

**Daiwa Securities Co. Ltd.**

2-6-4 Otemachi Chiyoda-ku

Tokyo 100-8101, Japan

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

October 26, 2006

**Non-consolidated financial summary**

(For the first half ended September 30, 2006)

## (1) Operating results (from April 1, 2006 to September 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 half 2006 (2006/9)	108,900	( 7.5)%	108,334	( 7.4)%	33,436	( 19.6)%
First half 2005 (2005/9)	101,283	( 26.0)%	100,860	( 25.8)%	27,957	( 167.2)%
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 half 2006 (2006/9)	33,498	( 19.6)%	20,203	( 24.5)%	17.1%
First half 2005 (2005/9)	28,002	( 171.6)%	16,222	( 174.0)%	16.0%
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 half 2006 (2006/9)	724,472	222,249	30.7%	342.9%
First half 2005 (2005/9)	557,908	206,998	37.1%	381.5%
Fiscal 2005 (2006/3)	836,931	249,376	29.8%	323.6%

(Note) Number of shares outstanding (shares):

First half 2006: 3,200

First half 2005: 3,200

Fiscal 2005: 3,200

Representative: Shigeharu Suzuki, President

Contact: Tetsuya Kawaguchi, General Manager, Finance Department

Phone: +813-3243-2111

**Balance sheets**

(millions of yen)

	First half Sep. 30, 2006	First half Sep. 30, 2005	Increase/ Decrease	Fiscal 2005 Mar. 31, 2006
<b>Assets</b>				
<b>Current assets:</b>	<b>658,611</b>	<b>499,818</b>	<b>158,793</b>	<b>776,188</b>
Cash and deposits	106,637	97,926	8,711	104,366
Cash segregated as deposits for regulatory purposes	157,781	139,660	18,121	206,516
Trading assets:	37,648	39,800	-2,152	38,006
Trading securities and others	36,608	37,970	-1,362	37,430
Derivative assets	1,039	1,829	-790	576
Trading receivables, net	2,676	1,884	791	2,283
Receivables related to margin transactions:	305,985	171,167	134,818	357,602
Customer margin loans	303,927	161,412	142,514	355,795
Cash deposits as collateral for securities borrowed	2,057	9,754	-7,696	1,806
Collateralized short-term financing agreements:	7,197	10,658	-3,461	13,759
Cash deposits as collateral for securities borrowed	7,197	10,658	-3,461	13,759
Receivables	13,038	14,315	-1,276	18,324
Short-term guarantee money deposited	4,454	2,355	2,098	5,282
Short-term loans receivable	1,325	1,648	-323	1,411
Accrued income	14,042	11,563	2,479	14,394
Deferred tax assets-current	5,867	6,295	-428	12,239
Other current assets	2,105	2,648	-542	2,174
Less: Allowance for doubtful accounts-current	-148	-104	-43	-173
<b>Non-current assets:</b>	<b>65,861</b>	<b>58,089</b>	<b>7,771</b>	<b>60,742</b>
Tangible fixed assets	4,473	3,585	888	3,839
Intangible fixed assets	31,467	25,142	6,325	27,930
Investments and others:	29,919	29,361	557	28,973
Investment securities	2,312	1,106	1,205	1,825
Long-term loans receivable	4,874	4,874	-	4,874
Long-term guarantee deposits	16,769	17,693	-924	17,221
Deferred tax assets-non-current	5,012	4,894	118	4,210
Other investments	2,017	1,900	116	1,948
Less: Allowance for doubtful accounts-non-current	-1,067	-1,108	40	-1,106
<b>Total assets</b>	<b>724,472</b>	<b>557,908</b>	<b>166,564</b>	<b>836,931</b>

(millions of yen)

	First half Sep. 30, 2006	First half Sep. 30, 2005	Increase/ Decrease	Fiscal 2005 Mar. 31, 2006
<b>Liabilities</b>				
<b>Current liabilities:</b>	<b>443,449</b>	<b>329,902</b>	<b>113,547</b>	<b>546,028</b>
Trading liabilities:	765	1,321	-556	544
Trading securities and others	102	600	-497	56
Derivative liabilities	662	721	-58	487
Payables related to margin transactions:	20,700	33,553	-12,853	21,214
Payable to securities finance companies	7,058	8,126	-1,067	7,569
Proceeds of securities sold for customers' accounts	13,642	25,427	-11,785	13,644
Deposits received	145,157	112,996	32,161	127,912
Cash deposits received as guarantee	73,812	48,204	25,608	72,997
Short-term borrowings	125,200	99,001	26,198	190,000
Short-term borrowings from parent company	50,000	-	50,000	51,000
Account payable	6,436	11,494	-5,058	40,234
Accrued expenses	5,271	5,356	-85	5,733
Income taxes payable	2,938	4,829	-1,890	14,920
Accrued bonuses	11,500	11,500	-	20,000
Other current liabilities	1,667	1,644	23	1,471
<b>Non-current liabilities:</b>	<b>56,751</b>	<b>19,709</b>	<b>37,042</b>	<b>39,679</b>
Long-term debt	31,000	-	31,000	15,000
Long-term debt from parent company	16,000	11,500	4,500	16,000
Accrued retirement benefits	8,940	8,050	889	8,503
Provision for litigation losses	309	-	309	-
Other non-current liabilities	501	158	342	176
<b>Statutory reserves:</b>	<b>2,022</b>	<b>1,298</b>	<b>723</b>	<b>1,847</b>
Reserve for securities transaction liabilities	2,022	1,298	723	1,847
<b>Total liabilities</b>	<b>502,223</b>	<b>350,910</b>	<b>151,313</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>56,765</b>	-	<b>98,717</b>
Earned surplus reserve	-	2,430	-	2,430
Reserve for special depreciation	-	112	-	112
Unappropriated retained earnings	-	54,223	-	96,175
(Net income for the current term)	-	( 16,222)	-	( 58,174)
<b>Net unrealized gain (loss) on securities, net of tax effect</b>	-	<b>223</b>	-	<b>649</b>
<b>Total shareholders' equity</b>	-	<b>206,998</b>	-	<b>249,376</b>
<b>Total liabilities and shareholders' equity</b>	-	<b>557,908</b>	-	<b>836,931</b>
<b>Net assets</b>				
<b>Owners' equity:</b>	<b>221,700</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>71,690</b>	-	-	-
Earned surplus reserve	2,430	-	-	-
Other retained surplus:	69,260	-	-	-
Reserve for special depreciation	45	-	-	-
Unappropriated retained earnings	69,215	-	-	-
<b>Valuation and translation adjustments:</b>	<b>548</b>	-	-	-
Net unrealized gain (loss) on securities, net of tax effect	548	-	-	-
<b>Total net assets</b>	<b>222,249</b>	-	-	-
<b>Total liabilities and net assets</b>	<b>724,472</b>	-	-	-

**Statements of operations**

(millions of yen)

	<b>First half</b> Apr. 1, 2006 - Sep. 30, 2006	<b>First half</b> Apr. 1, 2005 - Sep. 30, 2005	Yr/yr changes (%)	<b>Fiscal 2005</b> Apr. 1, 2005 - Mar. 31, 2006
<b>Operating revenues</b>	<b>108,900</b>	<b>101,283</b>	<b>7.5</b>	<b>258,943</b>
Commissions	87,275	75,184	16.1	207,787
Net gain (loss) on trading	17,878	24,451	-26.9	46,569
Interest and dividend income	3,746	1,647	127.4	4,585
<b>Interest expenses</b>	<b>566</b>	<b>422</b>	<b>33.8</b>	<b>955</b>
<b>Net operating revenues</b>	<b>108,334</b>	<b>100,860</b>	<b>7.4</b>	<b>257,988</b>
<b>Selling, general and administrative expenses:</b>	<b>74,897</b>	<b>72,902</b>	<b>2.7</b>	<b>156,990</b>
Commission and other expenses	10,680	10,629	0.5	22,445
Employees' compensation and benefits	38,002	37,435	1.5	84,408
Occupancy and rental	9,801	8,989	9.0	18,118
Data processing and office supplies	10,300	9,834	4.7	19,406
Depreciation expenses	4,190	4,142	1.2	8,556
Taxes other than income taxes	693	691	0.3	1,615
Others	1,227	1,179	4.0	2,438
<b>Operating income</b>	<b>33,436</b>	<b>27,957</b>	<b>19.6</b>	<b>100,997</b>
Non-operating income	295	122	141.7	401
Non-operating expenses	233	77	200.5	342
<b>Ordinary income</b>	<b>33,498</b>	<b>28,002</b>	<b>19.6</b>	<b>101,057</b>
Extraordinary gains	-	-	-	-
Extraordinary losses	484	186	159.7	836
<b>Income before income taxes and others</b>	<b>33,013</b>	<b>27,815</b>	<b>18.7</b>	<b>100,220</b>
Income taxes-current	7,170	13,570	-47.2	49,575
Income taxes-deferred	5,639	-1,977	-	-7,529
<b>Net income</b>	<b>20,203</b>	<b>16,222</b>	<b>24.5</b>	<b>58,174</b>
<b>Unappropriated retained earnings-carryforward</b>		38,000		38,000
<b>Unappropriated retained earnings</b>		54,223		96,175
<b>Net financial income included in Net operating revenues</b>	<b>3,180</b>	<b>1,224</b>	<b>159.7</b>	<b>3,630</b>

**Statements of changes in net asset**

(millions of yen)

	Owners' equity						
	Common stock	Capital surplus	Retained earnings				Total owners' equity
		Additional paid-in capital	Earned surplus reserve	Other retained surplus		Total retained earnings	
				Reserve for special depreciation	Unappropriated retained earnings		
Beginning balance as of Mar. 31, 2006	100,000	50,010	2,430	112	96,175	98,717	248,727
Changes of items during the fiscal year							
Dividends(*)	-	-	-	-	46,400	46,400	46,400
Net income	-	-	-	-	20,203	20,203	20,203
Bonus to directors(*)	-	-	-	-	830	830	830
Reversal of reserve for special depreciation ( * )	-	-	-	66	66	-	-
Net changes of items other than owners' equity	-	-	-	-	-	-	-
Total changes of items during the fiscal year	-	-	-	66	26,960	27,026	27,026
Ending balance as of Sep. 30, 2006	100,000	50,010	2,430	45	69,215	71,690	221,700

	Valuation and translation adjustments	Total net assets
	Net unrealized gain (loss) on securities, net of tax effect	
Beginning balance as of Mar. 31, 2006	649	249,376
Changes of items during the fiscal year		
Dividends(*)	-	46,400
Net income	-	20,203
Bonus to directors(*)	-	830
Reversal of reserve for special depreciation ( * )	-	-
Net changes of items other than owners' equity	100	100
Total changes of items during the fiscal year	100	27,127
Ending balance as of Sep. 30, 2006	548	222,249

\* This statements of changes in net assets retain appropriation of earnings at annual shareholders' meeting as of June, 2006

## **Notes to financial statements**

The financial statements of the Company for first half ended September 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 September 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) Provision for litigation losses

Estimated amount of restitution is accrued to provide for future monetary damages of litigation regarding financial services based on the status of progress.

##### (Additional information)

To ensure financial soundness and to refine the method for calculation of provision for litigation regarding financial services, the estimated amount of losses is posted under "Provision for litigation losses".

#### 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 half ended September 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 half. 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 half ended September 30, 2006 are adapted to “Accounting Standard for Directors’ Bonus (ASBJ Statement No.4)”. From the beginning of this first half, 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 half, 2006 <u>Sep. 30, 2006</u>	First half, 2005 <u>Sep. 30, 2005</u>	Fiscal 2005 <u>Mar. 31, 2006</u>
1 . Accumulated depreciation of tangible fixed assets	11,866	11,273	11,522
2 . Guarantee	567	719	641

**Notes to statements of operations**

(millions of yen)

## Details of extraordinary gains/losses

	First half, 2006 <u>Apr. 1, 2006 – Sep. 30, 2006</u>	First half, 2005 <u>Apr. 1, 2005 – Sep. 30, 2005</u>	Fiscal 2005 <u>Apr. 1, 2005 – Mar. 31, 2006</u>
Extraordinary losses			
Provision for litigation losses	309	-	-
Provision for securities transaction liabilities	175	-	548
Reorganization costs for retail branch	-	186	187
Dormitory lease cancellation payment	-	-	100

**Supplemental information for the first half ended September 30, 2006**

(Apr. 1, 2006 – Sep. 30, 2006)

## 1. Breakdown of commission revenue

## (1) Activity

(millions of yen)

	First half, 2006 <u>Apr. 1, 2006 –</u> <u>Sep. 30, 2006</u>	First half, 2005 <u>Apr. 1, 2005 –</u> <u>Sep. 30, 2005</u>	Yr/yr changes	Fiscal, 2005 <u>Apr. 1, 2005 –</u> <u>Mar. 31, 2006</u>
Brokerage commission	<b>32,075</b>	<b>32,136</b>	<b>-0.2%</b>	<b>91,474</b>
(Stock and other)	( 31,975 )	( 32,076 )	( -0.3% )	( 91,240 )
Underwriting commission	--	--	--	--
Distribution commission	<b>27,140</b>	<b>23,908</b>	<b>13.5%</b>	<b>70,082</b>
(Stock and other)	( 5,817 )	( 3,970 )	( 46.5% )	( 19,996 )
(Bond and other)	( 3,999 )	( 4,438 )	( -9.9% )	( 9,147 )
(Beneficiary certificates)	( 17,324 )	( 15,500 )	( 11.8% )	( 40,938 )
Other commission	<b>28,058</b>	<b>19,138</b>	<b>46.6%</b>	<b>46,230</b>
(Beneficiary certificates)	( 15,447 )	( 8,687 )	( 77.8% )	( 20,951 )
Total	87,275	75,184	16.1%	207,787

## (2) Asset class

(millions of yen)

	First half, 2006 <u>Apr. 1, 2006 –</u> <u>Sep. 30, 2006</u>	First half, 2005 <u>Apr. 1, 2005 –</u> <u>Sep. 30, 2005</u>	Yr/yr changes	Fiscal, 2005 <u>Apr. 1, 2005 –</u> <u>Mar. 31, 2006</u>
Stock and other	39,379	37,433	5.2%	114,801
Bond and other	8,717	8,914	-2.2%	18,216
Beneficiary certificates	32,872	24,247	35.6%	62,123
Others	6,306	4,588	37.4%	12,646
Total	87,275	75,184	16.1%	207,787

## 2. Breakdown of trading gains/losses

(millions of yen)

	First half, 2006 <u>Apr. 1, 2006 –</u> <u>Sep. 30, 2006</u>	First half, 2005 <u>Apr. 1, 2005 –</u> <u>Sep. 30, 2005</u>	Yr/yr changes	Fiscal, 2005 <u>Apr. 1, 2005 –</u> <u>Mar. 31, 2006</u>
Stock and other	2,877	4,970	-42.1%	11,371
Bond, Forex and other	15,000	19,480	-23.0%	35,197
(Bond and other)	( 4,531 )	( 5,608 )	( -19.2% )	( 10,046 )
(Forex and other)	( 10,469 )	( 13,872 )	( -24.5% )	( 25,151 )
Total	17,878	24,451	-26.9%	46,569

3. Capital adequacy ratio

(millions of yen)

		First half, 2006 <u>Apr. 1, 2006 –</u> <u>Sep. 30, 2006</u>	First half05 <u>Apr. 1, 2005 –</u> <u>Sep. 30, 2005</u>	Fiscal 2005 <u>Apr. 1, 2005 –</u> <u>Mar. 31, 2006</u>
Basic item (A)		221,700	206,775	201,497
Supplementary item	Net unrealized gain on securities, net of tax effect etc.	548	223	649
	Statutory reserve	2,022	1,298	1,847
	Allowance for doubtful accounts	148	104	173
	Total (B)	2,719	1,626	2,670
Assets excluded from capital (C)		66,174	58,843	60,978
Net capital (A)+(B)-(C) (D)		158,246	149,559	143,188
Risk equivalent	Market risk equivalent	808	688	829
	Counterparty risk equivalent	7,831	5,171	9,075
	Basic risk equivalent	37,502	33,342	34,338
	Total (E)	46,142	39,202	44,243
Capital adequacy ratio (D)/(E)		342.9%	381.5%	323.6%

**Quarterly statements of operations**

(millions of yen)

	Fiscal 2005			Fiscal 2006	
	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	Second quarter Jul. 1, 2006 - Sep.30, 2006
<b>Operating revenues</b>	<b>57,867</b>	<b>76,264</b>	<b>81,395</b>	<b>57,152</b>	<b>51,747</b>
<b>Commissions</b>	<b>43,582</b>	<b>63,019</b>	<b>69,583</b>	<b>46,096</b>	<b>41,178</b>
<b>Brokerage commission</b>	<b>19,430</b>	<b>31,152</b>	<b>28,185</b>	<b>18,812</b>	<b>13,263</b>
(Stock and other)	19,391	31,047	28,116	18,744	13,230
<b>Underwriting commission</b>	-	-	-	-	-
<b>Distribution commission</b>	<b>13,316</b>	<b>19,717</b>	<b>26,456</b>	<b>13,817</b>	<b>13,323</b>
(Stock and other)	2,791	5,064	10,961	1,828	3,988
(Bond and other)	1,850	2,139	2,569	2,009	1,989
(Beneficiary certificates)	8,674	12,512	12,925	9,979	7,345
<b>Other commission</b>	<b>10,834</b>	<b>12,149</b>	<b>14,942</b>	<b>13,466</b>	<b>14,592</b>
(Beneficiary certificates)	4,693	5,650	6,612	7,407	8,039
<b>Net gain on trading</b>	<b>13,360</b>	<b>11,998</b>	<b>10,119</b>	<b>9,264</b>	<b>8,613</b>
(Stock and other)	2,661	3,332	3,068	1,710	1,167
(Bond and other)	2,982	2,434	2,002	2,500	2,030
(Forex and other)	7,716	6,230	5,048	5,054	5,415
<b>Interest and dividend income</b>	<b>924</b>	<b>1,246</b>	<b>1,691</b>	<b>1,790</b>	<b>1,955</b>
<b>Interest expenses</b>	<b>321</b>	<b>169</b>	<b>363</b>	<b>248</b>	<b>317</b>
<b>Net operating revenue</b>	<b>57,546</b>	<b>76,095</b>	<b>81,031</b>	<b>56,903</b>	<b>51,430</b>
Selling, general and administrative expenses:	38,463	42,437	41,650	37,391	37,505
Commission and other expenses	5,343	5,501	6,314	5,398	5,282
Employees' compensation and benefits	20,648	24,323	22,650	19,158	18,844
Occupancy and rental	4,512	4,422	4,706	4,655	5,145
Data processing and office supplies	4,945	4,942	4,629	5,109	5,191
Depreciation expenses	2,108	2,157	2,257	2,020	2,169
Taxes other than income taxes	346	437	486	386	306
Others	558	652	606	661	565
<b>Operating income</b>	<b>19,083</b>	<b>33,658</b>	<b>39,381</b>	<b>19,512</b>	<b>13,924</b>
Non-operating income	42	53	225	114	181
Non-operating expenses	50	22	242	52	180
<b>Ordinary income</b>	<b>19,074</b>	<b>33,689</b>	<b>39,364</b>	<b>19,573</b>	<b>13,924</b>
Extraordinary gains	-	-	-	-	-
Extraordinary losses	186	391	258	99	385
<b>Income before income taxes and others</b>	<b>18,888</b>	<b>33,298</b>	<b>39,106</b>	<b>19,474</b>	<b>13,539</b>
Income taxes-current	12,320	14,120	21,885	60	7,110
Income taxes-deferred	-4,525	-289	-5,262	7,206	-1,567
<b>Net income</b>	<b>11,093</b>	<b>19,467</b>	<b>22,484</b>	<b>12,208</b>	<b>7,995</b>
<b>Net financial income included in Net operating revenues</b>	<b>603</b>	<b>1,077</b>	<b>1,328</b>	<b>1,542</b>	<b>1,638</b>