

The Daiwa Bank, Limited  
The Kinki Osaka Bank, Limited  
The Nara Bank, Limited

August 1, 2001

## **Announcement with Regard to the Management Consolidation of the Daiwa Bank Group**

The Daiwa Bank, Limited ("Daiwa Bank," hereinafter, President: Yasuhisa Katsuta), The Kinki Osaka Bank, Limited ("Kinki Osaka Bank," hereinafter, President: Yasuhiro Takatani) and The Nara Bank, Limited ("Nara Bank," hereinafter, President: Masao Nomura) reached an basic agreement today to consolidate the operations of the three banks under a holding company structure, contingent upon the approvals of shareholders and regulatory authorities.

### **1. Gist of the Management Consolidation**

The three banks have concluded strategic tie-ups and implemented various measures as a group to strengthen their marketing capabilities and to raise cost competitiveness through group-wide efforts to rationalize operations. In addition, the three banks have been giving considerations to forming a financial holding company, as was announced when the strategic tie-ups among the three banks were concluded.

In this process, the three banks came to an agreement to consolidate the operations and embark on business restructuring under a holding company structure based on the following principles.

The three banks are committed to proceeding with the integration process in a speedy manner, establishing a management structure appropriate to a superregional bank, and improving the quality of services to customers.

In addition, regardless of the existing group framework comprised of the three banks, the Daiwa Bank Group will actively work on materializing the alliances with other financial institutions, and aims to be a consortium of regional financial institutions that can offer high quality financial services.

#### **<Principles for the Management Consolidation>**

Creating a "superregional bank" that represents Japan

- Pursuing an operation style that distinguishes the group from the so-called mega-banks or other regional banks -
- Providing customers with high-quality financial services, responding to and meeting expectations of customers, and contributing broadly to the society
- Maximizing corporate values by ensuring management transparency and soundness, and obtaining the understanding and trust of the society.
- Creating corporate culture that rewards innovative ideas and devotions

## 2. Superregional Bank that the Daiwa Bank Group aims to become

Daiwa Bank Group aims to become a superregional bank, which will differentiate itself from the so-called mega banks or regional banks, by fusing the high value-added financial services equal in quality to those offered by city banks and face-to-face interface with local customers, which is the strength of regional banks.

While formulating various common policies to follow, each of the subsidiary banks will maintain its style of operation based on the specificity of the regions in which it operates. The holding company and trust business subsidiary will provide these banking business subsidiaries with sophisticated know-how and trust functions as common platforms.

Under this management framework, each subsidiary will assume a specific role to play in the group, and is expected to accumulate know-how and expertise in each of the specialized fields. By connecting these in an organic manner, the Daiwa Bank Group will offer its customers the best quality financial services.

In addition, the Daiwa Bank Group adopts an open-door policy vis-à-vis other regional financial institutions that hope to join the group in the future, and aims to be a consortium of regional financial institutions.

### **<Establishment of Management Framework as a Superregional Bank>**

#### **Holding company that supervises the operations of the group**

- Holding company, as an entity that controls the overall operations of the group, will be responsible for keeping the integrity of the operations of the subsidiaries. It will assume such roles as formulating group business strategies, allocating group management resources, and supervising the operations of its subsidiaries.

#### **Common platforms that enables offering of higher quality financial services**

- Other than the aforementioned functions, the holding company will also offer its subsidiaries such functions as developments of common products and services and other business planning. By providing these functions, the holding company will help its subsidiaries strengthen their ability to offer their customers superior products and services.
- New trust bank, which will be newly established as a subsidiary of the holding company, following the spin-off of trust business unit of Daiwa Bank, will also provide other subsidiary banks with sophisticated trust business functions.
- Broad area bank, which will be established with large-scale branches of Daiwa Bank at its core, will offer the region-based banking subsidiaries specialized services and know-how in such fields as private banking and others.
- Furthermore, in order to strengthen these functions further, Daiwa Bank Group will consider making the trust bank subsidiary a joint venture, and actively seek to materialize alliances in other business fields as well.

#### **Region-based banking subsidiaries**

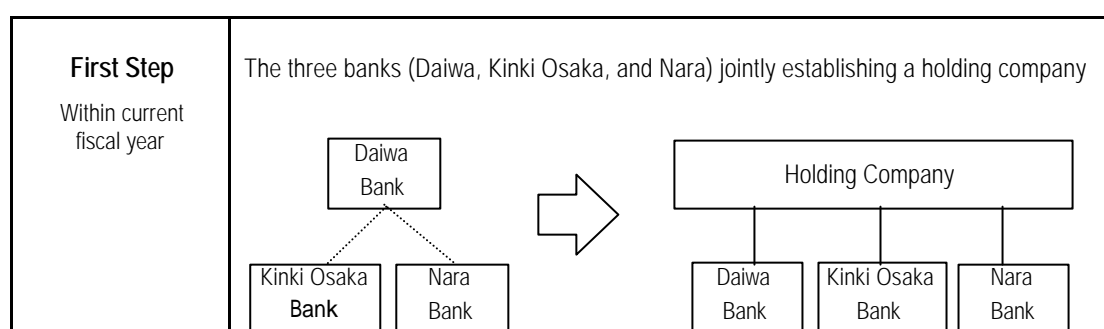
- Under the holding company, the three banks will be reorganized into region-based banks. Furthermore, the Daiwa Bank Group will work on fortifying its network and customer base by seeking other regional financial institutions to join the group.

- Each of the region-based subsidiary banks will maintain its status as a regional financial institution, and will develop its own operation style in accordance with the factors specific to its local region such as the characteristics of the local economy and profile of its principal customers. Furthermore, the region-based subsidiary banks will strive to build a management and cost structure well suited to their operations.

### 3. Outline of the Management Consolidation and Business Restructuring

#### (1) Establishment of a Holding Company

As a first step, the three banks will jointly establish a holding company using stock transfer scheme within the current fiscal year.



Since the three banks will be indirectly owned by the same shareholders as a result of the stock transfer, they will be more induced to make strategic decisions to implement measures for maximizing group profits and accelerating the efforts to raise management efficiency.

Planning, marketing and administrative functions of the three banks will be centralized to the holding company, and it will assume the coordinating role for keeping the integrity of the operations of the subsidiary banks. By eliminating redundant head-office functions, this arrangement will contribute to the streamlining of head-office divisions and personnel.

#### <Outline of the Holding Company (Tentative)>

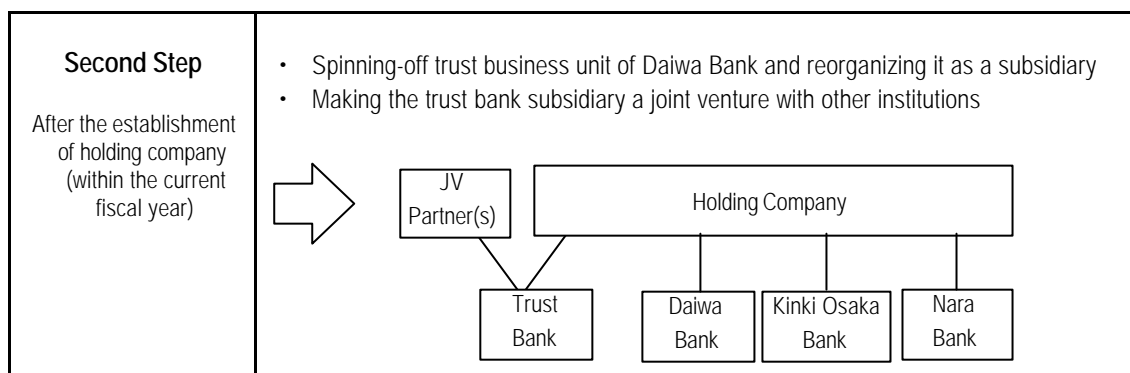
1. Head Office	Planned to be located in Osaka City
2. Representatives	Takashi Kaiho (current chairman of Daiwa Bank) and Yasuhisa Katsuta (current president of Daiwa Bank) are planned to be appointed as chairman and president of the holding company, respectively. Yasuhiro Takatani (current president of Kinki Osaka Bank) and Masao Nomura (current president of Nara Bank) are planned to be appointed as directors of the holding company.
3. Scope of Operations	Formulation of group management strategy, marketing strategy, allocation of group management resources, and supervision and administration of subsidiaries' operations
4. Number of Employees	Around 400 (after the commencement of full-scale operations)

5. Others	<p>Other board members, organizational structure, and amount of capital, etc, are discussed and determined hereafter.</p> <p>Stock transfer ratios (the number of holding company shares assigned to one share of Daiwa Bank, Kinki Osaka Bank, and Nara Bank at establishment of the holding company will be determined hereafter, with reference to the appraisals by third parties.</p>
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**(2) Spin-off of Trust Business Unit and Subsequent Reorganization as a JV**

As a second step, soon after the establishment of a holding company, Daiwa Bank will spin-off its pension and corporate trust unit and make it a subsidiary of the holding company, using the corporate separation scheme.

In addition, the trust bank subsidiary will be reorganized as a joint venture with other institutions by around the end of the current fiscal year.



**<Objectives for the spin-off of trust unit and subsequent reorganization as a JV>**

- As a result of the reorganization, the trust bank subsidiary, as a highly specialized provider of trust banking services, will be given more discretion to adopt its own style of operations considered well-fitted to the natures of its businesses, and assume clearer responsibility to achieve the targeted profit level.
- By making the best use of the asset management know-how and other expertise of JV partners, the trust bank subsidiary can improve its asset management capabilities and acquire know-how for offering superior consulting services.
- By reorganizing the subsidiary as a joint venture, it can strengthen its customer base, and increase its trust assets under management and administration.
- By offering products and services developed by JV partners to group customers, Daiwa Bank Group can materialize more synergies from such a JV scheme and satisfy the customer needs.

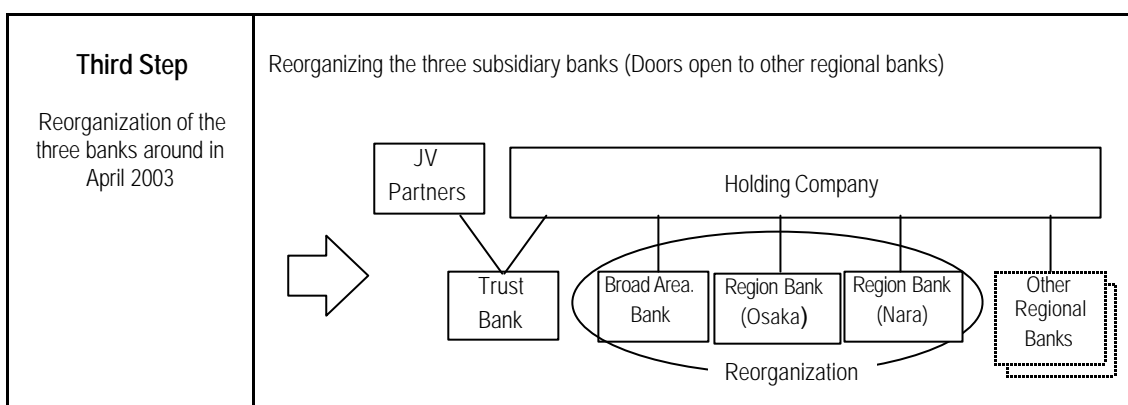
**<Outline of the Trust Bank Subsidiary (Tentative Plan)>**

1. Head Office	Planned to be located in Tokyo
3. Scope of Operations	<p>Management of pension and corporate trust assets, pension plan designing and administration, consulting and others.</p> <p>This trust business subsidiary will directly contact with customers. Other banking business subsidiaries will also act as agents for the subsidiary under agency contracts.</p>

	Trust assets will be re-entrusted to the Japan Trustee Services Bank (JTSB) for administration.
3. Number of Employees	Around 400
4. Trust Assets	Trust assets under management and administration at the time of establishment is expected to be around 21 trillion yen.
5. Others	Corporate name, board members, organizational structure, amount of capital, etc, are determined hereafter.

### (3) Reorganization of Banking Subsidiaries

As a third step, the three banking subsidiaries will be reorganized around in April 2003, based on the geographic regions they cover in their operations and the profile of their primary customers.



This reorganization process entails rationalization measures including the abolition or merger of overlapping branch offices.

If other regional financial institutions hope to join the Daiwa Bank Group in the future, we will take such offers positively and examine them on a case-by-case basis.

The outline of the reorganization is outlined below.

#### A. Region-based Banks

Two region-based banks will be established in the group.

Customers of these two banks will be principally comprised of small and medium-sized enterprises (SMEs) and individuals. These banks will further strengthen their ties to their respective regions and, in close cooperation with the holding company and the trust business subsidiary, also offer their customers comprehensive and high-quality financial services. One priority will be placed on the realization of low-cost operations.

##### a) Region-based Bank (Osaka Area)

This bank will be based in Osaka area, established by assuming the branch offices of Daiwa Bank and Kinki Osaka Bank located in Osaka area. This bank will parallel in its asset scale and customer base the largest regional banks in Japan.

**b) Region-based Bank (Nara Area)**

This bank will be based in Nara prefecture, established with Nara Bank at its core and assuming the branch offices of Daiwa Bank and Kinki Osaka Bank located in Nara area. One of the priorities of this bank is to strengthen its business and customer base to obtain well-recognized presence in the local market.

**B. Broad Area Bank**

This bank will assume the operations of Daiwa Bank's large-scale branches located in the Kansai region and other branch offices in Tokyo metropolitan area and other local cities, thus rendering itself a broad-area bank with branch offices in major cities nationwide, primarily responsible for large transactions.

This bank will provide large and middle-scale corporate customers and high net-worth individual customers with high value-added financial services. In addition, this bank will offer the region-based banking subsidiaries specialized services and know-how in such fields as real estate and private banking, etc.

This bank will seek to improve the management efficiency to the level of the so-called mega banks by having optimal branch network and staffing highly skilled personnel.

**4. Effect of Management Consolidation**

**(1) Synergy Effects from the Management Consolidation**

The Daiwa Bank Group will strive to improve the quality of services, expand customer base, establish solid group presence, and build well-recognized brand, by fully realizing the positive synergies from the management consolidation. At the same time, measures for substantially strengthening group profit will be implemented.

**Adopting unified strategies and reallocating resources**

After the management consolidation, group banks will be placed under the same shareholders and management, thus making it possible to realize the group operations based on the unified strategies with emphasis on maximization of group profits. With respect to the personnel policy, Daiwa Bank Group will put the right staff in the right post, regardless of which banks he/she is from.

**Improving quality of services by specialization**

Each member of Daiwa Bank Group will assume a specialized role and concentrate on respective core business areas. By virtue of the specialization, the quality of services offered by Daiwa Bank Group is expected to improve, accordingly.

Daiwa Bank Group will work on strengthening its competitiveness by alliances with other institutions. These alliances are not limited to the trust bank subsidiary, which is planned to be reorganized as a joint venture.

**<Expected roles and functions related to customer services in the group>**

Holding Company	Formulation of marketing strategies, advertisement of group, development of products and access channels, development of system infrastructure including planning of IT investments.
Trust Bank Subsidiary	Asset management, pension plan designing, product development, and various consulting services
Region-based Banks	Operations based in respective region
Broad Area Bank	High value-added financial services including private banking, real estate, and others.

**Diversifying services by fusing know-how in specialized fields**

Daiwa Bank Group aims at improving the quality of services it offers to customers by fusing know-how accumulated as a city bank for offering high value-added financial services, and regional banks' operation style well connected to local communities. Particularly, the fusion will benefit the region-based banking subsidiaries the most by helping them propose better solutions or offer customers various consulting services.

**a) Synergies from offering common products and integration of business infrastructure**

By integrating the business infrastructure including the use of IT, back-office operations, and by offering the common products including the adoption of best selling products from each member bank, Daiwa Bank Group can offer customers higher quality and more diversified financial services.

Business infrastructure:	Direct channels, new branch operations system, etc
Products:	Investment trusts, customer royalty program, foreign currency deposits, etc

**b) Synergies from shared information**

In the process of business restructuring, branches of group banks in the same region will be reorganized into a subsidiary bank. Therefore, it will become possible to share customer and other information that used to be dispersed among the member banks. By making the best use of the shared information, the group banks can improve their ability to offer customers useful business information. Sharing information will also help group banks lessen and control their exposures to various risks including the credit risks to which they are exposed in certain geographic regions.

Categories of information that group banks can utilize include:  
 Business related information for marketing purpose, information related to real estate development and their brokerages, information related to M&A and others

**c. Synergies from comprehensive financial functions**

Securities firms, life and non-life insurance companies that maintain close relationships with Daiwa Bank, and trust bank JV partners combined can offer full-range of financial services to Daiwa Bank Group customers.

**Increasing fee income by realizing synergies**

As outlined above, since the group can offer its customers broader range of financial products and services, fee income is expected to grow substantially through the promotion of cross-selling of these products and services.

Daiwa Bank Group will aim to achieve the following targets during the three-year period following the completion of management consolidation and subsequent reorganization of banking subsidiaries scheduled around in April 2003:

		End of March, 2001 (Actual)	Targets after Consolidation
Securities Investment Trusts	Outstanding Balance	¥125.9 bil.	¥500.0 bil.
	Annual Sales	¥147.4 bil.	¥300.0 bil.
Private Banking Business	PB Customers *	10,836	20,000
	Estimated Assets held by PB customers	¥3,968.9 bil.	¥8,000.0 bil.

\* Customers with any of the following PB transactions: testamentary trusts, regular consulting, fund management consulting, total wealth management accounts.

**(2) Rationalization Effect**

In the process of concentrating head-office functions to the holding company and subsequent reorganization of the banking subsidiaries, we will step up our efforts to rationalize operations. We will review the existing branch network, eliminating redundancies by merger or abolition of branches in close proximity, reduce the number of personnel, jointly develop common products and services to offer, and integrate back-office operations and systems.

Details of the rationalization measures are to be discussed and determined hereafter as each step of the business restructuring process materializes. However, at present, we expect the following consolidation effects:

**Number of Branches**

In addition to the current restructuring plans being implemented by the three banks, we will reduce around 100 branch offices additionally by the end of March 2005, through mergers or abolition of overlapping branches.



### Number of Employees

In addition to the current restructuring plans being implemented by the three banks, we will cut around 1,700 employees additionally by the end of March 2005.

### General & Administrative Expenses

By implementing the rationalization measures outlined above, we will cut the combined general and administrative expenses by around 28 billion yen. (Target for fiscal 2005)

#### <Summary of Consolidation Effects>

	Current Restructuring Plans		Consolidation Effects
	Targets (End of March, 2003)	Change from the End of March, 2001	
Number of Branches	374	(41)	Reduction of around 100 branches additionally (By the end of March, 2005)
Daiwa Bank	146	(14)	
Kinki Osaka Bank	203	(27)	
Nara Bank	25	0	
Number of Employees	10,317	(1,378)	Reduction of around 1,700 employees additionally (By the end of March, 2005)
Daiwa Bank	6,000	(982)	
Kinki Osaka Bank	3,982	(406)	
Nara Bank	335	10	
General & Administrative Expenses (Bil. Yen)	228.3	(2.1)	Additional cut of around 28 billion yen (Target for fiscal 2005, ending March 2006)
Daiwa Bank	156.3	(5.4)	
Kinki Osaka Bank	68.6	(Note.2) 3.1	
Nara Bank	3.4	0.2	

(Note.1) The number of branches does not include sub-branches.

(Note.2) Increase in expenses in relation to the acquisition of operations from the Namihaya Bank.

## 5. Effect of Management Consolidation

Daiwa Bank Group will strive to achieve the following financial goals about in five years after the management consolidation (scheduled during fiscal 2001), by realizing synergies and rationalization effects from the management consolidation.

### <Financial Targets of Daiwa Bank Group>

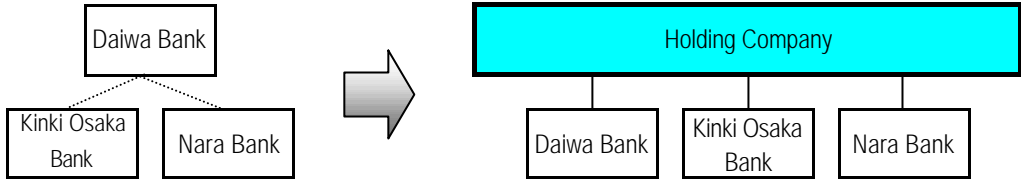
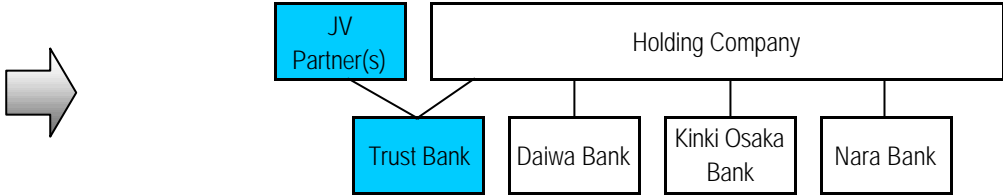
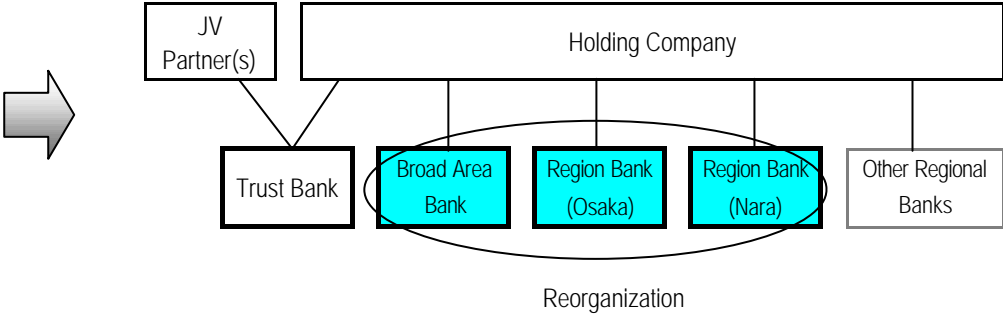
	Actual Results for FY 2000	Targets after Consolidation
Net Business Profits (Bil. Yen)	121.8	To be raised to the level of 200 billion yen
Daiwa Bank	109.5	
Kinki Osaka Bank	11.7	
Nara Bank	0.6	
Consolidated Capital Adequacy Ratio	-	Around 10%
Daiwa Bank	11.33%	
Kinki Osaka Bank	(Note.1) 6.23%	
Nara Bank	8.43%	
ROE (Net Business Profit / Term-end Balance of Stockholders' Equity)	11.9%	Around 16%
Daiwa Bank	11.8%	
Kinki Osaka Bank	13.7%	
Nara Bank	6.7%	
OHR (G&A Expenses / Gross Operating Profits)	63.6%	Around 50%
Daiwa Bank	58.5%	
Kinki Osaka Bank	(Note.2) 80.5%	
Nara Bank	76.2%	

(Note.1) Following the capital increase in April 2001 with public funds, capital adequacy ratio rose to 8.59%.

(Note.2) G&A expenses for fiscal 2000 includes temporary cost related to the acquisition of operations from Namihaya Bank. OHR for the previous fiscal year was 72.9%.

<Reference Sheet>

Outline of Management Consolidation and Business Restructuring

<p><b>1st Step</b></p> <p>Within current fiscal year</p>	<p>Jointly establishing a financial holding company</p> 
<p><b>2nd Step</b></p> <p>After the establishment of holding company (within the current fiscal year)</p>	<p>Spinning-off trust business unit of Daiwa Bank and reorganizing it as a subsidiary trust bank Making the trust bank subsidiary a joint venture with other institutions</p> 
<p><b>3rd Step</b></p> <p>Reorganization of the three banks around in April 2003</p>	<p>Reorganizing the three subsidiary banks (Doors open to other regional banks)</p> 

<Reference Sheet>

Corporate Profile of Daiwa Bank, Kinki Osaka Bank and Nara Bank

	Daiwa Bank	Kinki Osaka Bank	Nara Bank	Total
Date of Establishment	August, 1918	April, 2000	March, 1953	
Head Office Location	Osaka	Osaka	Nara	
Representative	(President) Yasuhisa Katsuta	(President) Yasuhiro Takatani	(President) Masao Nomura	
Paid-in Capital	465.1 billion yen	81.5 billion yen	3.8 billion yen	550.4 billion yen
Number of Shares Issued	2,743 million	944 million	Par Value } 3 million	3,690 million
Common Stock	2,052 million	944 million	500 yen } 3 million	2,999 million
Preferred Stocks (Kind A Preferred) (Kind B Preferred)	10 million 680 million			
Stockholders' Equity	926.5 billion yen	85.3 billion yen	8.5 billion yen	1,020.3 billion yen
Total Assets	15,518.5 billion yen	4,433.6 billion yen	187.2 billion yen	20,139.3 billion yen
Total Funds	27,094.3 billion yen	4,036.2 billion yen	168.6 billion yen	31,299.1 billion yen
Deposits (Banking Account)	9,458.7 billion yen	4,036.2 billion yen	168.6 billion yen	13,663.5 billion yen
(Osaka Prefecture)	5,495.9 billion yen	3,554.0 billion yen	5.7 billion yen	9,055.6 billion yen
(Nara Prefecture)	260.7 billion yen	117.0 billion yen	159.8 billion yen	537.5 billion yen
Loans (Banking Account)	10,205.7 billion yen	3,102.9 billion yen	125.7 billion yen	13,434.3 billion yen
(Osaka Prefecture)	5,689.2 billion yen	2,729.5 billion yen	16.3 billion yen	8,435.0 billion yen
(Nara Prefecture)	112.7 billion yen	49.6 billion yen	107.2 billion yen	269.5 billion yen
Loans (Trust Account)	560.1 billion yen			560.1 billion yen
Trust Assets	23,149.7 billion yen			23,149.7 billion yen
( Pension Fund Trust )	7,221.6 billion yen			7,221.6 billion yen
Number of Employees	6,982	4,388	325	11,695
Manned Offices	189	239	25	453
(Osaka Prefecture)	94	211	1	306
(Nara Prefecture)	7	4	23	34
Unmanned Offices	266	49	32	347
Principal Stockholders	The Nomura Securities Co., Ltd 3.25%	24.11%	29.04%	
	Tokyo Mutual Life Insurance Company 3.00%	The Shinsei Bank, Ltd. 2.31%	Masao Nomura 5.80%	
	The Fuji Fire & Marine Insurance Co., Ltd. 2.59%	The Aozora Bank, Ltd. 2.05%	The Kinki Osaka Bank, Ltd. 4.99%	
	Osaka Gas Co., Ltd. 2.47%	Employee Stock Ownership Plan 1.99%	B&M, Ltd. 2.47%	
	Japan Trustee Services Bank, Ltd.	The Fuji Fire & Marine Insurance Co., Ltd. 1.59%	Employee Stock Ownership Plan 2.42%	

As of March 31, 2001