

**Daiwa Securities Co. Ltd.**

2-6-4 Otemachi Chiyoda-ku

Tokyo 100-8101, Japan

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

January 29, 2007

**Non-consolidated financial summary**

(For the third quarter ended December 31, 2006)

## (1) Operating results (from April 1, 2006 to December 31, 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
Third quarter 2006 (2006/12)	167,607	( 5.6)%	166,640	( 5.8)%	52,615	( 14.6)%
Third quarter 2005 (2005/12)	177,548	( 48.8)%	176,956	( 48.6)%	61,616	( 286.9)%
Fiscal 2005 (2006/3)	258,943		257,988		100,997	

	Ordinary income		Net income		Return on equity (Annual basis)
	Millions of yen	Yr/yr change	Millions of yen	Yr/yr change	
Third quarter 2006 (2006/12)	52,677	( 14.6)%	31,304	( 12.3)%	17.3%
Third quarter 2005 (2005/12)	61,692	( 291.5)%	35,690	( 294.8)%	22.4%
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		
Third quarter 2006 (2006/12)	675,570	233,606	34.6%	359.0%
Third quarter 2005 (2005/12)	759,733	226,550	29.8%	405.0%
Fiscal 2005 (2006/3)	836,931	249,376	29.8%	323.6%

(Note) Number of shares outstanding (shares):

Third quarter 2006: 3,200

Third 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>Third quarter</b> Dec. 31, 2006	<b>Third quarter</b> Dec. 31, 2005	Increase/ Decrease	<b>Fiscal 2005</b> Mar. 31, 2006
<b>Assets</b>				
<b>Current assets:</b>	<b>606,064</b>	<b>701,167</b>	<b>-95,103</b>	<b>776,188</b>
Cash and deposits	93,031	85,984	7,047	104,366
Cash segregated as deposits for regulatory purposes	158,635	210,678	-52,042	206,516
Trading assets:	39,460	39,068	392	38,006
Trading securities and others	38,619	37,593	1,026	37,430
Derivative assets	840	1,475	-634	576
Trading receivables, net	1,261	2,250	-988	2,283
Receivables related to margin transactions:	262,158	301,411	-39,252	357,602
Customer margin loans	258,662	297,414	-38,752	355,795
Cash deposits as collateral for securities borrowed	3,496	3,996	-500	1,806
Collateralized short-term financing agreements:	9,127	12,242	-3,114	13,759
Cash deposits as collateral for securities borrowed	9,127	12,242	-3,114	13,759
Receivables	16,029	24,081	-8,051	18,324
Short-term guarantee money deposited	3,866	3,535	330	5,282
Short-term loans receivable	990	1,012	-22	1,411
Accrued income	12,991	12,445	545	14,394
Deferred tax assets-current	2,828	6,491	-3,663	12,239
Other current assets	5,808	2,147	3,660	2,174
Less: Allowance for doubtful accounts-current	-127	-183	55	-173
<b>Non-current assets:</b>	<b>69,506</b>	<b>58,565</b>	<b>10,941</b>	<b>60,742</b>
Tangible fixed assets	6,211	3,322	2,889	3,839
Intangible fixed assets	33,218	25,958	7,260	27,930
Investments and others:	30,076	29,284	791	28,973
Investment securities	2,744	1,249	1,495	1,825
Long-term loans receivable	4,874	4,874	-	4,874
Long-term guarantee deposits	16,727	17,500	-773	17,221
Deferred tax assets-non-current	4,883	4,929	-46	4,210
Other investments	1,912	1,824	88	1,948
Less: Allowance for doubtful accounts-non-current	-1,066	-1,094	28	-1,106
<b>Total assets</b>	<b>675,570</b>	<b>759,733</b>	<b>-84,162</b>	<b>836,931</b>

(millions of yen)

	Third quarter Dec. 31, 2006	Third quarter Dec. 31, 2005	Increase/ Decrease	Fiscal 2005 Mar. 31, 2006
<b>Liabilities</b>				
<b>Current liabilities:</b>	<b>383,012</b>	<b>507,073</b>	<b>-124,061</b>	<b>546,028</b>
Trading liabilities:	617	937	-320	544
Trading securities and others	-	171	-171	56
Derivative liabilities	617	765	-148	487
Payables related to margin transactions:	21,709	26,441	-4,731	21,214
Payable to securities finance companies	2,564	6,725	-4,161	7,569
Proceeds of securities sold for customers' accounts	19,145	19,715	-570	13,644
Deposits received	137,701	146,305	-8,604	127,912
Cash deposits received as guarantee	69,151	64,421	4,730	72,997
Short-term borrowings	80,200	219,000	-138,800	190,000
Short-term borrowings from parent company	50,000	-	50,000	51,000
Account payable	9,955	23,023	-13,068	40,234
Accrued expenses	5,931	6,454	-522	5,733
Income taxes payable	-	7,627	-7,627	14,920
Accrued bonuses	6,400	10,300	-3,900	20,000
Other current liabilities	1,344	2,561	-1,217	1,471
<b>Non-current liabilities:</b>	<b>56,834</b>	<b>24,420</b>	<b>32,414</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	9,017	8,259	757	8,503
Provision for litigation losses	326	-	326	-
Other non-current liabilities	490	160	329	176
<b>Statutory reserves:</b>	<b>2,117</b>	<b>1,689</b>	<b>428</b>	<b>1,847</b>
Reserve for securities transaction liabilities	2,117	1,689	428	1,847
<b>Total liabilities</b>	<b>441,964</b>	<b>533,182</b>	<b>-91,218</b>	<b>587,554</b>
<b>Shareholders' equity</b>				
<b>Common stock</b>	<b>-</b>	<b>100,000</b>	<b>-</b>	<b>100,000</b>
<b>Capital surplus:</b>	<b>-</b>	<b>50,010</b>	<b>-</b>	<b>50,010</b>
Additional paid-in capital	-	50,010	-	50,010
<b>Retained earnings:</b>	<b>-</b>	<b>76,232</b>	<b>-</b>	<b>98,717</b>
Earned surplus reserve	-	2,430	-	2,430
Reserve for special depreciation	-	112	-	112
Unappropriated retained earnings	-	73,690	-	96,175
(Net income for the current term)	-	( 35,690)	-	( 58,174)
<b>Net unrealized gain (loss) on securities, net of tax effect</b>	<b>-</b>	<b>307</b>	<b>-</b>	<b>649</b>
<b>Total shareholders' equity</b>	<b>-</b>	<b>226,550</b>	<b>-</b>	<b>249,376</b>
<b>Total liabilities and shareholders' equity</b>	<b>-</b>	<b>759,733</b>	<b>-</b>	<b>836,931</b>
<b>Net assets</b>				
<b>Owners' equity:</b>	<b>232,801</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Common stock</b>	<b>100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Capital surplus:</b>	<b>50,010</b>	<b>-</b>	<b>-</b>	<b>-</b>
Additional paid-in capital	50,010	-	-	-
<b>Retained earnings:</b>	<b>82,791</b>	<b>-</b>	<b>-</b>	<b>-</b>
Earned surplus reserve	2,430	-	-	-
Other retained surplus:	80,361	-	-	-
Reserve for special depreciation	34	-	-	-
Unappropriated retained earnings	80,326	-	-	-
<b>Valuation and translation adjustments:</b>	<b>804</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net unrealized gain (loss) on securities, net of tax effect	804	-	-	-
<b>Total net assets</b>	<b>233,606</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and net assets</b>	<b>675,570</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Statements of operations**

(millions of yen)

	Third quarter Dec. 31, 2006	Third quarter Dec. 31, 2005	Yr/yr changes (%)	Fiscal 2005 Apr. 1, 2005 - Mar. 31, 2006
<b>Operating revenues:</b>	<b>167,607</b>	<b>177,548</b>	<b>-5.6</b>	<b>258,943</b>
Commissions	135,070	138,204	-2.3	207,787
Net gain (loss) on trading	27,006	36,449	-25.9	46,569
Interest and dividend income	5,530	2,894	91.1	4,585
<b>Interest expenses</b>	<b>966</b>	<b>592</b>	<b>63.2</b>	<b>955</b>
<b>Net operating revenues</b>	<b>166,640</b>	<b>176,956</b>	<b>-5.8</b>	<b>257,988</b>
<b>Selling, general and administrative expenses:</b>	<b>114,025</b>	<b>115,340</b>	<b>-1.1</b>	<b>156,990</b>
Commission and other expenses	15,871	16,131	-1.6	22,445
Employees' compensation and benefits	57,012	61,758	-7.7	84,408
Occupancy and rental	16,344	13,411	21.9	18,118
Data processing and office supplies	15,242	14,777	3.2	19,406
Depreciation expenses	6,607	6,299	4.9	8,556
Taxes other than income taxes	998	1,129	-11.6	1,615
Others	1,948	1,832	6.3	2,438
<b>Operating income</b>	<b>52,615</b>	<b>61,616</b>	<b>-14.6</b>	<b>100,997</b>
Non-operating income	375	176	113.4	401
Non-operating expenses	313	100	213.2	342
<b>Ordinary income</b>	<b>52,677</b>	<b>61,692</b>	<b>-14.6</b>	<b>101,057</b>
Extraordinary gains	-	-	-	-
Extraordinary losses	580	578	0.4	836
<b>Income before income taxes and others</b>	<b>52,097</b>	<b>61,114</b>	<b>-14.8</b>	<b>100,220</b>
Income taxes-current	12,160	27,690	-56.1	49,575
Income taxes-deferred	8,632	-2,266	-	-7,529
<b>Net income</b>	<b>31,304</b>	<b>35,690</b>	<b>-12.3</b>	<b>58,174</b>
<b>Unappropriated retained earnings-carryforward</b>		38,000		38,000
<b>Unappropriated retained earnings</b>		73,690		96,175
<b>Net financial income included in Net operating revenues</b>	<b>4,564</b>	<b>2,302</b>	<b>98.2</b>	<b>3,630</b>

## **Notes to financial statements**

The financial statements of the Company for third quarter ended December 31, 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 December 31, 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)

The financial statements of the Company are posted the estimated amount of losses that is calculated under established method of estimation and method of the past payment result from this 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 third quarter ended December 31, 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 fiscal year. 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 third quarter ended December 31, 2006 are adapted to “Accounting Standard for Directors’ Bonus (ASBJ Statement No.4)”. From the beginning of this fiscal year, 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)

	Third quarter, 2006 <u>Dec. 31, 2006</u>	Third quarter, 2005 <u>Dec. 31, 2005</u>	Fiscal 2005 <u>Mar. 31, 2006</u>
1 . Accumulated depreciation of tangible fixed assets	12,153	11,578	11,522
2 . Guarantee	542	658	641

**Notes to statements of operations**

(millions of yen)

## Details of extraordinary gains/losses

	Third quarter, 2006 <u>Apr. 1, 2006 – Dec. 31, 2006</u>	Third quarter, 2005 <u>Apr. 1, 2005 – Dec. 31, 2005</u>	Fiscal 2005 <u>Apr. 1, 2005 – Mar. 31, 2006</u>
Extraordinary losses			
Provision for litigation losses	309	-	-
Provision for securities transaction liabilities	270	390	548
Reorganization costs for retail branch	-	187	187
Dormitory lease cancellation payment	-	-	100

**Supplemental information for the third quarter ended December 31, 2006**

(Apr. 1, 2006 – Dec. 31, 2006)

1. Breakdown of commission revenue

(1) Activity (millions of yen)

	Third quarter, 2006 <u>Apr. 1, 2006 –</u> <u>Dec. 31, 2006</u>	Third quarter, 2005 <u>Apr. 1, 2005 –</u> <u>Dec. 31, 2005</u>	Yr/yr changes	Fiscal, 2005 <u>Apr. 1, 2005 –</u> <u>Mar. 31, 2006</u>
Brokerage commission	<b>47,249</b>	<b>63,289</b>	<b>-25.3%</b>	<b>91,474</b>
(Stock and other)	( 47,105 )	( 63,124 )	( -25.4% )	( 91,240 )
Underwriting commission	-	--	-	--
Distribution commission	<b>45,132</b>	<b>43,626</b>	<b>3.5%</b>	<b>70,082</b>
(Stock and other)	( 13,776 )	( 9,035 )	( 52.5% )	( 19,996 )
(Bond and other)	( 6,308 )	( 6,577 )	( -4.1% )	( 9,147 )
(Beneficiary certificates)	( 25,046 )	( 28,013 )	( -10.6% )	( 40,938 )
Other commission	<b>42,688</b>	<b>31,288</b>	<b>36.4%</b>	<b>46,230</b>
(Beneficiary certificates)	( 24,348 )	( 14,338 )	( 69.8% )	( 20,951 )
Total	135,070	138,204	-2.3%	207,787

(2) Asset class (millions of yen)

	Third quarter, 2006 <u>Apr. 1, 2006 –</u> <u>Dec. 31, 2006</u>	Third quarter, 2005 <u>Apr. 1, 2005 –</u> <u>Dec. 31, 2005</u>	Yr/yr changes	Fiscal, 2005 <u>Apr. 1, 2005 –</u> <u>Mar. 31, 2006</u>
Stock and other	63,652	74,427	-14.5%	114,801
Bond and other	13,119	13,163	-0.3%	18,216
Beneficiary certificates	49,539	42,516	16.5%	62,123
Others	8,759	8,097	8.2%	12,646
Total	135,070	138,204	-2.3%	207,787

2. Breakdown of trading gains/losses

(millions of yen)

	Third quarter, 2006 <u>Apr. 1, 2006 –</u> <u>Dec. 31, 2006</u>	Third quarter, 2005 <u>Apr. 1, 2005 –</u> <u>Dec. 31, 2005</u>	Yr/yr changes	Fiscal, 2005 <u>Apr. 1, 2005 –</u> <u>Mar. 31, 2006</u>
Stock and other	4,219	8,303	-49.2%	11,371
Bond, Forex and other	22,786	28,146	-19.0%	35,197
(Bond and other)	( 6,404 )	( 8,043 )	( -20.4% )	( 10,046 )
(Forex and other)	( 16,381 )	( 20,103 )	( -18.5% )	( 25,151 )
Total	27,006	36,449	-25.9%	46,569

3. Capital adequacy ratio

(millions of yen)

		Third quarter, 2006 <u>Apr. 1, 2006 –</u> <u>Dec. 31, 2006</u>	Third quarter, 2006 <u>Apr. 1, 2005 –</u> <u>Dec. 31, 2005</u>	Fiscal 2005 <u>Apr. 1, 2005 –</u> <u>Mar. 31, 2006</u>
Basic item	(A)	232,801	226,242	201,497
Supplementary item	Net unrealized gain on securities, net of tax effect etc.	804	307	649
	Statutory reserve	2,117	1,689	1,847
	Allowance for doubtful accounts	127	183	173
	Total	(B) 3,049	2,180	2,670
Assets excluded from capital	(C) 69,584	59,370	60,978	
Net capital	(A)+(B)-(C) (D) 166,266	169,052	143,188	
Risk equivalent	Market risk equivalent	1,289	648	829
	Counterparty risk equivalent	6,997	7,848	9,075
	Basic risk equivalent	38,017	33,243	34,338
	Total	(E) 46,304	41,740	44,243
Capital adequacy ratio	(D)/(E) 359.0%	405.0%	323.6%	

**Quarterly statements of operations**

(millions of yen)

	Fiscal 2005		Fiscal 2006		
	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	Third quarter Oct. 1, 2006 - Dec. 31, 2006
<b>Operating revenues</b>	<b>76,264</b>	<b>81,395</b>	<b>57,152</b>	<b>51,747</b>	<b>58,706</b>
<b>Commissions</b>	<b>63,019</b>	<b>69,583</b>	<b>46,096</b>	<b>41,178</b>	<b>47,795</b>
<b>Brokerage commission</b>	<b>31,152</b>	<b>28,185</b>	<b>18,812</b>	<b>13,263</b>	<b>15,173</b>
(Stock and other)	31,047	28,116	18,744	13,230	15,129
<b>Underwriting commission</b>	-	-	-	-	-
<b>Distribution commission</b>	<b>19,717</b>	<b>26,456</b>	<b>13,817</b>	<b>13,323</b>	<b>17,991</b>
(Stock and other)	5,064	10,961	1,828	3,988	7,959
(Bond and other)	2,139	2,569	2,009	1,989	2,309
(Beneficiary certificates)	12,512	12,925	9,979	7,345	7,722
<b>Other commission</b>	<b>12,149</b>	<b>14,942</b>	<b>13,466</b>	<b>14,592</b>	<b>14,630</b>
(Beneficiary certificates)	5,650	6,612	7,407	8,039	8,900
<b>Net gain on trading</b>	<b>11,998</b>	<b>10,119</b>	<b>9,264</b>	<b>8,613</b>	<b>9,127</b>
(Stock and other)	3,332	3,068	1,710	1,167	1,341
(Bond and other)	2,434	2,002	2,500	2,030	1,873
(Forex and other)	6,230	5,048	5,054	5,415	5,912
<b>Interest and dividend income</b>	<b>1,246</b>	<b>1,691</b>	<b>1,790</b>	<b>1,955</b>	<b>1,783</b>
<b>Interest expenses</b>	<b>169</b>	<b>363</b>	<b>248</b>	<b>317</b>	<b>400</b>
<b>Net operating revenue</b>	<b>76,095</b>	<b>81,031</b>	<b>56,903</b>	<b>51,430</b>	<b>58,306</b>
Selling, general and administrative expenses:	42,437	41,650	37,391	37,505	39,128
Commission and other expenses	5,501	6,314	5,398	5,282	5,190
Employees' compensation and benefits	24,323	22,650	19,158	18,844	19,009
Occupancy and rental	4,422	4,706	4,655	5,145	6,543
Data processing and office supplies	4,942	4,629	5,109	5,191	4,942
Depreciation expenses	2,157	2,257	2,020	2,169	2,416
Taxes other than income taxes	437	486	386	306	304
Others	652	606	661	565	721
<b>Operating income</b>	<b>33,658</b>	<b>39,381</b>	<b>19,512</b>	<b>13,924</b>	<b>19,178</b>
Non-operating income	53	225	114	181	80
Non-operating expenses	22	242	52	180	79
<b>Ordinary income</b>	<b>33,689</b>	<b>39,364</b>	<b>19,573</b>	<b>13,924</b>	<b>19,178</b>
Extraordinary gains	-	-	-	-	-
Extraordinary losses	391	258	99	385	95
<b>Income before income taxes and others</b>	<b>33,298</b>	<b>39,106</b>	<b>19,474</b>	<b>13,539</b>	<b>19,083</b>
Income taxes-current	14,120	21,885	60	7,110	4,990
Income taxes-deferred	-289	-5,262	7,206	-1,567	2,993
<b>Net income</b>	<b>19,467</b>	<b>22,484</b>	<b>12,208</b>	<b>7,995</b>	<b>11,100</b>
<b>Net financial income included in Net operating revenues</b>	<b>1,077</b>	<b>1,328</b>	<b>1,542</b>	<b>1,638</b>	<b>1,383</b>