17,055	(508.5)%
Fiscal 2004 (2005/3)	26,236		13,884		16,302	

	Net income		Earnings/share	
Third quarter (2005/12)	33,660	(89.3)%	25.29	Yen
Third quarter (2004/12)	17,785	(928.2)%	13.36	Yen
Fiscal 2004 (2005/3)	32,228		24.21	Yen

(Note) 1. Average number of shares outstanding (shares)

Third quarter (2005/12): 1,330,565,941 Third quarter (2004/12): 1,330,703,781 Fiscal 2004 (2005/3): 1,330,684,146

2. Change in accounting policies: None

(2) Financial conditions

(Millions of yen except for per share data and percentage)

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity/share
As of Dec. 31, 2005	1,116,707	604,806	54.2 %	454.57 Yen
As of Dec. 31, 2004	1,028,024	556,672	54.1	418.34
As of Mar. 31, 2005	1,088,665	573,115	52.6	430.71

(Note) 1. Number of shares outstanding (shares)

As of Dec. 31, 2005: 1,330,498,674 As of Dec. 31, 2004: 1,330,649,185 As of Mar. 31, 2005: 1,330,612,431

2. Treasury stock (shares)

As of Dec. 31, 2005: 1,245,724 As of Dec. 31, 2004: 1,086,073 As of Mar. 31, 2005: 1,123,741

(Note) The Company, the holding company for the Daiwa Securities Group, is influenced by the performance of subsidiaries.

The subsidiaries' principal business is securities business, and the economic and market environment affects their performance. Therefore, the Company doesn't disclose the estimated operating result, considering the difficulty to forecast the performance.

Representative: Shigeharu Suzuki, President

Contact: Mikita Komatsu, General Manager, Finance Department Phone: +813-3243-2100

Balance sheets

(millions of yen)	Third quarter Dec. 31, 2005	Third quarter Dec. 31, 2004	Increase/ Decrease	Fiscal 2004 Mar. 31, 2005
Assets				
Current assets:	167,196	223,316	-56,119	227,816
Cash and deposits	69,531	76,881	-7,350	117,897
Securities	41,515	-	41,515	-
Short-term loans receivable	25,956	124,088	-98,132	87,369
Accrued income	438	1,384	-945	1,845
Deferred tax assets-current	574	6,883	-6,309	1,886
Other current assets	29,180	14,078	15,102	18,816
Non-current assets:	949,511	804,708	144,803	860,849
Tangible fixed assets	10,072	10,261	-188	10,187
Intangible fixed assets	707	753	-46	717
Investments and others:	938,731	793,693	145,038	849,944
Investment securities	714,972	658,722	56,249	658,209
Long-term loans receivable	201,746	111,736	90,009	171,406
Long-term guarantee deposits	13,613	12,797	815	12,471
Others	8,895	10,938	-2,042	8,351
Less: Allowance for doubtful accounts	-496	-502	5	-494
Total assets	1,116,707	1,028,024	88,683	1,088,665

(millions of yen)	Third quarter Dec. 31, 2005	Third quarter Dec. 31, 2004	Increase/ Decrease	Fiscal 2004 Mar. 31, 2005
<i>Liabilities</i>				
Current liabilities:	277,741	213,342	64,398	263,444
Short-term borrowings	70,510	48,010	22,500	67,710
Commercial paper	-	-	-	25,000
Bonds and notes due within one year	79,976	100,000	-20,024	100,000
Collateralized short-term financing agreements	120,376	61,209	59,167	66,855
Income taxes payable	122	124	-1	138
Accrued bonuses	855	344	510	769
Other current liabilities	5,900	3,654	2,246	2,970
Non-current liabilities:	234,159	258,008	-23,849	252,105
Bonds and notes	136,400	120,000	16,400	124,900
Convertible bonds	-	79,986	-79,986	79,985
Long-term debt	51,000	38,000	13,000	37,000
Long-term cash deposits received as guarantee	4,071	4,328	-256	4,100
Deferred tax liabilities-non-current	38,987	11,384	27,602	1,916
Retirement benefits	2,512	3,382	-870	3,408
Other non-current liabilities	1,188	927	261	793
Total liabilities	511,901	471,351	40,549	515,549
<i>Shareholders' equity</i>				
Common stock	138,436	138,431	4	138,432
Capital surplus	117,946	117,940	5	117,941
Additional paid-in capital	117,791	117,786	4	117,786
Other capital surplus reserve	154	154	0	154
Net gains on sales of treasury stock	154	154	0	154
Retained earnings	296,458	274,966	21,492	289,409
Earned surplus reserve	45,335	45,335	-	45,335
General-purpose reserve	218,000	218,000	-	218,000
Unappropriated retained earnings	33,123	11,630	21,492	26,074
(Net income for the current term)	(33,660)	(17,785)	(15,875)	(32,228)
Net unrealized gain (loss) on securities, net of tax effect	52,865	26,093	26,771	28,119
Treasury stock	-901	-759	-141	-786
Total shareholders' equity	604,806	556,672	48,133	573,115
Total liabilities and shareholders' equity	1,116,707	1,028,024	88,683	1,088,665

Statements of operations

(millions of yen)	Third quarter Apr. 1, 2005 - Dec. 31, 2005	Third quarter Apr. 1, 2004 - Dec. 31, 2004	Yr/yr % change	Fiscal 2004 Apr. 1, 2004 - Mar. 31, 2005
Operating revenues:	34,419	24,395	41.1	26,236
Dividends from related companies	32,243	19,130	68.5	19,136
Interest on loans to related companies	2,076	2,801	-25.9	3,704
Other interest and dividend income	-	75	-	100
Royalty on trademark	-	2,386	-	3,295
Other	99	-	-	-
Operating expenses:	9,118	9,360	-2.6	12,352
Selling, general and administrative expenses:	6,942	5,708	21.6	7,731
Commission and other expenses	1,332	643	107.0	917
Employees' compensation and benefits	3,124	2,636	18.5	3,650
Occupancy and rental	455	538	-15.4	681
Data processing and office supplies	631	658	-4.1	870
Depreciation expenses	264	322	-18.0	428
Others	1,133	907	24.9	1,182
Interest expenses	2,176	3,652	-40.4	4,620
Operating income	25,300	15,034	68.3	13,884
Non-operating income	2,354	2,179	8.0	2,669
Non-operating expenses	79	158	-49.6	251
Ordinary income	27,575	17,055	61.7	16,302
Extraordinary gains	9,160	1,669	448.6	9,149
Extraordinary losses	1,479	332	344.5	3,396
Income before income taxes	35,255	18,392	91.7	22,055
Income taxes-current	-19,810	-3,144	-	-8,064
Income taxes-deferred	21,406	3,752	470.5	-2,109
Net income	33,660	17,785	89.3	32,228
Unappropriated retained earnings-carryforward	15,429	498	-	498
Interim dividends	15,966	6,653	140.0	6,653
Unappropriated retained earnings	33,123	11,630	184.8	26,074

Notes to financial statements

The financial statements of the Company for the third quarter ended December 31, 2005 are prepared in accordance with 'Regulations of Interim Financial Statements' (MOF Ordinance No. 38, 1977).

Basis of financial statements

1. Valuation of securities

The Company examines the intent of holding each securities and classifies those securities as (a) debt and equity securities intended to held for trading purpose ("trading securities"), (b) equity securities issued by subsidiaries and affiliated companies, or (c) all other securities not classified in any of the above categories ("available-for-sale securities").

Trading securities are carried at fair value with unrealized gains or losses included in income. Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost.

Available-for-sale securities with market value are stated at market value, based on quoted market prices. Realized gains and losses on sale of such securities are computed using the moving-average cost. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity. Debt in available-for-sale securities for which a market value is not available, are stated at the amortized cost, net of the amount considered not collectible. Equity in available-for-sale securities for which a market value is not available, are stated at the moving-average cost.

Of those securities with no fair value available, share of net income raised by the investments in limited partnerships is reflected on statements of operations and share of net unrealized profits and losses on securities held by the partnerships is directly posted into stockholders' equity.

2. Depreciation of depreciable assets

(1) Tangible fixed assets

The Company computes depreciation by the declining-balance method over estimated useful lives as stipulated by Corporation Tax Law of Japan. Depreciation for buildings purchased in Japan after April 1, 1998 is computed by the straight-line method.

(2) Intangible fixed assets, and investments and others

Intangible fixed assets are amortized under the straight-line method. The Company computes amortization over estimated useful lives as stipulated by Corporation Tax Law of Japan, and over internally estimated useful lives (5 years) for software of in-house use.

3. Accounting for various provisions

(1) Provision for doubtful accounts

Provisions for doubtful accounts are provided based on the estimated historical default rate for normal loans, and based on individually assessed amounts for doubtful accounts.

(2) Accrued bonus

Accrued employees' bonuses represent liabilities estimated as of the balance sheet date. Bonuses to directors and corporate executive officers, which are subject to approval at the Compensation Committee, represent liabilities as of the balance sheet date.

(3) Retirement benefits

The Company provides an unfunded defined contribution plan to its employees in return for services rendered each year, where the amount to be contributed to the individual employee's account is defined by the plan. Contributions by the Company under the unfunded defined contribution plan are accumulated on an annual basis and earn a guaranteed hypothetical return at a rate predetermined by the Company each year. As for the closed pension fund, accrued retirement benefits for the portion of 9 months are provided based on the difference between projected benefit obligation and fund fair value expected on March 31, 2006.

4. Accounting for certain lease transactions

Financial leases, whose ownership does not transfer to the lessee at the end of the lease term (non-capitalized finance leases) are not capitalized and are accounted for in the same manner as operating leases.

5. Hedging transaction

Interest received or paid on interest swaps for hedging purposes is accrued without being marked-to-market. The premium or discount on forward foreign exchange for hedging purpose is allocated to each fiscal term without being marked-to-market.

6. Other material items

(1) Accounting for consumption taxes

Consumption taxes are separately recorded.

(2) Deferred assets

Stock issue costs and bond issue costs are amortized in a lump sum when incurred.

(3) Consolidated tax payments system

The consolidated tax payments system is applied.

Change in presentation

'Other interest and dividend income' and 'Royalty on trademark' which had been separately presented until fiscal 2004 are included in 'Other' of Operating revenues from the beginning of this fiscal year, due to lessened materiality in amount. 'Other interest and dividend income' and 'Royalty on trademark' for the third quarter of fiscal 2005 are 85 million yen and 9 million yen, respectively.

Notes to balance sheets

1. Accumulated depreciation of tangible fixed assets	As of Dec. 31, 2005	As of Dec. 31, 2004	As of Mar. 31, 2005
	3,028 million yen	3,206 million yen	3,218 million yen
2. Guarantee	As of Dec. 31, 2005	As of Dec. 31, 2004	As of Mar. 31, 2005
	5,488 million yen	11,672 million yen	8,969 million yen
3. Fair value of subsidiary and affiliated company stocks as of Dec. 31, 2005 (millions of yen)			
	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>
Subsidiary	19,648	137,306	117,658
Affiliated company	274	812	537

Notes to statements of operations

Details of extraordinary gains/losses

	<u>Third quarter</u> Apr. 1, 2005- Dec. 31, 2005	<u>Third quarter</u> Apr. 1, 2004- Dec. 31, 2004	(millions of yen) <u>Fiscal 2004</u> Apr. 1, 2004- Mar. 31, 2005
Extraordinary gains:			
Gain on sale of fixed assets	-	-	20
Gain on liquidation of related companies	1,200	698	5,529
Gain on sale of related companies' stocks	6,146	-	-
Gain on sale of investment securities	1,812	469	3,098
Reversal of stock purchase warrant	-	501	501
Extraordinary losses:			
Loss on litigation settlement	1,279	-	-
Write-down of related companies' stocks	-	37	42
Write-down of investment securities	75	40	3,035
Loss on sale of investment securities	4	-	-
Valuation loss of fixed assets	-	52	52
Loss on sale or disposal of fixed assets	120	105	116
Provision for doubtful accounts	-	96	150