

Daiwa Securities Co. Ltd.(URL <http://www.daiwa.jp/>)

Parent Company: Daiwa Securities Group Inc. (Code No. 8601), 100% share holder



October 26, 2007

Non-consolidated financial summary

(For the first half ended September 30, 2007)

1. Financial result (from April 1, 2007 to September 30, 2007)**(1) Operating results**

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

“ - ” indicates a loss or negative figure.

(Millions of yen except per share data and percentage)

	Operating revenues	Yr/yr Change	Net operating revenues	Yr/yr Change	Operating income	Yr/yr change
First half 2007 (2007/9)	122,870	12.8%	121,687	12.3%	40,342	20.7%
First half 2006 (2006/9)	108,900	7.5%	108,334	7.4%	33,436	19.6%
Fiscal 2006(2007/3)	230,649		229,171		74,500	

	Ordinary income	Yr/yr change	Net income	Yr/yr change	Return on equity (Annual basis)
First half 2007 (2007/9)	40,455	20.8%	23,410	15.9%	19.1%
First half 2006 (2006/9)	33,498	19.6%	20,203	24.5%	17.1%
Fiscal 2006 (2007/3)	74,477		43,468		17.6%

(2) Financial conditions

	Total assets	Net assets	Equity ratio	Capital adequacy ratio
First half 2007 (2007/9)	735,757	243,455	33.1%	362.5%
First half 2006 (2006/9)	724,472	222,249	30.7%	342.9%
Fiscal 2006 (2007/3)	782,594	245,888	31.4%	319.3%

Equity (i.e. “Owners’ equity” and “valuation and translation adjustment”):

First half 2007: 243,455 million yen First half 2006: 222,249 million yen Fiscal 2006: 245,888 million yen

2. Other information

Change in accounting principle, procedure and presentation preparing the financial statements (noted on changes in “Change in the basis of financial statements for the first half ended September 30,2007”

1. Change due to amendment to accounting standard: none
2. Change due to other than above : yes

(Note) Please see “Change in the basis of financial statements for the first half ended September 30,2007” on page 8 for details

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Balance sheets

(millions of yen)

	First half Sep. 30, 2007	First half Sep. 30, 2006	Increase/ Decrease	Fiscal 2006 Mar. 31, 2007
<i>Assets</i>				
Current assets:	658,421	658,611	-190	710,255
Cash and deposits	103,105	106,637	-3,532	114,194
Cash segregated as deposits for regulatory purposes	176,503	157,781	18,721	183,982
Trading assets:	56,860	37,648	19,212	38,506
Trading securities and others	54,821	36,608	18,212	37,402
Derivative assets	2,039	1,039	999	1,103
Trading receivables, net	823	2,676	-1,853	2,036
Receivables related to margin transactions:	268,807	305,985	-37,177	323,213
Customer margin loans	266,572	303,927	-37,355	320,476
Cash deposits as collateral for securities borrowed	2,234	2,057	177	2,737
Collateralized short-term financing agreements:	10,097	7,197	2,900	9,133
Cash deposits as collateral for securities borrowed	10,097	7,197	2,900	9,133
Receivables	13,492	13,038	454	9,496
Short-term guarantee money deposited	5,174	4,454	720	5,764
Short-term loans receivable	965	1,325	-359	1,289
Accrued income	14,991	14,042	948	14,413
Deferred tax assets-current	6,428	5,867	560	5,861
Other current assets	1,452	2,105	-652	2,403
Less: Allowance for doubtful accounts-current	-281	-148	-132	-41
Non-current assets:	77,335	65,861	11,474	72,338
Tangible fixed assets	7,972	4,473	3,498	7,632
Intangible fixed assets	39,507	31,467	8,039	34,990
Investments and others:	29,856	29,919	-62	29,715
Investment securities	2,533	2,312	220	2,944
Long-term loans receivable	4,874	4,874	-	4,874
Long-term guarantee deposits	15,133	16,769	-1,635	15,518
Deferred tax assets-non-current	6,175	5,012	1,162	5,308
Other investments	3,525	2,017	1,507	2,594
Less: Allowance for doubtful accounts-non-current	-2,386	-1,067	-1,318	-1,523
Total assets	735,757	724,472	11,284	782,594

(millions of yen)

	First half Sep. 30, 2007	First half Sep. 30, 2006	Increase/ Decrease	Fiscal 2006 Mar. 31, 2007
Liabilities				
Current liabilities:	431,338	443,449	-12,111	479,106
Trading liabilities:	1,089	765	324	608
Trading securities and others	146	102	43	48
Derivative liabilities	942	662	280	560
Payables related to margin transactions:	21,367	20,700	666	22,628
Payable to securities finance companies	7,533	7,058	475	5,116
Proceeds of securities sold for customers' accounts	13,833	13,642	191	17,512
Deposits received	146,618	145,157	1,460	108,070
Cash deposits received as guarantee	75,369	73,812	1,557	75,825
Short-term borrowings	95,200	125,200	-30,000	160,200
Short-term borrowings from parent company	50,000	50,000	-	70,000
Account payable	15,555	6,436	9,118	19,551
Accrued expenses	6,861	5,271	1,589	6,974
Income taxes payable	6,216	2,938	3,278	657
Accrued bonuses	10,500	11,500	-1,000	12,800
Other current liabilities	2,560	1,667	892	1,789
Non-current liabilities:	58,770	56,751	2,019	55,404
Long-term debt	32,000	31,000	1,000	29,000
Long-term debt from parent company	16,000	16,000	-	16,000
Accrued retirement benefits	9,943	8,940	1,002	9,579
Provision for litigation losses	441	309	131	411
Other non-current liabilities	385	501	-115	413
Statutory reserves	2,193	2,022	170	2,194
Total liabilities	492,302	502,223	-9,921	536,705
Net assets				
Owners' equity	242,775	221,700	21,074	244,965
Common stock	100,000	100,000	-	100,000
Capital surplus	50,010	50,010	-	50,010
Additional paid-in capital	50,010	50,010	-	50,010
Retained earnings	92,765	71,690	21,074	94,955
Earned surplus reserve	2,430	2,430	-	2,430
Other retained surplus:	90,335	69,260	21,074	92,525
Reserve for special depreciation	11	45	-33	23
Unappropriated retained earnings	90,324	69,215	21,108	92,501
Valuation and translation adjustments:	679	548	130	923
Net unrealized gain (loss) on securities, net of tax effect	679	548	130	923
Total net assets	243,455	222,249	21,205	245,888
Total liabilities and net assets	735,757	724,472	11,284	782,594

Statements of operations

(millions of yen)

	First half Apr. 1, 2007 - Sep. 30, 2007	First half Apr. 1, 2006 - Sep. 30, 2006	Yr/yr change (%)	Fiscal 2006 Apr. 1, 2006 - Mar. 31, 2007
Operating revenues:	122,870	108,900	12.8	230,649
Commissions	94,719	87,275	8.5	185,751
Net gain (loss) on trading	23,416	17,878	31.0	37,324
Interest and dividend income	4,734	3,746	26.4	7,573
Interest expenses	1,182	566	108.9	1,478
Net operating revenues	121,687	108,334	12.3	229,171
Selling, general and administrative expenses:	81,344	74,897	8.6	154,670
Commission and other expenses	13,091	10,680	22.6	21,520
Employees' compensation and benefits	38,309	38,002	0.8	76,493
Occupancy and rental	10,051	9,801	2.6	23,124
Data processing and office supplies	10,940	10,300	6.2	20,304
Depreciation expenses	5,415	4,190	29.2	9,225
Taxes other than income taxes	781	693	12.6	1,353
Others	2,755	1,227	124.5	2,647
Operating income	40,342	33,436	20.7	74,500
Non-operating income	216	295	-26.9	462
Non-operating expenses	103	233	-55.6	485
Ordinary income	40,455	33,498	20.8	74,477
Extraordinary gains	1	-	-	-
Extraordinary losses	550	484	13.5	1,424
Income before income taxes and others	39,906	33,013	20.9	73,052
Income taxes-current	17,762	7,170	147.7	24,492
Income taxes-deferred	-1,266	5,639	-	5,092
Net income	23,410	20,203	15.9	43,468
Unappropriated retained earnings-carryforward				
Unappropriated retained earnings				
Net financial income included in Net operating revenues	3,551	3,180	11.7	6,094

Statements of changes in net asset

(Apr. 1, 2007 - Sep. 30, 2007)

(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, 2007	100,000	50,010	2,430	23	92,501	94,955	244,965
Changes of items during the fiscal year							
Reversal of reserve for special depreciation	-	-	-	-11	11	-	-
Dividends	-	-	-	-	-25,600	-25,600	-25,600
Net income	-	-	-	-	23,410	23,410	23,410
Total changes of items during the fiscal year	-	-	-	-11	-2,177	-2,189	-2,189
Ending balance as of Sep. 30, 2007	100,000	50,010	2,430	11	90,324	92,765	242,775

	Valuation and translation adjustments	Total net assets
	Net unrealized gain (loss) on securities, net of tax effect	
Beginning balance as of Mar. 31, 2007	923	245,888
Changes of items during the fiscal year		
Reversal of reserve for special depreciation	-	-
Dividends	-	-25,600
Net income	-	23,410
Net changes of items other than owners' equity	-243	-243
Total changes of items during the fiscal year	-243	-2,432
Ending balance as of Sep. 30, 2007	679	243,455

Statements of changes in net asset

(Apr. 1, 2006 - Sep. 30, 2006)

(millions of yen)

	Owners' equity						Total owners' equity
	Common stock	Capital surplus		Retained earnings		Total retained earnings	
		Additional paid-in capital	Earned surplus reserve	Other retained surplus			
				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							
Reversal of reserve for special depreciation (*)	-	-	-	-66	66	-	-
Dividends(*)	-	-	-	-	-46,400	-46,400	-46,400
Bonus to directors(*)	-	-	-	-	-830	-830	-830
Net income	-	-	-	-	20,203	20,203	20,203
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		
Reversal of reserve for special depreciation (*)	-	-
Dividends(*)	-	-46,400
Bonus to directors(*)	-	-830
Net income	-	20,203
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

Statements of changes in net asset

(Apr. 1, 2006 – Mar. 31, 2007)

(millions of yen)

	Owners' equity						Total owners' equity
	Common stock	Capital surplus		Retained earnings		Total retained earnings	
		Additional paid-in capital	Earned surplus reserve	Other retained surplus			
				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							
Reversal of reserve for special depreciation (*)	-	-	-	-88	88	-	-
Dividends(*)	-	-	-	-	-46,400	-46,400	-46,400
Bonus to directors(*)	-	-	-	-	-830	-830	-830
Net income	-	-	-	-	43,468	43,468	43,468
Total changes of items during the fiscal year	-	-	-	-88	-3,673	-3,762	-3,762
Ending balance as of Mar. 31, 2007	100,000	50,010	2,430	23	92,501	94,955	244,965

	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		
Reversal of reserve for special depreciation (*)	-	-
Dividends(*)	-	-46,400
Bonus to directors(*)	-	-830
Net income	-	43,468
Net changes of items other than owners' equity	273	273
Total changes of items during the fiscal year	273	-3,488
Ending balance as of Mar. 31, 2007	923	245,888

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

Notes to financial statements for the first half ended September 30,2007

The financial statements of the company for the first half year ended September 30, 2007 are prepared in accordance with the 'Cabinet Order on financial instruments business' (Cabinet Office Ordinance No. 52, 2007), and the 'Uniform Accounting Standards of Securities Companies' (Self-Regulation of the Japan Securities Dealers' Association, September 30, 2007), based on the 'Regulations of Interim Financial Statements' (Ministry of Finance Ordinance No. 38, 1977) and its Article 38 and 57.

Basis of financial statements for the first half ended September 30,2007

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 Corporate Tax Law.

(2) Intangible fixed assets, and investments and others

Straight-line method is applied. Useful life for depreciation is based on Corporate 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

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

(3) Accrued retirement benefits

The Company provides accrued retirement benefits for employees and directors in conformity with the bylaws to meet obligations as of September 30, 2007 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 as of September 30, 2007.

Change in the basis of financial statements for the first half ended September 30,2007

(Change in the depreciation method of tangible fixed assets)

In connection with the current Corporate Tax Law reform, the company has changed the depreciation method to that of complied with new Corporate Tax Law for the property and equipment purchased on or after April 1, 2007.

For property and equipment purchased before April 1, 2007, depreciation is computed by the former depreciation method, i.e. property and equipment is depreciated until depreciable limit. However, after such assets have been depreciated to the depreciable limit, the remaining value is amortized over five years in pro rata from the following fiscal year until its book value is reduced to 1 yen.

The effect on the financial statements was immaterial.

Notes to balance sheets

(millions of yen)

	First half 2007 <u>Sep. 30, 2007</u>	First half 2006 <u>Sep. 30, 2006</u>	Fiscal 2006 <u>Mar. 31, 2007</u>
1 . Accumulated depreciation of tangible fixed assets	13,233	11,866	12,232
2 . Guarantee	631	567	524

Notes to statements of operations

(millions of yen)

Details of extraordinary gains/losses

	First half 2007 <u>Apr. 1, 2007 – Sep. 30, 2007</u>	First half 2006 <u>Apr. 1, 2006 – Sep. 30, 2006</u>	Fiscal 2006 <u>Apr. 1, 2006 – Mar. 31, 2007</u>
Extraordinary gains			
Reversal of Reserve for securities transaction liabilities	1	-	-
Extraordinary losses			
Relocation costs of headquarter office	550	-	354
Provision for doubtful accounts	-	-	412
Provision for securities transaction liabilities	-	175	347
Provision for litigation losses	-	309	309

Supplemental information for the first half ended September 30, 2007

(Apr. 1, 2007 – Sep. 30, 2007)

1. Breakdown of commission revenue

(1) Activity

(millions of yen)

	First half 2007 <u>Apr. 1, 2007 –</u> <u>Sep. 30, 2007</u>	First half 2006 <u>Apr. 1, 2006 –</u> <u>Sep. 30, 2006</u>	Yr/yr change	Fiscal 2006 <u>Apr. 1, 2006 –</u> <u>Mar. 31, 2007</u>
Brokerage commission	28,958	32,075	-9.7%	65,947
Stock and other	28,829	31,975	-9.8%	65,739
Underwriting commission	-	-	-	-
Distribution commission	30,276	27,140	11.6%	60,531
Stock and other	2,984	5,817	-48.7%	16,006
Bond and other	5,487	3,999	37.2%	8,449
Beneficiary certificates	21,805	17,324	25.9%	36,075
Other commission	35,484	28,058	26.5%	59,272
Beneficiary certificates	22,569	15,447	46.1%	34,001
Total	94,719	87,275	8.5%	185,751

(2) Asset class

(millions of yen)

	First half 2007 <u>Apr. 1, 2007 –</u> <u>Sep. 30, 2007</u>	First half 2006 <u>Apr. 1, 2006 –</u> <u>Sep. 30, 2006</u>	Yr/yr Change	Fiscal 2006 <u>Apr. 1, 2006 –</u> <u>Mar. 31, 2007</u>
Stock and other	33,008	39,379	-16.2%	85,614
Bond and other	9,557	8,717	9.6%	18,120
Beneficiary certificates	44,503	32,872	35.4%	70,285
Others	7,649	6,306	21.3%	11,731
Total	94,719	87,275	8.5%	185,751

2. Breakdown of trading gains/losses

(millions of yen)

	First half 2007 <u>Apr. 1, 2007 –</u> <u>Sep. 30, 2007</u>	First half 2006 <u>Apr. 1, 2006 –</u> <u>Sep. 30, 2006</u>	Yr/yr change	Fiscal 2006 <u>Apr. 1, 2006 –</u> <u>Mar. 31, 2007</u>
Stock and other	3,926	2,877	36.5%	5,761
Bond, Forex and other	19,489	15,000	29.9%	31,562
(Bond and other)	5,851	4,531	29.1%	9,283
(Forex and other)	13,638	10,469	30.3%	22,279
Total	23,416	17,878	31.0%	37,324

3. Capital adequacy ratio

(Millions of yen except percentage)

		First half 2007 <u>Apr. 1, 2007 –</u> <u>Sep. 30, 2007</u>	First half 2006 <u>Apr. 1, 2006 –</u> <u>Sep. 30, 2006</u>	Fiscal 2006 <u>Apr. 1, 2006 –</u> <u>Mar. 31, 2007</u>
Basic item (A)		242,775	221,700	219,365
Supplementary item	Net unrealized gain on securities, net of tax effect etc.	679	548	923
	Statutory reserve	2,193	2,022	2,194
	Allowance for doubtful accounts	281	148	41
	Total (B)	3,154	2,719	3,159
Assets excluded from capital (C)		77,412	66,174	72,144
Net capital (A)+(B)-(C) (D)		168,517	158,246	150,380
Risk equivalent	Market risk equivalent	1,512	808	735
	Counterparty risk equivalent	7,472	7,831	8,407
	Basic risk equivalent	37,494	37,502	37,952
	Total (E)	46,479	46,142	47,096
Capital adequacy ratio (D)/(E)		362.5%	342.9%	319.3%

Quarterly statements of operations

(millions of yen)

	Fiscal 2006			Fiscal 2007	
	Second quarter Jul. 1, 2006 - Sep. 30, 2006	Third quarter Oct. 1, 2006 - Dec. 31, 2006	Fourth quarter Jan. 1, 2007 - Mar.31, 2007	First quarter Apr. 1, 2007 - Jun.30, 2007	Second quarter Jul. 1, 2007 - Sep.30, 2007
Operating revenues	51,747	58,706	63,042	64,456	58,413
Commissions	41,178	47,795	50,681	50,381	44,337
Brokerage commission	13,263	15,173	18,697	15,190	13,767
(Stock and other)	13,230	15,129	18,634	15,144	13,685
Underwriting commission	-	-	-	-	-
Distribution commission	13,323	17,991	15,399	17,862	12,413
(Stock and other)	3,988	7,959	2,229	1,616	1,368
(Bond and other)	1,989	2,309	2,140	3,050	2,436
(Beneficiary certificates)	7,345	7,722	11,028	13,195	8,609
Other commission	14,592	14,630	16,584	17,328	18,155
(Beneficiary certificates)	8,039	8,900	9,652	10,935	11,634
Net gain on trading	8,613	9,127	10,318	11,818	11,597
(Stock and other)	1,167	1,341	1,542	2,184	1,741
(Bond and other)	2,030	1,873	2,878	3,041	2,810
(Forex and other)	5,415	5,912	5,897	6,592	7,045
Interest and dividend income	1,955	1,783	2,042	2,256	2,478
Interest expenses	317	400	511	593	589
Net operating revenue	51,430	58,306	62,530	63,863	57,823
Selling, general and administrative expenses:	37,505	39,128	40,644	41,981	39,363
Commission and other expenses	5,282	5,190	5,649	6,053	7,038
Employees' compensation and benefits	18,844	19,009	19,481	20,883	17,426
Occupancy and rental	5,145	6,543	6,779	4,853	5,198
Data processing and office supplies	5,191	4,942	5,061	5,301	5,638
Depreciation expenses	2,169	2,416	2,618	2,579	2,835
Taxes other than income taxes	306	304	355	458	322
Others	565	721	698	1,850	904
Operating income	13,924	19,178	21,885	21,882	18,460
Non-operating income	181	80	86	156	59
Non-operating expenses	180	79	172	39	64
Ordinary income	13,924	19,178	21,800	21,999	18,456
Extraordinary gains	-	-	-	1	-
Extraordinary losses	385	95	844	-	550
Income before income taxes and others	13,539	19,083	20,955	22,001	17,905
Income taxes-current	7,110	4,990	12,331	7,450	10,312
Income taxes-deferred	-1,567	2,993	-3,539	1,747	-3,013
Net income	7,995	11,100	12,163	12,803	10,606
Net financial income included in Net operating revenues	1,638	1,383	1,530	1,662	1,888