CONFIDENTIAL

$1,800,000,000

SB Treasury Company L.L.C.

(a wholly-owned subsidiary of The Sumitomo Bank, Limited)

9.40% Noncumulative Preferred Securities, Series A

(liquidation preference $1,000 per security)

The 9.40% Noncumulative Preferred Securities, Series A, liquidation preference $1,000 per security (the "Offered Securities"), represent preferred limited liability company interests that are being issued by SB Treasury Company L.L.C., a Delaware limited liability company (the "Company"), and are being offered by the Initial Purchasers, as specified herein, in the United States or to U.S. Persons in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), only to qualified institutional buyers ("QIBs" or "qualified institutional buyers") and through their international selling agents outside the United States to non-U.S. Persons in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S"). The minimum purchase requirement of the Offered Securities will be Offered Securities having an aggregate liquidation preference of $100,000.

Offered Securities will be issued in registered, global form and will be deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company ("DTC") and beneficial interests in Offered Securities will be shown on and transfers thereof will be effected through records maintained by DTC and its participants. Offered Securities sold in reliance on Rule 144A will be evidenced by Restricted Global Certificates in fully registered form and beneficial interests in such Restricted Global Certificates will trade in DTC's Settlement System and secondary market trading activity in such interests will therefore settle in immediately available funds. Offered Securities sold in reliance on Regulation S will be evidenced by one or more separate temporary Regulation S Global Certificates, which will be exchangeable for one or more permanent Regulation S Global Certificates not earlier than 40 days after the closing date upon certification of non-U.S. beneficial ownership. Except as described in "Book-Entry Issuance," Offered Securities in certificated form will not be issued in exchange for global securities.

(Continued on next page)

See "Investment Considerations" beginning on page 26 for certain information relevant to an investment in the Offered Securities.

Offering Price: $1,000 per Series A Preferred Security, plus accrued dividends, if any, from the date of original issue.

THE COMPANY HAS NOT BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "1940 ACT") AND THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND ARE BEING OFFERED AND SOLD (I) IN THE UNITED STATES OR TO U.S. PERSONS IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT ONLY TO QUALIFIED INSTITUTIONAL BUYERS AND (II) OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF THESE SECURITIES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. THESE SECURITIES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED UNDER "NOTICE TO INVESTORS".

The Offered Securities are offered severally by the Initial Purchasers, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that the Offered Securities will be ready for delivery in book-entry form only through the facilities of The Depository Trust Company in New York, New York on or about February 18, 1998, against payment therefor in immediately available funds.

Goldman, Sachs & Co. **Lehman Brothers**

The date of this Offering Circular is February 9, 1998.

(Cover page continued)

Distributions ("dividends") on the Offered Securities will be payable on a noncumulative basis from the date of original issue semi-annually in arrears on the last day of June and December of each year (or if such day is not a Business Day on the immediately preceding Business Day), commencing June 30, 1998. Dividends on the Offered Securities will be payable at a rate per annum on the liquidation preference equal to (i) through June 30, 2008, 9.40% and (ii) with respect to each Dividend Period thereafter 5.30% above the arithmetic mean of London interbank offered quotations by the Reference Banks for six-month Eurodollar deposits ("LIBOR") prevailing on the related LIBOR Determination Date. Dividends with respect to each Dividend Payment Date shall become irrevocably due and payable on such Dividend Payment Date unless, on or before the tenth Business Day immediately preceding such Dividend Payment Date, the holder (the "Class A Common Securityholder") of the Class A common limited liability company interests in the Company (the "Class A Common Securities") delivers (or, under the limited circumstances described herein, is deemed to deliver) an instruction to the Company not to pay dividends on such Dividend Payment Date, in which case no dividend shall become due and payable on such Dividend Payment Date. If a noncumulative dividend on the Offered Securities does not become payable in respect of a dividend period for any reason, the Company will have no obligation to pay a dividend for such period, whether or not dividends on the Offered Securities are paid for any future dividend period. Under the limited circumstances described herein, dividends will become due and payable notwithstanding the delivery of a No Dividend Instruction.

The Offered Securities are not redeemable prior to June 30, 2008, except in whole upon the occurrence of a Special Event as described herein (in which case the redemption price will be the higher of (i) $1,000 or (ii) the Make-Whole Amount per security, plus in either case, unpaid dividends, if any, thereon with respect to the current Dividend Period to the date fixed for redemption, without interest and without accumulation of unpaid dividends for any prior Dividend Period). On and after June 30, 2008 the Offered Securities may be redeemed on any Dividend Payment Date for cash at the option of the Company, in whole or in part, at a redemption price of $1,000 per security plus unpaid dividends, if any, thereon with respect to the current Dividend Period to the date fixed for redemption, without interest and without accumulation of unpaid dividends for any prior Dividend Period. Any redemption by the Company of Offered Securities is subject to the prior approval of the Ministry of Finance of Japan (the "Ministry of Finance") if then required under applicable guidelines or policies of the Ministry of Finance.

The Company is a wholly-owned indirect subsidiary of The Sumitomo Bank, Limited, an international bank organized under the laws of Japan (the "Bank"). The Company has been formed for the principal purpose of acquiring and holding a perpetual Credit-Linked Note issued by the New York Branch (the "Branch") of the Bank and having a principal amount of $2,270,000,000. The Credit-Linked Note and payments thereon (together with payments made by the Bank to the Company under a Support Agreement between the Bank and the Company under the limited circumstances described herein) are expected to be the Company's only source of funds to pay dividends on the Offered Securities. The rate of interest on the Credit-Linked Note will be calculated with reference to the rate of interest on the actual or synthetic U.S. Treasury security that is the then effective Reference Security identified in or determined pursuant to the terms of the Credit-Linked Note. Interest on the Credit-Linked Note will be due and payable on an interest payment date thereunder only if (i) in the case of interest payment dates occurring through June 2008, as of such interest payment date no default by the U.S Government in a payment of principal or interest on the then effective Reference Security has occurred and is then continuing, and (ii) in the case of any interest payment date thereafter, no default by the U.S. Government in the payment of principal or interest due on any U.S. Treasury security having an initial maturity of six months or less has occurred and is then continuing. Subject to the foregoing, interest under the Credit-Linked Note will be due and payable on interest payment dates that are the Business Days immediately preceding each Dividend Payment Date for the Offered Securities, accrued from the immediately preceding interest payment date thereon (or from the date of issuance of the Offered Securities and the Credit-Linked Note in the case of the interest payment date on June 29, 1998), at a rate per annum equal to (i) through the interest payment date in June 2008, the yield to maturity of the initial Reference Security as of February 6, 1998 plus 3.30% and (ii) thereafter, the interest rate per annum on the then effective Reference Security plus 4.80%. The initial Reference Security for the Credit-Linked Note will be a U.S. Treasury security that was issued on August 15, 1997, matures on August 15, 2007, bears interest at the rate per annum of 6⅛% and had a yield to maturity as of February 6, 1998 of 5.60%. Accordingly, the interest rate per annum on the Credit-Linked Note will be 8.90% through the interest payment date in June 2008. Effective on the maturity date of each Reference Security, such Reference Security will be replaced with a new synthetic six-month U.S. Treasury security having an interest rate determined as described herein under "Description of Credit-Linked Note". The Offered Securities are not secured by the Credit-Linked Note.

The Offered Securities are perpetual noncumulative equity interests in the Company. They are not guaranteed by, or secured by property of, the Bank, any of its affiliates or the U.S. Government, and there can be no assurance that dividends will be paid by the Company on the Offered Securities even if it has funds available for payment of dividends.

Provided that (i) the U.S. Government makes (or, in the case of synthetic substitute Reference Securities is deemed to make) payments of interest on the Reference Securities when due, (ii) the Branch makes payments of interest when due under the Credit-Linked Note and (iii) after giving effect to substitutions of Reference Securities as described herein amounts received by the Company with respect to interest on the Credit-Linked Note are sufficient to enable the Company to pay full dividends on the Offered Securities, an investment in the Offered Securities will have substantially the same risks and rewards as an investment in noncumulative non-voting perpetual preferred stock issued directly by the Bank and having the same liquidation preference and dividend rate as the Offered Securities.

Under (i) a Support Agreement to be entered into between the Bank and the Company and (ii) the Company's Charter, if the Bank pays any dividends on any of its common stock or preferred stock (together, "capital stock") with respect to any fiscal year of the Bank (which fiscal years currently end on each March 31), then the Company will be required to pay full dividends on the Offered Securities on the two Dividend Payment Dates that occur in December of the calendar year in which such fiscal year ends and June of the next succeeding calendar year (irrespective of whether a Supervisory Event has occurred or a No Dividend Instruction has been delivered) and the Bank will be obligated to contribute (or cause to be contributed) to the Company such additional funds as are necessary for such purpose, except that, (x) if the Branch is not in default under the Credit-Linked Note on either such Dividend Payment Date, dividends so payable by the Company on such Dividend Payment Date will be limited to amounts received by the Company under the Credit-Linked Note and (y) the amount the Bank is obligated to contribute to the Company during any Dividend Period, together with interest payments made by the Bank under the Credit-Linked Note, shall not exceed the actual amount of interest payments under the Credit-Linked Note due during such Dividend Period. Except for certain rights vested in the Independent Directors after the occurrence of a Bankruptcy Event (as defined herein) investors will not have the right, directly or indirectly, to cause the Company to enforce its rights as a creditor under the Credit-Linked Note, and if a Liquidation Event (as defined herein) were to occur with respect to the Bank, (i) the Company would be liquidated when the Bank is liquidated and (ii) for so long as such Liquidation Event continues the Credit-Linked Note would automatically become and represent a claim in liquidation of the Bank entitling the Company to substantially the same liquidating distributions in the liquidation of the Bank that the Company would be entitled to if the Credit-Linked Note were preferred stock of the Bank having an aggregate liquidation preference equal to the aggregate liquidation preference of the Offered Securities. *Accordingly, if the Bank's financial condition were to deteriorate, the Company and the holders of the Offered Securities could suffer direct and materially adverse consequences, including suspension of noncumulative dividends on the Offered Securities and, if a Liquidation Event occurs with respect to the Bank, loss of their initial investment.*

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF OFFERED SECURITIES, INCLUDING OVER-ALLOTMENT, STABILIZING AND SHORT-COVERING TRANSACTIONS IN SUCH SECURITIES, AND THE IMPOSITION OF A PENALTY BID, IN CONNECTION WITH THE OFFERING. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "OFFER AND RESALE".

This Offering Circular is confidential and is being furnished by the Company and the Bank in connection with an offering exempt from registration under the United States Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the Offered Securities described herein. The information contained in this Offering Circular has been provided by the Company, the Bank and other sources identified herein. No representation or warranty, express or implied, is made by the Initial Purchasers as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Initial Purchasers. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offered Securities is prohibited. Each offeree of Offered Securities, by accepting delivery of this Offering Circular, agrees to the foregoing.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN APPROVED OR RECOMMENDED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT REVIEWED THIS DOCUMENT OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE SECURITIES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY THE MINISTRY OF FINANCE. FURTHERMORE, THE MINISTRY OF FINANCE HAS NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT.

The distribution of this Offering Circular and the offering and sale of Offered Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company, the Bank and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on the offering, sale and resale of Offered Securities, see “Notice to Investors”. This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the securities in any jurisdiction in which such offer or invitation would be unlawful.

NO EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (EACH, A “PLAN”), NO ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” BY REASON OF ANY PLAN’S INVESTMENT IN THE ENTITY (A “PLAN ASSET ENTITY”), AND NO PERSON INVESTING “PLAN ASSETS” OF ANY PLAN, MAY ACQUIRE OR HOLD OFFERED SECURITIES OR ANY INTEREST THEREIN, UNLESS SUCH PURCHASER OR HOLDER IS ELIGIBLE FOR THE EXEMPTIVE RELIEF AVAILABLE UNDER U.S. DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION (“PTCE”) 96-23, 95-60, 91-38, 90-1 OR 84-14 WITH RESPECT TO SUCH PURCHASE OR HOLDING. ANY PURCHASER OR HOLDER OF OFFERED SECURITIES OR ANY INTEREST THEREIN WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE AND HOLDING THEREOF THAT EITHER (A) IT IS NOT A PLAN OR A PLAN ASSET ENTITY AND IS NOT PURCHASING SUCH SECURITIES ON BEHALF OF OR WITH “PLAN ASSETS” OF ANY PLAN OR (B) THE PURCHASE AND HOLDING OF SUCH SECURITIES IS EXEMPT UNDER PTCE 96-23, 95-60, 91-38, 90-1 OR 84-14. SEE “NOTICE TO INVESTORS” AND “CERTAIN ERISA CONSIDERATIONS”.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ADDITIONAL INFORMATION

A description of the Bank, including the Bank's consolidated financial statements as of March 31, 1997 and March 31, 1996 and for the three years ended March 31, 1997, and the Bank's non-consolidated financial statements as of September 30, 1997 and September 30, 1996 and for the six-month periods then ended, is attached hereto as Annex I and is incorporated and is an integral part of this Offering Circular and references herein to this Offering Circular shall be deemed to include such Annex.

The Company's Charter (as defined herein) will provide that, for so long as any Offered Securities are outstanding, the Company will furnish to holders and beneficial owners of Offered Securities and to prospective purchasers designated by such holders upon request the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act to permit compliance with Rule 144A in connection with resales of Offered Securities.

The Bank furnishes certain information to the U.S. Securities and Exchange Commission (the "Commission") pursuant to Rule 12g3-2(b) under the U.S. Securities Exchange Act of 1934 (the "Exchange Act"). Such information can be inspected or copied at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at 7 World Trade Center, Suite 1300, New York, New York 10048 and Citicorp Center, 500 West Madison, Suite 1500, Chicago, Illinois 60661. Copies of such material can also be obtained upon written request addressed to the Commission, Public Reference Section, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. If at any time the Bank is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b), the Bank will furnish, upon written request, to any holder of an Offered Security, or any prospective purchaser designated by such holder, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. As long as the Bank is entitled to the exemption under Rule 12g3-2(b) under the Exchange Act, it will not be required to deliver information that would otherwise be required to be delivered under Rule 144A(d)(4).

NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any Offered Securities.

Each purchaser of Offered Securities (including the registered holders and Beneficial Owners of Offered Securities as they exist from time to time, in each case as of the time of purchase) will be deemed to have acknowledged, represented to and agreed with the Company, the Bank and the Initial Purchasers as follows (terms used in this paragraph that are defined in Rule 144A and Regulation S under the Securities Act are used herein as defined therein):

(1) The purchaser (A) (i) is a QIB, (ii) is aware that the sale of Offered Securities to it is being made in reliance on Rule 144A and (iii) is acquiring such Offered Securities for its own account or the account of a QIB, or (B) is not a U.S. Person, is located outside the United States, and is not acquiring Offered Securities for the account or benefit of a U.S. Person, and otherwise is purchasing pursuant to Regulation S.

(2) The purchaser understands and acknowledges that the Company has not been registered under the 1940 Act and that the Offered Securities have not been registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred by such purchaser except (A) (i) to an institutional investor that the seller reasonably believes is a QIB purchasing for its own account or the account of a QIB, whom the seller has informed, in each case, that the reoffer, resale, pledge or other transfer is being made in reliance on Rule 144A or (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, subject to (a) the receipt by the transfer agent of a certification in the form set forth on the reverse of the Restricted Global Certificate or (b) the receipt by the transfer agent of such other evidence acceptable to the transfer agent that such reoffer, resale, pledge or transfer is in compliance with the Securities Act and other applicable laws and (B) in accordance with all applicable securities laws of the states of the United States and foreign jurisdictions.

(3) On each day that it holds Offered Securities, either (A) the purchaser is not itself, and is not acquiring any Offered Securities with “plan assets” of, an employee benefit or other plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended, or Section 4975 of the Internal Revenue Code of 1986, as amended (each, a “Plan”), or an entity whose underlying assets include “plan assets” by reason of any Plan’s investment in the entity or (B) the purchase and holding of any Offered Securities is exempt under U.S. Department of Labor prohibited transaction class exemption (“PTCE”) 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts), or PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers).

(4) The Restricted Global Certificates and the Regulation S Global Certificate will bear a legend to the following effect unless the Company and the Bank determine otherwise in compliance with applicable law:

“THE ISSUER OF THE 9.40% NONCUMULATIVE PREFERRED SECURITIES, SERIES A EVIDENCED HEREBY (THE “SECURITIES”) HAS NOT BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940 (THE “1940 ACT”) AND SUCH SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). THE HOLDER HEREOF, BY PURCHASING THE SECURITIES, AGREES FOR THE BENEFIT OF THE SUMITOMO BANK, LIMITED (THE “BANK”), THE COMPANY AND THE INITIAL PURCHASERS THAT THIS CERTIFICATE MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO AN INSTITUTIONAL INVESTOR THAT THE

HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, WITHIN THE MEANING OF RULE 144A (A "QUALIFIED INSTITUTIONAL BUYER"), PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT SUBJECT TO (A) THE RECEIPT BY THE TRANSFER AGENT OF A CERTIFICATION SUBSTANTIALLY IN THE FORM PROVIDED ON THE REVERSE HEREOF OR (B) THE RECEIPT BY THE TRANSFER AGENT OF SUCH OTHER EVIDENCE ACCEPTABLE TO THE TRANSFER AGENT THAT SUCH REOFFER, RESALE, PLEDGE OR TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS.

FURTHER, THE HOLDER HEREOF, BY PURCHASING THIS CERTIFICATE, WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT (A) IT IS NOT ITSELF, AND IS NOT ACQUIRING ANY SECURITIES WITH "PLAN ASSETS" OF, AN EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (EACH, A "PLAN"), OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF ANY PLAN'S INVESTMENT IN THE ENTITY OR (B) THE PURCHASE AND HOLDING OF ANY SECURITIES IS EXEMPT UNDER U.S. DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION ("PTCE") 96-23 (FOR CERTAIN TRANSACTIONS DETERMINED BY IN-HOUSE ASSET MANAGERS), PTCE 95-60 (FOR CERTAIN TRANSACTIONS INVOLVING INSURANCE COMPANY GENERAL ACCOUNTS), PTCE 91-38 (FOR CERTAIN TRANSACTIONS INVOLVING BANK COLLECTIVE INVESTMENT FUNDS), PTCE 90-1 (FOR CERTAIN TRANSACTIONS INVOLVING INSURANCE COMPANY SEPARATE ACCOUNTS), OR PTCE 84-14 (FOR CERTAIN TRANSACTIONS DETERMINED BY INDEPENDENT QUALIFIED PROFESSIONAL ASSET MANAGERS)".

It is anticipated that the Offered Securities will trade only in book-entry form, except in the circumstances described under "Description of the Offered Securities – Registration and Transfer of Offered Securities".

OFFERED SECURITIES WILL BE ISSUED, AND MAY BE HELD OR TRANSFERRED, ONLY IN BLOCKS HAVING AN AGGREGATE LIQUIDATION PREFERENCE OF NOT LESS THAN $100,000. ANY TRANSFER, SALE OR OTHER DISPOSITION OF OFFERED SECURITIES IN A BLOCK HAVING AN AGGREGATE LIQUIDATION PREFERENCE OF LESS THAN $100,000, OR RESULTING IN A HOLDER'S HOLDING OFFERED SECURITIES IN A BLOCK HAVING AN AGGREGATE LIQUIDATION PREFERENCE OF LESS THAN $100,000, SHALL BE DEEMED TO BE VOID AND OF NO LEGAL EFFECT WHATSOEVER, ANY SUCH TRANSFEREE SHALL BE DEEMED NOT TO BE THE HOLDER OF OFFERED SECURITIES FOR ANY PURPOSE, INCLUDING BUT NOT LIMITED TO THE RECEIPT OF DISTRIBUTIONS ON OFFERED SECURITIES, AND SUCH TRANSFEREE SHALL BE DEEMED TO HAVE NO INTEREST WHATSOEVER IN SUCH OFFERED SECURITIES.

FORWARD LOOKING STATEMENTS

This Offering Circular contains statements that constitute forward looking statements. These statements appear in a number of places in this Offering Circular and include statements regarding the intent, belief or current expectations of the Bank or its officers or the Company or its officers with respect to the results of operations and financial condition of the Bank and its subsidiaries including, without limitation, future loan loss provisions and financial support to certain borrowers. In addition, in those and other portions of this document, the words "anticipate," "believe," "estimate," "expect," "intend," and similar expressions, as they relate to the Bank or the Company or their management, are intended to identify forward-looking statements. Such statements reflect the current views of the Bank and the Company with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this Offering Circular. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Bank and the Company do not intend to update these forward-looking statements.

Such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those in the forward looking statements as a result of various factors. The information contained in this Offering Circular, including without limitation the information under "Investment Considerations", "The Company" and "Certain Information Regarding the Bank" in the front part of the Offering Circular and under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" in Annex I, identifies important factors that could cause such differences, including but not limited to a change in overall economic conditions, changes in market rates of interest, further declines in the value of equity securities or real estate in Japan, further deterioration of the quality of loans to certain industry sectors in Japan and the effect of new legislation or government directives.

ENFORCEMENT OF CIVIL LIABILITIES

The Bank is a joint stock company organized under the laws of Japan. Most or all of the Bank's directors and executive officers (and certain experts named in this Offering Circular) are non-residents of the United States and all or a substantial portion of the assets of such non-resident persons and of the Bank are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Bank or such persons or to enforce against any of them in United States courts judgments obtained in such courts predicated upon the civil liability provisions of the federal securities laws of the United States. The Bank has been advised by Tanaka & Takahashi, Japanese counsel to the Bank, that there is doubt as to the enforceability in Japan, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the federal securities laws of the United States. The Bank has expressly submitted to the jurisdiction of New York State and United States federal courts sitting in the City of New York for the purpose of any suit, action or proceeding arising out of the offering of the Offered Securities and has appointed the Branch as its agent in the City of New York to accept service of process in any such action.

PRESENTATION OF FINANCIAL INFORMATION

In this Offering Circular, references to "U.S. dollars," "dollars," "U.S.$" and "$" refer to the currency of the United States of America and those to "yen" and "¥" refer to the currency of Japan. For convenience, certain yen amounts in this document have been translated into dollars at the rate of ¥121.10 = $1.00 as at September 30, 1997. However, such translations should not be construed as representations that the yen amounts have been, could have been or could be converted into dollars at that or any other rate. The exchange rate quotations by the Bank for buying and selling spot dollars by telegraphic transfer against yen on February 9, 1998 was ¥124.85 = $1.00.

In this document, where information is presented in millions or billions of yen or thousands or millions or billions of dollars, amounts of less than one thousand, one million or one billion, as the case may be, have been omitted. Accordingly, the total of each column of figures may not be equal to the total of the individual items.

The Bank's financial statements are prepared in accordance with generally accepted accounting principles in Japan ("Japanese GAAP"), which differs in certain respects from generally accepted accounting principles in certain other countries. The material differences between Japanese GAAP and generally accepted accounting principles in the United States ("U.S. GAAP") are described in Annex I under "Summary of Significant Differences Between Japanese GAAP and U.S. GAAP".

The Bank and the Company, having made all reasonable inquiries, confirm that this Offering Circular contains all information with respect to the Bank, the Bank's subsidiaries, the Bank's affiliates, the Bank's associated companies, the Company, the Credit-Linked Note and the Offered Securities which is material in the context of the issue and offering of the Offered Securities, that all the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and that there are no other facts the omission of which would make this Offering Circular as a whole or any of such information or the expression of any such opinions or intentions misleading.

OFFERING CIRCULAR SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular and Annex I hereto. See "Glossary" commencing at page 76 for the definitions of certain terms used in this Offering Circular. The offering of 9.40% Noncumulative Preferred Securities, Series A, liquidation preference $1,000 per security (the "Offered Securities"), is referred to herein as the "Offering".

THE COMPANY

SB Treasury Company L.L.C. (the "Company") is a newly formed Delaware limited liability company formed on January 26, 1998 for the principal purpose of acquiring and holding a perpetual $2,270,000,000 Credit-Linked Note (the "Credit-Linked Note") issued by the New York Branch (the "Branch") of The Sumitomo Bank, Limited (the "Bank"), an international bank organized under the laws of Japan. The Credit-Linked Note will generate net income for distribution to the holders of the Offered Securities and the Company's Common Securities. The Company will be treated as a partnership for United States federal income tax purposes. The Company has been formed by the Bank to enable the Bank to issue through a subsidiary preferred stock denominated in U.S. dollars. Under current Japanese law, the Bank is not authorized to issue directly preferred stock that has provisions that are comparable to the Offered Securities. The Bank intends to treat the Offered Securities as Tier I capital of the Bank under relevant Japanese regulatory capital guidelines. On a pro forma basis at September 30, 1997, after giving effect to the issuance of the Offered Securities and assuming that the Bank's use of the proceeds of the Offered Securities did not increase the Bank's total risk-based assets, the Bank's Tier 1 risk-based capital ratio would increase to 5.14% from the Bank's actual Tier 1 risk-based capital ratio at such date, of 4.63%. It is expected that the issuance of the Offered Securities will reduce the Bank's foreign exchange exposure related to the Bank's assets that are denominated in U.S. dollars.

The Bank, acting through SBTC, Inc., a newly-formed wholly-owned U.S. subsidiary of the Bank (the "Class A Common Securityholder"), is purchasing 50,000 Class A Common Securities of the Company (the "Class A Common Securities"), representing 100% of the voting rights (subject to the limited rights of holders of the Offered Securities to elect additional directors as described herein) and 10% of the economic ownership attributable to the Common Securities, and, acting through Sumitomo Bank Leasing and Finance, Inc., an existing U.S. subsidiary of the Bank engaged in the leasing business (the "Class B Common Securityholder" and together with the Class A Common Securityholder, the "Common Securityholders"), is purchasing 450,000 Class B Common Securities of the Company (the "Class B Common Securities" and, together with the Class A Common Securities, the "Common Securities"), having no voting rights and representing 90% of the economic ownership attributable to the Common Securities. The Common Securities are being purchased for $470,000,000 ($940 per security) and represent all of the common limited liability company interests in the Company. The Bank has agreed with the Company that, for so long as any Offered Securities are outstanding, the Bank will maintain direct or indirect ownership of 100% of the outstanding Class A Common Securities and Class B Common Securities, either directly or through intermediate subsidiaries all of the voting stock of which is owned by the Bank (except for up to 3.6% of the outstanding voting stock of Sumitomo Bank Leasing and Finance, Inc. for so long as it owns the Class B Common Securities).

The Company will use the aggregate net proceeds of approximately $2,270,000,000 received in connection with both the Offering and the issuance of the Common Securities to purchase the Credit-Linked Note having a principal amount of $2,270,000,000 and paying interest calculated at rates based upon the interest rates borne by certain real or synthetic U.S. Treasury securities that are the Reference Securities identified in or determined pursuant to the terms of the Credit-Linked Note, and payable only if the U.S. Government is not in default in paying interest on such Reference Securities. See "The Offering—Credit Linked Note" in this Summary.

Provided that (i) the U.S. Government makes (or in the case of synthetic substitute Reference Securities is deemed to make) payments of interest on the Reference Securities when due, (ii) the Branch makes payments of interest under the Credit-Linked Note when due and (iii) after giving effect to substitutions of Reference Securities as described herein amounts received by the Company with respect to interest on the Credit-Linked Note are sufficient to enable the Company to pay full dividends on the Offered Securities, an investment in the Offered Securities will have substantially the same risks and rewards as an investment in noncumulative non-voting perpetual preferred stock issued directly by the Bank and having the same liquidation preference and dividend rate as the Offered Securities.

Under (i) a Support Agreement to be entered into between the Bank and the Company and (ii) the Company's Charter, if the Bank pays any dividends on any of its common stock or preferred stock (together, "capital stock") with respect to any fiscal year of the Bank (which fiscal years currently end on each March 31), then the Company will be required to pay full dividends on the Offered Securities on the two Dividend Payment Dates that occur in December of the calendar year in which such fiscal year ends and June of the next succeeding calendar year (irrespective of whether a Supervisory Event has occurred or a No Dividend Instruction has been delivered) and the Bank will be obligated to contribute (or cause to be contributed) to the Company such additional funds as are necessary for such purpose, except that, (i) if the Branch is not in default under the Credit-Linked Note on either such Dividend Payment Date, dividends so payable by the Company on such Dividend Payment Date will be limited to amounts received by the Company under the Credit-Linked Note and (ii) the amount the Bank is obligated to contribute to the Company during any Dividend Period, together with interest payments made by the Bank under the Credit-Linked Note, shall not exceed the actual amount of interest payments under the Credit-Linked Note due during such Dividend Period. Except for certain rights vested in the Independent Directors after the occurrence of a Bankruptcy Event, investors will not have the right, directly or indirectly, to cause the Company to enforce its rights as a creditor under the Credit-Linked Note, and if a Liquidation Event were to occur with respect to the Bank, (i) the Company would be liquidated when the Bank is liquidated and (ii) for so long as such Liquidation Event continues the Credit-Linked Note would automatically become and represent a claim in liquidation of the Bank entitling the Company to substantially the same liquidating distributions in the liquidation of the Bank that the Company would be entitled to if the Credit-Linked Note were preferred stock of the Bank having an aggregate liquidation preference equal to the aggregate liquidation preference of the Offered Securities. *Accordingly, if the Bank's financial condition were to deteriorate, the Company and the holders of the Offered Securities could suffer direct and materially adverse consequences, including suspension of noncumulative dividends on the Offered Securities and, if a Liquidation Event occurs with respect to the Bank, loss of their initial investment.*

Although the Company will have the right to sell the Credit-Linked Note upon the affirmative vote of both a majority of the entire Board of Directors of the Company and the holders of two-thirds of the Offered Securities and other Parity Securities (if any), the Bank and the Company do not anticipate that such a sale will occur or that a market for the Credit-Linked Note will exist. If the Company were to sell the Credit-Linked Note, the Company will be required by its Charter to invest the proceeds thereof in accordance with the Company's Investment Policies, which may only be amended by the affirmative vote of each of a majority of the entire Board of Directors and a majority of the Independent Directors. The Company's Charter will specify that the Independent Directors, in determining what action to take for purposes of the foregoing matters, shall take into account only the interests of the holders of the Offered Securities.

CERTAIN INFORMATION REGARDING THE BANK

General

The Company is an indirect, wholly-owned subsidiary of The Sumitomo Bank, Limited. The Bank is not the issuer or a guarantor of the Offered Securities, and holders of the Offered Securities will have no recourse against the Bank in the event of non-payment of dividends on the Offered Securities and, except for their indirect claim in a liquidation of the Bank if a Liquidation Event were to occur, holders of the Offered Securities will have no recourse against the Bank in the event of non-payment of the liquidation preference of the Offered Securities if the Company is liquidated. However, subject to the assumptions described elsewhere herein, an investment in the Offered Securities of a Series will have substantially the same risks and rewards as an investment in noncumulative non-voting perpetual preferred stock issued directly by the Bank and having the same liquidation preference and dividend rate as the Offered Securities of such Series. *Accordingly, if the Bank's financial condition were to deteriorate, the Company and the holders of the Offered Securities could suffer direct and materially adverse consequences, including suspension of noncumulative dividends on the Offered Securities and, if a Liquidation Event occurs with respect to the Bank, loss by the holders of the Offered Securities of their initial investment. Prospective investors should carefully consider the information concerning the Bank set forth in Annex I.*

The Bank

The Bank is one of the world's leading commercial banks, with approximately ¥56,271 billion in total assets at September 30, 1997, ranking it as one of the largest banking organizations in the world in terms of total assets. The Bank is one of nine city banks in Japan. Among the 139 ordinary banks in Japan (which include the city banks), the Bank was ranked second in terms of total assets as of September 30, 1997.

The Bank provides a comprehensive range of wholesale and retail banking services, both in Japan and internationally. Through its head office and branch network in Japan and overseas, it accepts deposits from, and makes loans and extends guarantees to, corporations, individuals, governments and governmental entities. The Bank also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, the Bank operates through an extensive network of branches and representative offices, as well as through subsidiaries and affiliates, to provide a wide range of banking and financial services to its clients.

As of September 30, 1997, the activities of the Bank in Japan were conducted principally through the Bank's 309 branches, 39 sub-branches and 1 agency and through 12 subsidiaries and 10 associated companies (in which, by law, the Bank may hold an equity interest of no more than 5%). International activities were conducted through the Bank's 39 branches, two sub-branches and 24 representative offices, as well as 43 subsidiaries and 13 affiliates and associated companies located in more than 30 countries.

Except as otherwise indicated, the financial information with respect to the Bank herein is presented on a non-consolidated basis. Non-consolidated financial statements are generally regarded as the primary financial statements in Japan. As of March 31, 1997, the Bank's non-consolidated shareholders' equity represented 91.6% of its consolidated shareholders' equity, and for fiscal 1996 the Bank's non-consolidated net income represented 103.7% of its consolidated net income.

The Bank is incorporated under the Commercial Code of Japan and operates under the Japanese Banking Law. The registered head office of the Bank is at 6-5, Kitahama 4-chome, Chuo-ku, Osaka 541-0041, and its Tokyo head office is located at 3-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005.

The Branch

The Bank opened an agency in New York in 1952 and, since April 1977, has been licensed by the Superintendent of Banks of the State of New York to operate the Branch. The Bank conducts an extensive banking business through the Branch, concentrating primarily on international banking transactions and servicing the financial needs of its Japanese and American customers in the United States. The Branch is not required to be, and is not, a member of the Federal Deposit

Insurance Corporation and deposits of the Branch are not insured by the Federal Deposit Insurance Corporation.

Certain Recent Developments

The Bank reported non-consolidated net income of ¥5.7 billion ($47 million) for the six-month period ended September 30, 1997. Non-consolidated net income per share was ¥1.83, compared with ¥16.33 for the six-month period ended September 30, 1996.

Operating profits (*keijo-rieki*) decreased by 87.0% to ¥11.4 billion ($94 million) from ¥88.0 billion ($727 million) recorded for the six-month period ended September 30, 1996. Influenced by the following factors, net income also fell by ¥45.5 billion, or 88.8%, to ¥5.7 billion ($47 million), compared with the first half of fiscal year 1996 (which ended on March 31, 1997): (i) operating revenues (which represent the total of net interest income, net fees and commissions, and net other operating income) increased compared with the first half of fiscal year 1996, principally as a result of a decline in money market interest rates and the strength of the domestic bond market and (ii) operating profits (*keijo-rieki*) decreased by ¥76.6 billion, principally as a result of the Bank's disposition of problem assets and the incurrence of unrealized losses on investment securities, reflecting the overall decline in domestic stock prices.

For fiscal year 1997 (which will end on March 31, 1998), the Bank expects to record ¥440 billion in nonconsolidated operating losses (*keijo-sonshitsu*) and ¥470 billion in nonconsolidated net losses. Such expected losses will be incurred principally as a result of the Bank's advance implementation of a new administrative supervisory system requiring the self-assessment by financial institutions of the credit quality of their assets. Referred to as "Prompt Corrective Action," this system was promulgated by the Japanese Ministry of Finance and becomes effective on April 1, 1998. As announced on October 27, 1997, the Bank's self-assessment identified approximately ¥800 billion in provisions for expected credit losses for fiscal year 1997. Core banking profit (*gyomu-junèki*) is expected to be ¥300 billion. The Bank also projects consolidated operating losses (*keijo-sonshitsu*) of ¥350 billion and consolidated net losses of ¥250 billion.

The Bank's total assets as of September 30, 1997 stood at ¥56,271.4 billion ($464.7 billion), compared with ¥53,304.8 billion ($440.2 billion) as of September 30, 1996. Shareholders' equity as of September 30, 1997, was ¥1,778.8 billion ($14.7 billion), compared with ¥1,815.7 billion ($15.0 billion) as of September 30, 1996.

The Bank's risk-adjusted capital ratio, as of September 30, 1997, stood at 8.91%, representing an increase of 0.16%, over the 8.75% level as of March 31, 1997.

INVESTMENT CONSIDERATIONS

The purchase of the Offered Securities offered hereby is subject to certain risks, including risks associated with the Bank's financial condition, the state of the economy and financial system in Japan, bank regulatory restrictions on the operations of the Company, the terms of the Credit-Linked Note itself (including the inability of investors in the Offered Securities to cause the Company to enforce the Credit-Linked Note and the possibility that, because substitutions of Reference Securities occur when the Offered Securities bear interest at a floating rate based upon LIBOR, divergences between the LIBOR yield curve and the U.S. Treasury yield curve could result in payments of interest on the Credit-Linked Note, even absent a default by the Branch, not generating sufficient funds for the Company to pay full dividends on the Offered Securities), the noncumulative nature of dividends on the Offered Securities, the shift in dividend preference from the Offered Securities to the Common Securities under certain circumstances, and certain other risk factors. See "Investment Considerations" commencing on page 26. Prospective investors should carefully consider the information under "Investment Considerations" in conjunction with the other information contained in this Offering Circular before purchasing any Offered Securities in the Offering.

THE OFFERING

For a more complete description of the terms of the Offered Securities specified in the following summary, see "Description of Offered Securities".

Issuer — SB Treasury Company L.L.C., a Delaware limited liability company newly formed for the purpose of acquiring and holding a Credit-Linked Note that will generate net income for distribution to the holders of its Preferred Securities and its Common Securities.

Offered Securities — $1,800,000,000 9.40% Non-cumulative Preferred Securities, Series A, liquidation preference $1,000 per security.

Ranking — Except as provided in the next sentence, the Offered Securities will rank senior to the Common Securities as to payment of dividends. However, on Dividend Payment Dates during a Supervisory Period (as described under "– Supervisory Events and Liquidation Events") or as to which a No Dividend Instruction has been given (as described under "– Dividends") the dividend preference of the Offered Securities will shift to the Common Securities such that interest payments received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, if any, will be distributed to the Common Securityholders except to the extent that (i) the Bank causes the Company to pay all or a part of a dividend for such Dividend Period on the Offered Securities or (ii) the Bank is obligated to pay dividends for such Dividend Period on the Offered Securities as described below under "Mandatory Dividends".

If a Liquidation Event occurs with respect to the Bank, automatically and without any further action on the part of the Bank or the Company being necessary for so long as such Liquidation Event continues (i) the obligation of the Branch to make payments with respect to interest on the Credit-Linked Note will be suspended and (ii) the Credit-Linked Note will represent a subordinated claim of the Company in the liquidation of the Bank and the Company will have no other financial claim against or interest in the Bank arising under the Credit-Linked Note.

The Company will be precluded by its Charter from issuing any other classes and series of equity securities that are senior to the Offered Securities as to dividend rights or rights upon dissolution, liquidation or winding up of the Company ("Senior Securities") or that rank on a parity with the Offered Securities as to payment of dividends or rights upon dissolution, liquidation or winding up of the Company but not both. So long as any Offered Securities remain outstanding, additional preferred limited liability company interests of the Company ranking on a parity with the Offered Securities as to payment of dividends and amounts upon dissolution, liquidation or winding up of the Company ("Parity Securities") may not be issued without the approval of a majority of the Independent Directors.

Form and Denomination

Offered Securities will be issued in book-entry form only, in denominations of $1,000 of liquidation preference. The minimum purchase requirement, initially or on resale, of Offered Securities will be Offered Securities having an aggregate liquidation preference of $100,000.

Use of Proceeds

The net proceeds to the Company from the Offering, together with proceeds received in connection with the issuance of the Common Securities, will be used to purchase the Credit-Linked Note from the Branch. The Branch intends to use the proceeds received upon issuance of the Credit-Linked Note for general corporate purposes.

Credit-Linked Note

The Credit-Linked Note will represent a subordinate perpetual obligation of the Branch under which the Branch will make payments only of interest and not principal. In a liquidation of the Bank, the Credit-Linked Note will represent a claim against the Bank entitling the Company to substantially the same liquidation distributions that the Company would be entitled to if the Credit-Linked Note were preferred securities of the Bank having an aggregate liquidation preference equal to the aggregate liquidation preference of the Offered Securities. The principal amount of the Credit-Linked Note is $2,270,000,000. The rate of interest on the Credit-Linked Note will be calculated with reference to the rate of interest on the actual or synthetic U.S. Treasury security that is the then effective Reference Security identified in or determined pursuant to the terms of the Credit-Linked Note. Interest on the Credit-Linked Note will be due and payable on an interest payment date thereunder only if (i) in the case of interest payment dates occurring through June 2008, as of such interest payment date no default by the U.S Government in a payment of principal or interest on the then effective Reference Security has occurred and is then continuing, and (ii) in the case of any interest payment date thereafter, no default by the U.S. Government in the payment of principal or interest due on any U.S. Treasury security having an initial maturity of six months or less has occurred and is then continuing. Subject to the foregoing, interest under the Credit-Linked Note will be due and payable on interest payment dates that are the Business Days immediately preceding each Dividend Payment Date for the

Offered Securities, accrued from the immediately preceding interest payment date thereon (or from the date of issuance of the Offered Securities and the Credit-Linked Note in the case of the interest payment date on June 29, 1998), at a rate per annum equal to (i) through the interest payment date in June 2008, the yield to maturity of the initial Reference Security as of February 6, 1998 plus 3.30%, and (ii) thereafter, the interest rate per annum on the then effective Reference Security plus 4.80%. The initial Reference Security for the Credit-Linked Note will be a U.S. Treasury security that was issued on August 15, 1997, matures on August 15, 2007, bears interest at the rate per annum of 6⅛% and had a yield to maturity as of February 6, 1998 of 5.60%. Accordingly, the interest rate per annum on the Credit-Linked Note will be 8.90% through the interest payment date in June 2008. Effective on the maturity date of each Reference Security, such Reference Security will be replaced with a new synthetic six-month U.S. Treasury security having an interest rate determined as described herein under “Description of Credit-Linked Note”.

The initial Reference Security will be an actual issued and outstanding U.S. Treasury security. The substitute Reference Securities will be synthetic six-month U.S. Treasury securities having deemed interest and maturity dates and interest rates determined as provided herein. The Credit-Linked Note is not secured by any Reference Security (which may or may not be owned by the Bank).

The Credit-Linked Note will be redeemable by the Branch at its option on any date on which the Offered Securities are redeemed in whole or in part by the Branch paying to the Company a redemption price in U.S. dollars equal to the principal amount of the Credit-Linked Note to be redeemed, plus interest thereon accrued to (but not including) the redemption date.

The Credit-Linked Note will not provide for acceleration in the event the Branch fails to make a payment when due. An “event of default” or “default” under the Credit-Linked Note would occur if the Branch fails to make an interest payment on the Credit-Linked Note on an interest payment date thereunder when the U.S. Government is current (or deemed current with respect to a Reference Security that is a synthetic security). If the Reference Security is a U.S. Treasury security that is not a synthetic U.S. Treasury security, the U.S. Government will be deemed current if no default by the U.S. Government in a payment of principal or interest on such Reference Security has occurred and is then continuing; if the Reference Security is a synthetic U.S. Treasury security, the U.S. Government will be deemed to be current if no default by the U.S. Government in a payment of principal or interest due on any U.S. Treasury security having an initial maturity of six months or less has occurred and is then continuing.

If a Liquidation Event occurs and for so long as it continues, (i) the obligation of the Branch to make payments with respect to interest under the Credit-Linked Note will be suspended and (ii) the Credit-Linked Note will represent a subordinated claim of the

Company in the liquidation of the Bank and the Company will have no other financial claim against or interest in the Bank arising under the Credit-Linked Note. See “Supervisory Events and Liquidation Events” in this Summary.

Decisions with respect to enforcement of the Credit-Linked Note prior to the occurrence of certain bankruptcy or insolvency events with respect to the Bank (which events include a “Liquidation Event” and collectively are defined herein as “Bankruptcy Events”), and actions to be taken by the Company upon a default by the Branch thereunder prior to the occurrence of a Bankruptcy Event, will be made by the Board of Directors by majority vote. The Charter will provide that (i) the Board of Directors, in considering courses of action in connection with such a default, shall take into account the interest of the holders of the Common Securities and the Preferred Securities, and (ii) no member of the Board of Directors shall have any liability to holders of the Preferred Securities for voting not to take enforcement action. Decisions with respect to enforcement of the Credit-Linked Note on or after the occurrence of a Bankruptcy Event will be made by the majority vote of the Independent Directors, taking into account the interest of the holders of only the Preferred Securities.

No Indebtedness

The Company will be prohibited by its Charter from incurring indebtedness for borrowed money or taking any action that could give rise to “unrelated business taxable income” for U.S. Federal income tax purposes.

Dividends

Dividends will be payable from the date of original issue on a noncumulative basis, semi-annually in arrears on the last day of June and December of each year (or if such day is not a Business Day on the immediately preceding Business Day) (each, a “Dividend Payment Date”), commencing June 30, 1998. Dividends on the Offered Securities will be payable at a rate per annum on the liquidation preference equal to (i) through the Dividend Payment Date in June 2008, 9.40% and (ii) with respect to each semi-annual Dividend Period thereafter, 5.30% above the arithmetic mean of London interbank offered quotations by the Reference Banks for six-month Eurodollar deposits (“LIBOR”) prevailing on the related LIBOR Determination Date. Dividends with respect to each Dividend Payment Date shall become irrevocably due and payable on such Dividend Payment Date unless, on or before the tenth Business Day immediately preceding such Dividend Payment Date, the Class A Common Securityholder delivers an instruction to the Company (a “No Dividend Instruction”) not to pay dividends on such Dividend Payment Date, in which case no dividend shall become due and payable on such Dividend Payment Date. In the event (i) the Bank has outstanding preferred securities that constitute Tier I capital under the regulations of the Ministry of Finance and (ii) on or before the tenth Business Day immediately preceding such Dividend Payment Date the Bank notifies the Company in writing that the Bank has suspended dividends on such preferred securities, the receipt of such notice shall be deemed to be the receipt of a No Dividend Instruction from the Class A

Common Securityholder and deemed delivery of such instruction therefrom without any further action by or on behalf of the Class A Common Securityholder being necessary; *provided, however*, that if the Dividend Payment Date as to which such No Dividend Instruction is deemed given is a Mandatory Dividend Payment Date, then such No Dividend Instruction shall apply to the first Dividend Payment Date thereafter that is not a Mandatory Dividend Payment Date. If a No Dividend Instruction is delivered or deemed delivered with respect to a Dividend Payment Date holders of Offered Securities will have no right to receive a dividend on the Offered Securities on such Dividend Payment Date and the dividend preference of the Offered Securities will shift to the Common Securities for such Dividend Payment Date. "Dividend Periods" will commence on and include the first day, and end on and include the last day, of the period in which the corresponding Dividend Payment Date occurs, except that the initial Dividend Period shall commence on and include the original issue date of shares of Offered Securities and will end on and include June 30, 1998. The Company's Charter will provide that the Company shall mail notice of receipt by the Company of a No Dividend Instruction to each record holder of Offered Securities promptly upon the receipt of such No Dividend Notice by the Company. See "Mandatory Dividends; Support Agreement" in this Summary for a description of the circumstances under which dividends on the Offered Securities will be payable on a Dividend Payment Date notwithstanding the giving of a No Dividend Instruction.

The Company's Charter will provide that dividends with respect to Offered Securities will be paid out of payments with respect to interest received by the Company on the Credit-Linked Note (or any other securities the Company may from time to time own, subject to the Investment Policies described herein) and out of amounts contributed by the Bank or the Common Securityholders to the Company (whether under the Support Agreement or by voluntary contribution). The Company's Charter will require approval of a majority of the Independent Directors before dividends may be paid out of any other source. The Company's Charter will provide further that dividends on Offered Securities will be paid on each Dividend Payment Date unless the Class A Common Securityholder causes the Company not to pay such dividends by delivery (or deemed delivery under the circumstances described above) of a No Dividend Instruction on or before the tenth Business Day prior to the relevant Dividend Payment Date. Failing such action, the Company's obligation to pay the dividend concerned will become definitive. If, for any reason, the Bank causes the Company not to pay dividends on Offered Securities for any Dividend Period, holders of Offered Securities will not be entitled to recover such dividends, whether or not dividends on Offered Securities are paid in any future Dividend Period.

If any Offered Securities are outstanding, no full dividends or other distributions shall be paid on any Parity Securities or Junior Securities (other than on the Common Securities when a Supervisory Event has occurred or a No Dividend Instruction has been delivered) for any Dividend Period unless full dividends have been or contemporaneously are paid on the Offered Securities for (i) the immediately preceding Dividend Period, in the case of Parity Securities, and (ii) the then current Dividend Period, in the case of Junior Securities. When dividends are not paid in full for any Dividend Period upon the Offered Securities and the Parity Securities, if any, all dividends on Offered Securities and the Parity Security shall only become payable pro rata based upon the respective amounts that would have been paid on the Offered Securities and the Parity Securities, if any, had dividends been paid in full.

In addition to the foregoing restriction, except for payment of dividends on Common Securities after a Supervisory Event or on a Dividend Payment Date with respect to which a No Dividend Instruction has been given, the Company shall not pay or set apart funds for any dividends or other distributions (other than in Common Securities or other Junior Securities) with respect to any Common Securities or other Junior Securities or repurchase, redeem or otherwise acquire, or set apart funds for repurchase, redemption or other acquisition of, Common Securities or other Junior Securities through a sinking fund or otherwise, unless and until (i) full dividends on all Offered Securities for the two most recent preceding Dividend Periods (or such lesser number of Dividend Periods during which Offered Securities have been outstanding) are paid or a sum sufficient for payment has been paid over to the dividend disbursing agent for payment of such dividends and (ii) the Company has paid a cash dividend on Offered Securities at the annual dividend rate for the then current Dividend Period or sufficient funds have been paid over to the dividend disbursing agent for the payment of such cash dividend for such then current Dividend Period. See “Supervisory Events and Liquidation Events” below in this Summary for a description of the shift in dividend preference from the Offered Securities to the Common Securities during a Supervisory Period.

Mandatory Dividends; Support Agreement

If the Bank pays any dividends on any of its capital stock with respect to any fiscal year of the Bank (including, without limitation, the fiscal year that ended on March 31, 1997), then the Company will be required to pay full dividends on the Offered Securities on the Dividend Payment Dates that occur in December of the calendar year in which the last day of such fiscal year occurs and June of the next calendar year (in each case, a “Mandatory Dividend Payment Date”) (whether or not a Supervisory Event has occurred or a No Dividend Instruction is given with respect to either such Dividend Payment Date). Pursuant to the Support Agreement the Bank will be obligated to contribute (or cause to be contributed) to the Company such additional funds as are necessary for such purpose, except that, (i) if the Branch is not in default under the Credit-Linked Note on either such Mandatory Dividend Payment Date on which such mandatory dividends are payable, dividends so payable by the Company on such Dividend Payment Date will be limited to amounts received by the Company under the Credit-Linked Note and (ii) the amount the Bank is obligated to contribute to the Company during any Dividend Period, together with interest payments made by the Bank under the Credit-Linked Note, shall not exceed the actual amount of interest payments under the Credit-Linked Note due during such Dividend Period.

A majority of the Independent Directors, acting alone and without the vote or consent of the other members of the Board of Directors, shall have the right on behalf of the Company to enforce the Support Agreement. Holders of the Offered Securities shall not have any direct right to enforce the Support Agreement. For so long as any Offered Securities or other Parity Securities, if any, are outstanding, the Support Agreement may not be amended or modified without the consent of holders of Offered Securities and other Parity Securities, if any, holding two-thirds of the aggregate liquidation preference of such securities, voting as a single class.

Liquidation Preference

The liquidation preference for each of the Offered Securities is $1,000, plus an amount equal to unpaid dividends, if any, thereon with respect to the current Dividend Period accrued on a daily basis through the date of liquidation, but without interest and without accumulation of unpaid non-definitive dividends for any prior Dividend Period. So long as any Offered Securities are outstanding, the Class A Common Securityholder will agree in the Company's Charter that it will not cause the Company to dissolve or liquidate unless the Bank also liquidates. The Company's Charter will provide that the Company will be liquidated when the Bank is liquidated.

In the event of any voluntary or involuntary dissolution, liquidation or winding up of the Company, after satisfaction of liabilities to creditors, if any, the holders of the Offered Securities will be entitled to receive out of assets of the Company available for distribution to securityholders, before any distribution of assets is made to holders of Common Securities or any other class of stock ranking junior to the Offered Securities upon liquidation, liquidating distributions in respect of each Offered Security in the amount of the liquidation preference per share, plus unpaid dividends, if any, thereon with respect to the current Dividend Period accrued through the date of dissolution, liquidation or winding up, but without accumulation of unpaid dividends for any prior Dividend Period, without any interest.

See "Supervisory Events and Liquidation Events" in this Summary for a description of the Company's claim in liquidation of the Bank evidenced by the Credit-Linked Note upon the occurrence of a Liquidation Event.

Redemption

The Offered Securities are not redeemable prior to the Dividend Payment Date in June 2008, except upon the occurrence of a Special Event.

On and after the Dividend Payment Date in June 2008, the Offered Securities may be redeemed for cash at the option of the Company, in whole or in part, on any Dividend Payment Date, at a redemption price of $1,000 per security, plus an amount equal to unpaid dividends, if any, thereon with respect to the current Dividend Period accrued on a daily basis through the date fixed for redemption, without interest and without accumulation of

	unpaid non-definitive dividends for any prior Dividend Period. Upon the occurrence of a Special Event prior to the Dividend Payment Date in June 2008, the Company will have the right at any time before such date, to redeem Offered Securities in whole (but not in part) at a redemption price equal to the higher of (i) $1,000 or (ii) the Make-Whole Amount (as defined herein) per security, plus, in either case, an amount equal to unpaid dividends, if any, thereon with respect to the current Dividend Period accrued on a daily basis through the date fixed for redemption, without interest and without accumulation of unpaid, non-definitive dividends for any prior Dividend Period. Any redemption of Offered Securities is subject to compliance with applicable regulatory requirements, including the prior approval of the Ministry of Finance if then required under applicable guidelines or policies of the Ministry of Finance. Offered Securities will not be subject to any sinking fund or mandatory redemption and will not be convertible into any other securities of the Company or any securities of the Bank. So long as any Offered Securities are outstanding, Junior Securities and other Parity Securities are not redeemable or repurchasable without the concurrent redemption of approximately equal proportion of the aggregate liquidation preference of the outstanding Offered Securities, unless (i) a majority of the Company's Independent Directors shall have approved such redemption or repurchase or (ii) each Rating Agency (as defined under "Glossary") then rating the Offered Securities shall have informed the Company that the redemption or repurchase of such Junior Securities and other Parity Securities would not result in a reduction of the rating then assigned by such Rating Agency to the Offered Securities.
Eligible Investments	The Company's initial investment policies (the Company's "Investment Policies") will be established pursuant to the Company's Charter. Under the Investment Policies, the Company may not hold or invest in any assets other than the Credit-Linked Note, U.S. Treasury securities and freely transferable commercial paper rated at least "A-1" by Standard & Poor's Ratings Group or "P-1" by Moody's Investors Services, Inc. (together, "Eligible Investments"). The Investment Policies provide that the Company may not purchase any Eligible Investment from or that is issued by the Bank or any of its affiliates (except for the purchase of the Credit-Linked Note at initial issuance of the Offered Securities). The Investment Policies may be amended only by the affirmative vote of each of a majority of the entire Board of Directors and a majority of the Independent Directors. Although the Bank and the Company do not anticipate that the Company will sell the Credit-Linked Note (and no market for the Credit-Linked Note is expected to develop), were the Company to do so the proceeds of such sale would be required to be invested in accordance with the Company's Investment Policies as they exist at the time of such sale.
Independent Directors	The Company's Charter will provide that, for as long as any Offered Securities are outstanding, certain actions by the Company must be approved by a majority of the Independent

	Directors (as defined below) as well as by a majority of the entire Board of Directors. Initially, the Company will have one Independent Director designated in the Company's Charter. The Company's initial Independent Director is Michael H. Coles. As long as there is only one Independent Director, any action that requires the approval of majority of the Independent Directors must be approved by such Independent Director. The actions that require approval of a majority of the Independent Directors include (i) the issuance of Parity Securities, (ii) the amendment or modification of the Company's Investment Policies, (iii) other than during a Supervisory Period or after the delivery of a No Dividend Instruction, the payment of dividends on Common Securities or other Junior Securities in any fiscal year in an amount exceeding the amount by which the interest received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, if any, exceeds the stated dividends on the Offered Securities that would be paid during such fiscal year irrespective of whether dividends on the Offered Securities are in fact paid, (iv) redemption of Junior Securities without the concurrent redemption of Offered Securities having a liquidation preference equal to at least 400% of the redemption price of the Junior Securities being redeemed, unless each Rating Agency then rating the Offered Securities shall have informed the Company in writing that the redemption or repurchase of such Junior Securities would not result in a reduction of the rating then assigned by such Rating Agency to the Offered Securities, (v) to the fullest extent permitted by law, any dissolution, liquidation or termination of the Company that is not concurrent with the liquidation of the Bank, (vi) payment of dividends on Offered Securities other than out of interest received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, if any, or out of amounts contributed by the Bank or the Common Securityholders to the Company (whether under the Support Agreement or by voluntary contribution) and (vii) the conversion of the Company into another type of entity or the consolidation or merger of the Company with or into any other entity, the consolidation or merger of any other entity with or into the Company or the sale of all or substantially all of the assets of the Company. Additionally, a majority of the Independent Directors, acting alone and without the vote or consent of the other members of the Board of Directors, have the right on behalf of the Company to enforce the Support Agreement and, after the occurrence of a Bankruptcy Event, to enforce and otherwise act on behalf of the Company with respect to the Credit-Linked Note. The Company's Charter will provide that the Independent Directors, (i) as to matters relating to the Support Agreement and the Credit-Linked Note, will consider only the interests of the holders of the Offered Securities and (ii) as to all other matters, will consider the interest of holders of both the Common Securities and the Offered Securities, in determining whether any proposed action requiring their approval is in the best interests of the Company.
Voting Rights	Holders of Offered Securities are entitled to elect two additional Directors if the Company fails to pay full dividends on the Offered

Securities for two consecutive Dividend Payment Dates or if a Bankruptcy Event or a default under the Credit-Linked Note occurs. Any members of the Board of Directors elected by holders of the Offered Securities will be deemed to be Independent Directors for purposes of the actions requiring the approval of a majority of the Independent Directors.

The Class A Common Securityholder as holder of all of the outstanding shares of Class A Common Securities will at all times have the right to elect a majority of the Board of Directors. The Class A Common Securityholder is a wholly-owned subsidiary of the Bank.

Resale Restrictions

The Company has not been registered under the 1940 Act and the Offered Securities have not been registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except in a transaction pursuant to Rule 144A or Regulation S, as described under “Notice to Investors”. Offered Securities will be issued, and may be transferred, only in blocks of not less than $100,000 aggregate liquidation preference. Any transfer, sale or other disposition of Offered Securities in a block having a liquidation preference of less than $100,000, or resulting in a holder’s holding Offered Securities having a liquidation preference of less than $100,000, will be deemed to be void and of no legal effect whatsoever. See “Notice to Investors”.

Certain ERISA Considerations

Under a regulation issued by the United States Department of Labor, the assets of the Company may be deemed to be “plan assets” of employee benefit plans subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended, and Section 4975 of the Internal Revenue Code of 1986, as amended. Prospective purchasers must carefully consider the restrictions on purchase set forth under “Notice to Investors” and “Certain ERISA Considerations”.

THE FORMATION

The Formation

Prior to or simultaneously with the completion of the Offering, the Company and the Bank and its affiliates will engage in the transactions described under "Certain Transactions Constituting the Formation". These transactions are designed to facilitate the Offering and the acquisition by the Company of the Credit-Linked Note.

The following diagram outlines the relationship between the Company and the Bank and its affiliates following completion of the Offering:

Benefits to the Bank and its Affiliates

The Bank is required by the Ministry of Finance to maintain certain levels of capital for bank regulatory purposes. The Bank intends to treat the Offered Securities as Tier I capital of the Bank under relevant Japanese regulatory capital guidelines. The Bank expects that the issuance of the Offered Securities will have the effect of increasing the Bank's Tier I capital and total capital by the amount of the net proceeds of the Offering. While the Bank has received informal indications that the MoF will consider the Offered Securities to constitute Tier I capital of the Bank, the Offered Securities are a novel security for Japanese banks, and the MoF may subsequently determine that the Offered Securities do not constitute Tier I capital of the Bank. The Bank is not authorized under current Japanese law to issue directly preferred stock that have provisions comparable to the Offered Securities. In excess of 25% of the Bank's risk-weighted assets as of September 30, 1997 are denominated in foreign currency and the issuance of the Offered Securities is expected to reduce the Bank's foreign exchange exposure.

SUPERVISORY EVENTS AND LIQUIDATION EVENTS

If the Bank's financial condition were to deteriorate with the consequence that a Supervisory Event were to occur or the Bank were to suspend dividends on its own common stock and preferred stock (or, through the Class A Common Securityholder, deliver a No Dividend Instruction to the Company), the Company and the holders of the Offered Securities could suffer direct and materially adverse consequences, including suspension of noncumulative dividends on the Offered Securities. If the Bank's financial condition were to deteriorate with the consequence that a Liquidation Event were to occur, the Company would be liquidated and holders of the Offered Securities could suffer loss of their initial investment. *Accordingly, potential investors in the Offered Securities should carefully consider the descriptions herein of the consequences of a Supervisory Event or a Liquidation Event occurring and the financial and other information regarding the Bank herein and in Annex I.*

A "Supervisory Event" would be deemed to have occurred if the Bank's total risk-based capital ratio or Tier I risk-based capital ratio, calculated on a consolidated basis as of the end of any period in respect of which the Bank submits financial statements to the Ministry of Finance, were to decline below the minimum percentages required by Japanese banking regulations. Japanese banking regulations currently require Japanese banks to maintain a minimum total risk-based capital ratio of at least 8.0% and a minimum Tier I risk-based capital ratio of at least 4.0%. On a pro forma basis at September 30, 1997, after giving effect to the issuance of the Offered Securities and assuming that the Bank's use of the proceeds of the Offered Securities did not increase the Bank's total risk-based assets, the Bank's Tier 1 risk-based capital ratio would increase to 5.14% from the Bank's actual Tier 1 risk-based capital ratio at such date, of 4.63%. A "Supervisory Period" is any period during which a Supervisory Event has occurred and is continuing.

The Company's Charter will provide that, with respect to any Dividend Payment Date (i) that occurs during a Supervisory Period or (ii) with respect to which a No Dividend Instruction has been or is deemed given, the dividend preference of the Offered Securities will shift to the Common Securities such that all interest payments received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, if any, which are available for payment of dividends by the Company on its Common Securities and Preferred Securities will be distributed to the Common Securityholders except to the extent that (i) the Bank causes the Company to pay all or a part of a dividend for such Dividend Period on the Offered Securities or (ii) the Bank is obligated to pay dividends for such Dividend Period on the Offered Securities as described under "Description of Offered Securities — Mandatory Dividends". The Company's Charter will also provide that promptly after the occurrence of a Supervisory Event, the Company will distribute to the Class A Common Securityholder any financial assets of the Company other than the Credit-Linked Note and the proceeds therefrom.

A "Liquidation Event" shall be deemed to occur if a liquidation proceeding under the law of Japan (including the special liquidation proceeding (*tokubetsu seisan*) of the Bank under the Commercial Code of Japan (Law No. 48 of 1899, as amended)) is commenced by or against the Bank or a competent court in Japan shall have (a) adjudicated the Bank to be bankrupt (*hasan*) pursuant to the provisions of the Japanese Bankruptcy Law (Law No. 71 of 1922, as amended) or (b) approved a preparation of a reorganization plan for liquidation (*seisanteki-kaisha-kosei*) of the Bank pursuant to the provisions of the Japanese Corporate Reorganization Law (Law No. 172 of 1952, as amended).

The Credit-Linked Note will provide that, if a Liquidation Event occurs and for so long as it continues, (i) the Bank's obligation to make payments of interest on the Credit-Linked Note will be suspended and (ii) the Credit-Linked Note will represent a subordinated claim in the liquidation of the Bank and the Company will have no other financial claim against or interest in the Bank arising under the Credit-Linked Note. The subordinated claim represented by the Credit-Linked Note will entitle the Company to substantially the same liquidating distributions in the liquidation of the Bank that the Company would be entitled to if the Credit-Linked Note were preferred stock of the Bank having an aggregate liquidation preference equal to the aggregate liquidation preference of the Offered Securities.

Additionally, upon the occurrence of a Liquidation Event, the Company will immediately distribute to the Common Securityholders all of the financial assets of the Company other than the Credit-Linked Note and proceeds thereof.

INVESTMENT CONSIDERATIONS

Prospective investors should carefully consider the following information in conjunction with the other information contained in this Offering Circular before purchasing any Offered Securities in the Offering.

Risk Associated with Bank's Financial Condition

If the Bank's financial condition were to deteriorate, the Company and the holders of the Offered Securities could suffer direct and materially adverse consequences, including suspension of noncumulative dividends on the Offered Securities and, if a Liquidation Event occurs with respect to the Bank, loss by holders of the Offered Securities of their initial investment. Provided that (i) the U.S. Government makes (or, in the case of synthetic substitute Reference Securities, is deemed to make) payments of interest on the Reference Securities when due, (ii) the Branch makes payments of interest under the Credit-Linked Note when due, and (iii) after giving effect to substitutions of Reference Securities as described herein amounts received by the Company with respect to interest on the Credit-Linked Note are sufficient to enable the Company to pay full dividends on the Offered Securities, an investment in the Offered Securities will have substantially the same risks and rewards as an investment in noncumulative perpetual preferred securities issued directly by the Bank and having the same liquidation preference and dividend rate as the Offered Securities.

Supervisory Event and Related Matters. A "Supervisory Event" will be deemed to have occurred if the Bank's total risk-based capital ratio or Tier I risk-based capital ratio, calculated on a consolidated basis as of the end of any period in respect of which the Bank submits financial statements to the Ministry of Finance, were to decline below the minimum percentages required by Japanese banking regulations. Japanese banking regulations currently require Japanese banks to maintain a minimum total risk-based capital ratio of at least 8.0% and a minimum Tier I risk-based capital ratio of at least 4.0%. As of September 30, 1997, calculated on a consolidated basis, the Bank's total risk-based capital ratio was 8.91% and its Tier I risk-based capital ratio was 4.63%. The Bank expects its Tier I capital and total capital as of March 31, 1998 to reflect net proceeds of the issuance of the Offered Securities. However, there can be no assurance that the Bank's capital ratios will be at or above the required 4.0% and 8.0% levels as of March 31, 1998 or any subsequent date. The Bank expects that its risk-adjusted capital ratios as of March 31, 1998 and at future balance sheet dates will principally reflect changes from September 30, 1997 in the amount of the Bank's risk-adjusted assets (which will in turn be affected by, among other factors, the exchange rates of the yen against the U.S. dollar and other major foreign currencies), the amount of expected cash dividends to shareholders, the amount of the Bank's qualifying earnings or losses, the amount of unrealized gains on listed securities and the amount of additional capital raised through the issuance of qualifying securities or loans. The Bank expects that in the current period its risk-adjusted capital ratios will be adversely affected by the weakening of the yen against the dollar and other major foreign currencies, declines in market prices for equity securities in Japan and the expected net loss to be incurred by the Bank for the current fiscal year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Adequacy" in Annex I. Set forth below are the Bank's total and Tier I risk-based capital ratios, calculated on a consolidated basis, as of March 31 (the end of the Bank's fiscal years) in each of the years indicated.

Year	Total Risk-Based Capital Ratio	Tier I Risk-Based Capital Ratio
1997	8.75%	4.50%
1996	9.20	4.64
1995	8.48	4.85
1994	9.89	5.52
1993	9.37	5.28

The Company's Charter will provide that, with respect to any Dividend Payment Date that occurs during a Supervisory Period or as to which a No Dividend Instruction has been given or is deemed given, the dividend preference of the Offered Securities will shift to the Common Securities such that all interest payments received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, if any, and then available for payment of dividends by the Company on its Common Securities and Preferred Securities will be distributed to the Common Securityholders except to the extent that (i) the Bank causes the Company to pay all or a part of a dividend for such Dividend Period on the Offered Securities or (ii) the Bank is obligated to pay dividends for such Dividend Period on the Offered Securities as described under "Description of Offered Securities – Mandatory Dividends". Accordingly, under such circumstances the Bank could continue to make interest payments on the Credit-Linked Note when due and such payments would be returned directly or indirectly to the Bank as dividends on the Common Securities, thereby preventing the Bank from being subjected to the risk of a cross-default under other debt instruments of the Bank as a result of the Bank's failure to pay interest on the Credit-Linked Note.

A "Liquidation Event" will be deemed to occur if a liquidation proceeding under the law of Japan (including the special liquidation proceeding (*tokubetsu seisan*) of the Bank under the Commercial Code of Japan (Law. No. 48 of 1899, as amended)) is commenced by or against the Bank or a competent court in Japan shall have (a) adjudicated the Bank to be bankrupt (*hasan*) pursuant to the provisions of the Japanese Bankruptcy Law (Law No. 71 of 1922, as amended) or (b) approved a preparation of a reorganization plan for liquidation (*seisanteki-kaisha-kosei*) of the Bank pursuant to the provisions of the Japanese Corporate Reorganization Law (Law No. 172 of 1952, as amended).

The Credit-Linked Note will provide that if a Liquidation Event occurs and for as long as it continues, (i) the Bank's obligation to make payments of interest on the Credit-Linked Note will be suspended and (ii) the Credit-Linked Note will represent a subordinated claim in the liquidation of the Bank and the Company will have no other financial claim against or interest in the Bank arising under the Credit-Linked Note. The subordinated claim represented by the Credit-Linked Note will entitle the Company to substantially the same liquidating distributions in the liquidation of the Bank that the Company would be entitled to if the Credit-Linked Note were preferred stock of the Bank having an aggregate liquidation preference equal to the aggregate liquidation preference of the Offered Securities.

Additionally, upon the occurrence of a Liquidation Event, the Company will immediately distribute to the Common Securityholders all of the financial assets of the Company other than the Credit-Linked Note and proceeds thereof.

The amount of the claim in bankruptcy proceedings of the Bank represented by the Credit-Linked Note will be converted into yen based upon the yen/dollar exchange rate as of the date of the adjudication of such bankruptcy proceedings. Accordingly, from and after such date the Company's claim in such bankruptcy proceedings (and, accordingly, the indirect claim of holders of the Offered Securities in the ultimate liquidation of the Company) will be subject to foreign exchange risk.

Financial Condition of the Bank. During the five years ended March 31, 1997, the Bank recognized an aggregate of ¥1,953.0 billion of losses relating to problem loans, most of which are collateralized by real estate in Japan, whose value has declined substantially since 1990. The Bank expects to recognize substantial additional credit losses in the current fiscal year. In addition, because the Bank has initiated an updated self-assessment of the credit quality of assets as of December 31, 1997, credit losses for fiscal 1997 may be recognized in an amount that differs from the amount currently expected by the Bank.

The Bank itself, as well as through its subsidiaries, affiliates and associated companies, is exposed to risk through its loans to certain Japanese real estate development, construction and nonbank finance companies. Due to these companies' lack of liquidity, the Bank and its subsidiaries, affiliates and associated companies have agreed to restructure a substantial amount of loans. In the event that the financial condition of the companies in these sectors deteriorates further, it is possible the Bank may provide some financial support to them. The Bank is also exposed to certain Asian credit risk due to its loans to certain borrowers and its deposits in certain banks.

The Bank holds substantial investments in debt and equity securities, and therefore is exposed to the risk of losses on those investments. Approximately half of the Bank's investment portfolio consists of equity securities of the common stock of Japanese listed companies, the market of which is extremely volatile and has declined substantially in recent years.

As a result of the difficulties certain Japanese financial institutions are experiencing with nonaccrual loans and other problem loans, the Ministry of Finance may request that the Bank provide financial or other assistance to support distressed financial institutions. The Bank may also be subject to increases in deposit insurance premium rates as a result of certain measures to enhance the resources of the Deposit Insurance Corporation of Japan. Finally, the Bank provides direct and indirect support to troubled borrowers for a variety of reasons.

There can be no assurance that the Bank will be returned the money it invested in a fund to support the restructuring of the Japanese housing loan companies. Similarly, there can be no assurance that the Bank will not make additional contributions to such funds.

The collapse of the bubble economy and generally sluggish economic conditions in Japan in recent years have had significantly adverse effects on Japanese financial institutions, including commercial banks. The impact of these conditions, and the implementation of capital adequacy requirements to Japanese banks, have led to a decline in depositor and investor confidence in Japanese financial institutions, and to severe restrictions on the availability of credit from those institutions. The continuing instability of the Japanese financial system may have a variety of direct and indirect effects on the Bank.

Many corporate borrowers in Japan have been suffering a credit crunch as the Japanese banks have become increasingly unable to extend additional or renew credit to them. If these circumstances continue, there will be a negative impact on the Bank's own loan portfolio to the extent that the Bank has loans receivable from businesses that fail due to this credit crunch.

Due to concerns regarding asset quality and the failure of several large Japanese financial institutions, the so-called "Japanese premium" — the additional risk premium that Japanese financial institutions and their affiliates must pay to borrow short-term, interbank funds in international markets compared with their U.S. and European counterparts — rose substantially in late 1997, which resulted in higher operating expenses and lower profitability of foreign currency operations for Japanese banks, including the Bank. If this continues, it is possible that international lenders may further restrict the availability of credit to Japanese banks, including the Bank.

Lastly, the Bank's financial statements are prepared in accordance with Japanese GAAP, which differs in certain significant respects from U.S. GAAP in the areas of which loans qualify for non-accrual loan status and the method of providing reserves for possible loan losses. Also, Japanese disclosure standards require only limited disclosures with respect to problem loans.

For a discussion of all investment considerations relating to the financial condition of the Bank, see "Investment Considerations" in Annex I.

Bank Regulatory Restrictions on Operations of the Company

Because the Company is an indirect subsidiary of the Bank, the Ministry of Finance and the Bank of Japan, each of which has regulatory authority over the Bank, could make determinations in the future with respect to the Bank that could adversely affect the Company's ability to make distributions to its securityholders (including dividends to the holders of Offered Securities) or to redeem any of its securities, including any Offered Securities. See “Regulation and Supervision of the Bank in Japan” in Annex I for a description of Japanese banking regulations, including capital requirements, applicable to the Bank. Similarly, because the Credit-Linked Note will be issued by the Bank through the Branch, the New York State Department of Banking and the Board of Governors of the Federal Reserve System, each of which has regulatory authority over the Branch, could make determinations in the future with respect to the Branch that could adversely affect the Branch’s ability to pay interest on the Credit-Linked Note and, accordingly, the Company’s ability to pay dividends on the Offered Securities. See “Regulation and Supervision of the Bank in the United States” in Annex I for a description of U.S. banking regulation applicable to the Branch. The Bank has agreed with the Company that, so long as any Offered Securities are outstanding, it will maintain direct or indirect ownership of 100% of the Class A Common Securities and the Class B Common Securities (except for up to 3.6% of the outstanding voting stock of Sumitomo Bank Leasing and Finance, Inc. for so long as it owns the Class B Common Securities).

Risk Associated with Credit-Linked Note

The Credit-Linked Note exposes the Company (and indirectly investors in the Offered Securities) to the credit of both the Bank and the U.S. Government, as well as interest rate basis risk if the LIBOR and U.S. Treasury yield curves diverge as new Reference Securities are substituted for maturing Reference Securities under the Credit-Linked Note.

An event of default under the Credit-Linked Note would occur if the U.S. Government made (or, in the case of synthetic substitute Reference Securities, is deemed to have made) a payment of interest when due on the Reference Securities but the Branch failed to make the corresponding payment under the Credit-Linked Note. In such event, the Company likely would not have funds available for payments of dividends on the Offered Securities. The Credit-Linked Note is not subject to acceleration upon occurrence of an event of default thereunder. Additionally, if a Liquidation Event occurs and for so long as it continues, (i) the obligation of the Branch to make payments with respect to interest under the Credit-Linked Note will be suspended and (ii) the Credit-Linked Note will represent a subordinated claim of the Company in the liquidation of the Bank and the Company will have no other financial claim against or interest in the Bank arising under the Credit-Linked Note. Decisions with respect to enforcement of the Credit-Linked Note prior to the occurrence of a Bankruptcy Event, and actions to be taken by the Company upon a default by the Branch thereunder prior to the occurrence of a Bankruptcy Event, will be made by the Board of Directors by majority vote. A majority of the Board of Directors will at all times be appointed by the Class A Common Securityholder, which is a wholly-owned subsidiary of the Bank. There can be no assurance that the Board of Directors will take action to enforce the Credit-Linked Note. A “Bankruptcy Event” shall be deemed to occur: (i) upon the occurrence of a Liquidation Event; (ii) if a competent court in Japan shall have (a) adjudicated the commencement of the corporate reorganization proceeding (*kaisha kosei*) of the Bank under the Japanese Corporate Reorganization Law (Law No. 172 of 1952, as amended), (b) adjudicated the commencement of the rehabilitation of corporation proceeding (*kaisha seiri*) of the Bank under the Commercial Code of Japan (Law No. 48 of 1899, as amended), (c) adjudicated the commencement of the composition proceeding (*wagi*) of the Bank under the Composition Law of Japan (Law No. 72 of 1922, as amended), or (d) dispatched to creditors convocation notices of creditors meetings for a compromise (*kyosei-wagi*) pursuant to the provisions of the Japanese Bankruptcy Law (Law No. 71 of 1922); or (iii) upon the taking of possession by the Superintendent of Banks of the State of New York of the business and properties of the Bank in the State of New York pursuant to Section 606.4 of the New York Banking Law.

The Branch is obligated to make a payment with respect to interest under the Credit-Linked Note on an interest payment date thereunder only if the U.S. Government is then current on the then effective Reference Security. In the case of the initial Reference Security (which is an actual as opposed to a synthetic U.S. Treasury security), the U.S. Government will be deemed current if no default by the U.S. Government in a payment of principal or interest on such Reference Security has occurred and is then continuing; if the Reference Security is a synthetic U.S. Treasury security (which each substitute Reference Security will be), the U.S. Government will be deemed to be current if no default by the U.S. Government in the payment of principal or interest due on any U.S. Treasury security having an initial maturity of six months or less has occurred and is then continuing. An inability or failure on the part of the U.S. Government to perform under the Reference Securities would impair the cash flows in respect of the Credit-Linked Note.

Because (i) each Reference Security under the Credit-Linked Note is replaced with a later maturing Reference Security, on the maturity date of such then effective Reference Security and (ii) such substitutions commence when the Offered Securities begin to bear interest based on LIBOR, the Company and holders of the Offered Securities are subject to the interest rate basis risk that, if the LIBOR and the U.S. Treasury yield curves diverge at the times that substitutions are made as compared to their relationship as of the date of this Offering Circular, payment of interest under the Credit-Linked Note may not generate sufficient funds to the Company to enable it to pay full dividends on the Offered Securities.

The Credit-Linked Note is not collateralized by the initial Reference Securities and the substitute Reference Securities will be synthetic U.S. Treasury securities the terms of which will be established as described under "Description of Offered Securities – Reference Securities". Although the Bank anticipates that it will own some amount of the initial Reference Securities, there is no requirement that it own any amount of the initial Reference Securities or, if it does own such Reference Securities, that it not subsequently sell or transfer them.

Dividends Not Cumulative

Dividends on the Offered Securities are discretionary and not cumulative. The Company's Charter will provide that dividends on the Offered Securities will be paid on each Dividend Payment Date out of interest received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, if any, or out of amounts contributed by the Bank or the Common Securityholders to the Company (whether under the Support Agreement or by voluntary contribution), unless as to a Dividend Payment Date that is not a Mandatory Dividend Payment Date (i) the Class A Common Securityholder determines to cause the Company not to pay such dividends by delivering a No Dividend Instruction (as defined herein) to the Company with respect to such Dividend Payment Date, (ii) a No Dividend Instruction is deemed to have been delivered as described below, or (iii) a Supervisory Period is in effect. In the event (i) the Bank has outstanding preferred securities that constitute Tier I capital under the regulations of the Ministry of Finance and (ii) on or before the tenth Business Day immediately preceding such Dividend Payment Date the Bank notifies the Company in writing that the Bank has suspended dividends on such preferred securities, the receipt of such notice shall be deemed to be the receipt by the Company and delivery by the Class A Common Securityholder of a No Dividend Instruction without any further action by or on behalf of the Class A Common Securityholder being necessary; provided, however, that if the Dividend Payment Date as to which such No Dividend Instruction is deemed given is a Mandatory Dividend Payment Date, then such No Dividend Instruction shall apply to the first Dividend Payment Date thereafter that is not a Mandatory Dividend Payment Date. The Company's Charter will require approval of a majority of the Independent Directors as well as a majority of the entire Board of Directors before dividends on the Offered Securities could be paid out of any other source. If dividends on the Offered Securities for any Dividend Period are not paid, the holders of the Offered Securities would not be entitled to receive such dividends whether or not funds are or subsequently become available. Accordingly, the Class A Common Securityholder directly (and the Bank indirectly through its control of the Class A Common Securityholder) has the power at all times (including during a Supervisory Period) to determine whether the Company pays dividends on the Offered Securities. See "Description of Offered Securities – Mandatory Dividends".

Risk of Future Revisions in Policies and Strategies by the Board of Directors

The Board of Directors has established the operating policies and strategies of the Company, certain of which are described in this Offering Circular. These policies may be amended or revised from time to time at the discretion of the Board of Directors (in certain circumstances subject to the approval of a majority of the Independent Directors) without a vote of the Company's securityholders, including the holders of the Offered Securities. The ultimate effect of any change in the policies and strategies set forth in this Offering Circular on a holder of Offered Securities may be positive or negative. See "Business and Strategy – Management Policies and Programs".

No Third Party Valuation of the Credit-Linked Note; No Arm's-length Negotiations with Affiliates

The Company and the Bank intend that the fair value of the Credit-Linked Note, which will be purchased from the Branch, will approximately equal the amount (approximately $2,270,000,000) that the Company will pay for the Credit-Linked Note. However, no third-party valuations of the Credit-Linked Note were obtained for purposes of the Offering, and there can be no assurance that the fair value of the Credit-Linked Note does not differ from the purchase price payable by the Company.

Redemption upon Occurrence of a Special Event

The Company will have the right, upon the occurrence of a Special Event, to redeem the outstanding shares of Offered Securities prior to the Dividend Payment Date in June 2008 in whole but not in part, at a redemption price per share equal to the higher of (i) $1,000 or (ii) the Make-Whole Amount (as defined herein) per security, plus, in either case, an amount equal to unpaid dividends, if any, thereon with respect to the current Dividend Period accrued on a daily basis through the date fixed for redemption, without interest and without accumulation of unpaid nondefinitive dividends for any prior Dividend Period. A "Special Event" means the occurrence of any of a "Tax Event", a "Capital Event" or an "Investment Company Act Event". A "Tax Event" means the receipt by the Company of an opinion of a nationally recognized law firm or other tax adviser in the United States or Japan, as appropriate, experienced in such matters to the effect that, as a result of (i) any amendment to, clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations thereunder) of the United States or Japan or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) ("Administrative Action") or (iii) any amendment to, clarification of, or change in the official position or the interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to any Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change, interpretation or pronouncement is made known, which amendment, clarification, change or Administrative Action is effective or which pronouncement or decision is announced on or after the date of issuance of the Offered Securities, there is more than an insubstantial risk that (A) the Company is or will be subject to more than a *de minimis* amount of additional taxes, duties or other governmental charges or civil liabilities or (B) the Branch is or will be required to pay any additional amounts in respect of any taxes, duties or other governmental charges with respect to payments of interest or principal on the Credit-Linked Note, or (C) the treatment of any of the Company's items of income, gain, deduction, loss or expense, or the treatment of any item of income, gain, loss, deduction or expense of the Bank related to the Credit-Linked Note or of either Common Security-holder related to its ownership of the Company, in each case as reflected on the tax returns (including estimated returns) filed (or to be filed) by the Company, the Bank or either Common Securityholder will not be respected by a taxing authority, as a result of which the Bank or either Common Securityholder is or will be subject to more than a *de minimis* amount of additional taxes, duties or other governmental charges or civil liabilities. A "Capital Event" means the determination by the Bank after consultation with the Ministry of Finance that the Offered Securities are not includable in Tier I capital of the Bank on a consolidated basis. An "Investment Company Act Event" means the receipt by the Company of an opinion of a nationally recognized law firm in the United States experienced in such matters to the effect that there is more than an insubstantial risk that the Company is an "investment company" within the meaning of the Investment Company Act of 1940, as amended. See "Description of Offered Securities – Redemption". Upon the occurrence of a Special Event, should the Company not redeem the outstanding Offered Securities, the Company's ability to pay full dividends in the stated amounts on Offered Securities may be adversely affected.

No Operating History

The Company is newly formed with no operating history and no revenues to date.

No Voting Rights

The Offered Securities will be non-voting, except that upon the failure to pay the equivalent of two semi-annual dividends or upon the occurrence of a Bankruptcy Event or a default under the Credit-Linked Note, the holders of Offered Securities, voting as a single class, will have the right to elect two additional members of the Company's Board of Directors. See "– Relationship with the Bank and its Affiliates; Conflicts of Interest" and "Description of Offered Securities". Such voting rights will continue until (i) full noncumulative dividends have been paid for two consecutive Dividend Periods and the default under the Credit-Linked Note, if any, has been cured and (ii) if a Bankruptcy Event has occurred, such Bankruptcy Event is terminated or the liquidation and dissolution of the Company is completed.

Relationship with the Bank and its Affiliates; Conflicts of Interest

The Bank and its affiliates are involved in virtually every aspect of the Company's existence. The Bank, through its U.S. subsidiaries which are the Common Securityholders, is presently indirectly the sole holder of the Common Securities. As the indirect holder of all of the outstanding voting securities of the Company, the Bank will have the right indirectly to elect all directors of the Company, including all Independent Directors (other than any elected by holders of Offered Securities). The initial (and the Company anticipates that all future) officers and employees of the Company, including the officers and employees who monitor the Credit-Linked Note and the Company's other assets and make decisions on behalf of the Company with respect to their acquisition and disposition, will also be officers or employees of the Bank or its affiliates. Conflicts of interest may arise between the discharge by such individuals of their duties as officers or employees of the Company on the one hand and the Bank and its affiliates on the other hand. Prior to the occurrence of a Bankruptcy Event, decisions with respect to enforcement of the Credit-Linked Note and actions to be taken by the Company upon an event of default by the Branch thereunder will be made by the Board of Directors by majority vote. The Charter will provide that (i) the Board of Directors, in considering courses of action in connection with such an event of default, shall take into account the interests of the holders of the Common Securities and the Offered Securities and (ii) no member of the Board of Directors shall have any liability to holders of the Offered Securities for voting not to take enforcement action. Accordingly, there can be no assurance that under any circumstances enforcement action will be taken by the Company with respect to an event of default under the Credit-Linked Note.

The Bank and its affiliates may have interests which are not identical to those of the Company. Consequently, conflicts of interest may arise with respect to transactions, including without limitation, the Company's administration of the Credit-Linked Note.

It is the intention of the Company and the Bank that any agreements and transactions between the Company, on the one hand, and the Bank or its affiliates, on the other hand, are fair to all parties and consistent with market terms, including the price paid for the Credit-Linked Note. The requirement in the Company's Charter that certain actions of the Company be approved by a majority of the Independent Directors is also intended to ensure fair dealings between the Company and the Bank and its affiliates. However, there can be no assurance that such agreements or transactions will be on terms as favorable to the Company as those that could have been obtained from unaffiliated third parties. See "Business and Strategy – Management Policies and Programs – Conflict of Interest Policies".

No Prior Market for Offered Securities; Resale Restrictions

The Company has not been registered under the 1940 Act, and the offer and sale of the Offered Securities has not been registered under the Securities Act and will be subject to significant restrictions on resale. See "Notice to Investors". There is no existing market for the Offered Securities, and there can be no assurance that any market will develop for the Offered Securities or of the ability of the holders of Offered Securities or at what price holders of Offered Securities will be able to sell their Offered Securities. Although the Initial Purchasers have informed the Company and the Bank that they intend to make a market in the Offered Securities, the Initial Purchasers are not obligated to do so, and any such market-making activity will be subject to the limits imposed by applicable law and may be interrupted or discontinued at any time without notice.

THE COMPANY

The Company is a newly formed Delaware limited liability company created for the purpose of acquiring and holding the Credit-Linked Note and, under limited circumstances, other Eligible Investments that will generate net income for distribution to the Company's stockholders. The Company was formed on January 26, 1998 with the filing of its certificate of formation with the Secretary of State of the State of Delaware. The Class A Common Securityholder has entered into a Limited Liability Company Agreement of the Company and the Company will be continued pursuant to an Amended and Restated Limited Liability Company Agreement of the Company (the "Company's Charter" or "Charter") among the Bank's subsidiaries, as holders of the outstanding shares of Common Securities, and the holders of the Company's other limited liability company interests (including the Offered Securities) as they may exist and be outstanding from time to time. The Company will be treated as a partnership for United States federal income tax purposes.

The Company has been formed by the Bank to enable the Bank to issue through a subsidiary preferred stock denominated in U.S. dollars. Under current Japanese law, the Bank is not authorized to issue directly preferred stock that has provisions that are comparable to the Offered Securities. The Bank intends to treat the Offered Securities as Tier I capital for the Bank for Japanese banking regulatory purposes. The Bank expects that the issuance of the Offered Securities will have the effect of increasing the Bank's Tier I capital and total capital by the amount of the net proceeds of the Offering. While the Bank has received informal indications that the MoF will consider the Offered Securities to constitute Tier I capital of the Bank, the Offered Securities are a novel security for Japanese banks, and the MoF may subsequently determine that the Offered Securities do not constitute Tier I capital of the Bank. The issuance of the Offered Securities is expected to reduce the Bank's consolidated foreign exchange exposure related to the Bank's assets that are denominated in U.S. dollars. At September 30, 1997, in excess of 25% of the Bank's risk-weighted assets were denominated in foreign currency.

The Bank, through the Common Securityholders, is purchasing for $470,000,000 all of the Common Securities of the Company. The Bank has agreed with the Company that, for so long as any Offered Securities are outstanding, it will maintain direct or indirect ownership of 100% of the outstanding Class A Common Securities and Class B Common Securities (except for up to 3.6% of the outstanding voting stock of Sumitomo Bank Leasing and Finance, Inc. for so long as it owns the Class B Common Securities). The Company will also covenant to maintain "Sumitomo" or "SB" as part of its name for as long as any Offered Securities remains outstanding, unless because of a merger or other business combination involving the Bank, inclusion of "Sumitomo" or "SB" as part of the Company's name is no longer appropriate. For a further description of the operations of the Company, see "Business and Strategy", "Management" and "Investment Considerations".

If the Bank's financial condition were to deteriorate, the Company and the holders of the Offered Securities could suffer direct and materially adverse consequences, including suspension of noncumulative dividends on the Offered Securities and, if a Liquidation Event occurs with respect to the Bank, loss of their initial investment. See "Investment Considerations — Risk Associated with Bank's Financial Condition".

The principal executive offices of the Company are located at 277 Park Avenue, New York, New York 10172.

CERTAIN INFORMATION REGARDING THE BANK

The Bank

The Bank is one of the world's leading commercial banks, with approximately ¥56,271 billion in total assets at September 30, 1997, ranking it as one of the largest banking organizations in the world in terms of total assets. The Bank is one of nine city banks in Japan. Among the 139 ordinary banks in Japan (which include the city banks), the Bank was ranked second in terms of total assets as of September 30, 1997.

The Bank provides a comprehensive range of wholesale and retail banking services, both in Japan and internationally. Through its head office and branch network in Japan and overseas, it accepts deposits from, and makes loans and extends guarantees to, corporations, individuals, governments and governmental entities. The Bank also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, the Bank operates through an extensive network of branches and representative offices, as well as through subsidiaries and affiliates, to provide a wide range of banking and financial services to its clients.

As of September 30, 1997, the activities of the Bank in Japan were conducted principally through the Bank's 309 branches, 39 sub-branches and 1 agency and through 12 subsidiaries and 10 associated companies (in which, by law, the Bank may hold an equity interest of no more than 5%). International activities were conducted through the Bank's 39 branches, 2 sub-branches and 24 representative offices, as well as 43 subsidiaries and 13 affiliates and associated companies located in more than 30 countries.

Except as otherwise indicated, the financial information with respect to the Bank herein is presented on a non-consolidated basis. Non-consolidated financial statements are generally regarded as the primary financial statements in Japan. As of March 31, 1997, the Bank's non-consolidated shareholders' equity represented 91.6% of its consolidated shareholders' equity, and for fiscal 1996 the Bank's non-consolidated net income represented 103.7% of its consolidated net income.

The Bank is incorporated under the Commercial Code of Japan and operates under the Japanese Banking Law. The registered head office of the Bank is at 6-5, Kitahama 4-chome, Chuo-ku, Osaka 541-0041, and its Tokyo head office is located at 3-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005.

The Branch

The Bank opened an agency in New York in 1952 and, since April 1977, has been licensed by the Superintendent of Banks of the State of New York to operate the Branch. The Bank conducts an extensive banking business through the Branch, concentrating primarily on international banking transactions and servicing the financial needs of its Japanese and American customers in the United States. The address of the Branch is 277 Park Avenue, New York, New York 10172.

Recent Developments

The Bank reported non-consolidated net income of ¥5.7 billion ($47 million) for the six-month period ended September 30, 1997. Non-consolidated net income per share was ¥1.83, compared with ¥16.33 for the six-month period ended September 30, 1996.

Operating profits (*keijo-rieki*) decreased by 87.0% to ¥11.4 billion ($94 million) from ¥88.0 billion ($727 million) recorded for the six-month period ended September 30, 1996. Influenced by the following factors, net income also fell by ¥45.5 billion, or 88.8%, to ¥5.7 billion ($47 million), compared with the first half of fiscal year 1996 (which ended on March 31, 1997): (i) operating revenues (which represent the total of net interest income, net fees and commissions, and net other operating income) increased compared with the first half of fiscal year 1996, principally as a result of a decline in money market interest rates and the strength of the domestic bond market and (ii) operating profits (*keijo-rieki*) decreased by ¥76.6 billion, principally as a result of the Bank's disposition of problem assets and the incurrence of unrealized losses on investment securities, reflecting the overall decline in domestic stock prices.

For fiscal year 1997 (which will end on March 31, 1998), the Bank expects to record ¥440 billion in nonconsolidated operating losses (*keijo-sonshitsu*) and ¥470 billion in nonconsolidated net losses. Such expected losses will be incurred principally as a result of the Bank's advance implementation of a new administrative supervisory system requiring the self-assessment by financial institutions of the credit quality of their assets. Referred to as "Prompt Corrective Action," this system was promulgated by the Japanese Ministry of Finance and becomes effective on April 1, 1998. As announced on October 27, 1997, the Bank's self-assessment identified approximately ¥800 billion in provisions for expected credit losses for fiscal year 1997. Core banking profit (*gyomu-junèki*) is expected to be ¥300 billion. The Bank also projects consolidated operating losses (*keijo-sonshitsu*) of ¥350 billion and consolidated net losses of ¥250 billion.

The Bank's total assets as of September 30, 1997 stood at ¥56,271.4 billion ($464.7 billion), compared with ¥53,304.8 billion ($440.2 billion) as of September 30, 1996. Shareholders' equity as of September 30, 1997, was ¥1,778.8 billion ($14.7 billion), compared with ¥1,815.7 billion ($15.0 billion) as of September 30, 1996.

The Bank's risk-based capital ratio, as of September 30, 1997, stood at 8.91%, representing an increase of 0.16%, over the 8.75% level as of March 31, 1997.

THE SUPPORT AGREEMENT

At or prior to the issuance of shares of Offered Securities, the Bank and the Company will execute the Support Agreement (the "Support Agreement"), a copy of which will be provided to prospective investors in the Offered Securities upon request to the Company. In the Support Agreement, the Bank will agree that, if at any time the Company is required to pay dividends as described in the next succeeding sentence, (i) the Bank will contribute or cause to be contributed additional funds to the capital of the Company (and the Company will issue additional Common Securities) as necessary to ensure that the Company will have cash in an amount sufficient to pay full dividends on the Offered Securities and any other outstanding Parity Securities as described in the next succeeding sentence and (ii) the Bank shall take such steps as necessary to procure payment by the Company to the holders of the Offered Securities and any other Parity Securities of dividends in the amounts, for the Dividend Periods and under the circumstances described below. The Company's Charter will provide that, if the Bank pays any dividends on any of its capital stock with respect to any fiscal year of the Bank (including, without limitation, the fiscal year that ended on March 31, 1997), then the Company will be required to pay full dividends on the Offered Securities on the Dividend Payment Dates that occur in December of the calendar year in which the last day of such fiscal year occurs and June of the next calendar year (in each case, a "Mandatory Dividend Payment Date") (whether or not a Supervisory Event has occurred or a No Dividend Instruction is given with respect to either such Dividend Payment Date), except that, (i) if the Branch is not in default under the Credit-Linked Note on either such Mandatory Dividend Payment Date, dividends so payable by the Company on such Dividend Payment Date will be limited to amounts received by the Company under the Credit-Linked Note and (ii) the amount the Bank is obligated to contribute to the Company during any Dividend Period, together with interest payments made by the Bank under the Credit-Linked Note, shall not exceed the actual amount of interest payments under the Credit-Linked Note due during such Dividend Period. Currently the Bank's fiscal year ends on March 31.

The Bank has also agreed with the Company in the Support Agreement to own directly or indirectly 100% of the outstanding shares of Class A Common Securities and Class B Common

Securities (except for up to 3.6% of the outstanding voting stock of Sumitomo Bank Leasing and Finance, Inc. for so long as it owns the Class B Common Securities) for so long as any Offered Securities are outstanding.

For so long as any Offered Securities or other Parity Securities (if any) are outstanding, the Support Agreement may not be amended without the consent of the holders of Offered Securities and other Parity Securities (if any) holding two-thirds of the aggregate liquidation preference of such securities, voting as a single class.

Neither the holders of Offered Securities, the holders of any other series of Preferred Securities nor the holders of Common Securities shall have the right to sue the Bank to perform its obligations under the Support Agreement, but a majority of the Independent Directors shall have the right to direct the Company to bring suit to mandate such performance under the Support Agreement.

USE OF PROCEEDS

The proceeds to the Company from the sale of the Offered Securities are expected to be $1,800,000,000 (before underwriting discount). Simultaneously with the consummation of the Offering, the Class A Common Securityholder will purchase 50,000 Class A Common Securities for a purchase price of $47,000,000 and the Class B Common Securityholder will purchase 450,000 Class B Common Securities for a purchase price of $423,000,000. The Company will use the aggregate net proceeds of $2,270,000,000 received in connection with both the Offering and the sale of Common Securities to purchase the Credit-Linked Note from the Branch. The Bank, directly or indirectly, will contribute additional funds to the Company in an amount sufficient to enable the Company to pay the expenses of the Offering. See "Business and Strategy".

The Bank intends to use the proceeds received by the Branch from the Company upon the issuance and sale by the Branch to the Company of the Credit-Linked Note for general corporate purposes.

CAPITALIZATION

The following table sets forth the capitalization of the Company as adjusted to reflect (i) the consummation of the Offering and (ii) the transactions described in "Certain Transactions Constituting The Formation — The Formation" and the use of the net proceeds therefrom as described under "Use of Proceeds".

	As of the Offering Date*
	(in thousands)
Debt	
Total long-term debt	$ 0
Stockholders' Equity	
Preferred Securities, initial liquidation preference $1,000 per security: 1,800,000 Offered Securities issued and outstanding, as adjusted	1,800,000
Class A Common Securities: 100,000 authorized, 50,000 securities issued and outstanding, as adjusted	47,000
Class B Common Securities: 900,000 authorized, 450,000 securities issued and outstanding, as adjusted	423,000
Total stockholders' equity	$ 2,270,000
Total capitalization	$ 2,270,000

* Before giving effect to additional capital contributed by the Bank, directly or indirectly, to cover the expenses of the Offering.

BUSINESS AND STRATEGY

General

The Company's principal business objective is to acquire and hold securities consisting of the $2,270,000,000 Credit-Linked Note and, under limited circumstances, other Eligible Investments that will generate net income for distribution to the holders of shares of its Preferred Securities (including the Offered Securities) and its Common Securities. The Company will acquire the Credit-Linked Note from the Branch for an aggregate purchase price of approximately $2,270,000,000. See "Certain Transactions Constituting the Formation". Although the Company may issue additional Preferred Securities that are Parity Securities (with the consent of the majority of the Independent Directors) or Junior Securities, the Company has no present intention to do so.

Dividends

The Company currently expects to pay an aggregate amount of dividends with respect to its outstanding Offered Securities and Common Securities equal to approximately 100% of the interest received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, if any.

The Company's Charter will provide that dividends with respect to Offered Securities will be payable out of the interest received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, if any, and out of amounts contributed by the Bank or the Common Securityholders to the Company (whether under the Support Agreement or by voluntary contribution). The Company's Charter will require approval of a majority of the Independent Directors before dividends on the Offered Securities could be paid out of any other source. Under the Delaware Limited Liability Company Act, the Company may not make dividend or other distributions on Offered Securities or Common Securities if, after giving effect to the distributions, the Company's liabilities exceeded the fair value of its assets. The Company is precluded by its Charter from incurring any indebtedness for borrowed money and does not anticipate having any material liabilities.

Dividends will be paid at the discretion of the Class A Common Securityholder after considering the Company's distributable funds, financial requirements and other factors. Because (i) the Credit-Linked Note is interest bearing, (ii) the Offered Securities represent approximately 79.3% of the Company's capitalization and (iii) the Company does not anticipate incurring any indebtedness, the Company currently expects that both its cash available for distribution and its net income will be in excess of amounts needed to pay semi-annual dividends on the Offered Securities at the dividend rate from time to time in effect, even in the event of a significant divergence in the U.S. Treasury yield curve and the LIBOR yield curve, as compared to their relationship as of the date of this Offering Circular, after dividends on the Offered Securities are calculated based upon LIBOR. Accordingly, the Company expects that it will, after paying all unpaid dividends on the Offered Securities, pay dividends on a semi-annual basis to the holder of the Common Securities. Assuming (i) the Credit-Linked Note is held for the 12-month period following completion of the Offering, (ii) there is no default by the Branch on its payment obligations under the Credit-Linked Note and (iii) there is no default by the U.S. Government in payment of amounts due under the initial Reference Security, the Company anticipates that the Credit-Linked Note will generate net interest income of approximately $202,030,000, after payment by the Company of its expenses of operations, during such 12-month period. Since the aggregate annual dividend payment on the Offered Securities is $169,200,000, based on the foregoing, the Company anticipates that approximately $32,830,000 would be available for payment of dividends on shares of Common Securities held by the Common Securityholders.

There are several limitations which restrict the Company's ability to pay dividends on shares of Junior Securities (none of which should adversely affect the ability of the Company to pay dividends in respect of the Offered Securities). First, the Company's dividend and redemption policy will provide that (i) the amount of dividends on Junior Securities (other than dividends on Common Securities after a Supervisory Event or on a Dividend Payment Date with respect to which a No Dividend Instruction has been given) and other Parity Securities in any Dividend Period may not exceed the amount by which the aggregate amount of interest received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, if any, less the amount of expenses accrued during such dividend period exceeds the stated dividends on the Offered Securities that would be paid during such Dividend Period irrespective of whether dividends on the Offered Securities are in fact paid, and (ii) the Company may not redeem or repurchase Junior Securities without the concurrent redemption of Offered Securities having an aggregate liquidation preference equal to 400% of the redemption or repurchase price of the Junior Securities being redeemed or repurchased, unless each Rating Agency then rating the Offered Securities shall inform the Company that the redemption or repurchase of such shares of Junior Securities would not result in a reduction of the rating then assigned by such Rating Agency to the Offered Securities. This policy regarding the limitations on payment of dividends in respect of Junior Securities and redemption or repurchase of Junior Securities may not be modified without the approval of a majority of the Independent Directors as well as a majority of the entire Board of Directors. Second, no cash or property dividends may be paid on shares of Junior Securities unless all unpaid dividends on Offered Securities, and all other capital stock of the Company ranking senior to the Junior Securities have been paid.

The Company's Charter will also provide that, with respect to any Dividend Payment Date that occurs while either a Supervisory Period is in effect or as to which a No Dividend Instruction has been given, the dividend preference of the Offered Securities will shift to the Common Securities such that all interest payments received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, less expenses, and then available for payment of dividends by the Company on its Common Securities and Preferred Securities will be distributed to the Common Securityholders except to the extent that (i) the Bank causes the Company to pay all or a part of a dividend for such Dividend Period on the Offered Securities or (ii) the Bank is obligated to pay dividends for such Dividend Period on the Offered Securities as described under "Description of Offered Securities – Mandatory Dividends". If the Bank pays any dividends on any of its capital stock with respect to any fiscal year of the Bank (including, without limitation, the fiscal year that ended March 31, 1997) then the Company would be required to pay full dividends on the Offered Securities on the Dividend Payment Dates that occur in December of the calendar year in which the last day of such fiscal year occurs and June of the next calendar year (whether or not a Supervisory Event has occurred or a No Dividend Instruction is given with respect to either such Dividend Payment Date). Pursuant to the Support Agreement, the Bank will be obligated to contribute (or cause to be contributed) to the Company such additional funds as are necessary for such purpose, except that, (i) if the Branch is not in default under the Credit-Linked Note on either such Mandatory Dividend Payment Date, dividends so payable by the Company on such Dividend Payment Date will be limited to amounts received by the Company under the Credit-Linked Note and (ii) the amount the Bank is obligated to contribute to the Company during any Dividend Period, together with interest payments made by the Bank under the Credit-Linked Note, shall not exceed the actual amount of interest payments under the Credit-Linked Note due during such Dividend Period.

Liquidity and Capital Resources

The Company's principal liquidity need will be to fund the payment of dividends on the Offered Securities. The Company does not anticipate that it will have any material capital expenditures. The Company believes that cash generated from the payment of interest on the Credit-Linked Note and other Eligible Investments will provide sufficient funds to enable the Company to pay full dividends on the Offered Securities for the foreseeable future.

The Company is prohibited by its Charter from (i) incurring indebtedness for borrowed money or (ii) taking any action that could give rise to "unrelated business taxable income" for U.S. Federal income tax purposes.

General Description of Eligible Investments; Investment Policy

The Company's initial investment policies (the Company's "Investment Policies") will be established pursuant to the Company's Charter. The Investment Policies may be amended only by the affirmative vote of each of a majority of the entire Board of Directors and a majority of the Independent Directors. Under the Investment Policies, the Company may not hold or invest in any assets other than the Credit-Linked Note, U.S. Treasury securities and freely transferable commercial paper rated at least "A-1" by Standard & Poor's Ratings Group or "P-1" by Moody's Investors Services, Inc. (together, "Eligible Investments"). See "Description of Credit-Linked Note".

Subsequent to the acquisition of the Credit-Linked Note, although none of the events referred to in clauses (i), (ii) and (iii) below are contemplated, the Company may, from time to time and in accordance with its Investment Policies, purchase additional Eligible Investments from third parties unaffiliated with the Bank out of proceeds received in connection with (i) the issuance of additional Common Securities and additional Preferred Securities, (ii) interest payments received on the Credit-Linked Note or other Eligible Investments (pending their application to pay dividends on the Preferred Securities and Common Securities), or (iii) proceeds from the sale of the Credit-Linked Note. No arrangements or procedures are currently in place regarding the purchase of Eligible Investments from any person.

The Investment Policies provide that the Company may not purchase any Eligible Investment from or that is issued by the Bank or any of its affiliates (except for the purchase of the Credit-Linked Note at initial issuance of the Offered Securities). Eligible Investments acquired in the market from third parties will be acquired on ordinary secondary market terms. Although the Bank and the Company do not anticipate that the Company will sell the Credit-Linked Note (and no market for the Credit-Linked Note is expected to develop), were the Company to do so the proceeds of such sale would be required to be invested in accordance with the Company's Investment Policies as they exist at the time of such sale.

Other Management Policies and Programs

The Board of Directors will adopt certain other policies to guide the officers of the Company with respect to the maintenance of Eligible Investments, use of capital and certain other activities. These policies, which are discussed below, may be amended or revised from time to time at the discretion of the Board of Directors (in certain circumstances subject to the approval of a majority of the Independent Directors) without a vote of the Company's stockholders, including holders of Offered Securities. See also "— Dividends".

Capital and Leverage Policies

To the extent that the Board of Directors determines that additional funding is required, the Company may raise such funds through additional equity offerings or retention of cash flow through the issuance of a No Dividend Instruction by the Class A Common Securityholder or a combination of these methods. The Company is prohibited by its Charter from incurring any indebtedness for borrowed money.

The Company may issue additional series of Preferred Securities. However, the Company is prohibited by its Charter from issuing additional Preferred Securities that are senior to the Offered Securities as to payment of dividends or payment of amounts upon dissolution, liquidation or winding up of the Company or that rank on a parity with the Offered Securities as to payment of dividends or payments of amounts upon dissolution, liquidation or winding up of the Company but not both. The Company may issue additional Preferred Securities ranking on a parity with the Offered Securities as to payment of dividends and payments of amounts upon dissolution, liquidation or winding up of the Company ("Parity Securities") upon the affirmative vote of a majority of the Independent Directors and a majority of the entire Board of Directors, and the Company may issue Preferred Securities ranking junior to the Offered Securities as to payment of dividends and payment of amounts on a liquidation, dissolution or winding up of the Company ("Junior Securities") upon the affirmative vote of a majority of the entire Board of Directors. The Company does not currently intend to issue any additional series of Preferred Securities unless it simultaneously issues additional Common Securities to the Bank or subsidiaries of the Bank and the proceeds to be received from the issuance of shares of Common Securities are approximately equal to at least 400% of the aggregate offering price of such additional Preferred Securities in connection with the issuance of such additional shares of Preferred Securities. It is currently anticipated that the Company would seek to issue additional Preferred Securities if such issuance would appear to provide the Bank with cost-effective means of raising capital for bank regulatory purposes at the time. See "Certain Transactions Constituting the Formation — Benefits to the Bank and Its Affiliates".

Conflict of Interest Policies

Because of the nature of the Company's relationship with the Bank and its affiliates, it is likely that conflicts of interest will arise with respect to certain transactions. The initial (and the Company anticipates that all future) officers and employees of the Company, including the officers and employees who monitor the Credit-Linked Note and the Company's other Eligible Investments, if any, and make decisions on behalf of the Company with respect to the acquisition and disposition of Eligible Investments, will also be officers or employees of the Bank or one of its affiliates. Conflicts of interest may arise between the discharge by such individuals of their duties as officers or employees of the Company on the one hand and the Bank and its affiliates on the other hand. Prior to the occurrence of a Bankruptcy Event, decisions with respect to enforcement of the Credit-Linked Note and actions to be taken by the Company upon an event of default by the Branch thereunder will be made by the Board of Directors by majority vote. The Charter will provide that (i) the Board of Directors, in considering courses of action in connection with such an event of default, shall take into account the interests of the holders of the Common Securities, the Offered Securities and other Parity Securities, if any, and (ii) no member of the Board of Directors shall have any liability to holders of Preferred Securities for voting not to take enforcement action. Accordingly, there can be no assurance that enforcement action will be taken by the Company with respect to an event of default under the Credit-Linked Note.

It is the Company's policy that the terms of any financial dealings with the Bank and its affiliates will be consistent with those available from third parties. It is the intention of the Company and the Bank that any agreements and transactions between the Company, on the one hand, and the Bank or its affiliates, on the other hand, including without limitation the Credit-Linked Note, are fair to all parties and are consistent with market terms for such types of transactions. The requirement in the Company's Charter that certain actions of the Company be approved by a majority of the Independent Directors is also intended to ensure fair dealings between the Company and the Bank and its affiliates. However, there can be no assurance that any such agreement or transaction will be on terms as favorable to the Company as would have been obtained from unaffiliated third parties.

Other Policies

The Company intends to operate in a manner that will not subject it to regulation under the 1940 Act. The Company does not intend to (i) invest in the securities of other issuers for the purpose of exercising control over such issuers, (ii) underwrite securities of other issuers, (iii) actively trade in investments, (iv) offer securities in exchange for property or (v) make loans to third parties, including, without limitation, officers, directors or other affiliates of the Company. The Company may, under certain circumstances, purchase shares of Offered Securities and Common Securities or other Junior Securities or Parity Securities in the open market or otherwise, provided, however, that the Company will not redeem or repurchase any Junior Securities for so long as any Offered Securities are outstanding without the approval of a majority of the Independent Directors unless (i) the Company concurrently redeems Offered Securities having an aggregate liquidation preference equal to 400% of the redemption price of the Junior Securities being redeemed or repurchased, or (ii) each Rating Agency then rating the Offered Securities has informed the Company that the redemption of such Junior Securities would not result in a reduction in the rating then assigned by such Rating Agency to the Offered Securities. The Company has no present intention of causing the Company to repurchase any of its Preferred Securities or Common Securities, and any such action would be taken only in conformity with applicable U.S. and Japanese federal and state laws and regulations, including the prior approval of the Ministry of Finance if then required under applicable guidelines or policies of the Ministry of Finance.

The Charter will provide that, for so long as any Offered Securities are outstanding, the Company will furnish to holders and beneficial owners of Offered Securities and to prospective purchasers designated by such holders upon request the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act to permit compliance with Rule 144A in connection with resales of shares of Offered Securities.

Employees and Administration Agreement

The Company has three officers, each of whom is described further below under "Management". It is currently anticipated that all of the officers of the Company will also be officers or employees of the Bank or its affiliates.

Prior to issuing Offered Securities, the Company will enter into an Administration Agreement with the Branch, pursuant to which the Branch will provide (or cause to be provided) certain accounting, legal, tax and other support services to the Company, maintain compliance with all pertinent U.S. and Japanese local, state and federal laws and provide necessary administrative, record keeping and secretarial services to the Company. Under the Administration Agreement, the Company will agree to reimburse the provider of such services from time-to-time for (i) the value of services provided by such provider to the Company on an arm's-length basis and (ii) a fee in respect of such provider's salary and benefits expenses with respect to individuals who are officers or employees of the Company as well as such provider, such fee to be based upon a reasonable determination of the proportion of such employees' time spent on Company matters.

The Company will maintain corporate records and audited financial statements that are separate from those of the Bank or any of its affiliates. None of the officers, employees or directors of the Company will have any direct or indirect pecuniary interest in any security to be acquired or disposed of by the Company or in any transaction in which the Company has an interest.

Competition

Because (i) the Credit-Linked Note may not be sold or disposed of by the Company without the affirmative vote of both a majority of the Independent Directors and the holders of two-thirds (by liquidation preference) of the Offered Securities and other Parity Securities, if any, and (ii) the interest payment dates on the Credit-Linked Note are the Business Day immediately preceding corresponding Dividend Payment Dates, the Company does not anticipate that it will need to purchase additional Eligible Investments. If, however, the Company did dispose of the Credit-Linked Note and, accordingly, had a need to purchase additional Eligible Investments, the Company would purchase Eligible Investments as needed to maintain the Company's operations and such Eligible Investments would be purchased from third parties that are unaffiliated with the Bank. The Company would compete with investment banking firms, savings and loan associations, banks, thrift and loan associations, finance companies, mortgage bankers and insurance companies in acquiring its Eligible Securities.

Legal Proceedings

The Company is not the subject of any litigation. None of the Company, the Bank or any of its affiliates is currently involved in nor, to the Company's knowledge, currently threatened with any litigation with respect to the Credit-Linked Note or any aspect of the Company's operations.

MANAGEMENT

Directors and Executive Officers

The Company's Board of Directors is composed of five members, one of whom is an Independent Director. The directors will be designated as "managers" of the Company within the meaning of the Delaware Limited Liability Company Act. The directors will serve until their successors are duly elected and qualified. There is no current intention to alter the number of directors comprising the Board of Directors and the Company's Charter will provide that the Board of Directors may not comprise more than seven members. Pursuant to the Company's Charter, each Independent Director (i) as to matters relating to the Support Agreement and, after the occurrence of a Bankruptcy Event, the Credit-Linked Note, will consider only the interests of the holders of the Offered Securities and other Parity Securities, if any, and (ii) as to all other matters, will consider the interest of holders of both the Common Securities and the Preferred Securities, in determining whether any proposed action requiring his approval is in the best interests of the Company. The Company will have three officers at issuance of the Offered Securities. See "Business and Strategy – Employees".

The persons who are directors and executive officers of the Company are as follows:

Name	Position and Offices Held
Akira Kondoh	Director
Yuji Harada	President and Director
Yasuki Matsui	Director
Robert A. Rabbino, Jr.	Director
Michael H. Coles	Director
Ryota Aoki	Treasurer
Jane Hutta	Secretary

The following is a summary of the experience of each of the executive officers and directors of the Company:

Akira Kondoh became a Director of the Bank in 1992 and has served as a Managing Director of the Bank and as Head of the Bank's North American Headquarters since 1997. He also serves as Director of Sumitomo Bank Financial Services, Inc. ("SBFS"), Sumitomo Bank Leasing and Finance, Inc. ("SBLF"), Sumitomo Bank Securities, Inc. ("SBSI"), Sumitomo Bank Capital Markets, Inc. ("SBCM"), Sumitomo Bank of New York Trust Company ("SBNYT") and SBTC, Inc. He previously served as General Manager of the Bank's New York Branch. He joined the Bank in 1967. He was born in 1945 in Aichi, Japan.

Yuji Harada has served as General Manager of the Planning and Administration Department of the Bank's North American Headquarters and as President of SBFS since 1997. He also serves as a Director of SBFS, SBLF, SBSI, SBCM and SBNYT and as Director and President of SBTC, Inc. He previously served as General Manager of the Bank's San Francisco Branch. He joined the Bank in 1974. He was born in 1951 in Fukuoka, Japan.

Yasuki Matsui has served as Deputy General Manager of the Bank's Corporate Planning Department in Tokyo since 1995. He also serves as a Director of SBTC, Inc. He previously served as Assistant General Manager of the Bank's London Branch. He was born in 1956 in Hyogo, Japan.

Robert A. Rabbino, Jr. serves as the Bank's General Counsel and has also served as Joint General Manager of the Planning and Administration Department of the Bank's North American Headquarters since 1996. In addition, he serves as Director of SBNYT. He previously served as Joint General Manager of the Bank's New York Branch. He joined the Bank in 1984. He was born in 1950 in Denver, Colorado.

Michael H. Coles is a limited partner of Goldman, Sachs & Co. He was Chairman of the Board of Goldman Sachs International Corporation prior to becoming a limited partner in 1986. He was made President of Goldman Sachs International when he became a partner in 1969, and served as resident partner in the London office from 1971 to 1974. He joined the firm in the Corporate Finance Department in 1961. Mr. Coles has served as a Director of SBCM Derivative Products Limited, a wholly owned subsidiary of the Bank, since 1995 and is an adviser to various subsidiaries of the Bank.

Ryota Aoki has served as Vice President of the Planning and Administration Department of the Bank's North American Headquarters since 1998. He also serves as Treasurer of SBTC, Inc. He previously served as Assistant Vice President of the Credit Department of the Bank's North American Headquarters. He joined the Bank in 1987. He was born in 1964 in Tokyo, Japan.

Jane Hutta serves as Staff Attorney in the Legal Department in the Planning and Administration Department of the Bank's North American Headquarters. She also serves as corporate Secretary of SBFS, SBLF, SBSI, SBCM, SBNYT and SBTC, Inc. She joined the Bank in 1997. She was born in 1965 in Plainfield, New Jersey.

Independent Directors

The Company's Charter requires that, so long as any Offered Securities are outstanding, certain actions by the Company are subject to prior approval by a majority of the Independent Directors of the Company. See "Description of Offered Securities – Independent Director Approval". Michael H. Coles is the Company's initial Independent Director. For so long as there is only one Independent Director, any action that requires the approval of a majority of Independent Directors must be approved by such Independent Director.

If, at the time of any annual meeting of the Company's securityholders, the aggregate amount of unpaid dividends on the Offered Securities equals or exceeds an amount equal to two semi-annual dividend payments on the Offered Securities, or if a Bankruptcy Event or a default under the

Credit-Linked Note occurs, then the number of directors then constituting the Board of Directors of the Company will be increased by two (if not already increased by two due to a failure to pay preference dividends or prior occurrence of a Bankruptcy Event or default under the Credit Linked Note), and the holders of the Offered Securities, voting together with the holders of any other outstanding series of Preferred Securities as a single class, will be entitled to elect two additional directors to serve on the Company's Board of Directors. The right to elect two directors shall continue until full noncumulative dividends have been paid for two consecutive Dividend Periods, any such default on the Credit-Linked Note has been cured, and if a Bankruptcy Event has occurred, until such Bankruptcy Event is terminated or the dissolution and liquidation of the Company has been completed. Any member of the Board of Directors elected by holders of the Company's Preferred Securities will be deemed to be an Independent Director for purposes of the actions requiring the approval of a majority of the Independent Directors. See "Description of Offered Securities — Voting Rights".

Compensation of Directors and Officers

The Company will not pay any compensation to its directors, officers or employees.

Limitations on Liability of Directors and Officers

The Company's Charter will provide that the Company's directors have no personal liability to the Company or its securityholders for monetary damages (i) for voting not to take enforcement action with respect to the Credit-Linked Note prior to occurrence of a Bankruptcy Event or (ii) at any time for breach of any such director's fiduciary duty (if any) except for such director's gross negligence or willful misconduct. The Company's Charter will also provide that the Company will indemnify any director or officer of the Company for any liability and related expenses (including reasonable counsel's fees) arising out of such director's or officer's status as a director or officer of the Company, except for liability determined by a court of competent jurisdiction to have arisen out of such director's or officer's gross negligence or willful misconduct. The Company's Charter will specify that the right to indemnification is a contract right, setting forth certain procedural and evidentiary standards applicable to the enforcement of a claim under the Charter. The Company's Charter also empowers the Company to purchase and maintain insurance to protect any director or officer against any liability asserted against him or her, or incurred by him or her, arising out of his or her status as such.

CERTAIN TRANSACTIONS CONSTITUTING THE FORMATION

The Formation

Prior to or simultaneously with the completion of the Offering, the Company and the Bank and its affiliates will engage in the transactions described below designed to facilitate the establishment of the Company as an operating subsidiary of the Bank and the Offering.

The transactions constituting the formation of the Company will include the following:

- The Company will sell to the Initial Purchasers in the Offering Offered Securities with an aggregate liquidation preference of $1,800,000,000.
- SBTC, Inc., a Delaware corporation and newly-established wholly-owned U.S. subsidiary of the Bank, will acquire 50,000 Class A Common Securities for an aggregate purchase price of $47,000,000.
- Sumitomo Bank Leasing and Finance, Inc., a Delaware corporation and an existing 96.6% owned subsidiary of the Bank engaged in the leasing business, will acquire 450,000 shares of Class B Common Securities for an aggregate purchase price of $423,000,000.
- The Company will purchase the Credit-Linked Note from the Branch for an aggregate purchase price of approximately $2,270,000,000.
- The Bank, directly or indirectly, will contribute additional funds to the Company to replace the funds used by the Company to pay the expenses of the Offering and the formation of the Company in view of the fact that the proceeds from the sale of the Offered Securities will be used to purchase the Credit-Linked Note from the Branch.
- The Bank will enter into the Support Agreement with the Company pursuant to which the Bank will agree, among other things, to contribute (or cause to be contributed) sufficient funds to the Company to enable it to pay mandatory dividends under certain circumstances (irrespective of whether either a Supervisory Period or a No Dividend Instruction is in effect).
- The Company will enter into the Administration Agreement with the Branch, pursuant to which the Branch will agree to provide (or cause to be provided) certain legal, tax, accounting and other support services to the Company. See “Business and Strategy – Employees and Administration Agreement”.
- The Bank, through the Common Securityholders, currently owns indirectly, and following the completion of the Offering presently will continue to own indirectly, all of the issued and outstanding shares of Common Securities. The Bank has agreed with the Company that, for so long as any shares of Offered Securities are outstanding, it will maintain direct or indirect ownership of 100% of the Class A Common Securities and the Class B Common Securities (except for up to 3.6% of the outstanding voting stock of Sumitomo Bank Leasing and Finance, Inc. for so long as it owns the Class B Common Securities).

The Company and the Bank intend that the fair value of the $2,270,000,000 Credit-Linked Note will approximately equal the amount (approximately $2,270,000,000) that the Company will pay therefor. However, no third-party valuation of the Credit-Linked Note has been or will be obtained for purposes of the Offering, and there can be no assurance that the fair value of the Credit-Linked Note will not differ from the purchase price to be paid by the Company. See “Investment Considerations – No Third Party Valuation of the Credit-Linked Note; No Arm’s-Length Negotiations with Affiliates” and “– Relationship with the Bank and its Affiliates; Conflicts of Interest”.

Benefits to the Bank and its Affiliates

The Bank and its affiliates expect to realize the following benefits in connection with the Offering and the formation of the Company:

- The Bank is required by the Ministry of Finance to maintain certain levels of capital for Japanese bank regulatory purposes. The Bank intends to treat the Offered Securities as Tier I capital of the Bank for Japanese bank regulatory purposes. The Bank expects that the issuance of the Offered Securities will have the effect of increasing the Bank's Tier I capital and total capital by the amount of the net proceeds of the Offering. While the Bank has received informal indications that the MoF will consider the Offered Securities to constitute Tier I capital of the Bank, the Offered Securities are a novel security for Japanese banks, and the MoF may subsequently determine that the Offered Securities do not constitute Tier I capital of the Bank. The issuance of the Offered Securities is also expected to reduce the Bank's foreign exchange exposure related to the Bank's assets that are denominated in U.S. dollars.
- The Bank, through the Branch, will receive up to approximately $2,270,000,000 at the consummation of the Offering in connection with the purchase of the Credit-Linked Note by the Company (up to approximately $1,800,000,000 of which represents new funds after giving effect to the Common Securityholders' cost of purchasing the Common Securities).
- The Common Securityholders will be entitled to receive semi-annual dividends in respect of shares of Common Securities. For the first 12 months following completion of the Offering, these dividends are anticipated to be $32,830,000.*

DESCRIPTION OF OFFERED SECURITIES

The following summary sets forth the material terms and provisions of the Offered Securities, and is qualified in its entirety by reference to the terms and provisions of the Company's Charter, a copy of which is available to prospective investors upon request to the Company. See "Description of Capital Stock" below.

General

The Offered Securities are preferred limited liability company interests in the Company ("Preferred Securities"), the terms of which are set forth in the Company's Charter. Additional Preferred Securities that are Parity Securities or Junior Securities may be issued from time to time in one or more series with such rights, preferences and limitations as are determined by the Company's Board of Directors or, if then constituted, a duly authorized committee thereof (and, in the case of Parity Securities, a majority of the Independent Directors).

When issued, Offered Securities will be validly issued, fully paid and nonassessable. The holders of the Offered Securities will have no preemptive rights with respect to any limited liability company interests in the Company or any other securities of the Company convertible into or carrying rights or options to purchase any such securities. Offered Securities will not be convertible into Common Securities or any other class or series of limited liability company interests in the Company and will not be subject to any sinking fund or other obligation of the Company for its repurchase or retirement.

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* The amount of dividends to be paid in respect of the Common Securities is expected to be equal to the excess, if any, of the interest payments received by the Company on the Credit-Linked Note and other Eligible Investments, if any, less expenses of the Company, over the amount of dividends paid in respect of the Offered Securities. The annual aggregate fixed noncumulative dividend amount on the Offered Securities is $169,200,000. Assuming that (i) the Credit-Linked Note is held for the 12-month period following completion of the Offering, (ii) there is no default by the Branch on its payment obligations under the Credit-Linked Note, and (iii) there is no default in any payment due under the Reference Securities, the Company anticipates that the Credit-Linked Note will generate net interest income of approximately $202,030,000, after payment of its expenses of operations, during such 12-month period.

Interests in the Offered Securities may not be sold or otherwise transferred, except (i) to institutional investors that are qualified institutional buyers as defined in Rule 144A under the Securities Act or (ii) in offshore transactions in compliance with Regulation S, and certificates evidencing Offered Securities will bear a legend to this effect. Each purchaser will be deemed to have read, and to have made the representations contained in, "Notice to Investors".

The Offered Securities will rank prior to the Common Securities and to all other classes and series of equity securities of the Company now or hereafter issued (collectively, "Junior Securities"), other than any class or series of equity securities of the Company expressly designated as being on a parity with the Offered Securities ("Parity Securities") as to dividend rights and rights upon dissolution, liquidation or winding up of the Company. The Company has the power to create and issue additional Preferred Securities that are Parity Securities or Junior Securities". So long as any Offered Securities remain outstanding, additional Offered Securities may not be issued without the approval of a majority of the Independent Directors. See "– Independent Director Approval". The Company's Charter prohibits the Company from issuing any class or series of equity securities ranking senior to the Offered Securities as to dividend rights or upon dissolution, liquidation or winding up of the Company.

See "Investment Considerations – Risk Associated with Bank's Financial Condition" for a description of the consequences if a Supervisory Event or a Liquidation Event were to occur.

Dividends

Unless either a Supervisory Period is in effect or a No Dividend Instruction has been given with respect to a Dividend Payment Date, holders of Offered Securities will be entitled to receive, out of the interest payments received by the Company on the Credit-Linked Note and other Eligible Investments, if any, and out of amounts contributed by the Bank or the Common Securityholders to the Company (whether pursuant to the Support Agreement or by voluntary contribution), less expenses of the Company, cash dividends from the date of original issue payable on a noncumulative basis, semi-annually in arrears on the last day of June and December of each year (or if such day is not a Business Day on the next preceding Business Day) (each a "Dividend Payment Date") commencing June 30, 1998. Dividends on the Offered Securities will be payable at a rate per annum on the liquidation preference equal to (i) through the Dividend Payment Date in June 2008, 9.40% and (ii) with respect to each semi-annual Dividend Period thereafter, 5.30% above LIBOR (as defined below) prevailing on the related LIBOR Determination Date (as defined below). Dividend Periods will commence on and include the first day, and end on and include the last day, of the semi-annual calendar period in which the corresponding Dividend Payment Date occurs or would have occurred without regard to any adjustment for business days; provided, however, that the first Dividend Period (the "Initial Dividend Period") shall commence on and include the original issue date of the Offered Securities and shall end on and include June 30, 1998. Each dividend will be payable to holders of record as they appear on the securities register of the Company on the corresponding record date. The record dates for the Offered Securities will be, for so long as the Offered Securities remain in book-entry form, one Business Day prior to the relevant Dividend Payment Date and, in the event that the Offered Securities are not in book-entry form, the fifteenth day (whether or not a Business Day) prior to the relevant Dividend Payment Date. Dividends payable on the Preferred Securities (i) for each Dividend Period through the Dividend Period ending in June 2008 shall be computed on the basis of a 360-day year of twelve 30-day months and (ii) for each Dividend Period thereafter shall be computed on the basis of a 360-day year and the actual number of days elapsed in such Dividend Period, except that dividends for the Initial Dividend Period will be calculated from the date of original issue.

The Company will calculate the arithmetic mean of London interbank offered quotations for Eurodollar deposits with a maturity of six months ("LIBOR") for each Dividend Period commencing with the Dividend Period ending in December 2008 on the second business day before the Dividend Period begins (a "LIBOR Determination Date"). On each LIBOR Determination Date, the Company will determine LIBOR on the basis of the offered quotations of the Reference Banks (as defined below), as such quotations are provided to the Company as of 11:00 a.m. (London time) on such LIBOR Determination Date. For this purpose, "business day" means a day on which banks are open for dealing in foreign currency and exchange in London and New York City; "Reference Banks" means four leading banks engaged in transactions in Eurodollar deposits in the international Eurocurrency market (i) with an established place of business in London, (ii) whose quotations appear on the Reuters Screen LIBO Page on the LIBOR Determination Date in question and (iii) which have been designated as such by the Company and are able and willing to provide such quotations to the Bank on each LIBOR Determination Date; and "Reuters Screen LIBO Page" means the display designated as page "LIBO" on the Reuters Monitor Money Rates Service (or such other page as may replace page "LIBO" on that service for the purpose of displaying London interbank offered quotations of major banks). If any Reference Bank designated by the Company should be removed from the Reuters Screen LIBO Page or in any other way fails to meet the qualifications of a Reference Bank, the Company may, in its sole discretion, designate an alternative Reference Bank.

On each LIBOR Determination Date, the Bank will determine LIBOR for the next Dividend Period as follows:

(i) If on any LIBOR Determination Date two or more of the Reference Banks provide offered quotations of the applicable maturity, LIBOR for the next Dividend Period will be the arithmetic mean of such offered quotations (rounding such arithmetic mean upwards, if necessary, to the nearest whole multiple of 1/16%).

(ii) If on any LIBOR Determination Date only one or none of the Reference Banks provides such offered quotations, LIBOR for the next Dividend Period will be whichever is the higher of (x) LIBOR as determined on the previous LIBOR Determination Date or (y) the Reserve Interest Rate. The "Reserve Interest Rate" will be the rate per annum which the Bank determines to be either (A) the arithmetic mean (rounding such arithmetic mean upwards, if necessary, to the nearest whole multiple of 1/16%) of the Eurodollar lending rates of the applicable maturity that the New York City banks selected by the Company are quoting, on the relevant LIBOR Determination Date, to the principal London offices of leading banks in the London interbank market or (B) in the event that the Bank can determine no such arithmetic mean, the lowest Eurodollar lending rate of the applicable maturity that the New York City banks selected by the Company are quoting on such LIBOR Determination Date to leading European banks.

(iii) If on any LIBOR Determination Date the Company is required but is unable to determine the Reserve Interest Rate in the manner provided in paragraph (ii) above, LIBOR for the next Dividend Period will be LIBOR as determined on the previous LIBOR Determination Date, or, in the case of the first LIBOR Determination Date, the dividend rate in effect for the preceding Dividend Period, less 3.80%, shall be used as LIBOR for the next Dividend Period.

The Company's Charter will provide that dividends on Offered Securities will be paid on each Dividend Payment Date unless the Class A Common Securityholder, in its capacity as holder of the Class A Common Securities, causes the Company not to pay such dividends by delivering a No Dividend Instruction on or before the tenth Business Day immediately prior to the relevant Dividend Payment Date or a Supervisory Period is in effect. In the event (i) the Bank has outstanding preferred securities that constitute Tier I capital under the regulations of the Ministry of Finance and (ii) on or before the tenth Business Day immediately preceding a Dividend Payment Date the Bank notifies the Company in writing that the Bank has suspended dividends on such preferred securities, the receipt of such notice shall be deemed to be the receipt of a No Dividend Instruction from the Class A Common Securityholder without any further action by or on behalf of the Class A Common Securityholder being necessary, *provided, however*, that if the Dividend Payment Date as to which such No Dividend Instruction is deemed given is a Mandatory Dividend Payment Date, then such No Dividend Instruction shall apply to the first Dividend Payment Date thereafter that is not a Mandatory Dividend Payment Date. Under the limited circumstances described below under "– Mandatory Dividends", the Company will be obligated to pay dividends on the Offered Securities irrespective of whether either a Supervisory Period has occurred or a No Dividend Instruction is in effect.

Except as provided in the next paragraph, no distribution may be made in respect of the Common Securities in any Dividend Period if, without the prior consent of a majority of the Independent Directors, after taking into account any such proposed distribution, total distributions on the Offered Securities and the Common Securities during such Dividend Period would exceed the interest payments received by the Company on the Credit-Linked Note and its other Eligible Investments, if any, during such Dividend Period. The Company's Charter also will require approval of a majority of the Independent Directors before dividends on the Offered Securities could be paid out of any source other than interest payments received by the Company on the Credit-Linked Note or other Eligible Investments, if any, or amounts contributed to the Company by the Bank or the Common Securityholders (whether pursuant to the Support Agreement or otherwise).

The Company's Charter will provide that, with respect to any Dividend Payment Date that occurs during a Supervisory Period or with respect to which a No Dividend Instruction has been (or is deemed to be) given, the dividend preference of the Offered Securities will shift to the Common Securities such that all interest payments received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, if any, and then available for payment of dividends by the Company on its Common Securities and Preferred Securities less expenses of the Company will be distributed to the Common Securityholders except to the extent that (i) the Bank causes the Company to pay all or a part of a dividend for such Dividend Period on the Offered Securities or (ii) the Company is obligated to pay dividends for such Dividend Period on the Offered Securities as described under "– Mandatory Dividends".

The right of holders of Offered Securities to receive dividends is noncumulative. Accordingly, if the Class A Common Securityholder delivers (or is deemed delivered) a No Dividend Instruction in respect of any Dividend Period or a Supervisory Period is in effect, holders of Offered Securities will have no right to receive a dividend in respect of such Dividend Period, and the Company will have no obligation to pay a dividend in respect of such Dividend Period, whether or not dividends are payable in respect of any future Dividend Period (but subject to the exception described below under "– Mandatory Dividends").

If any Offered Securities are outstanding, no full dividends or other distributions shall be paid on any Parity Securities or Junior Securities (except Common Securities while either a Supervisory Period or No Dividend Instruction is in effect) for any Dividend Period unless full dividends have been or contemporaneously are paid on the Offered Securities for (i) the immediately preceding Dividend Period, in the case of Parity Securities, and (ii) the then current Dividend Period, in the case of Junior Securities (but subject to the exception described in the second preceding paragraph). When dividends are not paid in full for any Dividend Period upon Offered Securities and any Parity Securities, all dividends on Offered Securities and such Parity Securities shall only be paid pro rata based upon the respective amounts that would have been paid on the Offered Securities and any Parity Securities had dividends been paid in full.

In addition to the foregoing restriction, except as described in the third preceding paragraph, the Company shall not pay or set apart funds for any dividends or other distributions (other than in Common Securities or other Junior Securities) with respect to any Common Securities or other Junior Securities or repurchase, redeem or otherwise acquire, or set apart funds for repurchase, redemption or other acquisition of, any Common Securities or other Junior Securities through a sinking fund or otherwise, unless and until (i) full dividends on the Offered Securities for the two most recent preceding Dividend Periods (or such lesser number of Dividend Periods during which Offered Securities have been outstanding) are paid or a sum sufficient for payment has been paid over to the dividend disbursing agent for payment of such dividends and (ii) the Company has paid a cash dividend on the Offered Securities at the annual dividend rate for the then current Dividend

Period. So long as any Offered Securities are outstanding, Junior Securities are not redeemable or repurchasable without the concurrent redemption of an amount (based upon the aggregate redemption price) of Offered Securities equal to 400% of the amount of Junior Securities being redeemed or repurchased, unless (i) a majority of the Company's Independent Directors shall have approved such redemption or repurchase or (ii) each Rating Agency then rating the Offered Securities shall have informed the Company that the redemption or repurchase of such shares of Common Securities would not adversely affect the then assigned rating by the Rating Agencies of the Offered Securities.

See "Investment Considerations – Risk Associated with Bank's Financial Condition" for a description of the consequences if a Supervisory Event were to occur.

Mandatory Dividends

If the Bank pays any dividends on any of its capital stock with respect to any fiscal year of the Bank (including the fiscal year ended March 31, 1997), then the Company will be required to pay full dividends on the Offered Securities on the Dividend Payment Dates that occur in December of the calendar year in which the last day of such fiscal year occurs and June of the next calendar year (in each case, a "Mandatory Dividend Payment Date") (whether or not a Supervisory Event has occurred or a No Dividend Instruction is given with respect to either such Dividend Payment Date). Pursuant to the Support Agreement the Bank will be obligated to contribute (or cause to be contributed) to the Company such additional funds as are necessary for such purpose, except that, (i) if the Branch is not in default under the Credit-Linked Note on either such Mandatory Dividend Payment Date, dividends so payable by the Company on such Dividend Payment Date will be limited to amounts received by the Company under the Credit-Linked Note and (ii) the amount the Bank is obligated to contribute to the Company during any Dividend Period, together with interest payments made by the Bank under the Credit-Linked Note, shall not exceed the actual amount of interest payments under the Credit-Linked Note due during such Dividend Period.

Using the fiscal year ending March 31, 1998 as an example, the Bank's existing practice is to declare and pay dividends (if any) with respect to the year ending March 31, 1998 in June of 1998 as approved by the Bank's shareholders at their annual meeting held in such month and, on an interim basis at the election of the Bank's Board of Directors, to make interim distributions of income to shareholders in December 1997. If the Bank makes or made a dividend distribution in June of 1998 or an interim distribution in December of 1997 with respect to the fiscal year ended March 31, 1998, the Mandatory Dividend Payment Dates relating thereto will be the dividend payment dates in December 1998 and June 1999.

Voting Rights

Except as expressly required by applicable law, or except as indicated below, the holders of Offered Securities will not be entitled to vote. In the event the holders of Offered Securities are entitled to vote as indicated below, each Offered Security, $1,000 of liquidation preference, will be entitled to one vote on matters on which holders of Offered Securities are entitled to vote.

If full dividends on the Offered Securities shall not have been paid for two Dividend Periods or if a Bankruptcy Event or a default under the Credit-Linked Note occurs, the maximum authorized number of directors of the Company shall thereupon be increased by two. The holders of the Offered Securities, voting together as a single class with the holders of any Parity Securities upon which the same voting rights as those of the Offered Securities have been conferred and are irrevocable, shall have the exclusive right to elect the two additional directors at a special meeting of the holders of the Offered Securities called for such purpose (which shall be called at the request of any holder of Offered Securities) or at the Company's next annual meeting of stockholders and at each subsequent annual meeting until (i) full dividends have been paid on the Offered Securities for two consecutive Dividend Periods and any such default under the Credit-Linked Note has been cured and (ii) if a Bankruptcy Event has occurred, until such Bankruptcy Event is terminated or the dissolution and liquidation of the Company has been completed. The term of such directors elected thereby shall terminate, and the total number of directors shall be decreased by two, upon the first annual meeting of stockholders after the payment of full dividends on the Offered Securities for two consecutive Dividend Periods and any such default under the Credit-Linked Note has been cured or, if a Bankruptcy Event has occurred, until such Bankruptcy Event is terminated or the dissolution and liquidation of the Company has been completed. Any such director may be removed by, and shall not be removed except by, the vote of the holders of record of the outstanding Offered Securities and Parity Securities entitled to vote, voting together as a single class without regard to series, at a meeting of the Company's stockholders, or of the holders of Offered Securities and Parity Securities so entitled to vote thereon, called for that purpose. As long as dividends on Offered Securities shall not have been paid for two Dividend Periods, a default under the Credit-Linked Note has occurred and is continuing or a Bankruptcy Event has occurred and is continuing, (i) any vacancy in the office of any such director may be filled (except as provided in the following clause (ii)) by an instrument in writing signed by any such remaining director and filed with the Company and (ii) in the case of the removal of any such director, the vacancy may be filled by the vote of the holders of the outstanding Offered Securities and Parity Securities entitled to vote, voting together as a single class without regard to series, at the same meeting at which such removal shall be voted.

So long as any Offered Securities are outstanding, the Company shall not, without the consent or vote of the holders of at least two-thirds of the outstanding Offered Securities (by liquidation preference), voting separately as a class, (a) amend, alter or repeal or otherwise change any provision of the Company's Charter (including the terms of the Offered Securities) if such amendment, alteration, repeal or change would materially and adversely affect the rights, preferences, powers or privileges of the Offered Securities or (b) merge, convert, consolidate, reorganize or effect any other business combination involving the Company, unless the resulting entity will thereafter have no class or series of equity securities either authorized or outstanding ranking prior to the Offered Securities as to dividends or as to the distribution of assets upon liquidation, dissolution or winding up, except the same number of shares of such equity securities with the same preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions or redemption as the shares of equity securities of the Company that are authorized and outstanding immediately prior to such transaction, and each holder of the Offered Securities immediately prior to such transaction shall receive securities with the same preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions or redemption of the resulting entity as the Offered Securities held by such holder immediately prior thereto. So long as any Offered Securities are outstanding, the Company shall not, without the consent of the holders of each outstanding Offered Security, authorize, create or increase the authorized amount of or issue any class or series of any equity securities of the Company, or any warrants, options or other rights convertible or exchangeable into any class or series of any equity securities of the Company, ranking prior to the Offered Securities, either as to dividend rights or rights on dissolution, liquidation or winding up of the Company.

The creation or issuance of Parity Securities or Junior Securities, or an amendment that increases the number of authorized Preferred Securities, or Offered Securities or any Junior Securities or Parity Securities, shall not be deemed to be a material and adverse change requiring a vote of the holders of the Offered Securities.

Redemption

The Offered Securities are not redeemable prior to the Dividend Payment Date in June 2008, except in whole upon the occurrence of a Special Event. On and after the Dividend Payment Date in June 2008, the Offered Securities may be redeemed on any Dividend Payment Date for cash at the option of the Company, in whole or in part, on not less than 30 nor more than 60 days' notice by mail at a redemption price of $1,000 per security, plus unpaid dividends, if any, thereon with respect to the current Dividend Period accrued on a daily basis through the date of redemption, without interest and without accumulation of unpaid dividends for any prior Dividend Periods. Any such redemption is subject to applicable regulatory requirements, including the prior approval of the Ministry of Finance if then required under applicable guidelines or policies of the Ministry of Finance. If dividends on any Offered Securities are unpaid, no Offered Securities shall be redeemed unless all outstanding Offered Securities are redeemed and the Company shall not purchase or otherwise acquire any Offered Securities, provided, however, that the Company may purchase or acquire Offered Securities pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Offered Securities.

In the event that fewer than all the outstanding Offered Securities are to be redeemed, the number of Offered Securities to be redeemed shall be determined by the Board of Directors, and the securities to be redeemed shall be determined by lot or pro rata as may be determined by the Board of Directors in its sole discretion to be equitable, provided that such method satisfies any applicable requirements of any securities exchange on which the Offered Securities may then be listed and, if the Offered Securities are then held by DTC (or its nominee) in the form of a global security, any applicable requirements of DTC, and provided further that each holder of the Offered Securities has at least 100 securities remaining after the redemption. The Company shall promptly notify the registrar and transfer agent for the Offered Securities in writing of the securities selected for redemption and, in the case of any Series selected for partial redemption, the liquidation preference thereof to be redeemed.

The Company will also have the right at any time prior to the Dividend Payment Date in June 2008, upon the occurrence of a Special Event, to redeem Offered Securities, in whole (but not in part) at a redemption price equal to the higher of $1,000 per security or the Make-Whole Amount (as defined below) per security, plus an amount equal to unpaid dividends, if any, thereon with respect to the current Dividend Period accrued on a daily basis through the date of redemption (the "Special Event Redemption Date"), without interest and without accumulation of unpaid nondefinitive dividends for any prior Dividend Periods. A "Special Event" means the occurrence of any of a "Tax Event", a "Capital Event" or an "Investment Company Act Event". A "Tax Event" means the receipt by the Company of an opinion of a nationally recognized law firm or other tax advisor in the United States or Japan, as appropriate, experienced in such matters to the effect that, as a result of (i) any amendment to, clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations thereunder) of the United States or Japan or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any Administrative Action or (iii) any amendment to, clarification of, or change in the official position or the interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to any Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change, interpretation or pronouncement is made known, which amendment, clarification, change or Administrative Action is effective or which pronouncement or decision is announced on or after the date of issuance of the Offered Securities, there is more than an insubstantial risk that (A) the Company is or will be subject to more than a *de minimis* amount of additional taxes, duties or other governmental charges or civil liabilities, (B) the Branch is or will be required to pay any additional amounts in respect of any taxes, duties or other governmental charges with respect to payments of interest or principal on the Credit-Linked Note, or (C) the treatment of any of the Company's items of income, gain, loss, deduction or expense, or the treatment of any item of income, gain, loss, deduction or expense of the Bank related to the Credit-Linked Note or of either Common Securityholder related to its ownership of the Company, in each case as reflected on the tax returns (including estimated returns) filed (or to be filed) by the Company, the Bank or either Common Securityholder will not be respected by a taxing authority, as a result of which the Bank, the Company or either Common Securityholder is or will be subject to more than a *de minimis* amount of additional taxes, duties or other governmental charges or civil liabilities. A "Capital Event" means the determination by the Bank after consultation with the Ministry of Finance that the Offered Securities are not includable in Tier I capital of the Bank on a consolidated basis. An "Investment Company Act Event" means the receipt by the Company of an opinion of a nationally recognized law firm in the United States experienced in such matters to the effect that there is more than an insubstantial risk that the Company is an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

The “Make-Whole Amount” will be equal to the amount, as determined by a Quotation Agent (as defined below), equal to the sum of the present value of the liquidation preference of the Offered Securities at the Dividend Payment Date in June 2008, together with the present values of scheduled semi-annual noncumulative dividend payments from the Special Event Redemption Date to the Dividend Payment Date in June 2008 (the “Initial Dividend Payment Period”), in each case discounted to the Special Event Redemption Date on a semi-annual basis (assuming a 360-day year consisting of 30-day months) at the Adjusted Treasury Rate.

“Adjusted Treasury Rate” means, with respect to any Special Event Redemption Date, the Treasury Rate plus (i) 1.90% until February 18, 1999 and (ii) 0.50% thereafter.

“Business Day”, for purposes of determining the Make-Whole Amount, means a day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in The City of New York are authorized or required by law or executive order to remain closed.

“Comparable Treasury Issue” means, with respect to any Special Event Redemption Date, the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the Initial Dividend Payment Period that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the Initial Dividend Payment Period. If no United States Treasury security has a maturity which is within a period from three months before to three months after the Dividend Payment Date in June 2008, the two most closely corresponding United States Treasury securities shall be used as the Comparable Treasury Issue, and the Treasury Rate shall be interpolated or extrapolated on a straight-line basis, rounding to the nearest month using such securities.

“Comparable Treasury Price” means (A) the average of five Reference Treasury Dealer Quotations for such Special Event Redemption Date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Quotation Agent obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such Quotations.

“Quotation Agent” means Goldman, Sachs & Co. and its successors; provided, however, that if the foregoing shall cease to be a primary U.S. government securities dealer in New York City (a “Primary Treasury Dealer”), the Company shall substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer” means (i) the Quotation Agent and (ii) any other Primary Treasury Dealer selected by the Quotation Agent after consultation with the Company.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any Special Event Redemption Date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such Special Event Redemption Date.

“Treasury Rate” means (i) the yield, under the heading which represents the average for the immediately prior week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Federal Reserve and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities,” for the maturity corresponding to the Initial Dividend Payment Period (if no maturity is within three months before or after the Initial Dividend Payment Period, yields for the two published maturities most closely corresponding to the Initial Dividend Payment Period shall be determined and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Special Event Redemption Date. The Treasury Rate shall be calculated on the third Business Day preceding the Special Event Redemption Date.

Supervisory Events

A "Supervisory Event" would be deemed to have occurred if the Bank's total risk-based capital ratio or Tier I risk-based capital ratio, calculated on a consolidated basis as of the end of any period in respect of which the Bank submits financial statements to the Ministry of Finance, were to decline below the minimum percentages required by Japanese banking regulations. The consequences of a Supervisory Event occurring are described under "Investment Considerations — Risk Associated with Bank's Capital Condition".

For purposes of determining when a Supervisory Event has occurred, the Company's Charter will provide that (a) by not later than the tenth Business Day after each date on which the Bank first releases its audited annual financial statements or its semi-annual financial statements (whether audited or unaudited) the Bank shall deliver to the Company a certificate (a "Capital Ratio Certificate") setting forth the Bank's total risk-based capital ratio and Tier I risk-based capital ratio, calculated on a consolidated basis, as of the date of the balance sheet included in such financial statements, (b) the Bank's calculation of such ratio shall be deemed to be correct absent manifest error, and (c) if a Capital Ratio Certificate shows that the Bank's total risk-based capital ratio or Tier I risk-based capital ratio is less than the minimum then required by Japanese banking regulations, the related Supervisory Event shall be deemed to occur at the opening of business on the Business Day immediately succeeding the date of delivery of such Capital Ratio Certificate to the Company. The Company shall mail a written notice of the occurrence of a Supervisory Event to each holder of record of Offered Securities at the address for such holder as shown on the Company's register of holders promptly and in any event within five Business Days after such occurrence or adjustment.

Registration and Transfer of Offered Securities

The Offered Securities will be represented by one or more global certificates registered in the name of The Depository Trust Company ("DTC") or its nominee. Beneficial interests in Offered Securities will be shown on, and transfers thereof will be effected only through, records maintained by Participants in DTC. Except as described below, Offered Securities in certificated form will not be issued in exchange for the global certificate. See "Book-Entry Issuance".

A global certificate shall be exchangeable for Offered Securities registered in the names of persons other than DTC or its nominee only if (i) DTC notifies the Company that it is unwilling or unable to continue as a depositary for such global certificate and no successor depositary shall have been appointed, or if at any time DTC ceases to be a clearing agency registered as such under the Exchange Act at a time when DTC is required to be so registered to act as such depositary or (ii) the Company in its sole discretion determines that such global certificate shall be so exchangeable. Any global certificate that is exchangeable pursuant to the preceding sentence shall be exchangeable for definitive certificates registered in such names as DTC shall direct. It is expected that such instructions will be based upon directions received by DTC from its Participants with respect to ownership of beneficial interests in such global security. In the event that Offered Securities are issued in definitive form, such Offered Securities will be in denominations of $1,000 and integral multiples thereof (subject to the minimum purchase requirement of 100 Offered Securities ($100,000 aggregate liquidation preference)) and may be transferred or exchanged at the offices described below.

Purchases and transfers of shares of Offered Securities represented by one or more global securities held by DTC or its nominee will be made as described under "Book-Entry Issuance". None of the Bank, any Paying Agent or the registrar for Offered Securities will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of the global securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. In the event Offered Securities are issued in certificated form, the liquidation preference and dividends will be payable, the transfer of Offered Securities will be registrable, and Offered Securities will be exchangeable for Offered Securities of other denominations of a like aggregate liquidation preference, at the office of the Company in New York City, or at the offices of any paying agent or transfer agent appointed by the Company provided that payment of any dividend may be made at the option of the Company by check mailed to the address of the persons entitled thereto, by wire transfer or by direct deposit. In addition, if Offered Securities are issued in certificated form, the record dates for payment of dividend will be fifteen days prior to the relevant Dividend Payment Date. For a description of DTC and the terms of the depositary arrangements relating to payments, transfers, voting rights, redemptions and other notices and other matters, see “Book-Entry Issuance”.

Payments and Paying Agents

Payments in respect of Offered Securities shall be made to DTC, which shall credit the relevant accounts at DTC on the applicable Dividend Payment Dates or, if Offered Securities are not held by DTC, such payments shall be made by wire transfer, direct deposit or check mailed to the address of the holder entitled thereto as such address shall appear on the Register. The paying agent (the “Paying Agent”) shall initially be Sumitomo Bank of New York Trust Company and any co-paying agent chosen by the Class A Common Securityholder and acceptable to the Company. The Paying Agent shall be permitted to resign as Paying Agent upon 30 days’ written notice to the Company. In the event that Sumitomo Bank of New York Trust Company shall no longer be the Paying Agent, the Company shall appoint a successor (which shall be a bank or trust company acceptable to the Company) to act as Paying Agent.

Registrar and Transfer Agent

The Bank of New York, or another entity that the Bank may designate from time to time, will act as registrar and transfer agent for the Offered Securities.

Registration of transfers of Offered Securities will be effected without charge by or on behalf of the Company, but upon payment of any tax or other governmental charges that may be imposed in connection with any transfer or exchange. The Company will not be required to register or cause to be registered the transfer of Offered Securities after such Offered Securities have been called for redemption.

See “Notice to Investors” and “Offer and Resale” with respect to certain restrictions on transfer.

See “Book-Entry Issuance” with respect to registration and transfer of shares of Offered Securities held as global securities by DTC or its nominee.

Rights Upon Liquidation

In the event of any voluntary or involuntary dissolution, liquidation, or winding up of the Company, after satisfaction of liabilities to creditors, if any, the holders of Offered Securities at the time outstanding will be entitled to receive out of assets of the Company available for distribution to securityholders, before any distribution of assets is made to holders of shares of Common Securities or any Junior Securities, liquidating distributions in respect of each Offered Securities in the amount of liquidation preference per share ($1,000 per share), plus unpaid dividends, if any, thereon with respect to the current Dividend Period accrued through the date of dissolution, liquidation or winding up, but without accumulation of unpaid dividends for any prior Dividend Period, without interest.

After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Offered Securities will have no right or claim to any of the remaining assets of the

Company. In the event that, upon any such voluntary or involuntary dissolution, liquidation or winding up, the available assets of the Company are insufficient to pay the amount of the liquidation distributions on all outstanding Offered Securities and the corresponding amounts payable on all Parity Securities, then the holders of the Offered Securities and such Parity Securities shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

For such purposes, the conversion of the Company into another entity or the consolidation or merger of the Company with or into any other entity, the consolidation or merger of any other entity with or into the Company or the sale of all or substantially all of the property or business of the Company, shall not be deemed to constitute a dissolution, liquidation or winding up of the Company.

The Company's Charter will provide that the Company will be liquidated when the Bank is liquidated.

The Credit-Linked Note will provide that, if a Liquidation Event occurs and for so long as it continues, (i) the Bank's obligation to make payments of interest on the Credit-Linked Note will be suspended and (ii) the Credit-Linked Note will represent a subordinated claim in the liquidation of the Bank and the Company will have no other financial claim against or interest in the Bank arising under the Credit-Linked Note. See "Description of Credit-Linked Note — Subordination; Liquidation Events".

A "Liquidation Event" shall be deemed to occur if a liquidation proceeding under the law of Japan (including the special liquidation proceeding, (*tokubetsu seisan*) of the Bank under the Commercial Code of Japan (Law No. 48 of 1899, as amended)) is commenced by or against the Bank or a competent court in Japan shall have (a) adjudicated the Bank to be bankrupt (*hasan*) pursuant to the provisions of the Japanese Bankruptcy Law (Law No. 71 of 1922, as amended) or (b) approved a preparation of a reorganization plan for liquidation (*seisanteki-kaisha-kosei*) of the Bank pursuant to the provisions of the Japanese Corporate Reorganization Law (Law No. 172 of 1952, as amended).

Independent Director Approval

The Company's Charter requires that, for so long as any Offered Securities are outstanding, certain actions by the Company must be approved by a majority of the Independent Directors as well as by a majority of the entire Board of Directors. For so long as there is only one Independent Director, any action that requires the approval of a majority of Independent Directors must be approved by such Independent Director. Michael H. Coles is the Company's initial Independent Director. See "Management – Independent Directors". In order to be considered "independent", a director must not be a current officer or employee of the Company, the Bank or any affiliate of the Bank or of any person or persons that, in the aggregate, own more than 50% of the outstanding shares of Common Securities of the Company. In addition, any member of the Board of Directors elected by holders of the Offered Securities and other Parity Securities, if any, voting together as a single class, will be deemed to be an Independent Director for purposes of approving actions requiring the approval of a majority of the Independent Directors.

The actions that require approval of a majority of the Independent Directors include (i) the issuance of additional Parity Securities, (ii) the amendment or modification of the Company's Investment Policies, (iii) other than during a Supervisory Period or on a Dividend Payment Date as to which a No Dividend Instruction is in effect, the payment of dividends on shares of Common Securities or other Junior Securities in any fiscal year in an amount exceeding the amount by which the interest received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, if any, exceeds the stated dividends on the Offered Securities that would be paid during such fiscal year irrespective of whether dividends on the Offered Securities are in fact paid, (iv) redemption of Junior Securities without the concurrent redemption of Offered Securities having a liquidation preference equal to at least 400% of the redemption price of the Junior Securities being redeemed, unless each Rating Agency then rating the Offered Securities shall have informed the Company in writing that the redemption or repurchase of such shares of Junior Securities would not result in a reduction of the rating then assigned by such Rating Agency to the Offered Securities, (v) to the fullest extent permitted by law, any liquidation, dissolution or termination of the Company that is not concurrent with the liquidation of the Bank, (vi) payment of dividends on Offered Securities other than out of interest received by the Company on the Credit-Linked Note and the Company's other Eligible Investments, if any, or out of amounts contributed by the Bank or the Common Securityholders to the Company under the Support Agreement or voluntarily by the Bank or the Common Securityholders and (vii) the conversion of the Company into another type of entity or the consolidation or merger of the Company with or into any other entity, the consolidation or merger of any other entity with or into the Company or the sale of all or substantially all of the assets of the Company. Additionally, a majority of the Independent Directors, acting alone and without the vote or consent of the other members of the Board of Directors, have the right on behalf of the Company to enforce the Support Agreement and, after the occurrence of a Bankruptcy Event, to enforce and otherwise act on behalf of the Company with respect to the Credit-Linked Note.

DESCRIPTION OF CREDIT-LINKED NOTE

The following summary sets forth the material terms and provisions of the Credit-Linked Note and is qualified in its entirety by reference to the terms and provisions of the Credit-Linked Note, a copy of which is available to prospective investors upon request to the Company.

General

Concurrently with the issuance of the Offered Securities, the Company will invest the proceeds thereof, together with the consideration received by the Company upon issuance of the Common Securities, to purchase the Credit-Linked Note issued by the Bank through the Branch. The Credit-Linked Note will have an initial principal amount of $2,270,000,000. The rate of interest on the Credit-Linked Note will be calculated with reference to the rate of interest on the then effective Reference Security identified in or determined pursuant to the terms of such Credit-Linked Note as described below under "Payments of Interest". See "– Reference Securities" below.

The Credit-Linked Note will not be secured (either by the Reference Security as in effect from time to time or by any other assets of the Branch or the Bank) and will be a subordinate perpetual obligation of the Branch and the Bank (as described below) which will mature in a liquidation of the Bank. See "— Subordination; Liquidation Events".

Reference Securities

The initial Reference Security will be the U.S. Treasury security that was issued on August 15, 1997, matures on August 15, 2007, bears interest at the rate per annum of 6⅛%, and had a yield to maturity as of February 6, 1998 of 5.60%. Such initial Reference Security (the "Initial Reference Security") is not, and no synthetic six-month U.S. Treasury security eligible for substitution for a Reference Security may be, redeemable prior to its stated maturity date. The Initial Reference Security does, and each synthetic U.S. Treasury security substituted therefor will, bear interest as opposed to being issued at a discount.

The term "Reference Securities Substitution Date" means (i) in the case of the Initial Reference Security, the Interest Payment Date on the Credit-Linked Note that occurs in June 2008, and (ii) in the case of each Substitute Reference Security, the Interest Payment Date that is the maturity thereof. The Credit-Linked Note provides that, effective as of 10:00 A.M., New York City time, on each Reference Security Substitution Date with respect to a Reference Security, there shall be substituted therefor a new Reference Security (a "Substitute Reference Security") having the terms established as described in the next paragraph. From and after 10:00 A.M., New York City time, on the Reference Security Substitution Date for an existing Reference Security, such existing

Reference Security shall no longer be the Reference Security for purposes of the Credit-Linked Note and the Substitute Reference Security, the terms of which are established as described below, shall be the Reference Security for purposes of the Credit-Linked Note.

Each Substitute Reference Security shall be a synthetic six-month U.S. Treasury security deemed to (i) have a maturity date that is the Interest Payment Date immediately following the Interest Payment Date on which such Substitute Reference Security becomes a Reference Security, and (ii) bear interest, payable in a single payment on such maturity date, at a rate per annum equal to the Interpolated Six-Month Treasury Rate. The "Interpolated Six-Month Treasury Rate" for a Substitute Reference Security on a Reference Securities Substitution Date will be, (i) if United States Treasury bills ("Treasury Bills") with a maturity of 182 days (the "Designated Maturity") have been auctioned on the day immediately preceding such Reference Securities Substitution Date (the "Rate Date"), the rate set forth in H.15(519) for such Rate Date opposite the entry for the Designated Maturity under the caption "U.S. Government Securities/Treasury Bills/Auction Average (Investment)" if such rate is published by 10:00 A.M. New York City time on such Reference Securities Substitution Date; (ii) if Treasury Bills of the Designated Maturity have been auctioned on such Rate Date, but by 10:00 A.M. New York City time on such Reference Securities Substitution Date the rate for such Treasury Bills is not yet published in H.15(519), the auction average rate (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) for Treasury Bills of the Designated Maturity as announced by the United States Department of the Treasury for such Rate Date; (iii) if Treasury Bills have not been auctioned on such Rate Date, but have been auctioned within seven days of such Rate Date, the rate set forth in H.15(519) for the date which is closest to such Rate Date opposite the entry for the Designated Maturity under the caption "U.S. Government Securities/Treasury Bills/Auction Average (Investment)"; or (iv) otherwise, the yield to maturity (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the arithmetic mean of the secondary market bid rates of the Reference Treasury Dealers as of approximately 3:30 P.M., New York City time on such Reference Securities Substitution Date for the issue of Treasury Bills with a remaining maturity closest to the Designated Maturity.

Payments of Interest

The rate of interest on the Credit-Linked Note will be calculated with reference to the rate of interest or yield on the then effective Reference Security identified in or determined pursuant to the terms of the Credit-Linked Note. Interest will be payable on the Credit-Linked Note on each date (each an "Interest Payment Date") that is the Business Day immediately prior to a Dividend Payment Date on the Offered Securities. An "Interest Period" is a period commencing on and including an Interest Payment Date and continuing to but not including the next succeeding Interest Payment Date, except that the initial Interest Period shall commence on and include the date of issuance of the Credit-Linked Note and continue to but not include June 29, 1998.

Subject to the exception described in the next paragraph, the Credit-Linked Note will provide that, by not later than 4:00 P.M., New York City time, on each Interest Payment Date, the Bank will pay to the Company interest on the principal amount of the Credit-Linked Note, accrued on a daily basis for each day in the related Interest Period at a rate per annum (calculated on the basis of a year of 365- or 366-days, as applicable, for the actual number of days involved) equal to the Applicable Interest Rate as in effect after 10:00 A.M., New York City time, on the first day of the related Interest Period. The "Applicable Interest Rate" as of any time shall be equal to the sum of (i) the Reference Security Rate at such time plus (ii) the Applicable Margin, where:

(a) "Reference Security Rate" means, on any day when the Initial Reference Security is the Reference Security as of 12:00 Noon, New York City time, on such day, 5.60% per annum (which is the yield to maturity of the initial Reference Security as of February 6, 1998), and, on any day when a Substitute Reference Security is the Reference Security as of 12:00 Noon, New York City time, on such day, the Interpolated Six-Month Treasury Rate for such Substitute Reference Security; and

(b) “Applicable Margin” means (x) through June 27, 2008, 3.30%, and (y) thereafter, 4.80%.

Accordingly, the initial rate for accrual on the Credit-Linked Note will be 8.90% through the Interest Payment Date in June 2008. The Bank shall pay such interest in immediately available funds.

The interest otherwise payable on the Credit-Linked Note on an Interest Payment Date as described above shall not be due and payable (i) with respect to any Interest Payment Date occurring on or before the Interest Payment Date in June 2008, if as of such Interest Payment Date any default by the U.S. Government in making any payment of principal or interest when due on the initial Reference Security has occurred and is continuing and (ii) with respect to any Interest Payment Date thereafter, if as of such Interest Payment Date any default by the U.S. Government in making a payment of principal or interest due on any U.S. Treasury security having an initial maturity of six months or less has occurred and is continuing. If on a relevant Interest Payment Date a default by the U.S. Government has occurred (as described above), the interest payment otherwise due on such Interest Payment Date shall be deferred and become due only when such default is cured.

Payments of Principal

Because of the substitution provisions with respect to the Reference Securities described above under “— Reference Securities”, on each Reference Security Substitution Date for a U.S. Treasury security that is a Reference Security a new later maturing synthetic U.S. Treasury security will be substituted for such maturing synthetic U.S. Treasury Security, with the consequence that no payment of principal on Reference Securities or the Credit-Linked Note shall become due in the ordinary course. However, the principal amount of the Credit-Linked Notes shall become due and payable upon liquidation of the Bank, subject to the conditions described under “— Subordination; Liquidation Events”.

Additional Sums

If the Branch is required to withhold any taxes, duties or other governmental charges with respect to a payment of interest or principal on the Credit-Linked Note as a result of a Tax Event, the Branch will pay as additional amounts on the Credit-Linked Note such amounts as shall be required so that the net amount received by the Company thereunder after the withholding of any such additional taxes, duties or other governmental charges will not be less than the amount provided for in the Credit-Linked Note to be then due and payable.

Redemption

For so long as the Credit-Linked Note is owned by the Company, the Branch may, at its option, redeem the Credit-Linked Note in whole or in part on any date on which the Company is redeeming Offered Securities. The Company shall give the Branch not less than 20 nor more than 60 days’ notice by mail of any redemption date for the Offered Securities and the aggregate liquidation preference of Offered Securities to be redeemed on such redemption date. If the Branch elects to make a corresponding redemption of the Credit-Linked Note, the Branch shall (i) notify the Company of such election (and the principal amount of the Credit-Linked Note to be redeemed) by mail by not later than the tenth Business Day prior to such redemption date and (ii) by not later than 10:00 A.M., New York City time, on such redemption date pay an amount in redemption of the Credit-Linked Note equal to the principal amount to be redeemed (as notified pursuant to clause (i), above) plus interest thereon at the Applicable Interest Rate accrued to (but not including) the redemption date. The Branch shall pay such amount in immediately available funds.

If at any time the Credit-Linked Note is owned of record by any person other than the Company, the Credit-Linked Note will be redeemable at the option of the Branch, in whole but not in part, at any time upon not less than 30 nor more than 60 days’ notice by mail from the Branch to the record holder of the Credit-Linked Note. The redemption price payable upon such redemption will be an amount equal to the outstanding principal amount of the Credit-Linked Note plus interest thereon at the Applicable Interest Rate accrued to (but not including) the date of redemption.

Subordination; Liquidation Events

Upon the occurrence of a Liquidation Event and for so long as it is continuing, the Bank's obligation to make interest payments on the Credit-Linked Note shall be suspended. The Company, in the liquidation of the Bank resulting from such Liquidation Event, shall have a claim in such liquidation proceedings in an amount equal to the principal amount of the Credit-Linked Note plus accrued and unpaid interest thereon to the date such Liquidation Event occurred (the "Liquidation Claim Amount"). The Liquidation Claim Amount shall be paid by the Bank only if a Condition for Liquidation Payment shall have occurred only in an amount not greater than the Subordination Amount if the Liquidation Claim Amount together with all Liquidation Parity Securities, if any, exceeds the amount of the Bank's assets after the full satisfaction of all the Senior Debt of the Bank. In the preceding sentence, the "Subordination Amount" means the amount of the liquidation distributions which would have been paid from the assets of the Bank in respect of the Credit-Linked Note if the Credit-Linked Note and all Parity Indebtedness, if any, had each been preference shares of the Bank, (i) ranking most senior in priority of payment as to liquidation distributions and (ii) having a liquidation preference amount equal to the Liquidation Preference Amount and the amount of the Parity Indebtedness, respectively.

In the event that, notwithstanding the foregoing, after the occurrence of a Liquidation Event the Company shall have received any payment or distribution of assets of the Bank with respect to the Credit-Linked Note of any kind or character, whether in cash, property or securities, before all amounts due or to become due on all Senior Debt are paid in full or payment thereof is provided for in cash or cash equivalents or otherwise in a manner satisfactory to the holders of Senior Debt, then such payment or distribution shall be paid over or delivered forthwith to the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee, agent or other person making payment or distribution of assets of the Bank for application to the payment of all amounts due or to become due on all Senior Debt remaining unpaid, to the extent necessary to pay all amounts due or to become due on all Senior Debt in full, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt.

Subject to the payment in full of all amounts due or to become due on all Senior Debt as provided above, or the provision for such payment in cash or cash equivalents or otherwise in a manner satisfactory to the holders of Senior Debt, the Company shall be subrogated to the extent of the payments or distributions made to the holders of such Senior Debt as provided above (equally and ratably with the holders of all indebtedness of the Bank which by its express terms is subordinated to Senior Debt of the Bank to substantially the same extent as the Credit-Linked Note is subordinated to Senior Debt and is entitled to like rights of subrogation by reason of any payments or distributions made to holders of such Senior Debt) to the rights of the holders of such Senior Debt to receive payments in distributions of cash, property and securities applicable to the Senior Debt until the Liquidation Claim Amount shall be paid and satisfied in full. For purposes of such subrogation, no payments or distributions to the holders of the Senior Debt of any cash, property or securities to which the Company would be entitled except for the provisions described above and no payments over pursuant to the provisions described above to the holders of Senior Debt by the Company, shall, as among the Bank, its creditors other than holders of Senior Debt, and the Company, be deemed to be a payment or distribution by the Bank to or on account of the Senior Debt.

Although it is unlikely that, if a Liquidation Event were to occur, the Bank would emerge from the liquidation proceedings thereunder without actually being liquidated, under Japanese law it is possible that the liquidation proceedings arising from a Liquidation Event could be terminated or converted to a reorganization proceeding. If that were to happen, the Branch's obligation to pay interest on the Credit-Linked Note would resume.

A "Liquidation Event" shall be deemed to occur if a liquidation proceeding under the law of Japan (including the special liquidation proceeding (*tokubetsu seisan*) of the Bank under the Commercial Code of Japan (Law No. 48 of 1899, as amended)) is commenced by or against thfse Bank or a competent court in Japan shall have (a) adjudicated the Bank to be bankrupt (*hasan*) pursuant to the provisions of the Japanese Bankruptcy Law (Law No. 71 of 1922, as amended) or (b) approved a preparation of a reorganization plan for liquidation (*seisanteki-kaisha-kosei*) of the Bank pursuant to the provisions of the Japanese Corporate Reorganization Law (Law No. 172 of 1952, as amended).

"Conditions for Liquidation Payment" means either of the following conditions:

(i) in the case of liquidation (including special liquidation and liquidation following the closure of bankruptcy procedure) of the Bank, all Senior Debt of the Bank held by creditors of the Bank entitled to payment or satisfaction prior to commencement of distribution of residual assets to shareholders is paid or otherwise satisfied in full pursuant to the provisions of the Japanese Commercial Code (Law No. 48 of 1899, as amended); or

(ii) in the case of corporate reorganization of the Bank where a decree of approbation of a corporate reorganization plan for liquidation of the Bank becomes final and conclusive under the Japanese Corporate Reorganization Law (Law No. 172 of 1952, as amended), all Senior Debt of the Bank appearing in such plan at the date such decree has become final and conclusive is paid or otherwise satisfied in full;

"Liquidation Parity Securities" means (i) any preference shares of the Bank ranking most senior in priority of payment as to liquidation distribution and (ii) any Parity Indebtedness;

"Liquidation Preference Amount" means the aggregate liquidation preference of the Offered Securities (plus unpaid dividends that have become definitive, if any, and dividends accruing from the Dividend Payment Date most recently occurring prior to occurrence of the Liquidation Event to the date of the Liquidation Event);

"Parity Indebtedness" means (i) any preferred or preference shares of any affiliate of the Bank which shall be entitled to the benefits of a guarantee of the Bank ranking *pari passu* in priority of payment as to liquidation distributions with the Credit-Linked Note, and (ii) any other liabilities of the Bank with terms and conditions substantially equivalent or subordinate in priority of payment as to liquidation distributions to the liabilities of the Bank under the Credit-Linked Note; and

"Senior Debt of the Bank" means all deposits and other liabilities, including dated subordinated obligations, (including those in respect of bonds, notes and debentures) of the Bank other than (i) liabilities of the Bank under the Credit-Linked Note and (ii) Parity Indebtedness.

Enforcement of the Credit-Linked Note

A "Bankruptcy Event" shall be deemed to occur (i) upon the occurrence of a Liquidation Event; (ii) if a competent court in Japan shall have (a) adjudicated the commencement of the corporate reorganization proceeding (*kaisha kosei*) of the Bank under the Japanese Corporate Reorganization Law (Law No. 172 of 1952, as amended), (b) adjudicated the commencement of the rehabilitation of corporation proceeding (*kaisha seiri*) of the Bank under the Commercial Code of Japan (Law No. 48 of 1899, as amended), (c) adjudicated the commencement of composition proceeding (*wagi*) of the Bank under the Composition Law of Japan (Law No. 72 of 1922, as amended), or (d) dispatched to creditors convocation notices of creditors meetings for the compromise (*kyosei-wagi*) pursuant to the provisions of the Japanese Bankruptcy Law (Law No. 71 of 1922); or (iii) upon the taking of possession by the Superintendent of Banks of the State of New York of the business and properties of the Bank in the State of New York pursuant to Section 606.4 of the New York Banking Law.

Unless a Bankruptcy Event has occured and is continuing any consent, notice or other action (including any enforcement action) given or taken by or on behalf of the Company with respect to the Credit-Linked Note shall be properly given or taken at the discretion of a majority of the entire Board of Directors of the Company. Upon the occurrence of a Bankruptcy Event and for so long as such Bankruptcy Event is continuing, any consent, notice or other action (including any enforcement action) given or taken on behalf of the Company with respect to the Credit-Linked Note shall be properly given or taken only if given or taken at the direction of a majority of the Independent Directors of the Company.

Registration and Transfer of the Credit-Linked Note

The Credit-Linked Note will be represented by a single definitive Note registered in the name of the Company. The Company's Charter will provide that the Company may sell the Credit-Linked Note only upon the affirmative vote of both a majority of the entire Board of Directors of the Company and the holders of two-thirds (by liquidation preference) of the Offered Securities and other Parity Securities (if any), voting together as a single class. Although the Credit-Linked Note may be sold by the Company subject to the requirements of the Securities Act and other applicable laws (and the foregoing requirements), the Bank and the Company do not anticipate that the Company will sell the Credit-Linked Note and there is no expectation that a market will develop or exist for the Credit-Linked Note. The Credit-Linked Note by its terms will provide that it may be sold in whole and not in part and may not be divided into denominations of less than $2,270,000,000.

Events of Default

An event of default will be deemed to have occurred under the Credit-Linked Note only if, on an Interest Payment Date, the U.S. Government is current on the then effective Reference Security and the Bank fails to pay the full amount of interest on the Credit-Linked Note due on such interest payment date. The U.S. Government will be deemed to be current if no default by the U.S. Government in a payment of principal or interest on such Reference Security has occurred and is then continuing; if the Reference Security is a synthetic U.S. Treasury security (which each substitute Reference Security will be), the U.S. Government will be deemed to be current if no default by the U.S. Government in a payment of principal or interest due on any U.S. Treasury security having an initial maturity of six months or less has occurred and is then continuing. See "Payments of Interest".

Modification and Amendment of Credit-Linked Note

The Credit-Linked Note may be modified or amended only by the written agreement of the Branch and the Company. However, the Credit-Linked Note will provide that no such modification or amendment shall be effective for so long as any Offered Securities or other Parity Securities, if any, are outstanding unless the holders of two-thirds (by liquidation preference) of the Offered Securities and other Parity Securities, if any, voting as a class consent to such modification or amendment (except that such consent of the holders of the Offered Securities and other Parity Securities, if any, shall not be required if (i) the proposed amendment or modification would not materially and adversely affect the rights, preferences, powers or privileges of the Company and (ii) the Company has received a letter from each of Standard & Poor's Ratings Group and Moody's Investors Services, Inc. to the effect that such amendment will not result in a downgrading of its respective rating then assigned to the Offered Securities).

Governing Law

The Credit-Linked Note will be governed by and construed in accordance with the laws of the State of New York.

DESCRIPTION OF CAPITAL STOCK

The following summary of the terms of the Capital Stock of the Company does not purport to be complete and is subject in all respects to the applicable provisions of the Delaware Limited Liability Company Act and the Company's Charter.

Common Securities

General

The Company is authorized to issue up to 100,000 shares of Class A Common Securities and 900,000 shares of Class B Common Securities. Upon consummation of the Offering and the transactions described in "Transactions Constituting the Formation," the Company will have outstanding 500,000 shares of Common Securities, all of which will be held by the Common Securityholders, U.S. subsidiaries of the Bank. The Bank has agreed with the Company in the Support Agreement that, so long as any Offered Securities are outstanding, it will maintain direct or indirect ownership of 100% of the outstanding Class A Common Securities and outstanding Class B Common Securities (except for up to 3.6% of the outstanding voting stock of Sumitomo Bank Leasing and Finance, Inc. for so long as it owns the Class B Common Securities).

Dividends

Holders of Common Securities will receive dividends out of interest payments received by the Company on the Credit-Linked Note and other Eligible Investments, if any, not required to be applied to fund dividends with respect to the Offered Securities less expenses of the Company, provided that, so long as any series of Preferred Securities are outstanding, no dividends or other distributions (including redemptions and purchases) may be made with respect to shares of Common Securities unless full dividends on all series of Preferred Securities have been paid (subject to the consequences of a Supervisory Period or No Dividend Instruction being in effect). See "Business and Strategy — Dividend Policy".

Voting Rights

Subject to the rights, if any, of the holders of any series of Preferred Securities, all voting rights are vested in the shares of Class A Common Securities. The holders of shares of Class A Common Securities are entitled to one vote per share. All of the issued and outstanding shares of Common Securities are currently, and upon consummation of the Offering will be, held by the Class A Common Securityholder.

Rights Upon Liquidation

In the event of the dissolution, liquidation or winding up of the Company, whether voluntary or involuntary, after all debts and liabilities of the Company have been satisfied and there have been paid or set aside for the holders of all series of Preferred Securities the full preferential amounts to which such holders are entitled, the holders of Common Securities will be entitled to share equally and ratably in any assets remaining.

Preferred Securities

Subject to limitations prescribed by Delaware law and the Company's Charter, the Board of Directors or, if then constituted, a duly authorized committee thereof is authorized to issue, from the authorized but unissued Capital Stock of the Company, Preferred Securities in such series as the Board of Directors may determine and to establish, from time to time, the number of shares of Preferred Securities to be included in any such series and to fix the designation and any preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the securities of any such series, and such other subjects or matters as may be fixed by resolution of the Board of Directors; provided that the Company's Charter precludes the issuance of any Senior Securities or Preferred Securities that rank on a parity with the Offered Securities as to dividends or as to rights upon dissolution, liquidation or winding up of the Company but not both.

Preferred Securities, upon issuance against full payment of the purchase price therefor, will be fully paid and nonassessable. The specific terms of a particular series of Preferred Securities will be described in the Certificate of Designation to be incorporated into the Company's Charter relating to that series, except in the case of shares of Offered Securities where the terms thereof are being described in the Company's Charter.

A Certificate of Designation relating to each series of Preferred Securities will set forth the preferences and other terms of such series, including without limitation the following: (1) the title and stated value of such series; (2) the number of securities of such series offered and the liquidation preference per share of such series; (3) the dividend rate(s), period(s), and/or payment date(s) or method(s) of calculation thereof applicable to such series; (4) whether such class or series of Preferred Securities is noncumulative or not and, if cumulative, the date from which dividends on such series shall accumulate; (5) the provision for a sinking fund, if any, for such series; (6) the provision for redemption, if applicable, of such series; (7) any voting rights of such series; (8) the relative ranking and preferences of such series as to dividend rights and rights upon dissolution, liquidation or winding up of the affairs of the Company; (9) any limitations on issuance of any series of Preferred Securities ranking senior to or on a parity with such series of Preferred Securities as to dividend rights and rights upon dissolution, liquidation or winding up of the affairs of the Company; and (10) any other specific terms, preferences, rights, limitations or restrictions of such series.

Information

The Charter will provide that, for so long as any Offered Securities are outstanding, the Company will furnish to holders and beneficial owners of Offered Securities and to prospective purchasers designated by such holders upon request the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act to permit compliance with Rule 144A in connection with resales of Offered Securities.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the principal U.S. federal income tax consequences of the purchase, ownership and disposition of Offered Securities and is based upon the advice of Davis Polk & Wardwell, special tax counsel to the Company. The summary addresses only the tax consequences to a person that acquires Offered Securities on their original issue at their original offering price and that holds the Offered Securities as a capital asset. It does not address all tax consequences that may be relevant to a beneficial owner of Offered Securities (a "Preferred Securityholder"), nor does it address the tax consequences to (i) persons that may be subject to special treatment under U.S. federal income tax law, such as banks, insurance companies, regulated investment companies, real estate investment trusts and dealers in securities or currencies or (ii) persons that will hold Offered Securities as part of a larger transaction, such as a position in a "straddle" or as part of a "hedging" or "conversion" transaction. The summary is based upon the Internal Revenue Code of 1986, as amended, Treasury regulations, Internal Revenue Service rulings and pronouncements and judicial decisions as of the date hereof, all of which are subject to change (possibly with retroactive effect).

PROSPECTIVE INVESTORS ARE ADVISED TO CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OFFERED SECURITIES, AS WELL AS THE EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS.

In purchasing the Offered Securities, each Preferred Securityholder agrees with the Bank, SBTC, Sumitomo Leasing, and the Company that the Bank, SBTC, Sumitomo Leasing, the

Company and the Preferred Securityholders will treat the Preferred Securityholders as holders of the Series A Preferred Securities in the Company for all purposes, and not as the holders of an interest in the Bank, SBTC, Sumitomo Leasing or any other person.

U.S. Holders

Income from the Offered Securities

The Company will be treated as a partnership for U.S. federal income tax purposes. A partnership is not a taxable entity and incurs no U.S. federal income tax liability, but each partner is required to take into account the partner's distributive share of items of income, gain, loss and expense of the partnership in computing the partner's U.S. federal income tax liability, regardless of whether distributions are made to the partner. Accordingly, a Preferred Securityholder that is a U.S. Holder, as defined below, will be required to include in income the Preferred Securityholder's distributive share of each item of gain or income of the Company as if such item were realized directly from the same source from which it is realized by the Company, and will be treated as having incurred the Preferred Securityholder's distributive share of each item of loss or expense of the Company as if such item were incurred by the Preferred Securityholder directly in the same manner in which it is incurred by the Company. The Company intends to treat payments of interest by the Bank under the Credit-Linked Note as income derived from sources outside the United States. A "U.S. Holder" is (i) an individual citizen or resident of the United States, (ii) a corporation or partnership organized in or under the laws of the United States or any state thereof or the District of Columbia or (iii) an estate or trust the income of which is subject to U.S. federal income tax regardless of source.

Under the Company's Charter, except as set forth below, the net income of the Company (determined without regard to gains or losses arising from the disposition by the Company of its assets) will be allocated pro rata to the Preferred Securityholders on a daily basis in an aggregate amount during each Dividend Period not in excess of the amount of dividends paid on the Offered Securities on the Dividend Payment Date on which such Dividend Period ends. If no dividends are paid on the Offered Securities during a Dividend Period (which would occur if the Dividend Payment Date on which such Dividend Period ends is not a Mandatory Dividend Payment Date and either the Class A Common Securityholder has delivered a No Dividend Instruction with respect to such Dividend Payment Date or such Dividend Payment Date falls within a Supervisory Period), no allocations will be made to Preferred Securityholders with respect to such Dividend Period. Any net income of the Company in excess of the amount allocable to the Preferred Securityholders, and all gains or losses arising from the disposition by the Company of its assets, will be allocated to the holders of the Common Securities. Regardless of when dividends are actually paid, all amounts allocated to a Preferred Securityholder will be includable by the Preferred Securityholder for the Preferred Securityholder's taxable year that includes December 31 of the calendar year in which they are allocated, except that if the Preferred Securityholder disposes of the Preferred Securityholder's entire holding of Offered Securities, amounts allocated to the Preferred Securityholder for the calendar year of such disposition will be includable by the Preferred Securityholder for the Preferred Securityholder's taxable year that includes the date of such disposition.

Under the Company's Charter, in the event of the redemption of the Offered Securities or the liquidation of the Company the net income of the Company for the year in which such redemption or liquidation occurs allocated to a Preferred Securityholder will include an amount equal to the difference, if any, between the amount received by such Preferred Securityholder (net of any amount received in respect of dividends) and such Preferred Securityholder's capital account (which is expected to be equal, after taking into account prior allocations and dividends, to the Offered Securities Offering Price). In the event that the net income of the Company available for allocation is less than such amount, the Company's Charter provides that a Preferred Securityholder will be treated as having been entitled to receive a "guaranteed payment," within the meaning of Section 707(c) of the Code, in an amount equal to such difference, which amount will constitute ordinary income to the Preferred Securityholder. Although there is no authority directly on point with respect to the foregoing, the Company intends to treat a Preferred Securityholder as not realizing any income in respect of the difference between the liquidation preference of the Offered Securities and the Offered Securities Offering Price until the year in which the Offered Securities are redeemed or the Company is liquidated.

No portion of the income derived by a U.S. Holder from the Offered Securities will be eligible for the dividends-received deduction generally available to domestic corporations.

In the case of a U.S. Holder that is a tax-exempt employee's pension trust or other domestic tax-exempt entity, the U.S. Holder's distributive share of the Company's net income generally will not constitute "unrelated business taxable income" unless the U.S. Holder has borrowed to acquire or carry the Offered Securities. Under the Company's Charter, the Company is prohibited from incurring indebtedness that would subject any Preferred Securityholder to tax on "unrelated business taxable income".

The Bank does not believe that it will be treated as a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes. Because the Credit-Linked Note will be treated as an equity interest in the Bank for U.S. federal income tax purposes and a U.S. Holder's distributive share of the income of the Company will include a portion of the amounts earned by the Company on the Credit-Linked Note, a U.S. Holder might be subject to special rules with respect to certain amounts earned by the Company with respect to the Credit-Linked Note if the Bank is treated as a PFIC for United States federal income tax purposes.

Disposition of Offered Securities

A U.S. Holder will recognize gain or loss on a sale, exchange or other disposition of Offered Securities (including the receipt of a distribution of cash in redemption of all of a U.S. Holder's Offered Securities) in an amount equal to the difference between the U.S. Holder's adjusted tax basis in the Offered Securities and the amount realized on the disposition of such Offered Securities. In the case of a distribution in partial redemption of a U.S. Holder's Offered Securities, no loss will be recognized, the U.S. Holder's tax basis in the Offered Securities will be reduced by the amount of the distribution and the U.S. Holder will recognize gain to the extent, if any, that the amount of cash received in the distribution exceeds the U.S. Holder's tax basis in the Offered Securities. A U.S. Holder's adjusted tax basis in Offered Securities generally will equal the amount paid for the Offered Securities, increased by the amount of income allocated to such U.S. Holder and reduced by the amount of any cash or other property distributed to such U.S. Holder by the Company. Any gain or loss so recognized generally will be capital gain or loss. Prospective investors should consult their own tax advisors in this regard concerning the treatment of capital gains and losses.

The Offered Securities may trade at a price that does not fully reflect the value of accrued but unpaid income that may be allocated to the Preferred Securityholders with respect to such Offered Securities. A Preferred Securityholder who disposes of Offered Securities between record dates for payments of dividends thereon will nevertheless be required to include its share of any accrued but unpaid income of the Company allocated to the Preferred Securityholder with respect to such Offered Securities through the date of disposition thereof and to add such amount to the Preferred Securityholder's adjusted tax basis in such Offered Securities. Accordingly, such a Preferred Securityholder will recognize a capital loss to the extent the selling price (which may not fully reflect the value of accrued but unpaid income of the Company allocated to the Preferred Securityholder with respect to such Offered Securities) is less than the Preferred Securityholder's adjusted tax basis (which will include accrued but unpaid income of the Company allocated to the Preferred Securityholder with respect to such Offered Securities). Subject to certain limited exceptions, capital losses cannot be applied to offset ordinary income for U.S. federal income tax purposes.

Certain Non-U.S. Holders

The Company intends to operate so that it will not be engaged in the conduct of a U.S. trade or business for United States federal income tax purposes. Moreover, the Company intends to invest in securities the income from which will be either generally exempt from United States federal withholding tax or exempt from United States federal withholding tax to the extent allocable to a Preferred Securityholder that establishes that it is not a U.S. Holder (a "Non-U.S. Holder"). A Non-U.S. Holder establishes its status as a Non-U.S. Holder for this purpose by providing a statement signed under penalties of perjury that includes its name and address and certifies that it is a Non-U.S. Holder in compliance with applicable requirements. Providing the certification requirement is met, a Non-U.S. Holder will not be subject to U.S. federal income tax, or withholding tax, on any portion of its distributive share of the Company's income or gain, or on gain realized by the Non-U.S. Holder on the sale or exchange of the Offered Securities, unless (i) such income or gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States or (ii) in the case of gain realized by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the United States for 183 days or more in the taxable year in which the gain is realized and certain other conditions are met.

Company Information Returns

The Company will furnish each Preferred Securityholder or, if Offered Securities are held by a nominee or custodian that does not comply with the requirements described in the next paragraph, such nominee or custodian with a Schedule K-1 each year setting forth such Preferred Securityholder's allocable share of income, gain, loss, deduction or credit for the prior calendar year. The Company is required to furnish such Schedule K-1 as soon as practicable following the end of the year, but in any event prior to March 31. Copies of each Schedule K-1 will be provided to the U.S. Internal Revenue Service (the "IRS").

Any person who holds Offered Securities as a nominee for another person is required to furnish to the Company (a) the name, address and taxpayer identification number of such person and the nominee; (b) notice of whether such person is (i) a person who is not a United States person, (ii) a foreign government, an international organization or any wholly owned agency or instrumentality of either of the foregoing or (iii) a tax-exempt entity; (c) the amount and description of the Offered Securities held, acquired or transferred for such person; and (d) certain information including the dates of acquisitions and transfers, methods of acquisition and the costs thereof, as well as net proceeds from transfers. Brokers and financial institutions are required to furnish additional information, including whether they are a United States person and certain information on the Offered Securities they acquire, hold or transfer for their own account. A penalty of $50 is imposed for each failure to report the above information to the Company, up to a maximum of $100,000 per calendar year for all failures.

Information Reporting and Backup Withholding Tax

The amount of income paid or accrued on the Offered Securities will be reported to the IRS. "Backup" withholding at a rate of 31% will apply to payments made to a U.S. Holder (other than a corporation or and other exempt U.S. Holder) unless the U.S. Holder furnishes its taxpayer identification number in the manner prescribed in applicable Treasury Regulations, certifies that such number is correct, certifies as to no loss of exemption from backup withholding and meets certain other conditions. A Non-U.S. Holder will be exempt from backup withholding provided that certain certification requirements are satisfied.

Payment of the proceeds from the disposition of Offered Securities to or through the United States office of a broker is subject to information reporting and backup withholding unless the Preferred Securityholder establishes an exemption from information reporting and backup withholding.

Any amounts withheld from a Preferred Securityholder under the backup withholding rules will be allowed as a refund or a credit against such Preferred Securityholder's United States federal income tax liability, provided the required information is furnished to the IRS.

The United States Treasury has recently issued regulations regarding the backup withholding and information reporting rules discussed above. These regulations generally will apply to payments made after December 31, 1998. In general, the regulations do not alter the substantive withholding and information reporting requirements but coordinate current certification procedures and forms and modify the standards for relying on certain information.

CERTAIN ERISA CONSIDERATIONS

General

The fiduciary standards of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), should be considered by each fiduciary of a pension, profit-sharing or other employee benefit plan subject to Title I of ERISA (a "Plan") in the context of the Plan's particular circumstances before authorizing an investment in shares of Offered Securities. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit Plans, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Code (also "Plans"), from engaging in certain transactions involving "plan assets" with persons who are "parties in interest" under ERISA or "disqualified persons" under the Code ("Parties in Interest") with respect to such Plan. A violation of these "prohibited transaction" rules may result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption. Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(4) of ERISA) are not subject to the requirements of ERISA or Section 4975 of the Code.

Plan Asset Regulation

Under a regulation (the "Plan Assets Regulation") issued by the United States Department of Labor (the "DOL"), the assets of the Company would be deemed to be "plan assets" of a Plan for purposes of ERISA and Section 4975 of the Code if "plan assets" of the Plan were used to acquire an equity interest in the Company and no exception were applicable under the Plan Assets Regulation. An "equity interest" is defined under the Plan Assets Regulation as any interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features and specifically includes a beneficial interest in a trust.

Pursuant to an exception contained in the Plan Assets Regulation, the assets of the Company would not be deemed to be "plan assets" of investing Plans if, immediately after the most recent acquisition of any equity interest in the Company, less than 25% of the value of each class of equity interests in the Company were held by Plans, other employee benefit plans not subject to ERISA or Section 4975 of the Code (such as governmental, church and foreign plans), and entities holding assets deemed to be "plan assets" of any Plan (collectively, "Benefit Plan Investors"). No assurance can be given that the value of Offered Securities held by Benefit Plan Investors will be less than 25% of the total value of the Offered Securities at the completion of the initial offering or thereafter, and no monitoring or other measures will be taken with respect to the satisfaction of the conditions to this exception. All of the shares of Common Securities will be purchased and held by the Common Securityholders.

Prohibited Transactions

Certain transactions involving the Company could be deemed to constitute direct or indirect prohibited transactions under ERISA and Section 4975 of the Code with respect to a Plan if Offered Securities were acquired with "plan assets" of such Plan and assets of the Company were deemed to be "plan assets" of Plans investing in the Company. For example, if the Bank is a Party in Interest with respect to an investing Plan (either directly or by reason of its ownership of its banking or other subsidiaries), the sale of the Credit-Linked Securities by the Branch to the Company may be prohibited by Section 406(a)(1) of ERISA and Section 4975(c)(1) of the Code, unless exemptive relief were available under an applicable administrative exemption (see below).

The DOL has issued five prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of Offered Securities, assuming that assets of the Company were deemed to be "plan assets" of Plans investing in the Company. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts), and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers).

Because Offered Securities may be deemed to be equity interests in the Company for purposes of applying ERISA and Section 4975 of the Code, Offered Securities may not be purchased or held by any Plan, any entity whose underlying assets include "plan assets" by reason of any Plan's investment in the entity (a "Plan Asset Entity") or any person investing "plan assets" of any Plan, unless such purchaser or holder is eligible for the exemptive relief available under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14. Any purchaser or holder of Offered Securities or any interest therein will be deemed to have represented by its purchase and holding thereof that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such securities on behalf of or with "plan assets" of any Plan or (b) the purchase and holding of such securities is exempt under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14. See "Notice to Investors" herein.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing Offered Securities on behalf of or with "plan assets" of any Plan consult with their counsel regarding the potential consequences if the assets of the Company were deemed to be "plan assets" and the availability of exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14.

BOOK-ENTRY ISSUANCE

Offered Securities offered and sold to qualified institutional buyers in reliance on Rule 144A initially will be represented by one or more certificates in registered, global form (collectively, the "Restricted Global Certificates"). Offered Securities offered and sold outside of the United States in reliance on Regulation S under the Securities Act will be issued in the form of one or more temporary global certificates (the "Regulation S Temporary Global Certificates"). Beneficial interests in the Regulation S Temporary Global Certificates will be exchanged for beneficial interests in permanent global certificates (the "Regulation S Permanent Certificates" and, together with the Regulation S Temporary Certificates, the "Regulation S Global Certificates") upon the later of (i) the 40th day after the later of the commencement of the offering and the issue date of the Offered Securities (the "Restricted Period") and (ii) the first date on which the requisite certifications are provided to the registrar as described under "— Payments; Certifications by Holders of Regulation S Temporary Certificates". Regulation S Global Certificates together with Restricted Global Certificates are referred to herein as the "Global Certificates".

The Global Certificates will be deposited upon issuance with the custodian for DTC, in New York, New York, and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant in DTC as described below. Beneficial interests in the Restricted Global Certificates may not be exchanged for beneficial interests in the Regulation S Global Certificates at any time except in the limited circumstances described below. See "— Exchanges between Regulation S Certificates and Restricted Certificates".

Except as set forth below, the Global Certificates may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Certificates may not be exchanged for Offered Securities in certificated form except in the limited circumstances described below. See "Exchange of Book-Entry Shares for Certificated Shares".

Offered Securities (including beneficial interests in the Restricted Global Certificates) will be subject to certain restrictions on transfer and (other than Regulation S Global Certificates) will bear a restrictive legend as described under "Notice to Investors". In addition, transfer of beneficial interests in the Global Certificates will be subject to the applicable rules and procedures of DTC and its direct or indirect participants, which may change from time to time.

Depositary Procedures

DTC has advised the Company that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the "Participants") and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the Initial Purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the "Indirect Participants"). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interest and transfer of ownership interest of each actual purchaser of each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised the Company that, pursuant to procedures established by it, (i) upon deposit of the Global Certificates, DTC will credit the accounts of Participants designated by the Initial Purchasers with portions of the principal amount of the Global Certificates and (ii) ownership of such interests in the Global Certificates will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interests in the Global Certificates).

Investors in the Global Certificates may hold their interests therein directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system. All interests in a Global Certificate may be subject to the procedures and requirements of DTC. The laws of some states require that certain persons take physical delivery in certificated form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Certificate to such persons will be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants and certain banks, the ability of a person having beneficial interests in a Global Certificate to pledge such interests to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests. For certain other restrictions on the transferability of the Offered Securities, see "— Exchange of Book-Entry Shares for Certificated Shares" and "— Exchanges Between Regulation S Certificates and Restricted Certificates" below.

Except as described below, owners of interests in the Global Certificates will not have Offered Securities registered in their name, will not receive physical delivery of Offered Securities in certificated form and will not be considered the registered owners or holders thereof for any purpose.

Payments in respect of the Global Certificate registered in the name of DTC or its nominee will be payable by Sumitomo Bank of New York Trust Company to DTC in its capacity as the registered holder. Sumitomo Bank of New York Trust Company will treat the persons in whose names Offered Securities, including the Global Certificates, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever. Consequently, neither the Company nor the Bank nor any agent thereof has or will have any responsibility or liability for (i) any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interests in the Global Certificates, or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Certificates or (ii) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants. DTC has advised the Company that its current practice, upon receipt of any payment in respect of securities such as the Offered Securities, is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Payments by the Participants and the Indirect Participants to the beneficial owners of Offered Securities will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Bank or the Company. The Company and Sumitomo Bank of New York Trust Company may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Interests in the Global Certificates will trade in DTC's Settlement System and secondary market trading activity in such interests will therefore settle in immediately available funds, subject in all cases to the rules and procedures of DTC and its Participants.

Transfers between Participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds.

DTC has advised the Company that it will take any action permitted to be taken by a holder of Offered Securities only at the direction of one or more Participants to whose account with DTC interests in the Global Certificates are credited. However, DTC reserves the right to exchange the Global Certificates for legended shares of Offered Securities in certificated form and to distribute such Offered Securities to its Participants.

The information in this section concerning DTC and its book-entry systems has been obtained from sources that the Company believes to be reliable, but the Company takes no responsibility for the accuracy thereof.

Although DTC has agreed to the foregoing procedures to facilitate transfers of interest in the Regulation S Global Certificates and in the Restricted Global Certificates among participants in DTC, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Company nor the Bank will have any responsibility for the performance by DTC, or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Book-Entry Shares for Certificated Shares

A Global Certificate is exchangeable for Offered Securities in registered certificated form if (i) DTC (x) notifies the Company that it is unwilling or unable to continue as Depositary for the Global Certificate and the Company thereupon fails to appoint a successor Depositary or (y) has ceased to be a clearing agency registered under the Exchange Act or (ii) the Company in its sole discretion elects to cause the issuance of Offered Securities in certificated form. In all cases, certificated Offered Securities delivered in exchange for any Global Certificate or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the Depositary (in accordance with its customary procedures) and will bear, in the case of the Restricted Global Certificate, the restrictive legend referred to in "Notice to Investors".

Exchanges Between Regulation S Certificates and Rule 144A Certificates

Through and including the 40th day after the later of the commencement of the Offering and the issue date of the Offered Securities (the "Restricted Period"), beneficial interests in the Regulation S Global Certificate may be exchanged for beneficial interests in the Restricted Global Certificate only if such exchange occurs in connection with a transfer of the Offered Securities pursuant to Rule 144A and the transferor first delivers to the registrar a written certificate to the effect that the Offered Securities are being transferred to a person who the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act, purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in the Restricted Global Certificates may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificates, whether before or after the expiration of the Restricted Period, only if the transferor first delivers to the registrar a written certificate to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S.

Transfers involving an exchange of a beneficial interest in the Regulation S Global Certificate for a beneficial interest in the Restricted Global Certificate or vice versa will be affected in DTC by means of an instruction originated by the registrar through the DTC Deposit/Withdraw at Custodian ("DWAC") system.

Any beneficial interest in one of the Global Certificates that is transferred to a person who takes delivery in the form of an interest in the other Global Certificate will, upon transfer, cease to be an interest in such Global Certificate and will become an interest in the other Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interest in such other Global Certificate for so long as it remains such an interest.

Payments; Certifications by Holders of the Regulation S Temporary Global Certificate

On or after the expiration of the Restricted Period, a certificate must be provided by or on behalf of a holder of a beneficial interest in a Regulation S Temporary Global Certificate to the registrar (or the paying agent if other than the registrar), certifying that the beneficial owner of the interest in such Regulation S Temporary Global Certificate is not a U.S. Person. Unless such certificate is provided, (i) the holder of such beneficial interest will not receive any payments of dividends, redemption price or any other payment with respect to such holder's beneficial interest in the Regulation S Temporary Global Certificate, (ii) such beneficial interest may not be exchanged for a beneficial interest in a Regulation S Permanent Global Certificate and (iii) settlement of trades with respect to such beneficial interest will be suspended. In the event that any holder of a beneficial interest in such Regulation S Temporary Global Certificate fails to provide such certificate, settlements of trades of all beneficial interests in such Regulation S Temporary Global Certificate may be temporarily suspended.

OFFER AND RESALE

Subject to the terms and conditions set forth in the Purchase Agreement among the Bank, the Company and each of the initial purchasers named below (the "Initial Purchasers"), the Bank and the Company have agreed that the Company will sell to each of the Initial Purchasers, and each of the Initial Purchasers has agreed to purchase from the Company, by initial liquidation preference, Offered Securities set forth opposite its name below:

Initial Purchasers	Amount of Offered Securities
Goldman, Sachs & Co.	$ 1,170,000,000
Lehman Brothers Inc.	630,000,000
Total	$ 1,800,000,000

Under the terms and conditions of the Purchase Agreement, the Initial Purchasers are committed to take and pay for all shares of Offered Securities offered hereby, if any are taken.

The purchase price for the Offered Securities will be the initial offering price therefor set forth on the cover page of this Offering Circular (the "Offered Securities Offering Price") less an underwriting discount of $10.00 per Offered Security. The Initial Purchasers propose to offer shares of Offered Securities at the Offered Securities Offering Price. After the Offered Securities are released for sale, the Offered Securities Offering Price, and other selling terms may from time to time be varied by the Initial Purchasers. The Company has agreed to reimburse the Initial Purchasers for certain expenses of the Offering.

Each Initial Purchaser has agreed that it will offer or sell Offered Securities only to persons whom it reasonably believes are QIBs in domestic transactions within the meaning of and in reliance on Rule 144A and through their international selling agents in offshore transactions in reliance on Regulation S. Each purchaser of Offered Securities offered hereby in making its purchase will be deemed to have made certain representations, warranties and agreements as set forth under "Notice to Investors". Terms used above have the meanings given to them by Rule 144A and Regulation S under the Securities Act.

The Company has not been registered under the 1940 Act and Offered Securities have not been registered under the Securities Act, and may not be offered or sold except in certain transactions exempt from the registration requirements of the 1940 Act and the Securities Act. See "Notice to Investors".

Each Initial Purchaser has acknowledged and agreed that (a) it has not offered or sold and prior to the six months after the date of issue of the Offered Securities will not offer or sell any Offered Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (b) it has complied and will comply, with all applicable provisions of the Financial Services Act of 1986 of Great Britain with respect to anything done by it in relation to the Offered Securities in, from or otherwise involving the United Kingdom, and (c) it has issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issuance of the Offered Securities to a person who is of a kind described in Article 11(3) of the Financial Services Act of 1986 (Investment Advertisements) (Exemptions) Order 1996 of Great Britain or is a person to whom the document may otherwise lawfully be issued or passed on.

Each Initial Purchaser has acknowledged and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, in Japan or to or for the account of any resident thereof, any of the Offered Securities except pursuant to any exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan. Each Initial Purchaser has further agreed to send to any dealer who purchases from it any of the Offered Securities a notice stating in substance that, by purchasing such Offered Securities, such dealer represents and agrees that it has not offered or sold, and will not offer or sell, any of such Offered Securities, directly or indirectly, in Japan or to or for the account of any resident thereof except pursuant to any exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan, and that such dealer will send to any other dealer to whom it sells any of such Offered Securities a notice containing substantially the same statement as is contained in this sentence.

The Offered Securities are a new issue of securities with no established trading market. The Bank and the Company have been advised by the Initial Purchasers that they currently intend to make a market in Offered Securities. However, the Initial Purchasers are not obligated to do so and any such market making activity will be subject to the limits imposed by applicable law and may be interrupted or discontinued at any time without notice. See "Investment Considerations — No Prior Market for Offered Securities; Resale Restrictions".

In connection with the Offering, the Initial Purchasers may purchase and sell Offered Securities in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the Initial Purchasers, and the imposition of a penalty bid, in connection with the Offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Offered Securities; and short positions created by the Initial Purchasers involve the sale by the Initial Purchasers of a greater number of Offered Securities than they are required to purchase from the Company in the Offering. The Initial Purchasers also may impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the Offered Securities sold in the Offering may be reclaimed by the Initial Purchasers if such Offered Securities are repurchased by the Initial Purchasers in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Offered Securities, which may be higher than the price that might otherwise prevail in the open market; and these activities, if commenced, may be discontinued at any time. These transactions may be effected in the over-the-counter market or otherwise.

The Bank and the Company have agreed, from the date of the Purchase Agreement and continuing until the date 30 days after the time of delivery for the Offered Securities, not to offer, sell, contract to sell or otherwise dispose of, except as provided hereunder, securities of the Company or any other entity voting control of which are held by the Bank or the Company that are substantially similar to the Offered Securities without the prior written consent of the Initial Purchasers.

The Bank and the Company have agreed to indemnify the Initial Purchasers and certain other persons against certain liabilities, including liabilities under the Securities Act.

Certain of the Initial Purchasers or their affiliates have provided from time to time, and expect to provide in the future, investment services to the Bank and its affiliates, for which such Initial Purchasers or their affiliates have received or will receive customary fees and commissions. A subsidiary of the Bank is a limited partner in Goldman, Sachs & Co. and in The Goldman Sachs Group, L.P., the parent company of Goldman, Sachs & Co.

CERTAIN LEGAL MATTERS

Certain matters of Delaware law relating to the validity of the Offered Securities and the formation of the Company will be passed upon by Richards, Layton & Finger, P.A., special Delaware counsel to the Company. The validity of the Offered Securities and the validity of the Credit-Linked Note will be passed upon for the Company by Davis Polk & Wardwell, New York, New York. The validity of the Offered Securities and the validity of the Credit-Linked Note will be passed upon for the Initial Purchasers by Sullivan & Cromwell, New York, New York. Davis Polk & Wardwell and Sullivan & Cromwell will rely upon the opinion of Richards, Layton & Finger, P.A. as to matters of Delaware law and the opinion of Tanaka & Takahashi, Japanese counsel to the Bank and Nagashima & Ohno, Japanese counsel to the Initial Purchasers, respectively, as to matters of Japanese law. Certain matters relating to federal income tax considerations will be passed upon for the Company by Davis Polk & Wardwell.

GLOSSARY

"*Adjusted Treasury Rate*" means, with respect to any Special Event Redemption Date, the Treasury Rate plus 1.90% until February 18, 1999 and (ii) .50% thereafter.

"*Administration Agreement*" means the Administration Agreement between the Company and the Branch described under "Business and Strategy – Employees and Administration Agreement".

"*Administrative Action*" means any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) by any court, governmental authority or regulatory body having appropriate jurisdiction.

"*Anti-Monopoly Law*" means the Law relating to Prohibition of Private Monopoly and Maintenance of Fair Trade.

"*Applicable Interest Rate*", as of any time, means the sum of (i) the Reference Security Rate at such time plus (ii) the Applicable Margin.

"*Applicable Margin*" means (x) through June 27, 2008, 3.30%, and (y) thereafter, 4.80%.

"*ATMs*" means automated teller machines.

"*Bank*" means The Sumitomo Bank, Limited, an international bank organized under the laws of Japan.

A "*Bankruptcy Event*" shall be deemed to occur: (i) upon the occurrence of a Liquidation Event; (ii) if a competent court in Japan shall have (a) adjudicated the commencement of the corporate reorganization proceeding (*kaisha kosei*) of the Bank under the Japanese Corporate Reorganization Law (Law No. 172 of 1952, as amended), (b) adjudicated the commencement of the rehabilitation of corporation proceeding (*kaisha seiri*) of the Bank under the Commercial Code of Japan (Law No. 48 of 1899, as amended), (c) adjudicated the commencement of the composition proceeding (*wagi*) of the Bank under the Composition Law of Japan (Law No. 72 of 1922 as amended), or (d) dispatched to creditors convocation notices of creditors meetings for the compromise (*kyosei-wagi*) pursuant to the provisions of the Japanese Bankruptcy Law (Law No. 71 of 1922); or (iii) upon the taking of possession by the Superintendent of Banks of the State of New York of the business and properties of the Bank in the State of New York pursuant to Section 606.4 of the New York Banking Law.

"*Beneficial Owner*" means each actual purchaser of Offered Securities whose ownership interest is recorded on the Participants' or Indirect Participants' records.

"*Benefit Plan Investors*" means Plans, other employee benefit plans not subject to ERISA or Section 4975 of the Code (such as governmental, church and foreign plans), and entities holding assets deemed to be "plan assets" of any Plan.

"*BHCA*" means the Bank Holding Company Act of 1956.

"*BIS*" means the Bank for International Settlements.

"*Board of Directors*" means the board of directors of the Company.

"*BoJ*" means The Bank of Japan.

"*Branch*" means the New York Branch of the Bank.

"*business day*" means a day on which banks are open for dealing in foreign currency and exchange in London and New York City.

"*Business Day*", for purposes of determining the Make-Whole Amount, means a day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in The City of New York are authorized or required by law or executive order to remain closed.

"*Capital & Reserves*", with respect to a bank, means such bank's non-consolidated paid-up capital and reserves (including reserves for possible loan losses and retirement allowances).

"*Capital Event*" means the determination by the Bank after consultation with the Ministry of Finance that the Offered Securities are not includable in Tier I capital of the Bank on a consolidated basis.

"*Capital Ratio Certificate*" means a certificate, delivered by the Bank to the Company not later than the tenth Business Day after each date on which the Bank first releases its audited annual financial statements or its semi-annual financial statements (whether audited or unaudited), setting forth the Bank's total risk-based capital ratio and Tier I risk-based capital ratio, calculated on a consolidated basis, as of the date of the balance sheet included in such financial statements.

"*capital stock*", with respect to the Bank, means the common stock and the preferred stock of the Bank and with respect to the Company, means the Common Securities and the Preferred Securities.

"*CCPC*" means the Cooperative Credit Purchasing Company, Limited.

"*Challenge 21 Project*" means the three-year management reform plan adopted by the Bank and expected to be completed in the fiscal year ending March 31, 1999.

"*Change 100*" means the three-year management reform plan adopted by the Bank in April 1993 and completed during the fiscal year ended March 31, 1996.

"*Charter" and "Company's Charter*" mean the Amended and Restated Limited Liability Company Agreement of the Company, as amended and restated as of the date of issuance of Offered Securities.

"*Class A Common Securities*" means the Class A common limited liability company interests in the Company.

"*Class A Common Securityholder*" means the holder of the Class A Common Securities which will initially be SBTC, Inc., a newly-formed wholly-owned U.S. subsidiary of the Bank.

"*Class B Common Securities*" means the Class B common limited liability company interests in the Company.

"*Class B Common Securityholder*" means the holder of the Class B Common Securities which will initially be Sumitomo Bank Leasing and Finance, Inc., an existing U.S. subsidiary of the Bank engaged in the leasing business.

"*Closing Date*" means the date of first issuance of shares of Offered Securities.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Commission*" means the United States Securities and Exchange Commission.

"*Committee*" means the Basle Committee on Banking Regulations and Supervisory Practices.

"*Common Securities*" means the Class A Common Securities and the Class B Common Securities.

"*Common Securityholders*" means the Class A Common Securityholder and the Class B Common Securityholder.

"*Company*" means SB Treasury Company L.L.C., a Delaware limited liability company.

"*Comparable Treasury Issue*" means, with respect to any Special Event Redemption Date, the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the Initial Dividend Payment Period that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the Initial Dividend Payment Period. If no United States Treasury security has a maturity which is within a period from three months before to three months after the Dividend Payment Date in June 2008, the two most closely corresponding United States Treasury securities shall be used as the Comparable Treasury Issue, and the Treasury Rate shall be interpolated or extrapolated on a straight-line basis, rounding to the nearest month using such securities.

"*Comparable Treasury Price*" means (A) the average of five Reference Treasury Dealer Quotations for such Special Event Redemption Date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Quotation Agent obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such Quotations.

"*Composition Law of Japan*" means the composition law of Japan, Law No. 72 of 1922, as amended.

"*Conditions for Liquidation Payment*" means either of the following conditions: (i) in the case of liquidation (including special liquidation and liquidation following the closure of bankruptcy procedure) of the Bank, all Senior Debt of the Bank held by creditors of the Bank entitled to payment or satisfaction prior to commencement of distribution of residual assets to shareholders is paid or otherwise satisfied in full pursuant to the provisions of the Japanese Commercial Code (Law No. 48 of 1899, as amended); or (ii) in the case of corporate reorganization of the Bank where a decree of approbation of a corporate reorganization plan for liquidation of the Bank becomes final and conclusive under the Japanese Corporate Reorganization Law (Law No. 172 of 1952, as amended), all Senior Debt of the Bank appearing in such plan at the date such decree has become final and conclusive is paid or otherwise satisfied in full.

"*Credit-Linked Note*" means a perpetual $2,270,000,000 Note issued by the Branch that will generate net income for distribution to the holders of Offered Securities and the Company's Common Securities.

"*credit risk equivalent amount*" means the current replacement cost, or potential cost to the Bank of replacing the cash flow at a particular point in time in the event of a default.

"*Daiwa Bank*" means The Daiwa Bank, Limited.

"*Daiwa Bank U.S.*" means the U.S. affiliates of The Daiwa Bank, Limited.

"*Deposit Insurance Corporation*" or "*DIC*" means the Deposit Insurance Corporation of Japan.

"*Dividend Payment Date*" means the last day of June and of December each year (or, if any such day is not a business day, the preceding business day), commencing June 30, 1998.

"*Dividend Period*" means each semi-annual dividend period commencing on and including the first day, and ending on and including the last day, of the period in which the corresponding Dividend Payment Date occurs except with respect to the Initial Dividend Period.

"*dividends*" means distributions on the Offered Securities.

"*DOL*" means the United States Department of Labor.

"*DTC*" means The Depository Trust Company.

"*Eligible Investments*" means, pursuant to the Investment Policies, the assets or investments which the Company may hold and consist of the Credit-Linked Note, U.S. Treasury securities and freely transferable commercial paper rated at least "A-1" by Standard & Poor's Ratings Group or "P-1" by Moody's Investors Services, Inc.

"*equity interest*", as defined in the Plan Assets Regulation, means any interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features and specifically includes a beneficial interest in trust.

"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended.

"*event of default*" or "*default*", with respect to the Credit-Linked Note, means the failure of the Branch to make an interest payment on the Credit-Linked Note on an interest payment date thereunder when the obligor under the Reference Security is current (or deemed current with respect to a Reference Security that is a synthetic security).

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

"*FBSEA*" means the Foreign Bank Supervision Enhancement Act of 1991.

"*FDICIA*" means the Federal Deposit Insurance Corporation Improvement Act of 1991.

"*Federal Reserve Board*" means the Board of Governors of the U.S. Federal Reserve System.

"*Financial System Reform Law*" means the Financial System Reform law (Law No. 87 of 1992).

"*Foreign Exchange and Foreign Trade Control Law*" means the Foreign Exchange and Foreign Trade Control Law of Japan.

"*Foreign Exchange Law and Regulations*" means the Foreign Exchange and Foreign Trade Control Law and the cabinet orders and ministerial ordinances thereunder.

"*G-10*" means the Group of Ten countries.

"*Global Certificates*" means the Regulation S Global Certificates and the Restricted Global Certificates.

"*Glossary*" means this list of definitions of certain terms used in this Offering Circular and Annex I hereto.

"*Goldman Sachs Group*" means The Goldman Sachs Group, L.P.

"*Group*" or "*Sumitomo Group*" means the Bank and its consolidated subsidiaries and affiliates.

"*Guidelines*" means the capital adequacy guidelines adopted by the MoF applicable to Japanese banks with international operations.

"*HLAC*" means the Housing Loan Administration Corporation.

"*Hyogo Bank*" means The Hyogo Bank, Limited.

"*IBA*" means the International Banking Act of 1978.

"*ICPA*" means the Institute of Certified Public Accountants.

"*Independent Director*" means any member of the Board of Directors who is not a current officer or employee of the Company, the Bank or any affiliate of the Bank or of any other person or persons that, in the aggregate, own more than 50% of the outstanding shares of Common Securities of the Company, or any member of the Board of Directors elected by holders of the Offered Securities and other Parity Securities, voting together as a single class.

"*Indirect Participants*" means securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations that clear through or maintain a custodial relationship with a Participant, either directly or indirectly.

"*Initial Dividend Payment Period*" means the period from the Special Event Redemption Date to the Dividend Payment Date in June 2008.

"*Initial Dividend Period*" means the first Dividend Period, which commences on and includes the original issue date of the Offered Securities and ends on and includes June 30, 1998.

"*Initial Purchasers*" means those initial purchasers to which the Company will sell the Offered Securities pursuant to the terms of the Purchase Agreement, which initial purchasers are listed under "Offer and Resale".

"*Initial Reference Security*" means the U.S. Treasury security that was issued on August 15, 1997 matures on August 15, 2007 bears interest at the rate per annum of 6⅛%, and had a yield to maturity as of February 6, 1998 of 5.60%.

"*Interest Payment Date*" means the Business Day immediately prior to a Dividend Payment Date on the Offered Securities on which interest on the Credit-Linked Note will be payable.

"*Interest Rate*" means the period commencing on and including an Interest Payment Date and continuing to but not including the next succeeding Interest Payment Date, except that the Initial Interest Period shall commence on and include the date of the Credit-Linked Note and continue to but not include June 29, 1998.

"*Interpolated Six-Month Treasury Rate*" means for a Substitute Reference Security on a Reference Securities Substitution Date, (i) if United States Treasury bills ("Treasury Bills") with a maturity of 182 days (the "Designated Maturity") have been auctioned on the day immediately preceding such Reference Securities Substitution Date (the "Rate Date"), the rate set forth in H.15(519) for such Rate Date opposite the entry for the Designated Maturity under the caption "U.S. Government Securities/Treasury Bills/Auction Average (Investment)" if such rate is published by 10:00 A.M. New York City time on such Reference Securities Substitution Date; (ii) if Treasury Bills of the Designated Maturity have been auctioned on such Rate Date, but by 10:00 A.M. New York city time on such Reference Securities Substitution Date the rate for such Treasury Bills is not yet published in H.15(519), the auction average rate (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) for Treasury Bills of the Designated Maturity as announced by the United States Department of the Treasury for such Rate Date; (iii) if Treasury Bills have not been auctioned on such Rate Date, but have been auctioned within seven days of such Rate Date, the rate set forth in H.15(519) for the date which is closest to such Rate Date opposite the entry for the Designated Maturity under the caption "U.S. Government Securities/Treasury Bills/Auction Average (Investment)"; or (iv) otherwise, the yield to maturity (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the arithmetic mean of the secondary market bid rates of the Reference Treasury Dealers as of approximately 3:30 P.M., New York City time on such Reference Securities Substitution Date for the issue of Treasury Bills with a remaining maturity closest to the Designated Maturity.

"*Investment Company Act Event*" means the receipt by the Company of an opinion of a nationally recognized law firm in the United States experienced in such matters to the effect that there is more than an insubstantial risk that the Company is an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

“*Investment Policies*” means the Company’s initial investment policies established pursuant to the Company’s Charter.

“*Issue Date*” means the issue date of the Series A Preferred Securities.

“*Japan premium*” means the additional risk premium that Japanese financial institutions (including the Bank) and their affiliates must pay to borrow short-term interbank funds in international markets compared with their U.S. and European counterparts.

“*Japanese Banking Law*” means the Banking Law, Law No. 59 of 1981, as amended.

“*Japanese Bankruptcy Law*” means the Japanese Bankruptcy law, Law No. 71 of 1922, as amended.

“*Japanese Commercial Code*” means the Japanese Commercial Code, Law No. 48 of 1899, as amended.

“*Japanese Corporate Reorganization Law*” means the Japanese Corporate Reorganization Law, Law No. 172 of 1952, as amended.

“*Japanese GAAP*” means generally accepted accounting principles in Japan.

“*Junior Securities*” means the Common Securities and all other classes and series of equity securities of the Company now or hereafter issued, other than any class or series of equity securities of the Company expressly designated as being on a parity with the Offered Securities as to dividend rights and rights upon dissolution, liquidation or winding up of the Company.

“*jusen*” means Japanese housing loan companies.

“*LIBOR*” means the arithmetic mean of London interbank offered quotations for Eurodollar deposits with a maturity of six months, determined as described under “Description of Offered Securities – Dividends”.

“*LIBOR Determination Date*” with respect to each Dividend Period, means the second business day before such Dividend Period begins.

“*Liquidation Claim Amount*” means, after the occurrence of a Liquidation Event, the claim of the Company in the liquidation of the Bank resulting from such Liquidation Event as described under “Description of Credit-Linked Note – Subordination; Liquidation Events”.

A “*Liquidation Event*” shall be deemed to occur if a liquidation proceeding under the law of Japan (including the special liquidation proceeding (*tokubetsu seisan*) of the Bank under the Commercial Code of Japan (Law No. 48 of 1899, as amended)) is commenced by or against the Bank or a competent court in Japan shall have (a) adjudicated the Bank to be bankrupt (*hasan*) pursuant to the provisions of the Japanese Bankruptcy Law or (b) approved a preparation of a reorganization plan for liquidation (*seisanteki-kaisha-kosei*) of the Bank pursuant to the provisions of the Japanese Corporate Reorganization Law.

“*Liquidation Parity Securities*” means (i) any preference shares of the Bank ranking most senior in priority of payment as to liquidation distribution and (ii) any Parity Indebtedness;

“*Liquidation Preference Amount*” means the aggregate liquidation preference of the Offered Securities (plus unpaid dividends that have become definitive, in any, and dividends accruing from the Dividend Payment Date most recently occurring prior to occurrence of the Liquidation Event to the date of the Liquidation Event);

"*Loans for financial assistance*" means loans outstanding to customers to which the Bank has provided assistance.

"*Loans to borrowers in legal bankruptcy*" means non-accrual loans to borrowers that are currently the subject of legal action under one or more of the Japanese laws pertaining to bankruptcy, including the Corporate Reorganization Law, the Bankruptcy Law and the Composition Law, and borrowers for whom Bank transactions have been suspended because of non-performance on promissory notes cleared through note exchanges.

"*Make-Whole Amount*" means the amount, as determined by a Quotation Agent, equal to the sum of the present value of the liquidation preference of the Offered Securities at the Dividend Payment Date in June 2008, together with the present values of scheduled semi-annual noncumulative dividend payments from the Special Event Redemption Date to the Dividend Payment Date in June 2008, in each case discounted to the Special Event Redemption Date on a semi-annual basis (assuming a 360-day year consisting of 30-day months) at the Adjusted Treasury Rate.

"*Mandatory Dividend Payment Date*" means, for any fiscal year for which the Bank pays dividends on any of its capital stock, the Dividend Payment Dates that occur in December of the calendar year in which the last day of such fiscal year occurs and June of the next calendar year.

"*Market Risk Account*" means a special account opened, subject to an approval of the MoF, by a bank to distinguish Specified Transactions and assets.

"*Ministry of Finance*" or "*MoF*" means the Ministry of Finance in Japan.

"*New Guidelines*" means amended guidelines issued by a MoF notice (No. 296) as of December 22, 1997.

"*1940 Act*" means the Investment Company Act of 1940, as amended.

"*No Dividend Instruction*", with respect to a Dividend Payment Date, means an instruction delivered by the Class A Common Securityholder to the Company, on or before the tenth Business Day preceding such Dividend Payment Date, not to pay dividends on such Dividend Payment Date.

"*Non-U.S. Holder*" means a Preferred Securityholder that establishes that it is not a U.S. Holder.

"*NYBL*" means the New York Banking Law.

"*Offering*" means the offering of the Offered Securities pursuant to this Offering Circular.

"*Offering Circular*" means this Offering Circular, as the same may be supplemented or amended.

"*Offered Securities" or "Series A Preferred Securities*" means the 9.40% Noncumulative Preferred Securities Series A, liquidation preference $1,000 per share, of the Company.

"*Offered Securities Offering Price*" means the initial purchase price of the Offered Securities as set forth on the cover page of this Offering Circular.

"*Parity Indebtedness*" means (i) any preferred or preference shares of any affiliate of the Bank which shall be entitled to the benefits of a guarantee of the Bank ranking *pari passu* in priority of payment as to liquidation distributions with the Credit-Linked Note, and (ii) any other liabilities of the Bank with terms and conditions substantially equivalent or subordinate in priority of payment as to liquidation distributions to the liabilities of the Bank under the Credit-Linked Note;

"*Parity Securities*" means any class or series of equity securities of the Company expressly designated as being on a parity with the Offered Securities as to dividend rights and rights upon dissolution, liquidation or winding up of the Company.

"*Participants*" means securities brokers and dealers (including the Initial Purchasers), banks, trust companies, clearing corporations and certain other organizations which deposit securities with DTC.

"*Past-due loans*" means loans to borrowers whose interest payment obligations have been temporarily suspended under the Interest Payment Suspension Approval System and all other non-accrual loans which are not included within the first category.

"*Paying Agent*" means the paying agent with respect to the Offered Securities, which will initially be Sumitomo Bank of New York Trust Company.

"*Plan*" means an employee benefit or other plan subject to Title I of ERISA or Section 4975 of the Code.

"*Plan Asset Entity*" means an entity whose underlying assets include "plan assets" by reason of any Plan's investment in the entity.

"*Plan Asset Regulation*" means the DOL regulations determining the assets of a Plan for purposes of ERISA and the related prohibited transaction excise tax provisions of the Code.

"*Preferred Securities*" means preferred limited liability company member interests in the Company, including the Offered Securities.

"*Preferred Securityholder*" means a beneficial owner of Offered Securities.

"*Primary Treasury Dealer*" means a primary U.S. government securities dealer in New York City.

"*Prompt Corrective Action*" or "*PCA*" means the new administrative supervisory system for financial institutions in Japan, anticipated to be introduced as of April 1, 1998.

"*PTCE*" means a DOL prohibited transaction class exemption under ERISA.

"*Purchase Agreement*" means the purchase agreement by and among the Company, the Bank and the Initial Purchasers.

"*QIB" or "qualified institutional buyer*" means a "qualified institutional buyer" as defined in Rule 144A.

"*Quotation Agent*" means Goldman, Sachs & Co. and its successors; *provided, however*, that if the foregoing shall cease to be a primary U.S. government securities dealer in New York City, the Company shall select another Quotation Agent, which shall be a Primary Treasury Dealer.

"*Rating Agency*" means any of Standard & Poor's Ratings Group, Moody's Investors Services, Inc. or any other nationally recognized statistical rating organization.

"*Reference Banks*" means four leading banks engaged in transactions in Eurodollar deposits in the international Eurocurrency market (i) with an established place of business in London, (ii) whose quotations appear on the Reuters Screen LIBO Page on the LIBOR Determination Date in question and (iii) which have been designated as such by the Company and are able and willing to provide such quotations to the Bank on each LIBOR Determination Date.

"*Reference Securities Substitution Date*" means (i) in the case of the initial Reference Security, the Interest Payment Date on the Credit-Linked Note that occurs in June 2008 and (ii) in the case of each Substitute Reference Security, the Interest Payment Date that is the maturity thereof.

"*Reference Security*" means the actual or synthetic U.S. Treasury security identified in or determined pursuant to the terms of the Credit-Linked Note.

"*Reference Security Rate*" means, on any day when the Initial Reference Security is the Reference Security as of 12:00 Noon, New York City time, on such day, 5.60% per annum (which is the yield to maturity of the Initial Reference Security as of February 6, 1998), and, on any day when a Substitute Reference Security is the Reference Security as of 12:00 Noon, New York City time, on such day, the Interpolated Six-Month Treasury Rate for such Substitute Reference Security.

"*Reference Treasury Dealer*" means (i) the Quotation Agent and (ii) any other Primary Treasury Dealer selected by the Quotation Agent after consultation with the Company.

"*Reference Treasury Dealer Quotations*" means, with respect to each Reference Treasury Dealer and any Special Event Redemption Date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such Special Event Redemption Date.

"*Regulation S*" means Regulation S under the Securities Act.

"*Regulation S Global Certificates*" means the Regulation S Permanent Certificate and the Regulation S Temporary Certificate.

"*Regulation S Permanent Certificate*" means a single permanent global certificate in fully registered form representing beneficial interests in Offered Securities offered and sold outside of the United States in reliance on Regulation S.

"*Regulation S Temporary Global Certificates*" means a single temporary global certificate in fully registered form representing beneficial interests in Offered Securities offered and sold outside of the United States in reliance on Regulation S.

"*Regulations*" means the Public Offers of Securities Regulations 1995.

"*Reserve Interest Rate*" means the rate per annum which the Bank determines to be either (A) the arithmetic mean (rounding such arithmetic mean upwards, if necessary, to the nearest whole multiple of 1⁄16%) of the Eurodollar lending rates of the applicable maturity that the New York City banks selected by the Company are quoting, on the relevant LIBOR Determination Date, to the principal London offices of leading banks in the London interbank market or (B) in the event that the Bank can determine no such arithmetic mean, the lowest Eurodollar lending rate of the applicable maturity that the New York City banks selected by the Company are quoting on such LIBOR Determination Date to leading European banks.

"*Restricted Global Certificates*" means one or more permanent global certificates in fully registered form representing beneficial interests in Offered Securities held by QIBs.

"*Restricted Period*" means the period through and including the 40th day after the later of the commencement of the Offering and the Issue Date of the Offered Securities.

"*Restructured loans*" means any loan whose interest rate has been lowered to below or equal to the official discount rate that prevailed at the time of the restructuring or on which the original spread has been reduced to zero or below.

"*Restructuring countries*" means countries categorized by the MoF as considered as having an enhanced credit risk.

"*Reuters Screen LIBO Page*" means the display designated as page "LIBO" on the Reuters Monitor Money Rates Service (or such other page as may replace page "LIBO" on that service for the purpose of displaying London interbank offered quotations of major banks).

"*Rule 144A*" means Rule 144A under the Securities Act.

"*SB Lease*" means SB Leasing Company, Limited.

"*SBCM*" means Sumitomo Bank Capital Markets, Inc.

"*Securities Act*" means the Securities Act of 1933, as amended.

"*Securities and Exchange Law*" means the Securities and Exchange Law of Japan.

"*Securities Report*" means an annual report filed with the MoF by the Bank.

"*Senior Debt of the Bank*" means all deposits and other liabilities, including dated subordinated obligations, (including those in respect of bonds, notes and debentures) of the Bank other than (i) liabilities of the Bank under the Credit-Linked Note and (ii) Parity Indebtedness.

"*Senior Securities*" means any class or series of equity securities of the Company expressly designated as being senior to the Offered Securities as to dividend rights or rights upon dissolution, liquidation or winding up of the Company.

"*SFAS*" means the Statement of Financial Accounting Standards.

"*SFI*" means Sumitomo Finance International plc.

"*Shares*" means shares of common stock.

"*Special Event*" means the occurrence of any of a Tax Event, a Capital Event or an Investment Company Act Event.

"*Special Event Redemption Date*" means the date of redemption of Offered Securities upon the occurrence of a Special Event.

"*Special* Jusen *Fund*" means the Special *Jusen* Fund of the Deposit Insurance Corporation.

"*Subordination Amount*" means the amount of the liquidation distributions which would have been paid from the assets of the Bank in respect of the Credit-Linked Note if the Credit-Linked Note and all Parity Indebtedness, if any, had each been preference shares of the Bank, (i) ranking most senior in priority of payment as to liquidation distributions and (ii) having a liquidation preference amount equal to the Liquidation Preference Amount and the amount of the Parity Indebtedness, respectively.

"*Subsidiaries", with respect to a bank, means any of such bank's subsidiaries which are engaged in trust banking.*

"*Substitute Reference Security*" means the synthetic six-month U.S. Treasury security deemed to (i) have a maturity date that is the Interest Payment Date immediately following the Interest Payment Date on which such Substitute Reference Security becomes a Reference Security, and (ii) bear interest, payable in a single payment on such maturity date, at a rate per annum equal to the Interpolated Six-Month Treasury Rate.

"*Sumigin Finance*" means Sumigin General Finance Company, Limited.

"*Sumigin Hosho*" means Sumigin Guarantee Company.

"*Sumitomo Capital*" means Sumitomo Capital Securities Co., Limited.

"*Superintendent*" means the New York Superintendent of Banks.

"*Supervisory Event*" means the occurrence of the following event: the Bank's total risk-based capital ratio or Tier I risk-based capital ratio, calculated on a consolidated basis as of the end of any period in respect of which the Bank submits financial statements to the Ministry of Finance shall decline below the minimum percentage required by Japanese banking regulations.

"*Supervisory Period*" means any period during which a Supervisory Event has occurred and is continuing.

"*Support Agreement*" means the Support Agreement between the Bank and the Company described under "Support Agreement".

"*Tax Event*" means the receipt by the Company of an opinion of a nationally recognized law firm or their tax advisor in the United States or Japan, as appropriate, experienced in such matters to the effect that, as a result of (i) any amendment to, clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations thereunder) of the United States or Japan or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any Administrative Action or (iii) any amendment to, clarification of, or change in the official position or the interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to any Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change, interpretation or pronouncement is made known, which amendment, clarification, change or Administrative Action is effective or which pronouncement or decision is announced on or after the date of issuance of the Offered Securities, there is more than an insubstantial risk that (A) the Company is or will be subject to more than a *de minimis* amount of additional taxes, duties or other governmental charges or civil liabilities, (B) the Branch is or will be required to pay any additional amounts in respect of any taxes, duties or other governmental charges with respect to payments of interest or principal on the Credit-Linked Note, or (C) the treatment of any of the Company's items of income, gain, loss, deduction or expense, or the treatment of any item of income, gain, loss, deduction or expense of the Bank related to the Credit-Linked Note or of either Common Securityholder related to its ownership of the Company, in each case as reflected on the tax returns (including estimated returns) filed (or to be filed) by the Company, the Bank or either Common Securityholder will not be respected by a taxing authority, as a result of which the Bank, the Company or either Common Securityholder is or will be subject to more than a *de minimis* amount of additional taxes, duties or other governmental charges or civil liabilities.

"*TIBOR*" means the Tokyo Inter-Bank Offered Rate.

"*Treasury Rate*" means (i) the yield, under the heading which represents the average for the immediately prior week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities", for the maturity corresponding to the Initial Dividend Payment Period (if no maturity is within three months before or after the Initial Dividend Payment Period, yields for the two published maturities most closely corresponding to the Initial Dividend Payment Period shall be determined and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Price for such Tax Event Redemption Date, in each case calculated on the third Business Day preceding the Special Event Redemption Date.

"*Treasury Regulations*" means the income tax regulations promulgated under the Code.

"*United States*" means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia.

"*Unrestricted Date*" means the 40th day after the later of the commencement of the offering of the Offered Securities and the issue date.

"*U.S. dollars,*" "*dollars*", "*U.S. $*" and "*$*" mean the currency of the United States of America.

"*U.S. GAAP*" means generally accepted accounting principles in the United States.

"*U.S. Holder*" means (i) an individual citizen or resident of the United States, (ii) a corporation or partnership organized in or under the laws of the United States or any state thereof or the District of Columbia, or (iii) an estate or trust the income of which is subject to United States federal income tax regardless of source.

"*U.S. Person*" means (i) any natural person resident in the United States, (ii) any partnership or corporation organized or incorporated under the laws of the United States, (iii) any estate of which any executor or administrator is a U.S. person, (iv) any trust of which any trustee is a U.S. person, (v) any agency or branch of a foreign entity located in the United States, (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person, (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States and (viii) any partnership or corporation if: (A) organized or incorporated under the laws of any foreign jurisdiction; and (B) formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by accredited investors who are not natural persons, estates or trusts.

"*VaR*" means the Value at Risk method of measuring overall risk exposure.

"*Yen" and "¥*" mean the currency of Japan.

ANNEX I

The Sumitomo Bank, Limited

TABLE OF CONTENTS

INVESTMENT CONSIDERATIONS

Prior to making an investment decision, prospective investors should carefully consider, along with other matters set forth in this Offering Circular, the following considerations:

Risks Relating to Maintenance of Capital Ratios

The Sumitomo Bank, Limited (the "Bank") is subject to capital adequacy guidelines adopted by the Ministry of Finance of Japan (the "MoF"), which provide for a minimum target ratio of capital to risk-adjusted assets of 8.0%, at least half of which must be maintained in the form of Tier I capital. Failure of the Bank to maintain such ratios may result in administrative action or sanctions (see "Supervision and Regulation — Japan — Capital Adequacy").

The Bank's risk-adjusted capital ratios as of September 30, 1997 were 4.63% (in the case of Tier I capital) and 8.91% (in the case of total qualifying capital). The Bank expects that its risk-adjusted capital ratios as of March 31, 1998 and at future balance sheet dates will principally reflect changes from September 30, 1997 in the amount of the Bank's risk-adjusted assets (which will in turn be affected by, among other factors, the exchange rates of the yen against the U.S. dollar and other major foreign currencies), the amount of expected cash dividends to shareholders, the amount of the Bank's qualifying earnings or losses, the amount of unrealized gains on listed securities and the amount of additional capital raised through the issuance of qualifying securities or loans. The Bank expects that in the current period its risk-adjusted capital ratios will be adversely affected by the weakening of the yen against the dollar and other major foreign currencies, declines in market prices for equity securities in Japan and the expected net loss to be incurred by the Bank for the current fiscal year. While the Bank is seeking to reduce the amount of its total risk-adjusted assets and is taking other measures, including the issuance of the Series A Preferred Securities (the "Offered Securities") (sometimes herein called the "Series A Preferred Securities") offered hereby, to support its capital adequacy, there can be no assurance that the Bank will be able to maintain its capital at or above the 4.0% level (in the case of Tier I capital) and the 8.0% level (in the case of total qualifying capital) as of March 31, 1998 or any subsequent date. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Adequacy".

As of March 31, 1998 Japanese banks will be permitted to account for their long-term investments in stocks based on historical cost in addition to the lower of cost or market. The Bank has not yet determined whether it will adopt the cost method of accounting for investments in stocks. If the Bank adopts the cost method, the risk-adjusted capital impact as of March 31, 1998 of such reversal of losses recognized at September 30, 1997, would be to generally increase the amount of the Bank's Tier I capital and to reduce the amount of the Bank's Tier II capital. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Adequacy".

Changes in capital adequacy standards that may have the effect (disregarding other changes) of increasing the risk-adjusted capital ratios of Japanese banks are being reviewed by the Japanese Government. The most significant such change being considered would allow Japanese banks to include a portion of unrealized gains on real estate in Tier II capital. Such consideration is at a preliminary stage and may not result in any change in capital adequacy standards.

The Japanese Government has introduced legislation in the Diet that would provide for, among other things, the purchase by the Government of preferred equity or subordinated debt securities of Japanese banks under certain specified circumstances, including where such purchases are deemed necessary in order to avoid significant adverse impact upon the credibility of the Japanese financial system. If such legislation is enacted, the Bank may issue and sell such securities to the Government, and such transaction may have the effect of increasing the Bank's risk-adjusted capital. There can be no assurance that such legislation will be enacted or that the Bank will issue and sell any such securities to the Government.

The Bank expects that the issuance of the Offered Securities will have the effect of increasing the Bank's Tier I capital and total qualifying capital by the amount of the net proceeds of the Offering. While the Bank has received informal indications that the MoF will consider the Offered Securities to constitute Tier I capital of the Bank, the Offered Securities are a novel type of security for Japanese banks, and the MoF may subsequently determine that the Offered Securities do not constitute Tier I capital of the Bank.

For a discussion of the factors affecting the discussion of the Bank's risk-adjusted capital ratios, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Adequacy".

Quality of Loan Portfolio

During the five years ended March 31, 1997, the Bank recognized an aggregate of ¥1,953.0 billion of losses relating to problem loans. The Bank expects to recognize substantial additional credit losses in the current fiscal year. The majority of the Bank's problem loans originated with loans made in the period from 1985 to 1987, the so-called "bubble" era in Japan, when prices of real estate and other assets increased sharply. A large portion of these problem loans are directly or indirectly collateralized by real estate in Japan. The value of real estate in Japan has declined substantially since 1990, and there is very little liquidity in the domestic real estate market. As a consequence, Japanese financial institutions, including the Bank, have had difficulty in achieving timely and adequate recoveries on foreclosed real estate, and in determining realizable values for real estate collateral. See "Business — Loan Losses and Problem Loans".

The Bank recognized an aggregate of ¥128.4 billion of credit losses for the six months ended September 30, 1997. Furthermore, the Bank in October 1997 announced the downward revision of its forecast of financial results for fiscal 1997 to reflect the Bank's expectation that it will have a large net loss for the year. Such revision resulted principally from the Bank's trial implementation of a new self-assessment rule for the credit quality of assets. The self-assessment was performed in anticipation of the introduction, as of April 1, 1998, of a new administrative supervisory system for financial institutions in Japan, called "Prompt Corrective Action". The self-assessment identified approximately ¥800 billion of expected credit losses for the current fiscal year, including those recognized for the six months ended September 30, 1997.

The Bank has initiated an updated self-assessment of the credit quality of assets as of December 31, 1997. That assessment may result in the recognition of credit losses for fiscal 1997 in an amount that differs from the amount currently expected by the Bank. After the end of the current fiscal year, such assessment will be further updated to address the credit quality of the assets and such updated assessments will be subject to audit procedures in connection with the annual audit by the Bank's independent certified public accountants. The amount of actual credit losses could be increased or decreased substantially during the above process, and could differ substantially from the actual amount of credit losses recognized in the Bank's audited statement of income for fiscal 1997. The Bank has already identified some credit losses during the course of the updated assessments that were not included in the previously announced expected ¥800 billion of credit losses based on the initial trial self-assessment of assets, although the Bank is not yet able to accurately revise its estimate of expected credit losses. Such updated assessment will reflect, among other things, the fact that the Bank announced approximately ¥800 billion of expected credit losses and that several Japanese financial firms and other businesses have announced insolvency or other serious financial problems. See "—Exposure to Japanese Real Estate Development, Construction and Nonbank Finance Companies" and "—Instability of Japanese Financial System." Furthermore, the Bank may in the future recognize credit losses on existing assets in excess of reserves, as a result of further declines in real estate prices in Japan and other factors that may affect the ability of borrowers to repay loans or the value of collateral for loans.

For a description of Prompt Corrective Action and of the Bank's expected provisions for possible credit losses for fiscal 1997, see "Business — Loan Losses and Problem Loans".

Exposure to Japanese Real Estate Development, Construction and Nonbank Finance Companies

Japanese real estate development, construction and nonbank finance companies have been severely and adversely affected by the impact of the end of the bubble economy in Japan on such companies' direct and indirect investments in real estate. The Bank has significant exposure to a number of real estate development, construction and nonbank finance companies. See "Business — Lending Activities". In addition, some of the Bank's subsidiaries, affiliates and associated companies have significant exposure to real estate development companies, and the Bank is thereby exposed to additional risks in relation to these sectors. See "— Potential Need for Additional Support to Japanese Financial Institutions" and "Business — Loan Losses and Problems Loans — Policies with Respect to Support of Troubled Borrowers". Some of the companies in the Japanese real estate development, construction and non bank finance sectors are suffering from the difficult business conditions resulting from the end of the bubble economy, including declines in real estate prices, the lack of liquidity in the real estate market and a decrease in major public sector and private sector development projects. The Bank and its subsidiaries, affiliates and associated companies have agreed to restructure a substantial amount of loans to companies in these sectors, including a substantial amount of such loans that are not (and are not required to be) considered non-performing or disclosed as problem loans. In the event that the financial condition of companies in these sectors deteriorates further, it is possible that some of the loans made by the Bank to companies in these sectors which are currently performing loans may become non-performing and it may become necessary for the Bank to provide financial support to some such companies.

Exposure to Certain Asian Credits

At March 31, 1997, the Bank's loans to borrowers headquartered in Hong Kong, Thailand, Indonesia, South Korea and Malaysia totaled less than 4% of the Bank's total loan portfolio. In addition, the Bank has some deposits with banks in certain of these countries. Recent economic and political developments in these countries have adversely affected some such borrowers and banks and therefore may have an adverse impact on the Bank. Because credit extended to such borrowers and banks may be denominated in yen or U.S. dollars and may not be hedged, devaluation of the local currencies makes it more difficult for borrowers earning income in such countries to pay their debts to the Bank. To the extent such borrowers and banks also have debts denominated in local currencies, attempts by these countries' governments to support the value of such currencies by raising interest rates may adversely affect their ability to repay loans and deposits. The restriction of credit resulting from these and related conditions may adversely affect economic conditions in such countries, resulting in further deterioration of the credit quality of borrowers and banks in those countries. There can be no assurance that these political and economic developments will not continue or worsen, or that the devaluation of their currencies will not have an adverse effect on the Bank's operations or financial results.

Several Japanese banks, including the Bank, agreed to defer until the end of January 1998 the maturities of credits extended to Korean borrowers otherwise maturing prior to that time. In late January 1998, the Korean government reached an agreement with leading international banks to restructure outstanding loans to Korean banks. Under the agreement, Korean banks may exchange approximately $24 billion of their short-term foreign currency debt for new government-backed loans. The parties to the agreement stated that they expect the exchange to be completed by the end of March when a current international rollover agreement expires. The Bank is evaluating, and may agree to, further deferrals of the maturities of such credits to dates after January 1998.

Investment Portfolio; Market-Related and Other Risks of Financial Instruments

The Bank holds substantial investments in debt and equity securities. The Bank's investment portfolio gives rise to the risk of losses on investments. Furthermore, the Bank's Tier II capital includes 45% of the unrealized gains on investments in listed equity and debt securities. See

"Supervision and Regulation — Japan — Capital Adequacy". Consequently, declines in unrealized gains on listed securities have the effect of reducing the Bank's total qualifying capital.

Approximately half of the Bank's investment portfolio consists of equity securities, mainly common stock of Japanese listed companies. The market values of such equity securities are volatile, and have declined substantially in recent years. The Bank records the values of its investments in equity securities at the lower of cost or market value. As a result, the Bank has been required to recognize significant losses resulting from declines in market prices for such equity securities, and may recognize additional such losses in the current and future fiscal periods. The Bank recognized a devaluation loss on equity securities of ¥139 billion for the six months ended September 30, 1997. Market prices for Japanese equities have declined from such prices at September 30, 1997, and the Bank may be required to recognize an additional substantial devaluation loss on equity securities as of March 31, 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Operating Results — Transfers to Reserves for Possible Loan Losses and Other Expenses" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recent Results — Other Expenses". As of March 31, 1998 Japanese banks will be permitted to account for their long-term investments in stocks based on historical cost in addition to the lower of cost or market. The Bank has not yet determined whether it will adopt the cost method of accounting for investments in stocks.

Dividend yield on common stocks of Japanese companies are relatively low compared to those in other countries, with the result that the Bank's investments in such stocks yield a low current return, before capital gains and losses and revaluation losses. The comparative yield on equity securities held by the Bank may be further adversely affected by a rise in domestic interest rates from the current low levels, which would tend to increase the Bank's returns on domestic loans and investments in domestic debt securities.

The Bank in recent years has sold substantial amounts of equity securities in order to recognize previously unrealized gains and thereby offset credit losses and losses on devaluation of stocks and other securities. Such sales were particularly sizeable in fiscal 1994. See Note 15 of Notes to Non-consolidated Financial Statements. The substantial majority of such sales have been followed by repurchases of the securities sold. Such transactions have the effects of reducing the amount of accumulated unrealized gains and of increasing the book values of, and the potential for losses on, portfolio equity securities caused by declines in market prices. As a result of such sales in the current fiscal year (including sales producing ¥127 billion of gains through September 30, 1997 and lower gains after such date) and of continuing declines during the current fiscal year in market prices for Japanese stocks, the aggregate amount of unrealized gains on equity securities available to enable the Bank to realize additional gains through the sale of equity securities has declined significantly, which will reduce the Bank's ability to offset credit losses and losses on devaluation of stocks and other securities by effecting such transactions.

The Bank has substantial investments in debt securities, principally fixed-rate long-term bonds denominated in yen. The Bank records the values of its investments in debt securities at the lower of cost or market value, except for Japanese national and local government bonds effective April 1, 1996. See Note 2(c) of Notes to Non-Consolidated Financial Statements. If market interest rates for obligations denominated in yen increase from the current low levels, the amount of unrealized gains on investments in debt securities may decrease.

For a discussion of the Bank's investment portfolio, see "Business — Securities-Related Activities — Investment Portfolio". For a discussion of the relationship of the Bank's investment portfolio to its capital adequacy, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Adequacy".

A significant portion of the Bank's income is derived from activities that expose the Bank to market risks, liquidity risks, credit risks and other risks involving a variety of financial instruments, including trading activities and the holding of financial derivative instruments. See “Business — Risk Management”.

Potential Need for Additional Support to Japanese Financial Institutions

Japanese financial institutions (including banks, non-bank lending and credit institutions and financial affiliates of securities companies) are currently experiencing difficulties with nonaccrual and other problem loans. In some cases, asset quality problems and other financial problems have led, or may lead, to severe liquidity and solvency problems that have resulted, or may result, in the liquidation or restructuring of certain of the affected financial institutions. From time to time, the MoF has requested that one or more financial institutions, including the Bank, either provide financial and other assistance to support distressed financial institutions or directly or indirectly acquire some portion of the problem loans or other assets of such institutions and such financial institutions, including the Bank, have complied with certain of such requests. Moreover, the Bank does business with, and in some instances is a shareholder in and/or lead lender to, other financial institutions and, as a result, in certain circumstances may find itself exposed to the credit or other risks associated with the financial difficulties encountered by these institutions. See “Business — Loan Losses and Problem Loans”.

In June 1996, the MoF implemented certain measures to enhance the resources of the Deposit Insurance Corporation of Japan (the “Deposit Insurance Corporation”) to increase the capacity of the fund to protect depositors in the event of the failure of Japanese deposit-taking financial institutions. These measures included a seven-fold increase in the deposit insurance premiums paid by Japanese financial institutions, including the Bank, from 0.012% to 0.084% per annum of the deposits held by them. See “Supervision and Regulation — Japan — Deposit Insurance System”. The Bank may be subject to further increases in deposit insurance premium rates, and may otherwise be called upon to contribute, directly or indirectly, to the costs of restructuring or liquidating distressed financial institutions in the future, particularly if the Government enacts legislation providing for the use of additional funds to support or rescue Japanese financial institutions.

Policies with Respect to Support of Troubled Borrowers

The Bank for a variety of reasons provides direct and indirect support to troubled borrowers. For example, the Bank often provides such support to borrowers where the operating profitability or asset values of borrowers indicate the likelihood of successful restructuring. In addition, the Bank, like other banks in Japan, has provided support to troubled borrowers under circumstances, and based upon considerations, that may differ in kind or degree from those relevant in other countries, including the United States. These include political and regulatory influences, relationships with members of the Sumitomo Group, the lead bank system and perceived responsibility for obligations of affiliated and associated companies. See “Business — Loan Losses and Problem Loans — Policies with Respect to Support of Troubled Borrowers”.

Although any future decision as to whether to support a troubled borrower will be made by the Bank in accordance with considerations the Bank determines to be relevant at the time, the factors described above may influence such decisions.

Potential Need for Additional Support Relating to *Jusen* Restructuring

Japanese housing loan companies, commonly known as “*jusen*”, were rendered insolvent in the early 1990s by the rapid decline in the value of Japanese real estate collateral underlying their loan portfolios. The MoF and leading Japanese financial institutions, concerned that the uncontrolled bankruptcies of the *jusen* could have a destabilizing effect on the Japanese financial system, undertook coordinated action to resolve the problems of the *jusen*, including the use of public funds. The Housing Loan Administration Corporation (the “HLAC”) was established in July 1996 to acquire, and attempt to collect upon, the loan assets of seven failed *jusen*. As part of this government-sponsored restructuring, the Bank in fiscal 1996 wrote-off its loans outstanding to the failed *jusen,* and the Bank made other loans to the HLAC. In July 1996, the financial institutions involved in the *jusen* restructuring, including the Bank, invested approximately ¥1 trillion in the Special *Jusen* Fund of the Deposit Insurance Corporation for a term of fifteen years to support the restructuring. In October 1996, a new fifteen-year fund of ¥909 billion was established by financial institutions involved in the *jusen* restructuring and the Bank of Japan (the "BoJ") in anticipation of further losses expected on loan assets held by the HLAC. See "Business — Loan Losses and Problem Loans — Jusen Restructuring". There can be no assurance that the Bank's investments in these funds will be returned, or that additional contributions from the Bank or foregiveness of all or part of the loans by the Bank to the HLAC will not occur in the event that the HLAC requires additional financial assistance.

The President of the HLAC has been quoted in the press as asserting that HLAC will initiate legal action against several banks, including the Bank, in an attempt to impose financial responsibility on such banks for introducing the *jusen* to a number of borrowers who subsequently failed to repay loans extended by the *jusen*, including allegations that the introducing banks may have acted in bad faith. The Bank has not received directly any notice to this effect from the HLAC.

Instability of Japanese Financial System

The collapse of the bubble economy and generally sluggish economic conditions in Japan in recent years have had significantly adverse effects on Japanese financial institutions, including commercial banks. These effects have largely derived from severe and protracted declines in values of Japanese real estate and equity securities. Such effects resulted in failures of certain banks and other financial institutions, including failures of the Hokkaido Takushoku Bank, Ltd. and Yamaichi Securities Company, Limited both in November 1997. The impact of these conditions, and of the implementation of capital adequacy requirements to Japanese banks, have led to a decline in depositor and investor confidence in Japanese financial institutions, and to severe restrictions on the availability of credit from those institutions.

The Government of Japan has undertaken a variety of legislative and regulatory initiatives seeking to restore the financial soundness of Japanese financial institutions and to promote recovery of the Japanese economy generally. Prominent among the general economic initiatives have been supplemental Government spending, special reduction of income taxes, reduction of domestic interest rates, and increases in the money supply.

In addition, continuing reforms commenced in the 1980s, the Government has undertaken a number of deregulation initiatives in the financial and other economic sectors. Comprehensive financial reform legislation in 1993 permitted Japanese financial institutions to engage in an increasing variety of business. In November 1996, Prime Minister Ryutaro Hashimoto announced an initiative to implement by 2001 a wide-ranging reform of Japan's financial system. This initiative contemplates further relaxation of regulatory barriers to competition within the various components of the Japanese financial sector. The measures implemented to date have been limited, however, and political developments may limit the implementation of other reforms proposed by Prime Minister Hashimoto. See "Supervision and Regulation — Japan — Recent Developments".

Japanese financial institutions have been experiencing difficulties with nonaccrual and other problem loans. In some cases, asset quality problems have led, or may lead, to severe liquidity and solvency problems that have resulted, or may result, in the liquidation or restructuring of certain of the affected financial institutions. The Government has undertaken various measures to support such institutions or otherwise to maintain depositor confidence generally in Japanese financial institutions. Certain of such measures have involved the use of public funds, although political considerations have limited the use of public funds for such purpose. Support measures in the financial sector include, for example, the establishment of Government-sponsored entities to deal with problem assets or institutions (see "— Potential Need for Additional Support Relating to Jusen Restructuring" and "Business — Loan Losses and Problem Loans — Loan Loss Experience") and enhancement of the resources of the Deposit Insurance Corporation of Japan (see "Supervision and Regulation — Japan — Deposit Insurance System"). From time to time, the MoF has requested that one or more financial institutions either provide financial and other assistance to support distressed financial institutions or directly or indirectly acquire some portion of the problem loans or other assets of such institutions. See "— Potential Need for Additional Support to Japanese Financial Institutions". Certain additional support measures in the financial sector are being considered by the Government, including the purchase by the Government of preferred equity or subordinated debt securities of Japanese banks under certain circumstances and further increase of funds available for the Deposit Insurance Corporation, which are all subject to further deliberation and any of which may fail to be adopted.

The continuing instability of the Japanese financial system may have a variety of direct and indirect effects on the Bank.

Effect of Credit Crunch Facing Japan's Corporate Borrowers

Many corporate borrowers in Japan have been suffering a credit crunch as the Japanese banks have become increasingly unable to extend additional or renew credit to them. The principal reasons for such inability on the part of the Japanese banks are: (1) the rise in cost of funding by the Japanese banks, especially weaker, smaller ones, as a result of the ongoing instability in the Japanese financial system, (2) the recent depreciation of the yen against the U.S. dollar and other major international currencies, which have led to an increase in the level of non-yen denominated risk assets, as well as the recent fall in stock prices in Japan, which have led to a decrease in the level of unrealized gain in the banks' equity portfolios, both of which developments have had a negative impact on the Japanese banks' capital adequacy (in the light of the regulatory requirement to maintain a certain level of qualified capital (see "Management's Discussion and Analysis of Results of Operations and Financial Condition—Capital Adequacy"); (3) introduction of Prompt Corrective Action system which has given incentive to the Japanese banks to maintain high quality in their assets (see "Supervision and Regulation—General—*The Ministry of Finance*"), and (4) the adoption by the Japanese banks of the policy of reducing their risk-adjusted assets during the fiscal year ending March 31, 1998, in light of (1), (2) and (3) above. Some of the recent failures of Japanese companies have resulted in part from such companies' inability to obtain bank financing under such circumstances. If such circumstances continue, there will be a negative impact on the Bank's own loan portfolio to the extent that the Bank has loans receivable from businesses that fail due to the credit crunch described above.

"Japan Premium" and Limitation of Credit Extended to Japanese Banks

As a result of concerns regarding asset quality and the failure of several large Japanese financial institutions, the so-called "Japan premium" rose substantially in late 1997. The "Japan premium" refers to the additional risk premium that Japanese financial institutions (including the Bank) and their affiliates must pay to borrow short-term, interbank funds in international markets compared with their U.S. and European counterparts. Such premium results in higher operating expenses and hence lower profitability of foreign currency operations for Japanese banks, including the Bank. Furthermore, the Bank believes that a number of international lenders have restricted the amount of credit (including interbank deposits) they are willing to extend to Japanese banks, and the identities of the Japanese banks to which they are willing to extend credit, as a result of concerns about adverse conditions in the Japanese banking and other financial sectors. If conditions in the Japanese banking and other financial sectors continue to be adverse or further deteriorate, it is possible that the Japan premium may increase, and that international lenders may further restrict the availability of credit to Japanese banks, including the Bank.

As of September 30, 1997, approximately 15% of the Bank's loan assets were denominated in currencies other than yen.

Japanese Accounting and Disclosure Standards

The Bank's financial statements are prepared in accordance with Japanese GAAP, which differs in certain significant respects from U.S. GAAP. See "Summary of Significant Differences Between Japanese GAAP and U.S. GAAP". Under Japanese GAAP, loans which are overdue for more than six months are classified as non-accrual loans. Such loans are removed from non-accrual status if interest is received, even if substantially less than the full amount due. Interest receivable on non-performing loans that has been previously accrued but not collected is written off after a collecting period of two fiscal years from the fiscal year during which the loan is placed on non-accrual status. Under U.S. GAAP, loans are generally placed on non-accrual status when they are 90 days past due; interest on non-performing loans that has been previously accrued but not collected is reversed and charged against interest income at the time the related loan is placed on non-accrual status.

The method of providing reserves for possible loan losses under Japanese GAAP is currently materially different from that employed under U.S. GAAP. The allowance for possible loan losses under U.S. GAAP is required to be set at a level that, in management's consideration and taking into account certain specific factors such as prior loan loss history, is adequate to absorb losses inherent in the loan portfolio. Under Japanese GAAP the allowance is calculated according to a less specific standard, and may be set at a level that is below the level that would be required under U.S. GAAP. In connection with the introduction of the "Prompt Corrective Action" system as of April 1, 1998, the Institute of Certified Public Accountants (the "ICPA") in April 1997 issued guidelines for self-assessment of assets by banks and other financial institutions and issued related policies for loan loss write offs and reserves. In accordance with the ICPA guidelines, the Bank will establish a reserve for losses on the basis of the self-assessment. See "Business — Loan Losses and Problem Loans — Prompt Corrective Action".

Japanese disclosure standards require only limited disclosures with respect to problem loans. Beginning in fiscal 1995, the Bank has been required to disclose the amount of certain loans that have been restructured. "Restructured loans" required to be disclosed are defined to include any loan whose interest rate has been lowered to below or equal to the official discount rate that prevailed at the time of the restructuring or on which the original spread has been reduced to zero or below. As of March 31, 1996 and 1997, and September 30, 1997, the Bank had ¥614,555 million, ¥104,673 million and ¥105,789 million of restructured loans, respectively. See "Business — Loan Losses and Non-Performing Loans — Restructured Loans". Restructured loans do not include extensions of credit to the CCPC or to the HLAC or investments in the *jusen* funds. See "— Potential Need for Additional Support to Japanese Financial Institutions" and "— Potential Need for Additional Support Relating to *Jusen* Restructuring".

Beginning in fiscal 1996, Japanese banks, including the Bank, have been required to disclose "loans for financial assistance". "Loans for financial assistance" are loans outstanding to customers to which the Bank has provided assistance. The principal method of assistance is forgiveness of loans to such borrowers following receipt of approval by the MoF of related tax deductions. As of March 31 and September 30, 1997, the Bank had ¥162,466 million and ¥158,091 million, respectively, of loans for financial assistance. See "Business — Loan Losses and Non-Performing Loans — Loans for Financial Assistance".

THE BANK

The Bank is one of the world's leading commercial banks, with approximately ¥56,271 billion in total assets at September 30, 1997, ranking it as one of the largest banking organizations in the world in terms of total assets. The Bank is one of nine city banks in Japan. Among the 139 ordinary banks in Japan (which include the city banks), the Bank was ranked second in terms of total assets as of September 30, 1997.

The Bank provides a comprehensive range of wholesale and retail banking services, both in Japan and internationally. Through its head office and branch network in Japan and overseas, it accepts deposits from, and makes loans and extends guarantees to, corporations, individuals, governments and governmental entities. The Bank also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, the Bank operates through an extensive network of branches and representative offices, as well as through subsidiaries and affiliates, to provide a wide range of banking and financial services to its clients.

As of September 30, 1997, the activities of the Bank in Japan were conducted principally through the Bank's 309 branches, 39 sub-branches and 1 agency and through 12 subsidiaries and 10 associated companies (in which, by law, the Bank may hold an equity interest of no more than 5%). International activities were conducted through the Bank's 39 branches, 2 sub-branches and 24 representative offices, as well as 43 subsidiaries and 13 affiliates and associated companies located in more than 30 countries.

Except as otherwise indicated, the financial information with respect to the Bank herein is presented on a non-consolidated basis. Non-consolidated financial statements are generally regarded as the primary financial statements in Japan. As of March 31, 1997, the Bank's non-consolidated shareholders' equity represented 91.6% of its consolidated shareholders' equity, and for fiscal 1996 the Bank's non-consolidated net income represented 103.7% of its consolidated net income.

The Bank is incorporated under the Commercial Code of Japan and operates under the Japanese Banking Law. The registered head office of the Bank is at 6-5, Kitahama 4-chome, Chuo-ku, Osaka 541, and its Tokyo head office is located at 3-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100.

The Sumitomo Group

The Bank is a member of the Sumitomo Group, which has evolved for over 400 years. The relationship of the companies in the Sumitomo Group, like that of companies in other major Japanese corporate groups, is one of cooperation in areas of common interest within a group of publicly-owned companies, each operating independently under its own separate management. At present there are 19 public companies in the Sumitomo Group, engaged in a broad range of financial, industrial, commercial real estate and other activities. The Bank, together with The Sumitomo Trust and Banking Company, Limited, provides a substantial part of the banking and bank-related services for the Sumitomo Group companies. The Bank serves as lead bank to most of the companies in the Sumitomo Group.

The Bank holds stock in all of the public Sumitomo Group companies, although the Bank generally does not hold in excess of 5% of the outstanding shares of any single such company. As of September 30, 1997, the aggregate market value of stock of members of the Sumitomo Group (other than subsidiaries, affiliates and associated companies) owned by the Bank was ¥409 billion. As of that date, other members of the Sumitomo Group held approximately 16.2% of the outstanding shares of common stock of the Bank.

NON-CONSOLIDATED CAPITALIZATION OF THE BANK (UNAUDITED)

The following table, which should be read in conjunction with the Non-consolidated Financial Statements of the Bank included elsewhere in this Annex, sets forth the unaudited non-consolidated capitalization of the Bank as of September 30, 1997.

	As of September 30, 1997	
	(millions of yen)	(millions of U.S. dollars)
Shareholders' equity:		
Common stock, par value ¥50 per share:		
Authorized—7,500,000,000 shares		
Issued and outstanding—3,141,062,101 shares[1]	¥ 502,348	$ 4,148
Preferred stock:		
Authorized—500,000,000 shares		
Issued and outstanding—0 shares	—	—
Capital surplus	392,580	3,242
Legal reserve	91,925	759
Retained earnings	791,942	6,540
Total shareholders' equity	1,778,796	14,689
Reserves:		
Reserve for possible loan losses	575,994	4,756
Reserve for retirement allowances	50,667	418
Reserve for loss on loans sold	41,130	340
Other reserves	29,220	241
Total reserves	697,012	5,755
Long-term debt:		
Convertible bonds[1]	101,106	835
Subordinated loans	1,557,778	12,864
Total long-term debt	1,658,885	13,699
Total capitalization[2]	¥ 4,134,694	$ 34,143

(1) The number of additional shares of common stock ("Shares") which would have been issued upon full conversion of the outstanding convertible bonds at the conversion prices in effect on September 30, 1997 was 67.3 million Shares.

(2) The table does not give effect to the issuance of the Credit-Linked Note pursuant to the Offering, or to a number of other items that are expected to effect the Bank's risk capital as of March 31, 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Adequacy".

CONSOLIDATED CAPITALIZATION OF THE BANK (UNAUDITED)

The following table sets forth the unaudited consolidated capitalization of the Bank as of September 30, 1997.

	As of September 30, 1997	
	(millions of yen)	(millions of U.S. dollars)
Shareholders' equity:		
Common stock, par value ¥50 per share:		
Authorized—7,500,000,000 shares		
Issued and outstanding—3,141,062,101 shares[1]	¥ 502,342	$ 4,148
Preferred stock:		
Authorized—500,000,000 shares		
Issued and outstanding—0 shares	—	—
Capital surplus	392,580	3,242
Legal reserve	91,925	759
Retained earnings	979,808	8,091
Total shareholders' equity	1,966,656	16,240
Reserves:		
Reserve for possible loan losses	598,200	4,940
Reserve for retirement allowances	50,667	418
Reserve for loss on loans sold	41,130	340
Other reserves	30,040	248
Total reserves	720,038	5,946
Long-term debt:		
Convertible bonds[1]	101,106	835
Subordinated debt	1,581,495	13,059
Total long-term debt	1,682,602	13,894
Total capitalization[2]	¥ 4,369,297	$ 36,080

(1) The number of additional shares of common stock ("Shares") which would have been issued upon full conversion of the outstanding convertible bonds at the conversion prices in effect on September 30, 1997 was 67.3 million Shares.

(2) The table does not give effect to the issuance of the Credit-Linked Note pursuant to the Offering, or to a number of other items that are expected to effect the Bank's risk capital as of March 31, 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Adequacy".

[1]PRINCIPAL SHAREHOLDERS

The ten largest shareholders of the Bank, as appearing on its register of shareholders and register of beneficial shareholders as of September 30, 1997, were as follows:

Name	Number of Shares Held	Percentage of Shares Outstanding
	(in thousands)	
Sumitomo Life Insurance Company	170,002	5.41%
Nippon Life Insurance Company	139,850	4.45
Matsushita Electric Industrial Co., Ltd.	103,570	3.29
The Sumitomo Trust and Banking Company, Limited	90,162	2.87
Sanyo Electric Co., Ltd.	62,337	1.98
The Sumitomo Marine & Fire Insurance Company, Limited	55,653	1.77
Sumitomo Corporation	51,980	1.65
Kubota Corporation	47,418	1.50
The Dai-ichi Mutual Life Insurance Company	46,736	1.48
Nippon Steel Corporation	45,415	1.44
Total	813,127	25.88%

As at March 31, 1997, the Directors and Statutory Auditors of the Bank together owned 677,000 Shares, representing less than 0.1% of the total number of Shares then outstanding.

EXCHANGE RATES

The Bank maintains its accounts in yen. The following table sets forth, for the periods indicated, the exchange rates for buying and selling spot dollars by telegraphic transfer against yen as published by the BoJ through December 31, 1996 and as determined by the Bank thereafter (BoJ figures are not available for such periods).

Year ended December 31,	High	Low	Period End
		(yen per dollar)	
1993	¥ 125.87	¥ 101.25	¥ 111.89
1994	113.27	96.40	99.83
1995	104.17	80.36	102.91
1996	115.98	104.19	115.98
1997	131.60	110.63	130.10
1998 (through February 9, 1998)	134.45	124.00	124.85

Such exchange rates as of March 31, 1996, September 30, 1996, March 31, 1997, and September 30, 1997 were ¥106.49, ¥111.95, ¥124.10, and ¥121.10, respectively, per one U.S. dollar. These exchange rates are reference rates and are not necessarily the rates used to calculate ratios nor the rates used to convert yen to U.S. dollars in the financial statements herein.

SELECTED FINANCIAL AND OTHER INFORMATION

The following table sets forth certain selected non-consolidated financial data for the Bank. The selected non-consolidated financial data as of and for the fiscal years ended March 31, 1995, 1996 and 1997 have been derived from, and should be read in conjunction with, the audited non-consolidated financial statements of the Bank as of and for the fiscal years ended March 31, 1995, 1996 and 1997, included elsewhere in this Annex. The selected non-consolidated financial data as of and for the six months ended September 30, 1996 and 1997 include, in the opinion of the Bank, all adjustments (consisting of only normally recurring adjustments) necessary for a fair presentation of such information and have been derived from, and should be read in conjunction with, the unaudited non-consolidated financial statements of the Bank as of and for the six months ended September 30, 1996 and 1997, included elsewhere in this Annex. The results of operations for the six months ended September 30, 1997 are not necessarily indicative of the operating results to be expected for the fiscal year ending March 31, 1998 or for any other period. This information should also be read in conjunction with, and is qualified in its entirety by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

The Sumitomo Bank, Limited
(non-consolidated)

	Years ended and as of March 31,					Six months ended and as of September 30,	
	1993	1994	1995	1996	1997	1996	1997
	(billions of yen, except ratios)						
Income Statement Data:							
Interest income	¥ 2,960.2	¥ 2,387.0	¥ 2,224.4	¥ 2,224.1	¥ 1,996.9	¥ 940.9	¥ 952.4
Interest expense	2,375.1	1,853.0	1,730.5	1,600.2	1,402.1	660.5	667.9
Net interest income	585.1	534.0	493.9	623.9	594.8	280.4	284.4
Net fees and commissions	47.7	42.8	44.9	56.1	65.8	26.7	32.7
Net trading income	—	—	—	—	—	—	3.7
Net other operating income	47.8	61.2	47.6	89.2	47.2	7.9	25.1
General and administrative expenses	350.8	348.4	357.4	368.7	378.3	186.4	192.8
Transfer to reserve for possible loan losses	89.8	73.6	247.7	95.8	93.5	20.5	76.5
Other income	87.3	81.3	433.9	76.9	183.6	16.5	173.4
Other expenses	266.2	228.7	754.8	342.8	375.6	39.9	246.6
Income (loss) before income taxes	61.2	68.7	(339.5)	38.9	44.2	84.8	3.4
Income taxes	47.2	35.3	(4.0)	(3.3)	8.8	33.5	(2.3)
Net income (loss)	14.0	33.3	(335.5)	42.1	35.3	51.3	5.7
Balance Sheet Data:							
At period end:							
Total assets	55,071.0	53,606.6	52,256.0	54,179.7	57,149.2	53,304.8	56,271.4
Loans and bills discounted	34,772.2	34,186.9	33,819.1	35,499.6	36,600.1	35,843.1	36,572.0
Securities	5,394.0	5,249.2	5,658.9	6,115.4	6,004.3	5,964.0	6,043.0
Deposits	37,607.9	38,743.2	37,604.8	39,082.1	39,833.8	37,807.4	39,861.2
Shareholders' equity	2,117.9	2,124.6	1,762.4	1,777.8	1,786.4	1,815.7	1,778.8
Averages:							
Total assets	55,635.0	53,281.9	51,968.7	53,598.3	54,677.4	52,988.9	57,234.0
Shareholders' equity	2,052.3	2,054.4	2,077.7	1,722.6	1,732.3	1,670.4	1,714.4
Credit Quality Data:							
Loan losses(2)	218.3	228.5	826.5	353.4	326.4	47.4	128.4
Reserve for possible loan losses	337.6	385.8	585.3	593.6	535.0	564.5	576.0
Non-accrual loans	1,043.0	1,112.7	945.8	873.0	807.1	859.8	878.0
Restructured loans	—	—	—	614.6	104.7	524.9	105.8
Loans for financial assistance	—	—	—	—	162.5	—	158.1
Selected Ratios:							
Net income as a percentage of average total assets	0.03%	0.06%	—	0.08%	0.06%	0.10%	0.01%
Net income as a percentage of average shareholders' equity	0.68	1.62	—	2.45	2.04	3.07	0.33
Net interest margin(1)	1.21	1.14	1.07%	1.31	1.23	1.20	1.14
Average shareholders' equity as a percentage of average total assets	3.69	3.86	4.00	3.21	3.17	3.15	3.00
Reserve for possible loan losses as a percentage of loans and bills discounted	0.97	1.13	1.73	1.67	1.46	1.57	1.57
Loan losses as a percentage of period-end loans and bills discounted(2)	0.70	0.70	2.53	1.00	0.89	0.13	0.35

(1) Net interest margin equals net interest income as a percentage of average total interest-earning assets.

(2) Loan losses equal the aggregate of direct write-offs, net additions to specific reserves, net additions to or reversals from reserves for specific overseas loan losses, losses on sale of loans to CCPC, losses on financial assistance for associated companies and losses on the sale of loans to restructuring countries and transfer to reserve for losses on loans sold.

The following table sets forth certain selected consolidated financial data for the Bank and its consolidated subsidiaries. The selected consolidated financial data as of and for the fiscal years ended March 31, 1995, 1996 and 1997 have been derived from, and should be read in conjunction with, the audited financial statements of the Bank and its consolidated subsidiaries as of and for the fiscal years ended March 31, 1995, 1996 and 1997, included elsewhere in this Annex. The Bank does not publish consolidated financial information (other than risk-adjusted capital ratios) for semi-annual periods, and the non-consolidated semi-annual financial information presented above may not be indicative of the corresponding items on a consolidated basis.

The Sumitomo Bank, Limited
(consolidated)

	Years ended and as of March 31,				
	1993	1994	1995	1996	1997
			(billions of yen)		
Income Statement Data:					
Interest income	¥ 3,090.1	¥ 2,474.2	¥ 2,318.4	¥ 2,318.4	¥ 2,141.3
Interest expense	2,467.6	1,907.0	1,795.2	1,662.0	1,499.7
Net interest income	622.4	567.1	523.3	656.4	641.5
Net fees and commissions	59.3	53.5	56.5	67.2	71.1
Net other operating income	58.3	71.7	55.4	97.3	38.1
General and administrative expenses	387.9	383.4	395.3	417.1	432.8
Transfer to reserve for possible loan losses	108.9	87.8	256.1	126.4	96.2
Other income	124.0	109.1	441.3	102.7	234.5
Other expenses	269.6	237.4	751.0	352.3	395.0
Income (loss) before income taxes and minority interests	77.8	92.9	(325.8)	27.9	61.3
Income taxes	54.7	54.1	(45.4)	(10.8)	25.5
Minority interest	2.0	3.2	3.4	1.2	1.8
Net income (loss)	21.1	35.6	(283.8)	37.5	34.0
Balance Sheet Data[1]:					
Total assets	56,015.6	54,459.9	53,313.4	56,139.5	60,299.9
Loans and bills discounted	35,861.2	35,086.4	34,656.4	37,045.6	38,843.8
Securities	5,315.6	5,143.0	5,544.2	5,907.3	5,888.4
Deposits	38,560.0	39,604.9	38,530.6	40,115.4	40,895.4
Shareholders' equity	2,241.1	2,245.8	1,929.6	1,942.3	1,949.7
Risk-Adjusted Capital Data:		(millions of yen)			
Tier I capital	2,271.6	2,281.7	1,965.9	1,977.3	1,984.1
Total qualifying capital	4,030.8	4,085.5	3,431.9	3,921.9	3,856.6
Total risk-adjusted assets	43,018.7	41,292.0	40,465.8	42,599.6	44,073.6
Tier I risk-adjusted capital ratio[2]	5.28%	5.52%	4.85%	4.64%	4.50%
Total risk-adjusted capital ratio[2]	9.37	9.89	8.48	9.20	8.75

(1) The Bank is not required to maintain records in Japan which would enable it to determine averages and related ratios on a consolidated basis and therefore such information is not included herein and, accordingly, the balance sheet data included herein has been prepared on a year-end basis only.

(2) As of September 30, 1997, the Bank's unaudited Tier I risk-adjusted capital ratio was 4.63% and its total risk-adjusted capital ratio was 8.91%.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except as otherwise indicated, the information herein is presented on a non-consolidated basis. See "The Bank". In addition, the Bank's financial statements are prepared in accordance with Japanese GAAP, which differ in certain significant respects from U.S. GAAP. See "Summary of Significant Differences between Japanese GAAP and U.S. GAAP". References to fiscal 1994, fiscal 1995 and fiscal 1996 are to the fiscal years ended March 31, 1995, 1996 and 1997, respectively.

Operating Results

The following table presents certain information as to the Bank's income, expenses and net income for the three fiscal years ended March 31, 1997 and the six months ended September 30, 1996 and 1997:

	Years ended March 31,			Six months ended September 30,	
	1995	1996	1997	1996	1997
			(millions of yen)		
Interest income	¥ 2,224,427	¥ 2,224,098	¥ 1,996,948	¥ 940,935	¥ 952,377
Interest expenses	1,730,503	1,600,224	1,402,120	660,499	667,947
Net interest income	493,924	623,874	594,827	280,435	284,430
Fees and commissions (income)	83,585	92,873	101,587	47,887	51,709
Fees and commissions (expenses)	38,683	36,728	35,753	21,139	18,991
Net fees and commissions	44,901	56,144	65,834	26,748	32,717
Trading income[1]	—	—	—	—	5,138
Trading expenses[1]	—	—	—	—	1,421
Net trading income[1]	—	—	—	—	3,716
Other operating income	74,551	151,056	79,383	30,014	38,951
Other operating expenses	26,947	61,863	32,158	22,091	13,877
Net other operating income	47,604	89,192	47,225	7,923	25,074
Other income	433,921	76,921	183,635	16,535	173,430
Other expenses	754,789	342,783	375,630	39,927	246,559
General and administrative expenses	357,400	368,722	378,269	186,406	192,843
Transfer to reserve for possible loan losses	247,686	95,754	93,463	20,473	76,540
Income (loss) before income taxes	(339,523)	38,873	44,157	84,835	3,426
Income taxes	(4,024)	(3,255)	8,839	33,544	(2,311)
Net income (loss)	¥ (335,498)	¥ 42,128	¥ 35,318	¥ 51,290	¥ 5,737

(1) On April 1,1997, the Bank adopted mark-to-market accounting and established trading assets and trading liabilities to record all securities, derivatives and other capital market transactions entered into for trading purposes. See "—Operating Results—Net Other Operating Income".

Net Interest Income

Net interest income is a function of the amount of interest-earning assets, the difference between the rate of interest earned on average interest-earning assets and the rate of interest paid on average interest-bearing liabilities, the general level of interest rates and the proportion of interest-earning assets financed by non-interest bearing liabilities and equity. The Bank's interest-earning assets are generally less sensitive to interest rate changes than its interest-bearing liabilities, principally due to the difference in the average maturities of the Bank's yen-denominated obligations and yen-denominated assets as described below. As a result, net interest income tends to increase when interest rates decline and decrease when interest rates rise. The Bank seeks to control its exposure to interest rate fluctuations through market risk and asset/liability management.

The Bank's net interest income in recent periods has reflected the impact of a significant decline in market rates of interest for obligations denominated in yen that occurred during fiscal 1994. The average of the new issue rates for Japanese bank certificates of deposit with maturities of from 90 to 179 days as published by the BoJ was 2.224%, 2.152%, 0.636% and 0.519% as of March 31, 1994, 1995, 1996 and 1997, respectively, and was 0.518% at September 30, 1997. The Bank's yen-denominated interest-bearing obligations have a shorter average maturity than its yen-denominated interest-bearing assets and therefore such obligations mature and are replaced more rapidly than such assets. Consequently, as market interest rates have declined, the Bank has incurred interest-bearing obligations at new, lower interest rates more rapidly than it has acquired new assets at lower interest rates. This has had the effect of reducing the Bank's interest costs more rapidly than it reduced the Bank's interest income. The Bank's net interest income reflected this effect in fiscal 1995 and, to a lesser extent, in fiscal 1996. The benefit of the 1994 decline in interest rates (disregarding the impact of volume changes) will decline or disappear in the current and future periods if yen interest rates do not further decline. The difference in average maturity of the Bank's yen-denominated obligations and yen-denominated assets may have a negative impact on net interest income if market rates of interest for obligations denominated in yen increase from current levels.

The Bank's total interest income decreased 10.2% to ¥1,996,948 million in fiscal 1996 from ¥2,224,098 million in fiscal 1995. Interest on loans and discounts decreased ¥128,993 million, or 10.9%, to ¥1,051,735 million in fiscal 1996, primarily as a result of a decline in market interest rates. Interest and dividends on securities decreased ¥16,262 million, or 8.1% to ¥185,190 million in fiscal 1996, principally due to a reduction of coupon rates on securities in the Bank's portfolio. A 9.7% decline in other interest income, to ¥760,022 million in fiscal 1996 from ¥841,917 million in fiscal 1995, primarily reflects lower balances of deposits with banks. The Bank's total interest income in fiscal 1995 was virtually unchanged from fiscal 1994. Interest on loans and discounts decreased ¥145,929 million, or 11.0%, to ¥1,180,728 million in fiscal 1995 due to the decline in market interest rates although the average balance of loans and bills discounted increased by 3.7% to ¥34,808,937 million, largely as a result of the purchase of Daiwa Bank's assets in the United States in February 1996. Approximately offsetting this decline, other interest income increased ¥142,341 million, or 20.3%, to ¥841,917 million in fiscal 1995, principally reflecting increased interest received on interest swap transactions entered into for trading and hedging purposes. Interest and dividends on securities increased ¥3,259 million, or 1.6%, to ¥201,452 million in fiscal 1995.

The following table sets forth information as to the Bank's interest income and average interest-earning assets for the past three fiscal years:

	Year ended March 31,			Percentage Change	
	1995	1996	1997	1995/1996	1996/1997
	(millions of yen, except percentages)				
Interest income	¥ 2,224,427	¥ 2,224,098	¥ 1,996,948	(0.01)%	(10.21)%
Average interest-earning assets	46,172,965	47,725,396	48,231,191	3.36	1.06
Loans and bills discounted	33,573,407	34,808,937	36,325,936	3.68	4.36
Securities	5,645,224	6,213,050	6,031,669	10.06	(2.92)
Interbank deposits	6,107,440	5,715,045	4,692,946	(6.42)	(17.88)
Other interest-earning assets	846,893	988,363	1,180,638	16.70	19.45
Average rate (1)	4.81%	4.66%	4.14%	(0.15)	(0.52)

(1) Average rate of interest/average balance.

The Bank's total interest expenses decreased 12.4% to ¥1,402,120 million in fiscal 1996 from ¥1,600,224 million in fiscal 1995. Interest on deposits decreased ¥194,870 million, or 19.9%, to ¥786,410 million in fiscal 1996 primarily due to declines in interest rates on yen and foreign currency deposits. Interest on borrowings and rediscounts decreased ¥24,491 million, or 16.3%, to ¥125,833 million in fiscal 1996 for the same reasons. Other interest expenses, however, showed an increase of ¥21,259 million, or 4.5%, to ¥489,877 million, principally reflecting increased interest paid on interest rate swaps due to a greater volume of transactions. The Bank's total interest expenses in fiscal 1995 decreased 7.5% to ¥1,600,224 million from ¥1,730,503 million in fiscal 1994, principally due to a decrease in interest on deposits from ¥224,335 million in fiscal 1994 to ¥150,324 million in fiscal 1995. The fiscal 1995 decrease reflects declines in interest rates on deposits denominated in yen and (to a lesser extent) foreign currencies which more than offset a 3.2% increase in the average balance of deposits to ¥34,596,960 million.

The following table sets forth the Bank's interest expenses, average interest-bearing liabilities and average non-interest-bearing current deposits for the last three fiscal years:

	Year ended March 31,			Percentage Change	
	1995	1996	1997	1995/1996	1996/1997
	(millions of yen, except percentages)				
Interest expenses (1)	¥ 1,725,763	¥ 1,596,082	¥ 1,398,523	(7.51)%	(12.38)%
Average interest-bearing liabilities:	44,810,751	46,493,580	47,004,406	3.76	1.10
Deposits	37,060,123	38,810,850	38,909,464	4.72	0.25
Other interest-bearing liabilities	7,750,627	7,682,730	8,094,941	(0.88)	5.37
Average rate (1)	3.85%	3.43%	2.97%	(0.42)	(0.46)
Average non-interest-bearing current deposits	¥ 932,398	¥ 1,015,209	¥ 1,118,494	8.88	10.17

(1) Excludes expenses incurred in connection with the management of money held in trust.

Net interest income in fiscal 1996 fell 4.7% to ¥594,827 million from ¥623,874 million in fiscal 1995 as lower interest expenses were more than offset by a decrease in total interest income. As a result of virtually unchanged interest income and decreased interest expenses, net interest income rose 26.3% to ¥623,874 million in fiscal 1995 as compared to fiscal 1994. Net interest income as a percentage of average interest-earning assets (loans and bills discounted, securities, interest-bearing deposits in other banks, call loans, bills bought, trading account securities and other interest-earning assets) was 1.24% in fiscal 1996 (allocated 1.39% to domestic operations and 0.87% to international operations) as compared to 1.31% (allocated 1.55% to domestic operations and 0.77% to international operations) in fiscal 1995. In fiscal 1994, net interest income as a percentage of interest-earning assets was 1.07% (allocated 1.36% to domestic operations and 0.44% to international operations).

The following table shows changes in net interest income of the Bank between changes in volume and changes in rate for fiscal 1995 compared to fiscal 1994, and for fiscal 1996 compared to fiscal 1995. Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total "net change".

	Fiscal 1995 Versus Fiscal 1994			Fiscal 1996 Versus Fiscal 1995		
	Increase (Decrease) Due to Changes in			Increase (Decrease) Due to Changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(millions of yen)					
Interest income:						
Interest-bearing deposits in other banks:[1]						
Domestic	¥ 338	¥ 667	¥ 1,005	¥ 205	¥ (899)	¥ (694)
International	(18,600)	44,037	25,436	(52,226)	(8,748)	(60,974)
Total	¥ (18,395)	¥ 44,837	¥ 26,442	¥ (52,168)	¥ (9,500)	¥ (61,669)
Call loans:[2]						
Domestic	53	(67)	(13)	69	(20)	49
International	(1,626)	3,807	2,181	(996)	(3,842)	(4,839)
Total	¥ (1,423)	¥ 3,590	¥ 2,167	¥ (439)	¥ (4,350)	¥ (4,789)
Bills bought:[2]						
Domestic	79	(1)	77	(39)	(38)	(78)
International	—	—	—	—	—	—
Total	¥ 79	¥ (1)	¥ 77	¥ (39)	¥ (38)	¥ (78)
Trading securities:[3]						
Domestic	(4,342)	1,768	(2,574)	(1,008)	181	(827)
International	—	—	—	—	—	—
Total	¥ (4,342)	¥ 1,768	¥ (2,574)	¥ (1,008)	¥ 181	¥ (827)
Investment securities:[3]						
Domestic	18,141	(20,761)	(2,620)	(4,539)	(22,677)	(27,217)
International	7,888	564	8,453	1,431	10,351	11,782
Total	¥ 24,741	¥ (18,908)	¥ 5,833	¥ (4,865)	¥ (10,569)	¥ (15,434)
Loans and bills discounted:[2]						
Domestic	1,948	(195,736)	(193,787)	7,121	(148,420)	(141,299)
International	57,974	(12,362)	45,612	58,133	(40,958)	17,175
Total	¥ 46,666	¥ (194,841)	¥ (148,174)	¥ 48,787	¥ (172,911)	¥ (124,124)
Total interest income:						
Domestic	20,229	(148,279)	(128,049)	3,539	(140,802)	(137,262)
International	91,160	28,873	120,034	16,510	(114,919)	(98,408)
Total	¥ 73,550	¥ (73,880)	¥ (329)	¥ 23,342	¥ (250,492)	¥ (227,149)

(1) Interest-bearing deposits in other banks relate to "Other interest income" in the Statements of Income.

(2) Loans and bills discounted, call loans and bills bought relate to "Interest on loans and discounts" in the Statements of Income.

(3) Trading securities and investment securities relate to "Interest and dividends on securities" in the Statements of Income.

	Fiscal 1995 Versus Fiscal 1994			Fiscal 1996 Versus Fiscal 1995		
	Increase (Decrease) Due to Changes in			Increase (Decrease) Due to Changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(millions of yen)					
Interest expense:						
Deposits:						
Domestic	¥ 5,648	¥ (153,580)	¥ (147,932)	¥ (7,985)	¥ (93,265)	¥ (101,251)
International	33,380	28,813	62,193	(8,606)	(83,543)	(92,150)
Total	¥ 30,227	¥ (115,966)	¥ (85,738)	¥ (24,159)	¥ (169,242)	¥ (193,401)
Call money:						
Domestic	(909)	(53,686)	(54,596)	(81)	(12,455)	(12,536)
International	(7,604)	4,785	(2,819)	(3,382)	(5,249)	(8.632)
Total	¥ (4,446)	¥ (52,969)	¥ (57,415)	¥ (981)	¥ (20,188)	¥ (21,169)
Bills sold:						
Domestic	1,638	(10,209)	(8,571)	(514)	(1,788)	(2,303)
International	—	—	—	—	—	—
Total	¥ 1,638	¥ (10,209)	¥ (8,571)	¥ (514)	¥ (1,788)	¥ (2,303)
Negotiable certificates of deposit:						
Domestic	6,143	(39,562)	(33,418)	6,281	(12,016)	(5,734)
International	21,987	8,620	30,607	13,971	(9,705)	4,266
Total	¥ 18,424	¥ (21,235)	¥ (2,810)	¥ 23,554	¥ (25,022)	¥ (1,467)
Borrowed money:						
Domestic	(629)	(16,737)	(17,366)	3,206	(6,587)	(3,381)
International	10,503	(1,159)	9,343	8,896	(6,534)	2,362
Total	¥ 5,883	¥ (13,906)	¥ (8,023)	¥ 9,805	¥ (10,824)	¥ (1,018)
Total interest expense:						
Domestic	21,613	(216,032)	(194,419)	2,884	(91,279)	(88,394)
International	71,296	(14,841)	56,454	11,445	(129,675)	(118,230)
Total	¥ 64,055	¥ (194,334)	¥ (130,279)	¥ 17,015	¥ (215,118)	¥ (198,102)

(1) The above breakdown between domestic and international information does not exclude inter-area transfers by the Bank.

The following table shows the sensitivity of the Bank's interest-earning assets and sources of funds as of March 31, 1997.

Interest Sensitivity Analysis By Repricing Date At March 31, 1997

	One Year or Less[1]	One to Five Years	Over Five Years	Non-interest-sensitive Funds	Total
			(billions of yen)		
Interest-earning assets:					
Deposits with banks and money held in trust	¥ 5,284	¥ 242	—	—	¥ 5,525
Call loans and funds sold	520	—	—	—	520
Commercial paper and other debt purchased	40	61	—	—	100
Trading account securities	51	—	—	—	51
Investment securities	268	1,282	¥ 1,106	¥ 3,349	6,004
Loans and bills discounted	32,117	3,331	1,152	—	36,600
Foreign exchanges	460	74	—	—	534
Total	¥ 38,737	¥ 4,989	¥ 2,258	¥ 3,349	¥ 49,334
Source of funds:					
Interest-bearing deposits	¥ 36,112	¥ 1,999	—	—	¥ 38,111
Call money, funds purchased and borrowed money	6,362	1,508	¥ 222	—	8,092
Foreign exchanges	108	—	—	—	108
Convertible bonds	—	100	1	—	101
Non-interest-bearing funds (net)	—	—	—	¥ 2,922	2,922
Effect of swaps	1,067	(1,351)	283	—	0
Total	¥ 43,648	¥ 2,257	¥ 507	¥ 2,922	¥ 49,334
Interest sensitivity gap	(4,911)	2,732	1,752	427	—
Cumulative interest sensitivity gap	¥ (4,911)	¥ (2,179)	¥ (427)	—	—

(1) Includes floating or adjustable rate.

Net Fees and Commissions

The Bank's most substantial source of fees and commissions income consists of fees from money remittance and transfers, and in the current and recent periods the growth in such income has reflected the development and increasing customer use of alternative banking service delivery channels, such as electronic, telephone and Internet banking. The Bank's fees and commissions income also includes, among other items, those relating to deposits and loans (e.g., loan commitment fees, loan agency fees and swap fees), securities businesses (e.g., bond trustee fees and bond recording agency fees) and guarantees and acceptances.

The following table sets forth the Bank's fees and commissions income and expenses for the last three fiscal years:

	Year ended March 31, 1995	1996	1997
		(millions of yen)	
Fees and commissions (income)	¥ 83,585	¥ 92,873	¥ 101,587
Deposits and loans	16,101	19,584	26,153
Remittances and transfers	36,842	39,848	42,759
Securities	8,998	9,427	7,269
Fees and commissions (expenses)	38,683	36,728	35,753
Remittances and transfers	9,804	10,411	10,192
Net fees and commissions	44,901	56,144	65,834

Income from fees and commissions in fiscal 1996 grew by ¥8,714 million, or 9.4%, to ¥101,587 million, principally as a result of greater fees relating to loans and remittance fees, compared to fiscal 1995. Expenses related to fees and commissions remained relatively stable, showing a decline of ¥975 million, or 2.7%, to ¥35,753 million in fiscal 1996. As a result of increased income from fees and commissions and slightly lower expenses related to fees and commissions, net fees and commissions in fiscal 1996 increased 17.3% to ¥65,834 million from ¥56,144 million in fiscal 1995.

Income from fees and commissions showed steady growth in fiscal 1995, increasing 11.1% to ¥92,873 million in fiscal 1995 as compared to fiscal 1994, due to an increase in fees and commissions on deposits and loans. Expenses related to fees and commissions declined 5.1% in fiscal 1995 to ¥36,728 million from ¥38,683 million in fiscal 1994. Due to greater income from fees and commissions and lower expenses, net fees and commissions in fiscal 1995 grew 25.0% to ¥56,144 million from ¥44,901 million in fiscal 1994.

Net Other Operating Income

The Bank's net other operating income includes (i) net profit from bond-related operations, (ii) gains on trading account securities, (iii) gains on foreign exchange operations and (iv) other items. Net profit from bond-related operations consists of gains on sale of bonds, gains on redemptions of bonds, losses on sale of bonds, losses on redemption of bonds, and losses on devaluation of bonds. The Bank's net profit from bond-related operations and gains on trading account securities fluctuate depending on a number of factors such as fluctuations in market prices of bonds and related products, the status of the Bank's open and hedged positions in the market and the cost of managing any market exposures as well as, in case of gains on trading account securities, the volume of, and margin in respect of, transactions. Gains on foreign exchange operations include net gains derived from foreign-currency transactions and gains on revaluation of foreign-currency positions at each fiscal period end. Gains on foreign exchange operations fluctuate depending upon a number of factors such as the volume of, and margin earned in respect of, transactions initiated by customers, fluctuations in foreign exchange rates and market prices of the related products, the status of the Bank's open and hedged positions in the market and the cost of managing any market exposures. Other major items under net other operating income include gains and loss on sale of gold, fees earned on securities lending and gains and loss on sale of performing loans.

The following table sets forth the Bank's net other operating income for the last three fiscal years.

	Year ended March 31, 1995	1996	1997
		(millions of yen)	
Net profit from bond-related operations:			
Gains on sale of bonds	¥ 26,669	¥ 125,879	¥ 51,070
Gains on redemption of bonds	3,252	2,815	3,121
Losses on sale of bonds	(16,232)	(53,565)	(22,113)
Losses on redemption of bonds	(8,989)	(8,295)	(9,770)
Losses on devaluation of bonds	(1,724)	(1)	(272)
Net profit from bond-related operations	2,974	66,832	22,035
Gains on trading account securities	7,865	4,554	12,320
Gains on foreign exchange operations	36,506	17,385	12,174
Other operating income/expense (net)	257	421	695
Net other operating income	¥ 47,604	¥ 89,192	¥ 47,225

Net other operating income in fiscal 1996 declined 47.1%, to ¥47,225 million from ¥89,192 million in fiscal 1995. Net other operating income in fiscal 1995 increased 87.4%, to ¥89,192 million from ¥47,604 million in fiscal 1994.

Net gains on sale of bonds fell by ¥43,357 million, or 60.0%, to ¥28,957 million in fiscal 1996, compared to a net gain of ¥72,314 million in fiscal 1995. Net gains on sale of bonds increased ¥61,887 million, or 692.9%, to ¥72,314 million in fiscal 1995 as compared to net gains on sale of bonds of ¥10,437 million in fiscal 1994. The significant increase in net gains on sale of bonds in fiscal 1995 were due to increased sales by the Bank to capitalize on appreciation of bonds resulting from declining market interest rates. Gains on trading account securities in fiscal 1996 increased ¥7,766 million, or 170.5%, to ¥12,320 million from ¥4,554 million in fiscal 1995. Gains on trading account securities decreased 42.1% in fiscal 1995 as compared to gains on trading account securities of ¥7,865 million in fiscal 1994. In fiscal 1996, gains on foreign exchange transactions decreased ¥5,211 million, or 30.0%, to ¥12,174 million, due to a decrease in volume of foreign exchange transactions as compared to fiscal 1995. Gains on foreign exchange transactions decreased 52.4%, to ¥17,385 million, in fiscal 1995 from ¥36,506 million in fiscal 1994, notwithstanding an increase in the Bank's actual foreign exchange business. This decrease arose primarily as a result of Japanese accounting practices that require losses (or gains) arising on year-end valuations of foreign currency receivables and payables on hedging transactions to be recorded as other operating income but any related gains (or losses) are recorded in interest income.

In fiscal 1996, net other operating income decreased ¥41,967 million, or 47.1%, to ¥47,225 million, primarily reflecting substantial declines in net gains on sale of bonds and gains on foreign exchange transactions, partially offset by an increase in gains on trading account securities. In fiscal 1995, net other operating income increased ¥41,588 million, or 187.4%, to ¥89,192 million from ¥47,604 million in fiscal 1994. The increase in fiscal 1995 was due principally to a gain of ¥125,879 million arising from the sale of bonds during the year as Japanese Government bonds appreciated in value because of a decline in market interest rates, which was partially offset by an increase of ¥37,333 million in losses on sale of bonds. See "Non-consolidated Financial Statements of the Bank", Notes 14 and 16.

General and Administrative Expenses

Principal components of the Bank's general and administrative expenses include salaries and related expenses, rent and lease expenses, depreciation expenses, welfare expenses, and taxes, other than income taxes. The following table sets forth the amounts of such material components for the periods indicated:

	Year ended March 31,		
	1995	1996	1997
		(millions of yen)	
Salaries and related expenses	¥ 141,535	¥ 142,017	¥ 139,007
Retirement benefit	3,703	3,754	4,906
Transfer from reserve for retirement allowances	3,355	3,471	3,289
Welfare expenses	28,599	28,357	27,901
Depreciation	31,323	36,184	29,993
Rent and lease expenses	35,951	37,006	39,288
Taxes, other than income taxes	21,715	21,277	19,747
Other	91,219	96,656	114,138
Total	¥ 357,400	¥ 368,722	¥ 378,269

General and administrative expenses increased ¥9,547 million, or 2.6%, to ¥378,269 million in fiscal 1996, primarily due to increased deposit insurance premiums (included in "Other" in the above table) and expenses related to improved risk management systems which more than offset a decrease in depreciation expenses (which normalized in fiscal 1996 after the increase in fiscal 1995 which was due to the acquisition of assets from Daiwa Bank) and personnel-related expenses owing to a reduction in the work force. General and administrative expenses in fiscal 1995 increased 3.2% to ¥368,722 from ¥357,400 in fiscal 1994, despite a reduction in the number of employees, principally due to the write-off of goodwill related to the acquisition of Daiwa Bank branches in the U.S.

Other Income and Expenses (including Transfer to Reserve for Possible Loan Losses)

The following table sets forth below the Bank's other income and expenses for the periods indicated:

	Year ended March 31,		
	1995	1996	1997
		(millions of yen)	
Other income and expenses:			
Net gain on sale or devaluation of stock and other securities:			
Gains on sale of stock and other securities	¥ 420,593	¥ 61,485	¥ 169,956
Losses on sale of stock and other securities	(1,770)	(2,335)	(1,413)
Losses on devaluation of stock and other securities	(63,089)	(8,225)	(120,289)
Net gains	355,732	50,924	48,253
Transfer to reserve for possible loan losses	(247,686)	(95,754)	(93,463)
Write-off of loans	(224,913)	(75,052)	(130,210)
Losses on sale of loans to CCPC	(207,238)	(78,820)	(29,920)
Transfer to reserve for loss on loans sold	—	—	(42,172)
Losses on financial assistance for associated companies	(128,280)	(104,644)	(30,000)
Losses on sales of loans to less-developed countries	(49,928)	(2,533)	—
Other (net)	(62,422)	(55,045)	(581)
Net other income/expenses	¥ (564,735)	¥ (360,824)	¥ (278,093)

Other Income and Expenses. Net other income was a loss of ¥278,093 million fiscal 1996, a decrease of ¥82,731 million from fiscal 1995, as the Bank recorded decreases in losses on sale of loans to CCPC, losses on financial assistance for associated companies and other items, not otherwise classified. However, these decreases were partially offset by increases in write-offs of loans. Net other income was a loss of ¥360,824 million in fiscal 1995, a decrease of 36.1% from a loss of ¥564,735 million in fiscal 1994, primarily as a result of substantial decreases in transfer to reserve for possible loan losses, write-offs of loans and losses on sale of loans to CCPC, which were partially offset by a substantial decrease in net gains on sale of stock and other securities.

Losses relating to Problem Loans. During the period under review, the Bank had significant loan quality problems, which have not been fully resolved to date, and the Bank addressed problem loan portfolios by way of (i) transfer to reserve for possible loan losses (consisting of general reserve, specific reserve and reserve relating to restructuring countries), (ii) direct write-offs, (iii) losses on sale of loans to CCPC, (iv) transfer to reserve for loss on loans sold to CCPC, (v) losses on financial assistance for associated companies, and (vi) losses on sale of LDC loans. See "Business — Loan Losses and Problem Loans — Loan Loss Experience".

Overall, the Bank's losses relating to its problem loans in fiscal 1996 stayed at approximately the same level as those in fiscal 1995. Transfer to reserve for possible loan losses in fiscal 1996 declined 2.4% to ¥93,463 million from ¥95,754 million in fiscal 1995. Write-offs of loans in fiscal 1996 increased 73.5%, to ¥130,210 million from ¥75,052 million in fiscal 1995. In fiscal 1996, the Bank's write-offs related to a number of different borrowers, whereas in fiscal 1995 write-offs principally related to loans made to affiliates of Hyogo Bank. Transfer to reserve for loss on loans sold in fiscal 1996, an item included in other expenses that was not recognized in prior years, totaled ¥42,172 million. Reserve for loss on loans sold reflects the Bank's estimate of the amounts of losses it will incur in the future in relation to loans previously sold to CCPC. See "Business — Loan Losses and Problem Loans — Reserve for Loss on Loans Sold". Losses arising on financial assistance provided to Sumigin Guarantee Company, an associated company of the Bank, amounted to ¥30,000 million in fiscal 1996 as compared to ¥104,644 million in fiscal 1995, when financial assistance was provided to SB Leasing Company Limited and Sumigin General Finance Company, Limited. The Bank incurred a loss of ¥29,920 million in fiscal 1996 on the sale of real estate collateralized loans to CCPC, representing a decrease of ¥48,900 million from fiscal 1995.

In fiscal 1995, the Bank's losses relating to its problem loans were materially lower as compared with fiscal 1994 when the Bank recorded significant losses. Transfer to reserve for possible loan losses in fiscal 1995 decreased ¥151,932 million, or 61.3%, from ¥247,686 million in fiscal 1994. See "Business — Loan Losses and Problem Loans". Write-offs of loans declined ¥149,861 million, or 66.6% to ¥75,052 million in fiscal 1995, primarily due to unusually large additions to reserves and losses on sales of loans to CCPC in fiscal 1994 as the Bank recognized significant accumulated losses reflecting the cumulative effect of several years of adverse economic conditions. Losses on financial assistance for associated companies decreased in fiscal 1995 to ¥104,644 million from ¥128,280 million, or 1.8%, in fiscal 1994.

Net Gain on Sale or Devaluation of Stock and Other Securities. The Bank has a substantial portfolio of stock and other securities and from time to time recognizes gains or losses on sale of stock and other securities or losses on devaluation of stock and other securities. Such gains or losses fluctuate depending upon the fluctuation in the market value of stock and other securities and the Bank's policy on investment in and disposition of stock and other securities.

In fiscal 1996 the Bank's net gain on sale of stock and other securities decreased by 5.2% from ¥50,924 million in fiscal 1995 to ¥48,253 million. Gains on sale of stocks and other securities rose ¥108,471 million, or 176.4%, to ¥169,956 million in fiscal 1996, principally as a result of greater sales by the Bank. As a result of generally lower share prices in Japan as of March 31, 1997, there was a 1,362.5% increase in losses on devaluation of stock and other securities from ¥8,225 million for fiscal 1995 to ¥120,289 million which further reduced the net gain.

In fiscal 1995, the Bank's net gain on sale of stock and other securities decreased 85.7%, from ¥355,732 million in fiscal 1994 to ¥50,924 million in fiscal 1995. Gains on sale of stock and other securities in fiscal 1995 decreased 85.4% to ¥61,485 million from ¥420,593 million in fiscal 1994, when a substantial amount of the portfolio was sold and repurchased at prevailing market rates to realize previously unrealized gains in order to reduce the impact on net income of the Bank's bad debt losses. Losses on devaluation of stocks and other securities fell ¥54,864 million in fiscal 1995 to ¥8,225 million from ¥63,089 million in fiscal 1994. The losses in fiscal 1995 occurred despite generally higher market prices for stocks as of March 31, 1996 due principally to the writedown of shares of Hyogo Bank, which filed for bankruptcy protection during fiscal 1995. The losses in fiscal 1994 reflect significant declines in stock prices generally in fiscal 1994.

Net Income

Income before income taxes for fiscal 1996 increased 13.6% to ¥44,157 million from ¥38,873 million in fiscal 1995. Net income for fiscal 1996 decreased 16.2% to ¥35,318 million from ¥42,128 million in fiscal 1995.

Income before income taxes totaled ¥38,873 million in fiscal 1995, compared to a loss of ¥339,523 million in fiscal 1994. Net income amounted to ¥42,128 for fiscal 1995, compared to a net loss of ¥335,498 million in the previous year. The amount of net income for fiscal 1995 was higher than the amount of income before income taxes, reflecting the benefits of substantial tax loss carryforwards and foreign tax credits.

Consolidated Results

The following table sets forth the Bank's non-consolidated and consolidated income before income taxes and net income for the past three fiscal years:

	Year ended March 31,					
	1995		1996		1997	
	Income before Income taxes	Net Income	Income before Income taxes	Net Income	Income before Income taxes	Net Income
Non-consolidated(A) .	¥ (339,523)	¥ (335,498)	¥ 38,873	¥ 44,128	¥ 44,157	¥ 35,318
Consolidated(B) . . .	(325,830)	(283,829)	27,891	37,539	61,358	34,048
(B)/(A)	96.0%	84.6%	71.7%	85.1%	139.0%	96.4%

The difference between consolidated and non-consolidated net income is due in part to the treatment of deferred taxes as applied to the consolidated financial statements, but not to non-consolidated financial statements. See Note 2(k) of Notes to Consolidated Financial Statements. A substantial portion of specific reserve for possible loan losses of the Bank in recent years has not been deductible for the purpose of calculating Japanese income taxes. The deferred income tax benefit of such reserves is recognized currently for financial reporting purposes in the consolidated financial statements of the Bank but not in the non-consolidated financial statements of the Bank.

The difference between consolidated and non-consolidated net income is also due in part to the fact that for each of fiscal 1994, 1995 and 1996 the amount of dividend income from subsidiaries (reflected in non-consolidated net income) exceeded the amount of net income from subsidiaries on a consolidated basis, as the Bank during these periods caused subsidiaries to dividend a substantial amount of retained earnings. This factor principally accounts for the difference between consolidated and non-consolidated net income in fiscal 1995 and 1996, while the impact of the treatment of deferred taxes in the preceding paragraph principally accounts for the difference between consolidated and non-consolidated net income in fiscal 1994.

Financial Condition

Total Assets

At March 31, 1997, the Bank had total assets of ¥57,149,204 million, an increase of ¥2,969,489 million, or 5.5% from total assets of ¥54,179,715 million at March 31, 1996. This increase was caused primarily by the depreciation of the yen against the U.S. dollar and other major foreign currencies. As of March 31, 1997, the exchange rate of yen against the U.S. dollar was ¥124.10 per U.S. dollar as compared to ¥106.35 per U.S. dollar at March 31, 1996.

Lending

At March 31, 1997, the Bank's loans and bills discounted were ¥36,600,112 million, or 64.0%, of total assets, which represented an increase of ¥1,100,490 million, or 3.1%, from ¥35,499,622 million of the prior fiscal year-end. Total loans and bills discounted at March 31, 1997 consisted of ¥26,769,806 million of domestic loans and ¥9,830,305 million of foreign loans. Foreign loans consist of loans originated in foreign branches and loans from domestic offices which are denominated in currencies other than yen or which are made to individuals and entities who are not residents of Japan.

The Bank's domestic loans increased ¥248,610 million during fiscal 1996. The Bank's foreign loans increased 9.5%, or ¥851,880 million due primarily to the depreciation of the yen against the U.S. dollar and other major currencies.

The Bank's non-accrual loans outstanding totaled ¥807,092 million at March 31, 1997, representing a decrease of ¥65,915 million, or 7.6%, from March 31, 1996. The Bank's total restructured loans and loans for financial assistance outstandings were ¥104,673 million and ¥162,466 million, respectively, at March 31, 1997.

Loans made by the Bank to borrowers outside Japan in highly leveraged corporate transactions (loans made in connection with recapitalizations, acquisition transactions or other corporate restructurings to borrowers whose debt to total asset ratio will exceed 75%, or 50% under certain circumstances) and to restructuring countries (as defined by MoF regulations) are not material relative to the Bank's total assets at March 31, 1997. The Bank intends to continue to participate in such loans to the extent that credit risks are deemed prudent and a satisfactory level of return is offered, and the portion of the Bank's loan portfolio attributable to such loans does not materially increase.

Investment Portfolio

The Bank carries debt securities at amortized cost where the Bank has the intent and ability to hold them to maturity. The investment portfolio of the Bank is divided between trading account and investment account. Securities held in the trading account and securities in the investment account are valued at the lower of cost and market. Beginning as of April 1, 1996, Japanese government and local authority bonds held in the investment portfolio, which the Bank intends to hold to maturity, are valued at cost.

The Bank's investment securities totaled ¥6,004,310 million at March 31, 1997, a decrease of ¥111,111 million, or 1.8% as compared to March 31, 1996.

Net unrealized gains included in the Bank's investment portfolio (other than unlisted securities without market value) were ¥670,656 million and ¥1,124,120 million respectively, at March 31, 1997 and 1996. These unrealized gains relate principally to marketable equity securities of Japanese issuers. Thus, net unrealized gains in the Bank's investment potfolio tend to track the general trend in the performance of the Japanese stock markets, subject also to the particular portfolio mix of the Bank's Japanese equity securities and to other factors affecting other type of securities in the Bank's investment portfolio. The Nikkei Stock Average closed at 18,003.40 and 21,406.85, respectively, as of March 31, 1997 and 1996.

Inter-Bank Deposits

The Bank's interest-bearing deposits in other banks at March 31, 1997 were ¥5,382,143 million representing an increase of ¥639,081 million, or 13.5%, from the fiscal 1995 year-end total of ¥4,743,062 million due principally to the impact, on the balance represented by foreign currency deposits, of a decline in the value of the yen against the dollar.

Funding

At March 31, 1997, total liabilities were ¥55,362,796 million, representing an increase of ¥2,960,870 million, or 5.7%, from the prior fiscal year end total of ¥52,401,926 million. Such increase in total liabilities resulted primarily from a ¥751,755 million increase in deposits and a ¥484,211 million increase in acceptances and guarantees and the impact, on the balance represented by foreign currency liabilities, of a decline in the value of the yen against the dollar.

The amount of year-end deposit balances for fiscal 1996 increased ¥751,755 million, or 1.9% to ¥39,833,827 million as compared to ¥39,082,072 million for fiscal 1995. Total deposits at March 31, 1997 consisted of ¥23,349,654 domestic yen deposits and ¥16,484,173 international deposits (i.e., deposits other than domestic yen deposits).

Among domestic yen deposits, the Bank maintains a stable balance of large denomination time deposits due to the historically high rollover rate of its corporate customers and individual depositors. The period-end balances of time deposits for domestic offices for fiscal 1996 amounted to ¥12,246,266 million as compared to ¥12,850,085 million for fiscal 1995; this decline corresponds to a comparable increase in certificates of deposit. During the current fiscal year, the Bank's domestic time deposits have been increasing as depositors shift deposits from other banks. Japanese corporate customers generally maintain large deposit balances with banks from which they obtain significant borrowings. Most of such large denomination time deposits have a maturity of less than one year.

A material part of the Bank's international deposits are interbank deposits which are either short-term deposits or deposits at notice. For information about additional premiums that the Bank has been required to pay on such deposits during recent periods, see "Investment Considerations — 'Japan Premium' and Limitation on Credit Extended to Japanese Banks".

Capital Resources

The Bank believes that its shareholders' equity and unrealized securities gains (the excess of market value over book value) provide the Bank with a high level of creditworthiness, a fundamental requirement for its business. The table below presents information relating to the Bank's shareholders' equity as of March 31 in each of the last three years:

	As of March 31,		
	1995	1996	1997
	(millions of yen, except percentages)		
Shareholders' equity	¥ 1,762,359	¥ 1,777,789	¥ 1,786,408
Shareholders' equity as a percentage of total assets	3.4%	3.3%	3.1%

The table below presents information relating to the Bank's net unrealized gains in respect of listed equity securities as of March 31 in each of the last three years:

	As of March 31,		
	1995	1996	1997
	(millions of yen, except percentages)		
Net unrealized gains	¥ 406,576	¥ 1,102,229	¥ 655,347
Net unrealized gains as a percentage of total listed equity securities	15.8%	41.6%	24.3%

The Japanese equity securities market has declined significantly from its 1990 highs. The Bank's management believes that future fluctuations in the Japanese equity securities market could have a material adverse effect on the Bank's future earnings. Due to sales of certain equity securities to reduce the impact on net income of the Bank's bad debt losses, followed generally by repurchases, the average book value of the Bank's equity securities has increased. Such sales and repurchases have had the effect of reducing the Bank's net unrealized gain on its domestic equity securities and increasing the potential for losses (caused by declines in market prices) on the Bank's equity portfolio. The Bank is not dependent on sales of equity securities as a source of liquidity.

Under the current MoF guidelines and regulations, ordinary banks such as the Bank generally are not permitted to issue debentures in Japan, except through the issuance of convertible bonds and notes and subordinated bonds and notes. The Bank issues a variety of fixed or floating, subordinated or senior and/or dated and undated securities through its overseas offices as well as borrowing on a subordinated basis and had a total amount of over ¥1,574,778 million of such securities and loans outstanding as of March 31, 1997.

Capital Adequacy

In 1988, the MoF introduced a new set of capital guidelines based on the risk-weighted approach proposed by the Basle Committee on Banking Regulations and Supervisory Practices of the Bank for International Settlements (the "BIS") for uniform application to all international banks in industrialized countries. The MoF guidelines are similar to the final guidelines issued in 1989 by the Board of Governors of the Federal Reserve System in the United States; differences between the two primarily reflect implementation of the BIS approach in a manner designed to suit the respective banking environments in Japan and the United States. See "Supervision and Regulation — Capital Adequacy".

Set forth below is a schedule of risk-adjusted assets and details of qualifying capital of the Bank determined on a consolidated basis. The amount and percentages shown below have been calculated in accordance with Japanese GAAP.

	As of March 31,			As of September 30,
	1995	1996	1997	1997
	(millions of yen, except percentages)			
Tier I capital	¥ 1,965,869	¥ 1,977,312	¥ 1,984,084	¥ 2,002,384
Tier II capital:				
Unrealized gains on securities after 55% discount	197,646	510,910	310,912	329,660
Reserve for possible loan losses (excluding specific reserve)	118,943	126,568	134,509	133,857
Subordinated term debt (with an original maturity of over 5 years)	1,149,434	1,307,068	1,427,090	1,379,733
Total Tier II capital	¥ 1,466,025	¥ 1,944,547	¥ 1,872,512	¥ 1,843,251
Tier II capital which may be counted as qualifying capital	1,466,025	1,944,547	1,872,512	1,843,251
Total qualifying capital	¥ 3,431,895	¥ 3,921,859	¥ 3,856,597	¥ 3,845,635
Risk-adjusted assets:				
On-balance sheet items	¥ 36,296,677	¥ 37,966,452	¥ 39,126,426	¥ 38,515,258
Off-balance sheet items	4,169,120	4,633,158	4,947,213	4,645,395
Total risk-adjusted assets	¥ 40,465,798	¥ 42,599,611	¥ 44,073,640	¥ 43,160,653
Tier I risk-adjusted capital ratio	4.85%	4.64%	4.50%	4.63%
Total risk-adjusted capital ratio	8.48	9.20	8.75	8.91

The decline in the risk-adjusted capital ratio in fiscal 1996 was primarily a decrease in net unrealized gains as a result of a decline in general price levels of Japanese equity securities and increased risk-adjusted assets as a result of depreciation of the yen against the U.S. dollar and other major foreign currencies.

The Bank's risk-adjusted capital ratios as of September 30, 1997 were 4.63% (in the case of tier I capital) and 8.91% (in the case of total capital). The increase in the risk-adjusted capital ratios from March 31, 1997 reflected the reduction of risk-adjusted assets.

The Bank's risk-adjusted capital ratios as of March 31, 1998 will reflect changes from September 30, 1997 in the amount of the Bank's risk-adjusted assets (which will in turn be affected by, among other factors, the exchange rate of the yen against the U.S. dollar and other major foreign currencies), the amount of expected dividends to shareholder in respect of the period, the amount of the Bank's earnings or loss for the period, the amount of unrealized gains on listed securities and the amount of additional capital raised through the issuance of equity securities or subordinated debts.

The Bank has been seeking to reduce the amount of its total risk-adjusted assets in order to improve its risk-adjusted capital ratios and to improve its return on assets. In that connection, the Bank has since September 30, 1997 sold assets that will effect a reduction in the total amount of the Bank's risk-adjusted assets. The bank is also seeking to sell additional assets by March 31, 1998, including its non-strategic U.S. subsidiary, Sumitomo Bank of California, and loans previously acquired from Daiwa Bank. However, the weakening of the yen against the dollar and other major foreign currencies has the effect of increasing the amount of risk-adjusted assets denominated in foreign currencies, since such assets will be translated into yen at the relevant prevailing exchange rates as of March 31, 1998. Assuming the continuation of current foreign exchange rates through March 31, 1998, the Bank expects that the reduction of risk-adjusted assets through the sale of assets will be mostly offset by the impact of the weakening of the yen on the risk asset value of foreign currency assets. The yen value depreciated from ¥121.10 per U.S. dollar as of September 30, 1997 to ¥124.00 per U.S. dollar as of February 5, 1998.

The Bank has announced that it expects an aggregate of approximately ¥800 billion of credit losses for the fiscal year ending March 31, 1998, of which the Bank recognized approximately ¥128 billion of credit losses for the six months ending September 30, 1997. The Bank has already identified some credit losses during the course of the updated assessments that were not included in the previously announced expected ¥800 billion of credit losses based on the initial trial self-assessment of assets, although the Bank is not yet able to accurately revise its estimate of expected credit of losses. The Bank expects that credit losses to be recognized for the six months ending March, 1998 will cause the Bank to have a significant net loss on a consolidated basis for such period. Consequently, the Bank expects that its risk-adjusted capital ratios as of March 31, 1998 will be materially adversely impacted as a result of net losses to be recognized subsequent to September 30, 1997.

Under the MoF's capital adequacy guidelines, Tier II capital includes 45% of the unrealized gains on listed securities. If market prices for equity securities in Japan do not recover from current levels, the Bank expects that the amount of its unrealized gains on listed securities will be reduced, with a consequent adverse impact on the Bank's total risk-adjusted capital ratio. The Nikkei Stock Average, the most widely followed price index of stocks on Japanese stock exchanges consisting of an index of 225 selected stocks traded on the First Section of the Tokyo Stock Exchange, which stood at 17,887.71 at September 30, 1997, had declined to 17,003.30 as of February 5, 1998. Furthermore, declines in the market prices for particular securities held by the Bank, increases in domestic market interest rates or other factors could adversely affect the amount of the Bank's unrealized gains on securities.

The Bank expects that its risk-adjusted capital ratios as of March 31, 1998 will reflect the issuance of the Offered Securities offered hereby. The Bank expects that the issuance of the Offered Securities will have the effect of increasing the Bank's Tier I capital and total capital by the amount of the net proceeds of the Offering. While the Bank has received informal indications that MoF will consider the Offered Securities to constitute Tier I capital of the Bank, the Offered Securities is a novel security for Japanese banks, and the MoF may subsequently determine that the Offered Securities does not constitute Tier I capital of the Bank.

If the impact of the factors described above or other relevant factors would otherwise decrease the Bank's capital ratios below 4.0% (in the case of Tier I capital) or 8.0% (in the case of total capital) as of March 31, 1998, the Bank intends to take actions to seek to maintain its risk-adjusted capital ratios at or above such levels. Such actions may include the sale of equity or debt securities, domestic real estate or other assets with market values in excess of book values in order to realize gains; the sale of loans or other assets in order to reduce the amount of risk-adjusted assets; and the issuance of additional equity securities or subordinated debt. Sales of assets such as real estate and equity securities in substantial amounts by the Bank and other financial institutions similarly situated may have adverse effects on the market values for assets of the types sold, which may limit the amount of profitability of such sales. Furthermore, sales of assets and the issuance of securities may be difficult to accomplish by March 31, 1998. Current adverse conditions in the markets for securities of companies in the Japanese financial sectors may limit the Bank's ability to improve its capital ratios through the issuance of securities on favourable terms. Consequently, there can be no assurance that the Bank will be able to maintain its capital at or above the 4% and 8% levels referred to above as of March 31, 1998.

The factors described above may also adversely affect the Bank's capital ratios as of dates subsequent to March 31, 1998, and there can be no assurance that the Bank will be able to maintain its capital at or above the 4% and 8% levels referred to above as of such dates.

As of March 31, 1998 Japanese banks will be permitted to account for their investments in stocks (other than those held in the trading account) based on historical cost rather than at the lower of cost or market. Japanese banks adopting this method will be required to carry stocks held at March 31, 1997 at their book values on such date, even if less than historical cost, and will generally be required to reverse at March 31, 1998 any losses on devaluation of stocks and other securities recognized at September 30, 1997 (although gains or losses on such stocks may still be recognized as a result of sales prior to March 31, 1998).

The Bank has not yet determined whether it will adopt the cost method of accounting for investments in stock. In general, the risk-adjusted capital impact as of March 31, 1998 of such reversal of losses recognized at September 30, 1997, in relation to stocks the Bank does not sell between such dates, would be to increase the amount of the Bank's Tier I capital by approximately half of the amount of such reversal (reflecting the loss of related tax benefits) and to reduce the amount of the Bank's Tier II capital by a roughly corresponding amount. The amount of risk assets at March 31, 1998 attributable to such stocks would increase by the amount of the reversal.

Changes in capital adequacy standards that may have the effect (disregarding other changes) of increasing the risk-adjusted capital ratios of Japanese banks are being reviewed by the Japanese government. The most significant such change being considered would allow Japanese banks to include a portion of unrealized gains on real estate in Tier II capital. Such consideration is at a preliminary stage and may not result in any change in capital adequacy standards.

The Japanese Government has introduced legislation in the Diet that would provide for, among other things, the purchase by the Government of preferred equity or subordinated debt securities of Japanese banks under certain specified circumstances, including where such purchases are deemed necessary in order to avoid significant adverse impact upon the credibility of the Japanese financial system. If such legislation is enacted, the Bank may issue and sell such securities to the Government, and such transaction may have the effect of increasing the Bank's risk-adjusted capital. There can be no assurance that such legislation will be enacted or that the Bank will issue and sell any such securities to the Government.

For a discussion of the MoF's risk-based capital guidelines, see "Supervision and Regulation — Japan — Capital Adequacy".

Return on Equity and Assets

The following table sets forth the return on the Bank's equity and assets for the periods indicated.

	Year ended March 31,			Six months ended September 30,	
	1995	1996	1997	1996	1997
	(millions of yen, except percentages)				
Net income (loss)	¥ (335,498)	¥ 42,128	¥ 35,318	¥ 51,290	¥ 5,737
Average total assets	51,968,738	53,598,272	54,677,427	52,988,850	57,234,039
Average total assets, excluding customers' liabilities for acceptances and guarantees	48,594,992	49,855,715	50,481,407	49,077,069	52,919,296
Average shareholders' equity	2,077,750	1,722,633	1,732,283	1,670,408	1,714,397
Net income as a percentage of:					
Average total assets	—	0.08%	0.06%	0.10%	0.01%
Average total assets, excluding customers' liabilities for acceptances and guarantees	—	0.08%	0.07%	0.10%	0.01%
Average shareholders' equity	—	2.45%	2.04%	3.07%	0.33%
Declared cash dividends	¥ 26,698	¥ 26,698	¥ 26,698	¥ 13,349	¥ 13,349
Dividend payout ratio	—	63.37%	75.59%	26.03%	232.68%
Average shareholders' equity as a percentage of average total assets	4.00%	3.21%	3.17%	3.15%	3.00%

Recent Results

Overview

Net income for the six months ended September 30, 1997 decreased 89%, to ¥5.7 billion from ¥51.2 billion for the six months ended September 30, 1996. This decrease reflects primarily a significant increase in other expenses resulting from increases in losses on devaluation of stocks and other securities, loan losses and losses relating to the disposition of an investment trust holding domestic stocks. Financial results for the six months ended September 30, 1997 are not necessarily indicative of likely financial results for the full fiscal year ending March 31, 1998.

Net Interest Income, Interest Income and Interest Expenses

Net interest income remained relatively unchanged, increased 1.4% to ¥284,430 million for the six months ended September 30, 1997 from ¥280,435 million for the six months ended September 30, 1996. Interest income increased ¥11,442, or 1.2%, to ¥952,377 million for the six months ended September 30, 1997 compared to ¥940,935 for the six months ended September 30, 1996. Interest expenses increased ¥7,448 million, or 1.1%, to ¥667,947 million compared to ¥660,499 for the six months ended September 30, 1996.

The following table sets forth information as to the Bank's interest income and average interest-earning assets for the six months ended September 30, 1996 and 1997:

	Six months ended September 30,		Percentage Change
	1996	1997	1996/1997
	(millions of yen, except percentages)		
Interest income	¥ 940,935	¥ 952,377	1.22%
Average interest-earning assets	46,901,929	50,106,775	6.83
Loans and bills discounted	35,460,040	36,907,880	4.08
Securities	5,997,945	6,146,681	2.48
Interbank deposits	4,360,928	5,786,944	32.70
Other interest-earning assets	1,083,014	1,265,270	16.83
Average rate (1)	4.00%	3.79%	(0.21)

(1) Average rate of interest/average balance.

The following table sets forth the Bank's interest expenses, average interest-bearing liabilities and average non-interest-bearing current deposits for the six months ended September 30, 1996 and 1997:

	Six months ended September 30,		Percentage Change
	1996	1997	1996/1997
	(millions of yen, except percentages)		
Interest expenses (1)	¥ 658,786	¥ 666,077	1.11%
Average interest-bearing liabilities	45,684,469	47,833,953	4.71
Deposits.	37,609,740	40,432,554	7.51
Other interest-bearing liabilities	8,074,729	7,401,398	(8.34)
Average rate (1)	2.87%	2.77%	(0.10)

(1) Excludes expenses incurred in connection with the management of money held in trust.

Net Fees and Commissions

Net fees and commissions increased 22.3%, to ¥32,717 million for the six months ended September 30, 1997 from ¥26,748 million for the six months ended September 30, 1996. This increase is primarily due to a decline in related expenses attributable to the increase of fees relating to loans.

The following table sets forth the Bank's fees and commissions income and expenses for the six months ended September 30, 1996 and 1997:

	Six months ended September 30,	
	1996	1997
	(millions of yen)	
Fees and commissions (income)	¥ 47,887	¥ 51,709
Deposits and loans	10,826	13,176
Remittances and transfers	20,833	22,129
Securities	3,864	3,197
Fees and commissions (expenses)	21,139	18,991
Remittances and transfers	4,829	5,450
Net fees and commissions	26,748	32,717

Net Other Operating Income

Net other operating income increased ¥17,151 million, or 316.5% from ¥7,923 million for the six months ended September 30, 1996 to ¥25,074 million for the six months ended September 30, 1997. This increase is primarily due to the increase of net gains on sales of bonds.

General and Administrative Expenses

General and administrative expenses remained relatively unchanged, increasing only 3.5% from ¥186,406 million for the six months ended September 30, 1996 to ¥192,843 million for the six months ended September 30, 1997. An increase in servicing fees paid to subsidiaries and tax expenses caused by the increase in the consumption tax from 3% to 5%, offset a decrease in the workforce.

Other Income

Other income increased by 948.9% from ¥16,535 million for the six months ended September 30, 1996 to ¥173,430 million for the six months ended September 30, 1997. This increase is primarily due to gains on sales of stocks and other securities to offset a significant amount of other expenses. These securities were subsequently repurchased by the Bank.

Other Expenses

Other expenses increased from ¥39,927 million for the six months ended September 30, 1996 to ¥246,559 million for the six months ended September 30, 1997. This increase is primarily due to increases in losses on devaluation of stocks and other securities (a result of the continuing decline in equity prices), loan losses and losses relating to the disposition of an investment trust holding domestic stocks.

Financial Condition

Total assets were ¥56,271 billion at September 30, 1997 compared to ¥53,305 billion at September 30, 1996. The increase is primarily due to a ¥1,064 billion increase in cash and due from banks and an increase in loans and bills discounted, both of which were affected by the depreciation of the yen against the dollar.

Total liabilities were ¥54,493 billion at September 30, 1997 compared to ¥51,489 billion at September 30, 1996. The principal reasons for this increase were the increase in deposits from ¥37,807 billion at September 30, 1996 to ¥39,861 billion at September 30, 1997 and increase in other liabilities, principally under repurchase agreements, from ¥1,251 billion at September 30, 1996 to ¥2,398 at September 30, 1997. These increases also reflect the depreciation of the yen against the dollar.

The Bank's BIS total risk-adjusted capital ratio was 8.91% as of September 30, 1997, a 0.16% increase from 8.75% as of March 31, 1997. Tier I capital increased ¥18 billion to ¥2,002 billion from its level at March 31, 1997. Risk-adjusted assets decreased ¥912 billion to ¥43,160 billion, as the Bank continued to manage risk-adjusted assets through various measures such as loan sales and participations.

At September 30, 1997, the Bank's loans and bills discounted were ¥36,572 billion, or 65.0%, of total assets, representing an increase of 1.0% from March 31, 1997 and a decrease of 2.2% from September 30, 1996.

Non-accrual loans increased ¥70 billion, or 8.8% at March 31, 1997 to ¥878 billion at September 30, 1997. This increase was primarily the result of the bankruptcy of associated companies of The Nippon Credit Bank, Ltd.

The reserve for possible loan losses increased slightly from ¥564,458 million at September 30, 1996 to ¥575,994 million at September 30, 1997.

BUSINESS

History

The Bank was established in 1895 and incorporated as a joint stock corporation under the laws of Japan in 1912. In 1916, with the opening of a branch in San Francisco, the Bank became the first Japanese commercial bank to operate outside Japan. In 1953, the Bank established its first overseas subsidiary, The Sumitomo Bank of California, in the United States. The Bank has always had a strong presence in Osaka and the surrounding area and maintains its head office there. In 1984, the Bank acquired majority control of Banca del Gottardo, in Switzerland, and has held since 1986, through a subsidiary, a limited partnership interest in The Goldman Sachs Group, L.P. or an affiliate. As a result of its merger with the Tokyo-based The Heiwa Sogo Bank, Limited in 1986, the Bank strengthened its retail banking operations by adding more than 100 branches to its network in the Tokyo metropolitan area, supplementing the Bank's existing wholesale banking operations in the Tokyo region. In 1989, Sumitomo Bank Capital Markets, Inc., a wholly-owned subsidiary of the Bank in the United States, obtained approval to operate as a dealer in the U.S. swap market, the first subsidiary of a Japanese commercial bank to begin trading in interest rate swaps on a portfolio basis. In November 1994, the Bank established Sumitomo Capital Securities Co., Ltd., a securities subsidiary in Japan to provide capital market services (excluding underwriting and trading in equities) to corporate and institutional clients. In February 1996, the Bank completed the acquisition of a substantial portion of the U.S. assets and operations of The Daiwa Bank, Limited and its subsidiary, Daiwa Bank Trust Company (collectively "Daiwa Bank").

Strategy

The Bank's strategy is affected by a number of dynamic environmental considerations. Notable among these are the weak domestic economy, continuing financial deregulation in Japan, increasing competition from domestic and foreign competitors, consolidation in domestic and international financial sectors, and the increasing interdependence of national economies and financial markets. The Bank's strategy reflects the Bank's judgment of the most effective means of confronting the challenges posed and exploiting the opportunities afforded by these considerations, in light of a careful assessment of the Bank's strengths and weaknesses.

The Bank's strategy is based principally on the expansion and diversification of its strong domestic retail operations and the development of a global capital markets operation. The Bank's strategy also reflects a financial strategy of actively confronting the challenges posed by the difficult domestic economic environment.

Operating Strategy

Domestic Retail Operations. The Bank seeks to capitalize on its strong domestic retail franchise by exploiting opportunities arising from the significant changes occurring in the marketplace. These opportunities mainly consist of: (i) increasing the range of financial products and services which the Bank offers its retail customers as regulatory changes permit; (ii) implementing and expanding on recent technological developments to offer convenient services to its retail customers, such as telephone banking and Internet banking; and (iii) reducing costs by reducing the Bank's reliance on branches for delivery of retail banking services. The Bank's extensive retail banking services distribution facilities and infrastructure and its relative financial strength among Japanese financial institutions are the foundations for the Bank's retail strategy.

The most significant component of the Bank's medium-term retail strategy is to expand the range of products offered by the Bank. The Bank is rolling out a variety of trust banking, private banking and securities products through its domestic branch network, and is preparing for the distribution of insurance and retirement savings products through branches and other banking service delivery channels as well as the provision of asset management services.

The Bank is working to exploit the retail banking opportunities afforded by technological developments. The Bank has introduced and is expanding telephone banking and Internet banking, and is developing other service delivery techniques to exploit advances in technology. These activities are intended to contribute to the Bank's fee income, to produce reductions in operating expenses and to maintain and deepen the Bank's penetration of the domestic retail market.

The Bank is also seeking to rationalize its retail delivery systems. The Bank has also since 1992 been steadily reducing the number of branches, thereby taking advantage of cost-reduction opportunities afforded by electronic banking. The Bank has also developed the Loan Plaza concept, in which separate branches staffed with specialized loan officers and open during convenient evening and weekend hours extend only housing loans.

Global Capital Markets Operation. The Bank seeks to develop a global capital markets operation to take advantage of the Bank's strong relationships with major Japanese corporations and other customers for capital markets products and services. The scope and profitability of corporate and sovereign lending have gradually declined in recent years, as financial deregulation and the development of capital markets have led to increased utilization by corporate and sovereign borrowers of capital markets to service their capital needs. The Bank is seeking through the exploitation of some of its traditional capital market strengths, such as bond trading, and through the development of new areas of expertise, such as derivatives trading and securities underwriting, to build an integrated capital markets operation that can compete globally across a variety of product markets.

The Bank's global capital markets operation is currently in the first phase of a long-term development strategy. While the Bank has considerable strengths to build this business, the Bank is currently limited by significant constraints, including the need to subordinate investment objectives to the goal of building capital adequacy; regulatory constraints that continue to limit the Bank's participation in certain capital markets activities; the Bank's lack of experience in certain important capital markets segments, notably equity trading and underwriting; and the strong competitive challenge posed by foreign banks and securities companies that have already developed large and sophisticated global capital markets operations.

Financial Strategy

The Bank's financial strategy reflects a number of adverse economic circumstances currently confronting the Bank. The continuing weakness of the domestic economy and continuing declines in real estate prices adversely affect the quality of the Bank's loan portfolio, forcing the Bank to divest assets and restrain lending and investment in order to maintain capital adequacy. Declines in domestic equity prices compound these problems. Meanwhile, the Bank recognizes the temporary nature of the positive impact on earnings produced by low domestic interest rates in recent years.

The Bank seeks to establish a firm balance sheet for future growth, although the Bank's ability to do so depends upon a variety of contingencies beyond the Bank's control. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Adequacy". The Bank is exploring ways to reduce the proportion of its assets represented by equity securities. Although market and client relationship considerations significantly constrain the Bank's flexibility to dispose of equity securities, as a supplemental measure the Bank has undertaken, and may in the near to intermediate term undertake, various expedient measures to support its balance sheet, such as the sale of securities to recognize gains. See "Investment Considerations — Investment Portfolio".

The Bank also seeks to improve its operating returns, through the reduction of investments in low-yielding assets, personnel reduction and other cost-cutting measures, and expansion of profitable businesses such as home mortgage lending. However, the Bank's ability to effectively execute some of these measures, particularly the reduction of low-yielding assets, may be difficult to achieve in the near term.

Revenues by Region

The following table sets forth the percentage of consolidated total income for the Group for the past five fiscal years, based on the consolidated total income of the offices of the Bank and its subsidiaries located in the regions indicated.

	Year ended March 31,				
	1993	1994	1995	1996	1997
Region:					
Japan	65%	68%	72%	65%	62%
Foreign	35	32	28	35	38
Europe	17	15	12	14	15
Americas	9	8	8	11	13
Asia (excluding Japan)	9	9	8	10	10
Total	100%	100%	100%	100%	100%

The increase in proportion of income represented by domestic income through fiscal 1994 reflects principally the impact of declining market interest rates for obligations denominated in yen. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Operating Results — Interest Income". The increase in the percentage of consolidated total income for the Group attributable to the Americas is primarily due to the effect of fluctuations in currency exchange rates on consolidated total income and the acquisition of the assets of Daiwa Bank in the United States in fiscal 1994.

Funding

The Bank derives funding for its operations from a variety of domestic and international sources. The Bank's domestic funding is primarily derived from retail deposits placed with the Bank by its corporate and individual customers, but also from call money (interbank), bills sold (interbank promissory notes), negotiable certificates of deposit issued by the Bank to its domestic and international customers. The Bank's principal international sources of funds are inter-bank deposits, funds raised in the international capital markets and loan financing. In addition, positive cash flows generated by the Bank's operations provide a steady source of additional funding. The Bank closely monitors maturity gaps and foreign exchange exposure with a view towards managing its risk profile.

The following table illustrates the composition of the Bank's funding by average balances and related interest and average interest rates as of March 31, 1995, 1996 and 1997. Average balances are based on a daily average.

	As of March 31,								
	1995			1996			1997		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(millions of yen, except percentages)								
Interest-bearing liabilities:									
Deposits:									
Domestic	¥19,142,344	¥ 354,572	1.85%	¥ 19,452,101	¥ 206,640	1.06%	¥ 18,671,521	¥ 105,388	0.56%
International	14,374,790	608,026	4.22%	15,144,859	670,220	4.00%	14,948,057	578,069	3.86%
Total	¥33,517,134	¥ 962,599	2.87%	¥ 34,596,960	¥ 876,860	2.53%	¥ 33,619,578	¥ 683,458	2.03%
Call money:									
Domestic	3,874,693	85,870	2.21%	3,833,198	31,273	0.81%	3,823,216	18,736	0.49%
International	632,482	33,118	5.23%	499,306	30,299	6.06%	439,158	21,666	4.93%
Total	¥ 4,507,175	¥ 118,988	2.63%	¥ 4,332,504	¥ 61,572	1.42%	¥ 4,262,375	¥ 40,403	0.94%
Bills sold:									
Domestic	626,905	14,036	2.23%	709,046	5,465	0.77%	636,466	3,161	0.49%
International	—	—	—	—	—	—	—	—	—
Total	¥ 626,905	¥ 14,036	2.23%	¥ 709,046	¥ 5,465	0.77%	¥ 636,466	¥ 3,161	0.49%
Negotiable certificates of deposits:									
Domestic	2,653,904	60,071	2.26%	2,953,871	26,653	0.90%	3,785,753	20,919	0.55%
International	889,085	47,159	5.30%	1,260,018	77,766	6.17%	1,504,132	82,033	5.45%
Total	¥ 3,542,989	¥ 107,230	3.02%	¥ 4,213,889	¥ 104,420	2.47%	¥ 5,289,886	¥ 102,952	1.94%
Borrowed money:									
Domestic	1,845,076	57,948	3.14%	1,824,835	40,581	2.22%	1,977,253	37,200	1.88%
International	563,242	33,361	5.92%	746,157	42,705	5.72%	916,428	45,067	4.91%
Total	¥ 2,408,319	¥ 91,310	3.79%	¥ 2,570,992	¥ 83,287	3.23%	¥ 2,893,681	¥ 82,268	2.84%
Total interest-bearing liabilities:									
Domestic	29,404,250	762,310	2.59%	30,232,233	568,663	1.88%	30,402,586	481,155	1.58%
International	16,536,095	988,674	5.97%	17,740,483	1.044,954	5.89%	17,929,748	926,382	5.16%
Total	¥44,810,751	¥1,725,763	3.85%	¥ 46,493,580	¥1,596,082	3.43%	¥47,004,406	¥1,398,523	2.97%
Non-interest-bearing liabilities	5,080,236			5,382,058			5,940,737		
Shareholders' equity	2,077,750			1,722,633			1,732,283		
Total funding	¥51,968,738			¥ 53,598,272			¥ 54,677,427		
Net interest income and net interest margin		¥ 493,924	1.07%		¥ 623,874	1.31%		¥ 594,827	1.23%

	As of September 30,					
	1996			1997		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(millions of yen, except percentages)					
Interest-bearing liabilities:						
Deposits:						
Domestic	18,654,649	55,962	0.59	18,747,691	45,047	0.47
International	14,296,467	263,912	3.68	14,882,503	295,061	3.95
Total	32,951,116	319,874	1.93	33,630,195	340,108	2.01
Call money:						
Domestic	3,986,786	9,801	0.49	3,809,330	9,736	0.50
International	419,900	10,437	4.95	412,707	9,934	4.80
Total	4,406,686	20,239	0.93	4,222,038	19,671	0.92
Bills sold:						
Domestic	575,201	1,509	0.52	198,966	538	0.53
International	—	—	—	—	—	—
Total	575,201	1,509	0.52	198,966	538	0.53
Negotiable certificates of deposits:						
Domestic	3,434,384	10,085	0.58	5,091,531	14,611	0.57
International	1,229,239	33,670	5.48	1,710,828	48,505	5.65
Total	4,658,624	43,756	1.87	6,802,359	63,116	1.85
Borrowed money:						
Domestic	1,985,390	19,535	1.96	1,948,254	17,746	1.81
International	854,432	20,722	4.83	955,762	22,463	4.68
Total	2,839,822	40,258	2.82	2,904,016	40,210	2.76
Total interest-bearing liabilities:						
Domestic	30,227,305	242,392	1.59	30,062,633	218,766	1.45
International	16,913,560	421,594	4.97	18,091,321	448,307	4.94
Total	45,684,469	658,786	2.87	47,833,953	666,077	2.77
Non-interest-bearing liabilities	5,633,972			7,685,689		
Shareholders' equity	1,670,408			1,714,397		
Total funding	52,988,850			57,234,039		
Net interest income and net interest margin		282,149	1.20		286,300	1.14

Deposits

A complete range of standard banking accounts, including current deposits, ordinary deposits, savings deposits, deposits at notice, time deposits and negotiable certificates of deposit are offered through the Bank's branches in Japan and are the principal source of funding for the Bank's domestic operations. The Bank's domestic deposits are principally from private individuals and corporations with the balance coming from government bodies (including municipal authorities) and financial institutions. The total amount of domestic yen deposits of ¥23,350 billion was one of the largest among Japanese city banks as of March 31, 1997. Domestic deposits in currencies other than yen are not material.

The Bank's overseas branches accept deposits mainly in U.S. dollars but also in yen and other foreign currencies and are active participants in the Euro-currency market as well as the United States domestic money market. In addition, the London, New York, Singapore and Hong Kong branches of the Bank regularly issue U.S. dollar certificates of deposit. The London branch also issues certificates of deposit denominated in pounds sterling and in yen. At March 31, 1997, international deposits amounted to ¥16,484 billion, representing approximately 41% of total deposits.

The following table shows a breakdown of domestic and international deposits of the Bank as of the dates indicated:

Domestic Yen Deposits	As of March 31, 1995	1996	1997
		(millions of yen)	
Current deposits[1]	¥ 1,578,432	¥ 1,866,852	¥ 1,623,311
Ordinary deposits[2]	3,255,063	3,905,635	4,124,840
Savings deposits[3]	122,725	376,613	517,205
Deposits at notice[4]	691,871	710,704	700,945
Time deposits[5]	14,421,651	12,850,085	12,246,266
Negotiable certificates of deposit	2,839,890	3,704,420	3,732,910
Other deposits	556,530	432,069	404,175
Total domestic yen deposits	¥23,466,164	¥23,846,381	¥23,349,652

(1) Non-interest bearing deposits used for the payment of checks and bills.

(2) Interest-bearing unrestricted deposits which can be used for many purposes including the settlement of accounts and acceptance of salaries.

(3) Interest-bearing accounts for individuals with, *inter alia*, limitations on the number of withdrawals per month.

(4) Interest-bearing demand deposits with a maturity of at least seven days and which require the depositor to give at least two days' advance notice for withdrawal.

(5) Deposits (other than maturity date specific time deposits and money market certificates) range in maturity from one month to five years.

International Deposits[1]	As of March 31, 1995	1996	1997
		(millions of yen)	
Current deposits[2]	¥ 36,653	¥ 66,397	¥ 99,729
Ordinary deposits	24,638	34,350	35,962
Deposits at notice[3]	6,463,620	7,022,927	8,400,713
Time deposits	2,807,021	2,219,683	2,571,214
Negotiable certificates of deposit	1,157,604	1,225,730	1,702,660
Other deposits	3,649,048	4,666,601	3,673,893
Total international deposits	¥14,138,587	¥15,235,691	¥16,484,173

(1) The exact nature of these accounts varies from country to country.

(2) Generally, checking accounts.

(3) Principally interbank Euro-deposits.

	Year ended March 31,						Six months ended September 30, 1997	
	1995		1996		1997			
	Average amount	Average rate	Average amount	Average rate	Average amount	Average rate	Average amount	Average rate
	(millions of yen)							
Liquid deposits								
Domestic	4,566,969	0.25%	5,260,547	0.14%	5,863,480	0.11%	6,336,878	0.11%
International	7,245,045	4.67%	7,544,791	5.31%	8,302,247	4.84%	8,495,450	4.92%
Total	11,812,014	2.96%	12,805,338	3.18%	14,165,727	2.88%	14,832,328	2.86%
Time deposits								
Domestic	14,377,315	2.39%	13,980,431	1.42%	12,572,144	0.78%	12,195,604	0.67%
International	2,821,756	2.39%	3,024,749	1.28%	2,845,795	0.87%	2,816,491	0.96%
Total	17,199,072	2.38%	17,005,180	1.39%	15,417,940	0.80%	15,012,095	0.73%
Negotiable certificates								
Domestic	2,653,904	2.26%	2,953,871	0.90%	3,785,753	0.55%	5,091,531	0.57%
International	889,085	5.30%	1,260,018	6.17%	1,504,132	5.45%	1,710,828	5.65%
Total	3,542,989	3.02%	4,213,889	2.47%	5,289,886	1.94%	6,802,359	1.85%
Other								
Domestic	198,056	0.06%	211,119	0.03%	235,896	0.01%	215,206	0.02%
International	4,307,984	4.69%	4,575,317	5.05%	3,800,011	3.98%	3,570,559	4.02%
Total	4,506,040	4.49%	4,786,436	4.83%	4,035,907	3.75%	3,785,765	3.79%
Total deposits								
Domestic	21,796,244	1.90%	22,405,968	1.04%	22,457,273	0.56%	23,839,219	0.50%
International	15,263,870	4.29%	16,404,875	4.56%	16,452,185	4.01%	16,593,328	4.13%
Total	37,060,114	2.89%	38,810,843	2.53%	38,909,458	2.02%	40,432,547	1.99%

Total deposits (including negotiable certificates of deposit) were ¥39,834 billion at March 31, 1997, representing an increase of 1.9% since March 31, 1996. The Bank believes that part of the increase in deposits reflects transfers of deposits from other financial institutions as investors seek the comparative safety of larger well-capitalized banks. The deregulation of interest rates on yen deposits has proceeded steadily in Japan since 1979. Interest rates payable on all deposits are now deregulated with the only exception being a prohibition of the payment of interest on current deposits. In response to this deregulation, the Bank introduced market-related rates for short-term lending in 1989 and for long-term lending in 1991 (see "— Lending Activities"). The Bank considers that this interest rate deregulation is leading to increasing competition for deposits from other financial institutions in Japan (see "— Competition").

Most domestic deposits with the Bank are fixed rate time deposits in yen. Such deposits pay interest at rates established by the Bank based principally on prevailing market rates. Most international deposits with the Bank are inter-bank deposits at notice denominated in dollars or other foreign currencies. Such deposits typically pay interest at fixed rates determined by reference to market rates for time deposits in London with major money-center banks. In recent periods the Bank has been required to pay a premium for such deposits. See "Investment Considerations — 'Japan Premium' and Limitation of Credit Extended to Japanese Banks".

The following table sets forth the composition of the Bank's time deposits by types and maturity as of the dates indicated.

	Maturity as of March 31, 1997						
	Less than Three Months	Three Months to Less than Six Months	Six Months to Less than One Year	One Year to Less than Two Years	Two Years to Less than Three Years	Three Years and Over	Total
	(millions of yen)						
Fixed rate time deposits(1)	¥ 5,273,894	¥ 1,981,758	¥ 3,048,195	¥ 727,673	¥ 670,055	¥ 515,367	¥ 12,216,942
Floating rate time deposits(1)	636	419	1,241	1,779	2,485	—	6,560
Total	¥ 5,274,530	¥ 1,982,177	¥ 3,049,436	¥ 729,452	¥ 672,540	¥ 515,367	¥ 12,223,502

(1) Time deposits outstanding do not include installment time deposits.

Other Sources of Funding

The Bank's additional sources of funding include call loans and other interbank funding arrangements (other than inter-bank deposits), repurchase agreements using Japanese Government bonds, both senior and subordinated loans from institutional investors on a worldwide basis and other sources.

The Bank also has access to funding through loans by the BoJ. The Bank's borrowings from the BoJ have not exceeded an aggregate of ¥670 billion at any time in the last five fiscal years. Borrowings from the BoJ require the Bank to pledge collateral consisting of Japanese Government bonds and certain other qualifying collateral.

Assets

The following table shows the Bank's average asset balances and related interest and average interest rates for the last three fiscal years. Average asset balances are based on a daily average.

	As of March 31,								
	1995			1996			1997		
	Average Balance[1]	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
				(millions of yen, except percentages)					
Interest-earning assets:									
Interest-bearing deposits in other banks:									
Domestic	¥ 6,709	¥ 360	5.36%	¥ 11,102	¥ 1,365	12.30%	¥ 13,030	¥ 671	5.15%
International	6,100,731	273,163	4.47%	5,703,943	298,599	5.23%	4,679,916	237,624	5.07%
Total	¥ 6,107,440	¥ 273,523	4.47%	¥ 5,715,045	¥ 299,965	5.24%	¥ 4,692,946	¥ 238,296	5.07%
Call loans:									
Domestic	2,855	75	2.62%	6,346	61	0.96%	15,737	110	0.70%
International	391,118	20,145	5.15%	361,192	22,326	6.18%	344,452	17,486	5.07%
Total	¥ 393,973	¥ 20,220	5.13%	¥ 367,539	¥ 22,387	6.09%	¥ 360,189	¥ 17,597	4.88%
Bills purchased:									
Domestic	504	11	2.19%	4,767	88	1.86%	1,600	10	0.66%
International	—	—	—	—	—	—	—	—	—
Total	¥ 504	¥ 11	2.19%	¥ 4,767	¥ 88	1.86%	¥ 1,600	¥ 10	0.66%
Trading securities:									
Domestic	217,890	4,270	1.96%	53,061	1,696	3.19%	24,306	868	3.57%
International	—	—	—	—	—	—	—	—	—
Total	¥ 217,890	¥ 4,270	1.96%	¥ 53,061	¥ 1,696	3.19%	¥ 24,306	¥ 868	3.57%
Investment securities:									
Domestic	4,803,505	149,649	3.11%	5,426,298	147,028	2.70%	5,254,208	119,811	2.28%
International	623,828	44,274	7.09%	733,689	52,727	7.18%	753,154	64,510	8.56%
Total	¥ 5,427,334	¥ 193,923	3.57%	¥ 6,159,988	¥ 199,756	3.24%	¥ 6,007,363	¥ 184,321	3.06%
Loans and bills discounted[2]:									
Domestic	26,063,482	927,644	3.55%	26,118,346	733,856	2.80%	26,374,180	592,557	2.24%
International	7,509,925	378,782	5.04%	8,690,590	424,394	4.88%	9,951,756	441,570	4.43%
Total	¥ 33,573,407	¥ 1,306,426	3.89%	¥ 34,808,937	¥ 1,158,251	3.32%	¥ 36,325,936	¥ 1,034,127	2.84%
Total interest-earning assets:									
Domestic	31,094,947	1,188,293	3.82%	31,632,464	1,060,244	3.35%	31,738,404	922,981	2.90%
International	16,207,611	1,061,355	6.54%	17,572,068	1,181,389	6.72%	17,820,716	1,082,981	6.07%
Total	¥ 46,172,965	¥ 2,224,427	4.81%	¥ 47,725,396	¥ 2,224,098	4.66%	¥ 48,231,191	¥ 1,996,948	4.14%
Non-interest-earning assets:									
Cash and due from banks	597,724			612,149			633,926		
Other non-interest-earning assets	5,198,049			5,260,726			5,812,308		
Total non-interest-earning assets	¥ 5,795,773			¥ 5,872,875			¥ 6,446,234		
Total average assets	¥ 51,968,738			¥ 53,598,272			¥ 54,677,427		

(1) Loan amounts include non-accrual and restructured loans.

	As of September 30,					
	1996			1997		
	Average Balance[1]	Interest	Average Rate	Average Balance	Interest	Average Rate
	(millions of yen, except percentages)					
Interest-earning assets:						
Interest-bearing deposits in other banks:						
Domestic	16,600	452	5.43	38,627	467	2.41
International	4,344,326	105,923	4.86	5,748,315	134,698	4.67
Total	4,360,928	106,375	4.86	5,786,944	135,165	4.66
Call loans:						
Domestic	31,366	104	0.66	33,934	108	0.63
International	345,667	8,857	5.11	390,642	10,194	5.20
Total	377,033	8,962	4.74	424,576	10,302	4.83
Bills purchased:						
Domestic	2,863	9	0.65	8,360	32	0.77
International	—	—	—	—	—	—
Total	2,863	9	0.65	8,360	32	0.77
Trading securities:						
Domestic	15,597	432	5.53	—	—	—
International	—	—	—	—	—	—
Total	15,597	432	5.53	—	—	—
Investment securities:						
Domestic	5,282,242	66,119	2.49	5,268,502	60,412	2.28
International	700,106	14,580	4.15	878,178	18,203	4.13
Total	5,982,348	80,700	2.69	6,146,681	78,616	2.55
Loans and bills discounted[2]:						
Domestic	26,170,288	297,477	2.26	26,984,583	288,487	2.13
International	9,289,751	203,097	4.36	9,923,296	219,599	4.41
Total	35,460,040	500,574	2.81	36,907,880	508,087	2.74
Total interest-earning assets:						
Domestic	31,519,725	464,317	2.93	32,334,009	453,722	2.79
International	16,838,599	481,819	5.70	18,092,767	499,651	5.50
Total	46,901,929	940,935	4.00	50,106,775	952,377	3.79
Non-interest-earning assets:						
Cash and due from banks	331,531			297,167		
Trading assets	—			55,117		
Other non-interest-earning assets	5,755,390			6,774,980		
Total non-interest-earning assets	6,086,921			7,127,264		
Total average assets	522,988,850			57,234,039		

(1) Loan amounts include non-accrual and restructured loans.

Loans

General

The Bank's principal investing activity is its lending business. The Bank makes loans and extends other types of credit principally to corporate and individual customers in Japan and principally to corporate and sovereign customers abroad.

The percentage of average loans and bills discounted represented by average domestic loans and bills discounted has declined in recent years, and for fiscal 1996 domestic loans and bills discounted accounted for approximately 72.6% of the total. While in recent years the Bank has generally limited the growth in loan assets, the yen-equivalent amount of overseas loans and bills discounted has increased due to a decline in the value of the yen against the dollar and other major foreign currencies and due to the acquisition in fiscal 1995 of a substantial portion of the U.S. assets and operations of Daiwa Bank.

The following table sets forth the composition of the Bank's loans and bills discounted by type of interest rate charged and maturity as of the dates indicated.

	Maturity as of March 31, 1997						
	One Year or Less(1)	More than One Year to Three Years	More than Three Years to Five Years	More than Five Years to Seven Years	Over Seven Years	Unspecified Term	Total
				(millions of yen)			
Floating interest rate	¥ —	¥ 3,289,695	¥ 2,569,414	¥ 1,243,330	¥ 3,594,853	¥ 9,960,604	¥ 20,657,896
Fixed interest rate	—	2,133,017	1,197,801	349,538	802,927	—	4,483,283
Total	¥ 11,458,951	¥ 5,422,693	¥ 3,767,215	¥ 1,592,869	¥ 4,397,780	¥ 9,960,604	¥ 36,600,112

(1) Loans and bills discounted with maturities of one year or less are not categorized by type of interest rate.

As of March 31, 1997, ¥22,075 billion, or 60%, of the Bank's loan portfolio was secured by assets or guaranteed by third parties (including one of the Bank's associated companies, Sumigin Guarantee Company, Limited ("Sumigin Hosho")). As is the customary practice in Japan, the Bank ordinarily takes real estate collateral on its domestic corporate loans. The following table sets forth the Bank's loans outstanding (including bills discounted) classified by class of collateral as of the dates indicated:

	As of March 31,					
	1995		1996		1997	
	(millions of yen, except percentages)					
Class of Collateral:						
Securities	¥ 671,078	1.98%	¥ 840,550	2.37%	¥ 818,332	2.24%
Commercial claims	941,728	2.79	989,067	2.79	861,570	2.35
Commodities	1,977	0.01	5,226	0.01	9,418	0.03
Real estate	7,697,577	22.76	7,514,373	21.17	7,012,431	19.16
Other	111,586	0.33	180,522	0.51	295,332	0.81
Total secured loans	9,423,949	27.87	9,529,739	26.84	8,997,085	24.59
Guaranteed	11,026,080	32.60	12,076,713	34.02	13,078,046	35.73
Unsecured	13,369,051	39.53	13,893,169	39.13	14,524,980	39.68
Total	¥ 33,819,080	100.0%	¥ 35,499,622	100.0%	¥ 36,600,112	100.0%

The Bank is subject to lending limits under the Banking Law. See "Supervision and Regulation".

Domestic Lending

The Bank makes loans to, and discounts bills of, a broad range of industrial, commercial and individual customers in Japan. The Bank's domestic lending business consists principally of the extension of small loans to individuals and small businesses. As of March 31,1997, 22.6% of the Bank's domestic loans and bills discounted were to individuals, and 52.1% were to small and medium-sized enterprises (defined to include wholesale businesses with stated capital of less than ¥30 million and less than 100 full-time employees, retail or service businesses with stated capital of less than ¥10 million and less than 50 full-time employees, or other businesses with stated capital of less than ¥100 million and less than 300 full-time employees). However the Bank also has substantial lending relationships with larger businesses, including many of the leading companies of Japan.

The following table shows the outstanding loans (including bills discounted) of the Bank's domestic offices, before deduction of reserves for possible loan losses, as of the dates indicated. Classification of loans by industry is based on industry segment loan classifications as defined by the BoJ for regulatory reporting purposes and is not necessarily based on use of loan proceeds.

	As of March 31,					
	1995		1996		1997	
	(millions of yen, except percentages)					
Domestic Offices[1]:						
Manufacturing	¥ 3,387,411	12.5%	¥ 3,430,872	12.6%	¥ 3,402,725	12.3%
Wholesale and Retail Trade	3,743,201	13.8	3,695,385	13.5	3,601,835	13.0
Real Estate Companies[2]	3,352,091	12.3	3,606,406	13.2	3,796,274	13.7
Construction Companies[2]	1,893,468	7.0	1,523,342	5.6	1,541,631	5.6
Transportation, Communication and Other Public Enterprises	1,079,208	4.0	1,212,087	4.4	1,219,068	4.4
Services	4,685,852	17.3	4,734,421	17.3	4,884,731	17.7
Financial Institutions	2,429,039	9.0	2,219,677	8.1	2,047,030	7.4
Agriculture, Forestry, Fishing and Mining	63,116	0.2	59,539	0.2	67,939	0.2
Municipalities	118,837	0.4	187,803	0.7	96,382	0.4
Individuals	5,792,247	21.3	6,020,775	22.0	6,259,817	22.6
Other	587,531	2.2	632,303	2.4	711,763	2.7
Total	¥ 27,132,006	100.0%	¥ 27,322,615	100.0%	¥ 27,629,200	100.0%

(1) The above figures exclude Tokyo offshore accounts for international financial transactions.

(2) Since March 31, 1996 certain construction companies have been re-classified by the Bank as real estate companies.

As part of its business operations, the Bank regularly lends funds to individuals and small and medium-sized enterprises. The following table shows a breakdown of the Bank's domestic loan portfolio by type of borrower as of the dates indicated:

	As of March 31,					
	1995		1996		1997	
	(millions of yen, except percentages)					
Large corporations	¥ 6,549,004	24.2%	¥ 6,882,440	25.2%	¥ 6,977,070	25.3%
Small and medium-sized enterprises[1]	14,790,754	54.5	14,419,399	52.8	14,392,312	52.1
Individuals	5,792,247	21.3	6,020,775	22.0	6,259,817	22.6
Total	¥ 27,132,006	100.0%	¥ 27,322,615	100.0%	¥ 27,629,200	100.0%

(1) Includes corporations not classified as "Large Corporations" above.

While the Bank is generally seeking to reduce its total risk assets, the Bank is expanding its lending to individuals in Japan. The outstanding balance at March 31, 1997 of the Bank's loans to individuals (almost all of them in Japan) was ¥6,259,817 million, an increase of 4.0% over the balance at March 31, 1996. Approximately 71.3% of the Bank's loans to individuals at March 31, 1997 consisted of housing-related loans. Similarly, the Bank's long-term strategy includes increasing its lending to small and medium sized enterprises.

Each of the Bank's domestic branches generates corporate, middle market and consumer loans. Loans originated by a branch can be approved by the manager of the branch up to a limit which varies depending upon the type of collateral, the rank of the branch manager and other factors. Loans above this limit require approval from either of the Bank's head offices in Osaka or Tokyo, and such head office approval entails review by two departments. The industry analysts of the Corporate Research Department review the market position and the industry characteristics of corporate borrowers, and evaluate (among other things) the strength of management, assets, financial performance, prospects and risks of such borrowers. The credit analysts of the Credit Department evaluate specific extensions of credit, analyzing, among other things, the adequacy of collateral or other credit support, use of proceeds, leverage and interest and cash flow coverage. Larger loans require the approval of one or more directors of the Bank.

Beginning in fiscal 1998, the Bank intends to introduce a computer-based credit scoring system to evaluate applications for loans to individuals and small businesses. Under this scoring system, the Bank will evaluate numerous categories of data provided by the applicant that are statistically indicative of default rates; based on this data the scoring system program will calculate a score for the borrower. Based on this score, the branch manager or loan officer will make the final underwriting decision.

The large majority of the Bank's domestic loans are secured by collateral or are supported by guarantees. Most domestic secured loans consist of loans to businesses secured by first liens on real estate collateral or housing loans to individuals secured by first liens on apartments or houses. Real estate collateral is generally valued based on asset values rather than cash flow. Most real estate collateral is valued by a third-party appraisal firm affiliated with the Bank.

The Bank, like other banks in Japan, makes most domestic loans based on a short-term prime rate, the Tokyo Inter-Bank Offered Rate ("TIBOR") and a long-term prime rate, which are generally intended to reflect the cost of funds.

Most domestic short-term loans (loans with a maturity of less than one year) by the Bank bear interest at a rate based on the Bank's short-term prime rate or TIBOR. The Bank establishes a short-term prime rate based principally on its cost of short-term yen funding, principally by reference to the rate offered by the Bank on 3-month certificates of deposit in yen. The short-term prime rate is affected by changes in the BoJ's official discount rate, the rate at which the BoJ extends short-term secured loans to domestic banks.

Most domestic long-term loans (loans with a maturity of one year or more) by the Bank bear interest at a rate based on the Bank's long-term prime rate. The Bank establishes a long-term prime rate that is generally based on the short-term prime rate; this reflects the fact that most of the Bank's funding (in common with other Japanese city banks) is short-term. For several years after the introduction of long-term prime rates in 1991, the long-term prime rate was always set at a rate equal to 90 basis points above the 5-year debenture rate of long-term credit banks. In recent periods, however, the long-term prime rate has been more variable, but in general is approximately 50 basis points above the short-term prime rate.

Unsecured loans in the domestic interbank market are mostly overnight loans priced at call market rates. Call market rates are negotiated rates based on availability of and need for funds by Japanese banks.

The following table sets forth the Bank's average short-term, long-term prime (old and new basis), five-year swap rate and six-month TIBOR rates for the fiscal years indicated. The averages are based on the number of days such rates were in effect.

	As of March 31,				
	1993	1994	1995	1996	1997
Short-term prime rate (new basis) .	4.0%	3.0%	3.0%	1.625%	1.625%
Long-term prime rate (new basis) .	4.5%	3.5%	3.5%	2.125%	2.125%
Long-term prime rate (old basis) . .	4.9%	4.4%	4.5%	3.2%	2.5%
Five-year Swap rate	4.62%	3.85%	3.16%	2.53%	1.87%

Six-month TIBOR	3.27%
	2.34%
	2.16%
	0.78%
	0.62%

The decline in the Bank's short-term prime rate and long-term prime rate in fiscal 1995 and 1996 reflects the substantial decline in market interest rates for obligations denominated in yen that occurred in fiscal 1994.

Overseas Lending

The Bank's international branches and representative offices generate corporate, sovereign and quasi-sovereign loans. Most such loans are unsecured loans. While most of the Bank's international loans are to foreign credits, a significant portion of the Bank's international loans are to overseas branches, subsidiaries and affiliates of Japanese corporations, and many of such loans to such subsidiaries and affiliates are guaranteed or otherwise supported by the Japanese parent corporations.

Loans originated by a branch or representative office can be approved by the manager up to a limit which varies depending upon the rank of the manager and other factors. Loans above this limit require approval from regional headquarters or the Bank's head office in Tokyo. The roles of the Corporate Research Department and the Credit Department are similar to their roles for domestic loans. Larger international loans require the approval of one or more directors of the Bank.

Because most of the Bank's overseas loans are general-purpose credits to highly rated corporate, sovereign and quasi-sovereign credits, most such loans are not secured by collateral. However, the Bank makes substantial secured loans overseas, including (among other things) for project finance, equipment financing, margin lending for securities and commodities.

The Bank's overseas loans are generally extended at floating rates based on LIBOR. Spreads on such loans are negotiated with borrowers and reflect competition with other domestic and international banks as well as alternative funding sources available to the borrowers. For several years during the late 1980s a number of Japanese banks, including the Bank, expanded overseas lending aggressively by (among other means) offering very low rates to corporate and sovereign borrowers. However, with the exception of overseas loans to Japanese credits, in recent years Japanese banks have generally not been the principal determinants of competitive market conditions in overseas lending markets as they were in the earlier period.

The overseas business of the Bank has been principally focused on lending to large, highly rated corporations as well as to sovereign and quasi-sovereign credits. The following table shows the outstanding loans (including bills discounted) of the Bank's overseas offices, before deduction of reserves for possible loan losses, as of the dates indicated, classified according to type of borrower:

	As of March 31,					
	1995		1996		1997	
	(millions of yen, except percentages)					
Overseas Offices[1]**:**						
Public sector	¥ 193,174	2.9%	¥ 234,232	2.9%	¥ 339,727	3.8%
Financial institutions . .	762,916	11.4	799,973	9.8	760,705	8.5
Commerce and industry .	5,654,978	84.6	7,121,730	87.1	7,852,706	87.5
Other	76,007	1.1	21,070	0.2	17,771	0.2
Total	¥ 6,687,074	100.0%	¥ 8,177,007	100.0%	¥ 8,970,911	100.0%

(1) The above figures include Tokyo offshore accounts for international financial transactions.

Loans made by the Bank to borrowers outside Japan in highly leveraged corporate transactions (loans made in connection with recapitalizations, acquisition transactions or other corporate restructurings to borrowers whose debt to total asset ratio will exceed 75%, or 50% under certain circumstances) and to restructuring countries (discussed below) are not material relative to the Bank's total assets at March 31, 1997. The Bank intends to continue to participate in such loans to the extent that credit risks are deemed prudent and a satisfactory level of return is offered, although the Bank expects that the portion of the Bank's loan portfolio attributable to such loans will not materially increase.

Loan Losses and Problem Loans

General

The Bank has experienced substantial loan losses in recent years, as discussed under "— Background". The Bank for a variety of reasons has provided direct and indirect support to troubled borrowers. See "— Policies with Respect to Troubled Borrowers". The Bank's financial results have reflected the Bank's loan losses as well as transfers to reserve for possible loan losses, the accounting principles with respect to which are discussed under "— Accounting Principles Relating to Reserve for Possible Loan Losses".

Loan losses reflect the following categories of expense: (i) net additions to specific reserves, which are a component of the reserve for possible loan losses; (ii) direct writeoffs; (iii) losses on sale of loans to CCPC; (iv) transfer to reserve for loss on loans sold; (v) losses on financial assistance for associated companies; (vi) losses on sale of loans to restructuring countries; and (vii) losses on sales of problem loans. The Bank's experience in recent periods with respect to these categories of expense is discussed below under "— Loan Loss Experience".

The Bank's reserve for possible loan losses in recent years, and the components of changes in such reserve, are presented below under "— Reserve for Possible Loan Losses". The accounting principles applied by the Bank with respect thereto are discussed below under "— Accounting Principles Relating to Reserve for Possible Loan Losses". A significant pending revision to Japanese GAAP relating to the reserve for possible loan losses is discussed below under "— Prompt Corrective Action".

Non-accrual loans are loans on which the Bank does not currently accrue interest. The accounting principles relating to non-accrual loans under Japanese GAAP, and the Bank's experience in relation to such loans in recent years, are discussed below under "— Non-accrual Loans".

In addition to the reserve for possible loan losses and other credit losses, the Bank provides certain additional disclosures with respect to problem loans. These include disclosures with respect to restructured loans, loans for financial assistance and loans to restructuring countries, as discussed below under "— Other Problem Loan Disclosures".

The Bank participated in a major restructuring of the insolvent *jusen* housing loan companies in fiscal 1996, and provided substantial financial support for such restructuring, as discussed below under "— Jusen Restructuring".

In the late 1980s interest rates in Japan declined rapidly while prices for land and other real estate increased sharply. During this time, Japanese financial institutions (including banks and non-bank lending and credit institutions), including the Bank, operating under relatively liberal monetary policies and driven by a desire to increase profitability, engaged in widespread lending to commercial and retail customers in a manner which fueled the expansion of the real estate boom. In late 1990, a combination of the introduction of restrictions on bank lending to the real estate sector, tighter monetary policies, increased interest rates, a declining stock market and a high yen exchange rate, caused the real estate market to collapse, and there was a significant decline in real estate values. This decline in real estate values is continuing and the National Land Agency Index of commercial real estate values in the Tokyo metropolitan area (1983=100) was 127.9 at January 1, 1997 compared to 177.9 as of January 1, 1995 and 341.3 as of January 1, 1991. Because a large portion of Japanese banks' assets (including those of the Bank) consists of loans made, directly or indirectly, for the purchase of real estate or to borrowers on the security of real estate, Japanese banks have been faced with a large increase in the rate of non-performing loans. Consequently, a number of Japanese banks, including the Bank, were faced with serious loan portfolio quality problems, as well as with the difficult issue of determining the realizable values of their non-performing assets and the amounts that should be reserved against them. See "Management's Discussion and Analysis — Recent Results".

The Bank, like other Japanese banks, has experienced difficulty in achieving prompt and/or full recovery of secured loans. The fall in the value of real estate described above has also been accompanied by a lack of liquidity in the real estate market. In addition, the practice of borrowers creating second or third-ranking security interests can, as a matter of Japanese law and practice, cause considerable delay in proceedings to realize property assets.

The Bank has in recent years made substantial provisions for non-performing and other problem loans and expects to make further substantial provisions at the end of the fiscal year on March 31, 1998. See "Investment Considerations — Quality of Loan Portfolio". In accordance with the self-assessment policy, the provisions will reflect the amount of losses that the Bank is expected to incur in connection with such non-performing and problem loans. Such reserves will not necessarily reflect the entire amount of loan losses that may ultimately be realized in respect of existing loans. The Bank seeks through restructuring of loans or collection efforts to maximize the return on non-performing and other problem loans. For such purposes, the Bank has established a loan recovery unit which is dedicated to managing restructured loans and non-accrual loans and maximizing the level of recoveries on loans written-off. But such returns are frequently limited by economic and legal impediments to such restructuring and collection, including (among other things) adverse domestic economic conditions in Japan that limit the operating profitability of borrowers, the absence of a liquid domestic market for real estate, and the prevalence of second and third mortgages on real estate over which the Bank holds first liens.

Policies with Respect to Troubled Borrowers

The Bank for a variety of reasons has provided direct and indirect support to troubled borrowers. For example, the Bank often provides such support to borrowers where the operating profitability or asset values of borrowers indicate the likelihood of successful restructuring. In addition, the Bank, like other Banks in Japan, has provided support to troubled borrowers under circumstances, and based upon considerations, that may differ in kind or degree from those relevant in other countries, including the United States. These include political and regulatory influences, relationships with members of the Sumitomo Group, the lead bank system and perceived responsibility for obligations of affiliated and associated companies. While the importance of some of these considerations has been declining, these considerations nevertheless have significantly affected the Bank's actions on a number of occasions in recent years.

The Bank has been subject to political and regulatory influences that affect the Bank's willingness to support troubled borrowers. Such influences have, among other things, affected the Bank's participation in the restructuring of the seven failed *jusen* during fiscal 1996, and have led to participation by the Bank in the rescue of a number of other failed financial institutions in Japan. In some cases, the Bank has been induced by such considerations to extend credit or forgive indebtedness under circumstances where short-term economic considerations would have suggested other action.

The Bank has been influenced by its relationships with other members of the Sumitomo Group to provide financial support. For example, in fiscal 1996 Sumitomo Bank announced that it would support Sumitomo Corporation, a major Japanese trading company, following the public disclosure of sizeable losses by Sumitomo Corporation relating to commodities trading. To date, no such support of Sumitomo Corporation has been necessary.

The Bank has provided financial support to borrowers for which the Bank serves as lead bank. The lead bank system, which has prevailed for decades in Japan, generally implies a relationship between the borrower and the lead bank that is different in nature from the relationship of the borrower with other lenders. The lead bank is generally the largest lender to the borrower, and generally holds a significant investment in the common stock of the borrower (though such investment represents less than 5% of the outstanding common stock of the borrower). The lead bank may second personnel to serve in management capacities with the borrower, particularly when the borrower is experiencing financial difficulty. The form of assistance by the Bank where it is lead bank to a troubled borrower may consist of the extension of loans by the Bank to repay other indebtedness or occasionally the forgiveness of loans by the Bank. The Bank generally undertakes a lead bank relationship only when the Bank is satisfied with the financial strength of, and other relevant considerations with respect to, the borrower.

The Bank, like other Japanese banks, has provided financial support to affiliated or associated companies. Third parties dealing with such companies frequently have an expectation, which may be implicitly or explicitly ratified by the Bank, that the Bank will provide financial assistance in the event that such affiliated or associated companies experience financial difficulties. The Bank has provided substantial support to three such companies during fiscal 1996 and fiscal 1997. See "— Loan Loss Experience". The form of such assistance would ordinarily consist of the extension of loans by the Bank to repay other indebtedness or the forgiveness of loans by the Bank. See "— Loans for Financial Assistance".

Although any future decision on whether to support a troubled borrower will be made by the management of the Bank on a case-by-case basis in view of the protection and enhancement of the Bank's own interest, the factors mentioned above may continue to have significant importance to such decision-making process.

Loan Loss Experience

The following table shows an analysis of the Bank's loan loss experience for each of the periods indicated:

	Year ended March 31,			Six months ended September 30,	
	1995	1996	1997	1996	1997
	(millions of yen, except percentages)				
Net addition to specific reserves	¥ 266,053	¥ 94,861	¥ 94,119	20,906	76,785
Direct write-offs[(1)]	224,913	75,052	130,210	5,525	2,245
Losses on sale of loans to CCPC	207,238	78,820	29,920	20,983	30,111
Transfer to reserve for loss on loans sold	—	—	42,172	—	—
Losses on financial assistance for associated companies	128,280	104,644	30,000	—	—
Losses on sale of loans to restructuring countries	49,928	2,533	—	—	—
Net reversals from reserves for specific overseas loan losses	(21,352)	(985)	(782)	(63)	(7)
Losses on sale of problem loans	—	—	—	—	19,256
Total loan losses	¥ 855,060	¥ 354,925	¥ 325,639	47,350	128,392
Loans and bills discounted (period end)	¥ 33,819,080	¥ 35,499,622	¥ 36,600,112	35,843,127	36,572,040
Ratio of total loan losses to loans and bills	discounted.	2.53%	1.00%	0.89%	0.13%

0.35

(1) During the years ended March 31, 1995, 1996, and 1997, recoveries by the Bank of amounts previously written off amounted to ¥606 million, ¥232 million and ¥319 million, respectively.

Loan losses for the year ended March 31, 1996 reflected the continued decline of real estate values, the resolution of financial problems of certain troubled associated companies, the partial resolution of the *jusen* problem as well as the collapse of The Hyogo Bank, Limited and its affiliates. Loan losses for the year ended March 31, 1997 reflected the impact on real estate developers and other sectors of the domestic economy of the recession and the continued depressed real estate market in Japan. Loans relating to the *jusen* restructuring and assistance to associated companies did not have a material impact on loan losses for the year.

CCPC was established in January 1993 with an issued share capital of ¥7,925 million with 162 Japanese financial institutions, including the Bank, as shareholders. CCPC was established to assist Japanese financial institutions in improving the quality of their loan portfolios and accelerating tax deductions associated with credit losses, while at the same time seeking to minimize the damage to the domestic property market. To this end, CCPC purchases problem loans secured by real estate, principally from its shareholders and usually utilizing loan finance provided by the seller, mainly on the basis of an independent appraisal of the value of the real estate. In the years ended March 31, 1996 and 1997 the Bank incurred tax-deductible losses of ¥78,820 million and ¥29,920 million, respectively, on sales of loans to CCPC. In addition, in fiscal 1996 the Bank made a transfer to reserve for loss on loans sold to CCPC in the amount of ¥42,172 million. Reserve for loss on loans sold provides for contingent losses arising from decline of market value of collateral for loans sold to CCPC. The substantial financing provided by the Bank to CCPC is treated as performing loans. Any losses incurred by CCPC on any subsequent realization of the real estate are charged to the financial institution which sold the loan to CCPC. Also profits are passed through in the rare cases where there are profits. As of March 31, 1997, the Bank had incurred a total of ¥453,540 million of losses on the sale of loans to CCPC. CCPC is scheduled to cease purchasing loans at the end of fiscal 1997.

The Bank has also established a subsidiary which is involved in bidding for real estate assets disposed of by way of public auction. This company, Sumigin Total Maintenance Co., Limited, purchases properties at their reserve prices using funds provided by the Bank.

During the year ended March 31, 1996, two of the Bank's associated companies, SB Leasing Company, Limited ("SB Lease") and Sumigin General Finance Company, Limited ("Sumigin Finance") (each five percent or less-owned by the Group), experienced severe financial difficulties resulting from deterioration in their loan portfolios. As with the Bank itself, such deterioration reflects their customers' inabilities to meet the payment terms of their obligations due to the continued weak domestic economy, and the depressed real estate market in Japan which has reduced the value of real estate serving as collateral for loans. During the year ended March 31, 1996, as a result of financial assistance to SB Lease and Sumigin Finance, the Bank recorded losses of ¥104,644 million. The Bank believes that this assistance has enabled SB Lease and Sumigin Finance to operate independently and, as a result, the Bank does not anticipate that further assistance will be required. Likewise, during the year ended March 31, 1997, another of the Bank's associated companies, Sumigin Hosho, also experienced severe financial difficulties arising from deterioration in its indemnity portfolio for the same reasons as other associated companies did during the previous year. As a result of financial assistance to Sumigin Hosho, the Bank recorded losses of ¥30,000 million. All of these losses are included in Other expenses in the accompanying non-consolidated financial statements (see Note 17 of the Notes to the Non-Consolidated Financial Statements). The Bank expects that expected reserves for financial assistance for Sumigin Hosho will total approximately ¥120,000 million in fiscal 1997. The Bank believes that, in the absence of further substantial deterioration of economic conditions, this additional assistance will enable Sumigin Hosho to operate independently without further assistance from the Bank. See "— Loans for Financial Assistance".

The Bank recently announced the downward revision of its forecast of financial results for fiscal 1997 to reflect the Bank's expectation that it will have a large net loss for the year exceeding the amount of its net loss in fiscal 1994. Such revision resulted principally from the Bank's trial implementation of a new self-assessment rule for the credit quality of assets and to a lesser extent from the disposal in the first six months of the fiscal year of a larger-than-anticipated volume of problem assets. The self-assessment, performed in anticipation of the introduction, as of April 1, 1998, of a new administrative supervisory system for financial institutions in Japan, called “Prompt Corrective Action”, identified approximately ¥800 billion of credit losses for fiscal 1997. The Bank expects that most of such losses will not be tax deductible.

The following table shows the composition of these estimated credit losses for the year ended March 31, 1998.

	For the year ending March 31, 1998
	(billions of yen)
Reserve for financial support for associated companies	¥ 120.0
Actual losses and reserve for losses on loans sold to CCPC	100.0
Other losses and reserve	580.0
Total	¥ 800.0

The ¥800 billion identified by the Bank is its estimate of the amount of losses relating to its loans outstanding as of June 30, 1997. The Bank is currently in the process of reviewing its estimate in light of the actual amount of its loans outstanding as of December 31, 1997, and as a result thereof, such estimate could be adjusted. After the end of the current fiscal year, such estimate will be updated to address the credit quality of loans outstanding as of June 30, 1998, and such updated estimate will be reviewed by the Bank’s independent certified public accountants in connection with the annual audit. Accordingly, the current estimated credit losses of ¥800 billion could be increased or decreased substantially during the above process, and could differ substantially from the actual amount of credit losses recognized in the Bank’s audited statement of income for fiscal 1997.

The Bank’s operating results for the six months ended September 30, 1997 reflected a portion of the credit losses referred to above. For the six months ended September 30, 1997, the Bank recognized a total of ¥128.4 billion of credit losses, including ¥30.1 billion of actual losses on loans sold to CCPC, ¥2.2 billion of direct writeoffs, ¥76.8 billion of specific reserves and ¥19.3 billion of other losses. The ¥128.4 billion is included in the ¥800 billion of credit losses referred to above.

Reserve for Possible Loan Losses

The following table shows the changes in the Bank's reserve for possible loan losses as of the dates indicated:

	As of March 31,			As of September 30,
	1995	1996	1997	1997
	(millions of yen, except percentages)			
Reserve for possible loan losses at beginning of period	¥ 385,775	¥ 585,267	¥ 593,601	¥ 535,043
Foreign currency translation adjustment	(8,752)	7,027	7,041	(848)
Charge-offs to specific reserve for possible loan losses	(39,442)	(94,448)	(159,063)	(34,741)
Aggregate additions to reserves	247,685	95,755	93,464	76,540
Reserve for possible loan losses at end of period	585,267	593,601	535,043	575,994
General reserve	102,893	108,838	112,833	112,217
Specific reserve	479,489	482,862	421,089	462,678
Reserve for specific overseas loan losses	2,883	1,900	1,120	1,098
Loans and bills discounted	33,819,080	35,499,622	36,600,112	36,572,040
Reserve for possible loan losses, as a percentage of loans and bills discounted	1.73%	1.67%	1.46%	1.57%
Specific reserve as a percentage of non-accrual loans[1]	50.7	49.3	52.2	52.7

(1) The ratio for specific reserves to non-accrual loans as of March 31, 1996 in the above table has been calculated by excluding provisions for *jusen* loans in specific reserves as such loans were not included within non-accrual loans.

Accounting Principles Relating to Reserve for Possible Loan Losses

The reserve for possible loan losses is a reserve for estimated future credit losses. Credit losses arise primarily from the loan portfolio, but may also be derived from other sources, including commitments to extend credit, guarantees and standby letters of credit. (In this Offering Circular, the term "loan losses" includes losses derived from such other sources.) Actual loan losses, net of recoveries, are deducted from the reserve for possible loan losses.

The reserve for possible loan losses is comprised of three components: general reserve, specific reserve and reserve for specific overseas loan losses. Accounting principles relating to these components of the reserve for possible loan losses are discussed below. The Bank also maintains a reserve for loss on loans sold.

General Reserve. The general reserve is established by the Bank as a fixed percentage (currently 0.3%) of certain outstanding loans specified under Japanese tax regulations and the Accounting Standards for Banks. Commencing as of March 31, 1998, the amount of the general reserve will be established as a percentage of the aggregate amount of loans and bills discounted classified as normal assets or substandard assets (see "— Prompt Corrective Action"). The percentage will be determined each fiscal year based upon the amount of credit losses over the preceding three fiscal years relating to normal assets and substandard assets. The Bank currently expects that the amount of the general reserve as of March 31, 1998 will be less than the amount of the general reserve as of March 31, 1997. Additions to the general reserve may be deducted currently for Japanese tax purposes.

Specific Reserve. The specific reserve is established by the Bank against estimated loan losses on certain doubtful loans based on management's evaluation of the effects on the loan portfolio of current conditions and other pertinent indicators. The factors considered in this evaluation include, but are not necessarily limited to, estimated future losses from loan and off-balance-sheet agreements and obligations, general economic conditions, deterioration in credit concentrations or pledged collateral, international lending risk and historical loss experience, as well as trends in portfolio volume, maturity, composition, delinquencies and non-accruals. The Bank has transferred unusually large amounts to specific reserve in recent fiscal years, particularly in fiscal 1994, and expects to transfer a substantial amount to specific reserve in the current fiscal year. See "— Loan Loss Experience". Additions to the specific reserve are generally not fully deductible for Japanese tax purposes. The Bank in recent years has provided for transfers to the specific reserve in amounts that have substantially exceeded the corresponding amounts deductible for Japanese tax purposes; this difference accounts for most of the deferred income taxes reflected in the Consolidated Balance Sheets of the Bank.

Reserve for Specific Overseas Loan Losses. A reserve for possible losses on specific overseas loans is set aside under the Uniform Rules for Bank Accounting. Such reserve has not been material in amount in recent fiscal years.

Reserve for Loss on Loans Sold. Reserve for loss on loans sold reflects the Bank's estimate of the amount of losses it will incur in the future in relation to loans previously sold by the Bank to CCPC. For information about CCPC, see "—Loan Loss Experience". At the time of each sale by the Bank to CCPC of nonperforming or other problem loans, the Bank recognizes a loss to reflect the discounted sale price of such loans. However, the Bank is subject to the risk of further losses associated with such loans sold to CCPC. Each sale to CCPC is financed by a loan by the Bank to CCPC. Under the contract for sale of loans, any losses incurred by CCPC on any subsequent disposition of the real estate collateral (and certain related expenses incurred by CCPC) are then reflected retroactively on the sale price at which CCPC purchased the loan and are charged to the Bank. Because the market value of the real estate for many of the loans sold by the Bank to CCPC has declined significantly since the respective times at which such loans were sold, the Bank expects that such losses will be charged to the Bank upon disposition of the relevant real estate collateral. Reserve for loss on loans sold provides for such contingent "secondary" losses expected to be charged to the Bank in the future. The Bank intends to provide for such reserve to reflect the material difference between current estimated market values for real estate collateral for such loans and the principal amount of loans extended by the Bank to CCPC to finance the purchase of such loans by CCPC. Transfer to reserve for loss on loans sold is not deductible for Japanese tax purposes.

Prompt Corrective Action

In connection with the introduction of the so-called "Prompt Corrective Action" ("PCA") system beginning April 1, 1998, in April 1997, the Institute of Certified Public Accountants issued guidelines for self-assessment of assets by banks and other financial institutions and issued related policies for loan loss writeoffs and reserves. The guidelines recommend that each institution classify loan assets into the following four categories: (i) normal assets (loans to financially sound debtors); (ii) substandard assets (loans to debtors with substandard credit standings); (iii) doubtful assets (loans to debtors that are likely to become bankrupt); and (iv) losses (loans to debtors who are in legal bankruptcy or similar situations). With respect to loan assets classified as losses, the guidelines recommend that a reserve for credit losses be provided based on the full amount of the lender's claim, net of amounts expected to be collected through the sale or disposal of collateral or by recourse to guarantors. With respect to loan assets classified as doubtful, the guidelines recommend that a reserve be provided based on the amount deemed necessary following an assessment of the lender's claim, net of amounts expected to be collected through the sale or disposal of collateral or by recourse to guarantors. With respect to loan assets classified as normal or substandard, the guidelines recommend that a reserve be provided based upon the actual loan loss experience of such institution in respect of loan assets classified as normal or substandard, as the case may be. See "Supervision and Regulation — Japan — Capital Adequacy".

Applying these guidelines, during 1997 the Bank conducted a preliminary self-assessment of its assets in accordance with its internal rules and has established internal introductory rules for providing reserves for possible loan losses. All loan assets were assessed by the Bank's branch offices and credit supervision departments using these internal rules. Subsequently, the Credit Review Department independently audited these assessments and estimated the reserves to be provided on the basis of this audit. These actions were taken in preparation for the introduction of PCA beginning April 1, 1998. The Bank is currently reviewing such estimate in light of the actual loan portfolio as of December 31, 1997. After the end of the current fiscal year, the Bank intends to conduct a formal self-assessment and determine the appropriate level of reserves as of March 31, 1998 in light of the loans outstanding as of such date, using the final internal rules for providing reserves. The Bank's independent outside auditors will review these procedures at that time.

Amendments to the MoF order under the Banking Law effective as of April 1, 1998, provide for certain types of corrective actions (the "prompt corrective actions") to be taken by the MoF when the capital ratios of banks falls below the minimum requirements. If the capital ratio of a bank with international operations becomes less than 8% but still 4% or more, the MoF may require the bank to submit and implement a capital reform plan. If the capital ratio of a bank with international operations becomes less than 4% but still 0% or more, the MoF may order the bank (i) to submit and implement a plan for improving its capital, (ii) to prohibit or restrict the payment of dividends to shareholders or bonuses to officers, (iii) to reduce its assets, (iv) to prohibit or restrict the acceptance of deposits under terms less advantageous than ordinary terms, (v) to reduce the business of some offices, (vi) to eliminate some offices other than the head office, (vii) to reduce the business of domestic or overseas subsidiaries, (viii) to dispose of shares or interests in domestic or overseas subsidiaries or (ix) to take other certain actions. If the capital ratio of a bank with international operations becomes less than 0%, the MoF may order the bank to suspend all or part of its business.

Non-accrual Loans

Non-accrual loans are defined as loans for which the principal amount is past due or for which the accrual of interest has been suspended because no interest payments have been received for six months or more. Non-accrual loans are categorized as either "loans to borrowers in legal bankruptcy" or "past-due loans". "Loans to borrowers in legal bankruptcy" consist of non-accrual loans to borrowers that are currently the subject of legal action under one or more of the Japanese laws pertaining to bankruptcy, including the Corporate Reorganization Law, the Bankruptcy Law, and the Composition Law, and borrowers for whom bank transactions have been suspended because of non-performance on promissory notes cleared through note exchanges. "Past-due loans" consist of loans to borrowers whose interest payment obligations have been temporarily suspended under the Interest Payment Suspension Approval System and all other non-accrual loans which are not included within the first category. A loan for which interest payment is past due for less than six months and for which principal is not past due does not fall under the definition of past due loans. Past-due loans are removed from non-accrual status if interest is received, even if such interest is substantially less than the full amount due. See "Summary of Significant Differences between Japanese GAAP and U.S. GAAP—Accrued Interest on Non-Performing Loans". See "Investment Considerations—Japanese Accounting Standard". Under current Japanese regulations and accounting rules, the Bank is not required to, and does not, maintain records of loans past due on any other basis.

The following table sets forth the Bank's non-accrual loans as of the dates indicated:

	As of March 31,			As of September 30,	
	1995	1996	1997	1996	1997
	(millions of yen, except percentages)				
Loans to borrowers in legal bankruptcy	¥ 180,432	¥ 202,473	¥ 190,482	¥ 261,763	¥ 231,744
Past-due loans	765,429	670,533	616,610	598,104	646,259
Total	¥ 945,862	¥ 873,007	¥ 807,092	859,867	878,003
Ratio of non-accrual loans to loans and bills discounted	2.80%	2.46%	2.21%	2.18%	2.40%

The Bank's non-accrual loans are virtually all domestic loans. The Bank is taking active measures to reduce the balance of its non-accrual loans, principally by writing off such loans and, in the case of domestic loans secured by real estate, disposing of such loans through CCPC.

Other Problem Loan Disclosures

In addition to the reserve for possible loan losses and other credit losses discussed above, the Bank provides certain additional disclosures with respect to problem loans. These include disclosures with respect to restructured loans, loans for financial assistance and loans to restructuring countries, as discussed below.

Restructured Loans. Beginning in fiscal 1995, the Bank has been required to disclose the amount of certain loans that have been restructured. "Restructured loans" required to be disclosed are defined to include any loan whose interest rate has been lowered to below or equal to the official discount rate that prevailed at the time of the restructuring or on which the original spread has been reduced to zero or below. As of March 31, 1996 and 1997, and September 30, 1997, the Bank had ¥614,555 million, ¥104,673 million and ¥105,789 million of restructured loans, respectively. The decrease from March 31, 1996 to March 31, 1997 reflects the fact that ¥54 billion of loans to the *jusen*, which were included in restructured loans as of March 31, 1996, were written off in fiscal 1996 and loans to Sumigin Hosho, also included in restructured loans at that date, were reclassified as "loans for financial assistance" in fiscal 1996. See "— Loans for Financial Assistance".

Restructured loans do not include extensions of credit to the CCPC or to the HLAC or investments in the *jusen* funds. See "Investment Considerations — Potential Need for Additional Support to Japanese Financial Institutions" and "Investment Considerations — Potential Need for Additional Support Relating to *Jusen* Restructuring".

Although the Bank classifies these loans as "restructured" and monitors the borrowers' performance carefully (in some cases seconding staff from the Bank), the Bank's approach is to provide support to the borrowers in an endeavor to achieve a greater level of recovery and, at the same time, maintain customer relationships.

Loans for Financial Assistance. Beginning in fiscal 1996, the Bank has been required to disclose "loans for financial assistance". "Loans for financial assistance" are loans outstanding to customers to which the Bank has provided assistance. The principal method of assistance is forgiveness of loans to such borrowers following receipt of approval by the Taxation Bureau of the MoF of related tax deductions. As of March 31 and September 30, 1997, the Bank had ¥162,466 million and ¥158,091 million, respectively of loans for financial assistance, which principally consisted of loans to Sumigin Hosho.

Loans to Restructuring Countries. As of September 30, 1997, 18 countries are categorized by the MoF as "restructuring countries" that are considered to have an enhanced credit risk. As of March 31, 1997, the Bank had no material exposure to such restructuring countries.

Jusen Restructuring

Japanese housing loan companies, commonly known as "*jusen*", were rendered insolvent in the early 1990s by the rapid decline in the value of Japanese real estate collateral underlying their loan portfolios. The MoF and leading Japanese financial institutions, concerned that the uncontrolled bankruptcies of the *jusen* could have a destabilizing effect on the Japanese financial system, undertook coordinated action to resolve the problems of the *jusen*, including the use of public funds. In June 1996, a bill to restructure the *jusen* was approved by the Japanese Diet, pursuant to which the Housing Loan Administration Corporation (the "HLAC") was established in July 1996 to acquire, and attempt to collect upon, the loan assets of the seven failed *jusen*. As part of this government-sponsored restructuring, the Bank and other Japanese financial institutions wrote-off loans outstanding to the failed *jusen*. As a result, the Bank in fiscal 1996 wrote off ¥54 billion of its loans outstanding to the failed *jusen*, of which ¥53 billion was covered by reserves as of March 31, 1996, and the Bank made loans guaranteed by the Deposit Insurance Corporation to the HLAC. The remaining indebtedness and other liabilities of the *jusen* were assumed by the HLAC. Following the transfer of all of their assets to the HLAC, the *jusen* were dissolved.

In connection with the formation of the HLAC, the financial institutions involved in the *jusen* restructuring, including the Bank, invested approximately ¥1 trillion in the Special *Jusen* Fund of the Deposit Insurance Corporation for a term of fifteen years. The Special Jusen Fund used these funds to purchase Japanese Government bonds; the interest on these bonds is being paid to the HLAC in order to assist HLAC in servicing its indebtedness. The Special Jusen Fund was intended to produce sufficient cash flow to enable the HLAC to satisfy all of its financial obligations and to repay its indebtedness with the proceeds of collection and liquidation of the *jusen* assets.

In October 1996, a new fifteen-year fund of ¥909 billion was established by financial institutions involved in the *jusen* restructuring and the BoJ in anticipation of further losses on loan assets held by the HLAC. This fund purchased Japanese Government bonds and the interest on these bonds is being paid to the Japanese Government for the purpose of compensating the Government for the public funds applied to assist the rescue of the *jusen*.

The Bank's investments in the two *jusen*-related funds are non-interest bearing investments included on the Bank's balance sheet (and classified as other assets). Such investments are reported at cost. There can be no assurance that the Bank's investments in these funds will be returned or that additional contributions from the Bank or further forgiveness of loans by the Bank will not be required in the event that HLAC requires additional financial assistance in order to meet its financial obligations.

The President of the HLAC has been quoted in the press as asserting that HLAC will initiate legal action against several banks, including the Bank, attempting to impose financial responsibility on such banks for introducing the *jusen* to a number of borrowers who subsequently failed to repay loans extended by the *jusen*. The Bank has not received directly any notice to this effect from the HLAC.

Securities-Related Activities

Investment Portfolio

The book value of the Bank's investment securities portfolio amounted, as of September 30, 1997, to ¥6,042,957 million. The Bank is able to count 45% of the unrealized gains on its investment securities portfolio towards its tier II capital, and as at September 30, 1997 it had ¥732,578 million (consolidated) of such unrealized gains. The portfolio is made up of bonds and equity securities.

The Bank's bond portfolio had, as of September 30, 1997, a book value amounting to ¥2,125,987 million. The Bank's bond portfolio is principally held for investment purposes with a small number of securities being held for inventory purposes for sales to customers. More than half of the Bank's bond portfolio is composed of fixed-rate long-term Japanese and local government bonds and high quality corporate bonds denominated in yen which the Bank intends to hold until maturity. Bonds are also held to ensure liquidity and, when needed, they can be used as collateral for call money or other money market funding or short term borrowing from the BoJ. Sales of such bonds are made from time to time in order to recognize discretionary gains. The Bank's treasury department actively monitors the interest rate and maturity profile of its bond portfolio as part of the Bank's overall risk management. The short-term bond trading operations of the Bank were transferred to Sumitomo Capital Securities Co., Limited following its establishment.

The Bank's equity portfolio had, as of September 30, 1997, a book value amounting to ¥2,895,671 million consisting largely of Japanese equities. The Bank's equity portfolio, like that of other Japanese banks, has historically included shares of certain of its customers who in turn hold shares of the Bank. This cross-holding of shares is used to strengthen the relationship between the Bank and its customers. The disposition of a substantial amount of such shares would not only hurt customer relationships but also depress market prices and adversely affect the value of the remaining shares held in the portfolio.

However, the Bank has recognized the risks associated with its equity portfolio due to its volatility as well as its relatively poor yield, especially if market interest rates were to rise. In 1994, the Bank discontinued its policy of realizing gains on its equity portfolio to offset loan losses. As shares sold to realize gains were usually repurchased by the Bank, the net result of these actions was to increase the book value of its equity portfolio while decreasing unrealized gains and yields on the investment portfolio. Accordingly, the Bank's Capital Markets Planning Department has been actively looking to minimize the negative effect of holding a large equity portfolio through hedging and derivative transactions and at the same time maintain existing client relationships. While the portfolio is under review, the Bank continues to look at equity investments with the potential for meaningful returns.

As of February 5, 1998 the Nikkei Stock Average was 17,003.30. The Tokyo Stock Exchange publishes the Tokyo Stock Price Index ("TOPIX"), an index of the market value of all the stocks traded on the First Section of such exchange (currently the number of such stocks is 1,325), which was 1274.09 as of February 5, 1998. As recently as January 12, 1998, the Nikkei average was 14,664.44. The table below sets forth the closing values of the Nikkei Stock Average and the TOPIX Index at December 31, 1993, 1994, 1995, 1996 and 1997.

	At December 31,				
Index	1993	1994	1995	1996	1997
Nikkei Stock Average	17417.24	19723.06	19868.15	19361.35	15258.74
TOPIX	1439.31	1559.09	1577.70	1470.94	1175.03

The following table shows the total composition and maturity of the Bank's investment securities portfolio as of the dates indicated:

	Maturity as of March 31, 1997								
	One Year or Less	More than One Year to Three Years	More than Three Years to Five Years	More than Five Years to Seven Years	More than Seven Years to Ten Years	Over Ten Years	Unspecified Term	Total	(%)
	(millions of yen, except percentages)								
Japanese government bonds	¥ 108,686	¥ 216,511	¥ 229,078	¥ 148,578	¥ 113,636	¥ 3,016	¥ —	¥ 819,507	13.65%
Japanese local government Bonds	7,812	58,665	78,707	53,060	300,659	514	—	499,421	8.32
Corporate bonds[2]	104,270	153,431	231,190	62,897	277,684		—	829,475	13.81
Corporate stocks	—	—	—	—	—	—	2,863,913	2,863,913	47.70
Others[3]	46,771	208,617	105,024	43,281	34,565	67,700	485,479	991,440	16.51
Securities lent	—	17	534	—	—	—	—	552	0.01
Total	¥ 267,541	¥ 637,243	¥ 644,535	¥ 307,818	¥ 726,547	¥ 71,230	¥ 3,349,392	¥ 6,004,310	100.00
Foreign corporate bonds	¥ 46,611	¥ 131,866	¥ 96,676	¥ 21,768	¥ 29,971	¥ 67,700	¥ 6,205	¥ 400,801	6.68
Foreign corporate stocks	—	—	—	—	—	—	452,609	452,609	7.54

	Maturity as of March 31, 1996								
	One Year or Less	More than One Year to Three Years	More than Three Years to Five Years	More than Five Years to Seven Years	More than Seven Years to Ten Years	Over Ten Years	Unspecified Term	Total	(%)
	(millions of yen, except percentages)								
Japanese government bonds	¥ 63,006	¥ 83,902	¥ 228,315	¥ 170,363	¥ 24,873	¥ —	¥ —	¥ 570,460	9.33%
Japanese local government bonds	35,517	31,248	88,318	79,207	527,125	496	—	761,912	12.46
Corporate bonds[2]	127,791	298,059	372,882	74,613	247,115	—	—	1,120,461	18.32
Corporate stocks	—	—	—	—	—	—	2,810,465	2,810,465	45.96
Others[3]	62,412	168,667	69,873	30,386	41,033	23,570	453,537	849,482	13.89
Securities lent	—	8	2,183	445	—	—	—	2,638	0.04
Total	¥ 288,728	¥ 581,885	¥ 761,575	¥ 355,015	¥ 840,147	¥ 24,066	¥ 3,264,003	¥ 6,115,421	100%
Foreign corporate bonds	¥ 61,902	¥ 102,089	¥ 54,006	¥ 17,279	¥ 15,901	¥ 23,570	¥ 5,317	¥ 280,067	4.58%
Foreign corporate stocks	—	—	—	—	—	—	432,980	432,980	7.08%

	Maturity as of March 31, 1995								
	One Year or Less	More than One Year to Three Years	More than Three Years to Five Years	More than Five Years to Seven Years	More than Seven Years to Ten Years	Over Ten Years	Unspecified Term	Total	(%)
	(millions of yen, except percentages)								
Japanese government bonds	¥ 10,234	¥ 7,329	¥ 184,883	¥ 311,698	¥ 46,333	¥ —	¥ —	¥ 560,480	9.90%
Japanese local government bonds	26,300	46,763	73,188	110,331	287,051	478	—	544,114	9.62
Corporate bonds[2]	173,298	297,122	422,780	94,567	95,112	5,210	—	1,088,094	19.23
Corporate stocks	—	—	—	—	—	—	2,732,015	2,732,015	48.28
Others[3]	56,147	97,543	160,261	16,302	40,319	48,680	312,404	731,659	12.93
Securities lent	—	—	17	2,504	1	—	—	2,522	0.04
Total	¥ 265,981	¥ 448,760	¥ 841,132	¥ 535,404	¥ 468,818	¥ 54,369	¥ 3,044,419	¥ 5,658,886	100%
Foreign corporate bonds	¥ 52,696	¥ 96,873	¥ 81,306	¥ 7,917	¥ 10,775	¥ 48,580	¥ —	¥ 298,149	5.27%
Foreign corporate stocks	—	—	—	—	—	—	307,951	307,951	5.44%

(1) Investment securities are recorded generally at the lower of cost or market value. Securities listed on an established market are recorded at the lower of cost or the market value at the end of the period. Many of the corporate bonds and some of the Japanese local government bonds held by the Bank are not listed on an established market and are, therefore, recorded at cost.

(2) Includes, in addition to corporate bonds, bonds guaranteed by the government of Japan and bank debenture.

(3) Includes foreign securities such as non-yen denominated securities, yen denominated securities issued outside Japan and yen denominated securities of non-Japanese issuers issued in Japan. As of March 31, 1997, foreign securities amounted to ¥400.8 billion of foreign bonds, including U.S. government bonds, and ¥452.6 billion of foreign equity securities.

The following table shows the book value and market value of, and the unrealized gain or loss on, the Bank's investment securities portfolio as of the dates indicated:

	As of March 31, 1995			As of March 31, 1996			As of March 31, 1997			As of September 30, 1997		
	Book Value	Market Value	Unrealized gain (loss)	Book Value	Market Value	Unrealized gain (loss)	Book Value	Market Value	Unrealized gain (loss)	Book Value	Market Value	Unrealized gain (loss)
					(millions of yen)							
Listed Securities												
Corporate and Government Bonds	¥ 229,471	¥ 259,346	¥ 29,874	¥ 157,892	¥ 177,836	¥ 19,944	¥ 261,472	¥ 283,296	¥ 21,824	¥ 567,547	¥ 600,910	¥ 33,363
Corporate Stocks	2,574,870	2,981,446	406,576	2,646,644	3,748,873	1,102,229	2,693,558	3,348,906	655,347	2,722,100	3,402,467	680,367
Other	210,179	213,620	3,440	203,657	210,971	7,314	202,002	213,631	11,628	199,430	217,270	17,839
Listed Securities Total	¥3,014,522	¥3,454,413	¥ 439,891	¥3,008,194	¥4,137,682	¥1,129,488	¥3,157,033	¥3,845,834	¥ 688,800	¥3,489,077	¥4,220,648	¥ 731,571
Unlisted Securities with Market Value Corporate and Government Bonds	977,102	1,015,542	38,439	1,221,830	1,245,159	23,329	1,110,001	1,146,089	36,087	1,040,334	1,080,398	40,063
Corporate Stocks	49,558	48,854	(704)	56,288	69,397	13,109	57,027	49,537	(7,490)	58,311	42,371	(15,939)
Other	130,749	71,466	(59,282)	158,593	116,674	(41,918)	152,633	105,875	(46,758)	67,911	92,054	24,142
Unlisted Securities Total	¥1,157,410	¥1,135,863	¥ (21,547)	¥1,436,711	¥1,431,231	¥ (5,479)	¥1,319,662	¥1,301,501	¥ (18,160)	¥1,166,557	¥1,214,824	¥ 48,266
Total[1]	¥4,171,932	¥4,590,276	¥ 418,344	¥4,444,905	¥5,568,913	¥1,124,009	¥4,476,695	¥5,147,335	¥ 670,640	¥4,655,634	¥5,435,472	¥ 779,837

(1) Unlisted securities without market value are not covered by this table.

As unrealized gains in the equity portfolio have declined in recent years, the sensitivity of the equity portfolio to unrealized losses resulting from declines in market prices for equities has increased. As a result of the decrease in domestic interest rates in recent years, substantial unrealized gains in the bond portfolio have the effect of reducing sensitivity to changing market prices. However, such sensitivity will gradually increase as domestic interest rates remain static or increase.

Trading Portfolio

Beginning in fiscal 1997, the Bank adopted mark-to-market accounting, pursuant to the Banking Act of Japan, for its trading portfolio. The Bank's trading portfolio includes securities, derivatives and other trading assets and liabilities. Net trading income as of September 30, 1997 was ¥3,716 million, which principally consists of gains from trading-related financial derivatives transactions.

Business in the Tokyo Primary Market

The Bank acts in Japan as an underwriter for national government bonds, government-guaranteed bonds and local government bonds. During the year ended March 31, 1997, the Bank underwrote such bonds with a total face value of ¥292,680 million. The Bank has been active in the domestic market as placement agent for commercial paper programs for qualified corporate issuers. During the year ended March 31, 1997, the Bank placed for its customers commercial paper totaling ¥2,286,400 million. The Bank itself may not act as an underwriter for corporate bonds under the Securities and Exchange Law of Japan but it may act as a trustee or co-trustee of corporate mortgage bonds and corporate general mortgage bonds. The Bank has a substantial market share of the corporate trust business in these areas. The Bank also acts as a commissioned company for bondholders and registrar, paying and fiscal agent for unsecured public bond offerings by domestic and foreign borrowers. In this role the Bank advises the issuer of market conditions and undertakes certain procedural matters on behalf of the issuer. The Bank also plays an important role in yen-denominated private placements by foreign borrowers in the Tokyo capital market.

Securities Business

Following the implementation of measures to reform Japan's financial system in 1993, the Bank established its securities subsidiary, Sumitomo Capital Securities Co., Limited ("Sumitomo Capital"), and obtained a securities firm license and commenced operations in November 1994. This securities subsidiary provides mainly corporate and institutional clients with capital market services including the underwriting and trading of corporate bonds, underwriting convertible bonds and bonds with warrants, serving as lead manager for 47 offerings. Sumitomo Capital also engages in trading bond futures and options and equity-linked securities and developing new products responding to its customers' wide-ranging investment and fund-raising needs. To facilitate trading on behalf of its customers, Sumitomo Capital undertakes market-making activities for corporate and other bonds. It also provides its customers with a broad selection of investment trusts, finance vehicles and after-market products.

Other Activities

Acceptances and Guarantees

The Bank extends on behalf of its customers guarantees for bill payments, for deferred tax payments and for other items. Internationally, the Bank issues letters of credit for import transactions and standby letters of credit and extends other guarantees, including direct guarantees of foreign bond issues and bank loans.

Money Transfers

The Bank's activities include the handling of money remittances for municipalities, public and private corporations and individuals both within Japan and abroad. Domestic remittance services are among the important activities of banks in Japan, where money remittance is a major means of payment. Those remittances are cleared through the settlement system of the BoJ. During the year ended March 31, 1997, the Bank handled domestic remittances totaling approximately ¥813.0 trillion on behalf of its customers.

The Bank also handles the presentation and collection for its customers of promissory notes, bills of exchange and checks. During the year ended March 31, 1997, the total domestic volume of such presentations and collections was approximately ¥16.7 trillion.

Other Domestic Activities

The Bank provides, either directly or through its associated institutions, a variety of other financial services, including credit cards, travelers' checks, leasing, factoring, guaranteeing housing and personal loans, computer software services, data processing, investment management and management consulting services.

The Bank also offers a trading and deposit service for gold bullion, custodian services and personal computer services which provide customers with various economic and inter-bank business information, transaction data and money transfer services through computers installed in offices and homes.

One of the Bank's subsidiaries, The Sumitomo Credit Service Company, Limited is a core member of VISA Japan, Inc. and has approximately 14 million card holders and offers personal credit services, including issue of various credit cards, consumer loans and guarantees.

Foreign Exchange

The Bank engages in a variety of foreign exchange transactions for its clients and for its own account, including foreign currency exchange, overseas transfers and trade finance for export and import activities. As of September 30, 1997, 174 branches offered a comprehensive range of foreign exchange services and an additional 133 branches provided foreign currency exchange services.

The Bank's foreign exchange trading volume during the six months ended September 30, 1997 amounted to U.S.$462 billion.

Branch Network and Other Banking Facilities

As of September 30, 1997, the Bank's domestic network consisted of 309 branch offices, 39 sub-branches and one agency, as well as 12 subsidiaries and 10 associated companies (in which the Bank may, by law, hold an equity interest of no more than 5%). Geographically, most of the

Bank's branches are located in the Tokyo and Osaka areas. In addition to providing full-service banking at many of its branches, the Bank operates satellite offices that provide specialized services, such as consumer loans.

The Bank also operates an extensive network in Japan of automated teller machines ("ATMs"), allowing its customers to conduct self-service banking transactions during banking and certain non-banking hours. At September 30, 1997, the Bank's ATM network comprised 3,395 full-service ATMs and cash dispensers. In addition, the Bank offers its customers ready access to more than 100,000 ATMs and cash dispensers through co-operative arrangements with other city banks and other types of financial institutions.

In order to provide swift and accurate deposit account and other information, the Bank has begun offering its domestic and international customers various computerized cash management and information services. These services, offered primarily to corporate customers, allow direct computer-linked access to the Bank and permit the execution of paperless banking transactions.

The Bank's newer computer systems will not require special modifications in order to accommodate data in and after the year 2000 (the so-called "Year 2000" problem). The Bank has established a plan for implementing and testing the changes required in its older computer systems, the cost of which the Bank expects to be not material.

International Operations

The Bank serves its overseas customers through its international network of 39 branches, two sub-branches, 24 representative offices, 43 subsidiaries and 13 affiliates and associated companies (as of September 30, 1997). The Bank has offices in more than 30 countries. Through this network the Bank serves supra-national bodies, governments, governmental agencies, municipalities, central banks, financial institutions, multinationals, other corporations and individuals. Through its overseas network the Bank provides full banking services including taking deposits, making loans, foreign exchanges, issuing letters of credit, various types of project financing and providing interest and currency swaps, futures and options. Approximately one third of the Bank's consolidated total income for the year ended March 31, 1997 was generated from international operations (including transactions in foreign currencies at the Bank's offices in Japan). The Bank's overseas business is principally overseen from the Bank's Tokyo head office, although, following an increase in size of its U.S. operations, the Bank has established a North American headquarters in New York to oversee its U.S. operations.

The Bank's overseas subsidiaries offer a wide variety of financial services, such as underwriting and dealing in securities, asset management, trustee, lease financing and custodian services.

Among the Bank's subsidiaries, The Sumitomo Bank of California (with 48 branches) provides a wide range of wholesale and retail commercial banking activities primarily in the State of California. As of December 31, 1996, The Sumitomo Bank of California was ranked fifth among commercial banks in the State of California by total deposits and had assets of U.S.$4,974 million. The Sumitomo Bank of Canada began its business in 1987, offering wholesale commercial banking services. Banco Sumitomo Brasileiro S.A. is engaged in similar activities in Brazil. Sumitomo Bank of New York Trust Company provides a wide range of trust services such as fiscal agency for companies issuing commercial paper, trusteeship for Eurobonds and custodian services.

The Bank's overseas capital markets activities are carried out through seven subsidiaries located in major financial centers: Sumitomo Finance International plc ("SFI") in London; Banca del Gottardo in Lugano, Switzerland; Sumitomo Bank Capital Markets, Inc. ("SBCM") in New York; Sumitomo Finance (Asia) Limited in Hong Kong; Sumitomo Bank (Schweiz) AG in Zurich; SBCM Limited in London and Sumitomo Bank Securities Inc. in New York. Through these subsidiaries, the Bank is an active participant in the underwriting and management of bond issues in the international capital markets.

SFI underwrites and trades various Eurobonds, including Euroyen bonds, and in the year ended December 31, 1997, was the lead manager of 167 international bond issues, with an aggregate principal amount of U.S.$4,719 million.

Banca del Gottardo, in which the Bank acquired majority control in 1984, offers a wide range of banking services including commercial, investment and private banking. As of December 31, 1997, Banca del Gottardo, together with its subsidiaries, had total assets of Sfr.9,863.1 million. Banca del Gottardo is a principal underwriter of bonds in the Swiss market. During the year ended December 31, 1997, it managed public issues and private placements totaling Sfr.1,321 million. Of the 370 issues which it managed, it acted as lead or co-lead manager in 154 of such issues.

SBCM was established in 1986. Through SBCM, the Bank currently holds a limited partnership interest in The Goldman Sachs Group, L.P. ("Goldman Sachs Group") that represents aggregate investments of approximately U.S.$500 million. SBCM is a limited partner in, but does not participate in the management of, Goldman Sachs Group. SBCM participates in the profits and losses of Goldman Sachs Group. In addition to holding the investment in Goldman Sachs Group referred to above, SBCM engages in a variety of commercial finance and leasing activities, including transactions involving a variety of derivative instruments, interest rate swaps, currency swaps, options and other complex securities in which it, along with SBCM Limited, its London-based affiliate, acts as agent on behalf of a third affiliate, SBCM Derivative Products Limited.

Effective February 2, 1996, the Bank acquired certain loans, trust and other assets from the U.S. affiliates and offices of The Daiwa Bank, Limited ("Daiwa Bank U.S".). The transaction involved the transfer of a substantial portion of Daiwa Bank U.S.'s loan portfolio as well as its trust banking business and 15 offices, giving the Bank offices in a total of nine additional U.S. cities. The aggregate consideration paid was approximately U.S.$3.3 billion. This acquisition increased the size of the Bank's U.S. operations which it anticipates will lead to improvements in operating efficiencies.

The Bank is in the process of considering various strategic alternatives with respect to its U.S. operations in order to enhance their overall profitability and competitiveness. In connection with such review, the Bank announced in December 1997 that it is considering dispositions of certain of its U.S. operations including The Sumitomo Bank of California.

Competition

In recent years in Japan, both weak demand for loan financing and deregulation of interest rates has intensified competition for the Bank, primarily from the other city banks. At the same time, large Japanese corporations increasingly raise funds through the capital markets and, as a consequence, have relied to a lesser extent on city banks, such as the Bank, as sources of finance. Internationally, the Bank competes with major commercial banks and, as the Bank expands the scope of its international operations, this competition is increasing.

In addition, the deregulation of banking activities in Japan and, more generally, the Japanese financial system has accelerated over the past few years. This deregulation is altering two structural features of Japan's financial system: the separation of the banking and securities businesses and distinctions among the permissible activities of Japan's three principal types of private banking institutions: ordinary banks (including both city banks, of which the Bank is one of nine, and regional banks), trust banks and long-term credit banks.

Article 65 of the Securities and Exchange Law of Japan separates the banking and securities businesses. However, banks in Japan (including the Bank), like their counterparts in the United States, have been seeking authorization to combine traditional commercial and investment banking activities in order to offer customers a wider range of services. Conversely, securities firms are seeking the authority to engage in activities that have been considered banking activities and have been forbidden to them. The present policy of the Japanese government is to reduce the barriers between the banking and securities businesses in Japan and the Bank expects increased competition among financial institutions in new areas of permissible activities. The Financial System Reform Law (Law No. 87 of 1992) permits banks to establish domestic subsidiary securities companies (with the approval of the Japanese MoF) to engage in securities business. The Bank established its domestic securities subsidiary, Sumitomo Capital, in 1994. In addition, the Financial System Reform Law permits banks to establish domestic subsidiaries to engage in trust banking.

The traditional distinction in Japan among the three principal types of private banking institutions has become increasingly blurred in recent years. As Japanese corporations have sought to diversify their sources of funding for long-term investment, Japan's three long-term credit banks (which can issue debentures having maturities of up to five years) have become more active in short-term markets, while the city banks (which can accept time deposits with maturities of up to ten years) have given greater emphasis to long-term business. City banks are continuing to seek the elimination of the government-imposed distinctions between city banks and long-term credit banks and, should this occur, competition within Japan's banking industry will increase as both groups of banks seek to take advantage of expanding business opportunities. The Bank established SB Trust Bank Co., Limited in June 1996 to engage in trust banking.

Within the Japanese consumer banking sector, the continuing deregulation of interest rates on yen deposits has enabled the Bank to offer its customers an increasingly attractive and diversified range of new products. The Bank faces competition in this sector from the other city and regional banks as well as from the Postal Savings Bank, a Japanese government entity (and the world's largest holder of deposits), that traditionally has had significant competitive advantages over Japanese banks due in large part to its ability to offer fixed interest rates on deposits for terms of up to ten years while allowing depositors to withdraw their funds after only six months. Recently Japanese banks have started competing with one another by developing innovative proprietary computer technologies that allow them to deliver basic banking services in a more efficient manner and to create sophisticated new products in response to customer demand.

In international markets, the Bank faces competition from other commercial banks and similar financial institutions, particularly major international banks and the leading domestic banks in those financial markets outside Japan in which the Bank conducts business.

Risk Management

The Bank is exposed to risks caused by market volatilities, principally in equity securities, short-term and long-term interest rates and currency exchange rates. Such risks include (i) market risk relating to changes in the level of prices, rates, indices, volatilities, correlations and other market factors, (ii) credit risk relating to non-performance by counterparties, (iii) operational risk relating to errors, malfeasance or other deficiencies in the recording or transmitting of relevant data in connection with the processing of a large volume of transactions, (iv) legal risk relating to non-compliance with applicable legal and regulatory regimes and (v) liquidity risk with respect to market saturation. Beginning in 1994, the Bank has placed considerable emphasis on controlling and managing such risks through application of a computer model developed by analysis of historic market and other data. This model is continuously evaluated for accuracy and to take account of changes in economic indicators. The Bank has also established, and periodically reviews, foreign exchange limits, funding limits, position limits and loss-cutting rules for all its domestic and overseas offices as well as for individual dealers.

The Bank's Treasury Group monitors the Bank's exposure to interest rate and liquidity risk on an ongoing basis and makes use of swaps and other instruments in its asset and liability management operations. The objective of such operations is to manage the market risk of the Bank's activities, including its on-balance and off-balance sheet exposures, while providing opportunities to enhance its profitability. It is anticipated that the continued deregulation of domestic interest rates (see "Deposits" above) will result in further changes in the structure of the Bank's sources and use of funding which will increase the importance of such operations.

Market Risk

The requirements of customers grow more sophisticated year-by-year as they globalize their operations, financial deregulation proceeds, derivatives markets expand and new financial techniques emerge. As these needs diversify, the Bank is fulfilling a greater role in introducing customers to the world's financial markets. To this end, the Bank has developed more sophisticated risk control systems that enable the Bank to address properly the following three issues: (1) managing risk at levels commensurate with the Bank's capital, (2) investing in measures that improve the Bank's risk-versus-return ratio, and (3) strengthening audit measures and ensuring the reliability of management information.

Within the Bank the Corporate Treasury Department independently manages the risk exposure of individual trading departments. To manage market risk, it is important for the Bank's top executives to have access to monitoring and reporting systems. To this end, the committee responsible for monitoring this risk reports quarterly to top management, holds monthly meetings and uses the Bank's E-Mail system to exchange information on a daily basis.

To minimize or prevent an operating mistake or inappropriate action which could hinder the timely generation of transaction reports, the Bank has established a check-and-balance system for trading departments (front office). The Bank has implemented a system in which both the operations departments (back office) and risk control departments (middle office) run checks on the trading departments.

In addition, comprehensive operations audits are periodically conducted by the inspection department, which operates independently of profit centres within the Bank.

To provide advanced financial services and maintain adequate risk controls, it is necessary to have staff that are capable of understanding and applying leading-edge financial theory. Consequently, the Bank is training its staff in the latest financial theories and financial techniques, and providing further support to highly trained personnel with derivatives expertise and the ability to manage complex portfolios.

Market risk refers to the occurrence of unpredicted changes in market rates or volatility. To consolidate and manage such risk, the Bank uses the value-at-risk (VaR) method, which calculates the largest amount exposed to loss based on a specific probability. The Bank calculates VaR based on a one-day holding period and a 97.5% one-tailed confidence interval.

The determinants of market risk are generally separated into (1) exchange rate risk, (2) interest rate risk, (3) basis risk and spread risk (risk arising from changes in price spreads of financial products), and (4) option risk. Sumitomo Bank combines the results of a variety of standard risk measurement techniques — including the traditional basis point value (BPV) method — with the VaR method to produce highly sensitive data for the accurate management of market risk.

Market fluctuations occasionally exceed the expected parameters. To manage market risk, it is important to be able to run simulations of extreme market movements, such as those of Black Monday, which may occur from time to time. The Bank, therefore, periodically runs such simulations, or stress tests, to prepare itself for similar situations.

Using data obtained from periodic stress tests and pro forma income projections, the Bank sets conservative enterprise-wide VaR limits that correspond to capital, which is internally allocated among trading departments.

VaR evaluation techniques are progressing rapidly. The Japanese financial industry is quickly moving toward the adoption of these techniques, having already passed through the initial introduction and definition phases. They are being adopted for their technical merits in (1) securing reliable figures, (2) widening coverage, and (3) providing information about operations in widely dispersed areas of the world. The Bank has adopted the VaR method for these reasons and developed a market risk management system, FORCE, based on the latest intranet technologies. The Bank began operating the FORCE system at the start of 1997.

The VaR method provides reliable figures because it is possible to select from three major computation methods — the flexible variance/covariance method, the historical simulation method using a maximum of 10 years, and Monte Carlo simulations, which are excellent for option risk evaluations — and verify the figures generated by different approaches.

The VaR method satisfies the second condition, widening coverage, by providing the means to grasp an understanding of the Bank's total interest rate and currency risk exposure, including investment securities, deposits and loans.

The third merit, that is providing information about operations in widely dispersed areas, draws on the benefits of the internet to gather information from the Bank's operations around the globe. The Bank's middle offices in Japan and overseas, its front offices and its management can all access the FORCE system and see exactly the same information and analytical tools on their screens.

The future development of the global financial industry will depend upon advances in risk management techniques. To contribute widely to this development, the Bank is making technical information on its market risk management operations and its FORCE system available on its Internet home page.

At March 31, 1997, the enterprise-wide market risk exposure of the Bank stood at ¥13.7 billion. The greater portion of this exposure arises from assets in the banking account intended for long-term holding. The exposure related to short-term trading account holdings is relatively small compared to the total. Moreover, the primary component of the exposure is interest rate risk arising from fluctuations in market rates, rather than "non-linear" risk arising from complex derivative products.

Credit Risk

Loans, a bank's primary asset, and off-balance-sheet transactions are subject to credit risk arising from customer defaults. To maintain a sound asset base and to prevent loans from turning into problem assets, the Bank is steadily strengthening its credit organization, upgrading its computer systems and developing specialized expertise among its staff.

The Credit Policy Department is responsible for organizational improvements to achieve comprehensive risk control both in Japan and overseas. This department sets policy for individual product and credit categories, and determines and manages the target portfolio mix, classified by borrower type, industry, corporate scale and credit rating. To recognize the quantitative exposure of the risks and to operate effectively, the Bank is upgrading its management methods for credit risks.

In addition to an analysis of collateral, the Bank tests each credit application for its conformity to such criteria as credit worthiness, growth potential and cash flow. The Bank is building up its credit screening systems, taking into account the specific characteristics of each market. There are separate sections charged with this task: for the domestic market, by region and by major companies; for the North American market; and for other overseas markets. The Bank can readily assess country risk through its global network, which furnishes the latest political, economic, commercial and financial conditions in many countries and regularly produces comprehensive local analyses based on reports from its global network and periodic surveys of its customers.

The Credit Review Department provides control over the Bank's entire credit organization. This department conducts audits of all aspects of operations to ensure adherence to stipulated parameters.

To cultivate human resources, the Bank administers a range of programmes for individuals and groups aimed at maintaining and enhancing credit-related skills. To quickly create centres of excellence within its credit department, the Bank has deployed experienced branch managers to the credit department and has created exchange programmes between the regional loan section and the head office credit department so that personnel may gain firsthand experience in the latest risk control techniques. This is also helping to create stronger ties between the branches and the head office for smoother implementation of credit policies.

The Bank calculates a "credit risk equivalent amount," which represents the current replacement cost, or the potential cost to the Bank of replacing the cash flow at a particular point in time in the event of a default.

The Bank's basic procedure for controlling the credit risk of off-balance-sheet transactions is to establish a credit risk equivalent ceiling for each customer. These limits are then assessed alongside the credit limits for on-balance-sheet items, such as loans, and managed as a single, comprehensive position. The Bank periodically assesses individual customers on the basis of quantitative risk exposure. Should the Bank's exposure for any client approach a given ratio, the account is flagged and control measures are implemented before the credit limit is exceeded. Moreover, the enterprise-wide credit risk exposure of the Bank is regularly monitored and managed by the Credit Policy Department.

Operational Risk

Through a number of organizational changes and upgraded audit procedures, the Bank is strengthening its ability to counter the increased operating risk it faces as its transaction volume and product diversity expand. In addition, the Bank is reinforcing backup systems for on-line information systems to ensure that these vital components of the communications infrastructure do not fail in the event of a disaster. Specifically, the Bank is installing duplicate self-contained power generating systems and communications channels, as well as duplicate computer hardware. Computing centres have been established in both Tokyo and Osaka so that one can supply the entire Bank's computing needs in the event of a failure at the other centre.

In the wake of the Great Hanshin Earthquake in 1995, the Bank has also updated its emergency procedures. To maintain internal communications in the event of public telecommunications network failure, the Bank is establishing the procedures and equipment to communicate via E-Mail over its own dedicated integrated services digital network (ISDN) circuits or via satellite communications facilities.

The following table sets forth information relating to the Bank's interest-earning assets and interest-bearing liabilities, with average balances based on daily averages:

	Year ended March 31,			Six months ended September 30,	
	1995	1996	1997	1996	1997
	(millions of yen, except percentages)				
Domestic operations(1)					
Average total interest-earning assets	¥ 31,094,947	¥ 31,632,464	¥ 31,738,404	¥ 31,519,725	¥ 32,334,009
Interest income	1,188,293	1,060,244	922,981	464,317	453,722
Average rate	3.82%	3.35%	2.90%	2.93%	2.79%
Average total interest-bearing liabilities.	¥ 29,404,250	¥ 30,232,233	¥ 30,402,586	¥ 30,227,305	¥ 30,062,633
Interest expenses	762,310	568,663	481,155	242,392	218,766
Average rate	2.59%	1.88%	1.58%	1.59%	1.45%
Net interest income	¥ 425,983	¥ 491,580	¥ 441,826	¥ 221,925	¥ 234,956
Net interest margin(2)	1.36%	1.55%	1.39%	1.40%	1.44%
International operations(1)					
Average total interest-earning assets	¥ 16,207,611	¥ 17,572,068	¥ 17,820,716	¥ 16,838,599	¥ 18,092,767
Interest income	1,061,355	1,181,389	1,082,981	481,819	499,651
Average rate	6.54%	6.72%	6.07%	5.70%	5.50%
Average total interest-bearing liabilities.	¥ 16,536,095	¥ 17,740,483	¥ 17,929,748	¥ 16,913,560	¥ 18,091,321
Interest expenses	988,674	1,044,954	926,382	421,594	448,307
Average rate	5.97%	5.89%	5.16%	4.97%	4.94%
Net interest income	¥ 72,680	¥ 136,435	¥ 156,599	60,224	51,344
Net interest margin(2)	0.44%	0.77%	0.88%	0.71%	0.56%

(1) Domestic operations consist of yen-denominated transactions at offices in Japan. International operations comprise transactions in foreign currencies at offices in Japan and transactions at overseas offices. In addition, yen-denominated transactions with non-residents of Japan, transactions included in Tokyo offshore accounts for international financial transactions and certain other transactions are included in international operations.

(2) Net interest margin equals net interest income as a percentage of average total interest-earning assets.

Derivatives

The Bank's main off-balance sheet transactions, such as interest rate swaps and currency options, carry both credit risk and market risk. Credit risk refers to the risk of financial loss faced by the Bank should the counterparty default on its obligation. Market risk refers to the risk of loss to the Bank caused by market-price movements. The main risks are foreign exchange risk, resulting from the sensitivity of foreign exchange contract positions to fluctuations in currency rates; interest rate risk, arising from the impact of interest rate movements; and volatility risk, associated with the impact of market prices on options.

The following is a summary of the Group's notional or contract amounts and credit risk amounts of derivatives at the date indicated:

	As of September 30, 1997	
	Contract/ Notional Amounts	Credit Risk Amounts
	(billions of yen)	
Interest rate and currency swaps	¥ 89,693	¥ 3,059
Forward foreign exchange contracts	96,567	3,068
Interest rate and currency options	3,927	84
Other derivative financial instruments	3,554	8
Close-out netting	—	(1,762)
Total	¥ 193,742	¥ 4,457

(1) The amounts stated above are based on the BIS guidelines. The current exposure method is generally employed to calculate the credit risk amount, although some amounts are calculated using the original exposure method.

(2) Close-out netting is applied in calculating the credit risk equivalent amounts.

(3) Transactions listed on exchanges, foreign exchange transactions with an original maturity of 14 days or less, and other transactions not covered under the aforementioned guidelines, were as follows:

	As of September 30, 1997
	Contracts/ Notional Amounts
	(billions of yen)
Forward foreign exchange contracts	¥ 8,309
Interest rate and currency options	5,263
Other derivative financial instruments	34,898
Total	¥ 48,471

The Bank enters into various types of interest rate and foreign exchange contracts that are accounted for as hedges. The Bank primarily uses foreign exchange contracts to hedge on-balance sheet assets and liabilities and gains and losses on such contracts are not deferred but are revalued.

Swap transactions by the Bank are generally used for hedging purposes, for example, fixed-to-floating rate swaps and vice versa. Interest rate and currency swaps consist of contracts entered into between the Bank and a counterparty whereby the Bank agrees to pay the counterparty an amount related to one particular interest rate, inflation index rate or currency exchange rate (as applied to a notional principal amount) and, in return, receives from the counterparty an amount related to a different interest rate, inflation index rate or currency exchange rate (applied to such notional principal amount). The Bank's liability in respect of such a transaction is not the notional amount of the transaction but the differential between the interest rate, inflation index rate or currency exchange rate which the Bank agrees to pay and the interest rate, inflation index rate or currency exchange rate which the counterparty agrees to pay. Where the Bank does not match its swap positions, the resulting market exposure counts towards the Bank's trading limits.

Forward contracts consist of the purchase or sale of interest rates or bonds at a future date. The following table sets forth the market value of the Bank's listed futures contracts at the dates indicated.

	March 31, 1995			March 31, 1996			March 31, 1997		
	Contract Value	Market Value	Difference	Contract Value	Market Value	Difference	Contract Value	Market Value	Difference
				(millions of yen)					
Interests rates									
Sold	¥2,472,857	¥2,486,925	¥ (14,068)	¥1,580,449	¥1,582,729	¥ (2,280)	¥3,144,462	¥3,143,940	¥ 522
Bought	2,559,527	2,574,756	15,229	1,037,724	1,039,682	1,958	3,072,173	3,071,881	(292)
Bonds									
Sold	615,973	626,699	(10,725)	310,873	312,877	(2,004)	493,131	494,937	(1,805)
Bought	432,082	440,654	8,571	359,627	361,480	1,853	624,950	626,722	1,772
Stocks									
Sold	7,226	7,170	56	—	—	—	—	—	—
Bought	5,834	5,727	(106)	—	—	—	—	—	—
Total									
Sold	3,096,057	3,120,795	(24,737)	1,891,322	1,895,606	(4,284)	3,637,593	3,638,877	(1,283)
Bought	2,997,443	3,021,138	23,694	1,397,351	1,401,163	3,812	3,697,123	3,698,603	1,480
Net balance			¥ (1,043)			¥ (472)			¥ 197

	September 30, 1996			September 30, 1997		
	Contract Value	Market Value	Difference	Contract Value	Market Value	Difference
			(millions of yen)			
Interests rates						
Sold	3,888,696	3,902,990	(14,294)	¥3,478,345	¥3,486,496	¥ (8,150)
Bought	3,882,329	3,897,823	15,493	2,947,411	2,954,168	6,757
Bonds						
Sold	506,586	513,461	(6,874)	—	—	—
Bought	490,344	496,165	5,821	—	—	—
Stocks						
Sold	—	—	—	—	—	—
Bought	—	—	—	—	—	—
Total						
Sold	4,395,282	4,416,451	(21,168)	3,478,345	3,486,496	(8,150)
Bought	4,372,673	4,393,988	21,314	2,947,411	2,954,168	6,757
Net balance			146			(1,393)

Option transactions include the sale of listed put and call options to buy or sell interest rates or bonds as well as dollars and other currencies.

		March 31, 1995			March 31, 1996			March 31, 1997		
		Book Value	Market Value	Difference	Book Value	Market Value	Difference	Book Value	Market Value	Difference
						(millions of yen)				
Interest rates										
Sold	Call	¥ 124	¥ 486	¥ (361)	¥ 32	¥ 5	¥ 26	¥ —	¥ —	¥ —
	Put	59	21	37	—	—	—	—	—	—
Bought	Call	110	188	77	58	9	(49)	—	—	—
	Put	111	53	(58)	46	32	(14)	—	—	—
Bonds										
Sold	Call	16	14	1	—	—	—	—	—	—
	Put	42	37	5	—	—	—	155	98	57
Bought	Call	16	17	2	12	0	(12)	—	—	—
	Put	41	38	(3)	—	—	—	—	—	—
Stocks										
Sold	Call	15	25	(9)	—	—	—	—	—	—
	Put	30	21	9	114	15	99	—	—	—
Bought	Call	—	—	—	—	—	—	—	—	—
	Put	—	—	—	52	18	(34)	—	—	—
Total										
Sold		289	606	(317)	146	20	125	155	98	57
Bought		281	297	16	170	60	(109)	—	—	—
Net balance				¥ (301)			¥ 15			¥ 57

		September 30, 1996			September 30, 1997		
		Book Value	Market Value	Difference	Book Value	Market Value	Difference
					(millions of yen)		
Interest rates							
Sold	Call	145	144	1	—	—	—
	Put	10	0	9	7	1	6
Bought	Call	175	191	16	—	—	—
	Put	39	5	(33)	40	7	(33)
Bonds							
Sold	Call	—	—	—	—	12	(12)
	Put	—	—	—	—	—	—
Bought	Call	—	—	—	—	—	—
	Put	—	—	—	—	—	—
Stocks							
Sold	Call	—	—	—	—	—	—
	Put	—	—	—	—	—	—
Bought	Call	—	—	—	—	—	—
	Put	—	—	—	—	—	—
Total							
Sold		320	335	17	7	13	(6)
Bought		49	5	(24)	40	7	(33)
Net balance				(7)			(39)

The following table sets forth the contract amount of the Bank's over-the-counter options for the periods indicated.

	Six-months ended September 30, 1997
	(millions of yen)
Currencies	
Sold	¥ 1,694,876
Bought	1,575,774
Bonds	
Sold	25,000
Bought	45,000
Total	
Sold	1,719,876
Bought	1,620,774

Currency Derivatives

	Six months ended September 30, 1997	
	Contract Amount	
	Total	More than One Year
	(millions of yen)	
Over-the-Counter Transactions		
Currency swaps	¥ 3,716,914	¥ 2,829,361
US$	2,722,676	2,336,458
HK$	202,426	151,086
£Stg.	139,968	123,163
FFr.	271,283	15,562
Other	380,560	203,090

Forward foreign exchange and currency options are not included in these amounts because the gains (losses) are realized at year-end and accounted for in the Income Statements.

Interest Rate Swap (Supplemental)

	Six months ended September 30, 1997		
Period Remaining	Less than One Year	One to Five Years	More than Five Years
		(millions of yen)	
Receivable fixed swap notional amount	¥16,663,158	¥10,375,255	¥ 2,801,130
Payable fixed swap notional amount	10,425,751	9,390,666	2,609,770
Total	¥27,088,909	¥19,765,921	¥ 5,410,900

As with the Bank's swap transactions, the Bank often matches its futures contracts and financial option transactions with opposite positions in a matching transaction and, where futures contracts or option transactions are not matched, the resulting market exposure counts towards the Bank's trading limits.

In order to monitor and control credit risks associated with off-balance-sheet instruments, the Bank has established a ceiling for "credit risk equivalent amount" for each client. Further, the Bank incorporates credit risk calculations for on-balance-sheet transactions together with those for off-balance-sheet transactions to facilitate its credit risk management.

Property

The Bank owns or leases the land and buildings in which it conducts its business. Most of the property in which the Bank operates in Japan, including its Osaka and Tokyo head offices, is owned by the Bank. In contrast, the Bank's international operations are conducted out of leased premises. As of March 31, 1997, the property owned by the Bank was as follows:

	Land
	(square meters)
Osaka/Tokyo head offices	14,204
Branch network	167,281
Other facilities	586,352
Total	767,837

Legal Matters

The Bank is party to routine litigation incidental to its business, none of which is currently expected to have a material adverse effect on the Bank's financial condition or results of operations. See "Investment Considerations—Potential Need for Additional Support Relating to *Jusen* Restructuring".

MANAGEMENT AND EMPLOYEES

Management

The Bank's Board of Directors has ultimate responsibility for the administration of the Bank's affairs. The Corporate Auditors (who are not required to be and are not certified public accountants) have the statutory duty to examine the financial statements and business reports submitted by the Board of Directors to the shareholders and also to supervise the administration by the Directors of the Bank's affairs in accordance with the auditing policy and rules relating to the execution of Corporate Auditors' duties as prescribed by resolutions of the Board of Auditors. All Directors and Corporate Auditors are elected by the shareholders of the Bank at general meetings. The normal term of office for Directors is two years and the normal term of office for Corporate Auditors is three years, but Directors and Corporate Auditors may serve any number of consecutive terms.

The Bank is required to appoint independent certified public accountants, who are elected at a general meeting of shareholders and who have as their primary statutory duties the examination of the financial statements prepared in accordance with the Commercial Code of Japan and approved by the Board of Directors and the reporting of their opinion thereon to the Board of Auditors and to the Representative Directors for notification to the shareholders. Examination by independent certified public accountants of the financial statements of the Bank is also required for the purpose of the securities report that companies listed on Japanese stock exchanges must file annually with the MoF for public inspection in accordance with the Securities and Exchange Law of Japan. The Bank's independent certified public accountants for such purposes are Asahi & Co., a member firm of Arthur Andersen.

The names and titles of the Directors and Auditors of the Bank as of June 30, 1997 are as follows:

Name	Title
Toshio Morikawa*	Chairman of the Board
Yoshifumi Nishikawa*	President
Shigeyoshi Katoh*	Deputy President
Kensuke Hotta*	Deputy President
Masahiko Koido*	Senior Managing Director
Yasuo Noishiki*	Senior Managing Director
Katsuji Kobayashi*	Senior Managing Director
Youhei Shiraga*	Senior Managing Director
Akio Asuke*	Senior Managing Director
Kensuke Uchida*	Senior Managing Director
Kunikatsu Yamamoto*	Senior Managing Director
Norio Hayashi	Managing Director
Shunichi Okuyama	Managing Director
Keiji Kataoka	Managing Director
Masakazu Sakao	Managing Director
Tadahiko Itoh	Managing Director
Michiyoshi Kuriyama	Managing Director
Akira Kondoh	Managing Director
Takeharu Nagata	Managing Director
Michihiro Matsuda	Managing Director
Masaaki Arai	Director
Masao Kamei	Director
Masayuki Oku	Director
Hiroshi Sakuma	Director
Isao Nakatani	Director
Tadashi Inoue	Director
Takayuki Tsukuda	Director

Masao Nakanishi	Director
Tsuneo Onda	Director
Yoichiro Inoue	Director
Shinsui Nohzuka	Director
Atsuo Konishi	Director
Kenjiro Noda	Director
Tadashi Hirota	Director
Mutsuhiko Matsumoto	Director
Sounosuke Kera	Director
Ryuzo Kodama	Director
Susumu Shimazu	Director
Kazuhiko Sugimoto	Director
Koji Ishida	Director
Koichi Tsukihara	Director
Masahide Hirasawa	Director
Umeoki Joko	Standing Corporate Auditor
Jiro Tsuge	Standing Corporate Auditor
Seiichi Nakano	Standing Corporate Auditor
Gentaro Kawase	Corporate Auditor
Shinichi Nishio	Corporate Auditor

* Representative Director

All of the above Directors are engaged in the business of the Bank on a full-time basis, except for Mr. Masaaki Arai (Honorary Chairman of Sumitomo Life Insurance Company) and Mr. Masao Kamei (Counselor of Sumitomo Electric Industries, Ltd.).

Employees

As of September 30, 1997, the Bank had 15,772 employees (including employees located abroad).

Most of the employees of the Bank are members of the Sumitomo Bank Workers' Union, which negotiates with the Bank concerning remuneration and working conditions. The Union is affiliated with the Federation of City Bank Workers' Unions. The Bank considers its labor relations to be excellent.

The Bank considers its level of remuneration, fringe benefits (including an employee share ownership program), working conditions and other allowances, which include lump-sum payments and annuities to employees upon retirement, to be generally competitive with those offered in Japan by other large enterprises. The Bank's employees are normally required to retire when they reach 60 years of age.

SUBSIDIARIES, AFFILIATES AND ASSOCIATED COMPANIES

The Bank offers many of its banking and related services through subsidiaries (companies in which the Bank holds, directly or indirectly, more than 50% of the issued share capital) and affiliates (companies in which the Bank holds, directly or indirectly, between 20% and 50% of the issued share capital) as well as through associated companies (companies in which the Bank or, in some cases, its affiliates, have a shareholding of less than 20% but which are viewed and held out as being associated with the Bank).

At March 31, 1997, the Bank had 12 subsidiaries in Japan and 40 subsidiaries and 12 affiliates outside of Japan. In total, the accounts of 42 of the Bank's subsidiaries were consolidated with those of the Bank and five affiliates. The consolidated accounts of the Bank do not include the accounts of other subsidiaries or affiliates which would not have a material impact on such consolidated accounts, which were accounted for by the equity method.

The following table sets forth certain information with respect to certain of the Bank's subsidiaries, affiliates and associated companies as of March 31, 1997:

Company name	Country	Main business	Issued capital	Equity directly or indirectly held by the Bank
			(millions)	(%)
Domestic				
Izumi Office Service Co., Limited	Japan	Banking clerical work	¥30	100
SB International Business Service Co., Limited	Japan	Travelers' check service	¥20	100
SB Mortgage Service Company, Limited	Japan	Appraisals of real estate collateral	¥30	100
Izumi Center Service Co., Limited	Japan	Banking clerical work	¥60	100
Izumi Business Service Co., Limited	Japan	Banking clerical work	¥30	100
IZUMI Career Development Co., Limited	Japan	Personnel service	¥30	100
IZUMI Service Co., Limited	Japan	Banking clerical work	¥30	100
Sumigin Total Maintenance Co., Limited	Japan	Auction of real estate collateral	¥300	100
Sumitomo Capital Securities Co., Limited	Japan	Securities business	¥30,000	100
Izumi Delivery Service Co., Limited	Japan	Banking clerical work	¥30	100
SB Trust Bank Co., Limited	Japan	Trust banking	¥5,000	100
Sumigin International Operations Service Co., Limited	Japan	Foreign exchange operations	¥30	100
The Sumitomo Credit Service Company, Limited	Japan	Credit card business (VISA)	¥4,000	5
SB Leasing Company, Limited	Japan	Leasing	¥2,000	4.9
Japan Research Institution	Japan	Consulting business and information service	¥2,000	5

Company name	Country	Main business	Issued capital	Equity directly or indirectly held by the Bank
			(millions)	(%)
Sumigin General Finance Company, Limited	Japan	Factoring, mortgage finance and other lending/loan and venture capital business	¥4,000	5
The General Finance Company of Tokyo, Limited	Japan	Purchase of monetary assets and credit guarantee	¥600	5
Japan General Finance Co., Limited	Japan	Purchase of monetary assets and credit guarantee	¥630	5
SB Investment Co., Limited	Japan	Venture capital business	¥2,000	5
Sumigin Guarantee Company, Limited	Japan	Credit guarantee	¥350	5
SB Bankers Investment Management Co., Ltd.	Japan	Investment management	¥500	5
Amex Sumigin Service Company, Ltd.	Japan	Credit card business (American Express)	¥200	5
SBIM Investment Trust Management Co. Ltd.	Japan	Management and development of investment trusts	¥1,000	5
Overseas				
The Sumitomo Bank of California	U.S.A.	Commercial banking	U.S.$82.1	85.2
Banco Sumitomo Brasileiro S.A.	Brazil	Commercial banking	Real 96.1	100
Sumitomo Finance International plc	U.K.	Securities business	£125	100
Sumitomo Bank (Schweiz) AG	Switzerland	Securities and financing business	SFr100	100
Sumitomo Finance (Asia) Limited	Cayman Islands	Securities and financing business	U.S.$35	100
Sumitomo Finance (Middle East) E.C.	Bahrain	Securities, foreign exchange and financing business	U.S.$85	100
Sumitomo International Finance Australia Limited	Australia	Securities and financing business	A$60	100
Banca del Gottardo (including its 13 subsidiaries and 6 affiliates)	Switzerland	Commercial banking, fund management and securities business	SFr164	55.4
Sumitomo Finance (Bermuda) Limited	Bermuda	Financing business	U.S.$0.012	100

Company name	Country	Main business	Issued capital	Equity directly or indirectly held by the Bank
			(millions)	(%)
Sumitomo Financial Futures (Singapore) Pte. Limited	Singapore	Operation in financial futures markets	S$0.25	100
Sumitomo Bank of New York Trust Company	U.S.A.	Commercial paper agent, trustee and custodian business	U.S.$1.5	100
Sumitomo Bank Capital Markets, Inc.	U.S.A.	Financing and swap business	U.S.$0.0001	100
The Sumitomo Bank of Canada	Canada	Commercial banking	Can$51.5	100
Finanziaria Sumitomo (Italia) S.p.A.	Italy	Lending and commercial paper issuance business	Lira 1,000	100
Sumitomo Bank (Deutschland) GmbH	Germany	Securities and financing business	DM58.3	100
P.T. Bank Sumitomo Niaga	Indonesia	Commercial banking	Rp53,191	79.9
Sumitomo Finance (Dublin) Limited	Ireland	Financing business	U.S.$12	100
Sumitomo Bank International Finance N.V.	Netherlands Antilles	Financing business	U.S.$0.2	100
Sumitomo Bank Financial Services, Inc.	U.S.A.	General service	U.S.$0.0003	100
Sumitomo Bank Investment Management (New York), Inc.	U.S.A.	Investment management	U.S.$0.0001	100
Sumitomo Bank Securities, Inc.	U.S.A.	Securities business	U.S.$0.0001	100
Sumitomo Bank Leasing and Finance, Inc.	U.S.A.	Leasing business	U.S.$0.001	96.6
SB Merchant Bank (Singapore) Limited	Singapore	Securities and investment management	S$5	100
CCLA Management, Inc.	U.S.A.	Holding company	U.S.$24	100
SBCM Limited	U.K.	Swap business	U.S.$297	100
SBCM Derivative Products Limited	U.K.	Swap business	US$300.0	100
Sumitomo International Finance Australia (Securities) Limited	Australia	Securities business	A$0.1	100
P.T. Bank Merincorp	Indonesia	Commercial banking and securities business	Rp50,000	26
P.T. Exim SB Leasing Company	Indonesia	Leasing business	Rp50,000	10
China International Finance Company Limited (Shenzhen)	China	Lending and guarantee business	U.S.$11.50	25
CPB Inc.	U.S.A.	Holding company	U.S.$6.6	13.5
BBMB Leasing Berhad	Malaysia	Leasing business	M$10	14.3
Sumigin Metro Investment Corporation	Philippines	Financing business	P.Peso600	40

THE JAPANESE BANKING SYSTEM

The Japanese banking system is broadly divided into three groups; a central bank, public financial institutions, and private-sector banking institutions. The Bank of Japan (the "BoJ") is the Japanese central bank and it has responsibility for the regulation of currency, the control and facilitation of credit and finance and the maintenance and development of the credit system. See "Supervision and regulation — The Bank of Japan". There are a number of public financial institutions, such as The Japan Development Bank and The Export-Import Bank of Japan, which have been organized in order to provide funding for specific matters, and to supplement the activities of the private-sector banking institutions. Their funds are provided mainly from government sources.

Private banking institutions in Japan are classified into three categories: ordinary banks, of which there are 138, not including 94 foreign commercial banks with banking operations in Japan; trust banks, of which there are 33, including nine Japanese subsidiaries of foreign financial institutions and 17 subsidiaries of Japanese financial institutions; and long-term credit banks, of which there are three. Ordinary banks in turn are classified as city banks, of which there are nine, including the Bank, and regional banks, of which there are 129, including member banks of the second association of regional banks that were originally mutual loan and savings *(sogo)* banks.

In general, the operations of ordinary banks correspond to commercial banking operations in the United States. Their main sources of funds are deposits from the public. City banks and regional banks are distinguished on the basis of head office location as well as the size and scope of their operations. The term "city banks" is usually used to refer to nine of ten such ordinary banks, excluding the smallest city bank which failed in 1997. The list of the nine city banks, ranked by total assets as of March 31, 1997, is as follows:

The Bank of Tokyo-Mitsubishi, Limited
The Sumitomo Bank, Limited
The Sanwa Bank, Limited
The Dai-Ichi Kangyo Bank, Limited
The Sakura Bank, Limited
The Fuji Bank, Limited
The Tokai Bank, Limited
The Asahi Bank, Limited
The Daiwa Bank, Limited

The city banks are generally considered to be the largest and most influential group of banks in Japan. With one exception, these banks are based in either Tokyo or Osaka, and operate domestically on a nationwide scale through networks of branch offices. City banks, unlike the regional banks, have strong links with large corporate clients, including the major industrial companies in Japan; however, in light of deregulation and other competitive factors, many of these banks (including the Bank) have placed increasing emphasis on other markets, including small to medium-sized companies, retail banking, international operations and, more recently, derivatives business.

With some exceptions, the regional banks tend to be much smaller in terms of total assets than the city banks. Each of the regional banks is based in one of the Japanese prefectures and may extend its operations into neighboring prefectures. Their clients are mostly regional enterprises and local public utilities, although the regional banks also lend to large corporations.

Both long-term credit banks and trust banks have been engaged primarily in providing long-term loans to Japanese industry, principally with funds obtained from the issue of debentures in the case of the long-term credit banks and beneficiary certificates in the case of the trust banks. Other banks also make long-term loans.

There are over 90 foreign banks operating banking businesses in Japan. They are subject to a statutory framework similar to the regulation of Japanese domestic banks. Their principal sources of funds come from their overseas head offices or other branches.

Certain other private-sector financial institutions in Japan, including agricultural and marine cooperative financial institutions, credit associations and credit unions, are mainly engaged in making loans to small businesses and individuals.

Another distinctive element of the Japanese banking system is the role of the postal savings system. Postal savings deposits are gathered through the network of post offices throughout Japan. The system offers a variety of types of deposits, at interest rates that are set by the Ministry of Posts and Telecommunications with some reference to the market-based interest rates of the private-sector banks. The funds are used to finance various government activities and investments in the public sector. As of September 30, 1997 the balance of deposits with the postal savings system was approximately ¥23 trillion, representing approximately one-third of all household deposits in Japan.

The present banking system evolved from measures adopted as part of the reconstruction of the Japanese economy after World War II. Such reconstruction, as it applied to financial markets was initially guided by such principles as the separation between long-term and short-term financing, the separation of trust banking from other types of banking, and the separation of banking from the securities business. However, in 1992, the Financial System Reform Act was passed and removed many of the legal barriers between various segments of the financial services industry. As a result of this legislation, directly or through subsidiaries, ordinary banks, trust banks and long-term credit banks may now engage in securities activities, and ordinary banks and long-term credit banks may engage in certain trust banking business. In turn, securities companies may perform a full range of banking and certain trust banking functions through subsidiaries. In addition, the prohibition on bank holding companies is expected to be eliminated when the legislation adopted by the Japanese Diet on December 5, 1997 is implemented.

Further financial service sector deregulatory measures currently under consideration in Japan include: permitting banks to sell insurance products; permitting ordinary banks to issue debentures and eliminating all other distinctions between long-term credit banks and ordinary banks; and the removal of most restrictions on the activities of securities and trust banking subsidiaries. See "Supervision and Regulation—Japan—Recent Developments".

SUPERVISION AND REGULATION

Japan

General

The Bank is extensively regulated under Japanese banking laws. Pursuant to the Banking Law, Law No. 59 of 1981, as amended (the "Banking Law"), the MoF is given authority to supervise banks in Japan. The BoJ also has supervisory authority over banks in Japan based primarily on its contractual agreements/transactions with the banks. Only companies licensed by the MoF are defined as banks under the Banking Law, and only a *kabushiki kaisha* (joint stock company) with paid-up capital of ¥2 billion or more may be licensed as such.

The Ministry of Finance

The Banking Law contains detailed provisions for the establishment and organization of banks and recognizes the independence of banks with regard to their business operations. In practice, however, the MoF supervises and provides administrative oversight for all areas of banking activity, and thus banking administration extensively affects all aspects of the business operations of banks in Japan.

Under the Banking Law, the MoF's supervisory control over banks in Japan extends to numerous areas, including approval of applications for licenses to operate a bank, approval of reductions in capital, approval of the establishment or closure of offices and approval of mergers, liquidations or discontinuations of business by existing banks. The MoF also has the authority to instruct Japanese banks to remove directors in the case that such banks violate laws or other regulations or commit acts contrary to public policy and, in the case of Japanese banks which are in financial difficulty, to direct such banks to submit certain property to be held for the protection of depositors and to issue such other orders as it may deem necessary. In this connection, the PCA system will be introduced as from April 1, 1998. Under the PCA system the MoF may take certain corrective actions in the case of capital deterioration of financial institutions. Those actions include (i) requiring a financial institution to formulate and implement reform measures, (ii) requiring it to reduce its assets or take other specific actions and (iii) issuing an order to suspend all or part of its business operations. For a description of the impact of the PCA system on the Bank, see "Business — Loan losses and problem loans — Prompt Corrective Action". On occasion the MoF in recent years also has exercised its influence to encourage certain city banks and long-term credit banks to assist smaller financial institutions, particularly associated institutions, experiencing financial problems.

In recent years, the MoF has introduced a number of deregulatory measures in the banking sector in Japan, as well as measures to increase the transparency of the regulatory process. Interest rates are currently almost completely deregulated. The Bank expects that this trend will continue and that, with the implementation of the measures described under "— Recent Developments" and other pending initiatives, the banking sector in Japan will become more market driven, while supervision of the sector will become more transparent.

The Banking Law also restricts the aggregate amount of loans any single bank can make to any single customer for the purposes of avoiding excessive concentration of credit risks and promoting a fair and extensive utilization of bank credit. The limit applicable to an ordinary bank in respect of its aggregate lending to any single customer (after deducting the value of deposits with the Bank and JGBs and certain other collateral provided to the Bank to secure the relevant loans) is established by a cabinet order and by the Banking Law as 20% of the bank's non-consolidated paid-up capital and reserves (including reserves for possible loan losses and retirement allowances) ("Capital & Reserves"). Moreover, the aggregate amount of lending to any single customer (after a similar deduction as the one performed above) by an ordinary bank and any of such bank's subsidiaries which are engaged in trust banking ("Subsidiaries") may not exceed 20% of the bank's Capital & Reserves plus (i) 20% of the paid-up capital of its Subsidiaries and (ii) 20% of the reserves of the Subsidiaries minus (iii) 20% of the total purchase price of the Subsidiaries' shares owned by the bank.

In addition, a circular of the Banking Bureau of the MoF provides that lending (after a similar deduction as the one performed above) and provision of credit other than lending by an ordinary bank to any single customer shall not exceed, in principle, 30% of the bank's Capital & Reserves. The aggregate amount of lending (after a similar deduction as the one performed above) and provision of credit other than lending to any single customer by an ordinary bank and any of its Subsidiaries may not exceed 30% of the bank's Capital & Reserves plus (i) 30% of the shareholder's equity in paid-up capital of the Subsidiaries and (ii) 30% of the reserves of the Subsidiaries minus (iii) 30% of the total purchase price of the Subsidiaries' shares owned by the bank. Furthermore, such circular provides that aggregate lending and provision of other credit to a single customer and such customer's specified subsidiaries is limited according to the same formulae, except that the 30% figures described above are increased to 40%.

Japanese Uniform Rules for Bank Accounting issued by the MoF require the Bank, for statutory purposes, to establish a reserve for specific doubtful loans. In addition, a general minimum reserve for doubtful loans, which at September 30, 1997 was 0.30% of eligible assets, is required. The Bank is required to submit semi-annual reports to the MoF on all loans that are considered by the Bank to be doubtful loans. The aggregate of such Bank reserves for doubtful loans is recorded for statutory financial reporting purposes only.

In an endeavor to improve the transparency of the accounts of Japanese banks, the MoF and the Federation of Bankers Associations of Japan have agreed that banks will progressively disclose their outstanding amounts of restructured loans. Restructured loans are defined as loans for which the interest rate has been lowered to below or equal to the official discount rate that prevailed at the time of the restructuring or loans on which the spread has been reduced to zero or below.

The MoF also offers administrative guidance to banks in Japan in order to protect bank depositors. This guidance is disseminated through periodic circular notices from the MoF with respect to such items as the ratio of current assets to total deposits, the ratio of fixed assets to net worth, the ratio of equity capital and the rates of dividends and legal reserves to be set aside. The Bank is and has over the past five years been in full compliance with all such guidance notes.

The Banking Law authorizes the MoF to audit banks in Japan at any time, but in practice audits usually occur once every two to four years. Such audits are conducted without any advance notice by officials from the Financial Inspection Department of the MoF.

A law separating the supervisory and inspection functions of the MoF over financial institutions, including the Bank, from the MoF's other functions and vesting such supervisory and inspection functions in a newly created government agency, was enacted in June 1997. See "— Recent developments".

The Bank of Japan

The BoJ is the central bank of Japan and serves as the principal instrument for the execution of Japan's monetary policy. The principal measures by which the BoJ implements monetary policy are the adjustment of its discount rate, its operations in the open market and the imposition of deposit reserve requirements. All ordinary banks in Japan maintain deposits with the BoJ and rely substantially upon obtaining borrowings from, and rediscounting bills with, the BoJ. Moreover, all banks in Japan maintain current accounts under agreements with the BoJ pursuant to which the BoJ is entitled to supervise, examine and audit the banks. The supervisory functions of the BoJ enable it to seek to execute effectively monetary policy, while the MoF's supervisory practices have the purpose of maintaining the sound operations of banks in Japan and of promoting the security of depositors.

The BoJ conducts an examination of the Bank similar to that undertaken by the MoF. Such examination is normally conducted once every two to three years. Notice is served prior to the examiner's visit, which is conducted for the purpose of checking day-to-day operations and giving pertinent advice.

In June 1997, the law establishing the BoJ was amended with the intention of granting greater independence to the BoJ with respect to, *inter alia*, the setting of interest rates and giving the BoJ additional power to aid financial institutions with liquidity problems.

Deposit Insurance System

In 1971, the Deposit Insurance Law was enacted in order to protect depositors in cases where financial institutions fail to meet their obligations. The Deposit Insurance Corporation, which was established to implement the Deposit Insurance Law, has been reformed as part of the Japanese government's plan to liquidate the *jusen*, in accordance with recent legislation enacted in June 1996, by increasing its paid-up capital from ¥455 million to ¥5,455 million and creating a special fund of approximately ¥1 trillion to be used for such liquidation. See "Investment Considerations—Potential Need for Additional Support Related to Jusen Restructuring".

The Deposit Insurance Corporation currently receives annual insurance premiums from insured banks equivalent to $^{48}/_{100,000}$ths of their deposits, as well as a special insurance premium of $^{36}/_{100,000}$ths of such deposits to cover the costs of reorganization of insolvent institutions for five years from fiscal 1996 through fiscal 2000. Prior to June 1996, annual insurance premiums from insured banks were payable at a rate equal to $^{12}/_{100,000}$ths of their deposits. Premiums held by the Deposit Insurance Corporation may be either deposited at financial institutions or used to purchase marketable securities. Insurance proceeds are paid out in the event of insolvency, license revocation, dissolution or bankruptcy of a bank, to a maximum of ¥10 million to each depositor. The Deposit Insurance Corporation is authorized, subject to approval of the MoF, to borrow up to ¥2,000 billion (of which ¥1,000 billion is for the protection of deposits in excess of the ¥10 million maximum referred to above from fiscal year 1996 through fiscal year 2000) from the BoJ for purposes of making required payments to the beneficiaries. See "– Recent Developments".

City banks (including the Bank), regional banks, long-term credit banks, trust banks, credit associations, credit unions and labor credit unions participate in the deposit insurance system on a compulsory basis.

The Securities and Exchange Law

Article 65 of the Japanese Securities and Exchange Law was intended to clearly separate the commercial banking and securities businesses in Japan. Under this law, banks (including the Bank) are generally prohibited from engaging in securities business activities (which is defined to include dealing, brokerage, underwriting and distribution of securities) except for certain approved activities. The law was amended in 1990 and now allows banks to underwrite and deal in Japanese government bonds, Japanese local government bonds and Japanese government guaranteed bonds, subject to the approval of the MoF.

In general, the restrictions of the Securities and Exchange Law do not directly extend to the Bank's subsidiaries outside Japan. However, certain administrative guidance by the MoF has been used to restrict the lead management activities of the overseas subsidiaries of Japanese banks with respect to public offerings of securities issued offshore by Japanese corporations and of securities issued by their overseas subsidiaries that are guaranteed by such corporations. Some of the MoF's restrictive administrative guidance was modified in 1993 and as a result, the Bank's overseas subsidiaries may engage in lead management activities for public offerings of debt securities outside Japan by Japanese companies.

The Bank, as a publicly-owned company, is required to file with the MoF an annual "Securities Report" in respect of each fiscal period, supplemented by semi-annual and extraordinary reports and consolidated financial statements pursuant to the Securities and Exchange Law.

The Financial System Reform Law of 1992 allows financial institutions to compete in one another's spheres through subsidiaries. Banks and other depository institutions are now allowed to set up securities subsidiaries and, within limits, compete in the securities industry. At present, bank-owned securities subsidiaries are prohibited by law from buying and selling shares. They are, however, allowed to compete in the primary and secondary markets for straight bonds, convertible bonds and bonds with warrants. The remaining restrictions imposed on bank-owned securities subsidiaries are expected to be lifted in the latter half of 1999.

Recent Developments

On June 18, 1996, the Japanese Diet approved a series of bills to implement the government's plan to liquidate seven insolvent *jusen* and, more generally, to introduce additional measures designed to ensure the soundness of financial institutions. A summary of this legislation is as follows:

Housing Loan Company Disposal Law: This legislation calls for the establishment of a special entity to acquire, and attempt to collect, the loans made by the *jusen*, which are to be liquidated. Pursuant to this legislation, this entity, the Housing Loan Administration Corporation, was established on July 26, 1996 and has commenced operations. The operations of the Housing Loan Administration Corporation are funded by contributions from the *jusen* founder banks (including the Bank) and other lender banks including agricultural financial institutions and from public funds.

Law for Ensuring Sound Operation of Financial Institutions: This legislation increases the audit requirements for large cooperative type financial institutions, and increases the powers of the MoF to take prompt corrective action against banks and other financial institutions, based on capital ratios. This legislation in large part replaced a pre-existing system of informal guidance and is intended to facilitate regulatory action against troubled institutions at an early stage. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Reserves for Possible Loan Losses".

Financial Institutions Special Procedures Law: This legislation is intended to allow Japanese regulators to institute insolvency proceedings in respect of financial institutions which are thought to be without prospects of recovery. The procedures outlined in the legislation are intended to facilitate the prompt liquidation or reorganization of failed financial institutions, with a correspondingly prompt payment to creditors. In addition, the legislation provides that substantial parts of the Corporate Reorganization Law now apply to cooperative type financial institutions.

Deposit Insurance Amendment Law: Amendments to the Deposit Insurance Law have the effect of increasing the deposit insurance premiums of banks. The MoF has stated that for the next five years deposits in financial institutions will, in principle, be fully protected, even in excess of the ¥10 million maximum referred to under "— Deposit Insurance System" above. In order to finance payments in excess of such amount, the Deposit Insurance Corporation has required financial institutions to pay an additional premium.

Two additional statutes introduce similar measures in respect of cooperative financial institutions in the agricultural sector and extend the statute of limitation on loans extended by the *jusen* for a period of one year.

In addition, various proposals have been made by the government as well as other bodies for the further deregulation of the Japanese financial market and the improvement of the soundness of Japanese financial institutions. In November 1996, Japan's Prime Minister Ryutaro Hashimoto announced an initiative, commonly known as the "Big Bang", to implement by 2001 a wide-ranging reform of Japan's financial system, aiming to make it freer, fairer and more global. The initiative contemplates the implementation of a variety of measures, including: liberalized entry into the banking, securities and insurance industries; elimination of restrictions on financial products and expansion of the permitted activities of securities companies and banks; liberalization of various types of commissions; promotion of efficiency in the management of individual savings through revision of regulations on asset management activities and enhancement of disclosure requirements; improvement of disclosure standards; active enforcement of financial laws and regulations; refinements of legal and regulatory systems and introduction of international accounting standards to address the development of derivatives and other products; reform of finance-related taxation; and establishment of mechanisms for global regulatory cooperation. Most of the securities sector reforms, including the current restrictions on banks' securities and trust banking subsidiaries, will be implemented by the end of fiscal 1999.

In line with the foregoing initiative, the Japanese Diet, in May 1997, passed amendments to the Foreign Exchange and Foreign Trade Control Law eliminating the monopoly of designated foreign exchange banks with regard to foreign exchange transactions and relaxing the prior notification or approval requirement in respect of almost all capital transactions as defined in the Foreign Exchange and Foreign Trade Control Law, including international securities transactions, effective April 1, 1998.

As of October 1, 1997, securities companies are permitted to sell "multi-purpose" securities accounts. Clients will be able to use these accounts to make payments and settlements, as with a bank account, thus letting securities houses partly compete with banks. In addition, banks' securities subsidiaries are allowed to trade convertible bonds, bonds with warrants, warrants, stock index options and stock index futures and trust banking subsidiaries of banks are permitted to engage in all aspects of the trust business other than pension trusts and JOMT.

As of December 1, 1997, banks are permitted to distribute investment trusts, the Japanese equivalent of mutual funds, by renting space to investment trust management companies. (From September 1, 1997, unlisted shares are permitted to be included in investment trust portfolios.) This will let them compete with securities companies, in this area, who have previously had a monopoly in this business.

In June 1997, two major legislative measures were adopted by the Japanese Diet in order to reform financial sector supervisory authorities. These measures consisted of (i) amendments to the law establishing the BoJ which are intended to grant more independence to the BoJ in relation to, *inter alia*, the setting of interest rates and giving the BoJ additional power to aid financial institutions with liquidity problems and (ii) the establishment of a new governmental agency which will assume the MoF's supervisory and inspection functions with respect to financial institutions in Japan. See "Frequency of Examination of Banks" and "The Bank of Japan" above.

In addition, in June 1997 the Japanese Diet adopted amendments to the Law relating to Prohibition of Private Monopoly and Maintenance of Fair Trade (the "Anti-Monopoly Law") to permit holding companies, except those which would constitute an excessive concentration of economic power. Such amendments became effective on December 17, 1997. The Fair Trade Commission announced, in December 1997, guidelines under the Anti-Monopoly Law listing types of holding companies which constitute an excessive concentration of economic power. Such prohibited holding companies are classified into three types: (i) a holding company whose group has total assets exceeding ¥15,000 billion and which owns at least five companies in separate principal fields of business whose total assets exceeds ¥300 billion each; (ii) a holding company which owns a financial company with total assets exceeding ¥15,000 billion and at least one company engaged in neither financial business nor in business closely related thereto with total assets exceeding ¥300 billion; and (iii) a holding company which owns at least five companies in separate business fields, each of which possesses a substantial position in its respective field, the said fields of business being interrelated. A holding company which, together with assets of its Japanese subsidiaries, has total assets exceeding ¥300 billion must file an annual report with the Fair Trade Commission. Additional legislative measures relating to the utilization of holding companies by financial institutions are expected to become effective in March 1998. In connection with such amendments, the Fair Trade Commission announced, in December 1997, amendments to the guidelines under the Anti-Monopoly Law which would relax the standards for approval of a financial institution's stockholdings of more than 5% in another Japanese company generally to permit a financial institution to acquire interests in other financial institutions without restrictions. Prior to the amendment, the Anti-Monopoly Law and the guidelines thereunder did not permit, with certain exceptions, banks including the Bank to hold more than 5% of the outstanding shares of other Japanese companies.

In June 1997, three MoF advisory panels (the Financial System Research Council, the Securities and Exchange Council and the Insurance Council) submitted their respective reports to the Minister of Finance setting forth various proposals for implementing Prime Minister Hashimoto's financial system reform initiative. The report of the Financial System Research Council proposed, among other things, that (i) remaining restrictions on the scope of business of securities subsidiaries and trust banking subsidiaries be lifted by the second half of fiscal 1999, (ii) bank holding companies be created and allowed to engage in securities, trust, insurance, investment management and other financial businesses through the creation of separate subsidiaries and (iii) banks be authorized to sell trust certificates of securities investment trusts. See "Recent Developments".

Proposed Government Investment in Financial Institutions

On January 19, 1998, a bill for the "Law Concerning Emergency Measures for Stabilizing Financial Function" was proposed to the Japanese Diet. The purpose of this law is to stabilize financial functions of Japan by enhancing the capital ratios of financial institutions. The bill contemplates, together with another bill amending the Deposit Insurance Law which was submitted to the Japanese Diet on the same date, the establishment of two special temporary accounts within the DIC, namely the Financial Crisis Control Account and the Special Business Account.

Under the Financial Crisis Control Account, the DIC may, within the limit of the amount to be prescribed by a Cabinet Order (currently expected to be ¥10 trillion) and with the approval of the MoF, borrow money from the BoJ or other financial institutions, the obligation thereunder being guaranteed by the Japanese government, and/or issue special bonds guaranteed by the Japanese government. In order to fund the account, the Japanese government may issue up to ¥3 trillion of a special type of Japanese government bonds and deliver them to the DIC. Under the proposed law, the DIC, through The Resolution and Collection Bank, Limited, may purchase shares of preferred stock or subordinated bonds issued by, or make subordinated loans to, certain eligible financial institutions.

Separately from the Financial Crisis Control Account, the Special Business Account would be created by consolidating previous accounts of the DIC, among other things, to provide financial aid for protection of deposits in excess of ¥10 million. For this purpose, the DIC may, within the limit of the amount to be prescribed by a Cabinet Order (currently expected to be ¥10 trillion) with the approval of the MoF, borrow money from the BoJ or other financial institutions, the obligation thereunder being guaranteed by the Japanese government, and/or issue special bonds guaranteed by the Japanese government. In order to fund the account, the Japanese government may issue up to ¥7 trillion of a special type of Japanese government bonds and deliver them to the DIC.

Capital Adequacy

In 1988, the Basle Committee on Banking Regulations and Supervisory Practices (the "Committee") of the BIS, consisting of representatives of the Group of Ten ("G-10") countries (including Japan and the United States), issued a statement containing its agreement on a framework for measuring the capital adequacy of international banking organizations. The BIS statement, which was endorsed by the G-10 Central Bank Governors, also established a risk asset ratio as the principal measure of capital adequacy. This ratio compares a bank's capital base, which is divided into two tiers, to its assets and off-balance sheet exposures weighted according to broad categories of relative credit risk.

The BIS statement sets minimum international risk asset ratios, but national banking regulators are permitted to set higher ratios.

The capital adequacy guidelines adopted by the MoF applicable to Japanese banks with international operations (the "Guidelines") closely follow the risk-weighted approach proposed by the BIS and are intended to further strengthen the soundness and stability of Japanese banks. Under the risk-based capital framework of the Guidelines, balance sheet assets and off-balance sheet exposures are assessed according to broad categories of relative risk, based primarily on the credit risk of the counterparty and country transfer risk. Five categories of risk weights (0%, 10%, 20%, 50% and 100%) are applied to the different types of balance sheet assets. Off-balance sheet exposures are taken into account by applying different categories of "credit conversion factors" to arrive at credit-equivalent amounts, which are then weighted in the same manner as balance sheet assets involving similar counterparties (except that the maximum risk weight is 50% for exposures relating to foreign exchange and interest rate contracts).

With regard to capital, the Guidelines are in accord with the standards of the BIS for a target minimum standard ratio of total capital to risk-weighted assets of 8.0%. The Guidelines place considerable emphasis on tangible common shareholders' equity as the core element of the capital base, with appropriate recognition of other components of capital.

Capital is classified into three tiers, referred to as Tier I, Tier II and Tier III. Tier I capital generally consists of shareholders' equity (including common stock and non-cumulative preferred stock) and minority interests in the equity of the bank's consolidated subsidiaries less any recorded goodwill and certain other items. Tier II capital generally consists of reserves for possible credit losses, subject to a limit of 1.25% of the amount of the denominator of the capital ratio, 45% of the unrealized gains on investments in listed securities, hybrid capital instruments (including perpetual subordinated debt) and the balance of subordinated term debt with original maturity of over five years up to 50% of Tier I capital. The New Guidelines (as defined below) added Tier III capital which generally consists of subordinated debts which: (i) are unsecured, fully paid-up, subordinated, (ii) have a maturity term of two years or more, (iii) cannot be redeemed before the maturity date, (iv) and do not permit the payment of principal or interest unless the capital ratio is 8% or more after the payment of principal or interest. At least 50% of the minimum capital requirements must be maintained in the form of Tier I capital.

In April 1993, the Committee issued proposals for the supervision of market risks incurred by banks, pursuant to which the capital adequacy requirements will be modified. In April 1995, the Committee issued revised proposals which reflect comments from banks and other financial market participants on the proposals issued in April 1993. The revised proposals introduce methods of calculating commodity risks and option risks and allow banks to use internal models for calculating market risks, subject to qualitative and quantitative standards regulated by the Committee.

The main feature of the April 1995 proposal was to respond to the industry's request to allow banks to use in-house models for measuring market risks as an alternative to a standardized measurement framework originally put forward in April 1993. In order to ensure a minimum degree of prudence, transparency and consistency of capital requirements across banks, the Committee proposed a number of quantitative and qualitative criteria for those banks which wish to use proprietary models. These criteria were publicized to banks and financial market participants for further comments. Following a review of the comments received, the Committee, with the endorsement of the G-10 Central Bank Governors, revised and reissued the supplement in the form of an amendment of the capital accord in January 1996. The capital standards for market risk, as set forth in the January 1996 amendment are required to be implemented by G-10 supervisory authorities by year-end 1997 at the latest.

The most significant change from the April 1995 proposal is that banks will have more flexibility in specifying model parameters, including the possibility of recognizing correlation effects across (as well as within) broad risk categories. The substance of the April 1995 proposal is largely unchanged with respect to the standardized method.

As of the end of fiscal 1997 (or earlier if the relevant supervisory authority so prescribes), banks will be required to measure and apply capital changes with respect to their market risks in addition to their credit risks. Market risk is defined as the risk of losses in on-and off-balance sheet positions arising from movements in market prices. The risks subject to this requirement are:

(i) the risks pertaining to interest rate related instruments and equities in the trading book; and

(ii) foreign exchange risk and commodities risk throughout the bank.

As of December 22, 1997, amended guidelines were issued by a MoF notice (No.296) (the "New Guidelines"). The provisions in the New Guidelines pertaining to banks with international operations took effect January 1, 1998 and the provisions in the New Guidelines pertaining to banks with only domestic operations will take effect from March 31, 1998. The changes in the New Guidelines affect the calculation of risk assets in the trading account and certain trading assets of subsidiaries. The impact of the modified capital adequacy requirements are not expected to be significant because the amount of the Bank's assets in the trading account and such trading assets of subsidiaries are relatively small compared to the consolidated total assets of the Bank.

In July 1994, the Committee published a set of guidelines on the risk management of financial derivatives, some of which were reflected in the modified capital adequacy requirements described above.

The Guidelines are similar to the final guidelines issued in January 1989 by the Board of Governors of the U.S. Federal Reserve System (the "Federal Reserve Board") for application to all state-chartered banks that are members of the Federal Reserve System and also to most bank holding companies in the United States. The Federal Reserve Board guidelines include: (i) a framework for defining the elements of a banking organization's capital base, with emphasis on core, or "Tier I", capital consisting primarily of common shareholders' equity and other supplementary components of capital; (ii) a system for assigning assets and off-balance sheet items to broad categories of credit risk and calculating a risk-based capital ratio; and (iii) as of year-end 1992, a minimum capital ratio of 8.0% of which at least 4.0% should be Tier I capital.

The Bank continually monitors its risk-adjusted capital ratio closely and manages its operation in consideration of the capital ratio requirements. The Bank recognizes that such ratios are not only affected by asset growth, but also by fluctuations in the value of the yen against the U.S. dollar and other currencies and general price levels of Japanese equity securities. Based on its expectations with respect to the market values of Japanese equity securities and future foreign currency exchange rates, the Bank believes that it will continue to be in compliance with the required ratios. See "Investment Considerations—Risks Relating to Maintenance of Capital Ratios.

United States

Generally

As a result of its operations in the United States, the Bank is subject to supervision, examination and extensive regulation by the Federal Reserve Board under the International Banking Act of 1978 (the "IBA") and the Bank Holding Company Act of 1956 (together with regulations thereunder, the "BHCA"). Under the BHCA and the IBA, the Bank is required to file certain reports with the Federal Reserve Board containing detailed information with respect to the Bank and its United States branches, agencies and subsidiaries. The Bank is also required to furnish the Federal Reserve Board with additional information that the Federal Reserve Board may request, and the Bank's activities in the United States are subject to examination by the Federal Reserve Board and other bank regulatory authorities.

Under the BHCA, the Bank is prohibited from engaging in certain tying arrangements in connection with any extension of credit or provision of any property or services. Under the IBA and BHCA, the Bank is subject to certain restrictions with respect to opening new U.S. domestic deposit-taking branches and establishing or acquiring subsidiary banks in states outside its "home state", which is California. These laws and related regulations also contain certain restrictions on the Bank's ability to engage, directly or through subsidiaries, in non-banking activities in the United States. In addition, the Bank's U.S. branches and agencies and certain of its subsidiaries are subject to reserve requirements established by the Federal Reserve Board, and to restrictions on the payment of interest on demand deposits.

The BHCA also generally prohibits the Bank from, directly or indirectly, acquiring more than 5% of the voting shares of any U.S. company engaged in non-banking activities in the United States unless the Federal Reserve Board has determined, by order or regulation, that such proposed activities are so closely related to banking or managing or controlling banks as to be a proper incident thereto. In addition, the BHCA requires the Bank to obtain the prior approval of the Federal Reserve Board before acquiring, directly or indirectly, the ownership or control of more than 5% of the voting shares of any United States bank or bank holding company. In 1994, U.S. federal law broadened the permissibility of acquisitions of banks outside the home state of the acquiring bank or holding company. Federal law also imposes certain limitations on the ability of the Bank and its subsidiaries to engage in certain aspects of securities business in the United States.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), among other things, provides for expanded regulation of depository institutions and their parent holding companies. FDICIA and regulations promulgated thereunder have imposed certain additional restrictions on the activities of state-licensed branches of non-U.S. banks, have established new and more stringent capitalization requirements and have empowered U.S. federal bank regulatory bodies to restrict the activities of regulated institutions which become undercapitalized. FDICIA and related regulations also impose a number of additional regulatory requirements, including requirements relating to the safety and soundness of operations of regulated institutions. Among other things, FDICIA authorizes the Federal Reserve Board to order a non-U.S. bank which operates branches, agencies or certain subsidiaries in the U.S. to terminate its activities in the United States upon the determination by the Federal Reserve Board of the existence of certain conditions.

The Bank is also subject to supervision, examination and regulation by the banking authorities of the states in which it operates. The Bank currently has a branch, agency or representative office in 12 states.

The Branch

The Branch is licensed by the New York Superintendent of Banks (the "Superintendent") to conduct a commercial banking business. The Branch is examined by the New York State Banking Department and the Federal Reserve Board and is subject to banking laws and regulations applicable to a foreign bank that operates a New York branch. Under the New York Banking Law (the "NYBL") and currently applicable regulations, the Branch must maintain with banks in the State of New York eligible assets (which consist of specified types of governmental obligations, U.S. dollar deposits, investment-grade commercial paper, obligations of certain international financial institutions and other specified obligations) in an amount equal to 5% of the liabilities of the Branch (excluding liabilities to other offices and wholly-owned subsidiaries of the Bank and liabilities of the Branch that are booked in its international banking facility), as security for the protection of depositors and certain other creditors of the Branch. The NYBL empowers the Superintendent to require any branch of a foreign bank to maintain in New York specified assets equal to such percentage of the branch's liabilities as the Superintendent may designate. At present, the Superintendent has set this percentage at 0%, although specific asset maintenance requirements may be imposed upon individual branches on a case-by-case basis. No such requirement has been prescribed for the Branch.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN JAPANESE GAAP AND U.S. GAAP

The non-consolidated financial statements of the Bank and the consolidated financial statements of the Bank and its consolidated subsidiaries presented in this Offering Circular conform with Japanese GAAP. Such principles vary from U.S. GAAP in the following significant respects.

JAPANESE GAAP	U.S. GAAP
Consolidated and Non-Consolidated Financial Statements	
In Japan the Securities and Exchange Act requires companies to prepare both non-consolidated financial statements and consolidated financial statements, and Japanese GAAP for non-consolidated financial statements is not necessarily identical with that for consolidated financial statements. Historically in Japan the non-consolidated financial statements have been regarded as the primary financial statements compared to the consolidated financial statements.	Non-consolidated financial statements are not required, so long as consolidated financial statements are prepared. U.S. GAAP further requires substantial detailed disclosures with respect to financial statement balances, accrual, contingencies and risk factors beyond those generally required under Japanese GAAP.
Equity Method of Accounting	
Under Japanese GAAP, investments in subsidiaries or affiliates (meaning 20% to 50% owned companies) are valued at cost or at the lower of cost or market. Write-downs of investments are recorded when necessary. Investments in unconsolidated subsidiaries or affiliates in the consolidated financial statements are accounted for by the equity method.	Under U.S. GAAP, equity investments representing ownership of 20% to 50% of the outstanding voting securities are accounted for by the equity method.
Accounting for sales of loans with recourse	
Under Japanese GAAP, sales of loans with recourse are recorded as sold.	For financial assets, including loans, the provisions of Statements of Financial Accounting Standards ("SFAS") No. 125 (apply which result in recording an asset as sold only when legal title has passed and the purchaser obtains the asset free of conditions that constrain it from taking advantage of that right to pledge or sell the asset. A transfer of assets qualifying as a sale under SFAS 125 but in connection with which the seller has retained recourse would result in the recording a liability for the estimated recourse.

Securities

Banks hold two kinds of securities: one is intended to be held on a long-term basis or until maturity (investment), and the other is intended to be part of trading account operations (trading).

Investment: Listed bonds, excluding convertible bonds, are carried at cost or individually at the lower of cost or market. Other listed securities are carried individually at the lower of cost or market. Unrealized losses are reflected in the income statement. Non-listed securities are carried at cost. An adjustment for accretion of discount is not permitted.

Trading: Trading account securities are carried at market value. Unrealized gains or losses are included in trading account profit and loss in the income statement.

Investment securities including both debt and marketable equity securities (intended to be held on a long-term basis or until maturity) are carried as follows:

Under SFAS No. 115, debt securities that are expected to be held to maturity are carried at cost, adjusted for amortization of premiums and discounts using the effective interest method of accounting. Marketable equity securities and debt securities available for sale are carried at fair value, with unrealized gains and losses reported in a separate component of stockholders' equity, net of applicable income taxes. The decline in fair value of debt held to maturity and available for sale securities which are deemed to be other than temporary is to be charged to income.

Trading account securities are carried at market value. Unrealized gains or losses are included in trading account profit and loss in the income statement.

Unearned Discount on Loans

Unearned discount is included in other liabilities.

Unearned discount is netted against the loan principal balance.

Reserve for Possible Loan Losses

Reserve for possible loan losses is presented as a liability on the balance sheet. The loan reserve is determined as follows:

(1) a general reserve is provided based on a maximum percentage of certain outstanding loans as stipulated by Japanese tax law and the Uniform Accounting Standards for Banks;

(2) reserves for specific loans are provided for non-performing loans and certain doubtful loans based on management's evaluation of the status of such loans; and

(3) a reserve is provided for possible losses relating to loans to foreign sovereign borrowers from certain countries.

An allowance for possible loan losses is presented separately as a reduction of loans. The loan reserve is based on management's evaluation of the collectibility of the loan portfolio. This evaluation contemplates specific and general reserve requirements and considers prior loan loss history and prevailing and anticipated economic conditions. An allowance for possible loan losses is recorded at an amount which is estimated to be adequate but not excessive to cover losses inherent in the loan portfolio as of the financial reporting date.

Federal bank regulatory agencies have established Allocated Transfer Risk Reserves for certain country risks. These reserves are subject to periodic revision.

Loan Fees

Loan origination fees are recognized as income received.

Loan fees received in connection with the origination or refinancing of a loan are deferred and recognized on the interest method over the life of the loan.

Other Reserves

Under the Uniform Rules of Bank Accounting in Japan, certain other reserves may be established. These include, for example, reserve for price fluctuations of Japanese government bonds, reserve for possible losses from trading securities transaction, reserve for financial futures transaction liabilities and reserve for securities futures transactions liabilities.

Such other reserves are not provided for.

Accrued Interest on Non-Performing Loans

Loans which are overdue for more than six months are classified as non-accrual loans. Such loans are removed from non-accrual status if interest is received, even if only a portion of the full amount due. Interest on non-performing loans that has been previously accrued but not collected is written off the balance sheet after a collecting period of two fiscal years from the fiscal year during which the loan is placed on non-accrual status. Loans to a company which has gone bankrupt are classified as non-accrual loans. Interest on such loans is not accrued during the fiscal year in which the company went bankrupt.

Interest on non-performing loans that has been previously accrued but not collected is reversed and charged against interest income at the time the related loan is placed on non-accrual status. Loans are generally placed on non-accrual status when they become 90 days past due as to interest or principal or when in the assessment of management it is probable that the Bank will not recover all principal and interest contractually due.

Restructured Loans

A loss on loan restructuring is only recorded if there is a reduction of the principal balance payable by the borrower. Adjustments to future interest payments are not required to be included in any loss calculation.

SFAS 114 requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate (the original contract rate) or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Depreciation

Buildings are depreciated at 160% of the standard amount as provided for by corporate income tax law utilizing one of the methods permitted under the tax law. Only 100% of the standard amount is tax deductible.

Other properties are depreciated utilizing one of the methods permitted under corporate income tax laws. However, the same methods and the same depreciation amount must be used for book and tax purposes.

A variety of methods are utilized for building and other properties. The depreciation amounts provided for book and tax purposes can differ.

Reserve for Retirement Allowances

For unfunded retirement allowances, an accrual is established for the amount payable if all employees voluntarily terminated their employment at the balance sheet date.

For pension plans, pension expense is provided based on actuarial determinations and is charged to income when paid.

Employee retirement liability is recorded in an amount equal to an actuarial computation of the present value of benefits due to an employee based on such employee's credited years of service. A fundamental objective of this accounting for retirement benefits is to recognize the compensation cost of an employee's pension benefits (including prior service cost) over such employee's approximate service period. Changes to the actuarially computed liability attributable to changes in actuarial assumptions are generally amortized over the service life of employees as are the effect of amendments to plan provisions.

Post retirement benefits other than pensions are to be accounted for on an accrual basis. The unfunded obligation that exists at the date of adoption may be (a) charged to expense in that year as the cumulative effect of a change in accounting principles or (b) amortized to expense over time.

Legal and Voluntary Reserves

An amount equivalent to at least 20% of cash disbursements paid with respect to each fiscal period is appropriated as a legal reserve up to the amount of common stock. This reserve may be transferred to common stock by resolution of the Board of Directors or used to reduce a deficit by resolution of shareholders.

An annual appropriation of retained earnings (for various purposes) may be made and shown as a voluntary reserve.

Legal and voluntary reserves are not provided.

Leases

Finance leases where the ownership of the property is deemed to be transferred to the lessee are capitalized, while other finance leases can be accounted for as operating leases if necessary information, such future minimum lease payments and annual lease expense, is disclosed in the notes to the lessee's financial statements.

Leases are classified as capital or operating, based on specified criteria. A lease which transfers substantially all of the benefits and risks of ownership to the lessee is accounted for as the acquisition of an asset and the incurrence of an obligation by the lessee (a capital lease); other leases are accounted for as operating leases, that is, the rental of property.

Deferred Taxes

It is permissible in the consolidated financial statements, but not in the non-consolidated financial statements, to recognize the tax effect of temporary differences arising from the recognition of revenues and expenses for financial statement and income tax purposes.

A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carry-forwards with appropriate valuation reserve if necessary.

Guarantees

Guarantees, including standby letters of credit, and the corresponding reimbursement obligations of customers are included on the face of the financial statements as liabilities and assets of equal amounts.

Such guarantees and reimbursement obligations are not reflected in the balance sheet, but are disclosed in notes to financial statements.

Directors' Bonuses

Directors' bonuses are charged directly to earned surplus when paid.

Directors' compensation is generally provided on an accrual basis by charges to income.

Foreign Currency Accounts

Foreign currency account balances are generally translated using the year end current exchange rates applied to all assets and liabilities. Income statement accounts are translated using the exchange rate at the time of the transaction. The difference between assets and liabilities denominated at their historical and current rates is charged to income in the current period.

Gains and losses on forward contracts are computed separately from those on assets and liabilities. The value of the forward contract is determined using the forward rate available at the balance sheet date for the remaining maturity of the contract. The difference between this amount and the value determined by the contracted forward rate is charged into income. Gains or losses on forward contracts with remaining lives over one year are discounted to present value; i.e. discounted value using long-term interest rate.

Forward premiums and discounts on deposit swaps are allocated over the contracted period.

Foreign currency account balances are generally translated using the year-end current exchange rates applied to all assets and liabilities. Income statement accounts are translated using the exchange rate at the time of the transaction. Averages can be used if they approximate the actual. The difference between assets and liabilities denominated at their historical and current rates is charged to income in the current period.

Gains and losses on forward contracts that hedge identifiable foreign currency commitments and meet certain specified criteria are deferred and included in the measurement of the related foreign currency transaction.

The deferred gain or loss is determined by comparing the spot rate at the balance sheet date with the spot rate at the date of the inception of the contract. The discount or premium on the contract is accounted for separately from any gain or loss and is included in the determination of the net income over the life of the contract.

A gain or loss on a speculative forward contract is determined by multiplying the foreign currency amount of the forward contract by the difference between the forward rate available (at the balance sheet date) for the remaining maturity of the contract and the contracted forward rate.

Income Statement Format

Income statement format presents all income accounts together, followed by all expense accounts together and then by net income.

The "net interest" format presents interest income and expense, followed by the provision for credit losses and other operating income and expenses, and then by net income.

Statement of Cash Flows

A statement of cash flows is not required as part of the basic financial statements.

A statement of cash flows is required. Cash flows are classified into operating, investing and financing activities.

Financial Instruments Disclosure

Until the fiscal year ended March 31, 1996, the disclosure of market value and unrealized gain or loss on market-traded securities, futures and options was required, but did not constitute a part of the financial statements and was excluded from the scope of audits.

Starting in the fiscal year ended March 31, 1997, the disclosure requirements were expanded to include the contract or notional amount of futures, options, forwards and swaps, and such disclosure became a part of the financial statements and is included in the scope of audits.

SFAS 105 requires that all entities disclose the following information about financial instruments with off-balance sheet risk of accounting loss or, with certain exceptions, with concentrations of credit risk: the face, contract or notional amount, the nature and terms, the accounting loss the entity would incur if any party to the financial instrument failed to perform according to the terms, and the entity's policy for requiring collateral or other security on financial instruments.

SFAS 107 requires all entities to disclose information about the fair value of their financial instruments, both assets and liabilities on- and off-balance sheet, for which it is practicable to estimate fair value.

SFAS 119 requires disclosures about derivative financial instruments—futures, forward, swap, option contracts and other financial instruments with similar characteristics.

INDEX TO THE FINANCIAL STATEMENTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

ASAHI & CO.
Certified Public Accountants (Japan)

The Board of Directors
The Sumitomo Bank, Limited

We have audited the accompanying non-consolidated balance sheets of The Sumitomo Bank, Limited as of March 31, 1995, 1996 and 1997, and the related non-consolidated statements of income and shareholders' equity, for each of the three years in the period ended March 31, 1997, all expressed in Japanese yen. Our audits were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the non-consolidated financial position of The Sumitomo Bank, Limited at March 31, 1995, 1996 and 1997, and the non-consolidated results of operations for each of the three years in the period ended March 31, 1997, in conformity with accounting principles generally accepted in Japan consistently applied during the periods, except for the change made as of April 1, 1996, in the method of accounting for securities referred to in Note 2 (c), with which we concur.

We have also reviewed the translation of the statements mentioned above at March 31, 1997 and for the year then ended into U.S. dollars on the basis described in Note 1. In our opinion, such statements have been properly translated on such basis.

Tokyo, Japan
June 27, 1997

NON-CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK

THE SUMITOMO BANK, LIMITED

NON-CONSOLIDATED BALANCE SHEETS

March 31, 1995, 1996 and 1997

	Millions of yen			Millions of U.S. dollars (Note 1)
	1995	1996	1997	1997
Assets:				
Cash and due from banks	¥ 1,384,718	¥ 1,240,199	¥ 885,796	$ 7,138
Deposits with banks	5,502,334	4,743,062	5,382,143	43,369
Call loans	303,649	388,443	519,515	4,186
Commercial paper and other debt purchased	14,118	82,652	100,349	809
Trading account securities	164,740	27,332	50,733	409
Money held in trust	195,537	193,045	204,682	1,649
Securities	5,658,886	6,115,421	6,004,310	48,383
Loans and bills discounted	33,819,080	35,499,622	36,600,112	294,924
Foreign exchanges	389,462	433,312	533,574	4,300
Other assets	1,121,544	1,287,804	2,215,478	17,852
Premises and equipment	333,835	330,818	330,297	2,662
Customers' liabilities for acceptances and guarantees	3,368,101	3,838,000	4,322,211	34,828
Total assets	¥ 52,256,008	¥ 54,179,715	¥ 57,149,204	$ 460,509
Liabilities:				
Deposits	¥ 37,604,752	¥ 39,082,072	¥ 39,833,827	$ 320,982
Call money	5,111,030	5,029,834	5,105,289	41,138
Borrowed money	2,616,525	2,628,821	2,987,049	24,070
Foreign exchanges	65,466	116,388	107,635	867
Convertible bonds	37,650	37,650	101,148	815
Other liabilities	1,038,714	1,008,429	2,255,366	18,174
Reserve for possible loan losses	585,267	593,601	535,043	4,311
Reserve for retirement allowances	50,395	50,838	50,592	408
Reserve for loss on loans sold			42,172	340
Other reserves	15,744	16,288	22,457	181
Acceptances and guarantees	3,368,101	3,838,000	4,322,211	34,828
Total liabilities	¥ 50,493,649	¥ 52,401,926	¥ 55,362,796	$ 446,114
Shareholders' equity:				
Common stock, par value ¥50 per share Authorized – common stock 7,500,000 thousand shares – preferred stock 500,000 thousand shares Issued – common stock 3,141,062 thousand shares in 1995, 1996 and 1997	502,348	502,348	502,348	4,048
Capital surplus	392,580	392,580	392,580	3,163
Legal reserve	78,485	83,855	89,225	719
Retained earnings	788,945	799,004	802,254	6,465
Total shareholders' equity	¥ 1,762,359	¥ 1,777,789	¥ 1,786,408	$ 14,395
Total liabilities and shareholders' equity	¥ 52,256,008	¥ 54,179,715	¥ 57,149,204	$ 460,509

See accompanying notes.

THE SUMITOMO BANK, LIMITED

NON-CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 1995, 1996 and 1997

	Millions of yen			Millions of U.S. dollars (Note 1)
	1995	1996	1997	1997
Income:				
Interest income:				
Interest on loans and discounts	¥ 1,326,657	¥ 1,180,728	¥ 1,051,735	$ 8,475
Interest and dividends on securities	198,193	201,452	185,190	1,492
Other interest income	699,576	841,917	760,022	6,124
Fees and commissions	83,585	92,873	101,587	819
Other operating income	74,551	151,056	79,383	640
Other income	433,921	76,921	183,635	1,480
Total income	¥ 2,816,486	¥ 2,544,948	¥ 2,361,555	$ 19,030
Expenses:				
Interest expenses:				
Interest on deposits	1,069,830	981,280	786,410	6,336
Interest on borrowings and rediscounts	224,335	150,324	125,833	1,014
Other interest expenses	436,336	468,618	489,877	3,948
Fees and commissions	38,683	36,728	35,753	289
Other operating expenses	26,947	61,863	32,158	259
General and administrative expenses	357,400	368,722	378,269	3,048
Transfer to reserve for possible loan losses	247,686	95,754	93,463	753
Other expenses	754,789	342,783	375,630	3,027
Total expenses	¥ 3,156,010	¥ 2,506,075	¥ 2,317,397	$ 18,674
Income (loss) before income taxes	¥ (339,523)	¥ 38,873	¥ 44,157	$ 356
Income taxes	(4,024)	(3,255)	8,839	71
Net income (loss)	¥ (335,498)	¥ 42,128	¥ 35,318	$ 285

	Yen			U.S. dollars (Note 1)
	1995	1996	1997	1997
Net income (loss) per share	¥ (106.81)	¥ 13.41	¥ 11.24	$ 0.09
Declared dividend per share	8.50	8.50	8.50	0.07

See accompanying notes.

THE SUMITOMO BANK, LIMITED

NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 1995, 1996 and 1997

	Number of Shares of Common Stock (Thousands)	Millions of yen			
		Common Stock	Capital Surplus	Legal Reserve	Retained Earnings
Balance at March 31, 1994	3,141,062	¥ 502,348	¥ 392,580	¥ 73,115	¥ 1,156,513
Net loss.	—	—	—	—	(335,498)
Cash dividends paid . .	—	—	—	—	(26,698)
Transfer to legal reserve.	—	—	—	5,369	(5,369)
Balance at March 31, 1995	3,141,062	¥ 502,348	¥ 392,580	¥ 78,485	¥ 788,945
Net income	—	—	—	—	42,128
Cash dividends paid . .	—	—	—	—	(26,698)
Transfer to legal reserve.	—	—	—	5,369	(5,369)
Balance at March 31, 1996	3,141,062	¥ 502,348	¥ 392,580	¥ 83,855	¥ 799,004
Net income	—	—	—	—	35,318
Cash dividends paid . .	—	—	—	—	(26,698)
Transfer to legal reserve.	—	—	—	5,369	(5,369)
Balance at March 31, 1997	3,141,062	¥ 502,348	¥ 392,580	¥ 89,225	¥ 802,254

	Number of Shares of Common Stock (Thousands)	Millions of U.S. dollars (Note 1)			
		Common Stock	Capital Surplus	Legal Reserve	Retained Earnings
Balance at March 31, 1996	3,141,062	$ 4,048	$ 3,163	$ 676	$ 6,438
Net income	—	—	—	—	285
Cash dividends paid . .	—	—	—	—	(215)
Transfer to legal reserve.	—	—	—	43	(43)
Balance at March 31, 1997	3,141,062	$ 4,048	$ 3,163	$ 719	$ 6,465

See accompanying notes.

THE SUMITOMO BANK, LIMITED

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1995, 1996 and 1997

1. BASIS OF FINANCIAL STATEMENTS

The Sumitomo Bank, Limited (the "Bank"), a Japanese corporation, maintains its records and prepares its financial statements in Japanese yen.

The accompanying non-consolidated financial statements are prepared in accordance with accounting principles and prevailing practices generally accepted in the banking industry in Japan. Certain modifications, including presentation of the statements of shareholders' equity and cash flows which are not required in Japan, have been made in the accompanying financial statements to facilitate an understanding of the financial statements of the Bank by readers outside Japan.

As permitted by the Securities and Exchange Law of Japan, amounts less than one million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

For the convenience of the readers, the accompanying U.S. dollar financial statements have been translated from Japanese yen at the rate of ¥124.10 to U.S.$1.00, the exchange rate prevailing on March 31, 1997. These translations should not be construed as a representation that Japanese yen have been or could have been converted into U.S. dollars at that rate.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash flow

For the purposes of the non-consolidated statements of cash flows, cash and cash equivalents represent cash and due from banks.

(b) Trading account securities

Listed trading account securities are stated at the lower of cost or market value and unlisted trading account securities are stated at cost.

The cost of trading account securities sold is determined by the moving average method.

(c) Securities

Corporate bonds, corporate stocks and other securities listed on stock exchanges are stated at the lower of moving average cost or market. Securities other than noted above are stated at the moving average cost. For securities included in money held in trust account, the same method mentioned above was applied in accordance with the Uniform Rules for Bank Accounting.

Effective April 1, 1996, the Bank changed its method of valuation of listed Japanese national and local government bonds, included in securities and money held in trust, from the lower of cost or market to the cost method. The Bank believes that the cost method provides a more appropriate method to reflect the results of its operations, excluding temporarily declined value of national and local government bonds which are held for longer period. This change had no effect on net income.

(d) Non-accrual loans

Generally, accrual of interest income is discontinued on loans which are past due as to principal, or on loans which are past due more than three months as to interest.

(e) Premises and equipment

Premises and equipment are generally stated at cost less accumulated depreciation.

Depreciation of premises and equipment of the Bank is computed by the declining balance method over the estimated useful lives of the respective assets. Depreciation of buildings is provided for at 160 percent of the normal depreciation in accordance with the Uniform Rules for Bank Accounting.

(f) Reserve for possible loan losses

Reserve for possible loan losses provides for risks of losses inherent in the Bank's lending activities. Credit losses arise mainly from the loan portfolio, but also from commitment to extend credit, guarantees and letters of credit.

The reserve for possible loan losses is composed of the following:

(i) A general reserve which is provided based on a fixed percentage (currently 0.3 percent) of certain outstanding loans as specified under the Japanese tax regulations and the Uniform Rules for Bank Accounting; and

(ii) a specific reserve which is established against estimated loan losses on certain doubtful loans based on management's evaluation of the effects on the loan portfolio of current conditions and other pertinent indicators. Also, a reserve for possible losses on specific overseas loans is set aside under the Uniform Rules for Bank Accounting.

(g) Reserve for loss on loans sold

Reserve for loss on loans sold provides for contingent losses arising from decline of market value of collateral for loans sold to the Cooperative Credit Purchasing Company, Limited.

(h) Reserve for retirement allowances and pension plans

Under the terms of the Bank's retirement plan, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement allowance is, in general, based on length of service, basic salary at the time of retirement and reason for retirement. The liability for lump-sum payments is stated, in accordance with the Uniform Rules for Bank Accounting, at the amount which would be required to be paid by the Bank if all eligible employees had voluntarily retired at the balance sheet date.

In addition, the Bank has contributory funded pension plans which cover substantially all of its employees. Annual contributions, which consist of normal costs and amortization of prior service costs, are charged to income when paid. Unamortized prior service costs amounting to ¥20,771 million (U.S.$195 million) at March 31, 1996 (the most recent valuation date) are to be amortized over a period of 6 years and 8 months.

(i) Translation of foreign currency

(i) Foreign currency assets and liabilities of the Bank are translated into Japanese yen at the exchange rate prevailing on the date of the non-consolidated balance sheets, except that certain special accounts, as approved by Japanese regulatory authorities, are translated at their historical rates.

(ii) Foreign exchange trading positions, including spot, forward, currency futures and currency options contracts, are valued at estimated prevailing market rates and the resulting gains and losses are included in the accompanying non-consolidated statements of income.

(j) Income taxes

Income taxes are provided for amounts currently payable for each period. Tax effects resulting from timing differences in recognizing revenues and expenses for financial statements and tax returns are not recorded.

(k) Amounts per share of common stock

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each fiscal year.

Declared dividends per share represent the cash dividends declared applicable to each respective year, including dividends paid after the end of the year.

3. Securities

Securities at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Japanese national government bonds	¥ 560,480	¥ 570,460	¥ 819,507	$ 6,604
Japanese local government bonds	544,114	761,912	499,421	4,024
Japanese corporate bonds and financial debentures	1,088,094	1,120,461	829,475	6,684
Japanese corporate stocks	2,732,015	2,810,465	2,863,913	23,077
Other securities	734,181	852,120	991,992	7,993
	¥ 5,658,886	¥ 6,115,421	¥ 6,004,310	$ 48,383

4. Loans and Bills Discounted

Loans and bills discounted at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Bills discounted	¥ 868,106	¥ 885,958	¥ 771,217	$ 6,214
Loans on notes	6,370,813	5,958,212	5,633,803	45,397
Loans on deeds	17,318,218	18,772,026	20,234,487	163,050
Overdrafts	9,261,942	9,883,424	9,960,604	80,263
	¥ 33,819,080	¥ 35,499,622	¥ 36,600,112	$ 294,924

Non-accrual loans (loans on which interest is not accruing in accordance with the Uniform Rules for Bank Accounting) include loans to borrowers who meet specific risk criteria (loans to borrowers in legal bankruptcy) and other delinquent loans (past-due loans), with balances at March 31, 1995, 1996 and 1997 as follows:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Loans meeting specific risk criteria	¥ 180,432	¥ 202,473	¥ 190,482	$ 1,535
Other delinquent loans	765,429	670,533	616,610	4,969
	¥ 945,862	¥ 873,007	¥ 807,092	$ 6,504

Restructured loans, on which the interest rate of the original term of an agreement is reduced to below the official discount rate or the original spread is reduced to zero, or interest payment is waived, amounted to ¥104,673 million and ¥614,555 million at March 31, 1997 and 1996.

Loans and bills discounted to borrowers who are financially assisted by the Bank, net of the loans written off by agreement with tax authorities, amounted to ¥162,466 million at March 31, 1997. Loans to Crown Leasing Corporation and two other customers, who petitioned for bankruptcy to the court on April 1, 1997 and was declared on April 7, 1997, amounted to ¥43,792 million at March 31, 1997.

5. Other Assets

Other assets at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Pre-paid expenses	¥ 11,484	¥ 10,597	¥ 8,435	$ 68
Accrued income	536,060	624,550	719,992	5,802
Other	573,999	652,656	1,487,048	11,982
	¥ 1,121,544	¥ 1,287,804	¥ 2,215,478	$ 17,852

6. Premises and Equipment

Premises and equipment at March 31, 1995, 1996 and 1997 consisted of the following:

	Million of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Land	¥ 104,529	¥ 103,557	¥ 102,768	$ 828
Buildings	230,588	240,507	257,107	2,072
Equipment and others	279,374	279,809	285,611	2,301
	614,493	623,874	645,489	5,201
Accumulated depreciation	(280,657)	(293,056)	(315,192)	(2,539)
	¥ 333,835	¥ 330,818	¥ 330,297	$ 2,662

7. Deposits

Deposits at March 31, 1995, 1996 and 1997 consisted of the following:

	Million of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Current deposits	¥ 1,615,085	¥ 1,933,250	¥ 1,723,040	$ 13,884
Ordinary deposits	3,279,701	3,939,985	4,160,802	33,528
Savings deposits	122,725	376,613	517,205	4,168
Deposits at notice	7,155,492	7,733,632	9,101,658	73,341
Time deposits	17,228,673	15,069,769	14,817,480	119,400
Other deposits	4,205,579	5,098,671	4,078,068	32,861
Certificates of deposit	3,997,494	4,930,150	5,435,570	43,800
	¥ 37,604,752	¥ 39,082,072	¥ 39,833,827	$ 320,982

8. Borrowed Money

Borrowed money at March 31, 1995, 1996 and 1997 consisted of the following:

	Million of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Bills rediscounted	¥ 116,161	¥ 121,691	¥ 130,987	$ 1,055
Subordinated debt obligation	1,238,304	1,373,178	1,574,778	12,690
Borrowings from The Bank of Japan and other financial institutions	1,262,059	1,133,951	1,281,284	10,325
	¥ 2,616,525	¥ 2,628,821	¥ 2,987,049	$ 24,070

9. Convertible Bonds

Convertible bonds at March 31, 1995, 1996 and 1997 consisted of the following:

	Million of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Convertible bonds payable in U.S. dollars:				
3⅛% due 2004, convertible into common stock at ¥3,606.90 (U.S.$ 29.06) per share	¥ 37,650	¥ 37,650	¥ 1,148	$ 9
Convertible bonds payable in Japanese yen:				
⅜% due 2001, convertible into common stock at ¥1,492.00[(1)] (U.S.$ 12.02) per share	—	—	100,000	806
	¥ 37,650	¥ 37,650	¥ 101,148	$ 815

Note

(1) Effective May 31, 1997, the conversion price of ⅜% convertible bonds due 2001 has been reset to ¥1,492 per share.

10. Other liabilities

Other liabilities at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Accrued expenses	¥ 477,258	¥ 420,857	¥ 538,884	$ 4,342
Unearned income	64,050	30,147	39,697	320
Income taxes	17,639	16,386	5,684	46
Employee's deposits	38,264	41,242	42,511	343
Other	441,501	499,794	1,628,587	13,123
	¥ 1,038,714	¥ 1,008,429	¥ 2,255,366	$ 18,174

11. Other Reserves

Other reserves at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Reserve for losses on sale of trading account securities	¥ 15,618	¥ 16,073	¥ 17,305	$ 139
Other	126	214	5,151	42
	¥ 15,744	¥ 16,288	¥ 22,457	$ 181

The reserve for losses on sale of trading account securities is required to be provided under the Banking Law of Japan and is presented in accordance with the formula prescribed by the Ministry of Finance.

12. Acceptances and Guarantees

Acceptances and guarantees at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Letters of credit	¥ 1,023,814	¥ 1,249,269	¥ 1,263,850	$ 10,184
Acceptances	14,910	19,459	25,409	205
Guarantees	2,329,376	2,569,271	3,032,951	24,439
	¥ 3,368,101	¥ 3,838,000	¥ 4,322,211	$ 34,828

The Bank guarantees bill payments and trust receipts for merchandise and extends guarantees for freight-to-collect, deferred tax payments and to small businesses for loans received from official agencies. In its international operations, the Bank issues letters of credit for import transactions and standby letters of credit, as well as extends other guarantees. These contingent liabilities are accounted for in "Acceptances and guarantees", with an amount recorded in customers' accounts for contingent claims of a guarantor's right of indemnity in "Customers' liabilities for acceptances and guarantees".

13. Shareholders' Equity

Under the Banking Law of Japan, the Bank is required to appropriate as a legal reserve an amount equal to at least 20 percent of cash disbursements in each period until the legal reserve equals 100 percent of the common stock. Capital surplus and legal reserve are not available for distribution as dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

The Commercial Code of Japan provides that at least one-half of the proceeds from shares issued at prices in excess of par value be included in common stock. In conformity therewith, the Bank has divided the paid-in amount of the stock issued upon conversion of bonds and notes into common stock equally between common stock and capital surplus.

14. Other Operating Income

Other operating income for the three years ended March 31, 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Gains on foreign exchange transactions	¥ 36,506	¥ 17,385	¥ 12,174	$ 98
Gains on trading account securities	7,865	4,554	12,320	99
Gains on sale of bonds	26,669	125,879	51,070	412
Gains on redemption of bonds	3,252	2,815	3,121	25
Other	257	421	697	6
	¥ 74,551	¥ 151,056	¥ 79,383	$ 640

15. Other Income

Other income for the three years ended March 31, 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Gains on sale of stocks and other securities	¥ 420,593	¥ 61,485	¥ 169,956	$ 1,370
Gains on money held in trust	3,374	2,651	2,288	18
Gains on dispositions of premises and equipment	3,120	2,272	1,869	15
Recoveries of written-off claims	606	232	319	3
Other	6,228	10,279	9,203	74
	¥ 433,921	¥ 76,921	¥ 183,635	$ 1,480

16. Other Operating Expenses

Other operating expenses for the three years ended March 31, 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Losses on sale of bonds	¥ 16,232	¥ 53,565	¥ 22,113	$ 178
Losses on redemption of bonds	8,989	8,295	9,770	79
Losses on devaluation of bonds	1,724	1	272	2
Other	—	—	2	0
	¥ 26,947	¥ 61,863	¥ 32,158	$ 259

17. Other Expenses

Other expenses for the three years ended March 31, 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Write-off of loans	¥ 224,913	¥ 75,052	¥ 130,210	$ 1,049
Losses on sale of stocks and other securities	1,770	2,335	1,413	11
Losses on devaluation of stocks and other securities	63,089	8,225	120,289	969
Losses on money held in trust	614	576	1,320	11
Enterprise tax	—	—	—	—
Losses on dispositions of premises and equipment	6,757	2,638	3,385	27
Transfer to other reserves	788	659	6,172	50
Losses on sale of loans to the Cooperative Credit Purchasing Co.	207,238	78,820	29,920	241
Transfer to reserve for losses on loans sold	—	—	42,172	340
Losses on financial assistance for associated companies	128,280	104,644	30,000	242
Losses on sale of the Bank's LDC loans	49,928	2,533	—	—
Other	71,407	67,295	10,746	87

¥	754,789
¥	342,783
¥	375,630
$	3,027

18. Income Taxes

Income taxes consist of corporation and inhabitants' taxes. The applicable statutory tax rates were approximately 45.3 per cent. for the three years ended March 31, 1997.

Enterprise tax is also levied on income and is deductible for income tax purposes as an expense when paid. The statutory enterprise tax rate for the three years ended March 31, 1997 was 12.6 per cent. Enterprise tax expense is included in "Other expenses" in the accompanying non-consolidated statement of income, and enterprise tax payable is included in "Other liabilities" in the accompanying non-consolidated balance sheet.

19. Subsequent Event

The following appropriations of retained earnings at March 31, 1997 of the Bank were approved by the ordinary meeting of shareholders held on June 27, 1997:

	Millions of yen	Millions of U.S. dollars
Cash dividends, ¥4.25 per share	¥ 13,349	$ 108
Transfer to legal reserves	2,700	22

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK

ASAHI & CO.
Certified Public Accountants (Japan)

The Board of Directors
The Sumitomo Bank, Limited

We have audited the accompanying consolidated balance sheets of The Sumitomo Bank, Limited as of March 31, 1995, 1996 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 1997, all expressed in Japanese yen. Our audits were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of The Sumitomo Bank, Limited at March 31, 1995, 1996 and 1997, and the consolidated results of operations and cash flows for each of the three years in the period ended March 31, 1997, in conformity with accounting principles generally accepted in Japan consistently applied during the periods, except for the change made as of April 1, 1996, in the method of accounting for securities referred to in Note 2 (d), with which we concur.

We have also reviewed the translation of the statements mentioned above at March 31, 1997 and for the year then ended into U.S. dollars on the basis described in Note 1. In our opinion, such statements have been properly translated on such basis.

Tokyo, Japan
June 27, 1997

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK

THE SUMITOMO BANK, LIMITED

CONSOLIDATED BALANCE SHEETS

March 31, 1995, 1996 and 1997

	Millions of yen			Millions of U.S. dollars (Note 1)
	1995	1996	1997	1997
Assets:				
Cash and due from banks	¥ 1,386,623	¥ 1,259,318	¥ 912,480	$ 7,353
Deposits with banks	5,748,734	5,053,658	5,689,443	45,846
Call loans	300,508	399,229	512,885	4,133
Commercial paper and other debt purchased	14,118	82,652	100,349	809
Trading account securities	311,600	362,033	1,049,020	8,453
Money held in trust	196,806	193,045	204,682	1,649
Securities (Note 3)	5,544,204	5,907,304	5,888,446	47,449
Loans and bills discounted (Note 4)	34,656,402	37,045,622	38,843,820	313,004
Foreign exchanges	393,323	455,927	565,256	4,555
Other assets (Note 5)	1,484,468	1,816,542	2,796,385	22,533
Premises and equipment (Note 6)	373,647	385,178	367,603	2,962
Deferred income taxes	159,106	172,321	179,088	1,443
Customers' liabilities for acceptances and guarantees (Note 12)	2,743,819	3,006,679	3,120,467	25,145
Total assets	¥ 53,313,364	¥ 56,139,515	¥ 60,229,929	$ 485,334
Liabilities:				
Deposits (Note 7)	¥ 38,530,572	¥ 40,115,357	¥ 40,895,416	$ 329,536
Call money	5,128,154	5,051,622	5,133,191	41,363
Borrowed money (Note 8)	2,099,953	2,176,476	4,311,902	34,745
Foreign exchanges	92,525	148,790	117,971	951
Convertible bonds and notes (Note 9)	39,874	37,650	101,148	815
Other liabilities (Note 10)	2,010,527	2,904,071	3,881,369	31,276
Reserve for possible loan losses	622,562	640,781	554,986	4,472
Reserve for retirement allowances	50,396	50,838	50,592	408
Reserve for loss on loans sold	—	—	42,172	340
Other reserves (Note 11)	15,757	16,585	23,276	187
Minority interests in consolidated subsidiaries	49,611	48,352	47,759	385
Acceptances and guarantees (Note 12)	2,743,819	3,006,679	3,120,467	25,145
Total liabilities	¥ 51,383,755	¥ 54,197,205	¥ 58,280,255	$ 469,623
Shareholders' equity (Note 13):				
Common stock, par value ¥50 per share				
Authorized—common stock 7,500,000 thousand shares				
—preferred stock 500,000 thousand shares				
Issued—common stock 3,141,062 thousand shares in 1995, 1996 and 1997	¥ 502,348	¥ 502,348	¥ 502,348	$ 4,048
Capital surplus	392,580	392,580	392,580	3,164
Legal reserve	78,485	83,855	89,225	719
Retained earnings	956,199	963,550	965,529	7,780
Common stock in treasury	(5)	(24)	(9)	—
Total shareholders equity	¥ 1,929,608	¥ 1,942,309	¥ 1,949,674	$ 15,711
Total liabilities and shareholders' equity	¥ 53,313,364	56,139,515	¥ 60,229,929	$ 485,334

See accompanying notes.

THE SUMITOMO BANK, LIMITED

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 1995, 1996 and 1997

	Millions of yen			Millions of U.S. dollars (Note 1)
	1995	1996	1997	1997
Income:				
Interest income:				
Interest on loans and discounts	¥ 1,403,331	¥ 1,279,814	¥ 1,222,120	$ 9,848
Interest and dividends on securities	196,672	202,821	188,395	1,518
Other interest income	718,441	835,781	730,816	5,889
Fees and commissions	96,577	112,438	121,955	982
Other operating income (Note 14)	89,952	167,472	74,946	604
Other income (Note 15)	441,291	102,707	234,531	1,890
Total income	¥ 2,946,266	¥ 2,701,036	¥ 2,572,765	$ 20,731
Expenses:				
Interest expenses:				
Interest on deposits	1,126,698	1,064,635	866,850	6,985
Interest on borrowings and rediscounts	223,278	130,106	184,113	1,484
Other interest expenses	445,192	467,254	448,787	3,616
Fees and commissions	40,032	45,252	50,823	410
Other operating expenses (Note 16)	34,578	70,176	36,754	296
General and administrative expenses	395,287	417,073	432,820	3,488
Transfer to reserve for possible loan losses	256,080	126,385	96,235	775
Other expenses (Note 17)	750,950	352,260	395,020	3,183
Total expenses	¥ 3,272,097	¥ 2,673,144	¥ 2,511,407	$ 20,237
Income (loss) before income taxes and minority interests	(325,830)	27,891	61,358	494
Income taxes (Note 18):				
Current	2,068	(818)	30,141	243
Deferred	(47,478)	(9,946)	(4,551)	(37)
	¥ (45,410)	¥ (10,764)	¥ 25,589	$ 206
Minority interests in net income of consolidated subsidiaries	3,409	1,180	1,808	15
Equity in net income of unconsolidated subsidiaries and affiliates	—	63	88	1
Net income (loss)	¥ (283,829)	¥ 37,539	¥ 34,048	$ 274

	Yen			U.S. dollars (Note 1)
	1995	1996	1997	1997
Net income (loss) per share	¥ (90.36)	¥ 11.95	¥ 10.84	$ 0.09
Declared dividend per share	8.50	8.50	8.50	0.07

See accompanying notes.

THE SUMITOMO BANK, LIMITED

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 1995, 1996 and 1997

	Number of Shares of Common Stock (Thousands)	Millions of Yen			
		Common Stock	Capital Surplus	Legal Reserve	Retained Earnings
Balance at March 31, 1994	3,141,062	¥ 502,348	¥ 392,580	¥ 73,115	¥ 1,277,743
Net loss.	—	—	—	—	(283,829)
Cash dividends paid . .	—	—	—	—	(26,698)
Transfer to legal reserve .	—	—	—	5,369	(5,369)
Foreign currency translation adjustments	—	—	—	—	(5,644)
Balance at March 31, 1995	3,141,062	¥ 502,348	¥ 392,580	¥ 78,485	¥ 956,199
Cumulative effect on increase of affiliates for which equity method is adopted	—	—	—	—	70
Net income	—	—	—	—	37,539
Cash dividends paid . .	—	—	—	—	(26,698)
Transfer to legal reserve .	—	—	—	5,369	(5,369)
Foreign currency translation adjustments	—	—	—	—	1,808
Balance at March 31, 1996	3,141,062	¥ 502,348	¥ 392,580	¥ 83,855	¥ 963,550
Net income	—	—	—	—	34,048
Cash dividends paid . .	—	—	—	—	(26,698)
Transfer to legal reserve .	—	—	—	5,369	(5,369)
Balance at March 31, 1997	3,141,062	¥ 502,348	¥ 392,580	¥ 89,225	¥ 965,529

	Number of Shares of Common Stock (Thousands)	Millions of U.S. Dollars (Note 1)			
		Common Stock	Capital Surplus	Legal Reserve	Retained Earnings
Balance at March 31, 1996	3,141,062	$ 4,048	$ 3,164	$ 676	$ 7,764
Net income	—	—	—	—	274
Cash dividends paid . .	—	—	—	—	(215)
Transfer to legal reserve .	—	—	—	43	(43)
Balance at March 31, 1997	3,141,062	$ 4,048	$ 3,164	$ 719	$ 7,780

See accompanying notes.

THE SUMITOMO BANK, LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 1995, 1996 and 1997

	Millions of yen			Millions of U.S. dollars (Note 1)
	1995	1996	1997	1997
Cash flows from operating activities:				
Net income (loss)	¥ (283,829)	¥ 37,539	¥ 34,048	$ 274
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	32,400	38,760	28,876	233
Transfer to reserve for possible loan losses	256,080	126,385	96,235	775
Write-off of loans	225,809	76,509	130,495	1,052
Losses on sale of loans	387,819	158,482	122,836	990
Securities losses (gains), net	(358,710)	(117,757)	(70,288)	(566)
Deferred income taxes	(57,702)	(13,215)	(6,767)	(55)
Minority interests in net income	3,409	1,180	1,808	15
Net change in trading account securities	26,248	(50,434)	(686,986)	(5,536)
Net change in accrual and other, net	218,721	445,413	(277,354)	(2,235)
Net cash provided by operating activities	¥ 450,245	¥ 702,862	¥ (627,097)	$ (5,053)
Cash flows from investing activities:				
Net change in deposits with banks	391,823	695,075	(635,784)	(5,123)
Net change in call loans	99,150	(98,721)	(113,655)	(916)
Net change in commercial paper and other debt purchased	(1,271)	(68,535)	(17,696)	(142)
Net change in money held in trust	(16,101)	3,761	(11,636)	(94)
Net change in loans and bills discounted	(237,868)	(2,732,378)	(2,191,386)	(17,658)
Proceeds from sale of securities	2,900,521	4,960,940	3,488,806	28,113
Proceeds from maturities of securities	372,857	328,378	286,649	2,310
Purchase of securities	(3,450,134)	(5,463,272)	(3,748,934)	(30,209)
Purchase of premises and equipment	(41,192)	(57,368)	(29,624)	(239)
Other, net	143,804	(64,331)	80,950	652
Net cash provided by investing activities	¥ 161,589	¥ (2,496,451)	¥ (2,892,310)	$ (23,306)
Cash flows from financing activities:				
Net change in deposits	(1,074,370)	1,584,785	780,059	6,286
Net change in call money	146,112	(76,532)	81,569	657
Net change in borrowed money	(124,301)	1,522	2,118,426	17,070
Proceeds from issuance of subordinated debt	256,500	189,000	157,898	1,272
Proceeds from issuance of convertible bonds and notes	—	—	100,000	806
Repayment of convertible bonds and notes	(45,624)	(2,224)	(36,502)	(294)
Dividends paid	(26,698)	(26,698)	(26,698)	(215)
Other, net	(75,939)	(33,321)	(17,558)	(141)
Net cash used in financing activities	¥ (944,320)	¥ 1,636,532	¥ 3,157,194	$ 25,441
Net change in cash and due from banks	(332,486)	(157,057)	(362,213)	(2,919)
Foreign currency translation adjustments	(22,891)	29,752	15,375	124
Cash and due from banks at beginning of year	1,742,000	1,386,623	1,259,318	10,148
Cash and due from banks at end of year	¥ 1,386,623	¥ 1,259,318	¥ 912,480	$ 7,353

See accompanying notes.

THE SUMITOMO BANK, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1995, 1996 and 1997

1. BASIS OF FINANCIAL STATEMENTS

The Sumitomo Bank, Limited (the "Bank"), a Japanese corporation, maintains its records and prepares its financial statements in Japanese yen.

The accompanying consolidated financial statements are prepared in accordance with accounting principles and prevailing practices generally accepted in the banking industry in Japan. Certain modifications, including presentation of the statements of shareholders' equity, and cash flows which are not required in Japan, have been made in the accompanying financial statements to facilitate understanding of the financial statements of the Bank by readers outside Japan.

As permitted by the Securities and Exchange Law of Japan, amounts less than one million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

For the convenience of the readers, the accompanying U.S. dollar financial statements have been translated from Japanese yen, as a matter of arithmetical computation only, at the rate of ¥124.10 to US$1, the exchange rate prevailing at March 31, 1997. The translations should not be construed as a representation that Japanese yen have been or could have been converted into U.S. dollars at that rate.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of the Bank and its significant subsidiaries. All significant intercompany balances and transactions have been eliminated.

The consolidated financial statements include the accounts of consolidated subsidiaries, the fiscal year-ends of which are principally December 31, on the basis of their respective fiscal years after making appropriate adjustments for significant transactions during the periods from their respective year-ends to the date of the consolidated financial statements.

The difference at the time of acquisition between the cost of an investment in a consolidated subsidiary and the underlying equity in its net assets is, in general, charged or credited to income directly.

Investments in unconsolidated subsidiaries and affiliated companies are accounted for in accordance with the equity method.

(b) Cash flows

For the purposes of the consolidated statements of cash flows, cash and cash equivalents represent cash and due from banks.

(c) Trading account securities

Listed trading account securities are stated at the lower of cost or market value, and unlisted trading account securities are stated at cost.

The cost of trading account securities sold is determined by the moving average method.

(d) Securities

Corporate bonds, corporate stocks and other securities listed on stock exchanges are stated at the lower of moving average cost or market. Securities other than noted above are stated at the moving average cost. For securities included in money held in trust account, the same method mentioned above was applied in accordance with the Uniform Rules for Bank Accounting.

Effective April 1, 1996, the Bank changed its method of valuation of listed Japanese national and local government bonds, included in securities and money held in trust, from the lower of cost or market to the cost method. The Bank believes that the cost method provides a more appropriate method to reflect the results of its operations, excluding temporally declined value of national and local government bonds which are held for longer period. This change had no effect on net income.

(e) Non-accrual loans

Generally, accrual of interest income is discontinued on loans which are past due as to principal or on loans which are past due more than six months as to interest.

(f) Premises and equipment

Premises and equipment are generally stated at cost less accumulated depreciation.

Depreciation of premises and equipment of the Bank is computed by the declining balance method over the estimated useful lives of the respective assets. Depreciation of buildings is provided for at 160 percent of the normal depreciation in accordance with the Uniform Rules for Bank Accounting.

Depreciation of premises and equipment owned by consolidated subsidiaries is mainly computed by the straight-line method over the estimated useful lives of the respective assets.

(g) Reserve for possible loan losses

Reserve for possible loan losses provides for risks of losses inherent in the Bank's lending activities. Credit losses arise mainly from the loan portfolio, but also from commitment to extend credit, guarantees and letters of credit.

The reserve for possible loan losses is composed of the following:

(i) A general reserve which is provided based on a fixed percentage (currently 0.3 percent) of certain outstanding loans as specified under the Japanese tax regulations and the Uniform Rules for Bank Accounting; and

(ii) a specific reserve which is established against estimated loan losses on certain doubtful loans based on management's evaluation of the effects of the loan portfolio of current conditions and other pertinent indicators. Also, a reserve for possible losses on specified overseas loans is set aside under the Uniform Rules for Bank Accounting.

The consolidated subsidiaries provide reserves for possible loan losses at the amounts considered adequate to provide for losses that can be reasonably anticipated on the basis of management's assessment of the loan portfolio.

(h) Reserve for loss on loans sold

Reserve for loss on loans sold provides for contingent losses arising from decline of market value of collateral for loans sold to the Cooperative Credit Purchasing Company, Limited.

(i) Reserve for retirement allowances and pension plans

Under the terms of the Bank's retirement plan, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement allowance is, in general, based on length of service, basic salary at the time of retirement and reason for retirement. The liability for lump-sum payments is stated, in accordance with the Uniform Rules for Bank Accounting, at the amount which would be required to be paid by the Bank if all eligible employees had voluntarily retired at the balance sheet date.

In addition, the Bank has contributory funded pension plans which substantially cover all employees. Annual contributions, which consist of normal costs and amortization of prior service costs, are charged to income when paid. Unamortized prior service costs amounting to ¥20,771 million ($167 million) at March 31, 1996 (the most recent valuation date) are to be amortized over a period of 6 years and 8 months.

Generally, consolidated subsidiaries have funded pension plans for employees.

(j) Translation of foreign currencies

(i) The foreign currency financial statements have been translated into Japanese yen at the exchange rate prevailing at respective year-ends, except for the opening balances of retained earnings which are carried from previous fiscal years and changes in shareholders' equity accounts including net income and dividends which are translated at historical rates.

(ii) (a) Foreign currency assets and liabilities of the Bank are translated into Japanese yen at the exchange rate prevailing at the date of the consolidated balance sheets, except that certain special accounts, as approved by Japanese regulatory authorities, are translated at their historical rates.

(b) Foreign currency accounts held by the consolidated subsidiaries are translated into the currency of the subsidiary at the exchange rate prevailing at the respective year-ends.

(iii) Foreign exchange trading positions, including spot, forward, currency futures and currency options contracts, are valued at estimated prevailing market rates and the resulting gains and losses are included in the accompanying consolidated statements of income.

(k) Income taxes

Income taxes are provided for on the basis of income for financial statement purposes. The effect of the differences in timing of income and expense for financial statement purposes and for income tax purposes is reported as deferred income taxes.

(l) Amounts per share of common stock

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each fiscal year.

Declared dividends per share represent the cash dividends declared applicable to each respective year, including dividends paid after the end of the year.

3. Securities

Securities at March 31, 1995 1996 and 1997 consisted of the following:

	Millions of yen			Million of U.S. dollars
	1995	1996	1997	1997
Japanese national government bonds	¥ 560,480	¥ 570,460	¥ 819,520	$ 6,604
Japanese local government bonds	544,114	761,912	499,421	4,024
Japanese corporate bonds and financial debentures	1,088,094	1,121,955	830,154	6,689
Japanese corporate stocks	2,732,015	2,810,465	2,863,913	23,078
Other securities	619,501	642,509	875,435	7,054
	¥ 5,544,204	¥ 5,907,304	¥ 5,888,446	$ 47,449

4. Loans and Bills Discounted

Loans and Bills discounted at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Bills discounted	¥ 868,770	¥ 888,330	¥ 780,682	$ 6,291
Loans on notes and deeds	24,430,041	26,169,212	28,100,698	226,436
Overdrafts	9,357,590	9,988,079	9,962,439	80,277
	¥ 34,656,402	¥ 37,045,622	¥ 38,843,820	$ 313,004

Loans to borrowers who meet specific risk criteria and other delinquent loans, on which interest is not accruing in accordance with the Uniform Rules for Bank Accounting, at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Loans to borrowers who meet specific risk criteria	¥ 180,432	¥ 202,473	¥ 190,482	$ 1,535
Other delinquent loans	765,429	670,533	616,610	4,969
	¥ 945,862	¥ 873,007	¥ 807,092	$ 6,504

Restructured loans, on which the interest rate of the original term of an agreement is reduced to below the official discount rate or the original spread is reduced to zero, or interest payment is waived, amounted to ¥104,673 million and ¥614,555 million at March 31, 1997 and 1996.

Loans and bills discounted to borrowers who are financially assisted by the Bank, net of the loans written off by agreement with tax authorities, amounted to ¥162,466 million at March 31, 1997. Loans to Crown Leasing Corporation and two other customers, who petitioned for bankruptcy to the court on April 1, 1997 and was declared on April 7, 1997, amounted to ¥43,792 million at March 31, 1997.

5. Other Assets

Other assets at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Accrued income and prepaid expenses	¥ 551,699	¥ 696,127	¥ 788,868	$ 6,357
Other	932,769	1,120,415	2,007,516	16,176
	¥ 1,484,468	¥ 1,816,542	¥ 2,796,385	$ 22,533

6. Premises and Equipment

Premises and equipment at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Land	¥ 119,949	¥ 127,201	¥ 114,573	$ 923
Buildings	260,816	278,272	281,012	2,265
Equipment and others	286,345	288,724	302,432	2,437
	¥ 667,111	¥ 694,198	¥ 698,019	$ 5,625
Accumulated depreciation	(293,463)	(309,019)	(330,416)	(2,663)
	¥ 373,647	¥ 385,178	¥ 367,603	$ 2,962

7. Deposits

Deposits at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Demand deposits	¥ 1,721,401	¥ 2,085,876	¥ 1,907,733	$ 15,373
Savings deposits	3,510,972	4,441,735	4,796,120	38,647
Deposits at notice	7,020,546	7,499,705	8,771,308	70,679
Time deposits	17,989,879	15,963,249	15,811,561	127,410
Other deposits	4,223,027	5,119,390	4,078,156	32,862
Certificates of deposit	4,064,745	5,005,401	5,530,536	44,565
	¥ 38,530,572	¥ 40,115,357	¥ 40,895,416	$ 329,536

8. Borrowed Money

Borrowed money at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Bills rediscounted	¥ 116,184	¥ 121,691	¥ 240,073	$ 1,935
Subordinated debt obligations	692,680	765,000	782,000	6,301
Borrowings from The Bank of Japan and other financial institutions	1,291,088	1,289,784	3,289,828	26,509
	¥ 2,099,953	¥ 2,176,476	¥ 4,311,902	$ 34,745

9. Convertible Bonds and Notes

Convertible bonds and notes at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Convertible bonds payable in U.S. dollars:				
3¼% due 2004, convertible into common stock at ¥3,606.90 (U.S.$29.06) per share	¥ 37,650	¥ 37,650	¥ 1,148	$ 9
⅜% due 2001, convertible into common stock at ¥1,492 ($12.02)* per share	—	—	100,000	806
Convertible bonds of subsidiaries	2,224	—	—	—
	¥ 39,874	¥ 37,650	¥ 101,148	$ 815

*Effective May 31, 1997 the conversion price of ⅜% convertible bonds due 2001 has been reset to ¥1,492 per share.

10. Other liabilities

Other liabilities at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Bonds and notes of subsidiaries(1)	¥ 622,534	¥ 716,303	¥ 842,035	$ 6,785
Accrued expenses and unearned income	547,275	486,801	636,921	5,132
Income taxes	18,062	15,216	9,226	74
Employees' deposits	38,265	41,242	42,511	343
Other	784,388	1,644,506	2,350,673	18,942
	¥ 2,010,527	¥ 2,904,071	¥ 3,881,369	$ 31,276

(1) These bonds and notes include subordinated notes of ¥814,967 million ($6,567 million) and ¥624,528 million ($5,032 million) at March 31, 1997 and 1996 respectively.

11. Other Reserves

Other reserves at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Reserve for losses on sale of trading account securities	¥ 15,642	¥ 16,073	¥ 18,121	$ 146
Other	114	512	5,155	42
	¥ 15,757	¥ 16,585	¥ 23,276	$ 188

The reserve for losses on sale of trading account securities is required to be provided under the Banking Law of Japan and is presented in accordance with the formula prescribed by the Ministry of Finance.

12. Acceptances and Guarantees

Acceptances and guarantees at March 31, 1995, 1996 and 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Letters of credit	¥ 1,043,086	¥ 1,264,105	¥ 1,281,464	$ 10,326
Acceptances	15,492	20,260	26,324	212
Guarantees	1,685,240	1,722,313	1,812,679	14,607
	¥ 2,743,819	¥ 3,006,679	¥ 3,120,467	$ 25,145

The Bank guarantees bill payments and trust receipts for merchandise and extends guarantees for freight-to-collect, deferred tax payments and to small businesses for loans received from official agencies. In international operations, the Bank issues letters of credit for import transactions and standby letters of credit, as well as extending other guarantees. These contingent liabilities are accounted for in "Acceptances and guarantees", with a corresponding amount recorded in the customers' account for contingent claim of a guarantor's right of indemnity in "Customers' liabilities for acceptances and guarantees".

13. Shareholders' Equity

Under the Banking Law of Japan the Bank is required to appropriate as a legal reserve an amount equal to at least 20 per cent. of cash disbursements in each period until the legal reserve equals 100 per cent. of the common stock. The Capital surplus and legal reserve are not available for distribution as dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalised by resolution of the Board of Directors.

The Commercial Code of Japan provides that at least one-half of the proceeds from shares issued at prices in excess or par value be included in common stock. In conformity therewith, the Bank has divided the paid-in amount of the stock issued upon conversion of bonds and notes into common stock equally between common stock and capital surplus.

14. Other Operating Income

Other operating income for the three years ended March 31, 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Gains on foreign exchange transactions	¥ 34,067	¥ 21,736	¥ 7,248	$ 58
Gains on trading account securities	15,837	5,522	4,458	36
Gains on sale of bonds	26,669	125,897	51,488	415
Gains on redemption of bonds	3,252	2,817	3,121	25
Other	10,125	11,498	8,629	70
	¥ 89,952	¥ 167,472	¥ 74,946	$ 604

15. Other Income

Other income for the three years ended March 31, 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Gains on sale of stocks and other securities	¥ 420,594	¥ 61,485	¥ 169,956	$ 1,370
Gains on money held in trust	3,374	2,651	2,288	18
Gains on dispositions of premises and equipment	3,178	2,299	1,928	16
Recoveries of written-off claims	728	309	1,517	12
Other	13,416	35,960	58,841	474
	¥ 441,291	¥ 102,707	¥ 234,531	$ 1,890

16. Other Operating Expenses

Other operating expenses for the three years ended March 31, 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1998
Losses on sale of bonds	¥ 16,232	¥ 53,565	¥ 22,113	$ 178
Losses on redemption of bonds	8,989	8,484	9,872	80
Losses on devaluation of bonds	1,736	19	275	2
Other	7,620	8,106	4,493	36
	¥ 34,578	¥ 70,176	¥ 36,754	$ 296

17. Other Expenses

Other expenses for the three years ended March 31, 1997 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Write-off of loans	¥ 225,809	¥ 76,509	¥ 130,495	$ 1,052
Losses on sale of stocks and other securities	1,770	2,335	1,413	11
Losses on devaluation of stocks and other securities	63,089	8,225	120,289	969
Losses on money held in trust	1,785	769	1,320	11
Losses on disposition of premises and equipment	6,822	2,719	3,474	28
Transfer to other reserves	788	943	6,693	54
Other	450,884	260,759	131,333	1,058
	¥ 750,950	¥ 352,260	¥ 395,020	$ 3,183

(1) Other includes the following:

	Millions of yen			Millions of U.S. dollars
	1995	1996	1997	1997
Losses on sale of loans to the Cooperative Credit Purchasing Co., Ltd.	¥ 207,238	¥ 78,820	¥ 29,920	$ 241
Transfer to reserve for loss on loans sold	—	—	42,172	340
Losses on financial assistance for affiliates	128,280	104,644	30,000	242

18. Income Taxes

Income taxes consist of corporation and inhabitants' taxes. The applicable statutory tax rates were approximately 45.3 percent for the three years ended March 31, 1997.

Enterprise tax is also levied on income which is deductible for income tax purposes as an expense when paid. The statutory enterprise tax rate for each of the three years in the period ended March 31, 1997 was 12.6 percent. Enterprise tax expense is included in "Other expenses" in the accompanying consolidated statements of income, and enterprise tax payable is included in "Other liabilities" in the accompanying consolidated balance sheets.

19. Subsequent Event

The following appropriations of retained earnings at March 31, 1997 of the Bank were approved by the ordinary meeting of shareholders held on June 27, 1997.

	Millions of yen	Millions of U.S. dollars
Cash dividends, ¥4.25 per share	¥ 13,349	$ 108
Transfer to legal reserve	2,700	22

THE SUMITOMO BANK, LIMITED

NON-CONSOLIDATED INTERIM BALANCE SHEETS (UNAUDITED)

As of September 30, 1996 and 1997

	Millions of yen		Millions of U.S. dollars
	1996	1997	1997
Assets:			
Cash and due from banks	¥ 4,867,143	¥ 5,930,979	$ 48,976
Call loans	315,222	383,679	3,168
Commercial paper and other debt purchased	70,639	95,708	790
Trading assets	—	279,567	2,309
Trading account securities	42,462	—	—
Money held in trust	204,870	236,097	1,950
Securities	5,963,999	6,042,957	49,900
Loans and bills discounted (Note 5)	35,843,127	36,572,040	301,998
Foreign exchanges	461,314	532,439	4,397
Other assets	1,259,913	1,805,682	14,911
Premises and equipment	329,637	324,309	2,678
Customers' liabilities	3,946,457	4,067,935	33,592
Total assets	¥ 53,304,788	¥ 56,271,398	$ 464,669
Liabilities:			
Deposits	¥ 37,807,420	¥ 39,861,167	$ 329,159
Call money	4,603,460	4,150,492	34,273
Trading liabilities	—	201,131	1,661
Borrowed money	3,029,530	2,929,987	24,195
Foreign exchanges	80,001	85,501	706
Convertible bonds	137,650	101,106	835
Other liabilities	1,251,206	2,398,266	19,804
Reserve for possible loan losses	564,458	575,994	4,756
Reserve for retirement allowances	50,707	50,667	418
Reserve for loss on loans sold	—	41,130	340
Other reserves	18,164	29,220	241
Acceptances and guarantees	3,946,457	4,067,935	33,592
Total liabilities	¥ 51,489,058	¥ 54,492,601	$ 449,980
Shareholders' equity:			
Common stock	¥ 502,348	¥ 502,348	$ 4,148
Capital surplus	392,580	392,580	3,242
Legal reserve	86,555	91,925	759
Retained earnings	834,246	791,942	6,540
Total shareholders' equity	¥ 1,815,730	¥ 1,778,796	$ 14,689
Total liabilities and shareholders' equity	¥ 53,304,788	¥ 56,271,398	$ 464,669

See accompanying notes.

THE SUMITOMO BANK, LIMITED

NON-CONSOLIDATED INTERIM

STATEMENTS OF INCOME (UNAUDITED)

Six months ended September 30, 1997 and 1996

	Millions of yen		Millions of U.S. dollars
	1996	1997	1997
Income:			
Interest income:			
Interest on loans and discounts	¥ 509,537	¥ 518,390	$ 4,281
Interest and dividends on securities	81,133	78,616	649
Other interest income	350,264	355,370	2,935
Fees and commissions	47,887	51,709	427
Trading revenue	—	5,138	42
Other operating income	30,014	38,951	322
Other income	16,535	173,430	1,432
Total income	¥ 1,035,374	¥ 1,221,607	$ 10,088
Expenses:			
Interest expenses:			
Interest on deposits	363,630	403,225	3,329
Interest on borrowings and rediscounts	62,007	60,420	499
Other interest expenses	234,861	204,301	1,687
Fees and commissions	21,139	18,991	157
Trading expenses	—	1,421	12
Other operating expenses	22,091	13,877	115
General and administrative expenses	186,406		1,592
Transfer to reserve for possible loan losses	20,473	76,540	632
Other expenses	39,927	246,559	2,036
Total expenses	¥ 950,538	¥ 1,218,181	$ 10,059
Income (loss) before income taxes	¥ 84,835	¥ 3,426	$ 29
Income taxes	33,544	(2,311)	(18)
Net income (loss)	¥ 51,290	¥ 5,737	$ 47

Notes:

(1) Non-consolidated interim balance sheets and non-consolidated interim statements of income have not been audited.

(2) The above financial statements compare the interim figures obtained in the first half of fiscal 1997 (April 1 to September 30, 1997) with those obtained in the first half of fiscal 1996 (April 1 to September 30, 1996).
The Uniform Rules for Bank Accounting were applied in the preparation of both statements.
Note that both statements were produced in accordance with the Interim Rules for Bank Accountng.
The Sumitomo Bank, Limited (the "Bank") prepares its financial statements in Japanese yen. As a convenience to the readers, however, all items have been converted into U.S. dollar equivalents at the rate of US$1=¥121.10. Also, note that some items have been combined and reclassified.

(3) The Board of Directors of the Bank declared dividends to stockholders in the amount of ¥13,349 million ($110 million).

(4) A fractional sum less than ¥1 million is omitted.

(5) Loans to borrowers who meet specific risk criteria (loans to borrowers in legal bankruptcy) and other delinquent loans (past-due loans), on which interest is not accruing in accordance with the Uniform Rules for Bank Accounting, were as follows:

	Millions of yen		Millions of U.S. dollars
	1996	1997	1997
Loans meeting specific risk criteria	¥ 261,763	¥ 231,744	$ 1,914
Other delinquent loans	598,104	646,259	5,337

Restructured loans, on which the interest rate of the original term of an agreement is reduced to below the official discount rate or the original spread is reduced to zero, or interest payment is waived, amounted to ¥105,789 million ($874 million) at September 30, 1997.

Loans and bills discounted to borrowers who are financially assisted by the Bank, net of the loans written off with agreements by tax authorities, amounted to ¥158,091 million ($1,305 million) at September 30, 1997.