

**Daiwa Securities Co. Ltd.**

2-6-4 Otemachi Chiyoda-ku

Tokyo 100-8101, Japan

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

July 26, 2006

**Non-consolidated financial summary**

(For the first quarter ended June 30, 2006)

## (1) Operating results (from April 1, 2006 to June 30, 2006)

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

" - " indicates a loss or negative figure.

	Operating revenues		Net operating revenues		Operating income	
	Millions of yen	Yr/yr Change	Millions of yen	Yr/yr Change	Millions of yen	Yr/yr change
First quarter 2006 (2006/6)	57,152	( 31.6)%	56,903	( 31.4)%	19,512	( 119.9)%
First quarter 2005 (2005/6)	43,416	( -1.8)%	43,314	( -1.9)%	8,874	( 0.6)%
Fiscal 2005 (2006/3)	258,943		257,988		100,997	

	Ordinary income		Net income		Return on equity
	Millions of yen	Yr/yr change	Millions of yen	Yr/yr change	(Annual basis)
First quarter 2006 (2006/6)	19,573	( 119.3)%	12,208	( 138.0)%	21.1%
First quarter 2005 (2005/6)	8,927	( 1.3)%	5,129	( -0.4)%	10.4%
Fiscal 2005 (2006/3)	101,057		58,174		25.9%

(Note) Change in accounting policies: None

## (2) Financial conditions

	Total assets	Net assets	Equity ratio	Capital adequacy ratio
	Millions of yen	Millions of yen		
First quarter 2006 (2006/6)	741,171	214,302	28.9%	328.6%
First quarter 2005 (2005/6)	477,924	195,836	41.0%	362.7%
Fiscal 2005 (2006/3)	836,931	249,376	29.8%	323.6%

(Note) Number of shares outstanding (shares):

First quarter 2006: 3,200

First quarter 2005: 3,200

Fiscal 2005: 3,200

Representative: Shigeharu Suzuki, President

Contact: Tetsuya Kawaguchi, General Manager, Finance Department

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**Balance sheets**

(millions of yen)

	<b>First quarter</b> Jun. 30, 2006	<b>First quarter</b> Jun. 30, 2005	Increase/ Decrease	<b>Fiscal 2005</b> Mar. 31, 2006
<b>Assets</b>				
<b>Current assets:</b>	<b>678,518</b>	<b>419,902</b>	<b>258,616</b>	<b>776,188</b>
Cash and deposits	79,418	81,640	-2,222	104,366
Cash segregated as deposits for regulatory purposes	162,500	110,264	52,235	206,516
Trading assets:	38,136	38,401	-265	38,006
Trading securities and others	36,996	37,428	-431	37,430
Derivative assets	1,139	973	166	576
Trading receivables, net	1,658	411	1,246	2,283
Receivables related to margin transactions:	349,148	149,651	199,496	357,602
Customer margin loans	348,559	143,695	204,863	355,795
Cash deposits as collateral for securities borrowed	589	5,956	-5,367	1,806
Collateralized short-term financing agreements:	6,331	6,591	-260	13,759
Cash deposits as collateral for securities borrowed	6,331	6,591	-260	13,759
Receivables	16,644	17,291	-646	18,324
Short-term guarantee money deposited	4,938	2,403	2,535	5,282
Short-term loans receivable	1,117	1,168	-51	1,411
Accrued income	11,916	8,039	3,876	14,394
Deferred tax assets-current	4,698	1,950	2,747	12,239
Other current assets	2,179	2,177	2	2,174
Less: Allowance for doubtful accounts-current	-169	-91	-78	-173
<b>Non-current assets:</b>	<b>62,653</b>	<b>58,022</b>	<b>4,630</b>	<b>60,742</b>
Tangible fixed assets	3,924	3,857	66	3,839
Intangible fixed assets	29,664	24,762	4,901	27,930
Investments and others:	29,064	29,401	-337	28,973
Investment securities	1,797	840	956	1,825
Long-term loans receivable	4,874	4,874	-	4,874
Long-term guarantee deposits	16,923	18,049	-1,126	17,221
Deferred tax assets-non-current	4,581	4,761	-180	4,210
Other investments	1,983	2,001	-18	1,948
Less: Allowance for doubtful accounts-non-current	-1,094	-1,126	31	-1,106
<b>Total assets</b>	<b>741,171</b>	<b>477,924</b>	<b>263,247</b>	<b>836,931</b>

(millions of yen)

	First quarter Jun. 30, 2006	First quarter Jun. 30, 2005	Increase/ Decrease	Fiscal 2005 Mar. 31, 2006
<b>Liabilities</b>				
<b>Current liabilities:</b>	<b>469,130</b>	<b>272,820</b>	<b>196,310</b>	<b>546,028</b>
Trading liabilities:	989	614	374	544
Trading securities and others	30	282	-251	56
Derivative liabilities	958	331	626	487
Payables related to margin transactions:	14,443	15,067	-624	21,214
Payable to securities finance companies	5,768	1,757	4,010	7,569
Proceeds of securities sold for customers' accounts	8,674	13,309	-4,634	13,644
Deposits received	130,915	89,591	41,324	127,912
Cash deposits received as guarantee	89,426	37,374	52,052	72,997
Short-term borrowings	111,200	109,000	2,200	190,000
Short-term borrowings from parent company	51,000	-	51,000	51,000
Commercial Paper	20,000	-	20,000	-
Account payable	36,863	9,528	27,334	40,234
Accrued expenses	5,613	5,447	165	5,733
Income taxes payable	606	690	-84	14,920
Accrued bonuses	6,100	3,900	2,200	20,000
Other current liabilities	1,972	1,605	367	1,471
<b>Non-current liabilities:</b>	<b>55,792</b>	<b>7,969</b>	<b>47,823</b>	<b>39,679</b>
Long-term debt	31,000	-	31,000	15,000
Long-term debt from parent company	16,000	-	16,000	16,000
Accrued retirement benefits	8,599	7,813	785	8,503
Other non-current liabilities	193	156	37	176
<b>Statutory reserves:</b>	<b>1,946</b>	<b>1,298</b>	<b>647</b>	<b>1,847</b>
Reserve for securities transaction liabilities	1,946	1,298	647	1,847
<b>Total liabilities</b>	<b>526,869</b>	<b>282,088</b>	<b>244,781</b>	<b>587,554</b>
<b>Shareholders' equity</b>				
<b>Common stock</b>	-	<b>100,000</b>	-	<b>100,000</b>
<b>Capital surplus:</b>	-	<b>50,010</b>	-	<b>50,010</b>
Additional paid-in capital	-	50,010	-	50,010
<b>Retained earnings:</b>	-	<b>45,671</b>	-	<b>98,717</b>
Earned surplus reserve	-	2,430	-	2,430
Reserve for special depreciation	-	112	-	112
Unappropriated retained earnings	-	43,129	-	96,175
(Net income for the current term)	-	( 5,129)	-	( 58,174)
<b>Net unrealized gain (loss) on securities, net of tax effect</b>	-	<b>154</b>	-	<b>649</b>
<b>Total shareholders' equity</b>	-	<b>195,836</b>	-	<b>249,376</b>
<b>Total liabilities and shareholders' equity</b>	-	<b>477,924</b>	-	<b>836,931</b>
<b>Net assets</b>				
<b>Owners' equity:</b>	<b>213,705</b>	-	-	-
<b>Common stock</b>	<b>100,000</b>	-	-	-
<b>Capital surplus:</b>	<b>50,010</b>	-	-	-
Additional paid-in capital	50,010	-	-	-
<b>Retained earnings:</b>	<b>63,695</b>	-	-	-
Earned surplus reserve	2,430	-	-	-
Other retained surplus:	61,265	-	-	-
Reserve for special depreciation	67	-	-	-
Unappropriated retained earnings	61,197	-	-	-
<b>Valuation and translation adjustments:</b>	<b>597</b>	-	-	-
Net unrealized gain (loss) on securities, net of tax effect	597	-	-	-
<b>Total net assets</b>	<b>214,302</b>	-	-	-
<b>Total liabilities and net assets</b>	<b>741,171</b>	-	-	-

**Statements of operations**

(millions of yen)

	<b>First quarter</b> Apr. 1, 2006 - Jun. 30, 2006	<b>First quarter</b> Apr. 1, 2005 - Jun. 30, 2005	Yr/yr changes (%)	<b>Fiscal 2005</b> Apr. 1, 2005 - Mar. 31, 2006
<b>Operating revenues</b>	<b>57,152</b>	<b>43,416</b>	<b>31.6</b>	<b>258,943</b>
Commissions	46,096	31,602	45.9	207,787
Net gain (loss) on trading	9,264	11,090	-16.5	46,569
Interest and dividend income	1,790	723	147.7	4,585
<b>Interest expenses</b>	<b>248</b>	<b>101</b>	<b>143.8</b>	<b>955</b>
<b>Net operating revenues</b>	<b>56,903</b>	<b>43,314</b>	<b>31.4</b>	<b>257,988</b>
<b>Selling, general and administrative expenses:</b>	<b>37,391</b>	<b>34,439</b>	<b>8.6</b>	<b>156,990</b>
Commission and other expenses	5,398	5,286	2.1	22,445
Employees' compensation and benefits	19,158	16,787	14.1	84,408
Occupancy and rental	4,655	4,476	4.0	18,118
Data processing and office supplies	5,109	4,889	4.5	19,406
Depreciation expenses	2,020	2,033	-0.6	8,556
Taxes other than income taxes	386	344	12.2	1,615
Others	661	621	6.5	2,438
<b>Operating income</b>	<b>19,512</b>	<b>8,874</b>	<b>119.9</b>	<b>100,997</b>
Non-operating income	114	79	43.4	401
Non-operating expenses	52	26	96.3	342
<b>Ordinary income</b>	<b>19,573</b>	<b>8,927</b>	<b>119.3</b>	<b>101,057</b>
Extraordinary gains	-	-	-	-
Extraordinary losses	99	-	-	836
<b>Income before income taxes and others</b>	<b>19,474</b>	<b>8,927</b>	<b>118.1</b>	<b>100,220</b>
Income taxes-current	60	1,250	-95.2	49,575
Income taxes-deferred	7,206	2,548	182.8	-7,529
<b>Net income</b>	<b>12,208</b>	<b>5,129</b>	<b>138.0</b>	<b>58,174</b>
<b>Unappropriated retained earnings-carryforward</b>		38,000		38,000
<b>Unappropriated retained earnings</b>		43,129		96,175
<b>Net financial income included in Net operating revenues</b>	<b>1,542</b>	<b>621</b>	<b>148.3</b>	<b>3,630</b>

## **Notes to financial statements**

The financial statements of the Company for first quarter ended June 30, 2006 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 'Interim Regulations of Financial Statements' (Ministry of Finance Ordinance No. 38, 1977) and its Article 38 and 57.

### **Basis of financial statements**

#### 1. Valuation of financial instruments

##### (1) Valuation of trading account

Securities and derivative transactions in trading account are recorded at fair value.

##### (2) Valuation of non-trading securities

Other securities than trading or held-to-maturity securities are valued at fair value on the closing date with posting net unrealized gain on securities net of tax effect directly in shareholders' equity, if their fair value is available. The cost of those securities is based on moving average method. Other securities are valued at moving average cost method, if their fair value is not available.

#### 2. Depreciation of depreciable assets

##### (1) Tangible fixed assets

Declining-balance method is applied, and straight-line method is applied to the building (excluding annexes) acquired after April 1, 1998. Useful life for depreciation is based on Corporation Tax Law.

##### (2) Intangible fixed assets, and investments and others

Straight-line method is applied. Useful life for depreciation is based on Corporation Tax Law. Software for in-house use is depreciated under straight-line method based on internal estimated useful life (5 years).

#### 3. Accounting policies for various provisions

##### (1) Allowance for doubtful accounts

The Company provides the allowance based on the historical deterioration rate as for normal loans, and the allowance specifically assessed as for doubtful and failed loans.

##### (2) Accrued bonuses

Estimated amount of employees' bonuses is accrued based on the Company's bylaws.

##### (3) Accrued retirement benefits

The Company provides accrued retirement benefits for employees in conformity with the bylaws to meet obligations as of June 30, 2006 as the rise in salaries in the future does not cause fluctuation in the benefit obligation and therefore the service costs are vested fiscal year by fiscal year.

#### 4. Accounting for certain lease transactions

Finance leases in which ownership is not transferred to a lessee are accounted for in the same manner as operating leases.

#### 5. Other material items

##### (1) Consumption taxes

Consumption taxes are separately recorded.

##### (2) Consolidated tax system

The consolidated tax system is applied.

**Changes in the accounting standards**

## 1. Presentation of net assets on balance sheet

The financial statements of the Company for the first quarter ended June 30, 2006 are adapted to “Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No.5)” and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No.8)” from the beginning of this first quarter. Amount of shareholders’ equity by the former accounting standard is as same amount as net assets by new accounting standard.

## 2. Accounting for directors’ bonus

The financial statements of the Company for the first quarter ended June 30, 2006 are adapted to “Accounting Standard for Directors’ Bonus (ASBJ Statement No.4)”. From the beginning of this first quarter, directors’ bonus is expensed when it is realized, instead of decreasing retained earnings upon approval at annual shareholders’ meeting.

**Notes to balance sheets**

(millions of yen)

	First quarter, 2006 <u>Jun. 30, 2006</u>	First quarter, 2005 <u>Jun. 30, 2005</u>	Fiscal 2005 <u>Mar. 31, 2006</u>
1 . Accumulated depreciation of tangible fixed assets	11,775	11,093	11,522
2 . Guarantee	606	734	641

**Notes to statements of operations**

(millions of yen)

## Details of extraordinary gains/losses

	First quarter, 2006 <u>Apr. 1, 2006 – Jun. 30, 2006</u>	First quarter, 2005 <u>Apr. 1, 2005 – Jun. 30, 2005</u>	Fiscal 2005 <u>Apr. 1, 2005 – Mar. 31, 2006</u>
Extraordinary losses			
Provision for securities transaction liabilities	99	-	548
Reorganization costs for retail branch	-	-	187
Valuation loss of tangible fixed assets	-	-	100

**Supplemental information for the first quarter ended June 30, 2006**

(Apr. 1, 2006 – Jun. 30, 2006)

## 1. Breakdown of commission revenue

(1) Activity (millions of yen)

	First quarter, 2006 <u>Apr. 1, 2006 –</u> <u>Jun. 30, 2006</u>	First quarter, 2005 <u>Apr. 1, 2005 –</u> <u>Jun. 30, 2005</u>	Yr/yr changes	Fiscal, 2005 <u>Apr. 1, 2005 –</u> <u>Mar. 31, 2006</u>
Brokerage commission	<b>18,812</b>	<b>12,705</b>	<b>48.1%</b>	<b>91,474</b>
(Stock and other)	( 18,744 )	( 12,685 )	( 47.8% )	( 91,240 )
Underwriting commission	--	--	--	--
Distribution commission	<b>13,817</b>	<b>10,592</b>	<b>30.4%</b>	<b>70,082</b>
(Stock and other)	( 1,828 )	( 1,179 )	( 55.1% )	( 19,996 )
(Bond and other)	( 2,009 )	( 2,587 )	( -22.3% )	( 9,147 )
(Beneficiary certificates)	( 9,979 )	( 6,826 )	( 46.2% )	( 40,938 )
Other commission	<b>13,466</b>	<b>8,303</b>	<b>62.2%</b>	<b>46,230</b>
(Beneficiary certificates)	( 7,407 )	( 3,994 )	( 85.5% )	( 20,951 )
Total	46,096	31,602	45.9%	207,787

(2) Asset class (millions of yen)

	First quarter, 2006 <u>Apr. 1, 2006 –</u> <u>Jun. 30, 2006</u>	First quarter, 2005 <u>Apr. 1, 2005 –</u> <u>Jun. 30, 2005</u>	Yr/yr changes	Fiscal, 2005 <u>Apr. 1, 2005 –</u> <u>Mar. 31, 2006</u>
Stock and other	21,380	14,561	46.8%	114,801
Bond and other	3,702	4,396	-15.8%	18,216
Beneficiary certificates	17,454	10,841	61.0%	62,123
Others	3,558	1,803	97.4%	12,646
Total	46,096	31,602	45.9%	207,787

## 2. Breakdown of trading gains/losses

(millions of yen)

	First quarter, 2006 <u>Apr. 1, 2006 –</u> <u>Jun. 30, 2006</u>	First quarter, 2005 <u>Apr. 1, 2005 –</u> <u>Jun. 30, 2005</u>	Yr/yr changes	Fiscal, 2005 <u>Apr. 1, 2005 –</u> <u>Mar. 31, 2006</u>
Stock and other	1,710	2,308	-25.9%	11,371
Bond, Forex and other	7,554	8,782	-14.0%	35,197
(Bond and other)	( 2,500 )	( 2,626 )	( -4.8% )	( 10,046 )
(Forex and other)	( 5,054 )	( 6,155 )	( -17.9% )	( 25,151 )
Total	9,264	11,090	-16.5%	46,569

3. Capital adequacy ratio

(millions of yen)

		First quarter, 2006 <u>Apr. 1, 2006 – Jun. 30, 2006</u>	First quarter, 2005 <u>Apr. 1, 2005 – Jun. 30, 2005</u>	Fiscal 2005 <u>Apr. 1, 2005 – Mar. 31, 2006</u>
Basic item (A)		213,705	195,681	201,497
Supplementary item	Net unrealized gain on securities, net of tax effect etc.	597	154	649
	Statutory reserve	1,946	1,298	1,847
	Allowance for doubtful accounts	169	91	173
	Total (B)	2,713	1,544	2,670
Assets excluded from capital (C)		62,902	58,942	60,978
Net capital (A)+(B)-(C) (D)		153,515	138,284	143,188
Risk equivalent	Market risk equivalent	844	698	829
	Counterparty risk equivalent	8,523	4,278	9,075
	Basic risk equivalent	37,348	33,141	34,338
	Total (E)	46,716	38,118	44,243
Capital adequacy ratio (D)/(E)		328.6%	362.7%	323.6%

**Quarterly statements of operations**

(millions of yen)

	Fiscal 2005				Fiscal 2006
	First quarter Apr. 1, 2005 - Jun.30, 2005	Second quarter Jul. 1, 2005 - Sep.30, 2005	Third quarter Oct. 1, 2005 - Dec.31, 2005	Fourth quarter Jan. 1, 2006 - Mar.31, 2006	First quarter Apr. 1, 2006 - Jun.30, 2006
<b>Operating revenues</b>	<b>43,416</b>	<b>57,867</b>	<b>76,264</b>	<b>81,395</b>	<b>57,152</b>
<b>Commissions</b>	<b>31,602</b>	<b>43,582</b>	<b>63,019</b>	<b>69,583</b>	<b>46,096</b>
<b>Brokerage commission</b>	<b>12,705</b>	<b>19,430</b>	<b>31,152</b>	<b>28,185</b>	<b>18,812</b>
(Stock and other)	12,685	19,391	31,047	28,116	18,744
<b>Underwriting commission</b>	-	-	-	-	-
<b>Distribution commission</b>	<b>10,592</b>	<b>13,316</b>	<b>19,717</b>	<b>26,456</b>	<b>13,817</b>
(Stock and other)	1,179	2,791	5,064	10,961	1,828
(Bond and other)	2,587	1,850	2,139	2,569	2,009
(Beneficiary certificates)	6,826	8,674	12,512	12,925	9,979
<b>Other commission</b>	<b>8,303</b>	<b>10,834</b>	<b>12,149</b>	<b>14,942</b>	<b>13,466</b>
(Beneficiary certificates)	3,994	4,693	5,650	6,612	7,407
<b>Net gain on trading</b>	<b>11,090</b>	<b>13,360</b>	<b>11,998</b>	<b>10,119</b>	<b>9,264</b>
(Stock and other)	2,308	2,661	3,332	3,068	1,710
(Bond and other)	2,626	2,982	2,434	2,002	2,500
(Forex and other)	6,155	7,716	6,230	5,048	5,054
<b>Interest and dividend income</b>	<b>723</b>	<b>924</b>	<b>1,246</b>	<b>1,691</b>	<b>1,790</b>
<b>Interest expenses</b>	<b>101</b>	<b>321</b>	<b>169</b>	<b>363</b>	<b>248</b>
<b>Net operating revenue</b>	<b>43,314</b>	<b>57,546</b>	<b>76,095</b>	<b>81,031</b>	<b>56,903</b>
Selling, general and administrative expenses:	34,439	38,463	42,437	41,650	37,391
Commission and other expenses	5,286	5,343	5,501	6,314	5,398
Employees' compensation and benefits	16,787	20,648	24,323	22,650	19,158
Occupancy and rental	4,476	4,512	4,422	4,706	4,655
Data processing and office supplies	4,889	4,945	4,942	4,629	5,109
Depreciation expenses	2,033	2,108	2,157	2,257	2,020
Taxes other than income taxes	344	346	437	486	386
Others	621	558	652	606	661
<b>Operating income</b>	<b>8,874</b>	<b>19,083</b>	<b>33,658</b>	<b>39,381</b>	<b>19,512</b>
Non-operating income	79	42	53	225	114
Non-operating expenses	26	50	22	242	52
<b>Ordinary income</b>	<b>8,927</b>	<b>19,074</b>	<b>33,689</b>	<b>39,364</b>	<b>19,573</b>
Extraordinary gains	-	-	-	-	-
Extraordinary losses	-	186	391	258	99
<b>Income before income taxes and others</b>	<b>8,927</b>	<b>18,888</b>	<b>33,298</b>	<b>39,106</b>	<b>19,474</b>
Income taxes-current	1,250	12,320	14,120	21,885	60
Income taxes-deferred	2,548	-4,525	-289	-5,262	7,206
<b>Net income</b>	<b>5,129</b>	<b>11,093</b>	<b>19,467</b>	<b>22,484</b>	<b>12,208</b>
<b>Net financial income included in Net operating revenues</b>	<b>621</b>	<b>603</b>	<b>1,077</b>	<b>1,328</b>	<b>1,542</b>