

Transformation of Daiwa Securities Group to a holding company structure and Restructuring of domestic non-banking business

January 18, 1999

The board of Daiwa Securities Co. Ltd. (Daiwa) has today passed a resolution to convene an Extraordinary General Meeting of Shareholders on February 5, 1999 and to submit the agenda on partial amendment to the Articles of Incorporation and approvals on transfer of the business.

In addition, the board has approved the policy to review major affiliates becoming subsidiaries upon the transition to a holding company structure, to consider restructuring non-banking business operated by its domestic affiliates including merger of two group companies and to estimate a subsequent financial assistance.

Upon transformation to a holding company structure, Daiwa Securities group will focus its resources on securities-related businesses to become the strongest securities company group. Ahead of this transition, it will clean up the bad loans in the non-banking operation in order to make sound financial base of the group, and reorganize and thoroughly restructure the group businesses.

1. Change of corporate name

A resolution to change the corporate name upon a transfer to a holding company structure will be submitted to an Extraordinary Shareholders meeting on February 5, 1999.

New corporate name: Daiwa Securities Group Inc.

Date of change: April 26, 1999

Reasons: Change into a holding company along with business transfers

2. New Daiwa Securities Group

Daiwa Securities group will become an enterprise group which has the flexibility and expertise to respond to the characteristics in each business field and provide financial services of the highest quality while maintaining synergy of the whole group under the holding company.

For this purpose, the holding company will decide what affiliates are to be placed as subsidiaries thereunder as soon as possible in the course of making a group management strategy.

Daiwa Securities Co. Ltd. will transfer its retail and wholesale businesses and will be transformed into a holding company to control and manage its subsidiaries.

(1) Outline and timetable

① Outline of the holding company

Corporate name: Daiwa Securities Group Inc.
Address: 6-4, Otemachi 2-chome, Chiyoda-ku, Tokyo
Stated Capital: ¥138.4 billion
President: Yoshinari Hara
Business: Management of group companies businesses

② Timetable (expected)

Jan. 18	Board's resolution to hold an extraordinary shareholders meeting
Feb. 5	Convene an Extraordinary shareholders meeting to approve the followings; Change of the Articles of Incorporation (corporate name and business objectives) Transfer of a part of the business to the wholesale JV company Transfer of the entire business to retail subsidiary company
Apr. 5	Start of operation at the wholesale company along with the transfer
Apr. 26	Start of operation at the retail company along with the transfer

* The holding company is scheduled to start on Apr. 26, subject to the approval by the shareholders and the authorities concerned.

(2) Major subsidiaries

The holding company will reorganize the affiliates after the next fiscal year from a viewpoint of the extent to which each affiliate could relate to securities businesses. The following companies are to be controlled as subsidiaries by the holding company, which will increase its investment into some of them to get a majority.

① **Daiwa Securities Retail Preparation Co. Ltd.*1 (name to be changed) – retail business**

② **Daiwa Securities SB Capital Markets Co. Ltd.*1 – wholesale business**

③ **Daiwa Asset Management Co. Ltd. – asset management**

④ **Daiwa Institute of Research Ltd. – research & system development**

⑤ **Daiwa Securities Business Center Co. Ltd.*1 – office work agency**

⑥ **The Daiwa Real Estate Co., Ltd. – branch office management**

⑦ **Daiwa International Trust Bank Limited*1 – trust business**

⑧ **Nippon Investment & Finance Co. Ltd. – venture capital**

⑨ **Daiwa Finance Co. Ltd. – credit card & mortgaged securities business**

*1: These companies will become the subsidiaries at the outset of a holding company structure.

*2: The negotiation is under way about a foundation of JV by DICAM, The Sumitomo Bank, Limited and the other.

(3) Overseas and banking businesses

The overseas local securities subsidiaries will be initially subsidiaries of the holding

company; however, they are scheduled to be integrated to the wholesale company after completion of the restructuring plan released in last September.

In addition, Daiwa International Trust Bank Limited will specialize in securities trust business related to trustee function of investment trusts.

3. Restructuring of domestic non-banking business

Upon the transfer to a holding company structure the most important task for Daiwa group is to completely clean up the bad loans held by its affiliates. We think this restructuring will enhance our competitiveness and lead to building a solid corporate structure as to win Big Bang. It could eventually improve the shareholders value.

(1) Assistance from Daiwa

Non-banking affiliates are Nippon Investment & Finance Co. Ltd. (NIF), Daiwa Finance Co. Ltd. (DFC) and Daiwa Sanko Co., Ltd. (Sanko). Financial assistance to NIF from ex-The Daiwa Building Co., Ltd. (The current Daiwa Building Co., Ltd is a separate company) was ¥74.6 billion in total by FY 1995. Also with regard to DFC, ¥120 billion was provided by Daiwa in FY 1996.

The assistance contributed to a disposition of the most doubtful loan receivables, and each was expected to deal with the rest by its own efforts. However, additional losses are expected since prolonged recession and credit tightening resulted in deterioration of the financial conditions of the borrowers and a further decline in the collateral values.

Daiwa is planning to post special losses for the provision for assisting affiliates after restructuring in this fiscal period, which is expected to be around ¥115 billion at present (scheduled apportion: ¥82 billion to DFC, ¥24 billion to NIF and ¥9 billion to Sanko). The timing and methods of cash injections will be determined after the consultation with accountants and tax authorities.

This assistance will lead to complete clean-up of these doubtful loan receivables held by domestic non-banking affiliates to establish the sound financial base of the group as a whole.

(2) Merger of NIF & DFC

The board will make a decision on a merger of NIF and DFC by the end of FY2000. This merger could help restructuring through downsizing of the assets thereby the new company can focus on the following securities-related businesses.

① Venture capital business

② Japanese version of Limited Partnership(LPS)

The above two are closely related with Daiwa's IPO business, and they should be indispensable to Daiwa group as major functions to provide products to a wider range of investors.

③ Daiwa VISA card

The clearing function should add a value to the clients using the Cash Management Account that we have been promoting.

④ Mortgaged securities business

Daiwa's mortgaged securities backed by performing loans have been distributed to individual clients. The new company will continue with this business to meet the clients' needs.

We will shrink non-banking operations (excluding venture capital loans and mortgage securities business) to the extent possible. In addition, Sanko's loan business backed by golf membership certificates will be integrated into the new company.

You could find the outlines of NIF, DFC and Sanko in the attached.

4. Restructuring of the whole group

The completion of the above restructuring will contribute to the reduction of the assets held by non-banking affiliates by more than ¥200 billion.

The domestic and overseas restructuring actions being currently under-place should be applied to the whole group companies. Through enhancing our core competence by focus on securities business and effectively allocating personnel 20%reduction of employee (3,000 people) and 25% reduction in expenses of all the group companies (¥100billion) can be achieved by the end of FY2000.

Placing these measures into effects, we firmly believe that Daiwa Securities group will enhance its competitiveness as to win Big Bang based upon the strongest corporate structure. It could surely lead to an improvement of the shareholders' values.

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(Attached)

Outlines of the affiliates concerned

1. Nippon Investment & Finance Co. Ltd.

Foundation: August, 1982
Stated Capital: ¥ 6,353 million
Assets: ¥ 129,213 million (at the end of FY97)
Ordinary income: ¥ 959 million (FY97)
Address: 1-9, Kayaba-cho 1-chome, Nihonbashi, Chuoh-ku, Tokyo
President: Shinichi Horii
Employees: 124 (at the end of FY97)
Business: Investment in venture capital
Establishment & management of VC funds

2. Daiwa Finance Co. Ltd.

Foundation: October, 1983
Stated Capital: ¥ 13,657 million
Assets: ¥ 296,594 million (at the end of FY97)
Ordinary income: ¥2,389 million (FY97)
Address: 13-5, Gotanda 7-chome, Shinagawa-ku, Tokyo
President: Junichi Murakami
Employees: 72 (at the end of FY97)
Business: Mortgage loans, lease, credit business and others

3. Daiwa Sanko Co., Ltd.

Foundation: September, 1951
Stated Capital: ¥ 890 million
Assets: ¥ 26,247 million (at the end of FY 97)
Ordinary income: ¥ 57 million (FY97)
Address: 5-9, Sotokanda 2-chome, Chiyoda-ku, Tokyo
President: Kyuzo Hosoya
Employees: 116 (at the end of FY97)
Business: Brokerage of golf membership certificates, trade of semiconductors,
Insurance agents, and others