

OVERSEAS BUSINESS



The Americas

Fiscal 1997 was the U.S. economy's sixth consecutive year of sustained expansion while inflation rates remained low and unemployment rates continued to drop, consumer expenditure and fixed investment rates grew. Low inflation was achieved despite tight labor markets, due to downward price pressures from competitive markets and to growth in productivity. Other factors, such as a disinflationary environment in global markets and U.S. dollar appreciation, also contributed to stable prices. Such a tendency has been accelerated since the Asian currency turmoil during the summer.

Stocks continued on an upward trend, weathering even a dip when fear of effects from Asian currency markets caused the Dow Jones Industrial average to fall 554 points, mirroring behavior of other financial markets. Individual investment and low inflation helped the recovery of U.S. and international markets.

The Fuji Bank Group continues to be on the forefront in customer service. The Fuji Bank was selected as a co-arranger to assist in the high profile corporate divestiture of Pepsico Inc.'s IPO of Kentucky Fried Chicken, Pizza Hut, and Taco Bell to create a newly public traded company, Tricon, Inc. The success of this transaction illustrates our global management relations, the joint efforts of our origination, structuring and syndication groups.

The Fuji Bank and Trust Company (FBTC) has continued to develop new leasing structures to enhance our ability to compete in a changing marketplace, taking into account in particular the increased funding environment experienced by Japanese banks during fiscal 1997. As one example, FBTC, in conjunction with Key Global Finance and Nomura Securities, closed an off-balance sheet lease structure enhanced by both U.S. treasuries (equity portion) and a certificate of deposit (sub-debt portion) with the remaining amount financed by a CMBS conduit.

Our many successful transactions in the Americas illustrate our global management relations, the joint efforts of our origination, structuring and syndication groups.

In the Americas, we continued to grow and respond efficiently and effectively to the repaid changing needs of our customers in the global financial services market.

In 1997, we continued to build the business operations of the Project Finance Division for the Americas, based in New York. Established in 1996, this division centralized our structuring and advisory capabilities for project financing in both North and Latin America across a wide range of industries, including electric power, oil and gas, mining, telecommunications and chemicals. In 1997, the division acted as financial advisor on seven major project finance transactions in Latin America, resulting in the Bank being ranked ninth overall among institutions providing financial advisory services in the Americas. In addition, we were chosen to provide the financing for a US\$1 billion nitrogen plant to be built in Mexico, and we were appointed to be sole underwriter and arranger to finance the first BOT (built, own and transfer) project in Costa Rica, along with the Inter-American Development Bank.

Latin America continued its strong recovery in 1997. Many of its markets remained relatively unaffected by the turmoil in Asian financial markets. In order to serve the needs and tailor our services to Latin America and global customers, we continued building on our local presence in Brazil, Chile and Mexico. The Bank's presence in the region consists of a full banking subsidiary, Fuji Bank (Mexico) S.A., a representative office in Mexico and a representative office in Sao Paulo. In addition, we have factoring business presence in the area through Fuji Group companies such as Heller-Sud Servicios Financieros in Argentine, HellerNet-Sud in Chile and Heller Financial (Mexico).

On May 1, 1998, a Fuji Group company, Heller Financial, Inc. (Heller) brought itself public and listed its shares on the New York Stock Exchange. Its US\$1 billion Initial Public Offering was well accepted by the market and turned out to be the biggest of its kind in nearly two years in the U.S. We continue to support Heller and we retain our majority ownership after the IPO. Heller, a leading commercial financial services company, has a more than 75-year history of consistently serving the

Overseas Business Group

Group Head
Atsushi Takano
Managing Director

- Overseas Business Division
- Americas Division
- Europe, Africa, & The Middle East Division
- Asia & Oceania Division
 - China
- Project Finance Division
- Credit Division for Overseas Business
- Credit Division for The Americas
- Credit Division for Europe, Africa, & The Middle East

The Overseas Business Group is responsible for promoting business with overseas customers such as European and American multinationals, Chinese and major Asian conglomerates, sovereign customers and financial institutions. Also, the Group has been promoting such advanced products as project finance, acquisition finance and syndication.

Although we are facing difficult issues in the global market place which have been exacerbated by the instability in the Asian financial markets and the downgrading of Japanese banks, it remains very important for the Bank to promote international financial

business in both Europe and America, where we can develop the most advanced financial techniques and skills, and in Asia, where we expect medium to long-term growth and new business opportunities.

We have been successful in developing our overseas business and cultivating our competitive advantages in such areas as project finance and acquisition finance. In 1997, we were ranked first among euro venture capital debt providers of acquisition finance in *Corporate Money* magazine and were ranked fourth in the number of agency role transactions of leveraged buy-out finance in *Gold*

Sheet's league table. Also, we were ranked thirteenth in *Euromoney* magazine's project finance global arranger league table and were ranked ninth in the number of financial advisory in project finance in the Americas. These facts highlight the strong market position of Fuji and we will further strengthen our capability to provide world-class products and services in which we have a competitive edge in order to satisfy our customers' needs and to establish ourselves as a top-tier bank worldwide through these business activities.

With the arrival of Japan's Big Bang financial reforms, the advanced financial tech-

niques we foster in the overseas markets will allow the Bank to prosper amidst our competitors which include major European and American financial institutions. The know-how we attain in turn will be indispensable tools in providing our domestic customers with the highest level of satisfaction. The Overseas Business Group, cooperating with other business groups, will make every effort necessary to enhance customers' satisfaction.

needs of small and mid-sized businesses in the U.S. and around the world. With more than US\$12 billion of its diversified assets, Heller provides products and services in cash-flow lending, real estate finance, asset-based lending, equipment finance and leasing, factoring, and vendor finance. Coupled with strong asset quality, Heller earned record profits in 1997 for the fifth consecutive year.

Our derivatives subsidiary, Fuji Capital Markets Corporation (FCMC), continued to earn top billing as a market maker in interest rate and cross-currency derivative products. FCMC was ranked at the top of its professional peers as a provider of yen and U.S. dollar interest rate and cross-currency swaps by several industry magazines. The company offers a wide variety of customized structures in over 20 currencies to meet customers' specific needs. In the Americas, FCMC works closely with Fuji's corporate customers to provide a wide variety of financing in the U.S. market as well as innovative structures for their increasing flow of Asian investments.

Fuji Securities, Inc. (FSI), our primary dealer in U.S. government securities and a member of CME and CBOT, is a leader in the U.S. agency bond market and Eurodollar futures brokerage in CME. In 1997, FSI became a selling member for Agency Discount Notes (FHLB) and was the leading firm in volume of Eurodollar futures brokerage in CME. FSI has an around-the-clock global futures brokerage service through network operations including those in London (LIFFE) and Singapore (SIMEX).

Fuji Bank Canada continues to serve its increasingly globally focused manufacturing and natural resource clientele with corporate and project finance anywhere within the Fuji network.

In 1997, Fuji Bank in the Americas continued to grow and respond efficiently and effectively to the rapidly changing needs of its customers in the global financial services market. With a strong commitment to meeting customer needs and the highest standards of customer service, Fuji Bank, Fuji Securities, Heller Financial, Fuji Capital Markets Corporation and other subsidiaries and affiliates form an increasingly integrated network, providing a comprehensive range of sophisticated, high-quality financial products and services to our customers in North and South America.

Asia and Oceania

Several developments during fiscal 1997 made it a turbulent year in the Asia and Oceania regions. Two events in particular attracted the world's attention: Hong Kong's historic reversion to China and the economic crises in South Korea, Thailand and Indonesia. The IMF's involvement in providing support to deal with the latter was also very much in the limelight.

The financial crisis in Asia was a serious matter for the Bank because it gave rise to concerns that the quality of our assets might deteriorate. Fortunately, since most of our principal clients in the region are sovereign entities, large regional blue-chip

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companies, and the affiliates and subsidiaries of Japanese companies, their creditworthiness is unimpeachable. This helped to minimize the impact of the crisis on our operations, and we were able to respond to the requests of local financial authorities by setting aside the reserves necessary to deal with assets that had deteriorated by the end of the fiscal year in March 1998.

Although economic activity in Asia and Oceania has decelerated somewhat as a result of the recent business slowdown and exchange rate fluctuations, the region is still one of the world's economic powerhouses. Over the medium to long term, economic growth rates within the region are expected to remain high. Indeed, there are already signs that foreign capital investment in South Korea and Thailand is on the road to recovery. In Asia and Oceania, trade, investment and other forms of economic interchange remain at very high levels, both within the region and with Japan and the advanced nations of Europe and North America. Keeping this very much in mind, we intend to maintain our focus on the region, building up our network of key centers and strengthening our ability to provide products that meet our customers' needs.

The opening of our Bangkok International Banking Facility in September 1997 brought the total number of our offices in Asia and Oceania to 12 branches, 11 representative offices, and 14 subsidiaries, covering the entire region and delivering top-quality financial services and information to our customers. In fiscal 1998 and beyond, we intend to respond to our clients' demands to the maximum possible extent by opening new offices after taking current levels of economic development and future growth prospects into consideration.

In the financial products sector, we strengthened our involvement in loan syndication and project finance in such sectors as natural resources and energy in fiscal 1997. In Australia, for example, we strengthened our local reputation considerably when we succeeded in securing the mandate to act as lead manager for the Bengalla coal mining project. In our project clearing operations, we reinforced the capabilities of our Hong Kong and Singapore offices in order to enhance the Fuji Global Cash Management Service (CMS), and expanded our CMS service area to cover Taiwan and other locations.

Against a background of growing customer interest in the currencies of Asia, we increased the number of personnel in charge of handling these currencies both at Head Office and in local offices overseas. We also held two seminars on Asian currencies at Head Office, and worked hard to enhance our ability to provide information on the currencies of emerging markets and upgrade product development capabilities.

For the future, we intend to exploit the Bank's vast experience in international financial markets by focusing more on the financial advisory business and high-leveraged transactions. Through all our activities, we remain as committed as ever to contributing to the region's economy as an Asian financial institution.

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We achieved remarkable results in various fields such as leveraged finance, project finance and aircraft finance. In particular, our leveraged finance business has continued to expand over the past several years.

Europe, Africa and The Middle East

In 1997 the economies of the European Union (EU) have recovered as expected as a result of strong exports and rising domestic demand in spite of the sudden turbulence in Asian financial markets whose adverse impact was felt throughout the world. This economic recovery is forecast to be sustained via domestic demand which will be stimulated by the expectation of the start of the Economic and Monetary Union (EMU). These developments have and will provide significant opportunities for us in the region.

In May 1998, the leaders of the EU gathered in Brussels to make one of the most historic decisions in the history of the EU. They declared that the third stage of the EMU shall start in January 1999, which means that the "Euro" currency will come into existence from that day forward. In this backdrop, we have taken all necessary steps in preparation for this event and we are ready to take full advantage of the potential business opportunities.

Corresponding with these developments, we organized a series of EMU seminars in more than ten cities throughout Europe and in Japan in 1997. These seminars gave our customers a clear view of the business environment after the introduction of the euro.

In other business areas, our syndicated loan business continued to be one of the core components of our activities in the European market. In 1997, *International Financing Review* ranked Fuji Bank thirteenth in the region (by number of deals arranged) and first among Japanese banks (Fuji Bank arranged transactions in the European market totaling US\$20.3 billion). We are particularly strong in the emerging markets such as South Africa, Poland and Turkey. We also have a significant presence in the field of venture capital finance.

Landmark transactions successfully arranged included such deals as First National Bank of Namibia, which was the first ever syndicated transaction in that country, Enterprise Miniere et Chimique in France, the Icelandic Investment Bank, Imperial Group of South Africa, and Turkiye Is Bankasi and Toprakbank in Turkey.

We have also expanded our syndicated loan business in Eastern Europe arranging facilities for Riga Commercial Bank in Latvia and Tallinna Pank in Estonia and many others.

We recognize that fundamental changes are necessary to create a standardized framework for the numerous aspects related to secondary loan market trading. We are one of the founding members of the Loan Market Association, established in 1996, together with JP Morgan, HSBC, BZW, Credit Suisse, NatWest and SBC. The members of the association have committed to work on establishing this framework for the trading of secondary debt.

We achieved remarkable results in other fields as well, such as leveraged finance, project finance and aircraft finance. In particular, leveraged finance has continued to expand over the past several years. Following the success in the final quarter of 1996, we maintained the top position among debt arrangers for cross-border European leveraged acquisitions in 1997.

The highlight of the year was our sole lead arranger role in the £395 million

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senior debt financing facility for the management buyout of Unipoly S. A. We also successfully arranged senior debt for the acquisitions of Target Express Parcels Limited, IPC Magazines, SEAT SpA and Impress Metal Packaging Holding B. V. As a result of such achievements, Fuji Bank was ranked number one in Europe by *Corporate Money* magazine as a provider of funds for venture capital debt. We also won the Deal of the Year award from *Corporate Finance* magazine in 1997 for the Imperial Metal Packaging transaction.

Corporate lending also remained a pivotal area where we maintained our strong presence in an increasingly competitive corporate loans market. Priority was given to the development of relationships with multinational corporates in the European top 500, where greater opportunity exists for us to support their overseas business through our international network and to offer customers complementary financial services.

The buoyant U.K. economy stimulated further corporate mergers, acquisitions and rationalizations. Against this background, we enhanced our reputation in the dynamic industrial sub-sectors of media and telecommunications, U.K. public utilities and conglomerates by co-arranging and underwriting major transactions for many of the key sector players, including Imperial Chemical Industries PLC, Orange PLC, BAT Industries PLC and Cable and Wireless Communications PLC.

In the capital markets, we responded to our customers' growing needs for fund raising. In this area, our securities arm in Europe has achieved significant results. Fuji International Finance PLC again acted as lead manager for a number of bond issues, for both Japanese and non-Japanese issuers. They were also active in the field of structured finance, arranging various structured issuance programs, including an asset-backed commercial paper program.

We have also been able to bolster our strength in the area of asset management. Our fund management arm, FIMCO(Europe) Ltd., now boasts the most successful performance track record among any U.K.-based pooled pension fund manager over the last six years. An open-ended unit trust called Fuji Tax Exempt Equity Fund was ranked first (as of the end of March 1998) out of 56 U.K. pooled fund managers by CAPS, a leading independent performance measurement company. This fund won the award for the Best Smaller Mixed Managed Fund over a five-year period from *Professional Pension* magazine in 1997.

Although FIMCO(Europe) is a London-based company, it has been acting as the investment advisor for the international equity mutual fund promoted by Lord Abbett, the second largest independent asset management group in the United States. This fund was launched successfully in December 1996, and Lipper Analytical Services has ranked it the best performing fund among U.S. International Small-Cap Funds in 1997.

We focus not only on the above-mentioned areas but also on other financial services, including treasury operations and derivatives products. We continually strive to satisfy our customers in Europe by providing high-quality products and a very comprehensive range of services through our global network.