

VALLEY NATIONAL BANCORP

Form 424B7

May 17, 2010

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities nor are they soliciting any offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated May 17, 2010

PRELIMINARY PROSPECTUS SUPPLEMENT

(to Prospectus Dated December 19, 2008)

Valley National Bancorp

2,532,542 Warrants

to Purchase Common Stock

The United States Department of the Treasury (referred to in this prospectus supplement as the selling security holder or Treasury) is offering to sell up to 2,532,542 warrants, each of which represents the right to purchase one share of our common stock at an exercise price of \$17.77 per share. Both the exercise price and the number of shares that will be acquired upon the exercise of a warrant are subject to adjustment from time to time in the manner described in this prospectus supplement. We will not receive any of the proceeds from the sale of the warrants being sold by the selling security holder. The warrants expire on November 14, 2018.

We originally issued the warrants to Treasury in a private placement. Prior to this offering, there has been no public market for the warrants. We have applied to list the warrants on the New York Stock Exchange (the Exchange) under the symbol VLY WS. Our common stock is listed on the Exchange under the symbol VLY. On May 14, 2010, the last reported sale price of our common stock on the Exchange was \$15.32 per share.

The public offering price and the allocation of the warrants in this offering will be determined by an auction process. During the period the auction is open, potential bidders will be able to place bids at any price (in increments of \$0.10) at or above the minimum bid price of \$1.70 per warrant. The minimum size for any bid is 100 warrants. If the selling security holder decides to sell the warrants being offered, the public offering price of the warrants will equal the auction clearing price. If bids are received for 100% or more of the offered warrants, the clearing price will be equal to the highest price at which 100% of the offered warrants can be sold in the auction, and the selling security holder may (but is not required to) sell all of the warrants offered during the auction at the clearing price. If bids are received for half or more, but less than all, of the offered warrants, then the clearing price will be equal to the minimum bid price of \$1.70 per warrant, and the selling security holder may (but is not required to) sell, at the clearing price, as many warrants as it chooses to sell up to the number of bids received in the auction, so long as at least half of the offered warrants are sold and the warrants remain eligible for listing. In certain cases described in this prospectus supplement, bidders may experience pro-rata of their bids. If bids are received for less than half of the offered warrants, the selling security holder will not sell any warrants in this offering. **Even if bids are received for all of the warrants, the selling security holder may decide not to sell any warrants, regardless of the clearing price set in the auction process.** In addition, we may bid in the auction for some or all of the warrants. The method for submitting bids and a more detailed description of this auction process are described in Auction Process beginning on page S-18 of this prospectus supplement.

Investing in our warrants and our common stock involves risks. See Risk Factors on page S-8 of this prospectus supplement and the sections entitled Risk Factors in our most recently filed Annual Report on Form 10-K and any subsequently filed Quarterly Reports on Form 10-Q for factors you should consider before investing in our securities.

The warrants and the underlying common stock are neither deposits nor savings accounts, and are not guaranteed by the United States Department of the Treasury or insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality.

You must meet minimum suitability standards in order to purchase the warrants. You must be able to understand and bear the risk of an investment in the warrants and should be experienced with respect to options and option transactions. You should reach an investment decision only after careful consideration, with your advisers, of the suitability of the warrants in light of your particular financial circumstances and the information in this prospectus supplement. **The warrants involve a high degree of risk, are not appropriate for every investor and may expire worthless.**

None of the Securities and Exchange Commission, any state securities commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Warrant	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to the selling security holder	\$	\$

The underwriter expects to deliver the warrants in book-entry form only, through the facilities of The Depository Trust Company, against payment on or about May , 2010.

Deutsche Bank Securities

The date of this prospectus supplement is May , 2010.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and certain other matters and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus, gives more general information about us and the common stock offered hereby. Generally, when we refer to the prospectus, we are referring to both parts of this document combined. To the extent the description of this offering in the prospectus supplement differs from the description of our common stock in the accompanying prospectus or any document incorporated by reference filed prior to the date of this prospectus supplement, you should rely on the information in this prospectus supplement.

We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The distribution of this prospectus and the offering of the common stock in certain jurisdictions may be restricted by law. This prospectus does not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any common stock offered by this prospectus by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference therein, in making your investment decision. You should rely only on the information contained in, or incorporated by reference in, this prospectus supplement and the accompanying prospectus. Neither we nor the placement agents have authorized anyone to provide you with information different from that contained in this prospectus. This prospectus may only be used where it is legal to sell our common stock. You should not assume that the information that appears in this prospectus supplement, the accompanying prospectus and any document incorporated by reference is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since the date of such information.

In this prospectus supplement and the accompanying prospectus, the terms Valley, we, us and our refer to Valley National Bancorp and its consolidated subsidiaries, except where it is made clear that such term means only Valley National Bancorp.

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CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING STATEMENTS

This document, including the documents incorporated herein by reference, contains forward-looking information about Valley that is intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts. These statements can be identified by the use of forward-looking terminology such as believe, expect, may, will, should, project, plan, seek, intend, or anticipate or the negative thereof or comparable terminology discussions of strategy, financial projections and estimates and their underlying assumptions, statements regarding plans, objectives, expectations or consequences of announced transactions, and statements about the future performance, operations, products and services of Valley and its subsidiaries.

Discussions containing forward-looking statements may be found, among other places, in this prospectus supplement and our most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission (the SEC), as well as any similar statements contained in future filings with the SEC that are hereby incorporated by reference. These forward-looking statements are or will be, as applicable, based largely on our expectations and projections about future events and future trends affecting our business. You should not rely on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control that could cause actual results to differ materially from those anticipated in the forward-looking statements.

We qualify all our forward-looking statements by these cautionary statements. These forward-looking statements speak only as of the date of this document or the date of the documents incorporated by reference herein. Except as required by applicable laws or regulations, we do not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. When considering our forward-looking statements, you should keep in mind the risks, uncertainties and other cautionary statements made in this prospectus supplement and the accompanying prospectus. You should not place undue reliance on any forward-looking statement. You should refer to our periodic and current reports filed with the SEC for specific risks that could cause actual results to be significantly different from those expressed or implied by these forward-looking statements. See Incorporation of Information Filed with the SEC below.

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SUMMARY

This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement and may not contain all the information that you need to consider in making your investment decision. You should carefully read this entire prospectus supplement and the accompanying prospectus, as well as the information to which we refer you and the information incorporated by reference herein, before deciding whether to invest in the warrants or the common stock. You should carefully consider the sections entitled "Risk Factors" in this prospectus supplement and the documents incorporated by reference herein to determine whether an investment in the warrants or the common stock is appropriate for you.

The Issuer

Valley National Bancorp, headquartered in Wayne, New Jersey, is a New Jersey corporation organized in 1983 and is registered as a bank holding company with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended (" Holding Company Act "). At March 31, 2010, Valley had consolidated total assets of \$14.5 billion, total loans of \$9.5 billion, total deposits of \$9.8 billion and total shareholders' equity of \$1.3 billion. In addition to its principal subsidiary, Valley National Bank (commonly referred to as the " Bank " in this report), Valley owns all of the voting and common shares of VNB Capital Trust I and GCB Capital Trust III, through which trust preferred securities were issued.

Valley National Bank is a national banking association chartered in 1927 under the laws of the United States. Currently, the Bank has 201 banking offices located throughout northern and central New Jersey and the New York City boroughs of Manhattan, Brooklyn and Queens. The Bank provides a full range of commercial and retail banking services. These services include the following: the acceptance of demand, savings and time deposits; extension of commercial, real estate and consumer loans; equipment leasing; personal and corporate trust, and pension and fiduciary services.

Valley National Bank's wholly-owned subsidiaries include:

a mortgage servicing company;

a title insurance agency;

asset management advisers which are SEC registered investment advisers;

an all-line insurance agency offering property and casualty, life and health insurance;

subsidiaries which hold, maintain and manage investment assets for the Bank;

a subsidiary which owns and services auto loans;

a subsidiary which specializes in asset-based lending;

a subsidiary which offers financing for general aviation aircraft and servicing for existing commercial equipment leases; and

a subsidiary which specializes in health care equipment and other commercial equipment leases.

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The Bank's subsidiaries also include real estate investment trust subsidiaries (the REIT subsidiaries) which own real estate related investments and a REIT subsidiary which owns some of the real estate utilized by the Bank and related real estate investments.

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The Offering

*The following summary contains basic information about the warrants, our common stock and the auction process and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the warrants and the common stock, you should read the sections of this prospectus supplement entitled *Description of Warrants* and *Description of Common Stock* and any similar sections of the accompanying prospectus.*

Issuer	Valley National Bancorp
Warrants offered by the selling security holder	2,532,542 warrants, each of which represents the right to purchase one share of our common stock at an exercise price of \$17.77 per share (subject to adjustment). This exercise price and the number of warrant shares already reflect the adjustment in connection with the 5% common stock dividend declared on April 14, 2010 and payable on May 21, 2010 as well as previous stock dividends issued by the Company. The number of warrants to be sold depends on the number of bids received and whether the selling security holder decides to sell any warrants in the auction. The exercise price of the warrants cannot be paid in cash and is payable only by netting out a number of shares of our common stock issuable upon exercise of the warrants equal to the value of the aggregate exercise price of the warrants. The warrants are currently exercisable and expire on November 14, 2018. See Auction Process.
Common stock outstanding after this offering	160,963,911 shares(1)(2).
Auction process	The selling security holder and the underwriter will determine the public offering price and the allocation of the warrants in this offering through an auction process conducted by Deutsche Bank Securities Inc., the sole book-running manager, in its capacity as the auction agent. The auction process entails a modified Dutch auction mechanic in which bids may be submitted through the auction agent or one of the other brokers that is a member of the broker network (collectively, the network brokers) established in connection with the auction process. Each broker will make suitability determinations with respect to its own customers wishing to participate in the auction process. The auction agent will not provide bidders (including us) with any information about the bids of other bidders or auction trends, or with advice regarding bidding strategies, in connection with the auction process. We may bid (but we are not required to bid) in the auction for some or all of the warrants. We encourage you to discuss any

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questions regarding the bidding process and suitability determinations applicable to your bids with your broker. For more information about the auction process, see Auction Process.

Minimum bid price and price increments

The offering is being made using an auction process in which prospective purchasers are required to bid for the warrants. During the auction period, bids may be placed by qualifying bidders at any price (in increments of \$0.10 at or above the minimum bid price of \$1.70 per warrant. See Auction Process.

Minimum bid size

100 warrants.

Submission deadline

The auction will commence at 8:00 a.m., New York City time, on the date specified by the auction agent via press release prior to the opening of the equity markets on such day, and will close at 6:30 p.m., New York City time, on that same day (the submission deadline).

Irrevocability of bids

Bids that have not been modified or withdrawn by the time of the submission deadline are final and irrevocable, and bidders who submit successful bids will be obligated to purchase the warrants allocated to them. The auction agent is under no obligation to reconfirm bids for any reason; however, the auction agent may require that bidders confirm their bids at its discretion before the auction process closes. See Auction Process.

Clearing price

The price at which the warrants will be sold to the public will be the clearing price set by the auction process. The clearing price will be determined based on the valid, irrevocable bids at the time of the final submission deadline as follows:

If valid irrevocable bids are received for all or more of the number of warrants being offered, the clearing price will be equal to the highest price in the auction process at which the quantity of all bids at or above such price equals 100% or more of the number of warrants being offered in the auction.

If bids are received for half or more, but less than all, of the offered warrants, the clearing price will be equal to the minimum bid price of \$1.70 per warrant.

Unless the selling security holder decides not to sell any warrants or as otherwise described below, the warrants will be sold to bidders at the clearing price. Even if bids are received for 100% or more of the warrants being offered,

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the selling security holder may decide not to sell any warrants in the auction process, regardless of the clearing price. If the selling security holder decides to sell warrants in the auction process, after the selling security holder confirms its acceptance of the clearing price (and, in the case where bids are received for fewer than 100% of the warrants being offered, the number of warrants to be sold), the auction agent and each network broker that has submitted bids will notify successful bidders that the auction process has closed and that their bids have been accepted. The clearing price and number of warrants being sold are also expected to be announced via press release prior to the opening of the equity markets on the business day following the end of the auction. See Auction Process.

Number of warrants to be sold

If bids are received for half or more, but less than all, of the offered warrants, then the selling security holder may (but is not required to) sell, at the minimum bid price in the auction process (which will be deemed the clearing price) as many warrants as it chooses to sell up to the number of bids received in the auction, so long as at least half of the offered warrants are sold and the warrants remain eligible for listing. If bids are received for less than half of the offered warrants, the selling security holder will not sell any warrants in this offering. Even if bids are received for all of the warrants, the selling security holder may decide not to sell any warrants in the auction process, regardless of the clearing price. If bids are received for all of the offered warrants and the selling security holder elects to sell warrants in the auction process, the selling security holder must sell all of the offered warrants. See Auction Process.

Allocation; pro-ration

If bids for all the warrants offered in this offering are received, and the selling security holder elects to sell warrants in the offering, then any bids submitted in the auction above the clearing price will receive allocations in full, while any bids submitted at the clearing price may experience pro-rata allocation. If bids for half or more, but fewer than all, of the warrants offered in this offering are received, and the selling security holder chooses to sell fewer warrants than the number of warrants for which bids were received, then all bids will experience equal pro-rata allocation. See Auction Process.

Our participation in the auction process

We are permitted to participate in the auction by submitting bids for the warrants. Although we are under no obligation to participate in the auction, if we elect to

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participate, we will participate on the same basis as all other bidders and will not receive preferential treatment of any kind. You will not be notified by either the auction agent, the network brokers or the selling security holder whether we have bid in the auction or, should we elect to participate in the auction, the terms of any bid or bids we may place.

Use of proceeds	We will not receive any proceeds from the sale of any of the securities offered by the selling security holder. See Use of Proceeds.
Risk factors	See Risk Factors and other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of factors you should consider carefully before deciding to invest in the warrants.
Listing	We have applied to list the warrants on the Exchange under the symbol VLY WS . Our common stock is listed on the Exchange under the symbol VLY .
Warrant agent	American Stock Transfer & Trust Company, LLC
Auction agent	Deutsche Bank Securities Inc.
Network brokers	See page S-20 for a list of brokers participating as network brokers in the auction process.
(1)	The number of shares of common stock outstanding immediately after the closing of this offering is based on shares of common stock outstanding as of May 13, 2010.
(2)	Unless otherwise indicated, the number of shares of common stock outstanding after the offering presented in this prospectus supplement excludes the shares issuable upon exercise of the warrants, 6,822,038 shares available for future grant under our equity compensation plans, 3,300,371 shares issuable upon the exercise of outstanding stock options at a weighted average exercise price of \$18.63 per share and 1,011,562 shares issuable upon the exercise of outstanding warrants at an exercise price of \$17.24 per share.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. Before you decide to invest in our common stock, you should consider the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and in our updates to those risk factors in our subsequent Quarterly Reports on Form 10-Q, and in all other information appearing in the prospectus or incorporated by reference into the prospectus. Please refer to "Incorporation of Information Filed with the SEC" in this prospectus supplement and "Where You Can Find More Information" in the accompanying prospectus for discussions of these other filings. The risk factors included in this prospectus supplement are intended to supplement and update the risk factors identified in those incorporated documents. If any of the risks and uncertainties actually occurs, our business, financial condition, and results of operations could be materially adversely affected. This could cause the trading price of our common stock to decline, and you could lose all or part of your investment. The prospectus is qualified in its entirety by those risk factors.

Risks Related to the Auction Process

The price of the warrants could decline rapidly and significantly following this offering.

The public offering price of the warrants, which will be the clearing price, will be determined through an auction process conducted by the selling security holder and the underwriter. Although we have applied to list the warrants on the Exchange, prior to this offering there has been no public market for the warrants, and the public offering price may bear no relation to market demand for the warrants once trading begins. We have been informed by both Treasury and Deutsche Bank Securities Inc. as the auction agent that they believe that the bidding process will set a clearing price for the warrants offered in the auction process. If there is little or no demand for the warrants at or above the public offering price once trading begins, the price of the warrants would likely decline following the offering. Limited or less-than-expected liquidity in the warrants, including decreased liquidity due to a sale of less than all of the warrants being offered or a purchase of warrants by us in the auction process, could also cause the trading price of the warrants to decline. In addition, the auction process may lead to more volatility in, or a decline in, the trading price of the warrants after the initial sales of the warrants in the offering. If your objective is to make short-term profit by selling the warrants you purchase in the offering shortly after trading begins, you should not submit a bid in the auction.

The minimum bid price that the auction agent has set for the warrants in this offering may bear no relation to the price of the warrants after the offering.

Prior to this offering, there has been no public market for the warrants. The minimum bid price set forth in this prospectus supplement was agreed to by Deutsche Bank Securities Inc., the sole book running manager of this offering, and Treasury. We did not participate in the determination of the minimum bid price and therefore cannot provide any information regarding the factors that Treasury and Deutsche Bank Securities Inc. considered in such determination. An analysis of the value of complex securities such as the warrants is necessarily uncertain as it may depend on several key variables, including for example the volatility of the trading prices of the underlying security. The difficulty associated with determining the value of the warrants is further increased by the substantial time period during which the warrants can be exercised. We cannot assure you that the price at which the warrants will trade after completion of the offering will exceed this minimum bid price, or that Treasury will choose to or will succeed in selling, any or all of the warrants at a price equal to or in excess of the minimum bid price.

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The auction process for this offering may result in a phenomenon known as the winner's curse, and, as a result, investors may experience significant losses.

The auction process for this offering may result in a phenomenon known as the winner's curse. At the conclusion of the auction process, successful bidders that receive allocations of warrants in this offering may infer that there is little incremental demand for the warrants above or equal to the public offering price. As a result, successful bidders may conclude that they paid too much for the warrants and could seek to immediately sell their warrants to limit their losses should the price of the warrants decline in trading after the auction process is completed. In this situation, other investors that did not submit successful bids may wait for this selling to be completed, resulting in reduced demand for the warrants in the public market and a significant decline in the price of the warrants. Therefore, we caution investors that submitting successful bids and receiving allocations may be followed by a significant decline in the value of their investment in the warrants shortly after this offering.

The auction process for this offering may result in a situation in which less price sensitive investors play a larger role in the determination of the public offering price and constitute a larger portion of the investors in this offering, and, therefore, the public offering price may not be sustainable once trading of the warrants begins.

In a typical public offering of securities, a majority of the securities sold to the public are purchased by professional investors that have significant experience in determining valuations for companies in connection with such offerings. These professional investors typically have access to, or conduct their own, independent research and analysis regarding investments in such offerings. Other investors typically have less access to this level of research and analysis, and as a result, may be less sensitive to price when participating in the auction process. Because of the auction process, these less price sensitive investors may have a greater influence in setting the public offering price (because a larger number of higher bids may cause the clearing price in the auction process to be higher than it would otherwise have been absent such bids) and may have a higher level of participation in this offering than is normal for other such offerings. This, in turn, could cause the auction process to result in a public offering price that is higher than the price professional investors are willing to pay for the warrants. As a result, the price of the warrants may decrease once trading of the warrants begins. Also, because professional investors may have a substantial degree of influence on the trading price of the warrants over time, the price of the warrants may decline and not recover after this offering. Furthermore, if the public offering price of the warrants is above the level that investors determine is reasonable for the warrants, some investors may attempt to short sell the warrants after trading begins, which would create additional downward pressure on the trading price of the warrants.

We are permitted to participate in the auction for the warrants and, if we do so, that could have the effect of raising the clearing price and decreasing liquidity in the market for the warrants.

We are permitted (but are not required) to submit bids in the auction. You will not be notified by either the auction agent, the network brokers, or the selling security holder whether we have bid in the auction or, should we elect to participate in the auction, the terms of any bid or bids we may place. Although we will not receive preferential treatment of any kind and would participate on the same basis as all other bidders, except that we are required to submit any final bid we may enter by 6:00 p.m., New York City time, on the day on which the auction is conducted and will not receive preferential treatment of any kind, in some cases the submission of bids by us could cause the clearing price in the auction process to be higher than it would

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otherwise have been (although in such a case we would still be required to purchase any warrants for which we had submitted bids at the clearing price). In addition, to the extent we purchase any warrants, the liquidity of any market for the warrants may decrease, particularly if any such purchases represent a significant percentage of the outstanding warrants.

Furthermore, if the offering proceeds and is consummated, we may from time to time engage in repurchase transactions of and retire the warrants in the market or on a privately negotiated basis. Since we would not repurchase warrants with a view toward resale, such repurchases after the consummation of this offering may also decrease liquidity in any market for the warrants.

The clearing price for the warrants may bear little or no relationship to the price that would be established using traditional valuation methods or the market price of our common stock, and, therefore, the trading price of the warrants may decline significantly following the issuance of the warrants.

The public offering price of the warrants will be equal to the clearing price. The clearing price of the warrants may have little or no relationship to, and may be significantly higher than, the price that otherwise would be established using traditional indicators of value, such as our future prospects and those of our industry in general; our revenues, earnings, and other financial and operating information; multiples of revenue, earnings, cash flows, and other operating metrics; market prices of securities and other financial and operating information of companies engaged in activities similar to ours; and the views of research analysts. The trading price of the warrants may vary significantly from the public offering price. Potential investors should not submit a bid in the auction for this offering unless they are willing to take the risk that the price of the warrants could decline significantly.

No maximum price or set auction price range has been established in connection with the auction process, and any bids submitted as market bids will be included at the highest bid received from any bidder.

Although the auction agent has established a minimum bid in connection with the auction process, no maximum price or set price range has been implemented, meaning that there is no ceiling on the per-warrant amount that an investor can bid in the auction. If a bidder submits a market bid (i.e., a bid that specifies the number of warrants the bidder is willing to purchase without specifying the price it is willing to pay), that bid will be treated as a bid at the highest price received from any other bidder in the auction. Because market bids will increase the number of warrants that are covered by bids at the highest price received, the submission of market bids could cause the clearing price in the auction process to be higher than it would otherwise have been absent such market bids. Since the only information being provided in connection with the auction process is the minimum bid price and the auction agent is under no obligation to reconfirm bids for any reason, potential investors should carefully evaluate all factors that may be relevant about us, our operations, the warrants and the auction process in determining the appropriateness of any bids they may submit.

Successful bidders may receive the full number of warrants subject to their bids, so potential investors should not make bids for more warrants than they are prepared to purchase.

Each bidder may submit multiple bids. However, as bids are independent, each bid may result in an allocation of warrants. Allocation of the warrants will be determined by, first, allocating warrants to any bids made above the clearing price, and second, allocating warrants on a pro-rata basis among bids made at the clearing price. If bids for all the warrants offered in

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this offering are received, and the selling security holder elects to sell warrants in the offering, the bids of successful bidders that are above the clearing price will be allocated all of the warrants represented by such bids, and only bids submitted at the clearing price will experience any pro-rata allocation. Bids that have not been modified or withdrawn by the time of the submission deadline are final and irrevocable, and bidders who submit successful bids will be obligated to purchase the warrants allocated to them. Accordingly, the sum of a bidder's bid sizes as of the submission deadline should be no more than the total number of warrants the bidder is willing to purchase, and we caution investors against submitting a bid that does not accurately represent the number of warrants that they are willing and prepared to purchase.

Submitting a bid does not guarantee an allocation of warrants, even if a bidder submits a bid at or above the public offering price of the warrants.

The auction agent may require, at its discretion, that bidders confirm their bids before the auction process closes (although the auction agent is under no obligation to reconfirm bids for any reason). If a bidder is requested to confirm a bid and fails to do so within the permitted time period, that bid may be deemed to have been withdrawn and, accordingly, that bidder may not receive an allocation of warrants even if the bid is at or above the public offering price. The auction agent may, however, choose to accept any such bid even if it has not been reconfirmed. In addition, the auction agent may determine in some cases to impose size limits on the aggregate size of bids that it chooses to accept from any bidder (including any network broker), and may reject any bid that it determines, in its discretion, has a potentially manipulative, disruptive or other adverse effect on the auction process or the offering. Furthermore, if bids for all the warrants offered in this offering are received, and the selling security holder elects to sell warrants in the offering, each bid submitted at the clearing price will be allocated a number of warrants approximately equal to the pro-rata allocation percentage multiplied by the number of warrants represented by such bid, rounded to the nearest whole number of warrants (subject to rounding in certain cases). Similarly, if bids for half or more, but fewer than all, of the warrants offered in this offering are received, and the selling security holder chooses to sell fewer warrants than the number of warrants for which bids were received, then all bids will experience equal pro-rata allocation. The selling security holder could also decide, in its sole discretion, not to sell any warrants in the offering after the clearing price has been determined. As a result of these factors, you may not receive an allocation for all the warrants for which you submit a bid.

We cannot assure you that the auction process will be successful or that the full number of offered warrants will be sold.

If sufficient bids are received and accepted by the auction agent to enable the selling security holder to sell all of the warrants in the offering, the public offering price will be set at the clearing price (unless the selling security holder decides, in its sole discretion, not to sell any warrants in the offering after the clearing price is determined). If, however, bids are received for half or more, but less than all, of the offered warrants, then the selling security holder may (but is not required to) sell, at the minimum bid price in the auction process (which will be deemed the clearing price) as many warrants as it chooses to sell up to the number of bids received in the auction, so long as at least half of the offered warrants are sold and the warrants remain eligible for listing. If bids are received for less than half of the offered warrants, the selling security holder will not sell any warrants in this offering. Even if bids are received for all of the offered warrants, the selling security holder is not obligated to sell any warrants regardless of the clearing price set through the auction process. The liquidity of the warrants may be limited if less than all of the offered warrants are sold by the selling security holder, or if we are a winning bidder in the auction process and become a significant holder of the warrants following

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allocation. Possible future sales of the selling security holder's remaining warrants, if any are held following this offering, could affect the trading price of the warrants sold in this offering.

Submitting bids through a network broker or any other broker that is not the auction agent may in some circumstances shorten deadlines for potential investors to submit, modify or withdraw their bids.

In order to participate in the auction process, bidders must have an account with, and submit bids to purchase warrants through, either the auction agent or a network broker. Brokers that are not network brokers will need to submit their bids, either for their own account or on behalf of their customers, through the auction agent or a network broker. Potential investors and brokers that wish to submit bids in the auction and do not have an account with the auction agent or a network broker must either establish such an account prior to bidding in the auction or cause a broker that has such an account to submit a bid through that account. Network brokers and other brokers will impose earlier submission deadlines than those imposed by the auction agent in order to have sufficient time to aggregate bids received from their respective customers and to transmit the aggregate bid to the auction agent (or, in the case of non-network brokers submitting bids through a network broker, to such network broker to transmit to the auction agent) before the auction closes. As a result of such earlier submission deadlines, potential investors who submit bids through a network broker, or brokers that submit bids through the auction agent or a network broker, will need to submit or withdraw their bids earlier than other bidders, and it may in some circumstances be more difficult for such bids to be submitted, modified or withdrawn.

Risks Related to the Warrants

The warrants are a risky investment. You may not be able to recover the value of your investment in the warrants, and the warrants may expire worthless.

As of May 14, 2010, the last reported price of our common stock on the Exchange was \$15.32 per share. In order for you to recover the value of your investment in the warrants, either a trading market must develop for the warrants and the trading price of the warrants must exceed the public offering price, or our stock price must increase to more than the sum of the exercise price of the warrants (\$17.77) and the clearing price of the warrants. If, for example, the clearing price of the warrants were the minimum bid price set by the auction agent, our stock price would have to be more than \$19.47 for you to have an opportunity to exercise the warrants and achieve a positive return on your investment.

The warrants are only exercisable until November 14, 2018. In the event our common stock price does not increase to the level discussed above during the period when the warrants are exercisable, you will likely not be able to recover the value of your investment in the warrants. In addition, if our common stock price remains below the exercise price of the warrants, the warrants may not have any value and may expire without being exercised, in which case you will lose your entire investment. There can be no assurance that the trading price of our common stock will exceed the exercise price or the price required for you to achieve a positive return on your investment. Furthermore, upon exercise of the warrants, you will receive a number of shares of stock calculated based on the closing price of our common stock on that day. Accordingly, the number of shares and the value of our common stock you receive upon exercise of the warrants will depend on the market price of our common stock on the day on which you choose to exercise those warrants.

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There is no existing market for the warrants, and you cannot be certain that an active market will be established.

Prior to this offering, there has been no existing trading market for the warrants. The public offering price for the warrants is being determined by an auction process, and may not be indicative of the price that will prevail in the trading market following this offering. The market price for the warrants may decline below the public offering price, and may be volatile. The liquidity of any market for the warrants will depend on a number of factors, including but not limited to:

the number of warrants, if any, that we and/or investors purchase in the auction process;

the number of warrants that the selling security holder elects to sell in this offering;

our performance;

the market for similar securities;

the interest of securities dealers in making a market in the warrants; and

the market price of our common stock.

In addition, many of the risks that are described elsewhere in this Risk Factors section and under the heading Risk Factors in our most recently filed Annual Report on Form 10-K and Quarterly Report on Form 10-Q could materially and adversely affect the price of the warrants.

The warrants are not suitable for all investors.

The warrants are complex financial instruments for which there is no established trading market. Accordingly, the auction agent, each network broker and any other broker that submits bids through the auction agent or any network broker will be required to establish and enforce client suitability standards, including eligibility, account status and size, to evaluate whether an investment in the warrants is appropriate for any particular investor. Each of them will individually apply its own standards in making that determination, but in each case those standards will be implemented in accordance with the applicable requirements and guidelines of the Financial Industry Regulatory Authority, Inc. (FINRA). If you do not meet the relevant suitability requirements of the auction agent or another broker, you will not be able to bid in the auction. **You should be prepared to sustain a total loss of the purchase price of your warrants.**

Purchasers of warrants who exercise their warrants for shares of common stock will incur immediate and future dilution.

Upon exercise of your warrants for shares of common stock, you could experience immediate and substantial dilution if the exercise price of your warrants at the time were higher than the net tangible book value per share of the outstanding common stock. In addition, you will experience dilution (subject to the anti-dilution protections contained in the warrants and described herein) when we issue additional shares of common stock that we are permitted or required to issue in any future offerings or under outstanding options and warrants and under our stock option plan or other employee or director compensation plans.

The trading value of the warrants will be significantly affected by the price of our common stock, which has been volatile.

The market price of our common stock will significantly affect the market price of the warrants, and the resulting percentage change in the market price of our warrants is likely to be

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much higher than the percentage change in the market price of our common stock. We cannot predict whether the price of our common stock will rise or fall, and the market price of our common stock has been volatile. Negative announcements about our results or business could trigger significant declines in our stock price. In addition, external events, such as news concerning economic conditions, our competitors, our customers or changes in government regulations affecting the financial services industry also are likely to affect our stock price, regardless of our operating performance. Furthermore, general market conditions, including the level of, and fluctuations in, the trading prices of stocks generally, could affect our stock price. Recently, stock markets have experienced price and volume volatility that has affected many companies stock prices, and stock prices for many companies have experienced wide fluctuations sometimes unrelated to their operating performance. Fluctuations such as these may affect the market price of our common stock. The price of our common stock also could be affected by possible sales of common stock by investors who view the warrants as a more attractive means of equity participation in us and by hedging or arbitrage activity involving our common stock. The hedging or arbitrage of our common stock could, in turn, affect the trading prices of the warrants.

Holders of the warrants will have no rights as common shareholders until they acquire our common stock.

Until you acquire shares of our common stock upon exercise of the warrants, you will have no rights with respect to our common stock, including rights to dividend payments, vote or respond to tender offers. Upon exercise of your warrants, you will be entitled to exercise the rights of a common shareholder only as to matters for which the record date occurs after the exercise date.

The exercise price of and the number of shares underlying the warrants may not be adjusted for all dilutive events.

The exercise price of and the number of shares underlying the warrants are subject to adjustment for certain events, including, but not limited to, the issuance of stock dividends on our common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness or assets, certain cash dividends and certain issuer tender or exchange offers as described under Description of Warrants Adjustments to the Warrants. The exercise price will not be adjusted, however, for other events, such as a third-party tender or exchange offer, a merger or reorganization in which our common stock is acquired for cash or an issuance of common stock for cash, that may adversely affect the trading price of the warrants or our common stock. Other events that adversely affect the value of the warrants may occur that do not result in an adjustment to such exercise price.

Additionally, the exercise price of, and the number of shares underlying, the warrants will not be adjusted for any regular quarterly cash dividends that are in the aggregate less than or equal to \$0.1814 per share of common stock, which is the amount of the last dividend per share declared prior to the date on which the warrants were originally issued to Treasury on November 14, 2008 (as adjusted for stock dividends issued subsequent to November 14, 2008, including the 5% common stock dividend declared on April 14, 2010 and payable on May 21, 2010 by the Company). The most recent cash dividend paid on our common stock was \$0.19 per share. Holders of our common stock are only entitled to receive such dividends as our board of directors may declare, and our board of directors, in its sole discretion, may decide to increase the quarterly cash dividend on our common stock at any time.

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Your return on the warrants will not reflect dividends on our common stock.

Your return on the warrants will not reflect the return you would realize if you actually owned shares of our common stock and received any dividends paid on our common stock other than to the extent described below under **Description of Warrants** **Adjustments to the Warrants**. If we increase our regular quarterly cash dividends in the future, your warrants will not be adjusted for, and you will not receive any benefit of, any aggregate regular quarterly cash dividend less than or equal to \$0.1814 per share per quarter.

The warrant agreement is not an indenture qualified under the Trust Indenture Act, and the obligations of the warrant agent are limited.

The warrant agreement is not an indenture qualified under the Trust Indenture Act of 1939, as amended (the **TIA**), and the warrant agent is not a trustee qualified under the TIA. Accordingly, warrant holders will not have the benefits of the protections of the TIA. Under the terms of the warrant agreement, the warrant agent will have only limited obligations to the warrant holders. Accordingly, it may in some circumstances be difficult for warrant holders, acting individually or collectively, to take actions to enforce their rights under the warrants or the warrant agreement.

The selling security holder is a federal agency and your ability to bring a claim against the selling security holder under the federal securities laws may be limited.

The doctrine of sovereign immunity, as limited by the Federal Tort Claims Act (the **FTCA**), provides that claims may not be brought against the United States of America or any agency or instrumentality thereof unless specifically permitted by act of Congress. The FTCA bars claims for fraud or misrepresentation. At least one federal court, in a case involving a federal agency, has held that the United States may assert its sovereign immunity to claims brought under the federal securities laws. In addition, the selling security holder and its officers, agents, and employees are exempt from liability for any violation or alleged violation of the anti-fraud provisions of Section 10(b) of the Exchange Act by virtue of Section 3(c) thereof. Accordingly, any attempt to assert such a claim against the officers, agents or employees of the selling security holder for a violation of the Securities Act or the Exchange Act resulting from an alleged material misstatement in or material omission from this prospectus or the registration statement of which this prospectus supplement is a part or resulting from any other act or omission in connection with the offering of the warrants by the selling security holder or the shares of common stock issuable upon the exercise thereof would likely be barred.

Hedging arrangements relating to the warrants may affect the value of our common stock.

In order to hedge their positions, holders of our warrants may enter into derivative transactions with respect to our common stock, may unwind or adjust derivative transactions and may purchase or sell our common stock in secondary market transactions. The effect, if any, of any of these activities on the trading price of our common stock will depend in part on market conditions and cannot be ascertained in advance, but any of these activities could adversely affect the value of our common stock.

Holders of the warrants will not receive any additional shares of common stock or other compensation representing any lost value resulting from a decrease in the option life of the warrants in the event we undergo a business combination.

In the event we undergo a merger, consolidation, statutory share exchange or similar transaction requiring the approval of our shareholders (a **Business Combination**), each

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warrantholder's right to receive common stock pursuant to the warrants will be converted into the right to receive a number of shares of stock or other securities or property (including cash) which would have been received if such holder had exercised the warrants immediately prior to such Business Combination. Any such Business Combination could, therefore, substantially affect the value of the warrants by changing the securities received upon exercise or fixing the market value of the property to be received upon exercise. Warrantholders will not receive any additional shares of common stock or other compensation representing any lost value resulting from any decrease in the option life of, or change in the securities or property (including cash) underlying, the warrants resulting from any such Business Combination.

Risks Related to Our Common Stock

The market price for our common stock may be volatile.

The market price of our common stock could fluctuate substantially in the future in response to a number of factors, including those discussed below. The market price of our common stock has in the past fluctuated significantly and is likely to continue to fluctuate significantly. Some of the factors that may cause the price of our common stock to fluctuate include:

variations in our and our competitors' operating results;

changes in securities analysts' estimates of our future performance and the future performance of our competitors;

announcements by us or our competitors of mergers, acquisitions and strategic partnerships;

additions or departure of key personnel;

events affecting other companies that the market deems comparable to us;

general conditions in the United States;

the presence or absence of short selling of our common stock; and

future sales of our common stock or debt securities.

The stock markets in general have experienced substantial price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the trading price of our common stock.

There may be future sales or other dilution of our equity that may adversely affect the market price of our common stock.

Except as required by the underwriter in connection with this offering, we are not restricted from issuing additional common stock, preferred stock and any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. Any issuance of additional common stock will dilute the ownership interest of existing common shareholders. Further, the market price of our common stock could decline after this offering as a result of future offerings by us of our common stock, preferred stock or securities convertible into or exchangeable for, or that represent the right to receive, common stock, or the perception that such offers or sales could occur.

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We may not pay dividends on our common stock.

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so. Any reduction of, or the elimination of, our common stock dividend in the future could adversely affect the market price of our common stock.

We are a holding company and depend on our subsidiaries for dividends, distributions and other payments.

We are a holding company, and, accordingly, substantially all of our operations are conducted through our bank subsidiaries and other subsidiaries. As a result, our cash flow and our ability to make dividend payments to our common shareholders depend on the earnings of our subsidiaries. In addition, we depend on the distribution of earnings, loans or other payments by our subsidiaries to us. Our subsidiaries are separate and distinct legal entities, and regulations relating to capital requirements affect their ability to pay dividends and other distributions to us and to make loans to us. Payments to us by our subsidiaries also will be contingent upon those subsidiaries' earnings and business considerations. Furthermore, our right to receive any assets of any of our subsidiaries upon their liquidation, reorganization or otherwise, and thus your ability as a common shareholder to benefit indirectly from such distribution, will be subject to the prior claims of the subsidiary's creditors. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of those subsidiaries and any indebtedness of those subsidiaries senior to that held by us.

We are subject to New Jersey's anti-takeover statute, which could have the effect of prohibiting certain business transactions with certain of our shareholders.

Subsection 10A of the New Jersey Business Corporation Act, known as the Shareholder Protection Act, applies to us. The Shareholder Protection Act prohibits us from engaging in certain business combinations, including mergers, consolidations, stock sales and assets sales, with an interested shareholder (generally, a shareholder who owns 10% or more of our outstanding common stock) for a period of five years after the date of the transaction in which the person became an interested shareholder (the "Stock Acquisition Date"), unless the business combination is approved by the Company's Board of Directors prior to the Stock Acquisition Date. After the expiration of the five year period, the entry into a business combination with an interested shareholder is also limited. The application of such Act also could have the effect of delaying or preventing a change in control of the Company.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There can be no assurance that any such losses would not materially and adversely affect our results of operations.

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AUCTION PROCESS

The following describes the auction process used to determine the public offering price of the warrants. That process differs from methods traditionally used in other underwritten public offerings. The selling security holder and the underwriter will determine the public offering price and the allocation of the warrants in this offering by an auction process conducted by the sole book-running manager, Deutsche Bank Securities Inc., in its capacity as the auction agent. This auction process will involve a modified Dutch auction mechanic in which the auction agent (working with a number of other brokers) will receive and accept bids from bidders at either the minimum bid price of \$1.70 or at price increments of \$0.10 in excess of the minimum bid price. We may (but are not required to) bid in the auction for some or all of the warrants. After the auction process closes and those bids become irrevocable (which will occur automatically at the submission deadline to the extent such bids have not been modified or withdrawn at that time), the auction agent will determine the clearing price for the sale of the warrants offered hereby and, if the selling security holder chooses to proceed with the offering, the underwriter will allocate warrants to the winning bidders. The auction agent has reserved the right to round allocations to eliminate odd-lots. The clearing price for the warrants may bear little or no relationship to the price that would be established using traditional valuation methods. You should carefully consider the risks described under Risk Factors Risks Related to the Auction Process beginning on page S-8.

Eligibility and Account Status

In order to participate in the auction process, bidders must have an account with, and submit bids to purchase warrants through, either the auction agent or one of the other brokers that is a member of the broker network (collectively, the network brokers) established in connection with the auction. Brokers that are not network brokers will need to submit their bids, either for their own account or on behalf of their customers, through the auction agent or a network broker. If you wish to bid in the auction and do not have an account with the auction agent or a network broker, you will either need to establish such an account prior to bidding in the auction (which may be difficult to do before the submission deadline) or contact your existing broker and request that it submit a bid through the auction agent or a network broker. Network brokers and other brokers will have deadlines relating to the auction that are earlier than those imposed by the auction agent, as described below under The Auction Process The Bidding Process.

Because the warrants are complex financial instruments for which there is no established trading market, the auction agent, each network broker and any other broker that submits bids through the auction agent or any network broker will be required to establish and enforce client suitability standards, including eligibility, account status and size, to evaluate whether an investment in the warrants is appropriate for any particular investor. Each of them will individually apply its own standards in making that determination, but in each case those standards will be implemented in accordance with the applicable requirements and guidelines of FINRA. If you do not meet the relevant suitability requirements of the auction agent or another broker, you will not be able to bid in the auction. Accounts at the auction agent or any other broker, including broker accounts, are also subject to the customary rules of those institutions. You should contact your brokerage firm to better understand how you may submit bids in the auction process.

The auction agent or network brokers may require bidders (including any brokers that may be bidding on behalf of their customers) to submit additional information, such as tax identification numbers, a valid e-mail address and other contact information, and other information that may be required to establish or maintain an account.

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The auction agent and the network brokers, upon request, will provide certain information to you in connection with the offering, including this prospectus supplement and the accompanying prospectus and forms used by such brokers, if any, to submit bids. Additionally, you should understand that:

before submitting a bid in the auction, you should read this prospectus supplement, including all the risk factors;

the minimum bid price was agreed by the auction agent and Treasury, and we did not participate in that determination and therefore cannot provide any information regarding the factors that Treasury and Deutsche Bank Securities Inc. considered in determining the minimum bid price;

if bids are received for 100% or more of the offered warrants, the public offering price will be set at the auction clearing price (unless the selling security holder decides, in its sole discretion, not to sell any warrants in the offering after the clearing price is determined);

if bids are received for half or more, but less than all, of the offered warrants, then the selling security holder may (but is not required to) sell, at the minimum bid price in the auction (which will be deemed the clearing price) as many warrants as it chooses to sell up to the number of bids received in the auction, so long as at least half of the offered warrants are sold and the warrants remain eligible for listing, and that in such a case if the selling security holder chooses to sell fewer warrants than the number of warrants for which bids were received, then all bids will experience equal pro-rata allocation;

if bids are received for less than half of the offered warrants, the selling security holder will not sell any warrants in this offering;

if there is little or no demand for the warrants at or above the clearing price once trading begins, the price of the warrants will decline;

we will be allowed (but are not required) to bid in the auction and, if we do participate, we will not receive preferential treatment of any kind and would participate on the same basis as all other bidders, except that we are required to submit any final bid we may enter by 6:00 p.m., New York City time, on the period, the benchmark (TOPIX) gained 10.10% in USD terms. The depreciation of the yen against the U.S. dollar was a negative factor for the absolute return measured in U.S. dollars. The portfolio outperformed the benchmark by 0.87% in USD terms.

Table 2 shows that the performance of the equity portion of the portfolio, excluding expenses and some cash positions in JPY terms, was 15.08%, in comparison with 13.23% for the benchmark, indicating out-performance of 1.85% on this basis.

(Stock Selection)

The attribution analysis indicates that sizable positive contributions were made in the Other Finance (1.44%), Chemicals (1.01%), and Banks (0.72%) sectors. Negative contributions in stock selection came from Nonferrous Metals (0.59%), Real Estate (0.55%) and Retail Trade (0.46%) sectors. The total stock selection contribution was 1.29% over the period.

Major positive contributors were Tokuyama (0.69%, specialty chemical producer), Orix (0.64%, leasing company), Shin-Etsu Chemical (0.56%, specialty chemical producer) and Mitsui Fudosan (0.44%, real estate company). Major negative contributors were Maeda Corp (0.62%, a construction company), Neomax (0.48%, metal processor) and Sundrug (0.39%, specialty retailer).

(Sector Selection)

The attribution analysis shows that positive contributions came from being overweight in Nonferrous Metals (0.39%), overweight in Transport Equipment (0.26%), and underweight in Services (0.21%), while there were negative contributions from an underweight in

Securities and Commodity Futures (0.27%) and overweight in Textiles & Apparel (0.17%).

Outlook & Strategy

The Japanese stock market has been a clear laggard in 2006 after a strong performance in the last three years. We are optimistic about the Japanese stock market for the reasons discussed below.

First, economic growth driven by business is expected to continue. The Japanese economy has broken the record length of an economic recovery period after World War II this year, despite a moderate growth rate (2-3%). Lack of strong participation by consumers is a major characteristic of the current economic cycle. The Japanese economic outlook will continue to depend on the global economic outlook. Second, the Abe cabinet will pursue a policy of balancing the budget by seeking higher tax revenues through higher economic growth. A symbol of this is the appointment of the reformist economist, Mr. Honma, as the head of the government tax research council. The government will take measures to encourage innovation and capital expenditures by giving tax incentives such as allowing faster depreciation. In short, the current government is expected to take a business and stock market-friendly direction. Third, political relationships with China and South Korea are likely to improve. North Korean nuclear test issues have taken areas of tension between the countries off the agenda at least in the short term. Japan must help China solve ecology problems. Fourth, as a weak yen has been too comfortable for the Japanese economy, corporate profits and overseas investment income, a major risk factor is yen appreciation or dollar depreciation. The five percentage point interest rate differential between Japan and the United States and slow interest rate increase as a result of near zero CPI growth in Japan will encourage outflow of investment funds seeking money from Japan to the United States. The yen/US dollar exchange rate is likely to be in the 115-120 range.

The Japan Equity Fund, Inc.

In the short term, annual rebalancing of international portfolios will likely work in favor of lagging markets such as Japan and Korea toward the end of 2006 or in the early part of the new year.

After some consolidation attributed to the overseas market correction due to seasonal factors such as tax selling or the upcoming U.S. election, the Tokyo market is expected to resume its rally toward 2007. In regard to sector strategy, we will maintain overweight positions in consumer discretionary, technology and industrials benefiting from global economic growth and underweight in defensive sectors, including consumer staple and utilities.

Fund Performance

During the year ended October 31, 2006, the Fund's market price on the New York Stock Exchange (NYSE) ranged from a low of \$7.32 per share on June 14, 2006 to a high of \$10.12 on November 28, 2005. The Fund's NYSE market price closed at \$8.14 per share on October 31, 2006.

The NYSE market price in relation to the Fund's net asset value per share during the year ended October 31, 2006 ranged from a high discount of 8.23% on May 17, 2006 to a high premium of 24.69% on November 24, 2005, and ended the period at a discount of 5.13%.

The Fund has not invested in derivative securities. Although foreign currency hedging is permitted by the Fund's prospectus, the Fund has not engaged in any foreign currency hedging.

Portfolio Management

Mr. Koichi Ogawa, CFA, is the Executive Director and Chief Portfolio Manager of Daiwa SB Investments Ltd. (DSBI) for all North American clients. A senior member of the Investment Policy Committee (IPC) of DSBI, Mr. Ogawa has 31 years of investment experience and has been responsible for Japan stock selection since 1984. He spent nine years with Daiwa Securities as an institutional research analyst and three years in New York analyzing U.S. securities. He graduated from Tohoku University with a B.A. in Law in 1972.

Mr. Naoto Nagai, CFA, is a Senior Portfolio Manager with a total of 10 years of experience in the Japanese and global equity markets. Prior to joining Daiwa SB Investments in 2006, he was a fund manager and research analyst at Resona Trust Company Japan. In 1996 he earned an MBA from the University of Rochester and in 1991 he graduated from the University of Osaka Prefecture with a B.S. in Chemistry. He assumed the day-to-day portfolio management responsibility for the Fund effective October 18, 2006.

We thank you for your support of The Japan Equity Fund, Inc. and your continued interest in the Japanese economy and marketplace.

Sincerely,

HIROSHI KIMURA
Chairman of the Board

HIDEO TANAKA
President

*The Japan Equity Fund, Inc.***Portfolio of Investments****October 31, 2006****COMMON STOCKS 98.53%**

Shares		Value	Shares		Value
Banks 12.90%			Electric Appliances 14.54%		
422	Mitsubishi UFJ Financial Group, Inc.	\$5,256,673	66,000	Canon Inc.	\$3,506,652
540	Mizuho Financial Group, Inc.	4,168,630	130,000	Casio Computer Co., Ltd.	2,605,288
80,000	The Bank of Fukuoka, Ltd.	633,167	10,000	Fanuc Ltd.	860,097
180,000	The Bank of Yokohama, Ltd.	1,378,866		Matsushita Electric Industrial Co., Ltd.	3,646,471
65,000	The Chiba Bank, Ltd.	577,239	9,000	Murata Manufacturing Co., Ltd.	623,845
61,000	The Gunma Bank, Ltd.	422,312	130,000	Sharp Corp.	2,296,839
300,000	The Sumitomo Trust & Banking Co., Ltd.	3,198,034	110,000	Shinko Electric Industries Co., Ltd.	2,908,228
56,000	The Tochigi Bank, Ltd.	336,921	20,000	TDK Corp.	1,550,716
		15,971,842			17,998,136
Chemicals 4.05%			Electric Power & Gas 4.11%		
120,000	Daicei Chemical Industries Ltd.	790,103	122,000	Kyushu Electric Power Co., Inc.	2,827,472
19,500	Fujimi Inc.	568,426	36,000	Tohoku Electric Power Co., Inc.	790,103
29,000	Nitto Denko Corp.	1,639,098	51,000	Tokyo Electric Power Co., Inc.	1,469,367
31,000	Shin-Etsu Chemical Co., Ltd.	2,014,829			5,086,942
		5,012,456	Glass & Ceramic Products 1.03%		
Communication 3.95%			6,600	Miraial Co., Ltd.	675,045
660	NTT Corp.	3,294,128	120,000	Toshiba Ceramica Co., Ltd.	606,050
1,050	NTT DoCoMo, Inc.	1,592,662			1,281,095
		4,886,790	Insurance 3.64%		
Construction 3.08%			190,000	Aioi Insurance Co., Ltd.	1,296,077
90,000	Daiwa House Industry Co., Ltd.	1,609,186	32,500	Millea Holdings Inc.	1,217,270
30,000	Kinden Corp.	221,930	100,000	Mitsui Sumitomo Insurance Co., Ltd.	1,232,946
			120,000	Nissay Dowa General Insurance Co., Ltd.	758,580
270,000	Maeda Corp.	1,111,940			4,504,873
80,000	Sumitomo Forestry Co., Ltd.	870,435			
		3,813,491			

*The Japan Equity Fund, Inc.***Portfolio of Investments (continued)**

October 31, 2006

COMMON STOCKS (continued)

Shares		Value	Shares		Value
Iron & Steel 2.27%			Precision Instruments 2.74%		
32,000	JFE Holdings, Inc.	\$1,274,468	55,000	Hoya Corp.	\$2,106,601
380,000	Nippon steel Corp.	1,532,751	32,000	Terumo Corp.	1,282,603
		2,807,219			3,389,204
Land Transportation 2.41%			Pulp & Paper 0.86%		
430	East Japan Railway Co.	2,980,595	300	Nippon Paper Group Inc.	1,065,164
Machinery 4.76%			Real Estate 3.16%		
95,000	Komatsu Ltd.	1,698,585	20,000	Atrium Co., Ltd.	676,214
300,000	Mitsubishi Heavy Industries Ltd.	1,327,006	65,000	Mitsui Fudosan Co., Ltd.	1,586,306
52,000	Miura Co., Ltd.	1,235,997	1,600	Nomura Real Estate Holdings Inc.	59,249
85,000	NSK Ltd.	705,872	110,000	Park24 Co., Ltd.	1,586,476
63,700	OSG Corp.	930,589			3,908,245
		5,898,049	Retail Trade 3.22%		
Marine Transportation 0.73%			10,000	Shimamura Co., Ltd.	1,071,943
140,000	Nippon Yusen Kabushiki Kaisha	900,432	66,000	Sundrug Co., Ltd.	1,498,856
Metal Products 1.06%			14,300	Yamada Denki Co., Ltd.	1,410,491
120,000	NHK Spring Co., Ltd.	1,314,804			3,981,290
Non Ferrous Metals 1.93%			Rubber Products 0.83%		
170,000	Sumitomo Electric Industries, Ltd.	2,385,561	50,000	Bridgestone Corp.	1,033,811
Oil & Coal Products 0.45%			Services 1.28%		
75,000	Nippon Oil Corp.	552,919	11,000	Nomura Research Institute, Ltd.	1,590,204
Other Financing Business 2.71%			Securities 2.02%		
75,500	Hitachi Capital Corp.	1,477,883	143,000	Nomura Holdings Inc.	2,502,288
6,700	Orix Corp.	1,870,731	Textile & Apparel 1.88%		
		3,348,614	420,000	Teijin Ltd.	2,324,040
Pharmaceutical 4.95%			Transportation Equipment 11.91%		
33,300	Eisai Co., Ltd.	1,690,255	42,000	Aisin Seiki Co., Ltd.	1,281,247
26,000	Ono Pharmaceuticals Co., Ltd.	1,258,029	38,000	Denso Corp.	1,436,149
50,000	Takeda Pharmaceutical Co., Ltd.	3,181,934	86,000	Honda Motor Co., Ltd.	3,017,033
		6,130,218	150,000	Nissan Motor Co., Ltd.	1,780,781
			80	Tachi-S Co., Ltd.	603
			123,000	Toyota Motor Corp.	7,223,032
					14,738,845

The Japan Equity Fund, Inc.

Portfolio of Investments (concluded)

October 31, 2006

COMMON STOCKS (concluded)

Shares		Value
Wholesale Trade 2.06%		
12,000	Autobacs Seven Co., Ltd.	\$ 431,150
40,000	Mimasu Semiconductor Industry Co., Ltd.	815,185
100,000	Sumitomo Corp.	1,303,279
		2,549,614
Total Common Stocks		
(Cost \$99,239,210)		121,956,741

SHORT-TERM INVESTMENTS 0.05%

Principal Amount (000)		Value
U.S. DOLLAR TIME DEPOSIT 0.05%		
\$64	Bank of New York Time Deposit, 0.05%, due 11/1/06 (Cost \$64,285)	\$ 64,285
Total Investments	98.58%	
(Cost \$99,303,495)		122,021,026
Other assets less liabilities	1.42%	1,757,909
NET ASSETS (Applicable to 14,421,650 shares of capital stock outstanding; equivalent to \$8.58 per share)		
)	100.00%	\$123,778,935

See accompanying notes to financial statements.

*The Japan Equity Fund, Inc.***EQUITY****CLASSIFICATIONS HELD****October 31, 2006**

Industry	Percent of Net Assets
Electric Appliances	14.54%
Banks	12.90
Transportation Equipment	11.91
Pharmaceutical	4.95
Machinery	4.76
Electric Power & Gas	4.11
Chemicals	4.05
Communication	3.95
Insurance	3.64
Retail Trade	3.22
Real Estate	3.16
Construction	3.08
Precision Instruments	2.74
Other Financing Business	2.71
Land Transportation	2.41
Iron & Steel	2.27
Wholesale Trade	2.06
Securities	2.02
Non-Ferrous Metals	1.93
Textile & Apparel	1.88
Services	1.28
Metal Products	1.06
Glass & Ceramic Products	1.03
Pulp & Paper	0.86
Rubber Products	0.83
Marine Transportation	0.73
Oil & Coal Products	0.45

TEN LARGEST EQUITY**POSITIONS HELD****October 31, 2006**

Issue	Percent of Net Assets
Toyota Motor Corp	5.84%
Mitsubishi UFJ Financial Group, Inc.	4.25
Mizuho Financial Group, Inc.	3.37
Matsushita Electric Industrial Co., Ltd.	2.95
Canon Inc.	2.83
NTT Corp.	2.66
The Sumitomo Trust & Banking Co., Ltd.	2.58
Takeda Pharmaceutical Co., Ltd.	2.57
Honda Motor Co., Ltd.	2.44
East Japan Railway Co.	2.41

*The Japan Equity Fund, Inc.***Statement of Assets and Liabilities****October 31, 2006****Assets**

Investment in securities, at value (cost \$99,303,495)	\$ 122,021,026
Cash denominated in foreign currency (cost \$1,310,454)	1,314,103
Interest and dividends receivable	550,282
Prepaid expenses and other assets	57,843
Total assets	123,943,254

Liabilities

Payable for management fees	13,241
Payable for advisory fees	19,862
Payable to other affiliates	26,670
Accrued expenses and other liabilities	104,546
Total liabilities	164,319

Net Assets

Capital stock, \$0.01 par value per share; total 30,000,000 shares authorized; 14,421,650 shares issued and outstanding	144,217
Paid-in capital in excess of par value	125,530,308
Undistributed net investment income	368,048
Accumulated net realized loss on investments	(24,977,857)
Net unrealized appreciation on investments and other assets and liabilities denominated in foreign currency	22,714,219
Net assets applicable to shares outstanding	\$ 123,778,935
Net Asset Value Per Share	\$ 8.58

See accompanying notes to financial statements.

*The Japan Equity Fund, Inc.***Statement of Operations****For the Year Ended October 31, 2006****Investment income:**

Dividends (net of withholding taxes of \$99,387)	\$ 1,320,431
Interest	63
Total investment income	1,320,494

Expenses:

Investment management and advisory fee	394,888
Administration fee	250,337
Custodian fees and expenses	144,102
Audit and tax services	84,715
Reports and notices to shareholders	63,878
Legal fees and expenses	49,185
Insurance expense	43,829
Directors' fees and expenses	39,915
Transfer agency fee and expenses	7,359
Other	91,444
Total expenses	1,169,652

Net investment income

150,842

Realized and unrealized gains from investment activities and foreign currency transactions:

Net realized gains on investments	11,830,566
Net realized foreign currency transaction losses	(12,971)
Net change in unrealized appreciation (depreciation) on investments in equity securities	184,658
Net change in unrealized appreciation (depreciation) on short-term investments and other assets and liabilities denominated in foreign currency	27,895
Net realized and unrealized gains from investment activities and foreign currency transactions	12,030,148

Net increase in net assets resulting from operations

\$ 12,180,990

See accompanying notes to financial statements.

*The Japan Equity Fund, Inc.***Statement of Changes in Net Assets**

	For the Years Ended October 31,	
	2006	2005
Increase (decrease) in net assets from operations:		
Net investment income	\$ 150,842	\$ 64,964
Net realized gain (loss) on:		
Investments	11,830,566	5,430,721
Foreign currency transactions	(12,971)	(284,449)
Net change in unrealized appreciation (depreciation) on:		
Investments in equity securities	184,658	17,217,326
Translation of short-term investments and other assets and liabilities denominated in foreign currency	27,895	(63,054)
Net increase in net assets resulting from operations	12,180,990	22,365,508
Dividends and distributions to shareholders from:		
Net investment income	(813,340)	
From capital stock transactions:		
Sale of capital stock resulting from:		
Reinvestment of dividends	5,890	
Net increase in net assets	11,373,540	22,365,508
Net assets:		
Beginning of year	112,405,395	90,039,887
End of year (including undistributed net investment income of \$368,048 and \$0, respectively)	\$123,778,935	\$112,405,395

See accompanying notes to financial statements.

The Japan Equity Fund, Inc.

Notes to Financial Statements

Organization Accounting and Significant Policies

The Japan Equity Fund, Inc. (the Fund) was incorporated in Maryland on July 12, 1990 under its former name The Japan Emerging Equity Fund, Inc. and commenced operations on July 24, 1992. It is registered with the Securities and Exchange Commission as a closed-end, diversified management investment company.

The following significant accounting policies are in conformity with generally accepted accounting principles in the United States of America for investment companies. Such policies are consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements. Actual reporting results could differ from those estimates.

Valuation of Investments Securities which are listed on the Tokyo Stock Exchange or listed on the over-the-counter market in Japan or listed on other exchanges in Japan and for which market quotations are readily available are valued at the last reported sales price available to the Fund at the close of business on the day the securities are being valued or, lacking any such sales, at the last available bid price. In instances where quotations are not readily available or where the price as determined by the above procedures is deemed not to represent fair market value, fair value will be determined in such manner as the Board of Directors (the Board) may prescribe. Short-term investments having a maturity of 60 days or less are valued at amortized cost, except where the Board determines that such valuation does not represent the fair value of the investment. All other securities and assets are valued at fair value as determined in good faith by, or under the direction of, the Board.

Foreign Currency Translation The books and records of the Fund are maintained in U.S. dollars as follows: (1) the foreign currency market value of investment securities and other assets and liabilities stated in Japanese yen are translated at the exchange rates prevailing at the end of the period; and (2) purchases, sales, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions. The resulting exchange gains and losses are included in the Statement of Operations. The Fund does not isolate the effect of fluctuations in foreign exchange rates from the effect of fluctuations in the market price of securities.

Tax Status The Fund intends to continue to distribute substantially all of its taxable income and to comply with the minimum distribution and other requirements of the Internal Revenue Code applicable to regulated investment companies. Accordingly, no provision for federal income taxes is required.

The Fund is not subject to any Japanese income, capital gains or other taxes except for withholding taxes on certain income, generally imposed at rates of 7% on interest and dividends, paid to the Fund by Japanese corporations.

Investment Transactions and Investment Income Investment transactions are recorded on the trade date (the date upon which the order to buy or sell is executed). Realized and unrealized gains and losses from security and foreign currency transactions are calculated on the identified cost basis. Dividend income and corporate actions are recorded generally on the ex-date, except for certain dividends and corporate actions from Japanese securities which may be recorded after the ex-date, as soon as the Fund acquires information regarding such dividends or corporate actions. Interest income is recorded on an accrual basis.

The Japan Equity Fund, Inc.

Notes to Financial Statements (continued)

Dividends and Distributions to Shareholder The Fund records dividends and distributions payable to its shareholders on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. These book basis/tax basis differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax basis treatment; temporary differences do not require reclassifications. Dividends and distributions which exceed net investment income and net realized capital gains for tax purposes are reported as distributions of paid-in-capital.

New Accounting Pronouncement In July 2006, Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109 (FIN 48) was issued and is effective for fiscal years beginning after December 15, 2006. FIN 48 sets forth a threshold for financial statement recognition, measurement and disclosure of a tax position taken or expected to be taken on a tax return. Management is currently evaluating the impact, if any, the adoption of FIN 48 will have on the Fund's net assets and results of operations.

Investment Manager and Investment Adviser

The Fund has an Investment Management Agreement with Daiwa SB Investments (U.S.A.) Ltd. (the Manager). Daiwa SB Investments Ltd. (DSBI or the Adviser), an affiliate of the Manager, acts as the Fund's investment adviser pursuant to an Investment Advisory Agreement between the Manager and DSBI. For such investment services, the Fund is obligated to pay the Manager a monthly fee at an annual rate of 0.60% of the first \$20 million, 0.40% of the next \$30 million and 0.20% of the excess over \$50 million of the Fund's average weekly net assets, of which fee 60% is paid by the Manager to DSBI. In addition, the Fund has agreed to reimburse the Manager and the Adviser for all out-of-pocket expenses related to the Fund. During the year ended October 31, 2006, expenses of \$6,213 were paid to the Adviser, representing reimbursement to the Adviser of costs relating to the attendance by its employees at meetings of the Fund's Board. For the year ended October 31, 2006, no out-of-pocket expenses were paid to the Manager.

At October 31, 2006, the Fund owed \$33,103 to the Manager.

Administrator and Custodian and Other Related Parties

Daiwa Securities Trust Company (DSTC), an affiliate of the Adviser, provides certain administrative services to the Fund, for which the Fund pays to DSTC a monthly fee at an annual rate of 0.20% of the first \$60 million of the Fund's average weekly net assets, 0.15% of the next \$40 million and 0.10% of the excess over \$100 million, with a minimum annual fee of \$120,000. In addition, as permitted by the Administration Agreement, the Fund reimburses the Administrator for its out-of-pocket expenses related to the Fund. For the year ended October 31, 2006, no out-of-pocket expenses were paid to the Administrator.

The Board of Directors of the Fund has also approved the payment of the administrative compliance expense to the Fund in the amount of \$46,000 per annum to DSTC, for services provided by DSTC staff in implementing the Fund's compliance management system and the Fund's compliance review program. This amount is included in the administration fee in the Fund's Statement of Operations.

The Japan Equity Fund, Inc.

Notes to Financial Statements (continued)

DSTC also acts as custodian for the Fund's assets and has appointed Sumitomo Mitsui Banking Corporation (the Sub-Custodian), an affiliate of the Manager, to act as the sub-custodian for all of the cash and securities of the Fund held in Japan. As compensation for its services as custodian, DSTC receives a monthly fee and reimbursement of out-of-pocket expenses. Such expenses include fees and out-of-pocket expenses of the Sub-Custodian. During the year ended October 31, 2006, DSTC and the Sub-Custodian earned \$64,102 and \$80,001, respectively, as compensation for custodial service to the Fund.

At October 31, 2006, the Fund owed \$17,401, \$3,833 and \$5,436 to DSTC for administration, compliance and custodian fees, respectively, excluding fees and expenses of \$8,046 payable to the Sub-Custodian.

During the year ended October 31, 2006, the Fund paid or accrued \$49,185 for legal services in connection with the Fund's on-going operations to a law firm of which the Fund's Assistant Secretary is a partner.

Investments in Securities and Federal Income Tax Matters

For federal income tax purposes, the cost of securities owned at October 31, 2006 was \$100,171,369, excluding short-term interest bearing investments. At October 31, 2006, the net unrealized appreciation of investments for federal income tax purposes, excluding short-term securities, of \$21,785,371 was composed of gross appreciation of \$23,738,924 for those investments having an excess of value over cost, and gross depreciation of \$1,953,553 for those investments having an excess of cost over value. For the year ended October 31, 2006, total aggregate purchases and sales of portfolio securities, excluding short-term securities, were \$73,074,174 and \$72,019,070, respectively.

In order to present undistributed net investment income and accumulated net realized loss on investments on the Statement of Assets and Liabilities that more closely represent their tax character, certain adjustments have been made to paid-in capital in excess of par value, undistributed net investment income and accumulated net realized loss on investments.

For the year ended October 31, 2006, the adjustments were to increase net investment income by \$1,030,546, increase accumulated net realized loss on investments by \$286,322 and decrease paid-in capital in excess of par value by \$744,224 primarily relating to the reclassification of realized foreign currency losses, investment in a passive foreign investment company, non-deductible tax expenses and expiration of capital loss carryforwards. Net assets were not affected by this change.

During the current year, the Fund utilized capital loss carryforwards of \$10,599,898 and \$931,375 of capital loss carryforwards expired.

At October 31, 2006, the Fund had a remaining capital loss carryover of \$24,963,364, of which \$6,225,150 expires in the year 2009, \$13,474,882 expires in the year 2010 and \$5,263,332 expires in the year 2011 available to offset future net capital gains.

The Japan Equity Fund, Inc.

Notes to Financial Statements (concluded)

The tax basis components of distributable earnings differ from the amounts reflected in the Statement of Assets and Liabilities by temporary book/tax differences primarily arising from wash sales and investment in a passive foreign investment company. As of October 31, 2006, the components of accumulated earnings (deficit) on a tax basis were as follows:

Unrealized

<u>Net Investment Income</u>	<u>Accumulated Net Realized Loss</u>	<u>Appreciation/Depreciation</u>
\$1,285,714	\$24,963,364	\$21,782,060

The tax character of the distributions paid during the fiscal year ended October 31, 2006 was from ordinary income.

Capital Stock

There are 30,000,000 shares of \$.01 par value common stock authorized. During the year ended October 31, 2006, 733 shares were issued as a result of the reinvestment of dividends paid to those shareholders electing to reinvest dividends. Of the 14,421,650 shares of the Fund outstanding at October 31, 2006, Daiwa Securities America Inc., an affiliate of the Manager, Adviser and DSTC, owned 14,634 shares.

Subsequent Event

On December 7, 2006, a dividend was declared by the Board. The distribution of \$0.09 per share is payable on December 27, 2006, to shareholders of record at the close of business on December 18, 2006. The ex-dividend date is December 14, 2006.

*The Japan Equity Fund, Inc.***Financial Highlights**

Selected data for a share of capital stock outstanding during each year is presented below:

	For the Years Ended October 31,				
	2006	2005	2004	2003	2002
Net asset value, beginning of year	\$ 7.79	\$ 6.24	\$ 6.00	\$ 4.54	\$ 5.59
Net investment income (loss)	0.01	*	*	(0.02)	(0.04)
Net realized and unrealized gains (losses) on investments and foreign currency transactions	0.83	1.55	0.39	1.48	(1.01)
Net increase (decrease) in net asset value resulting from operations	0.84	1.55	0.39	1.46	(1.05)
Less: dividends and distributions to shareholders					
Net investment income	(0.05)				
Dilutive effect of rights offering			(0.12)		
Offering costs charged to paid-in capital in excess of par value			(0.03)		
Net asset value, end of year	\$ 8.58	\$ 7.79	\$ 6.24	\$ 6.00	\$ 4.54
Per share market value, end of year	\$ 8.14	\$ 8.51	\$ 6.08	\$ 7.16	\$ 4.15
Total investment return:					
Based on market price at beginning and end of year, assuming reinvestment of dividends	(3.68)%	39.97 %	(11.70)%	72.53 %	(16.83)%
Based on net asset value at beginning and end of year, assuming reinvestment of dividends	10.91 %	24.84 %	5.74 %	32.16 %	(18.78)%
Ratios and supplemental data:					
Net assets, end of year (in millions)	\$123.8	\$112.4	\$ 90.0	\$ 64.9	\$ 49.1
Ratios to average net assets of:					
Expenses	0.94 %	1.07 %	1.12 %	1.50 %	1.44 %
Net investment income (loss)	0.12 %	0.07 %	(0.06)%	(0.48)%	(0.74)%
Portfolio turnover	59.36 %	72.35 %	90.03 %	84.00 %	76.19 %

For the year ended October 31, 2004, the total investment return includes the benefit of shares resulting from the exercise of rights.

* Represents less than \$0.005 per share.

The Japan Equity Fund, Inc.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of

The Japan Equity Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The Japan Equity Fund, Inc. (the Fund) at October 31, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements) are the responsibility of the Fund s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2006 by correspondence with the custodian, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

New York, New York

December 7, 2006

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The Japan Equity Fund, Inc.

Tax Information (unaudited)

The Fund is required by Subchapter M of the Internal Revenue Code of 1986, as amended, to advise you within 60 days of the Fund's fiscal year end (October 31, 2006) as to the federal tax status of any distributions received by you during such fiscal year.

On July 14, 2006, the Board of Directors of the Fund approved a total distribution of \$0.0564 per share which represents a dividend from ordinary income. The dividend was payable on July 28, 2006, to shareholders of record at the close of business on July 21, 2006. The ex-dividend date was July 19, 2006.

On December 7, 2006, the Board of Directors of the Fund approved a total distribution of \$0.09 per share which represents a dividend from ordinary income. The dividend was payable on December 27, 2006, to share-holders of record at the close of business on December 18, 2006. The ex-dividend date was December 14, 2006.

There is no foreign tax deduction or credit available to shareholders for calendar year 2006.

The information reported herein may differ from the information and distributions taxable to the share-holders for the calendar year ending December 31, 2006. The information necessary to complete your income tax returns will be included with your Form 1099-DIV to be received under separate cover in January 2007.

Shareholders are strongly advised to consult their own tax advisors with respect to the tax consequences of their investment in the Fund.

*The Japan Equity Fund, Inc.***Information Concerning Directors and Officers (unaudited)**

The following table sets forth information concerning each of the Directors and Officers of the Fund. The Directors of the Fund will serve for terms expiring on the date of subsequent Annual Meetings of Stockholders in the year 2009 for Class I Directors, 2007 for Class II Directors and 2008 for Class III Directors, or until their successors are duly elected and qualified.

Name (Age) and Address of Directors/Officers	Principal Occupation or Employment During Past Five Years and Directorships in Publicly Held Companies	Director or Officer of Fund Since	Number of Funds in Fund Complex for Which Director Serves⁽¹⁾
Austin C. Dowling (74) 672 Medford Leas Medford, NJ 08055	Retired; Director, The Thai Capital Fund, Inc., since 1990; Director, The Singapore Fund, Inc., since 2000.	Class III Director since 1992	3
Martin J. Gruber (69) 229 South Irving Street Ridgewood, NJ 07450	Professor of Finance, Leonard N. Stern School of Business, New York University, since 1965; Director, The Thai Capital Fund, Inc., since 2000; Director, The Singapore Fund, Inc., since 2000; Trustee, DWS Mutual Funds, since 1992; Trustee, C.R.E.F., from 2001 to 2005 and Chairman from December 2003 to 2005; Director, National Bureau of Economic Research, since August 2005.	Class I Director since 1992	3
David G. Harmer (63) 4337 Bobwhite Court Ogden, UT 84403	Director of Community and Economic Development, City of Ogden, since July 2005; Public Services Department Director, City of Ogden, from February 2005 to July 2005; Executive Director, Department of Community and Economic Development for the State of Utah, from May 2002 to January 2005; Chairman, 2K2 Hosting Corporation, from April 2001 to April 2002; Director, The Thai Capital Fund, Inc., since 2000; Director, The Singapore Fund, Inc., since 1996.	Class II Director since 1997	3
*Hiroshi Kimura (53) One Evertrust Plaza Jersey City, NJ 07302-3051	Chairman and President, Daiwa Securities Trust Company, since July 2001.	Chairman of the Board and Class I Director since 2001	1
Oren G. Shaffer (64) 1801 California Street Denver, CO 80202	Vice Chairman and Chief Financial Officer, Qwest Communications International Inc., since July 2002; Director, The Thai Capital Fund, Inc., since 2000; Director, The Singapore Fund, Inc., since 1997.	Class II Director since 2000	3

*The Japan Equity Fund, Inc.***Information Concerning Directors and Officers (unaudited) (concluded)**

Name (Age) and Address of Directors/Officers	Principal Occupation or Employment During Past Five Years and Directorships in Publicly Held Companies	Director or Officer of Fund Since	Number of Funds in Fund Complex for Which Director Serves⁽¹⁾
Hideo Tanaka (57), 32 Old Slip New York, NY 10005	President and Chief Executive Officer, Daiwa SB Investments (USA) Ltd., since November 2006; Executive Officer and Head of Fixed-Income Management, Daiwa SB Investments Ltd., from 2003 to 2006; Chief Global Strategist, Daiwa SB Investments Ltd., from 1995 to 2003.	President of the Fund since December 2006	
John J. O. Keefe (47) One Evertrust Plaza Jersey City, NJ 07302-3051	Vice President and Treasurer, The Thai Capital Fund, Inc. and The Singapore Fund, Inc., since 2000; Vice President, Fund Accounting Department of Daiwa Securities Trust Company, since 2000.	Vice President and Treasurer of the Fund since 2000	
Yuko Tatezawa (28) One Evertrust Plaza Jersey City, NJ 07302-3051	Secretary, The Thai Capital Fund, Inc. and The Singapore Fund, Inc., since 2004; Client Reporting Department of Daiwa Securities Trust Company, since 2002.	Secretary of the Fund since 2004	
Anthony Cambria (52) One Evertrust Plaza Jersey City, NJ 07302-3051	Chief Compliance Officer, The Thai Capital Fund, Inc. and The Singapore Fund, Inc., since 2004; Director and Executive Vice President, Daiwa Securities Trust Company, since 1999.	Chief Compliance Officer of the Fund since 2004	
Leonard B. Mackey, Jr. (55) 31 West 52 nd Street New York, NY 10019-6131	Partner in the law firm of Clifford Chance US LLP, since 1983; Assistant Secretary, The Thai Capital Fund, Inc. and The Singapore Fund, Inc., since 2004.	Assistant Secretary of the Fund since 2004	

1 Fund Complex includes the Fund, The Thai Capital Fund, Inc. and The Singapore Fund, Inc., which are the only registered investment companies advised by SCB Asset Management Co., Ltd., Daiwa SB Investments (H.K.) Ltd., DBS Asset Management (United States) Pte. Ltd., Daiwa SB Investments (Singapore) Ltd., Daiwa SB Investments (USA) Ltd., Daiwa SB Investments Ltd. or their respective affiliates.

* Directors so noted are deemed by the Fund's counsel to be interested persons (as defined in the U.S. Investment Company Act of 1940, as amended). Mr. Kimura is deemed an interested person of the Fund because of his affiliation with Daiwa Securities Trust Company, an affiliate of the Fund's investment adviser, Daiwa SB Investments Ltd.



The Japan Equity Fund, Inc.

Board Consideration and Approval of Investment Advisory and Management Agreements (unaudited)

Nature, Extent and Quality of Services

At a meeting (the Meeting) of the Board of Directors of The Japan Equity Fund, Inc. held on June 1, 2006, the Board reviewed and considered the nature and extent of the investment advisory services provided by Daiwa SB Investments Ltd. (the Investment Adviser) under the Advisory Agreement and Daiwa SB Investments (USA) Ltd. (the Manager and, together with the Investment Adviser, the Advisers) under the Investment Management Agreement. The Board reviewed and considered the qualifications of the portfolio manager, the senior administrative managers and other key personnel of the Manager who provide the investment advisory services to the Fund. The Board determined that the portfolio manager and key personnel of the Manager are qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board also reviewed the services provided to the Fund by the Investment Adviser and the personnel of the Investment Adviser who provide those services. The Board concluded that the nature and extent of the advisory services provided were necessary and appropriate for the conduct of the business and investment activities of the Fund. The Board also concluded that the overall quality of the advisory services was satisfactory.

Performance Relative to the Fund's Benchmark

The Board reviewed the Fund's performance for the last one-, three- and five-year periods, as well as for the last 20 quarters, as provided in the materials distributed to the Board prior to the Meeting, compared to the Fund's benchmark, the Tokyo Stock Price Index. The Board noted that the Fund's performance for the last one-year period was higher than the Fund's benchmark, and was only slightly lower for the three- and five-year periods. The Board discussed with the Adviser the reasons for the underperformance in these periods. The Board also noted that, for the last 20 quarters, the Fund's performance varied as compared to the benchmark, however, the Fund, in most quarters, performed in line with, or only slightly below, the benchmark. The Board concluded that the Fund's overall performance was satisfactory.

Fees Relative to Other Funds Advised by the Advisers

The Board reviewed the advisory fee paid by the Fund under the Advisory Agreement and the Investment Management Agreement (together, the advisory fee). The Board also reviewed information showing the advisory fees paid by other funds managed by each of the Advisers as compared to the advisory fee paid by the Fund. The Board noted that the Manager does not manage any other closed-end funds that would provide an appropriate comparison to the Fund's advisory fee. The Board further noted that while the Investment Adviser does not manage any other U.S. registered funds, it does advise other Japanese equity funds with advisory fees that are equal to or higher than the advisory fee paid by the Fund. The Board concluded that the advisory fee paid by the Fund was appropriate as compared to other funds advised by the Advisers.

Fees and Expenses Relative to Comparable Funds Managed by Other Advisers

The Board considered the advisory fees paid by the other funds in the Fund Complex, The Singapore Fund, Inc. and The Thai Capital Fund, Inc., as compared to the advisory fee paid to the Fund's Advisers. The Board noted that the advisory fee paid by the Fund is lower than the advisory fees paid to The Singapore Fund, Inc. and The Thai Capital Fund, Inc. In addition, the Board reviewed the fee paid to the other U.S. registered closed-end fund investing in Japan. The Board noted that the advisory fee rate for the other fund was higher than for the Fund, although noting that the other fund generally invested in a different part of the Japanese market. In

The Japan Equity Fund, Inc.

Board Consideration and Approval of Investment Advisory and Management Agreements (unaudited) (concluded)

In addition, the Board examined the advisory fees paid to other closed-end funds investing in a single country. While the fees vary widely, the majority of these fees paid in connection with these country funds were in the 1.00% and higher range, especially for those funds that invested in countries in Asia. The Board concluded that the Fund's advisory fee was competitive with these other country funds. The Board further noted that the total expense ratio of the Fund was lower than that of the other funds in the Fund Complex and many other country funds, including the other U.S. registered closed-end fund investing in Japan, and concluded that the Fund's total expense ratio was competitive.

Breakpoints and Economies of Scale

The Board reviewed the structure of the Fund's advisory fee schedule under the Advisory Agreement and Investment Management Agreement and noted that it does include breakpoints. The Board considered that the Fund is closed-end. The Board concluded that economies of scale for this Fund were not a factor that needed to be considered at the current asset levels.

Profitability of the Advisers

The Board considered and reviewed a profitability report for each of the Advisers for the last year included in the materials previously provided to the Board. Based on their review of the information they received, the Board concluded that the profits earned by each Adviser were not excessive in light of the advisory services provided to the Fund.

Advisers Financially Sound and Financially Capable of Meeting the Fund's Needs

The Board considered whether each of the Advisers is financially sound and has the resources necessary to perform its obligations under the Advisory Agreement and Investment Management Agreement. The Board noted that each Adviser's operations remain profitable. The Board concluded that each of the Advisers has the financial resources necessary to fulfill its obligations under the Advisory Agreement and Investment Management Agreement.

Historical Relationship Between the Fund and the Advisers

The Board also reviewed and considered the historical relationship between the Fund and the Advisers, including the organizational structure of each of the Advisers, the policies and procedures formulated and adopted by each of the Advisers for managing the Fund's assets and the Board's confidence in the competence and integrity of the senior managers and key personnel of each of the Advisers. The Board concluded that it is beneficial for the Fund to continue its relationship with the Advisers.

Other Factors and Current Trends

The Board considered the controls and procedures adopted and implemented by each of the Advisers and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by each of the Advisers indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Fund's business.

General Conclusion

After considering and weighing all of the above factors, the Board concluded it would be in the best interests of the Fund and its shareholders to approve renewal of each of the Advisory Agreement and Investment Management Agreement for another year.

BOARD OF DIRECTORS

Hiroshi Kimura, *Chairman*

Austin C. Dowling

Martin J. Gruber

David G. Harmer

Oren G. Shaffer

OFFICERS

Hideo Tanaka

President

John J. O Keefe

Vice President and Treasurer

Yuko Tatezawa

Secretary

Anthony Cambria

Chief Compliance Officer

Leonard B. Mackey, Jr.

Assistant Secretary

ADDRESS OF THE FUND

c/o Daiwa Securities Trust Company

One Evertrust Plaza, 9th Floor

Jersey City, NJ 07302-3051

INVESTMENT MANAGER

Daiwa SB Investments (U.S.A.) Ltd.

INVESTMENT ADVISER

Daiwa SB Investments Ltd.

ADMINISTRATOR AND CUSTODIAN

Daiwa Securities Trust Company

TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company

Annual Report

October 31, 2006

The Japan Equity Fund, Inc.

c/o Daiwa Securities Trust Company One Evertrust Plaza

Jersey City, New Jersey 07302

LEGAL COUNSEL

Clifford Chance US LLP

INVESTMENT MANAGER

Daiwa SB Investments (U.S.A.) Ltd.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM INVESTMENT ADVISER

PricewaterhouseCoopers LLP

Daiwa SB Investments Ltd.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that from time to time the Fund may purchase shares of its common stock in the open market at prevailing market prices.

This report is sent to shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in the report.

Item 2. Code of Ethics.

- (a) The registrant has adopted a code of ethics (the Code of Ethics) that applies to the registrant's principal executive officer and principal financial and accounting officer. A copy of the registrant's Code of Ethics is attached hereto as Exhibit 12(a).
- (b) No information need be disclosed pursuant to this paragraph.
- (c) The registrant has not amended the Code of Ethics during the period covered by the shareholder report presented in Item 1 hereto.
- (d) The registrant has not granted a waiver or an implicit waiver from a provision of the Code of Ethics during the period covered by this report.
- (e) Not applicable.
- (f)
 - (1) The Code of Ethics is attached hereto as Exhibit 12(a).
 - (2) Not applicable.
 - (3) Not applicable.

Item 3. Audit Committee Financial Expert.

The registrant's board of directors has determined that the registrant has at least one audit committee financial expert serving on its audit committee. The audit committee financial expert is Oren G. Shaffer who is independent for purposes of this item.

Item 4. Principal Accountant Fees and Services.

(a)(b)(c)(d) and (g). Based on fees billed for the periods shown:

2006	Registrant	Covered Entities⁽¹⁾
Audit Fees	\$74,700	N/A
Non-Audit Fees		
Audit-Related Fees		\$0
Tax Fees	(2) \$9,400	\$0
All Other Fees		\$0
Total Non-Audit Fees	\$9,400	\$0
Total	\$84,100	
 2005		
Audit Fees	\$70,700	N/A
Non-Audit Fees		
Audit-Related Fees		\$0
Tax Fees	(2) \$8,900	\$0

All Other Fees		\$0
Total Non-Audit Fees	\$8,900	\$0
Total	\$79,600	

N/A- Not applicable, as not required by Item 4.

(1) Covered Entities include the registrant's investment adviser (excluding any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by or under common control with the registrant's adviser that provides ongoing services to the registrant.

(2) Tax Fees represent fees received for tax compliance services provided to the registrant, including the review of tax returns.

(e) (1) Before the registrant's principal accountant is engaged to render audit or non-audit services to the registrant and non-audit services to the registrant's investment adviser and its affiliates, each engagement is approved by the registrant's audit committee.

(e) (2) 100% of the services described in each of (b) through (d) of this Item 4 were approved by the registrant's audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

(f) Not applicable.

(g) See table above.

(h) The registrant's audit committee of the board of directors has considered whether the provision of non-audit services that were rendered to Covered Entities that were not pre-approved pursuant to paragraph (C)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the auditors' independence in performing audit services.

Item 5. Audit Committee of Listed Registrants.

The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the audit committee are as follows: Austin C. Dowling, Martin J. Gruber, David G. Harmer and Oren G. Shaffer.

Item 6. Schedule of Investments.

A Schedule of Investments is included as part of the report to shareholders filed under Item 1.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

The registrant has delegated to its investment adviser the voting of proxies relating to the registrant's portfolio securities. The registrant's policies and procedures and those used by the investment

adviser to determine how to vote proxies relating to the registrant's portfolio securities, including the procedures used when a vote presents a conflict of interest involving the investment adviser or any of its affiliates, are contained in the investment adviser's Proxy Voting Guidelines, which are attached hereto as Exhibit 12(c).

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

Naoto Nagai, CFA, is currently responsible for the day-to-day management of the Fund. He has been managing the Fund since October 2006. Daiwa SB Investments Ltd., the Fund's investment adviser, has employed Mr. Nagai as an equity fund manager since August 2006. Prior to that time, Mr. Nagai was a fund manager and research analyst at Resona Trust Company Japan.

Other Accounts Managed by the Portfolio Managers. As of October 31, 2006, Mr. Nagai managed two mutual funds with a total of \$227 million in assets; no other pooled investment vehicles nor other accounts were managed by Mr. Nagai.

Because Mr. Nagai manages assets for other investment companies, there may be an incentive to favor one client over another resulting in conflicts of interest. For instance, Daiwa SB Investments Ltd. may receive fees from certain funds managed by Mr. Nagai that are higher than the fee it receives from the Fund. In those instances, Mr. Nagai may have an incentive to favor the higher fee accounts over the Fund. Daiwa SB Investments Ltd. has adopted trade allocation and other policies and procedures that it believes are reasonably designed to address these and other conflicts of interest.

Securities Ownership of Portfolio Managers. As of October 31, 2006, Mr. Nagai did not beneficially own any securities in the Fund.

Portfolio Manager Compensation Structure. Mr. Nagai receives a combination of base compensation and discretionary compensation, comprising a cash bonus and several deferred compensation programs described below. The methodology used to determine portfolio manager compensation is applied across all accounts managed by Mr. Nagai.

Generally, Mr. Nagai receives base salary compensation based on the level of his position with the investment adviser. In addition to base compensation, Mr. Nagai may receive discretionary compensation. Discretionary compensation is comprised of a cash bonus. The bonus is calculated from fund performance, contribution to the business objectives of the investment adviser, the dollar amount of assets under management, client contribution or any market compensation contributions.

Item 9. Purchase of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

There were no purchases of equity securities made by the Fund or any affiliated purchasers during the period of this report.

Item 10. Submission of Matters to a Vote of Security Holders.

There have been no material changes to the procedures by which shareholders may recommend nominees to the registrant's board of directors.

Item 11. Controls and Procedures.

- (a) The registrant's principal executive and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of this Form N-CSR based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the 1934 Act (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's second fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12. Exhibits.

- (a) Code of Ethics for Principal Executive and Senior Financial Officers.
- (b) Certifications required by Rule 30a-2(a) of the Investment Company Act of 1940, as amended, and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.
- (c) Proxy Voting Guidelines for the registrant and its adviser.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Japan Equity Fund, Inc.

By \s\ John J. O Keefe

John J. O Keefe, Vice President & Treasurer

Date: December 26, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By \s\ John J. O Keefe

John J. O Keefe, Vice President & Treasurer

Date: December 26, 2006

By \s\ Hiroshi Kimura

Hiroshi Kimura, Chairman

Date: December 26, 2006



EXHIBIT 12(a)

CODE OF ETHICS FOR PRINCIPAL EXECUTIVE AND SENIOR FINANCIAL

OFFICERS

- I.** This Code of Ethics (the Code) for The Thai Capital Fund, Inc., The Japan Equity Fund, Inc. and The Singapore Fund, Inc. (each a Fund and collectively the Funds) applies to each Fund's President and Treasurer (or persons performing similar functions) (Covered Officers) for the purpose of promoting:
- * honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
 - * full, fair, accurate, timely and understandable disclosure in reports and documents that a Fund files with, or submits to, the Securities and Exchange Commission (SEC) and in other public communications made by a Fund;
 - * compliance with applicable laws and governmental rules and regulations;
 - * prompt internal reporting of violations of the Code to an appropriate person or persons identified in the Code; and
 - * accountability for adherence to the Code.

Each Covered Officer should adhere to a high standard of business ethics and should be sensitive to situations that may give rise to actual as well as apparent conflicts of interest. A Fund will expect all Covered Officers to comply at all times with the principles in this Code. A violation of this Code by an employee is grounds for disciplinary action up to and including discharge and possible legal prosecution. Any question about the application of the Code should be referred to the Audit Committee of the Fund's Board of Directors (the Audit Committee).

II. Covered Officers Should Handle Ethically Actual and Apparent Conflicts of Interest

Overview. A conflict of interest occurs when a Covered Officer's private interest interferes with the interests of, or his service to, a Fund. For example, a conflict of interest would arise if a Covered Officer, or a member of his family, receives improper personal benefits as a result of his position with a Fund.

Certain conflicts of interest arise out of the relationships between Covered Officers and a Fund and already are subject to conflict of interest provisions in the Investment Company Act of 1940 (the Investment Company Act) and the Investment Advisers Act of 1940 (the Investment Advisers Act). For example, Covered Officers may not individually engage in certain transactions (such as the purchase or sale of securities or other property) with a Fund because of their status as affiliated persons of a Fund. The compliance programs and procedures of a Fund and the Fund's Investment Manager and Investment Adviser are designed to prevent, or identify and correct, violations of these provisions. Certain conflicts of interest also arise out of the personal securities trading activities of the Covered Officers and the possibility that they may use information regarding a Fund's securities trading activities for their personal benefit. Each Fund's Code of Ethics under Rule 17j-1 under the Investment Company Act is designed to address these conflicts of interest. This Code does not, and is not intended to, replace

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these programs and procedures or a Fund's Rule 17j-1 Code of Ethics, and this Code's provisions should be viewed as being additional and supplemental to such programs, procedures and code.

Although typically not presenting an opportunity for improper personal benefit, conflicts arise from, or as a result of, the contractual relationship between a Fund and its Investment Adviser or Investment Manager of which the Covered Officers are also officers or employees. As a result, this Code recognizes that the Covered Officers will, in the normal course of their duties (whether formally for a Fund or for its Investment Adviser or Investment Manager, or for all parties), be involved in establishing policies and implementing decisions that will have different effects on the Investment Adviser or Investment Manager and a Fund. The participation of the Covered Officers in such activities is inherent in the contractual relationship between a Fund and its Investment Adviser or Investment Manager and is consistent with the performance by the Covered Officers of their duties as officers of a Fund. Thus, if performed in conformity with the provisions of the Investment Company Act and the Investment Advisers Act, such activities will be deemed to have been handled ethically. In addition, it is recognized by a Fund's Board of Directors (the Board) that the Covered Officers may also be officers or employees of one or more other investment companies covered by other codes.

Each Covered Officer must not:

- * use his personal influence or personal relationships improperly to influence investment decisions or financial reporting by a Fund whereby the Covered Officer would benefit personally to the detriment of a Fund;
- * cause a Fund to take action, or fail to take action, for the individual personal benefit of the Covered Officer rather than the benefit of the Fund; and
- * use material non-public knowledge of portfolio transactions made or contemplated for, or actions proposed to be taken by, a Fund to trade personally or cause others to trade personally in contemplation of the market effect of such transactions.

Each Covered Officer must, at the time of signing this Code, report all material business affiliations outside a Fund and must update the report annually.

Covered Officers should avoid situations which involve the appearance of, or potential for, conflicts of interest. Examples of these situations include:

- * accepting directly or indirectly, anything of value, including gifts and gratuities in excess of \$100 per year from any person or entity with which a Fund has current or prospective business dealings, not including occasional meals or tickets to theatre or sporting events or other similar entertainment, provided it is business-related, reasonable in cost, appropriate as to time and place and not so frequent as to raise any question of impropriety;
- * any ownership interest in, or any consulting or employment relationship with, any of a Fund's service providers, other than its Investment Adviser or Investment Manager or any affiliated person thereof; and
- * a direct or indirect financial interest in commissions, transaction charges or spreads paid by a Fund for effecting portfolio transactions or for selling or redeeming shares other than an interest arising from the Covered Officer's employment, such as compensation or equity ownership.

In situations involving a Covered Officer which involve the appearance of, or the potential for, conflicts of interest, but where the Covered Officer believes that no significant conflict of interest exist, the Covered Officer must obtain prior written approval from the Audit Committee before becoming involved in that situation. No such approval shall be considered a waiver of this Code.

III. Disclosure and Compliance

- * Each Covered Officer should familiarize himself with the disclosure and compliance requirements generally applicable to a Fund;
- * Each Covered Officer should not knowingly misrepresent, or cause others to misrepresent, facts about a Fund to others, whether within or outside a Fund, including to a Fund's directors and auditors, or to governmental regulators and self-regulatory organizations;
- * Each Covered Officer should, to the extent appropriate within his area of responsibility, consult with other officers and employees of a Fund and its Investment Adviser or Investment Manager with the goal of promoting full, fair, accurate, timely and understandable disclosure in the reports and documents a Fund files with, or submits to, the SEC and in other public communications made by a Fund; and
- * It is the responsibility of each Covered Officer to promote compliance with the standards and restrictions imposed by applicable laws, rules and regulations.

IV. Reporting and Accountability

Each Covered Officer must:

- * upon adoption of the Code or (thereafter as applicable, upon becoming a Covered Officer), affirm in writing to the Board that he has received, read and understands the Code;
- * annually thereafter affirm to the Board that he has complied with the requirements of the Code;
- * not retaliate against any other Covered Officer or any employee of a Fund or their affiliated persons for reports of potential violations that are made in good faith; and
- * notify the Audit Committee promptly if he knows of any violation of this Code. Failure to do so is itself a violation of this Code.

The Audit Committee is responsible for applying this Code to specific situations in which questions are presented under it and has the authority to interpret this Code in any particular situation. Any waivers sought by a Covered Officer must be considered by the Audit Committee.

A copy of this Code shall be delivered to each employee of a Fund and each employee of its Investment Adviser and Investment Manager annually together with a memorandum requesting that any violations of the Code be communicated immediately to the Audit Committee.

Each Fund will follow these procedures in investigating and enforcing this Code:

- * the Audit Committee will take all appropriate action to investigate any potential violations reported to it;
- * if, after such investigation, the Audit Committee believes that no violation has occurred, the Audit Committee is not required to take any further action;
- * if the Audit Committee determines that a violation has occurred, it will consider appropriate action, which may include review of, and appropriate modifications to, applicable policies and procedures; notification to appropriate personnel of the Investment Adviser or its board; or a recommendation to dismiss the Covered Officer;
- * the Audit Committee will be responsible for granting waivers of this Code, as appropriate; and
- * any changes to or waivers of this Code will, to the extent required, be disclosed as provided by SEC rules.

V. Changes To or Waivers of the Code

No change to or waiver of any provision of this Code will be effective until a Fund discloses the nature of any amendment to, or waiver from, a provision of the Code in its Form N-CSR, or on its website within five business days following the date of the amendment or waiver if this method of disclosure has been established in its Form N-CSR and made available on its website for twelve months. Any waiver of provisions of this Code will be reported in filings with the SEC and otherwise reported to a Fund's stockholders to the full extent required by the rules of the SEC and by any applicable rules of any securities exchange on which a Fund's securities are listed.

VI. Other Policies and Procedures

This Code shall be the sole code of ethics adopted by each Fund for purposes of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules and forms applicable to registered investment companies thereunder. Insofar as other policies or procedures of a Fund or its Investment Adviser, Investment Manager or other service providers govern or purport to govern the behavior or activities of the Covered Officers who are subject to this Code, they are superseded by this Code to the extent that they conflict with the provisions of this Code.

VII. Amendments

Any amendments to this Code must be approved or ratified by a majority vote of the Audit Committee and the Board, including a majority of directors who are not interested persons as defined in the Investment Company Act.

VIII. Confidentiality

All reports and records prepared or maintained pursuant to this Code will be considered confidential and shall be maintained and protected accordingly. Except as otherwise required by law or this Code, such matters shall not be disclosed to anyone other than the Audit Committee, the Board, the Fund and its counsel and its Investment Adviser and Investment Manager and their respective counsel.

IX. Internal Use

The Code is intended solely for the internal use by a Fund and does not constitute an admission, by or on behalf of a Fund, as to any fact, circumstance or legal conclusion.

I have read and understand the terms of the Code. I recognize the responsibilities and obligations incurred by me as a result of my being subject to the Code. I hereby agree to abide by the Code.

Date: _____

EXHIBIT 12(b)

CERTIFICATION

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John J. O. Keefe, certify that:

1. I have reviewed this report on Form N-CSR of The Japan Equity Fund, Inc.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, changes in net assets, and cash flows (if the financial statements are required to include a statement of cash flows) of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 30a-2(c) under the Investment Company Act of 1940) and internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of a date within 90 days prior to the filing date of this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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- (a) all significant deficiencies and material weaknesses in the design or operation of internal control which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: December 26, 2006

\\John J. O. Keefe

John J. O. Keefe, Vice President & Treasurer

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CERTIFICATION

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Hiroshi Kimura, certify that:

1. I have reviewed this report on Form N-CSR of The Japan Equity Fund, Inc.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, changes in net assets, and cash flows (if the financial statements are required to include a statement of cash flows) of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 30a-2(c) under the Investment Company Act of 1940) and internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of a date within 90 days prior to the filing date of this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) all significant deficiencies and material weaknesses in the design or operation of internal control which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: December 26, 2006

\\ Hiroshi Kimura

Hiroshi Kimura, Chairman

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CERTIFICATION

PURSUANT TO SECTION 906

OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Vice President and Treasurer of The Japan Equity Fund, Inc. (the Fund), with respect to the Form N-CSR for the period ended October 31, 2006 as filed with the Securities and Exchange Commission, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. such Form N-CSR fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in such Form N-CSR fairly presents, in all material respects, the financial condition and results of operations of the Fund.

Dated: December 26, 2006

/s/ John J. O Keefe

John J. O Keefe

This certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION

PURSUANT TO SECTION 906

OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Chairman of The Japan Equity Fund, Inc. (the Fund), with respect to the Form N-CSR for the period ended October 31, 2006 as filed with the Securities and Exchange Commission, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. such Form N-CSR fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in such Form N-CSR fairly presents, in all material respects, the financial condition and results of operations of the Fund.

Dated: December 26, 2006

/s/ Hiroshi Kimura

Hiroshi Kimura

This certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

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EXHIBIT 12(c)

The Japan Equity Fund, Inc.

Proxy Voting Policy and Procedures

The Board of Directors of The Japan Equity Fund, Inc. (the **Fund**) hereby adopts the following policy and procedures with respect to voting proxies relating to Fund securities managed by Daiwa SB Investments (USA) Ltd. (the **Investment Manager**).

I. Policy

It is the policy of the Board of Directors of the Fund (the **Board**) to delegate the responsibility for voting proxies relating to securities held by the Fund to the Investment Manager as part of the Manager's general management of the Fund's assets, subject to the Board's continuing oversight. The Board of Directors of the Fund hereby delegates such responsibility to the Investment Manager, and directs the Investment Manager to vote proxies relating to Fund portfolio securities managed by the Investment Manager consistent with the duties and procedures set forth below. The Investment Manager may retain one or more vendors to review, monitor and recommend how to vote proxies in a manner consistent with the duties and procedures set forth below, to ensure such proxies are voted on a timely basis and to provide reporting and/or record retention services in connection with proxy voting for the Fund.

II. Fiduciary Duty

The right to vote a proxy with respect to securities held by the Fund is an asset of the Fund. The Investment Manager, to which authority to vote on behalf of the Fund is delegated, acts as a fiduciary of the Fund and must vote proxies in a manner consistent with the best interest of the Fund and its shareholders. In discharging this fiduciary duty, the Investment Manager must maintain and adhere to its policies and procedures for addressing conflicts of interest and must vote in a manner substantially consistent with its policies, procedures and guidelines, as presented to the Board.

III. Procedures

The following are the procedures adopted by the Board for the administration of this policy.

- A. Review of Investment Manager's Proxy Voting Procedures. The Investment Manager shall present to the Board their policies, procedures and other guidelines for voting proxies at least annually, and must notify the Board promptly of material changes to any of these documents, including changes to policies addressing conflicts of interest.
- B. Voting Record Reporting. The Investment Manager shall provide the voting record information necessary for the completion and filing of Form-NPX to the Fund at least annually. Such voting record information shall be in a form acceptable to the Fund and shall be provided at such time(s) as are required for the timely filing of Form-NPX and at such additional time(s) as the Fund and the Investment Manager may agree from time to time. With respect to those proxies that the Investment Manager has identified as involving a conflict of interest¹, the Investment Manager shall submit a separate report indicating the nature of the conflict of interest and how that conflict was resolved with respect to the voting of the proxy.

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- C. Record Retention. The Investment Manager shall maintain such records with respect to the voting of proxies as may be required by the Investment Advisers Act of 1940 and the rules promulgated thereunder or by the Investment Company Act of 1940 and the rules promulgated thereunder.
- D. Conflicts of Interest. Any actual or potential conflicts of interest between the Investment Manager and the Fund's shareholders arising from the proxy voting process will be addressed by the Investment Manager and the Investment Manager's application of its proxy voting procedures pursuant to the delegation of proxy voting responsibilities to the Investment Manager. In the event that the Investment Manager notifies the officer(s) of the Fund that a conflict of interest cannot be resolved under the Investment Manager's Proxy Voting Procedures, such officer(s) are responsible for notifying the Chairman of the Board of the Fund of the irreconcilable conflict of interest and assisting the Chairman with any actions he determines are necessary.

IV. Revocation

The delegation by the Board of the authority to vote proxies relating to securities of the Fund is entirely voluntary and may be revoked by the Board, in whole or in part, at any time.

V. Annual Filing

The Fund shall file an annual report of each proxy voted with respect to securities of the Fund during the twelve-month period ended June 30 on Form N-PX not later than August 31 of each year².

VI. Disclosures

- A. The Fund shall include in its annual report filed on Form N-CSR:
 - 1. a description of this policy and of the policies and procedures used by the Fund and the Investment Manager to determine how to vote proxies relating to portfolio securities or copies of such policies and procedures; and
 - 2. a statement disclosing that a description of the policies and procedures used by or on behalf of the Fund to determine how to vote proxies relating to securities of the Fund is available without charge, upon request, by calling the Fund's toll-free telephone number; through a specified Internet address, if applicable; and on the SEC's website; and
 - 3. a statement disclosing that information regarding how the Fund voted proxies relating to Fund securities during the most recent 12-month period ended June 30 is available without charge, upon request, by calling the Fund's toll-free telephone number; or through a specified Internet address; or both; and on the SEC's website.

VII. Review of Policy

The Board shall review from time to time this policy to determine its sufficiency and shall make and approve any changes that it deems necessary from time to time.

Adopted: November 25, 2003

1 As it is used in this document, the term "conflict of interest" refers to a situation in which the Investment Manager or affiliated persons of the Investment Manager have a financial interest in a matter presented by a proxy other than the obligation they incur as Investment Manager to the Fund which could potentially compromise the Investment Manager's independence of judgment and action with respect to the voting of the proxy.

2 The Fund must file its first report on Form N-PX not later than August 31, 2004, for the twelve-month period beginning July 1, 2003, and ending June 30, 2004.

Proxy voting policy for Daiwa SB Investments (USA) Ltd.

Statement of Policies and Procedures for

Voting Proxies

Introduction

As a registered investment adviser, Daiwa SB Investments (USA) Ltd. (Daiwa, we or us) has a fiduciary duty to act solely in the best interests of our clients. As part of this duty, we recognize that we must exercise voting rights in the best interests of our clients.

Daiwa recognizes the importance of good corporate governance in ensuring that management and boards of directors fulfill their obligations to shareholders. As part of our investment process, we take into account the attitudes of management and boards of directors on corporate governance issues when deciding whether to invest in a company.

Daiwa is a global investment manager, and invests significantly in emerging markets. It should be noted that protection for shareholders may vary significantly from jurisdiction to jurisdiction, and in some cases may be substantially less than in the U.S. or developed countries.

This statement is intended to comply with Rule 206(4)-6 of the Investment Advisers Act of 1940. It sets forth the policy and procedures of Daiwa for voting proxies for our clients, including investment companies registered under the Investment Company Act of 1940.

PROXY VOTING POLICIES

It is the general policy of Daiwa to support management of the companies in which it invests and will cast votes in accordance with management's proposals. However, Daiwa reserves the right to depart from this policy in order to avoid voting decisions that we believe may be contrary to our clients' best interests.

Elections of Directors: In many instances, election of directors is a routine voting issue. Unless there is a proxy fight for seats on the Board or we determine that there are other compelling reasons for withholding votes for directors, we will vote in favor of the management proposed slate of directors. That said, we believe that directors have a duty to respond to shareholder actions that have received significant shareholder support. We may withhold votes for directors that fail to act on key issues such as failure to implement proposals to declassify boards, failure to implement a majority vote requirement, failure to submit a rights plan to a shareholder vote and failure to act on tender offers where a majority of shareholders have tendered their shares.

Appointment of Auditors: The selection of an independent accountant to audit a company's financial statements is generally a routine business matter. Daiwa believes that management remains in the best position to choose the accounting firm and will generally support management's recommendation.

Changes in Capital Structure: Changes in a company's charter, articles of incorporation or by-laws are often technical and administrative in nature. Absent a compelling reason to the contrary, Daiwa will cast its votes in accordance with the company's management on such proposals. However, we will

review and analyze on a case-by-case basis any non-routine proposals that are likely to affect the structure and operation of the company or have a material economic effect on the company.

Corporate Restructurings, Mergers and Acquisitions: Daiwa believes proxy votes dealing with corporate reorganizations are an extension of the investment decision and will take account of our investment process policy in deciding how to vote.

Corporate Governance: Daiwa recognizes the importance of good corporate governance in ensuring that management and the board of directors fulfill their obligations to the shareholders. We generally favor proposals promoting transparency and accountability within a company.

Social and Corporate Responsibility: Daiwa recognizes the importance of supporting sound and responsible policies in relation to social, political and environmental issues. However, in the interests of shareholders, we reserve the right to vote against proposals that are unduly burdensome or result in unnecessary and excessive costs to the company. We may abstain from voting on social proposals that do not have a readily determinable financial impact on shareholder value.

Executive Compensation: Daiwa believes that company management and the compensation committee of the board of directors should, within reason, be given latitude to determine the types and mix of compensation and benefit awards offered. Whether proposed by a shareholder or management, we will review proposals relating to executive compensation plans and, if deemed excessive, may vote against the proposals.

PROXY VOTING PROCEDURES

Proxy voting

Our portfolio management team is responsible for the coordination of Daiwa's proxy voting. They liaise with the Product managers and/or the Proxy voting committee to ascertain how Daiwa will vote. They will then instruct the relevant Custodians. The portfolio management team is also responsible for ensuring that full and adequate records of proxy voting are kept.

The Product managers will implement the Proxy voting policies by instructing proxy voting in accordance with the general principles contained herein.

Proxy Voting Committee

We have formed a Proxy Voting Committee to regularly review our general proxy policies and consider specific proxy voting matters as and when deemed necessary. Members of the committees include senior investment personnel and representatives of the Legal & Compliance Department. The committee may also evaluate proxies where we face a material conflict of interest (as discussed below).

Conflicts of Interest

Daiwa recognizes that there is a potential conflict of interest when we vote a proxy solicited by an issuer with whom we have any material business or personal relationship that may affect how we vote on the issuer's proxy. We believe that oversight by the proxy voting committee ensures that proxies are voted with only our clients' best interests in mind. In order to avoid any perceived conflict of interests, the following procedures have been established for use when we encounter a potential conflict.

The portfolio management team will refer to the Legal and compliance team any proxy votes that are issued by existing clients or where Daiwa holds a significant voting percentage of the company. The Legal and compliance team will make the initial determination about whether a material conflict of interest exists based on the facts and circumstances of each particular situation.

If our proposed vote is consistent with our stated proxy voting policy, no further review is necessary.

If our proposed vote is contrary to our stated proxy voting policy but is also contrary to management's recommendation, no further review is necessary.

If our proposed vote is contrary to our stated proxy voting policy and is consistent with management's recommendation, the proposal is escalated to the proxy committee for final review and determination.

Proxies of Certain Non-U.S. Issuers

Proxy voting in certain countries requires share blocking. That is, shareholders wishing to vote their proxies must deposit their shares shortly before the date of the meeting (usually one-week) with a designated depository. During this blocking period, shares that will be voted at the meeting cannot be sold until the meeting has taken place and the shares are returned to the clients' custodian banks. Daiwa may determine that the value of exercising the vote does not outweigh the detriment of not being able to transact in the shares during this period. Accordingly, if share blocking is required we may abstain from voting those shares. In such a situation we would have determined that the cost of voting exceeds the expected benefit to the client.

PROXY VOTING RECORD

Clients may obtain information on how Daiwa voted with respect to their proxies by contacting our Client services team at Daiwa SB Investments (USA) Ltd., 32 Old Slip, 11th Floor, New York, New York, Tel No. 212-612-8500, Fax No. 212-612-8518/8519 or email y_uematsu@dsbiusa.net