

**Daiwa Securities SMBC Co. Ltd.**

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Tokyo 100-8289, Japan

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

October 26, 2006

**Consolidated financial summary**

(For the first half ended September 30, 2006)

(1) Consolidated Operating results (from April 1, 2006 to September 30, 2006)

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

	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 (2006/9)	141,051	(0.8)%	118,109	(3.7)%	39,754	(19.1)%
First half (2005/9)	142,137	16.9%	122,700	11.5%	49,139	16.9%
Fiscal 2005 (2006/3)	350,818		311,568		139,662	

	Ordinary income		Net income		Return on equity
	Millions of yen	Yr/yr change	Millions of yen	Yr/yr change	(Annual basis)
First half (2006/9)	41,548	(17.3)%	20,924	(33.1)%	7.1%
First half (2005/9)	50,219	17.3%	31,276	12.8%	13.2%
Fiscal 2005 (2006/3)	141,582		91,883		18.2%

(Note) Change in accounting policies: None

(2) Consolidated Financial conditions

	Total assets	Net assets	Equity ratio	Capital adequacy Ratio(Note2)
	Millions of yen	Millions of yen		
As of Sep. 30, 2006	10,788,826	634,460	5.9%	479.2%
As of Sep. 30, 2005	11,591,787	482,906	4.2%	373.3%
As of Mar. 31, 2006	11,524,914	544,985	4.7%	336.3%

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

As of Sep. 30, 2006: 3,800

As of Sep. 30, 2005: 3,200

As of Mar. 31, 2006: 3,200

2. Capital adequacy ratio is non-consolidated figure of Daiwa Securities SMBC Co. Ltd.

(3) Scope of consolidation and equity method

Consolidated subsidiaries: 18 Companies

Affiliates applicable of equity method: 1 Company

(4) Changes in scope of consolidation and equity method : None

Representative: Tatsuei Saito, President

Contact: Shokichi Utsunomiya, General Manager, Treasury Department

Parent Company: Daiwa Securities Group Inc. (Securities code : 8601), 60% share holder

Phone: +813-5533-8000

**Results of Operation and Financial Conditions**

## (A) Overview of Operating Income (Comparisons in parenthesis are made versus the first half of fiscal 2005)

## (1) Commissions

For the first half ended September 30, 2006, total commission revenues amounted to 41,540 million yen (22.3% up). In segments, 11,862 million yen (22.0% up) were earned in Equity, 1,088 million yen (7.7% up) in Fixed Income, 1,329 million yen (23.1% up) in Investment Trust, and 26,189 million yen (24.4% up) in Investment Banking. The components of the commissions received are set forth below:

## a) Brokerage Commissions

Total brokerage commissions increased to 11,918 million yen (20.7% up) due to the increase in brokerage volume.

## b) Underwriting Commissions

Underwriting commissions increased to 19,241 million yen (34.7% up). Underwriting commissions derived from equities increased to 14,468 million yen (59.3% up). On the other hand, underwriting commissions derived from fixed income decreased to 4,015 million yen (7.5% down).

## c) Distribution Commissions

Revenues in distribution commissions generated 505 million yen (13.3% down).

## d) Other Commissions

Other commissions increased to 9,874 million yen (7.2% up). Other commissions in Investment Banking increased to 6,822 million yen (4.6% up) due to increased fees received in M&A operations etc.

## (2) Net Gain(Loss) on Trading

Net gain on trading decreased to 53,227 million yen (32.1% down). Net trading gains in equities decreased to 8,669 million yen (79.0% down), and net trading gains from fixed income together with those from foreign exchange transactions increased to 44,558 million yen (19.9% up).

## (3) Net Interest and Dividend Income

Interest and dividend income totaled 28,660 million yen, whereas interests expenses totaled 22,942 million yen. Net interest and dividend income came to 5,717 million yen.

## (4) Selling, General and Administrative Expenses

Of the selling, general and administrative expenses, commission and other expenses totaled 29,966 million yen (7.9% up), personnel expenses totaled 22,886 million yen (7.2% up), data processing & office supplies totaled 8,785 million yen (6.2% up), occupancy and rental expenses totaled 6,675 million yen (1.6% up), and depreciation expenses totaled 5,861 million yen (3.5% down). Overall selling, general and administrative expenses came to 78,354 million yen, a 6.5% increase compared to the first half of last year.

In conclusion, Operating Revenues for the first half of fiscal 2006 came to 141,051 million yen (0.8% down), and Net Operating Revenues to 118,109 million yen (3.7% down). Operational Income came to 39,754 million yen (19.1% down), and Ordinary Income to 41,548 million yen (17.3% down). Finally, considering net extraordinary income, income taxes and minority interests, Net Income for the first half of fiscal 2006 came to 20,924 million yen (33.1% down).

## (B) Financial Condition (Comparisons in parenthesis are made versus the fiscal 2005)

For the first half ended September 30, 2006, total assets decreased by 736.0 billion yen to 10,788.8 billion yen reflecting decreases in trading assets by 761.3 billion yen and receivables on collateralized short-term financing agreements by 56.3 billion yen, and an increase in private equity and other securities by 19.0 billion yen.

Total liabilities decreased by 824.4 billion yen to 10,154.3 billion yen, which is primarily attributable to decreases in trading liabilities by 901.8 billion yen and short-term borrowings by 835.3 billion yen, and an increase in payables on collateralized short-term financing agreements by 1,112.7 billion yen. 232.1 billion yen of Medium-term note were newly issued to raise funds.

As a result of the capital increase of the company, the common stock and capital surplus have increased each by 50.1 billion yen. Total net assets came to 634.4 billion yen as at September 30, 2006.

Consolidated 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>				
Current assets:	10,712,052	11,518,437	(806,385)	11,448,030
Cash and deposits	99,795	133,368	(33,573)	134,581
Cash segregated as deposits for regulatory purposes	22,814	26,609	(3,795)	77,680
Trading assets:	5,183,567	6,132,361	(948,793)	5,944,944
Trading securities and others	4,364,834	5,484,308	(1,119,473)	4,275,818
Derivative assets	818,733	648,053	170,680	1,669,126
Trading receivables, net	165,754	433,889	(268,134)	-
Private equity and other securities	345,512	189,761	155,751	326,506
Less: Allowance for possible investment losses	(2,208)	(1,974)	(234)	(2,715)
Receivables related to margin transactions:	229,118	197,932	31,185	205,935
Customer margin loans	12,734	1,823	10,910	3,535
Cash deposits as collateral for securities borrowed	216,384	196,108	20,275	202,399
Collateralized short-term financing agreements:	4,545,331	4,290,574	254,756	4,601,711
Cash deposits as collateral for securities borrowed	4,386,169	4,015,833	370,336	4,210,347
Receivables related to gensaki transactions	159,161	274,741	(115,580)	391,364
Short-term loans receivable	43,278	51,399	(8,120)	53,744
Accrued income	15,933	10,974	4,959	16,178
Deferred tax assets-current	2,917	1,189	1,727	4,328
Other current assets	60,310	52,572	7,738	85,332
Less: Allowance for doubtful accounts-current	(74)	(221)	146	(197)
Non-current assets:	76,774	73,349	3,424	76,883
Tangible fixed assets	5,281	5,437	(156)	5,476
Intangible fixed assets	36,327	30,424	5,902	31,813
Investments and others:	35,165	37,487	(2,322)	39,593
Investment securities	19,570	21,472	(1,902)	21,089
Long-term loans receivable	365	856	(491)	728
Long-term guarantee deposits	5,641	5,939	(297)	5,963
Deferred tax assets-non-current	5,665	2,230	3,435	4,881
Others	4,660	7,574	(2,913)	7,673
Less: Allowance for doubtful accounts-non-current	(737)	(585)	(152)	(743)
<b>Total assets</b>	<b>10,788,826</b>	<b>11,591,787</b>	<b>(802,960)</b>	<b>11,524,914</b>

(millions of yen)

	First half Sep. 30, 2006	First half Sep. 30, 2005	Increase/ Decrease	Fiscal 2005 Mar. 31, 2006
<b>Liabilities</b>				
Current liabilities:	9,310,787	10,271,467	(960,679)	10,219,735
Trading liabilities:	3,888,266	3,782,581	105,684	4,790,083
Trading securities and others	3,279,642	3,198,274	81,368	3,232,925
Derivative liabilities	608,623	584,307	24,316	1,557,157
Trading payables, net	-	-	-	252,020
Payables related to margin transactions:	209,585	154,262	55,323	176,268
Proceeds of securities sold for customers' accounts	209,585	154,262	55,323	176,268
Collateralized short-term financing agreements:	4,037,818	4,056,897	(19,078)	2,925,045
Cash deposits as collateral for securities loaned	2,875,763	3,123,462	(247,699)	2,360,788
Payables related to gensaki transactions	1,162,055	933,434	228,620	564,257
Deposits received	44,590	41,951	2,639	34,765
Cash deposits received as guarantee	24,789	30,942	(6,152)	26,328
Short-term borrowings	735,271	1,979,645	(1,244,374)	1,570,629
Commercial paper	272,710	116,681	156,028	234,210
Medium-term notes due within one year	28,396	48,803	(20,407)	79,606
Income taxes payable	13,520	20,327	(6,806)	56,588
Deferred tax liabilities-current	652	4,040	(3,388)	1,394
Other current liabilities	55,186	35,333	19,853	72,794
Non-current liabilities:	838,392	832,092	6,300	753,933
Medium-term notes	675,740	609,616	66,124	581,153
Long-term debt	157,063	216,985	(59,922)	167,004
Retirement benefits	4,165	3,805	360	4,233
Other non-current liabilities	1,423	1,685	(262)	1,542
Statutory reserves:	5,186	4,350	835	5,177
Reserve for securities transaction liabilities	5,186	4,350	835	5,177
Reserve for financial futures transaction liabilities	0	0	-	0
<b>Total liabilities</b>	<b>10,154,366</b>	<b>11,107,910</b>	<b>(953,543)</b>	<b>10,978,846</b>
Minority interests	-	970	-	1,082
<b>Shareholders' equity</b>				
Common stock	-	205,600	-	205,600
Capital surplus	-	117,321	-	117,321
Retained earnings	-	136,906	-	197,514
Net unrealized gain (loss) on securities, net of tax effect	-	17,816	-	15,920
Translation adjustments	-	5,261	-	8,629
<b>Total shareholders' equity</b>	<b>-</b>	<b>482,906</b>	<b>-</b>	<b>544,985</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>-</b>	<b>11,591,787</b>	<b>-</b>	<b>11,524,914</b>
<b>Net Assets</b>				
Owners' equity	611,786	-	-	-
Common stock	255,700	-	-	-
Capital surplus	167,421	-	-	-
Retained earnings	188,665	-	-	-
Valuation and translation adjustments	21,624	-	-	-
Net unrealized gain (loss) on securities, net of tax effect	8,501	-	-	-
Deferred gain(loss) on hedges	(55)	-	-	-
Translation adjustments	13,177	-	-	-
Minority interests	1,049	-	-	-
<b>Total net assets</b>	<b>634,460</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and Net assets</b>	<b>10,788,826</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Consolidated statements of operations**

(millions of yen)

	First half Apr. 1, 2006 - Sep. 30, 2006	First half Apr. 1, 2005 - Sep. 30, 2005	Yr/yr % change	Fiscal 2005 Apr. 1, 2005 - Mar. 31, 2006
<b>Operating revenues:</b>	141,051	142,137	(0.8)%	350,818
Commissions	41,540	33,959	22.3%	111,298
Net gain (loss) on trading	53,227	78,446	(32.1)%	175,531
Net gain (loss) on private equity and other securities	17,623	5,457	223.0%	16,966
Interest and dividend income	28,660	24,274	18.1%	47,021
<b>Interest expenses</b>	22,942	19,436	18.0%	39,250
<b>Net operating revenues</b>	118,109	122,700	(3.7)%	311,568
<b>Selling, general and administrative expenses:</b>	78,354	73,561	6.5%	171,905
Commission and other expenses	29,966	27,781	7.9%	74,098
Employees' compensation and benefits	22,886	21,340	7.2%	46,820
Occupancy and rental	6,675	6,570	1.6%	13,702
Data processing and office supplies	8,785	8,270	6.2%	17,003
Depreciation expenses	5,861	6,071	(3.5)%	12,184
Taxes other than income taxes	1,988	2,087	(4.7)%	4,774
Other	2,190	1,438	52.2%	3,322
<b>Operating income</b>	39,754	49,139	(19.1)%	139,662
Non-operating income	2,421	1,447	67.4%	2,697
Non-operating expenses	627	366	71.0%	777
<b>Ordinary income</b>	41,548	50,219	(17.3)%	141,582
Extraordinary gains	-	113	-	3,569
Extraordinary losses	654	59	-	1,422
<b>Income before income taxes and minority interests</b>	40,894	50,274	(18.7)%	143,729
Income taxes-current	14,640	20,370	(28.1)%	60,204
Income taxes-deferred	5,292	(1,408)	-	(8,446)
Minority interests	(36)	(36)	-	(87)
<b>Net income</b>	20,924	31,276	(33.1)%	91,883
<b>Net financial income included in net operating revenues</b>	5,717	4,837	18.2%	7,771

## Consolidated statements of changes in net assets

(millions of yen)

	Owners' equity			
	Common stock	Capital surplus	Retained earnings	Total owner's equity
Beginning balance as of Mar. 31, 2006	205,600	117,321	197,514	520,435
Changes of items during the fiscal year				
Issuance of new shares	50,100	50,100	-	100,200
Dividends	-	-	(28,800)	(28,800)
Bonus to directors	-	-	(973)	(973)
Net income	-	-	20,924	20,924
Total changes of items during the period	50,100	50,100	(8,848)	91,351
Ending balance as of Sep. 30, 2006	255,700	167,421	188,665	611,786

	Valuation and translation adjustments				Minority interests
	Net unrealized gain (loss) on securities, net of tax effect	Deferred gain (loss) on hedges	Translation adjustments	Total Valuation and translation adjustments	
Beginning balance as of Mar. 31, 2006	15,920	-	8,629	24,550	1,082
Changes of items during the fiscal year					
Net changes of items other than owners' equity	(7,418)	(55)	4,548	(2,925)	(32)
Total changes of items during the period	(7,418)	(55)	4,548	(2,925)	(32)
Ending balance as of Sep. 30, 2006	8,501	(55)	13,177	21,624	1,049

## Consolidated statements of capital surplus and retained earnings

(millions of yen)

	First half of 2005		Fiscal 2005	
	Apr. 1, 2005 - Sep. 30, 2006		Apr. 1, 2005 - Mar. 31, 2006	
Capital surplus				
Beginning balance of capital surplus		117,321		117,321
Increase in capital surplus		-		-
Decrease in capital surplus		-		-
Ending balance of capital surplus		117,321		117,321
Retained earnings				
Beginning balance of retained earnings		128,464		128,464
Increase in retained earnings:				
Net income	31,276	31,276	91,883	91,883
Decrease in retained earnings:				
Cash dividends paid	22,400		22,400	-
Bonuses to directors	434	22,834	434	22,834
Ending balance of retained earnings		136,906		197,514

## Notes to consolidated financial statements

The consolidated financial statements of the Company for the 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 'Regulations of Interim 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

The consolidated financial statements include the accounts of Daiwa Securities SMBC Co. Limited ("Company"), a Japanese corporation, its domestic consolidated subsidiaries (together with the Company, "Domestic Companies"), and its overseas consolidated subsidiaries (together with the Domestic Companies, "Daiwa SMBC"). The Company's principal consolidated subsidiaries include:

Daiwa Securities SMBC Europe Limited  
Daiwa Securities SMBC Asia Holding B.V.  
Daiwa Securities SMBC Hong Kong Limited  
Daiwa Securities SMBC Singapore Limited  
Daiwa Securities SMBC Principal Investments Co. Limited

### Consolidated subsidiaries: 18 Companies

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: 1 Company

Company Name: Daiwa SMBC – SSC Securities Co. Ltd.

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 whose first half ends other than September 30, 2006, the financial statements for the relevant first half are reflected.

Practical Issues Task Force No.20, "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations," has been applied from the first half of Fiscal 2006. This rule has no effect over the financial statements so far.

### 3. Fiscal period of subsidiaries

For subsidiaries which the first half ends are not September 30, 2006, the financial statements for the relevant first half are compiled with and material transactions occurred between the different closing dates are adjusted for these 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 a securities company are recorded mainly on a trade date basis in the consolidated balance sheets at either market or fair value.

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

Equities 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. Available-for-sale equities for which a market value is not available are stated at the moving-average cost.

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

(2) Depreciation of depreciable assets

(i) Tangible fixed assets

Property and equipment are stated at cost. The Domestic Companies compute depreciation principally by the declining-balance method over estimated useful life as stipulated by the 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 computed by the straight-line method.

(ii) Intangible fixed assets, and investments and others

Intangible fixed assets, and investments and others are generally amortized under the straight-line method. The Domestic Companies compute depreciation over estimated useful life as stipulated by the corporation tax law of Japan, and over internally estimated useful life (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

Certain consolidated subsidiary provides the allowance based on estimated losses on private equity and other securities held at the first half end, assessing the financial conditions of invested companies.

(iii) Accrued bonuses

Accrued bonuses represent liabilities estimated as of the balance sheets date.

(iv) Accrued retirement benefits

The Domestic Companies provide unfunded defined contribution plan for eligible employees, which defines the amount to be contributed to the individual employee's account in return for services rendered each year.

The contributions under this plan are accumulated on an annual basis and earn a guaranteed hypothetical return at a rate predetermined by the Domestic Companies each year.

(4) Accounting for certain lease transactions

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

(5) Hedging transactions

Marked-to-market profits and losses on hedging instruments are principally deferred as assets or liabilities until the profits or losses on the hedged instruments are realized.

(6) Other material items

(i) Consumption taxes

Consumption taxes are separately recorded.

(ii) Consolidated tax system

The Domestic Companies comply with the consolidated tax system .

Changes in the accounting standards

## 1. Presentation of net assets on consolidated balance sheets

The consolidated 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 Statements 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 provided by the former accounting standard is 633,466 million yen.

## 2. Accounting for directors’ bonus

The consolidated 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 occurred without directly decreasing retained earnings upon approval of annual shareholders’ meeting.

Notes to consolidated balance sheets

## 1. Accumulated depreciation of tangible fixed assets

	As of Sep.30, 2006	As of Sep.30, 2005	As of Mar.31, 2006
	13,929 million yen	13,101 million yen	12,948 million yen

## 2. Guarantee

	As of Sep.30, 2006	As of Sep.30, 2005	As of Mar.31, 2006
	320 million yen	382 million yen	364 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) and so on.

	As of Sep.30, 2006	As of Sep. 30, 2005	As of Mar. 31, 2006
Short-term borrowings	110,000 million yen	1,998 million yen	50,000 million yen
Long-term borrowings	152,063 million yen	211,985 million yen	162,004 million yen

Notes to consolidated statements of operations

(millions of yen)

## Details of extraordinary gains/losses

	First half Apr. 1, 2006 - Sep. 30, 2006	First half Apr. 1, 2005 - Sep. 30, 2005	Fiscal 2005 Apr. 1, 2005 - Mar. 31, 2006
<b>Extraordinary gains</b>			
Gain on sale of investment securities	-	113	3,569
Reversal of Reserve for securities transaction liabilities	-	0	-
<b>Extraordinary losses</b>			
Write-down of related companies’ stocks	200	-	-
Write-down of investment securities	444	46	378
Loss on sale of investment securities	-	1	3
Valuation loss of fixed assets	-	11	14
Provision for securities transaction liabilities	8	-	826
Contribution to the Securities Market Infrastructure Improvement Fund	-	-	200

**Supplemental information for the first half of Fiscal 2006****(Apr.1, 2006 - Sep.30, 2006)****1. Breakdown of commissions**

(millions of yen)

	First half Sep. 30, 2006 (A)					Total
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	
<b>Brokerage commission</b>	<b>11,627</b>	<b>232</b>	<b>58</b>	-	-	<b>11,918</b>
<b>Underwriting commission</b>	-	-	-	<b>19,241</b>	-	<b>19,241</b>
Stock and other	-	-	-	14,468	-	14,468
Bond and other	-	-	-	4,015	-	4,015
<b>Distribution commission</b>	-	-	<b>379</b>	<b>126</b>	-	<b>505</b>
<b>Other commission</b>	<b>234</b>	<b>855</b>	<b>892</b>	<b>6,822</b>	<b>1,069</b>	<b>9,874</b>
Agency commission	-	853	864	-	-	1,717
<b>Total</b>	<b>11,862</b>	<b>1,088</b>	<b>1,329</b>	<b>26,189</b>	<b>1,069</b>	<b>41,540</b>

(millions of yen)

	First half Sep. 30, 2005 (B)					Total
	Equity	Fixed income (bond)	Investment trust	Investment banking	Other	
<b>Brokerage commission</b>	<b>9,601</b>	<b>228</b>	<b>43</b>	-	-	<b>9,872</b>
<b>Underwriting commission</b>	-	-	-	<b>14,289</b>	-	<b>14,289</b>
Stock and other	-	-	-	9,083	-	9,083
Bond and other	-	-	-	4,340	-	4,340
<b>Distribution commission</b>	-	-	<b>349</b>	<b>233</b>	-	<b>583</b>
<b>Other commission</b>	<b>119</b>	<b>782</b>	<b>687</b>	<b>6,521</b>	<b>1,102</b>	<b>9,213</b>
Agency commission	-	769	657	-	-	1,427
<b>Total</b>	<b>9,720</b>	<b>1,010</b>	<b>1,080</b>	<b>21,044</b>	<b>1,102</b>	<b>33,959</b>

(%)

	Yr/yr % change ((A)/(B)-1)					Total
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Other	
<b>Brokerage commission</b>	<b>21.1%</b>	<b>2.0%</b>	<b>34.5%</b>	-	-	<b>20.7%</b>
<b>Underwriting commission</b>	-	-	-	<b>34.7%</b>	-	<b>34.7%</b>
Stock and other	-	-	-	59.3%	-	59.3%
Bond and other	-	-	-	(7.5)%	-	(7.5)%
<b>Distribution commission</b>	-	-	<b>8.4%</b>	<b>(45.9)%</b>	-	<b>(13.3)%</b>
<b>Other commission</b>	<b>96.8%</b>	<b>9.4%</b>	<b>29.9%</b>	<b>4.6%</b>	<b>(3.0)%</b>	<b>7.2%</b>
Agency commission	-	10.9%	31.4%	-	-	20.3%
<b>Total</b>	<b>22.0%</b>	<b>7.7%</b>	<b>23.1%</b>	<b>24.4%</b>	<b>(3.0)%</b>	<b>22.3%</b>

(millions of yen)

	Fiscal 2005 ended Mar. 31, 2006					Total
	Equity	Fixed income (Bond)	Investment trust	Investment banking	Others	
<b>Brokerage commission</b>	<b>23,018</b>	<b>471</b>	<b>102</b>	-	-	<b>23,592</b>
<b>Underwriting commission</b>	-	-	-	<b>64,543</b>	-	<b>64,543</b>
Stock and other	-	-	-	54,024	-	54,024
Bond and other	-	-	-	8,825	-	8,825
<b>Distribution commission</b>	-	-	<b>907</b>	<b>471</b>	-	<b>1,379</b>
<b>Other commission</b>	<b>356</b>	<b>1,634</b>	<b>1,498</b>	<b>16,217</b>	<b>2,076</b>	<b>21,783</b>
Agency commission	-	1,608	1,428	-	-	3,037
<b>Total</b>	<b>23,374</b>	<b>2,105</b>	<b>2,508</b>	<b>81,233</b>	<b>2,076</b>	<b>111,298</b>

**2. Breakdown of net gains on trading**

(millions of yen)

	First half (2006/09)	First Half (2005/09)	Yr/yr % change	Fiscal 2005 (2006/03)
<b>Stock and other</b>	<b>8,669</b>	<b>41,276</b>	<b>(79.0)%</b>	<b>111,117</b>
<b>Bond, forex and other</b>	<b>44,558</b>	<b>37,170</b>	<b>19.9%</b>	<b>64,413</b>
Bond and other	19,641	21,962	(10.6)%	27,978
Forex and other	24,916	15,207	63.8%	36,435
<b>Total</b>	<b>53,227</b>	<b>78,446</b>	<b>(32.1)%</b>	<b>175,531</b>

## Quarterly consolidated statements of operations

(millions of yen)

	Fiscal 2005			Fiscal 2006	
	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter
	Jul. 1, 2005 - Sep. 30, 2005	Oct. 1, 2005 Dec. 31, 2005	Jan. 1, 2006 Mar. 31, 2006	Apr. 1, 2006 - Jun. 30, 2006	Jul. 1, 2006 - Sep. 30, 2006
Operating revenues	90,095	91,556	117,124	66,207	74,843
Commissions	20,965	28,837	48,502	17,093	24,447
Brokerage commission	5,670	6,651	7,067	6,505	5,413
(Stock and other)	5,537	6,429	6,987	6,361	5,266
Underwriting commission	9,108	16,444	33,809	6,735	12,506
(Stock and other)	6,654	13,587	31,353	4,300	10,167
(Bond and other)	1,996	2,257	2,227	2,185	1,829
Distribution commission	375	228	567	168	337
(Beneficiary certificates)	226	162	395	147	231
Other commission	5,811	5,512	7,056	3,684	6,190
(Beneficiary certificates)	362	397	343	436	456
Net gain (loss) on trading	53,834	45,577	51,507	24,447	28,779
(Stock and other)	36,229	26,983	42,857	15,390	(6,721)
(Bond and other)	4,046	3,936	2,079	(5,315)	24,956
(Forex and other)	13,557	14,657	6,570	14,372	10,544
Net gain (loss) on private equity and other securities	2,889	5,403	6,106	10,750	6,873
Interest and dividend income	12,406	11,737	11,008	13,916	14,743
Interest expenses	10,796	10,112	9,700	10,523	12,418
Net operating revenues	79,298	81,443	107,423	55,684	62,424
Selling general and administrative expenses:	40,582	43,409	54,934	35,902	42,452
Commission and other expenses	16,118	18,145	28,171	11,585	18,380
Employees' compensation and benefits	11,565	12,316	13,162	11,860	11,026
Occupancy and rental	3,418	3,476	3,655	3,155	3,519
Data processing and office supplies	4,386	4,377	4,355	4,323	4,461
Depreciation expenses	3,040	3,042	3,069	2,888	2,972
Taxes other than income taxes	1,270	1,282	1,404	983	1,005
Others	784	768	1,115	1,105	1,084
Operating income	38,715	38,033	52,489	19,781	19,972
Non-operating income	476	645	604	972	1,449
Non-operating expenses	238	88	321	470	156
Ordinary income	38,952	38,590	52,772	20,283	21,265
Extraordinary gains	113	3,412	43	-	-
Extraordinary losses	59	(7)	1,370	8	645
Income before income taxes and minority interests	39,006	42,010	51,444	20,274	20,619
Income taxes - current	18,239	16,477	23,355	5,438	9,201
Income taxes - deferred	(3,496)	(530)	(6,507)	2,383	2,908
Minority interests	(20)	(5)	(45)	(14)	(21)
Net income	24,243	26,056	34,551	12,437	8,487
Net financial income included in net operating revenues	1,609	1,625	1,307	3,393	2,324

<Reference>

Non-consolidated financial summary of Daiwa Securities SMBC Co. Ltd.

**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>				
Current assets:	9,821,545	10,896,843	(1,075,298)	10,658,663
Cash and deposits	49,004	73,391	(24,386)	71,980
Cash segregated as deposits for regulatory purposes	20,096	25,010	(4,914)	75,165
Trading assets:	4,801,649	5,880,270	(1,078,620)	5,686,385
Trading securities and others	3,983,173	5,233,891	(1,250,717)	4,018,917
Derivative assets	818,476	646,379	172,097	1,667,467
Trading receivables, net	162,835	422,978	(260,143)	-
Receivables related to margin transactions:	229,118	197,932	31,185	205,935
Customer margin loans	12,734	1,823	10,910	3,535
Cash deposits as collateral for securities borrowed	216,384	196,108	20,275	202,399
Collateralized short-term financing agreements:	4,243,346	4,106,080	137,266	4,303,263
Cash deposits as collateral for securities borrowed	3,974,977	3,748,022	226,954	3,738,214
Receivables related to gensaki transactions	268,368	358,057	(89,688)	565,049
Short-term guarantee money deposited	28,728	18,586	10,141	30,809
Short-term loans receivable	264,191	145,585	118,606	242,753
Accrued income	12,673	7,568	5,104	9,827
Deferred tax assets-current	2,848	3,680	(832)	7,520
Other current assets	7,219	15,806	(8,586)	25,268
Less: Allowance for doubtful accounts-current	(166)	(46)	(119)	(248)
Non-current assets:	108,983	107,497	1,485	106,517
Tangible fixed assets	3,591	3,849	(257)	3,836
Intangible fixed assets	33,798	28,057	5,741	29,275
Investments and others:	71,592	75,590	(3,998)	73,405
Investment securities	60,600	63,348	(2,748)	62,698
Long-term loans receivable	2,456	2,598	(142)	2,577
Long-term guarantee deposits	4,742	5,080	(337)	5,062
Deferred tax assets-non-current	1,838	2,469	(631)	1,072
Others	2,461	2,639	(178)	2,501
Less: Allowance for doubtful accounts-non-current	(507)	(546)	39	(507)
<b>Total assets</b>	<b>9,930,528</b>	<b>11,004,341</b>	<b>(1,073,812)</b>	<b>10,765,181</b>

(millions of yen)

	First half Sep. 30, 2006	First half Sep. 30, 2005	Increase/ Decrease	Fiscal 2005 Mar. 31, 2006
<b>Liabilities</b>				
Current liabilities:	8,532,056	9,747,211	(1,215,154)	9,543,458
Trading liabilities:	3,659,921	3,603,507	56,413	4,622,071
Trading securities and others	3,051,327	3,020,896	30,431	3,066,728
Derivative liabilities	608,594	582,611	25,982	1,555,342
Trading payables, net	-	-	-	195,318
Payables related to margin transactions:	209,585	154,262	55,323	176,268
Proceeds of securities sold for customers' accounts	209,585	154,262	55,323	176,268
Collateralized short-term financing agreements:	3,628,447	3,844,360	(215,912)	2,632,402
Cash deposits as collateral for securities loaned	2,205,301	2,608,127	(402,826)	1,760,389
Payables related to gensaki transactions	1,423,146	1,236,232	186,913	872,013
Deposits received	31,242	21,283	9,958	18,891
Cash deposits received as guarantee	18,176	27,723	(9,547)	22,139
Short-term borrowings	631,928	1,890,016	(1,258,087)	1,466,299
Commercial paper	272,710	116,000	156,710	234,210
Medium-term notes due within one year	28,396	48,803	(20,407)	79,606
Accrued expenses	14,017	11,558	2,459	14,589
Income taxes payable	11,360	19,533	(8,173)	55,013
Other current liabilities	26,270	10,161	16,108	26,649
Non-current liabilities:	835,194	828,952	6,241	750,822
Medium-term notes	675,740	609,616	66,124	581,153
Long-term debt	155,000	215,000	(60,000)	165,000
Retirement benefits	4,129	3,788	340	4,194
Other non-current liabilities	324	548	(223)	474
Statutory reserves:	5,186	4,350	835	5,177
Reserve for securities transaction liabilities	5,186	4,350	835	5,177
Reserve for financial futures transaction liabilities	0	0	-	0
<b>Total liabilities</b>	<b>9,372,437</b>	<b>10,580,515</b>	<b>(1,208,078)</b>	<b>10,299,459</b>
<b>Shareholders' equity</b>				
Common stock	-	205,600	-	205,600
Capital surplus	-	117,321	-	117,321
Additional paid-in capital	-	117,321	-	117,321
Retained earnings	-	98,342	-	140,849
Net unrealized gain (loss) on securities, net of tax effect	-	2,563	-	1,951
<b>Total shareholders' equity</b>	<b>-</b>	<b>423,826</b>	<b>-</b>	<b>465,721</b>
<b>Total liabilities and shareholders' equity</b>	<b>-</b>	<b>11,004,341</b>	<b>-</b>	<b>10,765,181</b>
<b>Net Assets</b>				
Owners' equity	557,104	-	-	-
Common stock	255,700	-	-	-
Capital surplus	167,421	-	-	-
Retained earnings	133,983	-	-	-
Valuation and translation adjustments	986	-	-	-
Net unrealized gain (loss) on securities, net of tax effect	986	-	-	-
<b>Total net assets</b>	<b>558,091</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and net assets</b>	<b>9,930,528</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Statements of operations**

(millions of yen)

	First half Apr. 1, 2006 - Sep. 30, 2006	First half Apr. 1, 2005 - Sep. 30, 2005	Yr/yr % change	Fiscal 2005 Apr. 1, 2005 - Mar. 31, 2006
<b>Operating revenues</b>	105,535	117,547	(10.2)%	292,446
Commissions	37,356	31,533	18.5%	102,488
Net gain (loss) on trading	48,458	72,047	(32.7)%	160,488
Interest and dividend income	19,721	13,967	41.2%	29,470
<b>Interest expenses</b>	16,033	11,292	42.0%	25,997
<b>Net operating revenues</b>	89,501	106,255	(15.8)%	266,449
<b>Selling, general and administrative expenses:</b>	67,963	64,330	5.6%	152,975
Commission and other expenses	32,063	29,267	9.6%	78,731
Employees' compensation and benefits	14,687	14,120	4.0%	30,928
Occupancy and rental	5,289	5,393	(1.9)%	11,119
Data processing and office supplies	8,211	7,731	6.2%	15,713
Depreciation expenses	5,250	5,610	(6.4)%	11,191
Taxes other than income taxes	1,245	1,433	(13.2)%	3,329
Others	1,215	774	57.0%	1,961
<b>Operating income</b>	21,537	41,924	(48.6)%	113,473
Non-operating income	15,227	1,220	-	3,078
Non-operating expenses	470	121	287.8%	372
<b>Ordinary income</b>	36,294	43,024	(15.6)%	116,180
Extraordinary gains	-	113	-	3,568
Extraordinary losses	654	59	-	1,422
<b>Income before income taxes</b>	35,640	43,078	(17.3)%	118,325
Income taxes-current	8,165	18,245	(55.2)%	53,007
Income taxes-deferred	4,567	(1,275)	-	(3,298)
<b>Net income</b>	22,907	26,109	(12.3)%	68,616
<b>Unappropriated retained earnings-carryforward</b>	-	32,851	-	32,851
<b>Unappropriated retained earnings</b>	-	58,961	-	101,468
<b>Net financial income included in net operating revenues</b>	3,687	2,674	37.9%	3,472

**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 (2006/9)	First half (2005/9)	Yr/yr Change	Fiscal 2005 (2006/3)
<b>Brokerage commission</b>	<b>9,314</b>	<b>7,779</b>	<b>19.7%</b>	<b>18,611</b>
Stock and other	9,242	7,706	19.9%	18,462
<b>Underwriting commission</b>	<b>17,254</b>	<b>13,884</b>	<b>24.3%</b>	<b>58,830</b>
Stock and other	12,636	8,779	43.9%	48,626
Bond and other	3,860	4,238	(8.9)%	8,569
<b>Distribution commission</b>	<b>505</b>	<b>583</b>	<b>(13.3)%</b>	<b>1,379</b>
Beneficiary certificates	379	349	8.4%	907
<b>Other commission</b>	<b>10,281</b>	<b>9,285</b>	<b>10.7%</b>	<b>23,666</b>
Beneficiary certificates	892	687	29.9%	1,498
<b>Total</b>	<b>37,356</b>	<b>31,533</b>	<b>18.5%</b>	<b>102,488</b>

## (2) Asset class

(millions of yen)

	First half (2006/9)	First half (2005/9)	Yr/yr Change	Fiscal 2005 (2006/3)
Stock and other	22,328	16,741	33.4%	68,587
Bond and other	4,982	5,319	(6.3)%	10,780
Beneficiary certificates	1,329	1,079	23.1%	2,601
Others	8,714	8,392	3.8%	20,518
<b>Total</b>	<b>37,356</b>	<b>31,533</b>	<b>18.5%</b>	<b>102,488</b>

## 2. Breakdown of net gains on trading

(millions of yen)

	First half (2006/9)	First half (2005/9)	Yr/yr Change	Fiscal 2005 (2006/3)
<b>Stock and other</b>	<b>5,689</b>	<b>38,503</b>	<b>(85.2)%</b>	<b>103,599</b>
<b>Bond, Forex and other</b>	<b>42,769</b>	<b>33,544</b>	<b>27.5%</b>	<b>56,888</b>
Bond and other	17,800	18,095	(1.6)%	20,249
Forex and other	24,968	15,448	61.6%	36,639
<b>Total</b>	<b>48,458</b>	<b>72,047</b>	<b>(32.7)%</b>	<b>160,488</b>

## 3. Capital adequacy ratio

(millions of yen)

		First half Sep. 30, 2006	First half Sep. 30, 2005	Fiscal 2005 Mar. 31, 2006
Basic item (A)		557,104	421,263	433,997
Supplementary item	Valuation profits of investment securities	986	2,563	1,951
	Statutory reserve	5,186	4,350	5,177
	Allowance for doubtful accounts	166	46	248
	Subordinated borrowings	260,000	210,000	210,000
Total (B)		266,339	216,960	217,376
Assets excluded from capital (C)		167,425	179,178	196,125
Net capital (A)+(B)-(C) (D)		656,018	459,045	455,248
Risk equivalent	Market risk equivalent	63,540	66,674	67,251
	Counterparty risk equivalent	40,781	30,046	39,111
	Basic risk equivalent	32,549	26,238	29,006
	Total (E)	136,871	122,959	135,368
Capital adequacy ratio (D)/(E)		479.2%	373.3%	336.3%

Quarterly statements of operations

(millions of yen)

	Fiscal 2005			Fiscal 2006	
	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter
	Jul. 1, 2005 - Sep. 30, 2005	Oct. 1, 2005 - Dec. 31, 2005	Jan. 1, 2006 - Mar. 31, 2006	Apr. 1, 2006 - Jun. 30, 2006	Jul. 1, 2006 - Sep. 30, 2006
Operating revenues	77,001	76,758	98,140	46,662	58,872
Commissions	20,009	26,575	44,379	14,989	22,366
Brokerage commissions	4,506	5,289	5,541	4,948	4,366
(Stock and other)	4,468	5,249	5,506	4,909	4,333
Underwriting commission	8,913	15,505	29,440	6,041	11,213
(Stock and other)	6,513	12,843	27,002	3,763	8,872
(Bond and other)	1,943	2,120	2,210	2,027	1,832
Distribution commission	375	228	567	168	337
(Beneficiary certificate)	226	162	395	147	231
Other commission	6,214	5,551	8,829	3,832	6,449
(Beneficiary certificate)	362	397	413	436	456
Net gain (loss) on trading	49,968	41,432	47,008	22,186	26,271
(Stock and other)	34,714	24,568	40,527	13,812	(8,123)
(Bond and other)	1,569	2,213	(59)	(6,014)	23,815
(Forex and other)	13,684	14,650	6,540	14,388	10,580
Interest and dividend income	7,022	8,751	6,751	9,487	10,234
Interest expenses	6,407	7,927	6,777	7,149	8,884
Net operating revenues	70,594	68,831	91,362	39,513	49,988
Selling, general and administrative expenses	35,986	38,817	49,826	30,480	37,483
Commission and other expenses	17,174	19,668	29,795	12,416	19,647
Employees' compensation and benefits	7,866	8,244	8,564	7,756	6,931
Occupancy and rental	2,828	2,738	2,987	2,475	2,814
Data processing and office supplies	4,041	4,040	3,942	4,033	4,178
Depreciation expenses	2,782	2,780	2,800	2,607	2,642
Taxes other than income taxes	854	918	977	582	662
Others	438	427	759	608	606
Operating income	34,607	30,013	41,535	9,032	12,505
Non-operating income	430	772	1,085	5,121	10,105
Non-operating expenses	53	86	165	432	37
Ordinary income	34,984	30,699	42,456	13,722	22,572
Extraordinary gains	113	3,412	42	-	-
Extraordinary losses	59	(7)	1,370	8	645
Income before income taxes	35,038	34,118	41,128	13,713	21,926
Income taxes - current	16,847	14,489	20,272	1,228	6,936
Income taxes - deferred	(2,953)	(504)	(1,517)	2,266	2,300
Net income	21,144	20,133	22,373	10,217	12,689
Net financial income included in net operating revenues	615	823	(25)	2,337	1,350