UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2001

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-10277

Kabushiki Kaisha Tokyo Mitsubishi Ginko

(Exact name of registrant as specified in its charter)

The Bank of Tokyo-Mitsubishi, Ltd.

(Translation of registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8388, Japan

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act[1]:

Title of each class	Name of each exchange on which registered
Common stock, par value 50 yen per share (the "Shares")	New York Stock Exchange (the "NYSE")[2]
American Depositary Shares ("ADSs") each of which represents one Share	NYSE
Exchangeable Guaranteed Notes due 2002 ("Notes")	NYSE

(1) As a result of the business integration between The Bank of Tokyo-Mitsubishi, Ltd. ("BTM"), The Mitsubishi Trust and Banking Corporation ("Mitsubishi Trust") and Nippon Trust Bank Limited ("Nippon Trust Bank"), Mitsubishi Tokyo Financial Group, Inc. ("MTFG") was established. Holders of the Shares or ADSs received shares of MTFG in a stock-for-stock exchange. MTFG was treated as BTM's successor and replaced BTM on the New York Stock Exchange with effect from April 2, 2001. Holders of Notes became entitled to receive shares or ADSs of MTFG upon exchange of Notes.

(2) The listing of the registrant's Shares on the NYSE was for technical purposes only and without trading privileges.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

$2,000,000,000 8.40% Global Senior Subordinated Notes due April 15, 2010

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Common shares, 4,675,455,546 Shares (including 433,610 treasury shares) at March 31, 2001

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes ☒ No ☐

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☒

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Until the integration of BTM with Mitsubishi Trust and Nippon Trust Bank on April 2, 2001, American Depositary Shares (''ADSs'') representing shares of Common Stock, par value ¥50 per share (the ''Shares''), of BTM were listed on the New York Stock Exchange. Each ADS represented one Share. ADSs were evidenced by American Depositary Receipts (''ADRs'') issued by The Bank of New York acting as depositary (the ''Depositary''). With the integration of BTM, Mitsubishi Trust and Nippon Trust Bank, which was effected by way of the establishment of a new holding company, MTFG, holders of Shares received shares in MTFG in exchange for their Shares. MTFG succeeded to BTM's listing on the New York Stock Exchange. BTM is now a wholly-owned, consolidated subsidiary of MTFG.

For purposes of this Annual Report, we have prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (''US GAAP''), except for the risk-adjusted capital ratio, the business segment financial information and certain other information, which are prepared in accordance with accounting principles generally accepted in Japan (''Japanese GAAP''). Unless otherwise stated or the context otherwise requires, all amounts in such financial statements are expressed in Japanese yen.

When we refer in this Annual Report to ''we'', ''us'', ''our'' and the ''Group'', we mean BTM and its subsidiaries. References in this Annual Report to ''yen'' or ''¥'' are to Japanese yen and references to ''US$,'' ''$'' or ''US dollars'' are to United States dollars. Our fiscal year ends on March 31. We refer to the fiscal year ended March 31, 2001 throughout this Annual Report as fiscal 2000 or the 2000 fiscal year. We refer to other fiscal years in a corresponding manner. References to years not specified as being fiscal years are to calendar years.

We usually hold the ordinary general meeting of the shareholders of BTM in June of each year in Tokyo.

FORWARD-LOOKING STATEMENTS

This Annual Report contains statements that constitute ‘‘forward-looking statements’’ within the meaning of Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 provides a ‘‘safe harbor’’ for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as the information is identified as forward looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information.

These statements appear in a number of places in this Annual Report and include statements regarding our intent, belief or current expectations and/or the current belief or current expectations of our management with respect to our results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. We use words such as ‘‘anticipate’’, ‘‘believe’’, ‘‘estimate’’, ‘‘expect’’, ‘‘intend’’, ‘‘probability’’, ‘‘risk’’ and similar expressions, as they relate to us or our management, to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this respect as anticipated, believed, estimated, expected or intended. We do not intend to update these forward-looking statements.

Our forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. Actual results may differ from those in such forward-looking statements as a result of various factors. We identify in this Annual Report, in ‘‘Risk Factors’’, ‘‘Operating and Financial Review and Prospects’’, ‘‘Information on The Bank of Tokyo-Mitsubishi, Ltd.’’ and ‘‘Supervision and Regulation’’, and elsewhere some (but not necessarily all) of the important factors that could cause these differences.

We are under no obligation, and expressly disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events, or otherwise.

THE BANK OF TOKYO-MITSUBISHI, LTD.
AND SUBSIDIARIES

SELECTED FINANCIAL DATA

	Years ended March 31,				
	1997	1998	1999	2000	2001
	(in millions except per share data and percentages)				
Operating results:					
Interest income	¥ 2,401,944	¥ 2,467,177	¥ 2,342,300	¥ 1,787,028	¥ 1,896,709
Interest expense	1,648,239	1,698,602	1,402,549	900,661	1,100,055
Net interest income	753,705	768,575	939,751	886,367	796,654
Provision for credit losses	393,681	1,356,231	919,427	368,639	665,954
Net interest income after provision for credit losses	360,024	(587,656)	20,324	517,728	130,700
Non-interest income	552,304	543,778	514,421	539,109	665,133
Non-interest expense	825,168	1,168,424	1,022,499	927,727	897,545
Income (loss) before income tax expense or benefit	87,160	(1,212,302)	(487,754)	129,110	(101,712)
Income tax expense (benefit)	54,833	(438,565)	(143,331)	93,635	5,972
Net income (loss)	¥ 32,327	¥ (773,737)	¥ (344,423)	¥ 35,475	¥ (107,684)
Amounts per share:					
Earnings (loss) per common share—basic	¥ 6.94	¥ (165.67)	¥ (73.67)	¥ 6.59	¥ (24.47)
Earnings (loss) per common share—assuming dilution	¥ 6.94	¥ (165.67)	¥ (73.67)	¥ 3.73	¥ (24.47)
Number of shares used to calculate earnings (loss) per share (thousands of shares):					
—Earnings (loss) per common share—basic	4,657,636	4,670,457	4,675,446	4,675,442	4,675,251
—Earnings (loss) per common share—assuming dilution	4,657,641	4,670,457	4,675,446	4,822,435	4,675,251
Cash dividends declared during the year:					
—Common share	¥ 8.50	¥ 8.50	¥ 8.50	¥ 8.50	¥ 8.50
—Preferred share (class 1)	—	—	—	57.12	82.50
Balance sheet data at year-end:					
Total assets	¥83,570,035	¥84,162,940	¥70,148,842	¥ 68,817,234	¥76,376,903
Loans, net of allowance for credit losses	48,016,463	47,593,504	44,429,461	39,830,324	38,790,145
Total liabilities	80,004,959	81,419,261	67,507,155	65,623,074	73,966,787
Deposits	52,349,890	54,143,458	46,102,053	45,159,956	49,139,024
Shareholders' equity	3,549,402	2,743,679	2,641,687	3,194,160	2,410,116
Average balances:					
Interest-earning assets	¥73,240,206	¥77,462,243	¥73,297,568	¥ 67,103,914	¥67,611,365
Interest-bearing liabilities	65,984,908	70,854,896	67,508,343	59,120,637	60,627,303
Total assets	80,088,763	82,753,087	78,432,342	70,264,631	73,163,060
Shareholders' equity	3,699,494	3,055,910	2,661,017	2,788,875	2,631,170
Return on equity and assets:					
Net income (loss) as a percentage of total average assets	0.04%	(0.93)%	(0.44)%	0.05%	(0.15)%
Net income (loss) as a percentage of average shareholders' equity	0.87%	(25.32)%	(12.94)%	1.27%	(4.09)%
Dividends per common share as a percentage of earnings per common share—basic	122.48%	nm	nm	128.98%	nm
Average shareholders' equity as a percentage of total average assets	4.62%	3.69 %	3.39%	3.97%	3.60%
Net interest income as a percentage of total average interest-earning assets	1.03%	0.99 %	1.28%	1.32%	1.18%
Credit quality data:					
Allowance for credit losses	¥ 1,062,446	¥ 760,323	¥ 1,290,657	¥ 1,137,181	¥ 1,385,010
Allowance for credit losses as a percentage of loans	2.16%	1.57 %	2.82%	2.78%	3.45%
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 1,880,848	¥ 1,229,410	¥ 2,268,563	¥ 1,922,645	¥ 3,446,143
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	3.83%	2.54 %	4.96%	4.69%	8.58%
Net loan charge-offs	¥ 487,803	¥ 1,670,448	¥ 348,574	¥ 506,879	¥ 445,267
Net loan charge-offs as a percentage of average loans	1.03%	3.40 %	0.72%	1.17%	1.10%
Average interest rate spread	0.78%	0.79 %	1.12%	1.14%	1.00%
Risk-adjusted capital ratio calculated under Japanese GAAP	9.28%	8.53 %	10.47%	11.46%	9.69%

nm = not meaningful

This financial data (except for average balance information) is derived from the audited consolidated financial statements.

Effective March 31, 1998, BTM adopted Statement of Financial Accounting Standards (''SFAS'') No. 128 ''Earnings per Share,'' with respect to the computation of earnings per share. Amounts for earlier periods have been restated to reflect the retroactive effect of the free distribution of shares. Effective March 31, 2001, BTM adopted SFAS No. 140 ''Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,'' which replaces SFAS No. 125, with respect to recognition and reclassification of collateral and to disclosures relating to securitization transactions and collateral. Total assets and liabilities at March 31, 1998, 1999 and 2000 and average total assets for the years ended on those dates, and related percentages were restated to conform to SFAS No. 140.

EXCHANGE RATES

Merely for the convenience of the reader, this Annual Report contains translations of certain yen amounts into US dollars at specified rates. These translations should not be construed as representations that the yen amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of yen into US dollars have been made at the rate of ¥125.54 = US$1, the noon buying rate in New York City for cable transfers in yen as certified for customs purposes by the Federal Reserve Bank of New York (the ''Noon Buying Rate'') on Friday, March 30, 2001.

The tables below set forth, for the periods and dates indicated, information concerning the Noon Buying Rates, which are expressed in yen per one US dollar.

Fiscal year ended March 31,	High	Low	Average	Fiscal year end
1997	104.49	124.54	113.21	123.72
1998	111.42	133.99	123.56	133.20
1999	108.83	147.14	128.10	118.43
2000	101.53	124.45	110.02	102.73
2001	104.19	125.54	111.65	125.54

Month	High	Low
February 2001	114.88	117.62
March 2001	117.33	125.54
April 2001	126.75	121.68
May 2001	123.67	118.88
June 2001	124.73	119.13
July 2001	125.85	122.85

The Noon Buying Rate on August 3, 2001, was ¥123.46 = US$1.

RISK FACTORS

We may suffer additional losses due to credit quality problems

As a consequence of the protracted recession in the Japanese economy and financial crises elsewhere in Asia, we have, along with other Japanese financial institutions, suffered a substantial increase in problem loans and incurred significant credit-related expenses over the past several years.

- At March 31, 2001, we had nonaccrual and restructured loans and loans past due 90 days or more, of ¥3,446.1 billion.
- In the fiscal year ended March 31, 2001, we incurred net loan charge-offs of ¥445.3 billion. In the year before that we incurred net loan charge-offs of ¥506.9 billion.

If economic conditions in Japan remain depressed or deteriorate further, additional economic problems arise elsewhere in Asia or adverse developments in the economic environment occur in other areas, the credit quality problems could worsen. These problems could result in further credit costs, which would adversely affect our results of operations and financial condition. We maintain an allowance for credit losses inherent in our loan portfolio. The amount of the allowance is set at a level that, in the opinion of our management, is sufficient to absorb probable losses inherent in the loan portfolio. The amount of such allowance may, however, prove to be insufficient. Moreover, the allowance for credit losses may become inadequate in the future if adverse economic conditions cause deterioration in the borrowers' credit quality or in the value of collateral that was not reasonably expected at the time the allowance was determined. The allowance for credit losses may be rendered inadequate by, among other things:

- a further deterioration in Japanese real estate values;
- a material increase in the number or size of business failures in the real estate, construction, finance, retail sales or other industries in Japan;
- a further decline in Japanese stock prices;
- business failures by one or more major customers; and
- other adverse developments in the economic environment in Japan, Asia or in other areas.

The Japanese government's economic package released in April 2001 requires Japanese banks to adhere to a time limit of two to three years for disposing of nonperforming loans. The emergency package urges major banks, including us, to remove from their balance sheets nonperforming loans outstanding to borrowers who are insolvent and likely to be in bankruptcy within two years. Any new nonperforming loans that emerge are urged to be removed from banks' balance sheets within three years. Although the details of the plan have not been finalized, additional credit losses may be incurred by Japanese banks, including us, depending upon the method of removal of nonperforming loans.

We are exposed to credit quality and other problems in the Japanese real estate and construction sectors

Like most other Japanese banks, we have substantial lending exposure to Japanese real estate and construction companies. The Japanese real estate and construction industries have been severely and adversely affected by the sharp decline in Japanese real estate values and construction projects. This has negatively impacted the credit quality of our loan portfolio. These problems are expected to last for some time. At March 31, 2001:

- our loans related to the Japanese real estate industry totaled ¥3,974.6 billion or 13.1% of total domestic loans;

- 25.2% of our domestic loans to the real estate industry were classified as nonaccrual and restructured loans;
- our loans related to the Japanese construction industry totaled ¥1,400.4 billion or 4.6% of domestic loans; and
- 17.6% of our domestic loans to the construction industry were classified as nonaccrual and restructured loans.

A number of real estate and construction companies have recently declared bankruptcy, or have been restructured or are undergoing restructurings through out-of-court agreements with creditors that involve debt forgiveness, interest rate reductions, extension of maturities, and other concessions by lenders. The Japanese government has proposed a tightening in the standards of the bidding process for construction contracts, making it more difficult for weaker construction companies to participate. If such reform measures are implemented it may result in an increase in failures of construction companies. In addition, we may be negatively affected by further deterioration in these sectors because, in some cases, we are shareholders of companies or institutions in these sectors. We expect that additional bankruptcies and restructurings in these business sectors will occur. A further or extended deterioration within either of these industries could expose us to substantial additional credit losses.

We have substantial credit exposure to Asian borrowers

We are active in the Asian region through a network of branches and subsidiaries, and are thus exposed to a variety of credit and market risks associated with the financial crises that arose in Thailand, Indonesia, South Korea and other Asian countries beginning in 1997. At March 31, 2001, we had:

- total cross-border outstandings to Thailand, Indonesia, South Korea, Malaysia and the Philippines of ¥618.0 billion; and
- cross-border outstandings to China of ¥158.6 billion and to Hong Kong of ¥392.0 billion.

The Asian region has now generally recovered from the currency and financial crises that began in 1997. However, if another sharp decline in the value of Asian currencies occurs, it would adversely affect the creditworthiness of some of these borrowers. Very often, credit extended to Asian borrowers and banks is denominated in yen or US dollars and is not hedged to protect against fluctuations in the values of local currencies. Any devaluation of the local currencies makes it more difficult for borrowers earning income in those currencies to pay their external debts. In addition, governments of some other Asian countries may attempt to support the value of their currencies by raising domestic interest rates. As a result, the borrowers in these countries would have to devote more of their resources to repaying their domestic obligations, which may adversely impact their ability to repay their debts. The restriction of credit resulting from these and related conditions may adversely affect economic conditions in some countries. This could cause a further deterioration of the credit quality of borrowers and banks in those countries.

A deterioration of economic conditions in Asia, including a second collapse of the region's currencies or a devaluation of the Chinese or Hong Kong currencies, which are currently pegged to the U.S. dollar, would have an adverse effect on our Asian borrowers. This could result in material additional losses to us.

We are exposed to credit and market risks in foreign countries

Some of our loans are to borrowers in developed countries that are operating in sectors with higher credit risk, such as the telecommunications sector and the Internet-related sector. Some of these sectors have recently experienced a tightening of credit and deterioration of business conditions. Further deterioration in these sectors could have an adverse effect on our operations or financial results.

We are exposed to financial difficulties at other Japanese financial institutions

Japanese banks and other financial institutions that extend credit (including non-bank finance, leasing and credit companies) are currently experiencing severe asset quality problems. Other Japanese financial institutions, including other banks, insurance and securities companies, have also been hurt by these and other problems caused by the protracted recession in Japan. This has led to severe liquidity and/or solvency problems, which have in several cases resulted in the liquidation or restructuring of affected institutions. A number of major Japanese financial institutions, such as The Hokkaido Takushoku Bank, Limited, Yamaichi Securities Company Limited, The Long-Term Credit Bank of Japan, Limited and The Nippon Credit Bank, Ltd., have been liquidated or restructured within the past few years. The continued financial difficulties of financial institutions could adversely affect us because:

- at March 31, 2001, our domestic loans to banks and other financial institutions were ¥2,012.3 billion or 6.6% of total domestic loans, of which 8.4% were classified as nonaccrual and restructured loans;
- we may be requested to participate in providing assistance to support distressed financial institutions;
- in some cases we are a shareholder of these institutions; and
- deposit insurance premiums could rise if deposit insurance funds prove to be inadequate.

We may be adversely affected by the "Japan premium" and the limitation of credit extended to Japanese banks

As a result of concerns regarding asset quality and the failure of several large Japanese financial institutions, international lenders have in the recent past:

- charged an additional risk premium to Japanese financial institutions for short-term borrowings in the interbank market; and
- restricted the amount of credit, including interbank deposits, they are willing to extend to Japanese banks.

These restrictions of credit result in higher operating expenses and decreased profitability for affected Japanese banks. Although the Japan premium has decreased, if conditions in the Japanese banking and other financial sectors deteriorate, international markets could again impose risk premiums or credit restrictions on Japanese banks, including us.

We may provide support to troubled borrowers

Like other Japanese banks, we may provide direct and indirect support to troubled borrowers even where the provision or amount of this support might not be warranted by a technical analysis of our legal rights against the borrower and our narrow economic interests. Sometimes we do this where the operating profitability or asset values of the relevant borrower indicate the likelihood of a successful restructuring. In addition, we may provide support to troubled borrowers on the basis of considerations that include political and regulatory influences, historical relationships with our core customers, a tradition in Japan that a borrower's main or "lead" bank plays a stronger role than its other lenders and a perceived responsibility for the obligations of our affiliated and associated companies. By providing such support, we risk greater financial losses in the future should any of the restructurings prove unsuccessful or impossible to complete.

We expect our results to continue to be affected by the stagnant economic conditions in Japan

Since the early 1990s, the Japanese economy has contracted due to a number of factors, including weak consumer spending and lower capital investment by Japanese companies, causing a large number of corporate bankruptcies and the failure of several major financial institutions. The outlook for the economy as a whole remains unclear due to the negative effects of weak private consumption and private sector investment. Accordingly, we expect our results of operations will continue to be affected generally by the economic conditions in Japan.

We may be adversely affected if we cannot maintain our capital ratios above minimum required levels

As of March 31, 2001, our consolidated risk weighted capital ratio was 9.69% (total risk-based capital ratio), and 4.94% (Tier I capital ratio), with 8% total risk-based capital ratio and 4.0% Tier I capital ratio being the minimum levels required by the capital adequacy guidelines of the Financial Services Agency of Japan (formerly known as the Financial Supervisory Agency of Japan). The capital ratios could be adversely affected, however, by future losses from credit quality problems, declines in the value of securities portfolios, changes in foreign exchange rates and other factors.

Pursuant to a 1996 amendment to the Banking Law of 1981 and implementing regulations adopted by the Ministry of Finance of Japan, a system known as "prompt corrective action" was introduced as of April 1, 1998. Under this system, the Financial Services Agency may take certain corrective actions with respect to banks whose capital ratio falls below certain levels. In our case because we are engaged in international operations, the level of our required capital ratio is 8.0%. If our capital ratio were to fall below this level:

- we would be required to curtail our international operations;
- the Financial Services Agency could require us to take a variety of corrective actions under the prompt corrective action system regulations, including the suspension of all or part of our business operations; and
- our business operations would be otherwise materially adversely affected.

If Japanese accounting rules or the guidelines regarding the calculation of banks' capital ratios are revised, capital ratios could be adversely affected. For example, we currently account for our long-term investments in marketable securities based on market value. In anticipation of change in Japanese accounting rules, we already account for our investment securities on a "mark to market" basis. If the market value of our investment securities remains lower than the book value, this will decrease the value of the assets on the balance sheet and, as a consequence, lower the capital ratios. We are confident that, notwithstanding the move to mark to market accounting, our capital ratios will exceed the minimum requirements for Japanese banks for the fiscal year ending March 31, 2002.

The Financial Services Agency guidelines concerning banks' capital ratios generally follow the rules set by the Bank for International Settlements. If the Bank for International Settlements changes its capital adequacy rules, the Financial Services Agency is also expected to change its guidelines. The Bank for International Settlements has recently proposed making changes to its capital adequacy rules. It is too early to know what changes might eventually be adopted.

We are exposed to risks because of the volatility of our equity investment portfolio

A significant portion of our investment portfolio consists of marketable equity securities, the values of which can be volatile. As we determine the book values of our equity investments at market value, our profitability may be adversely affected in the fiscal years in which we are required to write down the recorded values of our equity investments to market value. In addition, we have in recent years effected trades in certain of the equity securities in our investment portfolio to realize previously unrealized gains of marketable securities. This practice may increase the risk of losses and lead to reductions in the level of our capital adequacy, in the event of continued or future downward movements in the Japanese stock market, and may also have a negative impact on our capital adequacy ratios which are calculated with unrealized net losses (net of tax effects) on the banking and trading books included as Tier I Capital and 45.0% of unrealized gains of marketable securities included as Tier II Capital. See the previous risk factor ''We may be adversely affected if we cannot maintain our capital ratios above minimum required levels'' as discussed above for the consequences of a reduction of the capital adequacy ratios.

We are exposed to risks associated with our trading activities

We undertake extensive trading activities involving a variety of financial instruments, including derivatives. There are various risks to us associated with such activities, including market and credit risks and sudden interest rate and foreign currency exchange rate fluctuations. We intend to continue such operations for so long as we perceive opportunities to exist and consider our involvement in such activities to be in our business interests. Accordingly, our results of operations and financial condition in future periods will continue to be exposed to the risks associated with these activities.

We are exposed to risks relating to the Japanese banking industry

Legislative and regulatory initiatives in Japan meant to restore the financial soundness of Japanese financial institutions and promote recovery of the Japanese economy are under discussion, and could have a significant impact on the operations and financial positions of Japanese banks. The focus of these proposals is generally to benefit and protect the Japanese economy and society as a whole and not necessarily to benefit shareholders of banks.

Among the items under discussion that could affect us are:

- Proposals by the Japanese government to establish a special fund to purchase holdings of listed Japanese equities from banks in an orderly fashion, possibly for resale to individual investors in the form of investment trusts;
- In connection with the above, limiting the equity investment portfolio of Japanese banks to a specified percentage of their shareholders' equity, which would require disposal of a significant amount of equity securities currently held; and
- Proposals to write-off problem loans rather than just the creation of additional loan loss reserves.

On April 24, 2001, the governing Liberal Democratic Party selected Junichiro Koizumi, a self-proclaimed reformer, to succeed Yoshiro Mori as Prime Minister of Japan. Many of the policy goals which Mr. Koizumi has said his administration will pursue relate to reform of the financial sector. Among other things, he has expressed an intention to:

- Mandate a more aggressive write-off of non-performing loans by financial institutions; and
- Study privatizing the state-run postal savings system, the world's largest deposit-taking institution with total deposits of approximately ¥260 trillion as of March 31, 2000.

It remains unclear to what extent any of these new proposals will be put into effect and, if they are, how they will affect Japanese banks. These or other legislative and regulatory proposals could have a material effect on our earnings and financial position and could have other significant effects.

Past and future changes to banking regulations could adversely affect our business, including by subjecting us to significant competition

Along with other financial institutions in Japan, we are governed by significant Japanese governmental regulation and supervision, which is primarily for the benefit and protection of customers and not for the benefit of our investors. In the past, our business has been materially affected by these regulations and we expect that this will continue in the future. Laws, regulations or policies currently affecting us may change at any time. Regulatory authorities may also change their interpretation of these laws and regulations. Our business may be adversely affected by any future changes in Japanese laws, regulations, policies or interpretations.

During the 1990s, the Japanese financial system experienced regulatory changes, resulting in:

- a number of major deregulatory measures;
- the breakdown of divisions between different types of Japanese financial institutions;
- the entry of Japanese financial institutions of one type into business sectors formerly dominated by institutions of a different type;
- the entry of foreign financial institutions into sectors of the Japanese financial industry formerly reserved for or dominated by Japanese institutions; and
- the entry of companies from the non-financial area into sectors of the Japanese financial industry.

These changes have subjected us to a variety of new competitive pressures, and have allowed us to enter into new areas of business that subject us to new risks.

Deregulation is expected to encourage financial institutions to expand their operations into other business areas, and to encourage foreign financial institutions to expand their presence in the Japanese market. As a result, we expect to encounter new competitors and increased competition generally in our existing markets. If we are unable to compete effectively in this more competitive deregulated business environment, our business and results of operations will be adversely affected.

In addition, recent developments in technology have subjected us to new competitive forces. Specifically, the demand for online retail banking has increased and several institutions have begun to offer online banking services in recent years.

As a result of these developments, we face several new competitive forces. For example:

- The Japanese government sold two failed banks, now known as Shinsei Bank and Aozora Bank, to investor groups led by Ripplewood Holdings and Softbank Corporation, respectively;
- Citigroup, a non-Japanese financial service company, is offering a full range of financial services, including banking and securities and investment banking;
- IY Bank, a bank based in convenience stores created by supermarket operator Ito-Yokado group, recently launched its operations;
- Orix Corporation, an equipment leasing company, has recently been expanding into new areas, including banking, insurance and securitization businesses; and

- Sony Corporation, an electronics manufacturer, has recently obtained a banking license to offer online banking services.

In addition, deregulation will allow existing financial institutions in other sectors, such as Japanese and foreign securities companies, to introduce new products that are equivalent to, or substitutes for, our core product offerings.

As we expand the range of our investment banking products and services in response to this ongoing deregulation, and as the sophistication of financial products, such as financial derivatives, and management systems grows, we will be exposed to new and increasingly complex risks. Similarly, as our proprietary trading activities expand worldwide, we will be increasingly exposed to the related market risks. Although our risk management program was designed to monitor, quantify and limit exposure to these risks, it may not work in all cases or to the degree required. Consequently, we remain subject to substantial market and other risks in these expanding business areas, which could result in substantial losses to us.

We may be adversely affected by new regional bank taxes

Since April 2000, the Tokyo metropolitan government has been imposing a tax of 3% on the gross operating profits of banks operating within its jurisdiction. Osaka Prefecture also introduced a similar tax on operating profits of banks operating within its jurisdiction. The tax will be applied for a period of five years, commencing with the fiscal year ending March 31, 2002, and will be applicable to banks that have deposits and negotiable certificates of deposit of ¥5 trillion or more. The tax replaces the previous form of local enterprise tax, which was based on pre-tax profits and not payable in the event of losses. If additional prefectures implement a bank tax, or if the Japanese government introduces a similar bank tax nationwide, BTM may be adversely affected.

A change to the zero interest rate policy could adversely affect our business

The Bank of Japan effectively re-introduced its ''zero interest rate policy'' in March 2001, which until revoked in August 2000 had been in existence for a year and a half. Further interest rate changes may occur. Although our volume of loans and deposits remains relatively stable, further interest rate changes may affect the volume of future loan-related business we are able to carry out, or our ability to generate reasonable margins for these business activities, thereby affecting our operational results or financial condition.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Years Ended March 31, 1999, 2000 and 2001

Recent Developments

Integration of Operations with The Mitsubishi Trust and Banking Corporation

On April 19, 2000, BTM and The Mitsubishi Trust and Banking Corporation (''Mitsubishi Trust'') agreed to integrate their operations by establishing a joint holding company, called ''Mitsubishi Tokyo Financial Group, Inc. (''MTFG'')'', on April 2, 2001. On April 2, 2001, BTM, Mitsubishi Trust and Nippon Trust Bank Limited (a former 82% owned subsidiary of BTM) jointly established MTFG through a stock-for-stock exchange, and the three banks have become wholly-owned subsidiaries of MTFG. The former common stock shareholders of BTM received one common share of MTFG for each 1,000 common shares of BTM, the former common stock shareholders of Mitsubishi Trust received 0.7 common shares of MTFG for each 1,000 common shares of Mitsubishi Trust, and the former common stock shareholders of Nippon Trust Bank received 0.14 common shares of MTFG for each 1,000 common shares of Nippon Trust Bank. BTM, the former subordinated stock shareholder of Nippon Trust Bank, received 0.126 common shares of MTFG for each 1,000 subordinated shares of Nippon Trust Bank. The former preferred shareholders of BTM received one class 1 preferred share of MTFG for each 1,000 class 1 preferred share of BTM, and the former preferred shareholders of Mitsubishi Trust received one class 2 preferred share of MTFG for each 1,000 class 1 preferred shares of Mitsubishi Trust. The integration also includes a plan under which Nippon Trust Bank and The Tokyo Trust Bank, Ltd. (a 100%-owned subsidiary of BTM) will merge with and into Mitsubishi Trust on October 1, 2001.

As a result of the stock-for-stock exchange on April 2, 2001, MTFG issued 5,742,468 shares of common stock, 81,400 shares of class 1 preferred stock and 100,000 shares of class 2 preferred stock in exchange for all of the issued shares of the three banks based on the exchange ratio mentioned above. Through the stock-for-stock exchange, we received 154,418 shares of MTFG's common stock in exchange for the shares of common stock of BTM, Mitsubishi Trust and Nippon Trust Bank that we held. Mitsubishi Trust also received 45,339 shares of MTFG's common stock in exchange for the shares of common stock of BTM that Mitsubishi Trust held.

Mitsubishi Trust is one of Japan's largest trust banks in terms of total assets and provides a full range of banking services and trust services in Japan and overseas. Through the integration, customers will gain access to the specialized products and services of a diversified financial group. The planned merger of Mitsubishi Trust, Nippon Trust Bank and Tokyo Trust Bank is intended to permit the resulting company to provide more advanced and specialized trust products and services.

The integration between BTM and Mitsubishi Trust was accounted for as a pooling-of-interests. Accordingly, unaudited pro forma combined condensed financial statements of MTFG have been prepared for periods prior to the integration to include the results of operations, financial position and cash flows of BTM and subsidiaries, and Mitsubishi Trust and subsidiaries as though they had always been a part of the holding company. For a discussion of certain effects of the integration, see ''Operating and Financial Review and Prospects—Effects of Integration''. The information presented in this Annual Report does not, unless otherwise expressly stated, give effect to the business combination. We include in this annual report selected pro forma financial information concerning MTFG.

Developments in the Japanese Banking Industry including Mergers among Japan's Other Major Banks

Integrations and mergers among several other major Japanese banks took place at almost the same time as the integration of BTM and Mitsubishi Trust.

On September 29, 2000, three of Japan's larger banks, The Fuji Bank, Limited, The Dai-Ichi Kangyo Bank, Limited and The Industrial Bank of Japan, Limited established Mizuho Holdings, Inc. by way of a stock-for-stock exchange, and each of the three banks became a wholly-owned subsidiary of the holding company.

On April 1, 2001, The Sumitomo Bank, Limited and The Sakura Bank, Limited, two of Japan's larger banks, merged to form Sumitomo Mitsui Banking Corporation.

On April 2, 2001, three banks, The Sanwa Bank, Limited, The Tokai Bank, Limited and The Toyo Trust and Banking Company, Limited integrated their businesses under a newly established holding company, UFJ Holdings, Inc.

Through the integrations and mergers mentioned above, the Japanese banking sector is now dominated by these four large groups.

Other non-banking organizations have entered the Japanese banking market by establishing new types of banks, including the following: Sony Bank Corporation founded by Sony Corporation, started Internet-based operations in June 2001 and plans to provide banking services, sales of investment trust funds, settlement of e-commerce transactions and small consumer loans. IY Bank, founded by retailer Ito-Yokado, established a specialist funds clearing bank using its nationwide chain of convenience stores in May 2001.

Emergency Economic Measures, Including Acceleration of Disposals of Nonperforming Loans

The Japanese government released a proposed economic package in early April 2001 containing some of the most aggressive measures to address Japan's decade-long asset quality issues. One proposed measure would force Japanese banks to adhere to a time limit of two to three years for disposing of nonperfoming loans. The emergency package requires major banks, including BTM, to remove from their balance sheets nonperforming loans outstanding to borrowers who are insolvent and likely to be in bankruptcy within two years. Any new nonperforming loans that subsequently emerge are urged to be removed from banks' balance sheets within three years. Banks would be required to disclose their progress in loan disposals to the Financial Services Agency. In order to proceed with the disposal of nonperforming loans, the Financial Services Agency has requested private sector organizations to establish guidelines for banks to remove the loans from their balance sheets. Although the details of the plan have not been finalized, additional credit losses may be incurred by Japanese banks, including BTM, depending upon the method of disposal of nonperforming loans.

The selling of shares by banks has contributed to the recent slump in equity prices. To prevent the sell-off of shares by banks from undermining stock prices on a broad scale, the package also provides for the establishment of a special entity to purchase shares held by banks. The entity would buy the shares from banks at the market price and could use them to create equity funds, including exchange-traded funds. In June 2001, the Financial Services Agency outlined the plan to establish this entity in January 2002, and the head of Japan's leading banking industry group endorsed the plan, provided that secondary losses, which could occur if stock prices fall before the share-purchasing entity can dispose of the shares, are shouldered by both the government and banks. Under the plan, all banks would invest in the share-purchasing entity and make subordinated investments if necessary depending upon the secondary losses. The funds to purchase shares would be financed by banks. However, as the plan has not been finalized, it is not certain how much of the secondary losses would be borne by banks, including BTM, and to what extent the government would be involved.

The package would also permit the use of treasury stock and allow companies to buy back their own shares, which is possible today only for limited purposes.

Business Developments and Reorganization of Management

Under the reorganization that was implemented on July 1, 2000, BTM has proceeded with the development of operations based on customer and product segmentation. In particular, to further develop our investment banking business, we increased by 19.8% our ownership interest in KOKUSAI Securities Co., Ltd., one of the major securities firms in Japan, to 32.7% in November 2000. As a result, we now account for our investment in KOKUSAI Securities by the equity method.

The Asahi Bank, Ltd. and BTM have agreed to consider cooperative initiatives regarding the two banks' overseas business operations. The initiatives include:

- The Asahi Bank would transfer operations of its overseas offices to BTM's overseas offices when The Asahi Bank closes them;
- The Asahi Bank would refer its clients who desire overseas services to BTM after closure of the Asahi Bank's overseas offices; and
- BTM would provide other necessary functions to The Asahi Bank following the closure of The Asahi Bank's overseas offices.

In June 2001, BTM changed its management structure with the aim of strengthening the decision-making and supervisory capabilities of the board of directors and introducing non-board member directors. These reforms included:

- the fundamental reorganization of delivery channels to provide products and services more efficiently and in a more focused way;
- management integration with Mitsubishi Trust; and
- the introduction of separate human resources management in each business unit. Under the new management structure, the number of board members was reduced from 42 to 13, comprising a chairman, a deputy chairman, a president, a deputy president, business unit chief executives and managing directors in charge of the Corporate Center. Also, a new director status, with responsibility only for business execution and no board responsibilities, has been created to focus on the development and management of business units. These non-board member directors are appointed by the board.

Restructuring of Financial Assistance to Nonbank Subsidiaries

Following capital investments of ¥109.6 billion in The Diamond Home Credit Company Limited and ¥0.5 billion in The Diamond Factors Limited in fiscal 1999, BTM made capital investments of ¥55.8 billion in The Diamond Mortgage Co., Ltd. and ¥16.5 billion in The Diamond Home Credit Company Limited in fiscal 2000. In addition, BTM waived loan principal and interest of ¥4.9 billion to The Diamond Mortgage Co., Ltd. and ¥5.6 billion to The Diamond Factors Limited in fiscal 2000. These financial support measures to increase the capital bases of nonbank subsidiaries that have been taken since fiscal 1999 resulted in an increase in income tax expenses in fiscal 1999 and 2000 due to the reduction in deferred tax assets previously recorded by BTM. Depending on the financial condition of the nonbank subsidiaries, BTM will provide financial assistance through capital injections and/or waiver of loan principal and interest.

Business Environment

The banking and financial services industry has become less regulated in recent years and as a result is becoming increasingly competitive. This industry and the global financial markets are influenced by many unpredictable factors, including economic conditions, monetary policy, international political events, liquidity in global markets and regulatory developments. Our operations are significantly affected by external factors, such as the level and volatility of interest rates, currency exchange rates, securities and real estate markets, and other economic and market conditions. In particular, serious problems with nonperforming assets resulting from the prolonged severe economic conditions have significantly affected operations in recent years. Japanese financial institutions have experienced and in some cases are still experiencing protracted asset quality problems. Accordingly, the results of operations may vary significantly from period to period because of unpredictable events, including unexpected failures of large corporate borrowers, defaults in emerging markets, and market volatility.

The Japanese economy's recovery momentum is weak and the restructuring of the financial system remains unresolved. There have been growing concerns about the prospects for Japan's fragile economic recovery with the sluggish stock and real estate markets. Under these circumstances, corporate failures and bankruptcies of financial institutions, including insurance companies, continued to increase. In terms of the size of liabilities, corporate bankruptcies in fiscal 2000 reached record highs. In particular, failures of small and medium-sized companies have been increasing in the prolonged recession and weak economic conditions since late 1999 when repayment of loans extended under the special credit guarantee system began.

With poor prospects for a recovery in Japan's economy and slow response to much needed corporate restructuring, the Japanese stock markets experienced a significant downturn during fiscal 2000. It was evidenced by the 36.1% decline in the Nikkei Stock Average (an average of 225 blue-chip stocks listed on the Tokyo Stock Exchange) from 20,337.32 at March 31, 2000 to 12,999.70 at March 30, 2001, and by the 25.1% decline in the Tokyo Stock Price Index or TOPIX (a composite index of all stocks listed on 1st Section of the Exchange) from 1,705.94 at March 31, 2000 to 1,277.27 at March 30, 2001, the sharpest decline since 1990. The decline in the Japanese stock prices contributed to a significant decrease in unrealized investment securities gains in fiscal 2000.

Interest rates in domestic markets remained at a very low level during fiscal 2000. In August 2000, the central bank removed the zero-interest-rate policy which had been in place since early 1999. Due to the central bank's lifting of its zero-interest-rate policy, money market rates gradually rose during the remainder of 2000 with uncertainty over future movements in interest rates. In February 2001, the central bank reduced the official discount rate by 15 basis points, the first reduction since September 1999. Then, the central bank made a second rate cut in March 2001 by reducing by 10 basis points each the official discount rate to 0.25% and the uncollateralized overnight call rate to 0.15%. Along with the official discount rate lowering, the central bank introduced a standby lending facility (a so-called "Lombard-type" lending facility) at the official discount rate. This is in addition to the current framework of monetary policy, in which the central bank provides the market with liquidity by the monetary operations that it initiates. In connection with the central bank's monetary easing, from late March 2001, major banks, including BTM, lowered deposit interest rates and reduced their short-term prime lending rates (the benchmark for loans of less than a year) from 1.50% to 1.375%. The reductions put both lending and deposit rates back to the record lows reached in August 2000, before the central bank ended its zero-interest-rate policy. The yield on 10-year government bonds, a benchmark for long-term rates, stayed below 2.00% throughout the year ended March 31, 2001 and has declined toward the end of fiscal 2000, approaching the 1.00% level, the first time it has been below 1.20% since December 1998.

The yen to US dollar exchange rate generally remained in the range of ¥100 to ¥110 per $1.00, and rapidly declined against the US dollar toward the end of fiscal 2000. The yen closed the 2000 fiscal year at ¥125.54 per $1.00, a depreciation of 22.2% from ¥102.73 per $1.00 at the end of fiscal 1999. The average exchange rate for the conversion of US dollars into yen in fiscal 2000 was ¥110.58 per $1.00, a decrease of 0.9% from the fiscal 1999 average exchange rate of ¥111.60 per $1.00.

Real estate prices have declined for the last decade. Government-appraised land prices have fallen an average of 4.2% for residential areas and 7.5% for commercial areas in 2000 for the tenth straight year. In Japan, bank loans are mostly collateralized with real estate, making it more difficult for Japanese banks to solve their bad-debt problems. Real estate prices have directly affected the valuation of collateral-dependent loans and other real estate. The declines in real estate prices have resulted in an additional provision for credit losses and valuation losses on other real estate owned for recent fiscal years.

After strong growth until early 2000, global financial markets slowed during the year ended March 31, 2001. In particular, in the United States, the major region of our global operations, the equity indices tumbled sharply, and the Nasdaq posted its weakest performance since 1971. After raising interest rates a total of six times since June 1999, the Federal Reserve kept rates constant throughout the second half of 2000 and then lowered the federal funds rate by 50 basis points three times in the first quarter of 2001, in an attempt to keep the weak U.S. economy out of a recession. Subsequent to March 31, 2001, the Federal Reserve continued to lower the rate by 50 basis points each in April and May 2001 to 4.0%, and an additional 25 basis points to 3.75% in June 2001. Global equity indices reflected the weak performance of U.S. equity indices. The East Asia region, in which we are active, has generally recovered from the currency and financial crisis that began in 1997. With the expansion of electronics-related exports and a low interest environment, the East Asian countries continued to record high economic growth in 2000. East Asian countries outside Japan, in particular China, Singapore, Malaysia and South Korea, are generally showing steady economic growth with brisk exports of information technology products and increased consumer spending. The slowdown in the U.S. economy, however, is affecting economies of Asia, and equity indices in Asian markets have already reflected the weak performance throughout most of the year.

Overview

We recorded a net loss of ¥107.7 billion in fiscal 2000, down ¥143.2 billion from net income of ¥35.5 billion in fiscal 1999. The fiscal 1999 net income of ¥35.5 billion compared with a net loss of ¥344.4 billion in fiscal 1998.

The fiscal 2000 loss before income tax expense was ¥101.7 billion, down ¥230.8 billion from income before income tax expense of ¥129.1 billion in fiscal 1999. The fiscal 1999 income before income tax expense of ¥129.1 billion compared with a loss before income tax benefit of ¥487.8 billion in fiscal 1998. In the last three fiscal years, our financial results have been largely affected by Japan's severe economic conditions and significant volatility in the financial markets. The fiscal 2000 operations were hard hit by a substantial increase in impaired loans, including restructuring loans. The highlights in fiscal 2000 were as follows:

- Net interest income in fiscal 2000 was ¥796.7 billion, a decrease of ¥89.7 billion, or 10.1%, from ¥886.4 billion in fiscal 1999. The decrease in net interest income was primarily attributable to an increase in average interest-bearing liabilities, and a decline in spread under a volatile interest rate environment and intensifying competition for lending customers.
- Provision for credit losses in fiscal 2000 was ¥666.0 billion, an increase of ¥297.4 billion, or 80.7%, from ¥368.6 billion in fiscal 1999. The increase in provision for credit losses was due primarily to a substantial increase in impaired loans, including nonaccrual and restructured loans, under the continuing sluggish economic environment.
- Non-interest income in fiscal 2000 was ¥665.1 billion, an increase of ¥126.0 billion, or 23.4%, from ¥539.1 billion in fiscal 1999. The increase in non-interest income was attributable primarily to an improvement in trading account net losses of ¥18.5 billion in fiscal 1999 to net profits of ¥195.2 billion in fiscal 2000 and an increase in fees and commissions of ¥85.4 billion. These increases were partially offset by a decrease in investment securities gains-net of ¥38.1 billion and the absence of foreign exchange gains-net in fiscal 2000. In fiscal 1999, foreign exchange gains-net of ¥117.3 billion were reported.

- Non-interest expense in fiscal 2000 was ¥897.5 billion, a decrease of ¥30.2 billion, or 3.3%, from ¥927.7 billion in fiscal 1999. The decrease primarily reflected a decrease in losses on other real estate owned of ¥52.6 billion. This decrease was partially offset by foreign exchange losses-net of ¥49.7 billion in fiscal 2000 while foreign exchange gains-net were reported in fiscal 1999.

We operate as a global bank with a substantial portion of our business and customer base in foreign markets. The following table sets forth total revenue, income (loss) before income tax expense or benefit and net income (loss) on a regional basis, based principally on the domicile of activities in fiscal 1998, 1999 and 2000:

	Fiscal 1998	Fiscal 1999	Fiscal 2000
		(in billions)	
Total revenue (interest income and non-interest income):			
Domestic	¥1,153.9	¥1,239.4	¥1,205.2
Foreign	1,702.8	1,086.7	1,356.6
Total	¥2,856.7	¥2,326.1	¥2,561.8
Income (loss) before income tax expense or benefit:			
Domestic	¥ (703.2)	¥ (60.2)	¥ (389.6)
Foreign	215.4	189.3	287.9
Total	¥ (487.8)	¥ 129.1	¥ (101.7)
Net income (loss)			
Domestic	¥ (414.2)	¥ (113.8)	¥ (352.3)
Foreign	69.8	149.3	244.6
Total	¥ (344.4)	¥ 35.5	¥ (107.7)

Total domestic revenue in fiscal 2000 decreased to ¥1,205.2 billion, down ¥34.2 billion, or 2.8%, from ¥1,239.4 billion in fiscal 1999. The fiscal 1999 total domestic revenue increased ¥85.5 billion, or 7.4%, from ¥1,153.9 billion in fiscal 1998. The fiscal 2000 decrease in total domestic revenue was primarily attributable to a decrease in non-interest income, in particular foreign exchange net gains offset by an increase in trading account net profits. The fiscal 1999 increase in total domestic revenue was attributable primarily to an increase in non-interest income, particularly investment securities gains-net, offset by a decrease in interest income.

Total foreign revenue in fiscal 2000 increased to ¥1,356.6 billion, up ¥269.9 billion, or 24.8%, from ¥1,086.7 billion in fiscal 1999. Total foreign revenue in fiscal 1999 decreased ¥616.1 billion, or 36.2%, from ¥1,702.8 billion in fiscal 1998. The fiscal 2000 increase primarily reflected an increase in interest income resulting mainly from an increase in interest-earning assets and trading account net profits. The fiscal 1999 decrease in total foreign revenue was due primarily to a decrease in interest income resulting principally from a decrease in average interest-earning assets and the yen appreciation against the US dollar and other foreign currencies.

Loss before income tax expense from domestic operations in fiscal 2000 was ¥389.6 billion, an increase of ¥329.4 billion from ¥60.2 billion in fiscal 1999. Loss before income tax expense from domestic operations in fiscal 1999 was ¥60.2 billion, a decrease of ¥643.0 billion from ¥703.2 billion in fiscal 1998. The fiscal 2000 increase in loss from domestic operations was due primarily to an increase in provision for credit losses on domestic nonperforming loans, a decrease in net interest income and a decrease in non-interest income. The fiscal 1999 decrease in loss from domestic operations was due primarily to a decrease in provision for credit losses from ¥749.1 in fiscal 1998 to ¥367.8 billion in fiscal 1999, no goodwill impairment charge relating to a domestic subsidiary in fiscal 1999, and investment securities gains-net in fiscal 1999 while investment securities losses-net were reported in fiscal 1998.

Income before income tax expense from foreign operations in fiscal 2000 was ¥287.9 billion, an increase of ¥98.6 billion, or 52.1%, from ¥189.3 billion in fiscal 1999. Income before income tax expense from foreign operations in fiscal 1999 decreased ¥26.1 billion from ¥215.4 billion in fiscal 1998. The fiscal 2000 increase was due primarily to an increase in net interest income resulting from an increase in interest-earning assets and improved interest margin. The fiscal 1999 decrease was due primarily to a decrease in net interest income resulting from a decrease in average interest-earning assets.

We have a substantial portion of our assets allocated to international activities, and as a result reported amounts are affected by changes in the value of the yen against the US dollar and other foreign currencies. Foreign assets are denominated primarily in US dollars. The following table shows total assets at March 31, 2000 and 2001 by geographic region based principally on the domicile of the obligors:

	At March 31,	
	2000	**2001**
	(in trillions)	
Japan	¥53.12	¥ 54.87
Foreign	15.70	21.51
Total	¥68.82	¥ 76.38

At March 31, 2001, the Noon Buying Rate was ¥125.54 per $1.00, as compared with ¥102.73 per $1.00 at March 31, 2000. The yen equivalent amount of foreign currency denominated assets and liabilities increases as the yen/US dollar exchange rate becomes higher, evidencing a ''weaker'' yen, and decreases as the yen/US dollar exchange rate becomes lower, evidencing a ''stronger'' yen.

As mentioned in Note 1 of the notes to the Consolidated Financial Statements, we restated the consolidated financial statements in accordance with the collateral provisions of the Statement Financial Accounting Standards No.140, ''Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No.125''. Also, the consolidated balance sheet at March 31, 2000 was reclassified to conform to the fiscal 2000 presentation. Total assets at March 31, 2000, as restated, were ¥68.82 trillion, a decrease of ¥2.98 trillion from ¥71.80 trillion previously reported. Total liabilities at March 31, 2000, as restated, were ¥65.62 trillion, a decrease of ¥2.98 trillion from ¥68.60 trillion previously reported.

Total assets at March 31, 2001 were ¥76.38 trillion, representing an increase of ¥7.56 trillion, or 11.0%, from ¥68.82 trillion at March 31, 2000. Total liabilities at March 31, 2001 were ¥73.97 trillion, representing an increase of ¥8.35 trillion, or 12.7%, from ¥65.62 trillion at March 31, 2000. The fiscal 2000 increase of ¥7.56 trillion in total assets was due primarily to an increase in securities available for sale of ¥3.05 trillion, an increase in call loans and funds sold of ¥1.35 trillion, and an increase in interest-earning deposits in other banks of ¥1.64 trillion. The fiscal 2000 increase of ¥8.35 trillion in total liabilities was due primarily to an increase of ¥3.98 trillion in deposits and an increase of ¥4.83 trillion in short-term borrowings, such as call money and funds purchased, payables under repurchase agreements, payables under securities lending transactions and other short-term borrowings.

The depreciation of the yen against the US dollar and other foreign currencies increased the yen values for assets by approximately ¥3.09 trillion and the yen values for liabilities denominated in foreign currencies by approximately ¥3.22 trillion.

At March 31, 2001, loans decreased to ¥40.18 trillion, down ¥0.79 trillion, or 1.9%, from ¥40.97 trillion at March 31, 2000. The decrease of ¥0.79 trillion in loans reflected a decrease of ¥2.45 trillion in domestic loans due primarily to the weak domestic markets, partially offset by an increase of ¥1.66 trillion in foreign loans due primarily to the effect of the yen depreciation. At March 31, 2001, investment securities increased to ¥16.31 trillion, up ¥2.64 trillion, or 19.3%, from ¥13.67 trillion at

March 31, 2000. The increase of ¥2.64 trillion in investment securities primarily reflected an increase in Japanese national government bonds resulting from the introduction of the system of real-time gross settlement, partially offset by a decrease in fair value of marketable equity securities in the declining Japanese stock markets.

At March 31, 2001, shareholders' equity was ¥2.41 trillion, a decrease of ¥0.78 trillion, or 24.5%, from ¥3.19 trillion at March 31, 2000. The decrease of ¥0.78 trillion was due primarily to the ¥0.11 trillion net loss and other changes in equity from nonowner sources (other comprehensive loss) of ¥0.63 trillion, which primarily resulted from a decrease in net unrealized gains on investment securities.

The average exchange rate for the conversion of US dollar amounts into yen for the year ended December 31, 2000 for certain foreign subsidiaries was ¥107.83 per $1.00, compared with the average exchange rate for the year ended December 31, 1999 of ¥113.96 per $1.00, although the average exchange rate for the year ended March 31, 2001 was ¥110.58 per $1.00, compared with the fiscal 1999 average exchange rate of ¥111.60 per $1.00. As a result, yen amounts for transactions denominated in US dollars decreased. In terms of the average exchange rate, the appreciation of the yen against the US dollar and other foreign currencies brought about translation losses on total revenue of approximately ¥77.1 billion, net interest income of ¥10.3 billion and loss before income tax expense of ¥20.8 billion for fiscal 2000, as compared with the corresponding amounts in fiscal 1999.

Business Segment Analysis

We measure the performance of each business unit in terms of "operating profit", which is a defined term in Japanese banks' regulatory reportings to the Financial Services Agency. Operating profit and other segment information is based on accounting principles generally accepted in Japan ("Japanese GAAP") and is not consistent with the consolidated financial statements prepared on the basis of accounting principles generally accepted in the United States of America ("US GAAP"). Net revenue and operating expenses included in the measurement of "operating profit" are discussed in Note 26 of the notes to the Consolidated Financial Statements.

Effective July 1, 2000, we implemented our new business unit system, based on customer and product segmentation. Our major business units are comprised of Retail Banking, Commercial Banking, Global Corporate Banking, Investment Banking, Asset Management, UnionBanCal Corporation ("UNBC"), Operations Services and Treasury.

The following table shows the business segment information in fiscal 1999 and 2000 based on the new basis of segmentation implemented in July 2000:

	Retail banking	Commercial banking	Global corporate banking	Investment banking	Asset management	UNBC	Operations services	Treasury	Other	Segments' total
					(in billions)					
Fiscal 1999:										
Net revenue	¥245.0	¥284.6	¥260.8	¥78.3	¥50.3	¥205.1	¥19.9	¥142.4	¥ (42.7)	¥1,243.7
Operating expenses	186.7	132.3	108.5	49.4	31.9	122.6	16.6	23.7	37.1	708.8
Operating profit	¥ 58.3	¥152.3	¥152.3	¥28.9	¥18.4	¥ 82.5	¥ 3.3	¥118.7	¥ (79.8)	¥ 534.9
Fiscal 2000:										
Net revenue	¥302.1	¥286.7	¥278.3	¥95.0	¥46.3	¥256.2	¥22.4	¥108.1	¥ (15.1)	¥1,380.0
Operating expenses	231.7	130.5	124.5	72.1	32.9	131.9	18.1	25.4	146.7	913.8
Operating profit	¥ 70.4	¥156.2	¥153.8	¥22.9	¥13.4	¥124.3	¥ 4.3	¥ 82.7	¥(161.8)	¥ 466.2

Notes:

(1) "Other" includes the Systems Services unit, the eBusiness & Initiatives unit, the Corporate Center and elimination of overlapping allocation.

(2) A reconciliation of segments' total operating profit with income (loss) before income tax expense or benefit is included in Note 26 of the notes to the Consolidated Financial Statements.

The business units' results for fiscal 1999 in the above table were restated to reflect the reorganizational changes. However, it is not practicable to restate the business segment information in fiscal 1998 previously reported or to provide the fiscal 2000 segment information on the old basis of segmentation. The following table shows the business segment information in fiscal 1998 and 1999 on the old basis of segmentation:

	Domestic customers	Overseas customers	Treasury	Investment banking	Asset management	Global service banking	Other	Segments' total
				(in billions)				
Fiscal 1998:								
Net revenue	¥615.8	¥430.5	¥345.8	¥75.7	¥32.6	¥17.6	¥ (25.3)	¥1,492.7
Operating expenses	361.7	242.5	21.0	36.9	39.9	10.1	85.3	797.4
Operating profit	¥254.1	¥188.0	¥324.8	¥38.8	¥(7.3)	¥ 7.5	¥(110.6)	¥ 695.3
Fiscal 1999:								
Net revenue	¥645.1	¥375.2	¥143.1	¥75.7	¥41.5	¥18.6	¥ (55.5)	¥1,243.7
Operating expenses	355.7	214.8	21.2	38.1	27.7	10.2	41.1	708.8
Operating profit	¥289.4	¥160.4	¥121.9	¥37.6	¥13.8	¥ 8.4	¥ (96.6)	¥ 534.9

When the business units work together in connection with providing services to customers, we do not apportion the net revenue relating to any particular transaction among the participating business units. The policy is to assign the total amount of net revenue relating to each of these transactions to each participating business unit. As a result, certain items of net revenue are included in more than one business unit and are eliminated in the "Other" column. The following is a summary of the aggregate amounts of overlapping allocation of net revenue in fiscal 1999 and 2000 on the new basis of segmentation:

	Commercial banking	Global corporate banking	Asset management	Total amount eliminated
		(in billions)		
Fiscal 1999:				
Investment banking	¥3.8	¥21.8	¥0.6	¥26.2
Fiscal 2000:				
Investment banking	¥5.6	¥28.0	¥0.5	¥34.1

The following is a summary of the aggregate amounts of overlapping allocation of net revenue in fiscal 1998 and 1999 on the old basis of segmentation:

	Domestic customers	Overseas customers	Global service banking	Total amount eliminated
		(in billions)		
Fiscal 1998:				
Investment banking	¥ 21.1	¥ 8.4	¥ 0.7	¥ 30.2
Global service banking	—	1.9	—	1.9
Total	¥ 21.1	¥ 10.3	¥ 0.7	¥ 32.1
Fiscal 1999:				
Investment banking	¥ 35.8	¥ 7.0	¥ 0.6	¥ 43.4
Global service banking	—	1.6	—	1.6
Treasury	2.0	—	—	2.0
Total	¥ 37.8	¥ 8.6	¥ 0.6	¥ 47.0

Fiscal 2000 vs. Fiscal 1999 on the new basis of segmentation

Total net revenue increased ¥136.3 billion, or 11.0%, from ¥1,243.7 billion in fiscal 1999 to ¥1,380.0 billion in fiscal 2000. The increase in net revenue primarily reflected an increase of ¥57.0 billion in the Retail Banking business unit and an increase of ¥51.1 billion in the UNBC business unit. Total operating profit decreased ¥68.7 billion, or 12.8%, from ¥534.9 billion in fiscal 1999 to ¥466.2 billion in fiscal 2000. The decrease in operating profit primarily resulted from an increase of ¥109.6 billion in operating expenses of the Corporate Center included in the ''Other'' column.

The increase in net revenue of the Retail Banking business unit was primarily attributable to the revenues of DC Card Co., Ltd., a subsidiary that was consolidated at the end of fiscal 1999. The increase in net revenue of the UNBC business unit was primarily attributable to an increase in net interest income, which resulted from an increase in average earning assets and an improved net interest margin, and an increase in non-interest income, particularly growth in deposit-related income, trust and investment management fees, and merchant banking fees.

The increase in operating expenses of the Corporate Center primarily reflected a significant increase in the provision for credit losses. Credit losses are reflected in the Corporate Center rather than being allocated to each business segment.

Fiscal 1999 vs. Fiscal 1998 on the old basis of segmentation

In fiscal 1999, operating profit decreased to ¥534.9 billion, down ¥160.4 billion, or 23.1%, from ¥695.3 billion in fiscal 1998. This decrease primarily reflected the ¥27.6 billion decrease in operating profit of the Overseas Customers business unit due to appreciation of the yen against the US dollar and other foreign currencies, and the ¥202.9 billion decrease in operating profit of the Treasury business unit due to decreased income on debt securities portfolio. These decreases were partially offset by the ¥35.3 billion increase in operating profit of the Domestic Customers business unit, primarily due to the increase in income from derivative transactions with customers. The overlapping allocation of net revenue increased ¥14.9 billion, or 46.4%, from ¥32.1 billion in fiscal 1998 to ¥47.0 billion in fiscal 1999. This increase primarily reflected a ¥14.7 billion increase in overlapping allocation of net revenue between the Domestic Customers business unit and the Investment Banking business unit, primarily due to the increase in income from derivative transactions with customers.

Operating Results

Net Interest Income

Net interest income is a function of the amount of interest-earning assets, the ''spread'' or 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. Interest-earning assets are generally less sensitive to interest rate changes than interest-bearing liabilities. As a result, net interest income tends to increase when interest rates decline and decrease when interest rates rise.

The following is a summary of net interest income statistics in fiscal 1998, 1999 and 2000:

	Fiscal 1998		Fiscal 1999		Fiscal 2000	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	(in billions except percentages)					
Interest-earning assets:						
Domestic	¥48,045.1	1.75%	¥50,185.7	1.58%	¥48,912.9	1.51%
Foreign	25,252.5	5.94	16,918.2	5.89	18,698.5	6.20
Total	¥73,297.6	3.20%	¥67,103.9	2.66%	¥67,611.4	2.81%
Financed by:						
Interest-bearing funds;						
Domestic	¥48,931.6	0.88%	¥44,979.0	0.72%	¥45,152.5	0.84%
Foreign	18,576.7	5.23	14,141.6	4.09	15,474.8	4.67
Total	67,508.3	2.08	59,120.6	1.52	60,627.3	1.81
Non-interest-bearing funds	5,789.3	—	7,983.3	—	6,984.1	—
Total	¥73,297.6	1.92%	¥67,103.9	1.34%	¥67,611.4	1.63%
Spread on:						
Interest-bearing funds		1.12%		1.14%		1.00%
Total funds		1.28%		1.32%		1.18%

Net interest income in fiscal 2000 was ¥796.7 billion, a decrease of ¥89.7 billion, or 10.1%, from ¥886.4 billion in fiscal 1999. The fiscal 2000 decrease of ¥89.7 billion was due to both an increase in average interest-bearing liabilities and a decline in spread.

While average interest-earning assets increased ¥507.5 billion, or 0.8%, from ¥67,103.9 billion in fiscal 1999 to ¥67,611.4 billion in fiscal 2000, average interest-bearing liabilities increased ¥1,506.7 billion, or 2.5%, from ¥59,120.6 billion in fiscal 1999 to ¥60,627.3 billion in fiscal 2000. The increase of ¥1,506.7 billion in average interest-bearing liabilities primarily resulted from an increase of ¥825.6 billion in foreign deposits, an increase of ¥2,132.8 billion in call money, funds purchased and payable under repurchase agreements and securities lending transactions and an increase of ¥812.8 billion in domestic long-term debt. These increases were partially offset by a decrease of ¥1,018.2 billion in debentures.

Interest margins decreased in fiscal 2000 compared with fiscal 1999. Net interest income as a percentage of average total interest-bearing assets decreased 14 basis point from 1.32% in fiscal 1999 to 1.18% in fiscal 2000. The average interest rate spread decreased 14 basis points from 1.14% in fiscal 1999 to 1.00% in fiscal 2000. The decline in spread in fiscal 2000 reflected the volatile interest rate environment and was partially affected by intensifying competition for lending customers under the weak economic conditions in Japan. The decline in net interest income in fiscal 2000 was also unfavorably impacted by an increase in restructured loans for which terms were modified to extend maturities at stated interest rates lower than market rates.

Net interest income in fiscal 1999 was ¥886.4 billion, a decrease of ¥53.4 billion, or 5.7%, from ¥939.8 billion in fiscal 1998. The fiscal 1999 decrease was due primarily to a decrease in average interest-earning assets. Average interest-earning assets decreased ¥6,193.7 billion, or 8.5%, from ¥73,297.6 billion in fiscal 1998 to ¥67,103.9 billion in fiscal 1999. Average interest-bearing liabilities also decreased ¥8,387.7 billion, or 12.4% from ¥67,508.3 billion in fiscal 1998 to ¥59,120.6 billion in fiscal 1999. The decrease of ¥6,193.7 billion in average interest-earning assets primarily resulted from a decrease of ¥4,900.4 billion in average loans. The decrease of ¥8,387.7 billion in average interest-bearing liabilities mainly reflected a decrease of ¥3,848.7 billion in average foreign deposits, a decrease of ¥2,750.3 billion in average call money, funds purchased, payables under repurchase agreements and securities lending transactions and a decrease of ¥1,617.0 billion in average other short-term borrowings. The net interest margins slightly increased in fiscal 1999 as compared with fiscal 1998. Net interest income as a percentage of average total interest-earning assets increased 4 basis points from 1.28% in fiscal 1998 to 1.32% in fiscal 1999. Average interest rate spread increased 2 basis points from 1.12% in fiscal 1998 to 1.14% in fiscal 1999.

For fiscal 2000, net interest income included a gain of approximately ¥1.6 billion resulting from derivative financial instruments used for hedging purposes. The net gain consisted of a ¥3.1 billion loss on interest rate contracts and a ¥4.7 billion gain on foreign exchange contracts, and increased net interest margin of 0.33 basis point.

See ''Selected Statistical Data-I. Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential-Average Balance Sheets, Interest and Average Rates.''

Provision for Credit Losses

The provision for credit losses in fiscal 2000 was ¥666.0 billion, representing an increase of ¥297.4 billion, or 80.7%, from ¥368.6 billion in fiscal 1999. The provision for credit losses in fiscal 1999 reflected a decrease of ¥550.8 billion, or 59.9%, from ¥919.4 billion in fiscal 1998. The fiscal 2000 increase of ¥297.4 billion primarily reflected the effect of a substantial increase in impaired loans of ¥1,524.2 billion, or 82.1%, from ¥1,856.2 billion at March 31, 2000 to ¥3,380.4 billion at March 31, 2001. The increase in impaired loans reflected a rapid increase in restructured loans from ¥321.8 billion at March 31, 2000 to ¥1,661.5 billion at March 31, 2001.

The fiscal 1999 decrease in the provision for credit losses of ¥550.8 billion primarily reflected a decrease in impaired loans of ¥339.7 billion, or 15.5%, from ¥2,195.9 billion at March 31, 1999 to ¥1,856.2 billion at March 31, 2000 and no such unexpected failures of large financial institutions as experienced in fiscal 1998. The fiscal 1998 provision included credit losses relating to failures of The Long-Term Credit Bank of Japan, Ltd. and The Nippon Credit Bank, Ltd. The economic recovery in East Asian countries also contributed to a lessor provision in fiscal 1999 than in fiscal 1998.

Provisions for credit losses are charged to operating income to maintain the allowance for credit losses at a level deemed appropriate by management. See ''Financial Condition— Allowance for Credit Losses, Nonperforming and Past Due Loans'' for a description of the approach and methodology used to establish the allowance for credit losses.

Non-Interest Income

The following table is a summary of non-interest income in fiscal 1998, 1999 and 2000:

	Fiscal 1998	**Fiscal 1999**	**Fiscal 2000**
		(in billions)	
Fees and commissions:			
Fees on funds transfer and service charges for collection	¥ 50.8	¥ 52.6	¥ 56.1
Commissions and fees on international business	38.7	36.1	50.5
Trust fees	43.1	37.4	36.4
Fees and commissions on credit card business	—	—	47.8
Other fees and commissions	123.7	130.1	150.8
Total	256.3	256.2	341.6
Trading account profits—net	113.0	—	195.2
Foreign exchange gains-net (see ''Non-Interest Expense'' for fiscal 2000)	80.0	117.3	—
Investment securities gains-net	—	132.5	94.4
Gains from a sale of equity investments in a subsidiary	26.1	—	—
Other	39.0	33.1	33.9
Total non-interest income	¥514.4	¥539.1	¥665.1

Non-interest income in fiscal 2000 was ¥665.1 billion, an increase of ¥126.0 billion, or 23.4%, from ¥539.1 billion in fiscal 1999. Non-interest income in fiscal 1999 increased ¥24.7 billion, or 4.8%, from ¥514.4 billion in fiscal 1998. The fiscal 2000 increase of ¥126.0 billion was primarily attributable to trading account profits-net of ¥195.2 billion (trading account losses-net of ¥18.5 billion were reported and included in the non-interest expense category in fiscal 1999) and an increase in fees and commissions of ¥85.4 billion. These increases were partially offset by a decrease in investment securities gains-net of ¥38.1 billion and the absence of foreign exchange gains-net while foreign exchange gains-net of ¥117.3 billion were reported in fiscal 1999. Foreign exchange losses-net of ¥49.7 billion were reported in fiscal 2000 and were included in non-interest expense. The fiscal 1999 increase of ¥24.7 billion was due primarily to investment securities gains-net of ¥132.5 billion in fiscal 1999 while investment securities losses-net of ¥50.4 billion were reported in fiscal 1998 and included in the non-interest expense category. This increase was partially offset by the absence of net trading account profits while net trading account profits of ¥113.0 billion were reported in fiscal 1998.

Fees and commissions in fiscal 2000 were ¥341.6 billion, an increase of ¥85.4 billion, or 33.3%, from ¥256.2 in fiscal 1999. Fees and commissions in fiscal 1999 were virtually unchanged from ¥256.3 billion in fiscal 1998. The fiscal 2000 increase in fees and commissions mainly reflected fees and commissions on credit card business of ¥47.8 billion from DC Card Co., Ltd. that was consolidated at the end of fiscal 1999. Other fees and commissions primarily include fees on issuing guaranties, fees on underwriting business, service charges on deposits of overseas offices, and commissions on custodial services. These fees and commissions increased in recent years partly because of strengthened investment banking and asset management business.

Trading activities improved from net trading account losses of ¥18.5 billion in fiscal 1999 to net trading account profits of ¥195.2 billion in fiscal 2000. Trading account losses-net in fiscal 1999 reflected a decline of ¥131.5 billion from net trading account profits of ¥113.0 billion in fiscal 1998. The net trading account profits or losses primarily include net gains or losses on trading securities and interest rate derivative instruments entered into for trading purposes, while gains or losses on currency derivative instruments entered for trading purposes are included in foreign exchange gains or losses-net. Trading account assets or liabilities are carried at fair value and any changes in the value of trading account assets or liabilities, including interest rate derivatives, are recorded in trading account profits or losses-net. Derivative instruments for trading purposes include those used as hedges of net exposure rather than specifically identified assets or liabilities, which do not meet the specific criteria for hedge accounting. The fiscal 2000 net trading account profits includes trading securities net profits of ¥36.2 billion and derivatives net profits of ¥159.0 billion. The fiscal 1999 net trading account losses includes trading securities net losses of ¥22.8 billion and derivatives net profits of ¥4.3 billion. The fiscal 2000 increase in net profits primarily reflected market conditions favorable to our derivative positions in a declining interest rate environment.

Investment securities gains-net in fiscal 2000 were ¥94.4 billion, representing a decrease of ¥38.1 billion from ¥132.5 billion in fiscal 1999. Net investment securities gains in fiscal 1999 reflected an increase of ¥182.9 billion from net losses of ¥50.4 billion in fiscal 1998. Major components of net investment securities gains (losses) in fiscal 1998, 1999 and 2000 were summarized below:

	Fiscal 1998	Fiscal 1999	Fiscal 2000
		(in billions)	
Impairment losses on marketable equity securities	¥(108.7)	¥(133.8)	¥(228.6)
Net gains (losses) on sales of marketable equity securities	(35.8)	299.7	270.1
Other	94.1	(33.4)	52.9
Investment securities gains (losses)—net	¥ (50.4)	¥ 132.5	¥ 94.4

Impairment losses were recognized for declines in fair value that management considered other than temporary, and the high-levels experienced in fiscal 1998, 1999 and 2000 reflected continued declines in fair value under sluggish equity markets as well as an overall worsening of investees' financial conditions in Japan. In particular, as discussed in ''Business Environment,'' the Japanese stock markets experienced a significant downturn throughout fiscal 2000 and resulted in an increase in impairment losses of ¥94.8 billion, or 70.9%, from fiscal 1999. Sales of market equity securities and the resulting realized net gains or losses fluctuate from year to year depending on management's decisions in relation to earning levels. Other gains or losses are primarily net sales gains (losses) on sales of Japanese government bonds and bonds issued by foreign governments and other issuers.

Gains on a sale of a portion of BTM's equity investment in a subsidiary of ¥26.1 billion in fiscal 1998 related to a one-time gain from the sale of equity investments in UnionBanCal Corporation, which resulted in reducing BTM's ownership of UnionBanCal Corporation from 81.5% to 64.1%.

Other non-interest income in fiscal 2000 was ¥33.9 billion, an increase of ¥0.8 billion, or 2.8%, from ¥33.1 billion in fiscal 1999. Other non-interest income in fiscal 1999 reflected a decrease of ¥5.9 billion, or 15.1%, from ¥39.0 billion in fiscal 1998. Other non-interest income includes lease income under operating lease agreements, income on interbank refinancing, and other sundry income. The fiscal 2000 increase of ¥0.8 billion primarily reflected an increase in lease income of an overseas subsidiary, partially offset by a decrease in sundry income. The fiscal 1999 decrease primarily reflected a decrease in rental income and other sundry income.

Non-Interest Expense

The following table shows a summary of non-interest expense in fiscal 1998, 1999 and 2000:

	Fiscal 1998	Fiscal 1999	Fiscal 2000
		(in billions)	
Salaries and employee benefits	¥ 400.6	¥344.9	¥327.4
Occupancy expenses—net	107.3	101.2	105.3
Trading account losses—net (see ''Non-Interest Income'' for fiscal 2000)	—	18.5	—
Foreign exchange losses—net	—	—	49.7
Investment securities losses—net (see ''Non-Interest Income'' for fiscal 2000)	50.4	—	—
Goodwill amortization and impairment	62.6	3.5	4.5
Losses on other real estate owned	56.1	68.4	15.8
Other	345.5	391.2	394.8
Total non-interest expense	¥1,022.5	¥927.7	¥897.5

Non-interest expense in fiscal 2000 was ¥897.5 billion, a decrease of ¥30.2 billion, or 3.3%, from ¥927.7 billion in fiscal 1999. Non-interest expense in fiscal 1999 reflected a decrease of ¥94.8 billion, or 9.3%, from ¥1,022.5 billion in fiscal 1998. The fiscal 2000 decrease of ¥30.2 billion primarily reflected a decrease in losses on other real estate owned of ¥52.6 billion and the absence of trading account losses-net in fiscal 2000, compared with trading account losses-net of ¥18.5 billion in fiscal 1999. These decreases were partially offset by foreign exchange losses-net of ¥49.7 billion in fiscal 2000 while foreign exchange gains-net of ¥117.3 billion were reported in fiscal 1999. The fiscal 1999 decrease of ¥94.8 billion, or 9.3%, from fiscal 1998 was due primarily to a decrease of ¥55.7 in salaries and employee benefits, no investment securities losses-net in fiscal 1999 compared with investment securities losses-net of ¥50.4 billion in fiscal 1998, and a decrease of ¥59.1 billion in goodwill amortization and impairment. These decreases were partially offset by an increase of ¥45.7 billion in other non-interest expense, including losses on sales of premises used for operations and provision for credit losses on off-balance-sheet instruments.

Salaries and employee benefits in fiscal 2000 were ¥327.4 billion, a decrease of ¥17.5 billion, or 5.1%, from ¥344.9 billion in fiscal 1999. Salaries and employee benefits in fiscal 1999 decreased ¥55.7 billion, or 13.9%, from ¥400.6 billion in fiscal 1998 to ¥344.9 billion in fiscal 1999. The fiscal 2000 decrease of ¥17.5 billion was primarily attributable to a decrease in net periodic pension costs reflecting a higher expected return on pension assets. This decrease was partially offset by salaries and employee benefits of subsidiaries that were consolidated at the end of fiscal 1999. The fiscal 1999 decrease of ¥55.7 billion primarily reflected a decrease in the number of employees, a decrease in net periodic pension costs and the yen appreciation.

Occupancy expenses-net in fiscal 2000 were ¥105.3 billion, an increase of ¥4.1 billion, or 4.1%, from ¥101.2 billion in fiscal 1999. Occupancy expenses-net in fiscal 1999 reflected a decrease of ¥6.1 billion, or 5.7%, from ¥107.3 billion in fiscal 1998. The fiscal 2000 increase of ¥4.1 billion was due primarily to occupancy expenses of subsidiaries that were consolidated at the end of fiscal 1999. The fiscal 1999 decrease primarily reflected the appreciation of yen to US dollars and other foreign currencies.

Foreign exchange losses-net in fiscal 2000 were ¥49.7 billion, a decrease of ¥167.0 billion from net foreign exchange gains of ¥117.3 billion in fiscal 1999. Net foreign exchange gains in fiscal 1999 reflected an increase of ¥37.3 billion, or 46.6%, from ¥80.0 billion in fiscal 1998. Major components of foreign exchange gains (losses)-net by source of transactions in fiscal 1998, 1999 and 2000 are summarized below:

	Fiscal 1998	Fiscal 1999	Fiscal 2000
		(in billions)	
Transaction gains (losses) on translation of foreign currency long-term debts	¥23.1	¥ 28.8	¥(35.5)
Net gains on foreign exchange contracts entered into for trading purposes	0.2	76.3	8.6
Other-net	56.7	12.2	(22.8)
Total foreign exchange gains (losses)—net	¥80.0	¥117.3	¥(49.7)

Transaction losses on translation of foreign currency long-term debts in fiscal 2000 resulted from the depreciation of the yen value against the US dollar and other foreign currencies. Net gains (losses) on foreign exchange contracts entered into for trading purposes are closely related to losses (gains) on interest rate swap positions included in trading losses-net.

Goodwill amortization and impairment in fiscal 1998 included an impairment loss of goodwill of ¥50.0 billion relating to the acquisition of Nippon Trust Bank. No such impairment loss was recognized in fiscal 1999 and 2000.

Losses on other real estate owned in fiscal 2000 were ¥15.8 billion, a decrease of ¥52.6 billion, or 76.9%, from ¥68.4 billion in fiscal 1999. Losses on other real estate owned in fiscal 1999 reflected an increase of ¥12.3 billion, or 21.9%, from ¥56.1 billion in fiscal 1998. Losses on other real estate owned include valuation losses, operating expenses and net losses on sale of real estate. Losses on other real estate owned in fiscal 1998, 1999 and 2000 resulted from the continuing declines in real estate value under sluggish real estate markets in Japan as discussed in the ‘‘Business Environment’’ section above. The decrease in losses on other real estate owned in fiscal 2000 reflected a decrease in other real estate owned as follows: Other real estate owned was ¥171.9 billion at March 31, 1999, ¥62.7 billion at March 31, 2000 and ¥33.0 billion at March 31, 2001.

Other non-interest expenses in fiscal 2000 were ¥394.8 billion, an increase of ¥3.6 billion, or 0.9%, from ¥391.2 billion in fiscal 1999. Other non-interest expenses in fiscal 1999 reflected an increase of ¥45.7 billion, or 13.2%, from ¥345.5 billion in fiscal 1998. Although other non-interest expenses in fiscal 2000 were virtually unchanged from fiscal 1999, the following are included and offset each other in other non-interest expenses:

- Increase of ¥15.3 billion resulting from the new local corporate tax in fiscal 2000 as discussed "Income Tax Expense (Benefit)" below
- Decrease in restructuring charges of ¥11.8 billion of UnionBanCal Corporation, including the effect of restructuring credit of ¥2.1 billion in fiscal 2000.

The fiscal 1999 increase of ¥45.7 billion was due primarily to an increase of ¥14.1 billion in minority interests in earnings of subsidiaries, an increase of ¥15.9 billion in losses on sales and write-down of premises and equipment, restructuring charges of ¥9.7 billion under the project begun in 1999 by UnionBanCal Corporation, and an increase in sundry fees and commissions paid. Other non-interest expenses included Year 2000 remediation costs and expenditures of ¥45.6 billion which were incurred relating to the remediation project over a period of three years ended March 31, 2000.

Income Tax Expense (Benefit)

	Fiscal 1998	Fiscal 1999	Fiscal 2000
	(in billions except percentages)		
Income (loss) before income tax expense or benefit	¥(487.8)	¥129.1	¥(101.7)
Income tax expense (benefit)	¥(143.3)	¥ 93.6	¥ 6.0
Effective tax rate	(29.4)%	72.5%	5.9%
Normal effective statutory tax rate	48.0%	42.0%	38.6%

Effective April 1, 2000, the normal effective statutory tax rate decreased 3.4% to 38.6% as a result of the change in the local taxation. The Tokyo Metropolitan Assembly passed a new tax rule on March 30, 2000 that changed the basis on which it taxes large banks (including BTM and its subsidiary) doing business in Tokyo. Also, effective April 1, 2001, the normal effective statutory tax rate decreased 0.6% to 38.0% as a result of the change in the local taxation as the Osaka Prefectural Assembly passed a new tax rule that is substantially the same as the rule approved by the Tokyo Metropolitan Assembly. These changes in taxation caused an increase of ¥1.3 billion in income tax expense in fiscal 1999 and an increase of ¥8.5 billion in income tax expense in fiscal 2000 through a one-time adjustment of net deferred tax assets. Although the changes in local taxation decreased the normal effective statutory rate, they will increase the level of tax payable by us over the next five years. The new local taxes have been accounted for as non-interest expenses discussed above.

The primary reason for income tax expense of ¥6.0 billion against loss before income tax expense of ¥101.7 billion in fiscal 2000 was an increase in the valuation allowance for deferred tax assets of nonbank subsidiaries, the effect of change in the effective tax rate from 38.6% to 38.0% discussed above, dividends received from foreign subsidiaries and minority interest in earnings of subsidiaries. Total valuation allowance increased ¥7.8 billion from ¥197.5 billion at March 31, 2000 to ¥205.4 billion at March 31, 2001. The net increase in total valuation allowance of ¥7.8 billion in fiscal 2000 comprised an increase of ¥38.3 billion in the valuation allowance of nonbank subsidiaries (mainly The Diamond Mortgage Co., Ltd.) and a decrease of ¥30.5 billion in valuation allowance of other subsidiaries. The income tax expense in fiscal 2000 was impacted by an increase of ¥38.3 billion in the valuation allowance of nonbank subsidiaries. The decrease of ¥30.5 billion in the valuation allowance resulted primarily from the expiration of operating loss carryforwards of Nippon Trust Bank. As deferred tax assets for such operating loss carryforwards were fully reduced by the valuation allowance at March 31, 2000, the decrease in valuation allowance in fiscal 2000 had no impact on the income tax expense.

The effective tax rate of 72.5% in fiscal 1999 was 30.5% higher than the normal effective statutory tax rate of 42%. The higher tax rate in fiscal 1999 was attributable mostly to an increase in the valuation allowance that accounted for 9.7% and expiration of loss carryfowards of subsidiaries that accounted for 17.9%. The increase in the valuation allowance resulted primarily from the change in the form of financial assistance to nonbank subsidiaries. BTM restructured the form in which BTM provided financial assistance to nonbank subsidiaries, Diamond Home Credit Co., Ltd. and Diamond Factors Limited. Before fiscal 1999, BTM provided financial assistance to these companies in the form of monetary contributions, waivers of loan principal and interest, and assuming estimated credit losses on loans made by these nonbanks. In fiscal 1999, BTM decided to increase the capital base of nonbanks as a new financial support measure.

See ''Recent Developments'' for restructuring of financial assistance to nonbank subsidiaries.

Financial Condition

Loan Portfolio

At March 31, 2001, total loans were ¥40.18 trillion, representing a decrease of ¥0.79 trillion, or 1.9%, from ¥40.97 trillion at March 31, 2000. Total loans at March 31, 2000 represented a decrease of ¥4.75 trillion, or 10.4%, from ¥45.72 trillion at March 31, 1999. The March 31, 2001 loan balance consisted of ¥30.30 trillion of domestic loans and ¥9.88 trillion of foreign loans. The March 31, 2000 loan balance consisted of ¥32.75 trillion of domestic loans and ¥8.22 trillion of foreign loans.

Domestic loans decreased ¥2.45 trillion, or 7.5%, from ¥32.75 trillion at March 31, 2000 to ¥30.30 trillion at March 31, 2001. Domestic loans decreased ¥2.03 trillion, or 5.8%, from ¥34.78 trillion at March 31, 1999 to ¥32.75 trillion at March 31, 2000. The continuing decreases in fiscal 1999 and 2000 in domestic loans primarily reflected the continuing weak economy in Japan.

Foreign loans increased ¥1.66 trillion, or 20.2%, from ¥8.22 trillion at March 31, 2000 to ¥9.88 trillion at March 31, 2001. Foreign loans decreased ¥2.72 trillion, or 24.9%, from ¥10.94 trillion at March 31, 1999 to ¥8.22 trillion at March 31, 2000. The fiscal 2000 increase was primarily attributable to the depreciation of the yen. The fiscal 1999 decrease was due primarily to the appreciation of the yen and a reduction in loans outstanding to borrowers in East Asian countries. In terms of year-end exchange rates of US dollar to yen, the yen depreciated approximately 22% in fiscal 2000, and the yen appreciated approximately 13% in fiscal 1999. See ''Allowance for Credit Losses, Nonperforming and Past Due Loans'' below for further information on cross-border outstandings to East Asian countries.

Loans made in connection with highly leveraged corporate transactions, such as leveraged buyouts, recapitalizations, acquisition transactions or other corporate restructuring to borrowers whose debt to total assets ratios exceed 75% or 50%, are not material at March 31, 2001. We will participate in these types of loans to the extent that credit risks are deemed prudent, and the portion of the loan portfolio attributable to such loans does not materially increase.

Allowance for Credit Losses, Nonperforming and Past due Loans

The following table shows a summary of the change in the allowance for credit losses in fiscal 1998, 1999 and 2000:

	Fiscal 1998	Fiscal 1999	Fiscal 2000
		(in billions)	
Balance at beginning of year	¥ 760.3	¥1,290.7	¥1,137.2
Provision for credit losses	919.4	368.6	666.0
Charge-offs:			
Domestic	244.5	445.1	403.0
Foreign	113.9	102.7	77.1
Total	358.4	547.8	480.1
Less—Recoveries	9.8	41.0	34.8
Net charge-offs	348.6	506.8	445.3
Reclassification (see note below)	(14.7)	—	—
Other, principally foreign exchange translation adjustments	(25.7)	(15.3)	27.1
Balance at end of year	¥1,290.7	¥1,137.2	¥1,385.0

Note: Prior to fiscal 1998, the allowance for credit losses included the allowance for off-balance-sheet credit instruments. During fiscal 1998, such allowance was reclassified to other liabilities.

The following table summarizes the allowance for credit losses by component at each fiscal year end:

	At March 31,		
	1999	2000	2001
		(in billions)	
Allocated allowance:			
Specific—specifically identified problem loans	¥ 874.8	¥ 688.4	¥ 992.3
Large groups of smaller balance homogeneous loans	23.0	26.0	26.2
Loans exposed to country risk	23.2	11.9	12.0
Formula—substandard, special mention and unclassified loans	344.8	394.3	296.4
Unallocated allowance	24.9	16.6	58.1
Total allowance	¥1,290.7	¥1,137.2	¥1,385.0

(1) Allowance Policy

A key element of policies used in determining the allowance for credit losses is a credit classification process. Effective April 1, 1996, BTM introduced a comprehensive credit rating system as part of its credit risk management procedures. The credit rating system is closely linked to the risk grading standards of regulatory authorities for asset classification under the prompt corrective action, and is used as a basis for establishing the allowance for credit losses. The categorization is based on conditions that may affect the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current trends. Under the credit rating system, credit ratings have been divided into ten ranks, in which the ranks 8 through 10 are defined to conform to the risk grading standards of regulatory authorities for classified loans. The ranking is based on the probability of collection whereby loans to borrowers ranked 1 to 7 are generally performing loans where little loss is anticipated. Loans to borrowers ranked 8 have potential weakness that deserve management's close attention. Loans to borrowers ranked 9 and 10 are loans where weakness in the financial condition of borrowers may cause a greater likelihood of default and loss. For a more detail discussion of the credit rating system, see "Risk Management—Credit Risk Management."

(2) Allocated Allowance for Specifically Identified Problem Loans

The specific allocated credit loss allowance for specifically identified problem loans represents the impairment allowance called for in SFAS No.114 "Accounting by Creditors for Impairment of a Loan." The specifically identified problem loans include nonaccrual loans, restructured loans and other specific loans where there is a significant doubt about collectibility. The specifically identified problem loans are the loans to the borrowers generally ranked 8 to 10, and include all of the loans to borrowers ranked 9 and 10, and some loans to borrowers ranked 8. Impaired loans are evaluated individually based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent, when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement.

The following table summarizes the nonaccrual and restructured loans, and accruing loans which are contractually past due 90 days or more as to principal or interest payments at March 31, 1999, 2000 and 2001.

	March 31,		
	1999	2000	2001
	(in billions, except percentages)		
Nonaccrual loans:			
Domestic:			
Manufacturing	¥ 138.2	¥ 96.2	¥ 109.7
Construction	115.4	106.4	166.0
Real estate	528.1	497.8	618.1
Services	284.0	190.2	188.6
Wholesale and retail	370.4	354.2	214.7
Banks and other financial institutions	131.0	56.9	87.7
Other industries	23.2	21.3	30.4
Consumer	81.6	55.2	161.7
Total domestic	1,671.9	1,378.2	1,576.9
Foreign	189.1	160.4	182.5
Total nonaccrual loans	1,861.0	1,538.6	1,759.4
Restructured loans			
Domestic:			
Manufacturing	13.7	14.2	225.3
Construction	35.9	12.5	79.8
Real estate	110.1	123.5	385.2
Services	51.7	45.0	195.0
Wholesale and retail	43.6	41.0	456.5
Banks and other financial institutions	0.0	18.1	82.0
Other industries	12.3	11.4	60.7
Consumer	11.5	11.3	90.0
Total domestic	278.8	277.0	1,574.5
Foreign	21.7	44.8	87.0
Total restructured loans	300.5	321.8	1,661.5
Accruing loans contractually past due 90 days or more			
Domestic	76.4	61.0	23.2
Foreign	30.7	1.2	2.0
Total accruing loans contractually past due 90 days or more	107.1	62.2	25.2
Total	¥ 2,268.6	¥ 1,922.6	¥ 3,446.1
Total loans	¥45,720.1	¥40,967.5	¥40,175.2
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of total loans	4.96%	4.69%	8.58%

The following table summaries the balance of impaired loans and related impairment allowance at March 31, 1999, 2000 and 2001.

	March 31,					
	1999		2000		2001	
	Loan balance	Impairment allowance	Loan balance	Impairment allowance	Loan balance	Impairment allowance
	(in billions)					
Requiring an impairment allowance	¥1,726.9	¥874.8	¥1,532.1	¥688.4	¥2,888.2	¥990.6
Not requiring an impairment allowance	469.0	—	324.1	—	492.2	—
Total	¥2,195.9	¥874.8	¥1,856.2	¥688.4	¥3,380.4	¥990.6
Percentage of the allocated allowance to total impaired loans	39.8%		37.1%		29.3%	

Impaired loans increased ¥1,524.2 billion, or 82.1%, from ¥1,856.2 billion at March 31, 2000 to ¥3,380.4 billion at March 31, 2001. The increase in impaired loans of ¥1,524.2 billion in fiscal 2000 primarily reflected an increase in nonaccrual loans of ¥220.8 billion and an increase in restructured loans of ¥1,339.7 billion, with a decrease in other problem loans. The increase in nonaccrual loans of ¥220.8 billion primarily reflected an increase in corporate failures and individual bankruptcies under the prolonged depression and weak economic conditions in Japan. Specifically, nonaccrual loans to borrowers in the construction and real estate industries increased ¥179.9 billion, and nonaccrual consumer loans increased ¥106.5 billion. These increases were partially offset by a decrease of ¥139.5 billion in nonaccrual loans to borrowers in the wholesale and retail industries. These loans were primarily transferred to restructured loans under the renegotiated loan terms. The increase in restructured loans of ¥1,339.7 billion also reflected an increase of borrowers in financial difficulties in the deepening economic downturn in Japan. In particular, during the second half of fiscal 2000, the number of borrowers facing financial difficulties, including small and medium-sized companies primarily in the real estate and services industries, has rapidly increased under the fragile economic recovery. We granted concessions to those borrowers, such as a reduction in the stated interest rates or the face amounts of loans, and extensions of the maturity date at stated interest rates lower than the current market rates with similar risks. A rise in the current market rates due to an increase in credit risk premiums partially contributed to the increase in restructured loans. In addition, a significant portion of the increase in restructured loans reflected short-term loans which have been rolled over due to borrowers' financial difficulties. Furthermore, as mentioned in nonaccrual loans above, certain loans to large-sized corporations primarily in the wholesale and retail industries were returned to accrual status and were reclassified into restructured loans under renegotiated terms.

Impaired loans decreased ¥339.7 billion, or 15.5%, in fiscal 1999 from ¥2,195.9 billion at March 31, 1999 to ¥1,856.2 billion at March 31, 2000. The decrease in impaired loans was due primarily to a decrease in nonaccrual loans of ¥322.4 billion. The decrease primarily reflected charge-offs, including waivers of loan principal and interest in connection with the restructuring of large-sized corporations in financial difficulties, and sales of nonperforming loans made in fiscal 1999.

The percentages of the allocated allowance to total impaired loans were 39.8% at March 31, 1999, 37.1% at March 31, 2000 and 29.3% at March 31, 2001. At March 31, 2001, the percentage of allocated allowance to nonaccrual loans was 46.0%, and the percentage of allocated allowance to restructured loans was 11.2%. The decrease in the percentage of allocated allowance to total impaired loans in fiscal 2000 reflected a lower ratio of nonaccrual loans or a higher ratio of restructured loans in total impaired loans at March 31, 2001.

(3) Allocated Allowance for Large Groups of Smaller-balance Homogeneous Loans

The allocated credit loss allowance for large groups of smaller-balance homogeneous loans is focused on loss experience for the pool rather than on an analysis of individual loans. Large groups of smaller-balance homogeneous loans primarily consist of housing loans to individuals. The allowance for groups of performing loans is based on historical loss over a period. In determining the level of allowance for delinquent groups of loans, we classify groups of homogeneous loans based on the risk rating and/or the number of delinquencies. We determine the credit loss allowance for delinquent groups of loans based on the probability of insolvency by the number of actual delinquencies and actual loss experience. The loss experience is usually determined by reviewing the historical loss rate. The allocated credit loss allowance for large groups of smaller-balance homogeneous loans was ¥23.0 billion at March 31, 1999, ¥26.0 billion at March 31, 2000, and ¥26.2 billion at March 31, 2001.

(4) Allocated Allowance for Country Risk Exposure

The allocated credit loss allowance for country risk exposure is based on an estimate of probable losses relating to the exposure to countries that we identify as having a high degree of transfer risk. As with the credit rating system, we use a country risk grading system under which risk ratings has been divided into six ranks. To determine the risk rating, we consider the instability of foreign currency and difficulties regarding debt servicing. Major countries with substantial loans outstanding that were in the high-risk rating and subject to this allowance were Indonesia and Pakistan at March 31, 1999, 2000 and 2001. The allowance is calculated primarily based on various factors such as political and macroeconomic situations, debt repayment capability, and the secondary market price, if available, of debt obligations of the concerned countries.

The Asian economic crisis that began in Thailand in 1997 seriously affected the region's financial sector, resulting in failures by banks and other financial institutions as well as a large number of corporate bankruptcies and liquidations. Since then, East Asian countries have generally rebounded from the severe economic downturn and returned to growth. The recent slowdown in the U.S. economy, however, is affecting economies in all of Asia. We have evaluated the degree of transfer risk by country and provided an allowance for exposures to Indonesia. In classifying problem loans, we have used substantially the same risk rating system used for domestic loans, and calculated the probable losses on the problem loans.

The following is a summary of cross-border outstandings to counterparties in major Asian countries at March 31, 2000 and 2001:

	March 31, 2000			
	Affiliates of Japanese corporations (see note)	Local corporations and governments	Local financial institutions	Total cross-border outstanding
	(in billions)			
South Korea	¥ 2.3	¥ 75.7	¥127.4	¥205.4
Indonesia	30.1	60.4	7.8	98.3
Thailand	120.0	68.7	6.7	195.4
Malaysia	51.0	42.0	3.1	96.1
Philippines	17.8	15.1	22.7	55.6
Hong Kong	218.5	155.7	14.1	388.3
China	92.4	64.0	32.7	189.1

	March 31, 2001			
	Affiliates of Japanese corporations (see note)	Local corporations and governments	Local financial institutions	Total cross-border outstanding
	(in billions)			
South Korea	¥ 14.4	¥ 49.9	¥79.7	¥144.0
Indonesia	39.9	56.5	6.6	103.0
Thailand	128.9	69.6	5.1	203.6
Malaysia	53.3	45.7	5.2	104.2
Philippines	20.8	23.9	18.5	63.2
Hong Kong	209.4	171.5	11.1	392.0
China	75.5	44.6	38.5	158.6

Note—Affiliates of Japanese corporations include subsidiaries and branches of Japanese corporations, joint ventures between Japanese corporations and local corporations, and other entities whose credit is, in many cases, significantly enhanced, in our view, by an express or implied commitment by a Japanese corporation to provide some level of support to such entity.

The extent of risk regarding exposure to East Asian countries will vary from country to country, and borrower to borrower. In particular, from a credit perspective, we regard affiliates of Japanese corporations differently from other types of borrowers since, in many cases, we obtain some kind of guaranty or other form of assurance of support from the affiliated Japanese corporations. We did not have an allocated credit loss allowance for country risk exposure to East Asian countries except Indonesia at March 31, 2000 and 2001.

(5) Formula Allowance for Substandard, Special Mention and Unclassified Loans

The formula allowance is calculated by applying loss factors to outstanding substandard, special mention and unclassified loans. The evaluation of inherent loss for these loans involves a high degree of uncertainty, subjectivity and judgment because probable credit losses are not identified with specific credits. In determining the formula allowance, we rely on a mathematical calculation that incorporates a percentage of total loans based on historical loss experience. Before fiscal 2000, the average annual charge-offs rate over a designated time period by the category of substandard, special mention and unclassified loans was used as a basis for the historical loss experience, adjusted for recent changes in trends and economic conditions. In fiscal 2000, BTM refined its methodology for estimating credit losses. Under the new measurement, credit exposures, default probability and recovery ratio are three factors considered in establishing the allowance. Estimated losses are the average value of losses expected to occur, and are calculated by multiplying the default probability for the amount of credit by one minus the expected recovery ratio. These estimates are differentiated by risk rating. The formula allowance was ¥344.8 billion at March 31, 1999, ¥394.3 billion at March 31, 2000, and ¥296.4 billion at March 31, 2001. The decrease in the allowance primarily reflected a decline in classified loans as a result of the increase in restructured loans subject to the specific allowance. The increase at March 31, 2000 reflected a higher annual charge-offs rate.

(6) Unallocated Allowance

The unallocated allowance contains amounts based on management's evaluation of conditions that are not directly measured in the determination of the allocated allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments. The conditions include the following, as our management understood them to exist at the balance sheet date:

- General economic and business conditions affecting our key lending areas,

- Credit quality trends (including trends in nonperforming loans expected to result from existing conditions),
- Value of collateral we hold,
- Loan volumes and concentrations,
- Seasoning of the loan portfolio,
- Specific industry conditions within portfolio segments,
- Recent loss experience in particular segments of our portfolio,
- Duration of the current business cycle,
- Bank regulatory examination results, and
- Findings of our internal credit examiners.

To the extent that any of these conditions is evidenced by a specifically identified problem credit, management's estimate of the effect of the condition may be reflected as a specific allowance, applicable to the credit. If a condition is not evidenced by a specifically identified problem credit, our management's evaluation of the probable loss related to the condition is reflected in the unallocated allowance. The allowance for credit losses is based upon estimates of probable losses inherent in our loan portfolio at the balance sheet. The actual losses can vary from the estimated amounts, although we use methodologies that are intended to reduce the differences between estimated and actual losses.

The unallocated allowance was ¥24.9 billion at March 31, 1999, ¥16.6 billion at March 31, 2000 and ¥58.1 billion at March 31, 2001. The fiscal 2000 increase in the allowance reflected principally existing general economic and business conditions affecting the key lending areas, credit quality trends, collateral value, loan volumes, and recent loss experience in particular segments of the portfolio.

Allowance for Off-Balance-Sheet Credit Instruments

In addition to the allowance for credit losses on the loan portfolio, we maintain an allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, guaranties, and standby letters of credit, as other liabilities. The allowance includes the specific allocated allowance for specifically identified credit exposure, the allocated formula allowance, and the specific allowance for probable losses on guarantees by our trust banking subsidiary. With regard to the specific allocated allowance for specifically identified credit exposure and the allocated formula allowance, the same methodology is used in determining the allowance for loan credit losses. The allowance for off-balance-sheet credit instruments was ¥43.9 billion at March 31, 1999, ¥79.2 billion at March 31, 2000, and ¥47.5 billion at March 31, 2001. The fiscal 2000 decrease in the allowance was due primarily to the absence of a specific allowance for probable losses on guarantees by our trust banking subsidiary.

Investment Portfolio

At March 31, 2001, investment securities were ¥16.31 trillion, an increase of ¥2.64 trillion, or 19.3%, from ¥13.67 trillion at March 31, 2000. Investment securities at March 31, 2000 increased ¥2.11 trillion, or 18.3%, from ¥11.56 trillion at March 31, 1999.

Securities available for sale at March 31, 2001 were ¥16.20 trillion, representing an increase of ¥3.05 trillion, or 23.2%, from ¥13.15 trillion at March 31, 2000. Securities available for sale at March 31, 2000 increased ¥2.25 trillion, or 20.6%, from ¥10.90 trillion at March 31, 1999. The fiscal 2000 increase of ¥3.05 trillion was primarily attributable to an increase of ¥2.41 trillion in Japanese national government bonds mainly resulting from the introduction of a new ''real-time'' settlement system, and an increase of ¥0.37 trillion due to transfers of securities classified in the held-to-maturity category. Unrealized gains were recorded in shareholders' equity-unrealized gains on securities available for sale as a result of the transfer and were not significant. These increases were partially offset by a decrease of ¥1.03 trillion in marketable equity securities due to a decline in fair value. The increase in fiscal 1999 was due primarily to an increase in Japanese government financial bills maturing within 6 months and one-year treasury bills, and an increase in fair value of marketable equity securities reflecting the recovery of Japan's stock markets. The increase in government financial bills and treasury bills reflected the policy adopted by the central bank to create an active market of short-term government bills.

All securities being held to maturity of ¥0.41 trillion at March 31, 2000 were transferred to securities available for sale in fiscal 2000 as mentioned above.

Net unrealized gains included in the investment portfolio were ¥2.87 trillion at March 31, 2000 and ¥1.92 trillion at March 31, 2001. These net unrealized gains related principally to marketable equity securities.

Deposits in Other Banks

Interest-earning deposits in other banks at March 31, 2001 were ¥5.62 trillion, an increase of ¥1.64 trillion, or 41.2%, from ¥3.98 trillion at March 31, 2000. Interest-earning deposits in other banks at March 31, 2000 represented an increase of ¥1.50 trillion, or 60.3%, from ¥2.48 trillion at March 31, 1999. Interest-earning deposits in other banks significantly fluctuate from day to day depending upon the volatility of financial markets. The fiscal 2000 increase of ¥1.64 trillion primarily reflected relatively high interest rates in the euro yen market and the depreciation of the yen. The fiscal 1999 increase was due partially to the shift from short-term money markets such as call and bill markets to deposits with other banks under the zero-interest-rate environment.

Liabilities

At March 31, 2001, total liabilities were ¥73.97 trillion, an increase of ¥8.35 trillion, or 12.7%, from ¥65.62 trillion at March 31, 2000. Total liabilities at March 31, 2000 represented a decrease of ¥1.89 trillion, or 2.8%, from ¥67.51 trillion at March 31, 1999. The fiscal 2000 increase of ¥8.35 trillion was primarily attributable to an increase of ¥3.98 trillion, or 8.8%, in total deposits, an increase of ¥4.83 trillion, or 92.5%, in short-term borrowings, such as call money and funds purchased, payables under repurchase agreements, payables under lending transactions and other short-term borrowings, and an increase of ¥1.20 trillion in trading account liabilities. These increases were partially offset by a decrease of ¥1.13 trillion in debentures and a decrease of ¥1.00 trillion in other liabilities which resulted mainly from a decrease in accounts payable relating to securities transactions. The increase in deposits primarily resulted from an increase in foreign deposits, and was due mainly to the depreciation of the yen. The increase in call money and other instruments in short-term money markets reflected the decision to increase funds in money markets under the interest rate environment at the end of fiscal 2000. The fiscal 1999 decrease of ¥1.89 trillion was primarily attributable to a decrease of ¥0.94 trillion in total deposits, a decrease of ¥2.04 trillion in short-term borrowings, and a decrease of ¥0.49 trillion in trading account liabilities. These decreases were partially offset by an increase of ¥0.39 trillion in long-term debt and an increase of ¥1.95 trillion in other liabilities.

For fiscal 2000, unrecognized net actuarial loss for contributory pension plans of BTM and certain domestic subsidiaries increased ¥99.4 billion from ¥37.1 billion at March 31, 2000 to ¥136.5 billion at March 31, 2001. The increase mainly resulted from an actual loss on plan assets and the effect of a change in assumptions, including the discount rate. The actuarial loss primarily reflected stagnant stock markets in Japan and resulted in the increase of ¥62.6 billion in the unrecognized net actuarial loss.

The change in the actuarial assumption contributed to the increase of ¥36.8 billion in the unrecognized net actuarial loss. An increase of ¥67.3 billion in the minimum pension liability adjustment (net of taxes) was mainly due to these increases in the unrecognized net actuarial loss.

Liquidity and Capital Resources

Funding and Liquidity

For fiscal 2000, our cash and cash equivalents decreased ¥0.31 trillion from ¥1.86 trillion at March 31, 2000 to ¥1.55 trillion at March 31, 2001. The decrease primarily resulted from a decrease of ¥1.07 trillion in operating activities and a decrease of ¥5.04 trillion in investing activities, substantially offset by an increase of ¥5.77 trillion in financing activities. The decrease in operating activities was mainly due to an increase of ¥1.85 trillion in trading account assets, excluding foreign exchange contracts. The decrease in investing activities primarily resulted from purchases of investment securities available for sale and an increase in call loans, funds sold and receivables under resale agreements and securities borrowing transactions. The purchases of investment securities available for sale mainly related to an increase in Japanese national government bonds in connection with the introduction of real-time gross settlement. The increase in financing activities was primarily attributable to an increase in call money, funds purchased, and payable under repurchase agreements and securities lending transactions.

For fiscal 1999, our cash and cash equivalents increased ¥0.01 trillion to ¥1.86 trillion at March 31, 2000 from ¥1.85 trillion at March 31, 1999. The increase resulted primarily from an increase of ¥0.23 trillion in investing activities, substantially offset by a decrease in financing activities. The increase in cash flows from investing activities was primarily attributable to cash inflows from decreases in loans and short-term placements, including call loans, funds sold and receivables under resale agreements and securities borrowing transactions, which were offset by cash outflows from interest-earning deposits in other banks and transactions in investment securities. The decrease in cash flows in financing activities primarily resulted from the decreases in debentures and short-term fundings, which were partially offset by cash inflows from deposits and long-term debt. Sales and purchases of investment securities available for sale in fiscal 1999 increased significantly due principally to increases in transactions of Japanese government financing bills and one-year treasury bills, affected by increased market activity. Japanese government financing bills generally mature within 6 months and are issued to manage the government short-term cash position, covering short-term mismatches of government expenditures and tax revenue. Formerly, most financing bills were assumed by The Bank of Japan with only a portion of each issuance assumed by qualified public dealers. Commencing April 1999, all issues are now offered to and sold to the public to create an active market for short-term Japanese government bills. As a result, the outstanding balances and transactions of financing bills increased significantly. Additionally, the Japanese government issued one-year treasury bills in 1999, which, together with the public offering of financing bills, significantly increased open market activities for short-term government bills. See ''Consolidated Financial Statements—Consolidated Statements of Cash Flows.''

At March 31, 2001, our market rate-sensitive funding, consisting of time deposits, including foreign currency deposits, money market certificates, CDs, short-term borrowings, and floating or adjustable rate long-term debt, was ¥39.61 trillion, or 62.0% of total interest-bearing liabilities. Domestic funding amounted to ¥33.05 trillion, or 51.7%, and foreign funding was ¥6.56 trillion, or 10.3%. At March 31, 2000, this market rate-sensitive funding was ¥38.66 trillion, or 69.2% of total interest-bearing liabilities. Domestic funding amounted to ¥27.85 trillion, or 49.8%, and foreign funding was ¥10.81 trillion, or 19.4%. The increase of 5.20 trillion in domestic funding from ¥27.85 trillion at March 31, 2000 to ¥33.05 trillion at March 31, 2001 was primarily due to an increase in the Group's domestic market rate-sensitive short-term borrowings and the decrease in foreign market rate-sensitive funding was due principally to a decrease in foreign deposits.

The average amount of deposit balances for fiscal 2000 increased ¥0.23 trillion, or 0.5%, to ¥46.39 trillion as compared to ¥46.16 trillion for fiscal 1999. The average amount of deposit balances for fiscal

1999 represented a decrease of ¥3.45 trillion, or 7.0%, as compared to ¥49.61 trillion for fiscal 1998. The fiscal 2000 increase primarily resulted from an increase of ¥0.81 trillion in foreign deposits, partially offset by a decrease in domestic deposits. The fiscal 1999 decrease was due mainly to a decrease of ¥3.96 trillion in foreign deposits, principally time deposits and certificates of deposits.

We have experienced a large and stable balance of certificates of deposit and time deposits due to the high rollover rate of our corporate customers and individual depositors. Average balances of time deposits and certificates of deposit for domestic offices for fiscal 2000 amounted to ¥20.14 trillion as compared to ¥20.61 trillion for fiscal 1999 and ¥23.73 trillion during fiscal 1998. Japanese corporate customers generally maintain large deposit balances with banks from which they have significant borrowings. We do not expect that the high rollover rate will change significantly. Because more than 60% of these large amount certificates of deposit and time deposits mature within three months, we do not expect any significant impact on the net interest margin although these deposits generally bear higher interest rates.

At March 31, 2000 and 2001, we had unused lines of credit amounting to ¥1,202.0 billion and ¥2,777.5 billion, respectively.

We believe that working capital is sufficient for our current requirements.

Capital Resources

	At March 31,		
	1999	2000	2001
		(in billions)	
Preferred stock and surplus	¥ 243.8	¥ 243.8	¥ 243.8
Common stock and surplus	1,134.3	1,134.3	1,134.3
Retained earnings	574.8	565.9	411.7
Accumulated other changes in equity from nonowner sources	688.9	1,250.2	620.7
Less treasury stock, at cost	(0.1)	(0.0)	(0.4)
Total shareholders' equity	¥2,641.7	¥3,194.2	¥2,410.1
Ratio of total shareholders' equity to year end assets	3.77%	4.64%	3.16%

Total shareholders' equity decreased ¥784.1 billion from ¥3,194.2 billion at March 31, 2000 to ¥2,410.1 billion at March 31, 2001, and the ratio of total shareholders' equity to total assets also showed a decrease of 1.48% from 4.64% at March 31, 2000 to 3.16% at March 31, 2001. The decrease in total shareholders' equity in fiscal 2000, and the resulting decrease of the ratio to total assets, were principally attributable to a ¥599.2 billion decrease in net unrealized gains on investment securities available for sale, net of taxes.

Total shareholders' equity increased ¥552.5 billion from ¥2,641.7 billion at March 31, 1999 to ¥3,194.2 at March 31, 2000, and the ratio of total shareholders' equity to total assets also showed an improvement of 0.87% from 3.77% at March 31, 1999 to 4.64% at March 31, 2000. The increase in total shareholders' equity in fiscal 1999, and the resulting improvement of the ratio to total assets, were primarily attributable to a ¥593.8 billion increase in net unrealized gains on investment securities available for sale, net of taxes.

The following table presents information relating to the accumulated net unrealized gains before tax effect in respect of marketable equity securities at March 31, 1999, 2000 and 2001:

	At March 31,		
	1999	2000	2001
Accumulated net unrealized gains (in billions)	¥1,749	¥2,673	¥1,850
Accumulated net unrealized gains to total assets	2.49%	3.88%	2.42%

As discussed in the "Business Environment" section, the decrease in accumulated net unrealized gains on marketable equity securities at March 31, 2001 resulted from the significant decline in Japanese stock markets. We do not believe that future fluctuations in the Japanese equity securities market will have a material adverse effect on our future earnings, because the net unrealized gains on our domestic securities portfolio continues to be substantial. In addition, our operations would not be significantly impaired by declines in equity prices because we are not dependent on sales of equity securities as a source of liquidity.

During fiscal 2000, we raised an aggregate of ¥262.8 billion through the issuances of subordinated long-term debt. See Note 14 of the Notes to Consolidated Financial Statements for a description of our long-term debt.

Capital Adequacy

The capital adequacy guidelines adopted by the Financial Services Agency of Japan applicable to Japanese banks with international operations closely follow the risk-weighted approach proposed by the Basel Committee on Banking and Supervisory Practices of the Bank for International Settlements, and are intended to further strengthen the soundness and stability of Japanese banks. The Financial Services Agency 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 Bank for International Settlements approach in a manner designed to suit the respective banking environments in Japan and the United States.

The table below summarizes our risk-based capital, risk-adjusted assets, and risk-based capital ratios at March 31, 2000 and 2001. These figures are calculated in accordance with Japanese GAAP as required by the Financial Services Agency.

	At March 31,		Minimum capital ratios required
	2000	2001	
	(in billions except percentages)		
Capital components:			
Tier I capital	¥ 2,754.0	¥2,498.2	
Total risk-based capital	5,506.1	4,896.6	
Risk-weighted assets	48,034.8	50,519.0	
Capital ratios:			
Tier I capital	5.73%	4.94%	4.00%
Total risk-based capital	11.46	9.69	8.00

For the purpose of calculating the combined Tier I and Tier II capital requirements, the amount of Tier II capital used in the computation cannot exceed the amount of Tier I capital. As of March 31, 2001, we exceeded both the Tier I and combined Tier I and Tier II minimum capital requirements. We believe that we will continue to meet the capital adequacy requirements. We are managing our operations with regard to the requirements.

Our total risk-based capital ratio decreased 1.77% from 11.46% at March 31, 2000 to 9.69% at March 31, 2001. The decrease was due primarily to a reduction in Tier I capital resulting from net loss and an increase of ¥2,484.2 billion in risk weighted assets using Japanese GAAP, during fiscal 2000.

For a more detailed discussion of the Financial Services Agency's risk-based capital guidelines and how we seek to comply with them, see the "Supervision and Regulation—Japan—Capital Adequacy" section.

Euro

Effective January 1, 2002, the transitional period for compliance by participating European Union member states with the requirements of the euro will come to an end. The national currencies of the member states which are participating in the common currency, including the German Mark, French Franc and Italian Lira, will be replaced by the euro. Our operational systems and procedures are now euro compliant. The process of achieving this compliance has not resulted in significant costs to us.

Recent Accounting Pronouncements

See Note 1 of the notes to the Consolidated Financial Statements.

Risk Management

Our banking operations are subject to a variety of risks, including credit, market, equity, liquidity, settlement, and operational risks. The importance of managing these risks has increased dramatically with financial deregulation and globalization, and with advances made in financial technology. Our organizational structure has been designed to provide enhanced risk management with the awareness that risk management is one of our critical functions and our success depends upon the proper control and administration of risk.

Firm-Wide Risk Management

Our policy for the control and administration of risk is based on the concept of "Firm-Wide Risk Management." The objective is to identify, measure, control and monitor all risks, and to inspect and audit those activities. This in turn allows us to stabilize earnings in line with the risks of our business and to properly allocate management resources.

In July 2000, a Corporate Risk Management Office was established to control and manage all the risks arising from various activities across product, operational and organizational lines.

The Risk Management Committee has overall responsibility for identifying and controlling our risks. This committee meets semi-annually. It formulates action plans and monitors implementation in line with basic risk management policies.

Capital Allocation System

We introduced a capital allocation system in fiscal 2000.

The capital allocation system sets the amount of capital allowed to be placed at risk by each of our business units. The level of risk is then controlled and managed within that allocation. The capital allocated by this system is expected to cover all risks, including credit risk, market risk, equity risk and operational risks. We provide for appropriate risk management by ensuring that the levels of risk taken by our business units are within our regulatory capital requirements and provide appropriate risk management. By optimizing capital allocation, we aim to maximize our returns after deducting cost of capital and enhance our risk-adjusted performance measurement (RAPM).

The capital allocation system allocates our economic capital, determined based on potential losses which could occur at a certain level of probability, to each business unit by individual risk, determined on a risk-by-risk basis in accordance with the estimated size of each risk. Using the system, we manage each risk in order to keep it within the bounds of the allocated economic capital. The goal is to allocate economic capital and maximize return on the basis of management strategy and to confine our overall risk within the limits of our equity capital.

Credit Risk Management

Credit risk is the risk that a counterparty may default on an obligation owed to us and that this may cause loss to us. It exists particularly in the field of commercial lending, though other banking transactions also involve a potential risk of loss attributable to the counterparty's default. As a result, it is the central element of risk in banking operations. With the increasing globalization and sophistication of finance, however, the nature of credit risk is becoming more complex, involving issues beyond those of traditional lending operations. Credit risk is becoming more diverse, and is overlapping with other risks. Examples include counterparty risk in market operations, settlement risk in clearing foreign exchange transactions across different time zones, and country risk from overseas lending operations.

Revising our credit rating system

Credit rating makes it possible to evaluate complex and differing types of credit risks by the same standards and to classify them by means of a simple set of symbols. We introduced our previous credit rating system in April 1996 and subsequently included a system for the self-assessment of assets and the establishment of allowances for credit losses.

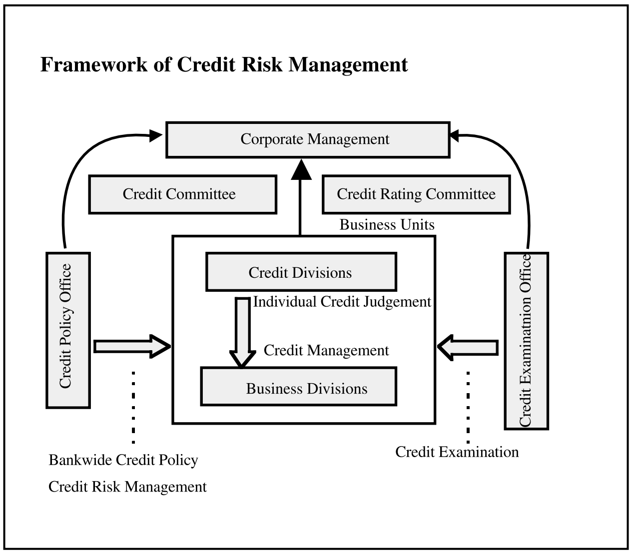
Under our previous credit rating system, borrower ratings have been divided into ten ranks, in which ranks 8 through 10 are designed to conform to the regulatory authorities risk grading standards for classified loans (the Financial Services Agency defines borrowers with classified loans as "to be closely watched", "likely to be in bankruptcy" and "legally or virtually in bankruptcy"). Borrowers ranked 8 require close scrutiny because they are late in making principal or interest payments, are inactive or their business performance is unstable, or their financial condition is unfavorable. Borrowers ranked 9 are not yet bankrupt, but are in financial difficulty with poor progress in achieving their business restructuring plans or are likely to become bankrupt in the future. Borrowers ranked 10 are legally bankrupt or are considered to be virtually bankrupt.

In January 2001, the Basel Committee on Banking Supervision proposed a new capital adequacy framework which is to be implemented in 2005. To enable banks to more accurately assess their credit risk, the proposed framework intends to allow banks the option of calculating their capital ratios by reference to their own internal ratings (internal ratings based approach).

In response to this proposal we have devised a completely new credit rating system, which we plan to release and implement in full during fiscal 2001. Our expectation is not only to bring our system into line with the proposed framework of the Bank for International Settlements but also to make it more objective by standardizing the approaches to credit rating process among our various divisions and validating our ratings with those of outside credit rating agencies.

Our new system will incorporate the concept of probabilities of default in the same manner as the proposed framework of the Bank for International Settlements as central to the internal rating based approach, and uses them as benchmarks at each stage of the credit rating process. To ensure the objectivity, we have developed a quantitative financial evaluation model for different business types that analyzes the correlation between financial and default data for our borrowers and estimates their probability of default. We have also developed and introduced a rating alert system that provides our branches, our credit divisions, and our Credit Examination Office with the third party information pertaining to borrowers, such as credit agency ratings. We thus look to ensure the accuracy of our internal credit ratings by pooling external information about our borrowers and by keeping our internal credit ratings under constant review.

Framework of Credit Risk Management



In the business unit system, we delegate authority as far as possible to individual business units so that each unit can conduct its business in an appropriate way. Credit management in each unit is controlled by the unit's credit division, which evaluates each credit risk. Each business unit separates business promotion and credit judgement functions in order to ensure proper checks and balances between the two.

Corporate Management, supported by our Corporate Center, has responsibility for credit policy, credit risk management, and any major credit issues that affect our business as a whole. The Credit Policy Office in the Corporate Center has responsibility for the credit policy and the credit risk management system at the corporate level, and promotes rationalization and efficiency of credit processes. It performs periodic reviews of the credit rating system, quantification, and other functions contribute to overall business management.

In our business unit structure, the head of each business unit is accountable to Corporate Management for the results of operations of the unit. This system has a restraint function, which includes the Credit Examination Office in the Corporate Center that checks the decisions of individual business units regarding credit rating and asset evaluation and assessment. The Credit Examination Office also audits the overall credit management process in each business unit.

The Credit Committee meets semi-annually and:

- Manages the overall credit portfolio,
- Sets credit policies,
- Administers country risk,
- Sets direction on credit exposures to individual borrowers in Japan and overseas, and
- Discusses other important group-wide credit risk management issues.

In February 2001, we established a Credit Rating Committee, chaired by the director in charge of the Credit Examination Office. The role of this committee is to raise precision and ensure the transparency of the credit rating system by examining the appropriateness of credit ratings assigned to borrowers by the credit divisions.

Market Risk Management

Risk Management Structure

We use a three-tiered market risk management structure to manage our market risk. It divides authority and responsibility among the senior management level, the line management level at trading divisions and offices, and the trader level. It establishes clearly the authority and responsibility of each level. The Corporate Risk Management Office has overall responsibility for market risk management, and is located in the Corporate Center, independent of the individual business units. This office manages our market risk on a consolidated basis, and also integrates middle office functions to ensure integrity and transparency of market risk information.

Risk Management Process

On a semi-annual basis, the Executive Committee decides our overall market risk limit and sets the limits for our foreign exchange, derivatives and other businesses, considering various factors including our capital, earnings capacity and trading capability. Authority for market risk limit is given to each business unit chief executive, and it in turn delegates the authority to the general managers in charge of business lines.

In order to keep losses within a predetermined limit, we have established a loss-cut rule which sets limits for the maximum amounts of losses arising from market activities.

The Corporate Risk Management Office uses a Market Risk Information System to perform market risk management. Under the system the Corporate Risk Management Office reports daily to our senior management on our overall market risk profile—in total, by risk factors such as interest rates and foreign exchange, by business unit and by region. It also monitors compliance with risk limits and stop loss rules.

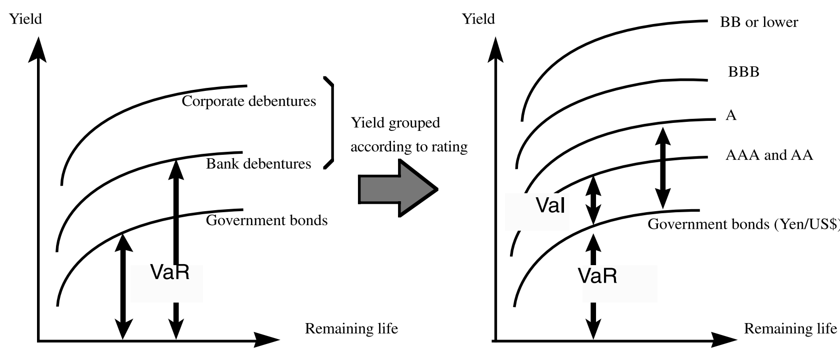
Our Market Risk Management Committee, which comprises our directors, business unit chief executives and the general managers responsible for market operations, meets on a weekly basis to review and discuss our market risk profile and worldwide risk-taking activities. We also have a bank-wide Asset and Liability Management Committee that includes Deputy President, directors and general managers responsible for strategic planning, market operations, domestic and overseas customer relations (banking business). This committee meets once a month to review and discuss our overall market risk profiles and asset and liability management policies from a management perspective. It conveys its conclusions to our business line managers for use in their daily operations.

Risk Management System

Our market risk measurement consists of general market risk and specific risk. General market risk (‘‘VaR’’) is the risk arising from changes in overall market price movement, while specific risk refers to the risk of changes in the prices of individual bond or stock owing to factors other than the general market risk. Specific risk is further divided into Idiosyncratic Risk (VaI: the risk that the price of a particular stock moves idiosyncratically from the overall market movement due to supply and demand or liquidity factors when there is no particular event or default) and Event-default Risk (VaE: the risk of price movement when some shock events or default occur).

Previously, we delegated authority for general market risk only, not for specific risk. However, transactions involving a variety of complex products, including credit derivatives, have brought a greater need for measurement and management of specific risk. For this reason, beginning in fiscal 2000, we changed to a system of delegation using general market risk + specific risk (VaR + VaI). Also in addition to calculating VaE on a regular basis, the system allocates it to each business unit as capital allocation.

Methodology for specific risk measurement (in case of bonds)



After introduction of specific risk management (see chart above)

VaR: Measurement of risk due to variation of government bonds in yield using a variance-covariance methodology.

VaI: Measurement of spread between yield curves grouped according to borrower rating and government bond yield curve spreads in a similar methodology to VaR.

VaE: Quantified by Monte Carlo simulation using the probability of default for individual credit rating groups.

The Market Risk Information System uses a variance-covariance matrix of approximately 650 risk factors with statistical data for a three-year observation period. It considers the correlation among risk factors, while nonlinear option risks are estimated on a scenario approach methodology. We use it to analyze our market risk profile from various perspectives. We also use it to conduct back testing, stress tests, and profit/loss simulation based on hypothetical portfolios. This allows us to supplement our VaR based risk measurements.

We are using our Market Risk Information System at our major overseas offices, enabling them to conduct comprehensive risk management on a stand alone basis. These offices are using our Market Risk Information System to manage their own market risks more effectively.

BIS Market Risk Regulations

In compliance with the Market Risk Regulation stipulated by The Basel Committee on Banking Supervision, which was implemented in Japan through guidelines adopted by the Financial Services Agency in 2000, we applied the "Internal Model Approach" for our general market risk calculations and the "Standardized Approach" for specific risk calculations.

In applying the Internal Model Approach, we are required to meet certain qualitative and quantitative criteria. With our Market Risk Information System, we have been able to meet these strict requirements, as demonstrated by both internal and external examinations.

Market Risks in Fiscal 2000

(1) Trading Activities

In fiscal 2000, the average daily VaR (holding period: one day; confidence level: 97.7%) for trading activities on a consolidated basis was ¥2.99 billion, up from ¥2.21 billion in fiscal 1999. There was no major change in our trading policies between fiscal 1999 and fiscal 2000. As a result, the difference of VaR is not significant. The average daily VaR by quarter in fiscal 2000 was as follows:

Quarter	Daily average VaR
April - June 2000	¥2.45 billion
July - September 2000	¥2.69 billion
October - December 2000	¥3.39 billion
January - March 2001	¥3.45 billion

During the fiscal 2000, the maximum VaR was ¥4.11 billion and the minimum was ¥1.92 billion. Average daily VaI (holding period: one day, confidence level: 97.7%) on a consolidated basis was ¥0.51 billion with a maximum of ¥0.82 billion and minimum of ¥0.33 billion.

Value-at-Risk for Trading Activities (1day-97.7%)

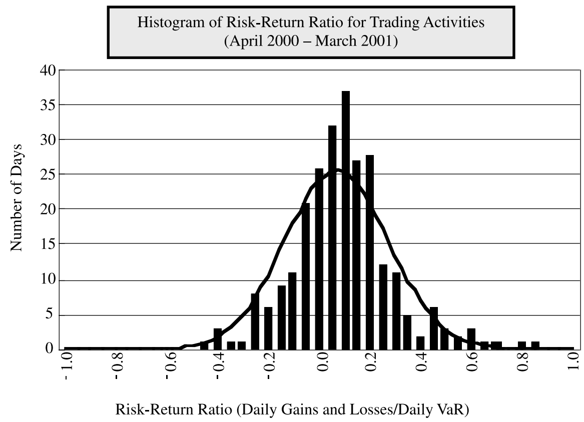
(Yen in billions)

Risk Category	Daily average FY 2000	High FY 2000	Low FY 2000	March 31, 2001	March 31, 2000
Interest Rate	1.80	2.95	0.96	1.50	0.91
Japanese Yen	1.11	2.02	0.51	0.68	0.52
US Dollar	0.71	1.60	0.26	0.64	0.30
Foreign Exchange Rate	0.41	0.84	0.13	0.30	0.66
Equity	0.96	2.13	0.47	0.82	0.49
Commodity	0.24	0.54	0.07	0.29	0.27
Less: Diversification	(0.42)	–	–	(0.24)	(0.44)
Overall Portfolio	2.99	4.11	1.92	2.67	1.89

Note: The high and low for each risk category occurred on different days.

The table above shows average daily VaR of trading activities by risk factor. The overall VaR of ¥2.99 billion was dominated by an interest rate risk of ¥1.80 billion followed by equity risk of ¥0.96 billion and a foreign exchange rate risk of ¥0.41 billion. Simple summation of VaR by risk factor does not equate with the overall VaR, due to the diversification effect within the portfolio. While interest rate risk and equity risk were both higher at the close of fiscal 2000 than a year earlier, foreign exchange rate risk was lower.

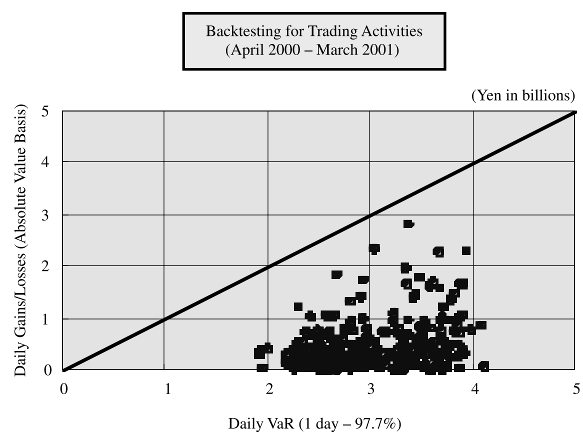
In our market risk management, we evaluate whether our trading activities generate sufficient returns in relation to our risk profile. The following histogram illustrates our risk-return ratio for trading activities for fiscal 2000. The shape of the frequency was relatively concentrated in the positive side of the ratio, compared to a normal-distribution curve. This indicates that our daily earnings were relatively stable during the period.



Backtesting

We conduct backtesting to verify the reasonableness of VaR calculated through our internal models, comparing daily reported VaR with actual daily gains or losses (realized gains/losses plus increase/decrease in unrealized gains).

As shown in the following diagram, in fiscal 2000, absolute gains/losses did not exceed VaR on any of the 259 trading days. This suggests that our VaR model is reasonably accurate in calculating market risk.



(2) Non-Trading Activities

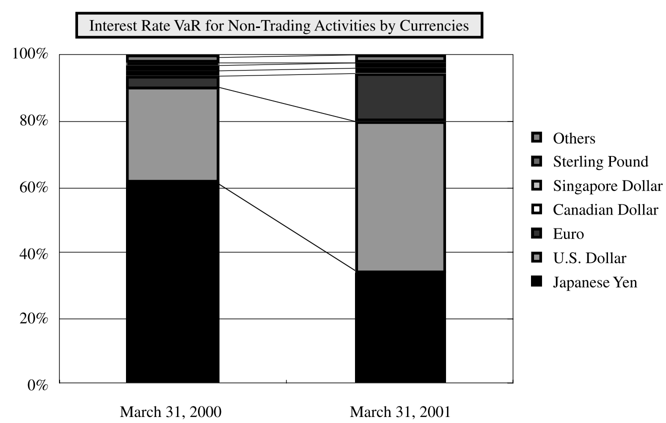
In non-trading activities, 99% of the market risk stems from interest rate risk (we do not include our strategic investments in equity in our non-trading activities. Risks related to these strategic investments are discussed in the following section.)

In fiscal 2000, the interest rate daily average VaR for non-trading activities was ¥17.3 billion, which was a ¥1.9 billion increase on the fiscal 1999 average of ¥15.4 billion. The main cause of the increase is that we increased our US dollar and the euro interest rate positions since the interest rates of both currencies have decreased. Daily average VaR by quarter in fiscal 2000 was as follows:

Quarter	Daily average VaR
April - June 2000	¥15.7 billion
July - September 2000	¥19.3 billion
October - December 2000	¥18.8 billion
January - March 2001	¥15.5 billion

The maximum was ¥22.8 billion and the minimum was ¥12.8 billion during fiscal 2000. Daily average VaI (holding period: one day, confidence level: 97.7%) on a consolidated basis was ¥1.2 billion with a maximum of ¥2.1 billion and minimum of ¥0.6 billion.

The following chart shows the distribution of risk by currency. Compared to fiscal 1999, interest rate risk for the US dollar and the euro increased, and for the yen decreased in fiscal 2000. As a result, interest rate risk at the end of fiscal 2000 was primarily for the US dollar followed by the yen and then the euro. By operation type, the share of securities investments was approximately 70% at the end of fiscal 2000. The risk exposure in our asset and liability management activities was around 30%, similar to that for fiscal 1999.



Note: Composition of interest rate VaR (1 day – 97.7%) by currency.

Stress Testing

Market risk measures, including VaR and VaI, reflect risk amount measured, assuming "normal conditions", based on empirical market fluctuations. While VaR and VaI estimate the possible maximum potential risk of loss on normal market movements, market movements could deviate from historical patterns. Since it is important to be prepared for unusual market movements, we also use our Market Risk Information System to perform stress tests based on various market scenarios. We try to analyze and understand through this process where risks exist for us and what effect they could have on our earnings.

The Corporate Risk Management Office conducts stress testing by incorporating individual scenarios based on the market conditions. In addition, beginning in fiscal 2000, it became possible to analyse our overall position from a variety of angles by incorporating scenarios for the front offices that actually conduct transactions into the Market Risk Information System. The adoption of this system has further strengthened communication between front offices and the Corporate Risk Management Office.

Scenarios

The Corporate Risk Management Office establishes the scenarios used in stress testing from a neutral perspective, based on statistical probability and data from previous market volatility, and front offices establish the scenarios based on the characteristics of their own positions. The results of stress testing are provided to related offices, including the corporate management, through the Market Risk Information System.

Scenarios used in stress testing and the results are shown below.

- Corporate Risk Management Office—Scenario 1:

  The US dollar interest rate rises (for one week with possibility of approximately 0.003%)

- Corporate Risk Management Office—Scenario 2:

  The euro interest rate rises (for one week with possibility of approximately 0.003%)

- Front office—Scenario 1:

  With a large volume issue of Japanese government bonds, long-term interest rates rise producing an approximate 0.1% increase in the medium term and an approximate 0.25% increase in the long term.

- Front office—Scenario 2:

  A repeat of the financial turmoil leads to an increase between Japanese bond rates and swap rates of approximately 0.2% in the short-term and approximately 0.3% in the long-term.

Stress Tests Result (extract)

(Yen in billions)

Stress Scenarios	Total Gains/(Losses)
Corporate Risk Management Office-Scenario 1	(24.7)
Corporate Risk Management Office-Scenario 2	(11.0)
Front Office-Scenario 1	(22.8)
Front Office-Scenario 2	(6.0)

Notes:
(1) Both trading and non-trading activities on a consolidated basis included.
(2) Figures are as of May 11, 2001 with the exception of as of May 10, 2001 for some overseas branches and subsidiaries.

Stock Portfolio (Strategic investment in equity for relationship management)

Our strategic investments in stock expose us to greater than normal market risks because the strategy requires long-term investments. Our stock portfolio usually comprises investments designated to assist in creating long-term relationships with issuer companies that are our customers. In addition to the gains accrued as a benefit of a close business relationship historically, a large amount of unrealized gains have existed in the portfolio as a result of stock price increases over the long term.

One simulation that we use explores the relationship between book value and market value of the stock portfolio, based on changes in the Tokyo Stock Price Index, or TOPIX. TOPIX was introduced by the Tokyo Stock Exchange on July 1, 1969. It is a composite index of all the common stocks listed on 1st Section of the Exchange, to provide a comprehensive measure of the market trend to investors who may be interested in general market price movements. We measure the risk of our stock portfolio in this way, because our investment policy is generally to hold stocks on a long-term basis.

We used regression analysis between fluctuations in TOPIX (1,277.27 points at March 30, 2001) and the market value of our stock portfolio for a past fiscal year in this simulation. Our simulations indicate that for each one point change in TOPIX, the market value of our stock portfolio can be expected to change by approximately ¥2.3 billion.

This simulation analyzes data for our entire stock portfolio, so it is important to note that the actual result may be different from our expectation, as a result of the price fluctuation of individual stocks.

We monitor the risk of stock price fluctuation using this kind of simulation. We also consider whether banking transactions with the issuer companies will be profitable enough to justify holding their stock, and whether we can bear the risk inherent in our stock portfolio. We also consider the possibility of reducing the level of holdings of stock.

Other Risk Management

Liquidity Risk Management

Our financing capabilities are supported by a funding network based on the expansion of our domestic and overseas branch network and customer base. We benefit from having one of the highest credit ratings among major Japanese banks. We have established strong liquidity, and in addition we maintain liquidity risk countermeasures at all levels. These include oversight of yen and foreign currency risk, covering everything from daily management to emergency measures, as well as reporting and deliberations within the Asset and Liability Management Committee. Specifically, we manage all aspects of the daily funding mechanism. We also manage our funding sources using liquidity risk indices, such as liquidity gap, liquidity supplying products such as commitment lines, and buffer assets. Furthermore, we attempt to protect our funding sources with a contingency plan so the entire institution can respond swiftly to sudden changes in the market environment and also in the political and economic environments. To maintain proper checks and balances, risk management divisions also monitor liquidity risk and report it independently to senior management along with product liquidity.

Settlement Risk Management

Although settlement risk is inherent in the fundamental banking function of settlement, banks generally have not been as aware of it as they have of other forms of risk because there have been relatively few cases where problems have arisen as a result of it. By its nature, settlement risk is identical with credit risk, liquidity risk and operations risk, and a transversal control of these risks is necessary. We view our settlement business as a strategic area that highlights our creditworthiness, funding capabilities and networking strengths, and we are working on reinforcing the settlement risk management systems on which these depend.

In January 2001, The Bank of Japan successfully introduced Real Time Gross Settlement (the real time settlement of funds or securities transfers individually on an order-by-order basis without netting) for the Bank of Japan Financial Network System, reducing the credit and systemic risk elements of settlement risk. Foreign exchange settlement risk arises primarily from the difference of the time zones that both parts of the exchange are settled in. The ongoing globalization and liberalization of the world's financial markets has resulted in a dramatic increase in the volume of foreign exchange, and an urgent solution is necessary to reduce this risk. We are strengthening the management of foreign exchange settlement risk by establishing a framework that encompasses such risks as credit risk. At the same time, we have adopted a policy designed to reduce settlement volume by moving ahead with netting and other techniques. In addition, some large global banks are planning the operational launch at the end of October 2001 of a special purpose bank, the CLS (Continuous Linked Settlement) Bank, which will reduce foreign exchange settlement risk. We are participating in this CLS project to achieve simultaneous settlements between different currencies.

Legal/Regulatory Risk Management

To control legal risks, our internal procedures require that laws and regulations be observed in all operations. We also have a system to obtain the opinions of legal specialists as needed. The Legal Office studies and researches legal issues to formulate internal guidance, handle lawsuits, and control and manage external lawyers. The Legal Office supports our legal risk management.

Operations Risk Management

Operations risk encompasses losses stemming from an employee's failure to handle clerical work accurately, from accidents and from fraud. To reduce operations risk and increase customer confidence, we have introduced quantification techniques that enable us to better evaluate operations risk. Furthermore, to ensure the accuracy of our clerical activities, we have implemented stricter procedures and authorization guidelines, automated and systematized more processes, reinforced cash and spot management procedures, and secured controls through internal inspections.

Information Security Risk Management

Information security risk is the risk of incurring tangible or intangible losses as a result of:

- computer systems failure or malfunction impairing a bank's ability to carry out its business and to provide customer services, or
- business operations being interrupted, or information being stolen, falsified, or otherwise corrupted following unauthorized entry into its systems.

To try to ensure that our systems operate reliably at all times, we have implemented programs to rectify problems before they become more serious. We have also established disaster response systems, prepared backups for all our infrastructural systems and run damage limitation drills. The rapid development of information and communications technologies has brought a growing need for information protection. We attempt to prevent unauthorized entry to our systems, to make our information management procedures more rigorous and to reduce information security risk. The Information Security Management Committee meets semi-annually to discuss the management of information security risk.

Operational Risk Management

We define operational risk as any risk other than credit and market risk, such as the risk of incurring a direct or indirect loss as the result of an inappropriate or inadequate performance on the part of an internal process, person or technology, or of an external event. We have a system of self-assessment to enable each business unit to measure its own operational risk. Under the system, we define several dozen operational risk categories and explore scenarios that would seriously affect our operations, and evaluate the likely size and frequency of losses and the efficiency of our risk management. The system provides a framework for each business unit to carry out its own assessments and to plan and implement its own risk management. The divisions that have overall responsibility for risk check the results of each business unit's self-assessment and establish programs for the overall management of operational risk. Under the system, the Inspection Office and examination offices inspect and examine the results of each division's self-assessment and our risk management overall. The Corporate Risk Management Office formulates a policy and self-assessment standards. Our overall operational risk is quantified by multiplying the risk scores based on each business unit's self-assessment results by a risk per each item.

Compliance

In February 1998 we established a compliance system to ensure that the importance given to compliance issues by our management is thoroughly propagated throughout us. Important compliance issues are decided by the Compliance Committee, which undertake hearings and discussions once every three months concerning reports on our compliance system and its status worldwide. In the event of a significant violation of law, the Compliance Committee takes steps to rectify the matter and issues recommendations.

The Compliance Office acts as the secretariat for the Compliance Committee and coordinates compliance issues throughout the Bank. It is responsible for maintaining and updating our compliance manual, the code of ethics determined by our corporate principles, internal regulations, and applicable laws and regulations. All bank employees are familiarized with the manual through a variety of internal training programs.

We ask for evaluation and advice of consulants from time to time on the comprehensiveness and effectiveness of our compliance system.

Since July 2000, our Compliance Office has been responsible for coordinating compliance throughout the Bank, making proposals to and supervising compliance work by individual business units in their own fields, and for further enhancing the effectiveness of the compliance system.

Compliance systems at divisions, offices and branches

We have appointed compliance managers and officers to lead the drive for compliance in every division, office and branch in Japan and overseas. They hold training sessions in their own branches, and implement quarterly checks on compliance using compliance checklists, submitting their reports to the Compliance Office. Implementation is ensured by later checks by the Inspection Office and the Credit Examination Office. Each also draws up a practical Compliance Program with plans for training sessions and follow-up plans to ensure implementation of measures to prevent reoccurrence in the event of a violation of law, if any. The Compliance Program is also submitted to the Compliance Office. The compliance managers and officers are also in charge of reporting individual compliance issues to and seeking advice from the Compliance Office.

Each division in headquarters monitors changes in law that affect the division's work, and checks documents to ensure that there are no conflicts with our role as a public institution or with our role in society. For its part, the Compliance Office seeks to ensure rigorous bank-wide compliance by responding to requests for legality checks of important matters affecting management of the bank and by maintaining an ongoing dialogue with the divisions on individual issues.

All of our affiliates within Japan have their own compliance systems for their particular businesses. For our overseas affiliates, compliance is managed as part of our own compliance system.

Derivatives and Other Off-Balance-Sheet Financial Instruments

Transactions in the derivatives of various products, including those derived from traditional financial products, are generally defined as transactions where the price is determined relative to the market price, or related index, of a specific underlying asset. These include swaps, futures, forwards and options. There are two main ways in which derivatives change hands, either by contracts that are exchange-traded or those that are negotiated over-the-counter. The contracts that are used in exchange trades have been standardized and are highly liquid. In addition, credit risk is limited since an exchange intermediates. With respect to over the counter dealing, on the other hand, while credit risk must be assumed since these transactions are privately negotiated, product design can be customized according to the needs of the parties concerned. Derivatives are an effective means of transferring risk between parties, allowing each to assume risk or to avoid it. Global derivatives markets have expanded rapidly as greater needs for hedging against increased price fluctuation risk from financial products have coincided with the ability to provide more sophisticated derivative products based on advances in financial technology.

We utilize derivatives as a market-maker and as an end-user. As a market-maker, we provide derivatives for customers' financing and risk management needs, while making regular markets in various products. We are providing corporate customers with effective techniques for hedging their various risks using derivatives. In such areas as foreign exchange and interest rates, we are seeking to respond to customers' diverse needs with tailor-made financial instruments embedded with derivatives. Even after deals are concluded, we continue to offer market intelligence and provide detailed advice to customers, including updated valuations based on current market conditions. In addition, customers value our strategic asset liability management counseling, where we propose optimal hedging techniques following analysis of customers' overall risk exposure and diagnosis of their overall fiscal condition and cash-flow situation.

We are also active as an end-user of derivatives. We utilize derivative instruments to hedge exposures and modify the interest rate characteristics of related balance sheet instruments in our asset and liability management procedures. We generally use derivatives as hedges of our net exposure rather than specifically identified assets or liabilities. Derivatives used for such purposes do not meet the specific criteria for hedge accounting, and are carried at fair value with changes in their value recognized in earnings. Certain derivatives held or issued by some overseas branches and subsidiaries, however, meet the specific criteria for hedge accounting. These derivatives are used to hedge exposure of specifically identified assets or liabilities and modify the interest rate characteristics of the related assets or liabilities. At March 31, 2001, derivatives that meet the specific hedge criteria hedge or link to 1.6% of loans and 0.3% of short-term and long-term fundings, consisting principally of interest-bearing deposits, debentures, short-term borrowings and long-term debt.

Asset and liability management derivative activities hedge exposure of specifically identified assets or liabilities and modify the interest rate characteristics of the related assets or liabilities. In fiscal 2000, the net effect on net interest income and loss before income tax expenses as a result of these hedging activities was a net gain of approximately ¥1.6 billion, which was an increase of 0.33 basis points in average interest spread. The net gain consists of a ¥3.1 billion loss on interest rate contracts and a ¥4.7 billion gain on foreign exchange contracts. In fiscal 1999, the net impact of these activities on net interest income and loss before income tax benefit was a net gain of approximately ¥0.7 billion, or a 0.09 basis point increase in average interest rate spread.

Contractual maturities, by percentage, of the aggregate notional principal amount of interest rate swap contracts, excluding swaptions, as of March 31, 2001 are as follows: 31% in fiscal 2001, 21% in fiscal 2002, 13% in fiscal 2003, 19% in fiscal 2004 through fiscal 2005, 16% in fiscal 2006 and thereafter.

We have entered into interest rate swaption contracts with counterparties for trading purposes. The notional amount of interest rate swaption contracts was ¥4.33 trillion at March 31, 2000 and ¥3.66

trillion at March 31, 2001. These contracts generally convey to the purchaser the right to enter into, cancel or extend specific interest rate contracts at a specified future date. Such contracts are accounted for on a mark-to-market basis.

We have also issued certain credit-related off-balance-sheet financial instruments for purposes other than trading. Such credit-related financial instruments include commitments to extend credit, standby letters of credit, a variety of guaranties, and commercial letters of credit to meet the financing needs of our customers. At March 31, 2000 and 2001, the contract amounts of these off-balance-sheet financial instruments were ¥27.2 trillion and ¥29.8 trillion, respectively. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At March 31, 2001, approximately 82% of these commitments will expire within one year, 16% from one year to five years and 2% after five years.

Effects of Integration

With the establishment of MTFG on April 2, 2001, the business combination between BTM and Mitsubishi Trust has been accounted for as a pooling of interests. Unaudited pro forma combined financial statements present the financial condition and results of operations of BTM and Mitsubishi Trust as if this business combination had been in effect for all periods presented. See ''Unaudited Pro Forma Combined Financial Statements'' and ''Notes to Unaudited Pro Forma Combined Financial Statements.''

The businesses of BTM and Mitsubishi Trust, including their subsidiaries, are complementary, with various levels of overlap among the products and services offered by each bank. Within the holding company structure, both banks will benefit from the financial strength of the combined entity, while being able to focus on their particular areas of expertise and to exploit their competitive advantages across the expanded customer base of the integrated group.

MTFG will seek to realize economies of scale by integrating or combining the systems and offices of the two banks. By introducing joint branches, BTM and Mitsubishi Trust will be looking to reduce their branch office costs and, at the same time, enhance client satisfaction. Combining existing functions will secure the benefits of integration in areas such as direct sales and e-commerce, and tie-ups on ATMs, direct channels and e-business operations. MTFG will also seek to operate more efficient overseas networks.

In connection with the integration, our management has continued to evaluate the costs anticipated to be incurred as well as cost savings. MTFG estimates that one-time integration restructuring charges of approximately ¥2.3 billion will be incurred during fiscal 2001. These charges are expected to be principally associated with the consolidation and relocation of facilities, losses on disposal of assets and cancellation costs for lease. In addition, capital expenditures of approximately ¥6.8 billion, including leasehold improvements, system conversions and integration costs are expected to be incurred primarily during fiscal 2001 in connection with the integration. The effect of the estimated integration-related charges and costs has not been reflected in the unaudited pro forma combined financial statements contained elsewhere in this Annual Report. MTFG does not anticipate that these restructuring charges will have a material impact on its combined liquidity or capital resources for fiscal 2001.

Strength of Trust Business

Mitsubishi Trust, Nippon Trust Bank and Tokyo Trust Bank plan to merge on October 1, 2001. After the merger is consummated, the post-merger Mitsubishi Trust will be better positioned to provide its clients with both a more competitive schedule of trust services that will better match their needs and more advanced expertise that draws upon the collective experience of the merged trust banks.

The table below shows the source of income on an unaudited pro forma combined basis for the years ended March 31, 1999, 2000 and 2001.

	1999	2000	2001
		(in billions)	
Net interest income	¥1,134	¥1,080	¥972
Trust fees	128	106	115
Other fees and commissions	258	263	344
Foreign exchange gains-net	—	33	—
Trading account profits-net	233	—	230
Investment securities gains-net	—	80	233
Other non-interest income	76	38	39

Loan Portfolio and Assets Quality

BTM makes loans in Japan to a broad range of industrial, commercial and private customers including loans to small and medium-sized companies as well as individuals. Loans to small- and medium-sized companies and individuals accounted for approximately 65% of BTM's total domestic loans, which represent approximately 75% of its total loans. Mitsubishi Trust's lending activities have generally focused on large-sized companies, and these loans account for approximately 55% of its total domestic loans.

Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more on an unaudited pro forma combined basis at March 31, 1999, 2000 and 2001 were as follows:

	1999	2000	2001
		(in billions)	
Nonaccrual loans:			
Domestic	¥ 2,456	¥ 2,069	¥ 2,067
Foreign	251	209	224
	2,707	2,278	2,291
Restructured loans:			
Domestic	632	450	1,856
Foreign	23	53	99
	655	503	1,955
Accruing loans contractually past due 90 days or more:			
Domestic	78	62	24
Foreign	38	2	3
	116	64	27
	¥ 3,478	¥ 2,845	¥ 4,273
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of total loans	6.32%	5.68%	8.60%

At March 31, 2001, the allowance for credit losses was ¥1,717 billion on an unaudited pro forma combined basis, and such allowance as a percentage of loans was 3.46% as compared with 3.30% at March 31, 1999 and 2.97% at March 31, 2000.

Sources of liquidity

The primary source of liquidity is from certificates of deposit and time deposits with a historically high rollover rate from corporate customers and individual depositors. BTM has also issued debentures to retail corporate and individual customers in Japan. Although Mitsubishi Trust, Nippon Trust Bank and Tokyo Trust Bank maintain separate accounts for their trust and banking business, trust account liabilities are available for lending purposes. The table below sets forth the major financing sources of BTM, Mitsubishi Trust and unaudited pro forma combined amounts at March 31, 2001:

	March 31, 2001		
	BTM	Mitsubishi Trust	Unaudited Pro Forma
Deposits	¥ 49,139	¥ 11,301	¥ 60,106
Debentures	3,411	—	3,404
Due to trust account	423	3,250	3,673
Short-term borrowings (see Note)	9,634	1,363	10,857
Long-term debt	4,431	572	4,963

Note—Short-term borrowings consist of call money and funds purchased, payables under repurchase agreements, payables under securities lending transactions, and other short-term borrowings.

Capital Resources

The table below presents the unaudited pro forma combined amounts of shareholders' equity, together with the shareholders' equity as a percentage of total assets, at March 31 of each of the last three years:

	At March 31		
	1999	2000	2001
Shareholders' equity (in billions)	¥3,469	¥4,014	¥3,201
Shareholders' equity as a percentage of total assets	4.02%	4.72%	3.42%

The table below presents the unaudited pro forma combined amounts of net unrealized gains with respect to marketable equity securities at March 31 of each of the last three years:

	At March 31		
	1999	2000	2001
Net unrealized gains (in billions)	¥2,366	¥3,461	¥2,371
Net unrealized gains as a percentage of total assets	2.74%	4.07%	2.54%

The Japanese equity indices have significantly declined during fiscal 2000 and, in terms of the Nikkei Stock Average, closed the fiscal year 36.1% lower than the March 31, 2000 level.

Capital Adequacy

The table below presents the unaudited pro forma combined risk-adjusted capital ratios before any adjustments including elimination of transactions and balances between BTM and Mitsubishi Trust, calculated in accordance with accounting principles generally accepted in Japan, as of the end of the past three fiscal years:

	At March 31		
	1999	2000	2001
Tier I	5.54%	5.97%	5.32%
Tier II	5.16	5.46	4.83
Total	10.70%	11.43%	10.15%

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK OF TOKYO-MITSUBISHI, LTD.
AND REPORT OF INDEPENDENT AUDITORS**

REPORT OF INDEPENDENT AUDITORS

The Bank of Tokyo-Mitsubishi, Ltd.
(Kabushiki Kaisha Tokyo Mitsubishi Ginko):

We have audited the accompanying consolidated balance sheets of The Bank of Tokyo-Mitsubishi, Ltd. (Kabushiki Kaisha Tokyo Mitsubishi Ginko) (the ''Bank'') and subsidiaries as of March 31, 2000 and 2001, and the related consolidated statements of operations, changes in equity from nonowner sources, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2001. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Bank and subsidiaries at March 31, 2000 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, for the year ended March 31, 2001 the Bank changed its method of accounting for transfers of financial collateral to conform to Statement of Financial Accounting Standards No. 140 and, retroactively, restated the consolidated balance sheet as of March 31, 2000 for the change.

As discussed in Note 30 to the consolidated financial statements, on April 2, 2001, the Bank, The Mitsubishi Trust and Banking Corporation (''Mitsubishi Trust'') and Nippon Trust Bank Limited (''Nippon Trust Bank''), a former subsidiary of the Bank, established a holding company known as Mitsubishi Tokyo Financial Group, Inc. (''MTFG'') through stock-for-stock exchanges. The Bank, Mitsubishi Trust and Nippon Trust Bank each became a wholly-owned subsidiary of MTFG, and the common and preferred shareholders of these three banks received shares of MTFG as a result of the stock-for-stock exchanges.

/s/ Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU
Tokyo, Japan

June 15, 2001
(June 27, 2001 as to Note 31)

THE BANK OF TOKYO-MITSUBISHI, LTD.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, MARCH 31, 2000 AND 2001

	2000*	2001
ASSETS	(in millions)	
Cash and due from banks (Note 10)	¥ 1,855,196	¥ 1,545,714
Interest-earning deposits in other banks (Note 10)	3,980,188	5,621,870
Call loans and funds sold (Note 13)	385,720	1,740,392
Receivables under resale agreements	656,739	1,129,850
Receivables under securities borrowing transactions	1,380,905	2,008,830
Trading account assets (including assets pledged of ¥476,121 million in 2001, Notes 2 and 10)	5,482,555	6,591,713
Investment securities (Notes 3, 5 and 10):		
Securities available for sale—carried at estimated fair value (including assets pledged of ¥371,289 million in 2000 and ¥828,275 million in 2001)	13,152,884	16,201,297
Securities being held to maturity—carried at amortized cost (estimated fair value of ¥414,648 million in 2000)	408,649	—
Other investment securities	109,455	111,584
Total investment securities	13,670,988	16,312,881
Loans, net of unearned income and deferred loan fees (including assets pledged of ¥676,041 million in 2001, Notes 4, 5, 6 and 10)	40,967,505	40,175,155
Allowance for credit losses (Notes 4 and 7)	(1,137,181)	(1,385,010)
Net loans	39,830,324	38,790,145
Premises and equipment—net (Note 8)	413,898	518,865
Accrued interest	194,270	261,244
Customers' acceptance liability	36,223	43,552
Other assets (Notes 6, 9 and 16)	930,228	1,811,847
Total	¥68,817,234	¥76,376,903
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (Note 11):		
Domestic offices:		
Non-interest-bearing	¥ 3,335,797	¥ 2,739,489
Interest-bearing	32,125,750	33,550,848
Overseas offices:		
Non-interest-bearing	1,373,582	1,674,409
Interest-bearing	8,324,827	11,174,278
Total deposits	45,159,956	49,139,024
Debentures (Note 12)	4,543,557	3,410,789
Call money and funds purchased (Notes 10 and 13)	1,171,060	2,319,624
Payables under repurchase agreements (Note 10)	1,364,212	2,512,776
Payables under securities lending transactions (Note 10)	1,198,745	3,208,837
Other short-term borrowings (Notes 10 and 14)	1,488,831	2,015,360
Trading account liabilities (Note 2)	2,748,910	3,951,577
Obligations to return securities received as collateral	478,594	295,694
Bank acceptances outstanding	36,223	43,552
Accrued interest	109,349	293,094
Long-term debt (Notes 10 and 14)	3,973,690	4,431,173
Other liabilities (Notes 9, 15 and 16)	3,349,947	2,345,287
Total liabilities	65,623,074	73,966,787
Commitments and contingent liabilities (Notes 23 and 24)		
Shareholders' equity (Note 21):		
Capital stock (Notes 18 and 19):		
Preferred stock:		
Class 1—authorized: 100,000,000 shares; issued and outstanding: 81,400,000 shares in 2000 and 2001, with no stated value (aggregate liquidation preference of ¥244,200 million)	122,100	122,100
Class 2—authorized: 100,000,000 shares; no shares issued or outstanding	—	—
Common stock, ¥50 par value—authorized: 8,000,000,000 shares; issued: 4,675,455,546 shares in 2000 and 2001	663,870	663,870
Capital surplus	592,055	592,051
Retained earnings (Notes 20 and 31):		
Appropriated for legal reserve	169,754	179,099
Unappropriated	396,163	232,677
Accumulated other changes in equity from nonowner sources, net of taxes	1,250,231	620,701
Total	3,194,173	2,410,498
Less treasury stock, at cost: 13,714 common shares in 2000 and 433,610 common shares in 2001	13	382
Shareholders' equity—net	3,194,160	2,410,116
Total	¥68,817,234	¥76,376,903

* Restated to conform to SFAS No. 140

See the accompanying notes to Consolidated Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED MARCH 31, 1999, 2000 AND 2001

	1999	2000	2001
		(in millions)	
Interest income:			
Loans, including fees (Note 4)	¥1,598,366	¥1,293,344	¥1,275,666
Deposits in other banks	223,915	105,911	207,263
Investment securities:			
Interest	270,001	224,394	201,217
Dividends	47,107	54,553	43,519
Trading account assets	29,789	13,112	14,998
Call loans and funds sold	55,717	17,788	25,726
Receivables under resale agreements and securities borrowing transactions	117,405	77,926	128,320
Total	2,342,300	1,787,028	1,896,709
Interest expense:			
Deposits	861,480	491,133	637,732
Debentures	66,818	51,852	32,296
Call money and funds purchased	36,484	15,187	22,366
Payables under repurchase agreements and securities lending transactions	152,791	82,988	205,302
Other short-term borrowings and trading account liabilities	103,255	82,574	37,128
Long-term debt	181,721	176,927	165,231
Total	1,402,549	900,661	1,100,055
Net interest income	939,751	886,367	796,654
Provision for credit losses (Notes 6 and 7)	919,427	368,639	665,954
Net interest income after provision for credit losses	20,324	517,728	130,700
Non-interest income:			
Fees and commissions (Note 25)	256,281	256,219	341,649
Foreign exchange gains—net (Note 2)	80,059	117,330	—
Trading account profits—net (Note 2)	112,987	—	195,171
Investment securities gains—net (Note 3)	—	132,518	94,360
Gains from sales of equity investments in a subsidiary (Note 17)	26,105	—	—
Other non-interest income	38,989	33,042	33,953
Total	514,421	539,109	665,133
Non-interest expense:			
Salaries and employee benefits (Note 15)	400,570	344,970	327,443
Occupancy expenses—net (Notes 8 and 24)	107,291	101,181	105,307
Foreign exchange losses—net (Note 2)	—	—	49,730
Trading account losses—net (Note 2)	—	18,475	—
Investment securities losses—net (Note 3)	50,437	—	—
Losses on other real estate owned	56,090	68,438	15,828
Goodwill amortization and impairment (including goodwill impairment of ¥50,000 million in 1999)	62,648	3,486	4,444
Other non-interest expenses	345,463	391,177	394,793
Total	1,022,499	927,727	897,545
Income (loss) before income tax expense or benefit	(487,754)	129,110	(101,712)
Income tax expense (benefit) (Note 9)	(143,331)	93,635	5,972
Net income (loss)	¥ (344,423)	¥ 35,475	¥ (107,684)
Net income attributable to preferred shareholders	¥ —	¥ 4,649	¥ 6,716
Net income (loss) attributable to common shareholders	¥ (344,423)	¥ 30,826	¥ (114,400)
		(in yen)	
Amounts per share (Notes 20 and 22):			
Earnings (loss) per common share—basic	¥ (73.67)	¥ 6.59	¥ (24.47)
Earnings (loss) per common share—assuming dilution	(73.67)	3.73	(24.47)
Cash dividends declared during the year—-common share	8.50	8.50	8.50
Cash dividends declared during the year—-preferred share (class 1)	—	57.12	82.50

See the accompanying notes to Consolidated Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FROM NONOWNER SOURCES FOR THE YEARS ENDED MARCH 31, 1999, 2000 AND 2001

	Gains (Losses) before Income Taxes	Income Tax (Expense) Benefit	Gains (Losses) net of Income Taxes
		(in millions)	
Year ended March 31, 1999:			
Net loss			¥(344,423)
Other changes in equity from nonowner sources:			
Net unrealized holding gains on investment securities available for sale	¥ 39,542	¥(16,165)	23,377
Reclassification adjustment for losses included in net loss	49,587	(20,272)	29,315
Total	89,129	(36,437)	52,692
Minimum pension liability adjustments	44,312	(18,857)	25,455
Foreign currency translation adjustments	(64,852)	12,051	(52,801)
Reclassification adjustment for losses included in net loss	13,156	(15)	13,141
Total	(51,696)	12,036	(39,660)
Total changes in equity from nonowner sources			¥(305,936)
Year ended March 31, 2000:			
Net income			¥ 35,475
Other changes in equity from nonowner sources:			
Net unrealized holding gains on investment securities available for sale	1,158,247	(483,727)	674,520
Reclassification adjustment for gains included in net income	(138,256)	57,499	(80,757)
Total	1,019,991	(426,228)	593,763
Minimum pension liability adjustments	41,001	(15,157)	25,844
Foreign currency translation adjustments	(73,385)	12,386	(60,999)
Reclassification adjustment for losses included in net income	5,244	(2,517)	2,727
Total	(68,141)	9,869	(58,272)
Total changes in equity from nonowner sources			¥ 596,810
Year ended March 31, 2001:			
Net loss			¥(107,684)
Other changes in equity from nonowner sources:			
Net unrealized holding losses on investment securities available for sale	(840,417)	324,654	(515,763)
Reclassification adjustment for gains included in net loss	(136,829)	53,421	(83,408)
Total	(977,246)	378,075	(599,171)
Minimum pension liability adjustments	(102,327)	35,042	(67,285)
Foreign currency translation adjustments	49,438	(13,033)	36,405
Reclassification adjustment for losses included in net loss	521	—	521
Total	49,959	(13,033)	36,926
Total changes in equity from nonowner sources			¥(737,214)

See the accompanying notes to Consolidated Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED MARCH 31, 1999, 2000 AND 2001

	1999	2000	2001
		(in millions)	
Preferred stock, Class 1 (Note 18):			
Balance at beginning of year		¥ 122,100	¥ 122,100
Shares issued	¥ 122,100	—	—
Balance at end of year	¥ 122,100	¥ 122,100	¥ 122,100
Common stock (Note 19):			
Balance at beginning of year	¥ 663,870	¥ 663,870	¥ 663,870
Balance at end of year	¥ 663,870	¥ 663,870	¥ 663,870
Capital surplus (Note 19):			
Balance at beginning of year	¥ 470,414	¥ 592,060	¥ 592,055
Excess of proceeds from issuance of preferred stock over the amount assigned to the preferred stock account (Note 18)	121,647	—	—
Losses on sales of treasury stock, net of taxes	(1)	(5)	(4)
Balance at end of year	¥ 592,060	¥ 592,055	¥ 592,051
Retained earnings appropriated for legal reserve (Note 20):			
Balance at beginning of year	¥ 152,834	¥ 160,808	¥ 169,754
Transfer from unappropriated retained earnings	7,974	8,946	9,345
Balance at end of year (Note 31)	¥ 160,808	¥169,754	¥ 179,099
Unappropriated retained earnings (Note 20):			
Balance at beginning of year	¥ 806,163	¥ 414,024	¥ 396,163
Net income (loss)	(344,423)	35,475	(107,684)
Total	461,740	449,499	288,479
Deductions:			
Cash dividends declared:			
Common share—¥8.50 per share in each of fiscal 1998, 1999 and 2000	(39,742)	(39,741)	(39,741)
Preferred share (class 1)—¥57.12 per share in fiscal 1999 and ¥82.50 per share in fiscal 2000	—	(4,649)	(6,716)
Transfer to retained earnings appropriated for legal reserve	(7,974)	(8,946)	(9,345)
Total	(47,716)	(53,336)	(55,802)
Balance at end of year (Note 31)	¥ 414,024	¥ 396,163	¥ 232,677
Accumulated other changes in equity from nonowner sources, net of taxes:			
Net unrealized gains on investment securities available for sale (Note 3):			
Balance at beginning of year	¥ 852,645	¥ 905,337	¥1,499,100
Net change during the year	52,692	593,763	(599,171)
Balance at end of year	¥ 905,337	¥1,499,100	¥ 899,929
Minimum pension liability adjustments (Note 15):			
Balance at beginning of year	¥ (67,227)	¥ (41,772)	¥ (15,928)
Net change during the year	25,455	25,844	(67,285)
Balance at end of year	¥ (41,772)	¥ (15,928)	¥ (83,213)
Foreign currency translation adjustments:			
Balance at beginning of year	¥(135,009)	¥ (174,669)	¥ (232,941)
Net change during the year	(39,660)	(58,272)	36,926
Balance at end of year	¥(174,669)	¥ (232,941)	¥ (196,015)
Balance at end of year	¥ 688,896	¥1,250,231	¥ 620,701

See the accompanying notes to Consolidated Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 1999, 2000 AND 2001

	1999	2000	2001
		(in millions)	
Cash flows from operating activities:			
Net income (loss)	¥ (344,423)	¥ 35,475	¥ (107,684)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization on premises and equipment	59,211	63,384	52,745
Goodwill amortization and impairment	62,648	3,486	4,444
Provision for credit losses	919,427	368,639	665,954
Investment securities losses (gains)—net	24,332	(132,518)	(94,360)
Foreign exchange losses (gains)—net	(213,464)	(55,122)	47,556
Provision for deferred income tax benefit	(286,144)	(109,825)	(93,218)
Decrease (increase) in trading account assets, excluding foreign exchange contracts	213,939	404,551	(1,845,735)
Increase (decrease) in trading account liabilities, excluding foreign exchange contracts	(34,886)	(649,629)	284,020
Decrease (increase) in accrued interest receivable and other receivables	109,453	115,815	(44,513)
Increase (decrease) in accrued interest payable and other payables	30,090	(163,309)	165,539
Other—net	75,854	167,402	(102,720)
Net cash provided by (used in) operating activities	616,037	48,349	(1,067,972)
Cash flows from investing activities:			
Proceeds from sales of investment securities available for sale	7,639,777	25,825,681	27,887,114
Proceeds from maturities of investment securities available for sale	619,312	4,460,319	15,036,579
Purchases of investment securities available for sale	(7,958,575)	(31,723,773)	(45,746,237)
Proceeds from maturities of investment securities being held to maturity	396,971	197,389	57,459
Purchases of investment securities being held to maturity	(255,486)	(139,419)	(5,195)
Proceeds from sales of other investment securities	10,360	47,959	26,449
Purchases of other investment securities	(8,103)	(9,378)	(11,180)
Proceeds from sales of equity investments in a subsidiary	131,273	—	—
Net decrease in loans	1,007,453	2,253,294	1,271,932
Net decrease (increase) in interest-earning deposits in other banks	7,594,576	(1,878,408)	(988,218)
Net decrease (increase) in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions	1,114,791	1,260,917	(2,425,617)
Capital expenditures for premises and equipment	(41,661)	(33,303)	(46,659)
Other—net	101,904	(27,271)	(93,399)
Net cash provided by (used in) investing activities	10,352,592	234,007	(5,036,972)
Cash flows from financing activities:			
Net increase (decrease) in deposits	(6,536,105)	727,628	2,301,237
Net decrease in debentures	(877,192)	(477,206)	(1,135,611)
Net increase (decrease) in call money, funds purchased, and payables under repurchase agreements and securities lending transactions	(2,733,336)	(1,023,739)	4,106,646
Net increase (decrease) in other short-term borrowings	(1,267,412)	(162,007)	560,567
Proceeds from sales-and-leaseback transactions on land and buildings	100,600	—	—
Proceeds from issuance of mandatorily redeemable preferred securities of subsidiary grantor trust	42,350	—	—
Repurchases by a subsidiary of its common stock	(37,629)	—	—
Proceeds from issuance of preferred stock	243,747	—	—
Proceeds from issuance of long-term debt	630,352	988,173	971,716
Repayment of long-term debt	(555,416)	(464,213)	(698,529)
Dividends paid	(39,742)	(44,385)	(46,449)
Other—net	(189,633)	228,257	(286,690)
Net cash provided by (used in) financing activities	(11,219,416)	(227,492)	5,772,887
Effect of exchange rate changes on cash and cash equivalents	(34,030)	(44,931)	22,575
Net increase (decrease) in cash and cash equivalents	(284,817)	9,933	(309,482)
Cash and cash equivalents at beginning of year	2,130,080	1,845,263	1,855,196
Cash and cash equivalents at end of year	¥ 1,845,263	¥ 1,855,196	¥ 1,545,714
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for:			
Interest	¥ 1,344,837	¥ 1,059,727	¥ 920,478
Income taxes	62,638	131,270	236,192
Non-cash investing activities:			
Loans transferred to other real estate owned	24,670	12,361	6,432
Investment securities being held to maturity transferred to investment securities available for sale	—	—	369,039

See the accompanying notes to Consolidated Financial Statements.

**THE BANK OF TOKYO-MITSUBISHI, LTD.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which The Bank of Tokyo-Mitsubishi, Ltd. (Kabushiki Kaisha Tokyo Mitsubishi Ginko) (the ''Bank'') is incorporated and principally operates. The accompanying consolidated financial statements have been prepared on the basis of generally accepted accounting principles and prevailing practices within the banking industry in the United States of America. In certain respects, the accompanying consolidated financial statements reflect adjustments which are not included in the consolidated financial statements issued by the Bank and certain of its subsidiaries in accordance with applicable statutory requirements and accounting practices in the countries of incorporation. The major adjustments include those relating to (1) investment securities, (2) income taxes, (3) derivative financial instruments, (4) allowance for credit losses, (5) foreign currency translation, (6) premises and equipment, (7) transfer of loans, (8) pension liability, (9) other real estate owned, and (10) lease transactions.

Fiscal periods of certain subsidiaries, all of which ended on or after December 31, and the Bank's fiscal year which ended on March 31 have been treated as coterminous. Significant events and transactions occurring during the intervening periods are incorporated and reflected in the accompanying consolidated financial statements.

Description of Business

The Bank conducts its domestic and international financial business through its domestic and international networks of branches, offices and subsidiaries in Japan and around the world. The Bank and its subsidiaries (together, the ''Group'') provide a broad range of financial services to consumers and corporations through commercial banking, investment banking and other activities. See Note 26 for more information by business segment.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses on loans and off-balance-sheet credit instruments, deferred tax assets, derivative financial instruments and other real estate owned.

Summary of Significant Accounting Policies

Significant accounting policies applied in the accompanying consolidated financial statements are summarized below:

Consolidation—The consolidated financial statements include the accounts of the Bank and its subsidiaries over which substantive control is exercised through either majority ownership of voting stock and/or other means. Intercompany items have been eliminated. Investments in affiliated companies (companies over which the Group has the ability to exercise significant influence) are accounted for by the equity method of accounting and are reported in Other Assets. The Bank's equity interest in the earnings of these equity investees and gains and losses realized on disposition of investments are reported in Other Non-interest Income or Expenses.

Assets that the Group holds in an agency, fiduciary or trust capacity are not included in the accompanying consolidated balance sheets.

Cash Flows—For the purposes of reporting cash flows, cash and cash equivalents are defined as those amounts included in the consolidated balance sheets under the caption Cash and Due from Banks, all of which mature within ninety days. Cash flows from hedging activities are classified in the same category as the item being hedged.

Translation of Foreign Currency Financial Statements and Foreign Currency Transactions—Financial statements of overseas entities are translated into Japanese yen using the respective year-end exchange rates for assets and liabilities. Income and expense items are translated at average rates of exchange for the respective periods.

Foreign currency translation gains and losses related to the financial statements of overseas entities of the Group, except for those located in highly inflationary economies, net of related income tax effects, are credited or charged directly to Foreign Currency Translation Adjustments. Tax effects of gains and losses on foreign currency translation of financial statements of overseas entities are not recognized unless it is apparent that the temporary difference will reverse in the foreseeable future. Foreign exchange translation gains and losses pertaining to entities located in highly inflationary economies are recorded in Foreign Exchange Gains or Losses—Net, as appropriate. For these entities, premises and equipment and the related depreciation and amortization thereof are translated at exchange rates prevailing at dates of acquisition.

All foreign currency denominated assets and liabilities are translated into Japanese yen at the respective year-end exchange rates. Resulting gains or losses are included in income unless the exposure is effectively hedged, in which case the gain or loss is deferred. Income and expenses are translated using average rates of exchange for the respective periods. Gains and losses from such translation are included in Foreign Exchange Gains or Losses—Net, as appropriate.

Repurchase Agreement, Securities Lending and Other Secured Financing Transactions—The Group generally accounts for its repurchase agreements and securities lending transactions as sales of securities with related off-balance sheet forward repurchase commitments and accounts for its resale agreements and securities borrowing transactions as purchases of securities with related off-balance sheet forward resale commitments. If the conditions for the surrender of control over securities transferred as provided by Statement of Financial Accounting Standards (''SFAS'') No. 125, ''Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities'', are not met, resale and repurchase agreements and securities lending and borrowing transactions are accounted for as secured lending or borrowing transactions.

For secured borrowing transactions, principally repurchase agreements and securities lending transactions and derivative transactions, where the secured party has the right to sell or repledge financial assets pledged as collateral, the Group separately reports those financial assets pledged as collateral.

The Group generally obtains collateral from counterparties for repurchase agreements, securities lending transactions and other types of lending activities, including cash and securities, with similar fair values. The Group maintains strict levels of collateralization governed by daily mark-to-market analysis for most securities lending transactions. If the Group sells those financial assets which are permitted to be sold or repledged by secured parties, it recognizes the proceeds from the sale and its obligation to return the collateral.

Trading Account Securities—Trading account securities (i.e., securities and money market instruments held in anticipation of short-term market movements and for resale to customers) are included in Trading Account Assets, and short trading positions of instruments are included in Trading Account Liabilities. Trading positions are carried at fair value on the consolidated balance sheets and recorded on a trade date basis. Changes in the fair value of trading positions are recorded in Trading Account Profits or Losses—Net, as appropriate.

Investment Securities—Debt securities for which the Group has both the positive intent and ability to hold to maturity are classified as Securities Being Held to Maturity and carried at amortized cost. However, in fiscal 2000, the Group changed its intent to hold securities and transferred securities classified as held to maturity to the securities available for sale category. Accordingly, the remaining securities being held to maturity were reclassified as securities available for sale for the year ended March 31, 2001. All subsequent acquisitions of securities are classified as either available for sale or trading for at least two years. Debt securities that the Group may not hold to maturity and marketable equity securities, other than those classified as trading securities, are classified as Securities Available for Sale, and are carried at their fair values, with unrealized gains and losses reported on a net-of-tax basis within changes in equity from nonowner sources, which is a component of shareholders' equity. Nonmarketable equity securities are stated at cost as Other Investment Securities. Individual debt and equity securities are written down when, in the opinion of management, a decline in estimated fair value below the cost of such securities is other than temporary. Interest and dividends on investment securities are reported in Interest Income. Dividends are recognized when the right to receive payment is established. Gains and losses on disposition of investment securities are computed using the average cost method.

Derivative Financial Instruments—The Group uses swap, forward and option contracts, and other types of derivative contracts. These financial instruments are used in trading activities to generate trading revenues and fee income, and some of them are also used to manage exposure to fluctuations in interest and foreign exchange rates, equity and commodity prices.

Derivatives entered into for trading purposes are carried at fair value and are reported as Trading Account Assets or Trading Account Liabilities. The fair values of contracts executed with the same counterparty under legally enforceable master netting agreements are presented on a net basis. Changes in the fair value of such contracts are recognized currently in Foreign Exchange Gains—Net or Foreign Exchange Losses—Net with respect to foreign exchange contracts and in Trading Account Profits or Losses—Net with respect to interest rate contracts and other types of contracts.

Derivatives are also used for asset and liability management to manage exposures to fluctuations in interest and foreign exchange rates arising from mismatches of asset and liability positions. Derivatives that do not qualify for hedge accounting are considered trading positions and are accounted for as such. Hedge criteria include having a high correlation between the derivative financial instrument and the item being hedged, both at inception and throughout the hedge period, and identifying the specific asset, liability or firm commitment being hedged. For futures, the criteria also include demonstrating the manner in which the hedge will reduce enterprise risk. Income and expense from swaps and option contracts (including caps and floors) used to manage interest rate exposures are recognized as adjustments to interest income or interest expense applicable to the related assets or liabilities; gains and losses on futures and forward contracts are deferred as an adjustment to the carrying amounts of the related assets or liabilities and ultimately recognized in income as part of those carrying amounts; and interest rate contracts used in connection with securities available for sale are carried at fair value with gains and losses, net of taxes, reported within changes in equity from nonowner sources, which is a separate component of shareholders' equity. Gains and losses related to management of foreign currency exposures are deferred and amortized as Foreign Exchange Gains—Net or Foreign Exchange Losses—Net over the life of the related asset or liability. Fees on instruments used for asset and liability management are deferred and amortized over the life of the related contract as adjustments to interest income or expense on related assets or liabilities, or Foreign Exchange Gains—Net or Foreign Exchange Losses—Net, as appropriate. If a derivative contract is terminated early, any resulting gain or loss is deferred and amortized as interest income or expense of the related asset or liability over the remaining life of the original agreement. If the assets or liabilities hedged or linked are sold or otherwise disposed of, the related gains and losses on the derivative contracts are recognized as a component of the gain or loss on disposition of the related assets or liabilities.

Loans are carried at the principal amount outstanding, adjusted for unearned income and deferred net nonrefundable loan fees and costs. Loans are generally placed on nonaccrual status when substantial doubt is judged to exist as to the full and timely collection of either principal or interest, or, for certain subsidiaries, when principal or interest is contractually past due 90 days or more. Loans that are well secured (or guaranteed by financially sound third parties) and in the process of collection may not be placed on nonaccrual status, based upon the judgement of management. A nonaccrual loan may be restored to an accrual basis when interest and principal payments are current and management expects that the borrower will make future contractual payments as scheduled. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income.

Interest revenue on nondiscounted loans is accrued based on the principal amount outstanding. Interest income on discounted loans is accrued based on methods that approximate the interest method.

Loan Securitization—The Group securitizes and services commercial and industrial loans. Interests in securitized and sold loans may be retained in the form of subordinated tranches. These retained interests are primarily recorded in Investment securities available for sale. The previous carrying amount of the loans involved in the transfer is allocated between the loans sold and the retained interests based on their relative fair values at the date of securitization. Since quoted market prices are generally not available, the Group usually estimates fair value of these retained interests by determining the present value of future expected cash flows using modeling techniques that incorporate management's best estimates of key assumptions, which may include default rates, recovery rates and discount rates.

Retained interests that can contractually be prepaid or otherwise settled in such a way that the Group would not recover substantially all of its investment are accounted for as investment securities available for sale.

Allowance for Credit Losses—The Group maintains an allowance for credit losses to absorb losses inherent in the loan portfolio. Actual credit losses (amounts deemed uncollectible, in whole or in part), net of recoveries, are deducted from the allowance for credit losses, as net charge-offs. A provision for credit losses, which is a charge against earnings, is added to bring the allowance to a level which, in management's opinion, is appropriate to absorb probable losses inherent in the credit portfolio.

A key element relating to policies and discipline used in determining the allowance for credit losses is the credit classification and the related borrower categorization process. The categorization is based on conditions that may affect the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current trends. In determining the appropriate level of the allowance, the Group evaluates the probable loss by category of loan based on its type and characteristics.

The credit loss allowance for individual customers represents the impairment allowance determined in accordance with SFAS No.114, "Accounting by Creditors for Impairment of a Loan." The Group measures the impairment of a loan, with the exception of groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, based on the present value of expected future cash flows discounted at the loan's effective interest rate, on the loan's observable market price, or based on the fair value of the collateral if the loan is collateral dependent, when it is probable that the Group will be unable to collect all amounts due according to the contractual terms of the loan agreement. Generally, the Group's impaired loans include nonaccrual loans, restructured loans and other loans specifically recognized for impairment.

The credit loss allowance for large groups of smaller-balance homogeneous loans is focused on loss experience for the pool rather than on an analysis of individual loans. The allowance is determined primarily based on expected net charge-offs and the probability of insolvency based on the number of delinquencies.

The credit loss allowance for country risk exposure is based on an estimate of probable losses relating to the exposure to countries that are identified by management to have a high degree of transfer risk.

The formula allowance is calculated by applying loss factors to outstanding substandard, special mention and unclassified loans. The evaluation of inherent loss for these loans involves a high degree of uncertainty, subjectivity and judgement because probable credit losses are not easily identified. In determining the formula allowance, the Group relies on a mathematical calculation that incorporates a percentage of total loans based on historical experience. Before fiscal 2000, the average annual charge-offs rate over a designated time period by the category of substandard, special mention and unclassified loans was used as a basis for the historical loss experience, adjusted for recent changes in trends and economic conditions. In fiscal 2000, the Bank refined its methodology for estimating credit losses. Under the new methodology, credit exposures, default probability and recovery ratio are three factors considered in establishing the allowance for almost all of the substandard, special mention and unclassified loans. Estimated losses are the average value of losses expected to occur, and are calculated by multiplying the default probability for the amount of credit by one minus the expected recovery ratio differentiated by risk rating.

The unallocated allowance is composed of attribution factors, which are based upon management's evaluation of various conditions that are not directly measured in the determination of the allocated allowances. The conditions evaluated in connection with the unallocated allowance may include existing general economic and business conditions affecting the key lending areas of the Group, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, specific industry conditions within portfolio segments, recent loss experience in particular segments of the portfolio, duration of the current business cycle, bank regulatory examination results and findings of the Group's internal credit examiners.

Allowance for Off-Balance-Sheet Credit Instruments—In addition to the allowance for credit losses on the loan portfolio, the Group maintains an allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, guarantees, standby letters of credit and other financial instruments. The allowance is recorded as a liability and includes the specific allowance for specifically identified credit exposure, the allocated formula allowance, and the specific allowance for probable losses on guarantees by a trust banking subsidiary. With regard to the specific allowance for specifically identified credit exposure and allocated formula allowance, the Group adopts the same methodology used in determining the allowance for credit losses on loans. As described in "Allowance for Credit Losses" above, in fiscal 2000 the Bank refined its methodology for estimating credit losses.

Premises and Equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to operating expenses over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the terms of the respective leases or the estimated useful lives of the improvements, whichever are shorter. Depreciation of premises and equipment is computed under the declining-balance method with respect to premises and equipment of the Bank and certain subsidiaries and under the straight-line method with respect to premises and equipment of other subsidiaries, at rates principally based on the following estimated useful lives:

	Years
Buildings	35 to 50
Equipment and furniture	2 to 15
Leasehold improvements	3 to 18

Maintenance, repairs and minor improvements are charged to operating expenses as incurred. Major improvements are capitalized.

Long-lived assets are reviewed, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Other Real Estate Owned—Real estate assets acquired in full or partial satisfaction of debt are held for sale, and are initially recorded at fair value less estimated cost to sell at the date of acquisition and classified as Other Assets. After acquisition, valuations are periodically performed by management and the real estate assets are carried at the lower of the carrying amount or fair value less estimated cost to sell. Routine holding costs, subsequent declines in appraisal value, and net gains or losses on disposal are included in Losses on Other Real Estate Owned as incurred.

Goodwill—The Group has classified as goodwill (included in Other Assets) the excess of the cost of the Group's investments in subsidiaries and affiliated companies over the Group's share of net assets at dates of acquisition in purchase transactions. Goodwill is being amortized over periods not exceeding 10 years. Semiannually, the Group assesses the recoverability of goodwill for impairment. For that purpose, the Group generally uses expected future undiscounted cash flows to be produced by each subsidiary and affiliated company. Future cash flows are primarily provided from operating activities and the Group focuses on the historical results of operations, adjusted for current earnings projections and other available information, in order to estimate future cash flows. When goodwill exceeds the expected future undiscounted cash flows, the impairment is calculated as the difference between the present value of expected future cash flows and its carrying value.

Software—Effective April 1, 1999, in compliance with Statement of Position ("SOP") 98-1, the Group capitalizes certain costs associated with the acquisition or development of internal-use software. Previously, the Group generally expensed the costs as incurred. The adoption of the SOP resulted in an increase of ¥1,437 million in the capitalization of software development costs as of March 31, 2000. Once the software is ready for its intended use, the Group begins to amortize capitalized costs on a straight-line basis over a period not greater than 5 years.

Accrued Severance and Pension Liabilities—The Bank and certain subsidiaries have defined benefit retirement plans, including unfunded lump-sum severance indemnities plans. The costs of the plans, based on actuarial computations of current and future employee benefits, are charged to Salaries and Employee Benefits.

It is the Bank's policy to fund actuarially computed pension costs accrued to the extent permitted under governing Japanese income tax regulations.

Debentures and Long-Term Debt—Premiums, discounts and issuance costs of debentures and long-term debt are amortized based on the method that approximates the interest method over the terms of the debentures and long-term debt.

Fees and commissions—Commissions and fees on international business primarily consist of fees from international funds transfer and collection services, and trade-related financing services. Commissions and fees on credit card business are composed of interchange income, annual fees, and royalty and other service charges from franchisees. Other fees and commissions primarily include fees from investment banking service, including underwriting business, brokerage service and advisory service, and service charges on deposit accounts, fees on guarantees, and other services.

Revenue recognition of major components of fees and commissions is as follows; (1) fees on funds transfer and collection services, and fees from investing banking services are generally recognized as revenue when the related services are performed, (2) fees from trade-related financing services are recognized over the period of the financing, (3) trust fees are recorded on an accrual basis, (4) annual fees and royalty and other service charges related to the credit card business are recorded on a straight-line basis as services are provided, (5) interchange income from credit card business is recognized as billed, (6) service charges on deposit accounts, fees on guarantees, and fees and commissions from other services are generally recognized over the period that the service is provided.

Income Taxes—The provision for income taxes is determined using the asset and liability method of accounting for income taxes. Under this method, deferred income taxes reflect the net tax effects of (1) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (2) operating loss and tax credit carryforwards. A valuation allowance is recognized for any portion of the deferred tax assets where it is considered more likely than not that it will not be realized. The provision for deferred taxes is based on the change in the net deferred tax asset or liability from period to period.

Free Distributions of Common Shares—As permitted by the Commercial Code of Japan, Japanese companies, upon approval by the Board of Directors, may make a free distribution of shares, in the form of a "stock split" as defined, to shareholders to the extent that the aggregate par value of the shares to be distributed does not exceed the excess of the capital stock amount over the par value of shares issued and outstanding. In accordance with accepted accounting practice in Japan, such distribution does not give rise to any change in capital stock or capital surplus account. Common shares distributed are recorded as shares issued on the distribution date. See Note 19.

Amounts per Common Share—Basic earnings per share ("EPS") excludes dilutive effects of potential common shares and is computed by dividing income available to common stock shareholders by the weighted average number of common shares outstanding for the period, while diluted EPS gives effect to all dilutive potential common shares that were outstanding during the period. See Note 22 for the computation of basic and diluted EPSs.

Cash dividends per share shown for each year represent the cash dividends declared for common stock during the respective years (see Note 20). Appropriate retroactive adjustments have been made to give effect to the increases in the number of shares resulting from the free distribution of shares mentioned above.

Comprehensive Income (loss)—The Group's comprehensive income includes net income or loss and other changes in equity from nonowner sources. All changes in unrealized gains and losses on investment securities available for sale, minimum pension liability adjustments and foreign currency translation adjustments constitute the Group's changes in equity from nonowner sources and are presented, with related income tax effect, in the consolidated statements of changes in equity from nonowner sources.

New Accounting Pronouncements

Derivative Financial Instruments—In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 requires that all derivatives be recorded on the balance sheet at fair value. Fair value changes for derivatives that do not qualify for hedge accounting will be adjusted through earnings. When derivatives qualify as either a fair value or cash flow hedge, changes in the fair value of the derivatives will either be counterbalanced against the change in fair value of the hedged asset, liability or firm commitment through earnings, or be recognized in other comprehensive income until the hedged item affects earnings. In June 1999, FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date" ("SFAS No.137"), which delays the effective date of SFAS No. 133 for one year, to fiscal year beginning after June 15, 2000 and, in June 2000, FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133" ("SFAS No. 138"), which addresses certain implementation issues and is required to be adopted concurrently with SFAS No. 133 with respect to an entity that has not adopted SFAS No. 133 before June 15, 2000. On April 1, 2001, the Group adopted SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138. The cumulative effect of the change in accounting principle, net of taxes, was to increase net income by ¥5,867 million. The cumulative effect of the change in accounting principle, net of taxes, was to increase other comprehensive income by ¥2,703 million.

Transfer of Assets and Collateral—In September 2000, FASB issued SFAS No. 140, "Accounting for Transfers and servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125" ("SFAS No. 140"), which revises the standards for accounting for the securitization and other transfers of financial assets and collateral, and requires certain disclosures, but carries over most of SFAS No. 125's provisions. SFAS No. 140 is effective for the transfer and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001, except for certain disclosures of securitizations of financial assets accounted for as sales and disclosures of collateral pledged, which is effective for fiscal years after December 15, 2000. SFAS No. 140 modifies the criteria for determining whether the transferor has relinquished control of assets and, therefore, whether the transfer may be accounted for as a sale. Management believes that adopting SFAS No. 140's provisions that are applicable after March 31, 2001 will not have a material impact on the Group's financial position or results of operations. As of March 31, 2001, the Group restated the Group's financial statements for previous periods in accordance with the collateral provisions of SFAS No. 140. As a result of the restatement, the total assets and liabilities decreased ¥2,985 billion as of March 31, 2000, while no impact was recognized on the results of operations.

Business combination, goodwill and other intangible assets—In June 2001, FASB issued SFAS No. 141 "Business Combination" (SFAS No. 141), and SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and that the use of the pooling-of-interest method is no longer allowed. SFAS No. 142 requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on an annual basis. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. The Group has not completed the study of what effect SFAS Nos. 141 and 142 will have on the Group's financial statements, and cannot reasonably estimated the impact on the Group's earnings and financial position of adopting SFAS Nos. 141 and 142.

Reclassifications—Certain prior period amounts are reclassified to conform to the current period presentation.

2. TRADING ACCOUNT ASSETS AND LIABILITIES

The following table shows trading account assets and liabilities, carried at estimated fair value, at March 31, 2000 and 2001. For trading derivative contracts executed under legally enforceable master netting agreements, related assets and liabilities are bilaterally offset and reported net by counterparty.

	2000	2001
	(in millions)	
Trading account assets:		
Trading securities, principally Japanese government obligations	¥ 2,909,611	¥2,621,307
Commercial paper, certificate of deposits and other money market instruments	841,614	1,001,811
Total	3,751,225	3,623,118
Trading derivative assets:		
Interest rate contracts:		
Forward and futures	32,357	121,894
Swap and swap-related products	1,728,987	2,822,110
Options purchased	75,781	87,598
Total	1,837,125	3,031,602
Foreign exchange contracts:		
Forward and futures	500,273	1,102,616
Swaps	504,041	390,699
Options purchased	29,870	94,974
Total	1,034,184	1,588,289
Other contracts, mainly equity and credit-related contracts	57,382	133,697
Bilateral netting of derivatives under master netting agreements	(1,197,361)	(1,784,993)
Total	¥ 5,482,555	¥6,591,713
Trading account liabilities:		
Trading securities sold, not yet purchased	¥ 1,230,450	¥1,451,401
Trading derivative liabilities:		
Interest rate contracts:		
Forward and futures	38,448	123,895
Swap and swap-related products	1,514,742	2,470,108
Options written	83,421	68,237
Total	1,636,611	2,662,240
Foreign exchange contracts:		
Forward and futures	514,331	1,104,583
Swaps	422,907	336,684
Options written	38,231	77,568
Total	975,469	1,518,835
Other contracts, mainly equity and credit-related contracts	103,741	104,094
Bilateral netting of derivatives under master netting agreements	(1,197,361)	(1,784,993)
Total	¥ 2,748,910	¥3,951,577

See Note 28 for the methodologies and assumptions used to estimate the fair values.

For the years ended March 31, 2000 and 2001, the average estimated fair values of derivative financial instruments included in trading activities were as follows:

	For the year ended March 31, 2000	For the year ended March 31, 2001
	(in billions)	
Trading derivative assets:		
Interest rate contracts:		
Forward and futures	¥ 25	¥ 62
Swap and swap-related products	2,143	2,042
Options purchased	95	70
Total interest rate contracts	2,263	2,174
Foreign exchange contracts:		
Forward and futures	749	676
Swaps	501	438
Options purchased	43	50
Total foreign exchange contracts	1,293	1,164
Other contracts, mainly equity and credit-related contracts	162	83
Bilateral netting of derivatives under master netting agreements	(1,589)	(1,352)
Total	¥ 2,129	¥2,069
Trading derivative liabilities:		
Interest rate contracts:		
Forward and futures	¥ 26	¥ 68
Swap and swap-related products	1,854	1,775
Options written	103	68
Total interest rate contracts	1,983	1,911
Foreign exchange contracts:		
Forward and futures	674	676
Swaps	554	379
Options written	48	49
Total foreign exchange contracts	1,276	1,104
Other contracts, mainly equity and credit-related contracts	179	91
Bilateral netting of derivatives under master netting agreements	(1,589)	(1,352)
Total	¥ 1,849	¥1,754

Average balances are generally based on a daily average while a month-end average is used for certain fair value balances when it is not practicable to obtain applicable daily averages.

The Group generates trading gains through market-making, sales, arbitrage, and positioning, while maintaining risk levels within appropriate limits. Net trading gains or losses for the years ended March 31, 1999, 2000 and 2001, comprised the following:

	1999	2000	2001
		(in billions)	
Interest rate and other contracts	¥ 80.2	¥ 4.3	¥159.0
Foreign exchange contracts	0.2	76.3	8.6
Trading account assets other than derivatives	32.8	(22.8)	36.2
Net trading gains	¥113.2	¥ 57.8	¥203.8

3. INVESTMENT SECURITIES

The amortized costs and estimated fair values of investment securities available for sale and being held to maturity at March 31, 2000 and 2001 were as follows:

	2000				2001			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
				(in millions)				
Securities available for sale:								
Debt securities:								
Japanese national government and Japanese government agency bonds	¥ 3,943,950	¥ 17,793	¥ 4,000	¥ 3,957,743	¥ 6,334,641	¥ 41,205	¥ 8,125	¥ 6,367,721
Japanese prefectural and municipal bonds	142,856	1,912	41	144,727	235,281	6,049	—	241,330
Foreign governments and official institutions bonds	677,162	7,257	11,925	672,494	1,230,799	19,250	8,116	1,241,933
Corporate bonds	957,976	192,721	2,610	1,148,087	1,592,916	20,446	6,615	1,606,747
Mortgage-backed securities	1,042,443	825	15,572	1,027,696	1,735,528	11,908	3,375	1,744,061
Other debt securities	299,971	18,165	10,277	307,859	137,746	139	6	137,879
Marketable equity securities	3,220,666	2,702,737	29,125	5,894,278	3,011,535	1,907,931	57,840	4,861,626
Total securities available for sale	¥10,285,024	¥2,941,410	¥73,550	¥13,152,884	¥14,278,446	¥2,006,928	¥84,077	¥16,201,297
Securities being held to maturity—debt securities:								
Foreign governments and official institutions bonds	¥ 92,761	¥ 2,075	¥ 949	¥ 93,887	¥ —	¥ —	¥ —	¥ —
Corporate bonds	259,126	5,357	1,476	263,007	—	—	—	—
Other debt securities	56,762	992	—	57,754	—	—	—	—
Total securities being held to maturity	¥ 408,649	¥ 8,424	¥ 2,425	¥ 414,648	¥ —	¥ —	¥ —	¥ —

Investment securities other than available for sale or being held to maturity (including nonmarketable equity securities, i.e., Other investment securities) were carried at cost of ¥109,455 million and ¥111,584 million, at March 31, 2000 and 2001, respectively. The corresponding estimated fair values at those dates were not readily determinable.

See Note 28 for the methodologies and assumptions used to estimate the fair values.

The amortized cost and estimated fair value of debt securities available for sale at March 31, 2001 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, such as mortgage-backed securities, are included in the table below based on their final maturities.

	Available-for-sale	
	Amortized cost	Estimated fair value
	(in millions)	
Due in one year or less	¥ 4,068,126	¥ 4,067,536
Due from one year to five years	4,416,668	4,468,516
Due from five years to ten years	2,066,297	2,083,690
Due after ten years	715,820	719,929
Total	¥11,266,911	¥11,339,671

For the years ended March 31, 1999, 2000 and 2001, proceeds from sales of securities available for sale were ¥7,639,777 million, ¥25,825,681 million and ¥27,887,114 million, respectively. For the years ended March 31, 1999, 2000 and 2001, gross realized gains on those sales were ¥141,250 million, ¥363,414 million and ¥398,467 million, respectively, and gross realized losses on those sales were ¥75,139 million, ¥97,079 million and ¥73,341 million, respectively. In September 2000, the Group changed its intent to hold securities and transferred ¥369 billion (carrying value) of securities classified as held to maturity to the securities available for sale category. As a result of the transfer, unrealized gains on securities available for sale were recorded against shareholders' equity and were not significant.

For the years ended March 31, 1999, 2000 and 2001, losses resulting from write-downs of investment securities to reflect the decline in value considered to be other than temporary were ¥118,350 million, ¥133,817 million and ¥229,504 million, respectively.

4. LOANS

Loans at March 31, 2000 and 2001 by domicile and type of industry of borrower are summarized below:

	2000	2001
	(in millions)	
Domestic:		
Manufacturing	¥ 5,597,318	¥ 5,232,119
Construction	1,460,653	1,400,401
Real estate	3,698,842	3,974,597
Services	3,813,850	3,729,534
Wholesale and retail	5,956,815	5,705,179
Banks and other financial institutions	2,193,633	2,012,321
Other industries	3,155,294	1,589,648
Consumer	6,873,500	6,661,251
Total domestic	32,749,905	30,305,050
Foreign:		
Governments and official institutions	223,219	296,003
Banks and other financial institutions	482,235	581,433
Commercial and industrial	6,993,928	8,218,468
Other	548,423	804,434
Total foreign	8,247,805	9,900,338
Less unearned income and deferred loan fees	30,205	30,233
Total	¥40,967,505	¥40,175,155

Substantially all domestic loans are made under agreements which, as customary in Japan, provide that the Group may, under certain conditions, require the borrower to provide collateral (or additional collateral) or guarantors with respect to the loans, and that the Group may treat any collateral, whether furnished as security for loans or otherwise, as collateral for all indebtedness to the Group. At March 31, 2000 and 2001, such collateralized loans, which were principally collateralized by real estate, marketable securities and accounts receivable, amounted to ¥7,069,067 million and ¥6,403,079 million, respectively, which represented, in each case, 21% of the total domestic outstanding loans at March 31, 2000 and 2001.

Nonaccrual and restructured loans were ¥1,860,350 million and ¥3,420,881 million at March 31, 2000 and 2001, respectively. Had interest on these loans been accrued at the original terms of agreement, gross interest income on such loans for the years ended March 31, 2000 and 2001 would have been approximately ¥45.1 billion and ¥91.0 billion, respectively, of which approximately ¥12.6 billion and ¥67.1 billion, respectively, was included in interest income on loans in the accompanying consolidated statements of operations.

Loans are generally placed on nonaccrual status when substantial doubt is judged to exist as to the full and timely collection of either principal or interest, or, for certain subsidiaries, when principal or interest is contractually past due 90 days or more, except when the loans are well secured (or guaranteed by financially sound third parties) and in the process of collection based upon the judgement of management.

Impaired Loans

Generally, the Group's impaired loans include nonaccrual loans, restructured loans and other loans specifically recognized for impairment. A summary of the recorded balances of impaired loans and related impairment allowance at March 31, 2000 and 2001 is shown below:

	2000		2001	
	Recorded loan balance	Impairment allowance	Recorded loan balance	Impairment allowance
	(in millions)			
Requiring an impairment allowance	¥1,532,133	¥688,368	¥2,888,247	¥990,640
Not requiring an impairment allowance	324,026	—	492,146	—
Total	¥1,856,159	¥688,368	¥3,380,393	¥990,640

The average recorded investments in impaired loans were approximately ¥1,688 billion, ¥2,028 billion and ¥2,420 billion, respectively, for the years ended March 31, 1999, 2000 and 2001.

For the years ended March 31, 1999, 2000 and 2001, the Group recognized interest income of approximately ¥9.3 billion, ¥11.2 billion and ¥46.0 billion, respectively, on impaired loans. Interest income on nonaccrual loans was recognized on a cash basis. Interest income on accruing impaired loans, including restructured loans and other loans specifically recognized for impairment, was recognized on an accrual basis to the extent that the collectibility of interest income was reasonably certain based on management's evaluation.

Lease Receivable

As part of its financing activities, the Group entered into leasing arrangements with customers. The Group's leasing operations consist principally of direct financing leases related to various types of data processing equipment, office equipment and transportation equipment.

As of March 31, 2000 and 2001, the components of the investment in direct financing leases were as follows:

	2000	2001
	(in millions)	
Minimum lease payment receivable	¥359,820	¥409,714
Estimated residual values of leased property	28,528	31,999
Less: Unearned income	(29,925)	(27,110)
Net investment in direct financing leases	¥358,423	¥414,603

Future minimum lease payment receivables under noncancellable leasing agreements as of March 31, 2001 are as follows:

	Direct financing leases
	(in millions)
Year ending March 31:	
2002	116,535
2003	93,414
2004	72,998
2005	57,718
2006	34,357
2007 and thereafter	34,692
Total minimum lease payment receivables	¥409,714

5. LOAN SECURITIZATION

During fiscal 1999, the Bank securitized its U.S. commercial and industrial loan portfolio, with a special-purpose entity that issued two notes as debt and two certificates as equity. The Bank has retained the two equity certificates, including senior and subordinated certificates. For loans it services, the Bank receives a servicing fee of 5 basis points on the total loan amount at the beginning of each month and the amount of the servicing assets is immaterial. At March 31, 2001, the Bank had ¥56,352 million of retained interests reflecting the underlying fair value of the retained equity certificates. During fiscal 2000, the Bank did not securitize any financial instruments.

The Bank's retained interests are accounted for as investment securities available for sale at estimated fair value with subsequent adjustment reflected in accumulated other changes in equity from nonowner sources. Their value is primarily subject to default rates, recovery rates, and discount rates on the transferred loans.

At March 31, 2001, with respect to the commercial and industrial loans, the carrying amount, the key economic assumptions, and the sensitivity of the estimated fair value of retained interests to two adverse changes of 10% and 20% in each of the key assumptions were as follows:

	2001
	(in millions)
Carrying amount/estimated fair value of retained interests	¥56,352
Weighted average life	1.7 years
Default rate	0.31% — 1.17%
Impact of 10% adverse change	¥(189)
Impact of 20% adverse change	(385)
Recovery rate	65.0%
Impact of 10% adverse change	¥(153)
Impact of 20% adverse change	(307)
Discount rate	5.73% — 6.02%
Impact of 10% adverse change	¥(5)
Impact of 20% adverse change	(10)

The sensitivity analysis in the table above is hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions can not generally be easily extrapolated because the relationship of the change in the assumptions to the change in fair value may not be linear.

Also, in this table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. Changes in one factor may result in changes to another, which might magnify or reduce the sensitivities.

For the year ended March 31, 2001, the loan portfolio managed by the special-purpose entity recorded no significant delinquencies, and accordingly, no significant credit losses were incurred in the loan portfolio during the year.

6. GOVERNMENT-LED LOAN RESTRUCTURING PROGRAM

Under the legislation enacted by the Japanese Diet in June 1996, which incorporates the restructuring program for the loans of seven failed housing-loan companies (the ''Jusen''), various financial institutions, including the Group, waived the repayment of a substantial amount of the Jusen's loans. Under this legislation, the financial institutions were also requested to make loans to the Housing Loan Administration Corporation (the ''HLAC''), which was established by the Deposit Insurance Corporation (the ''DIC'') to purchase and administer the loans of the liquidated Jusen and to make non-interest-earning deposits with the special fund of the DIC (the ''Special Fund'') and with another fund established by The Bank of Japan and others (the ''New Fund''). Upon the request, the Group made loans of ¥184,197 million to the HLAC in fiscal 1996 which were included in the loan portfolio as of March 31, 2000 and 2001. The Group also made non-interest-earning deposits of ¥111,124 million with the Special Fund and the New Fund in fiscal 1996. The deposit balances as of March 31, 2000 and 2001, which are included in Other Assets, were ¥77,012 million and ¥79,506 million, respectively, reflecting a present value discount and subsequent amortization of the discount during the period until the expected maturity date.

The loans to the HLAC, which are guaranteed by the DIC under the legislation and the loan agreements, mature in 15 years from the loan date and earn interest at TIBOR (Tokyo Interbank Offered Rate) plus 0.125%. The terms and conditions on the loans of other financial institutions to the HLAC are the same except for agricultural financial institutions. The non-interest-earning deposits with the funds are expected to mature in 15 years from the deposit date, which coincides with the planned operational lifespan of the HLAC.

It is uncertain what losses (so-called Stage Two Loss), if any, may ultimately be incurred by HLAC through the collection of the Jusen loans during the 15 year term. If any such losses ultimately occur, the Japanese government will be liable for half of such losses, and the investment income to be earned by the Special Fund during the 15 years is to be used to cover the remaining half of the losses. The investment income to be earned by the New Fund during the 15 years is used to compensate for a portion of the public funds used for the Jusen restructuring.

On April 1, 1999, the HLAC merged with the Resolution and Collection Bank Limited, with the HLAC continuing as the surviving entity named the Resolution and Collection Corporation (''RCC''). The RCC is wholly owned by the DIC.

Although the impact on future financial results is subject to reasonable estimation, at this time management believes all loans and deposits will be collectible according to their respective terms.

7. ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses for the years ended March 31, 1999, 2000 and 2001 are shown below:

	1999	2000	2001
		(in millions)	
Balance at beginning of year	¥ 760,323	¥1,290,657	¥1,137,181
Additions to allowance charged to operations	919,427	368,639	665,954
Charge-offs	358,381	547,883	480,047
Less—Recoveries	9,807	41,004	34,780
Net charge-offs	348,574	506,879	445,267
Reclassification of allowance on off-balance-sheet credit instruments	(14,741)	—	—
Other, principally foreign exchange translation adjustments	(25,778)	(15,236)	27,142
Balance at end of year	¥1,290,657	¥1,137,181	¥1,385,010

During the year ended March 31, 1999, the Group reclassified a ¥14,741 million allowance previously established for credit losses on off-balance-sheet credit instruments such as standby letters of credit and certain guarantees to other liabilities.

8. PREMISES AND EQUIPMENT

Premises and equipment at March 31, 2000 and 2001 consisted of the following:

	2000	2001
	(in millions)	
Land	¥132,233	¥ 125,368
Buildings	323,934	333,687
Equipment and furniture	293,507	426,786
Leasehold improvements	211,364	267,127
Construction in progress	8,071	3,119
Total	969,109	1,156,087
Less accumulated depreciation	555,211	637,222
Premises and equipment—net	¥413,898	¥ 518,865

Premises and equipment include capitalized leases, principally related to data processing equipment, which amounted to ¥18,544 million of acquisition cost at March 31, 2000 and ¥59,125 million at March 31, 2001. Accumulated depreciation on such capitalized leases at March 31, 2000 and 2001 amounted to ¥6,239 million and ¥11,821 million, respectively.

Depreciation and amortization expense of premises and equipment for the years ended March 31, 1999, 2000 and 2001 was ¥59,211 million, ¥63,384 million and ¥52,745 million, respectively.

In March 1999, the Bank sold a 50% undivided interest in each of its head office land and building (including structure and equipment) for ¥91,500 million and of its main office land and building (including structure and equipment) for ¥9,100 million to a real estate company. At the same time, the Bank entered an agreement to lease back the 50% undivided interests of the buildings sold from the buyer over a period of 7 years. The Bank accounted for these transactions as financing arrangements, and recorded the total proceeds of ¥100,600 million as a financing obligation. Under the lease agreement, the Bank made non-interest-bearing deposits of ¥8,000 million with the buyer-lessor in March 1999. The lease payments are determined each year upon negotiations with the buyer-lessor, based on future market conditions and expenditures for significant improvements and related expenses of the buildings to be born by the buyer-lessor. The lease agreement is noncancellable during the lease period of 7 years. At the end of lease, the Bank has no obligations or options specified in the lease agreement.

At March 31, 2000 and 2001, the financing obligation was ¥100,766 million and ¥101,210 million, respectively, and total rental payments amounted to ¥7,930 million and ¥6,372 million, respectively, for the years ended March 31, 2000 and 2001.

9. INCOME TAXES

The detail of current and deferred income tax expense or benefit for the years ended March 31, 1999, 2000 and 2001 was as follows:

	1999	2000	2001
		(in millions)	
Current:			
Domestic	¥ 106,990	¥163,438	¥ 52,398
Foreign	35,823	40,022	46,792
	142,813	203,460	99,190
Deferred:			
Domestic	(262,579)	(100,423)	(83,701)
Foreign	(23,565)	(9,402)	(9,517)
	(286,144)	(109,825)	(93,218)
Income tax expense (benefit)	(143,331)	93,635	5,972
Income tax expense (benefit) reported in shareholders' equity related to:			
Investment securities available for sale	36,437	426,228	(378,075)
Minimum pension liability adjustments	18,857	15,157	(35,042)
Foreign currency translation adjustments	(12,036)	(9,869)	13,033
	43,258	431,516	(400,084)
Total	¥(100,073)	¥525,151	¥(394,112)

Income taxes in Japan applicable to the Group are imposed by the national, prefectural and municipal governments, and in the aggregate resulted in a normal effective statutory rate of approximately 48%, 42% and 38.6%, respectively, for the years ended March 31, 1999, 2000 and 2001. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

On March 30, 2000, the Tokyo Metropolitan Assembly passed a new tax rule that changed the basis on which it taxes large banks doing business in Tokyo. The Bank and its subsidiary, Nippon Trust Bank Limited, are subject to the new regulation. The new rule requires large banks to pay a 3%

local tax on their gross operating income derived from their Tokyo operations for a period of five years commencing April 1, 2000. Prior to April 1, 2000, the banking institutions paid a local tax based on their net income. The new 3% tax has been accounted for as non-interest expenses from the year ended March 31, 2001. With respect to effective income tax rate, the new taxation decreased the normal statutory rate by 3.4% to 38.6%.

On May 30, 2000, Osaka Prefectural Assembly also passed a new tax rule that is substantially the same as the rule approved by the Tokyo Metropolitan Assembly. The new rule requires large banks to pay a 3% local tax on their gross operating income derived from Osaka operations for a period of five years commencing April 1, 2001. With respect to effective income tax rate, the new taxation decreased the normal statutory rate by 0.6% to 38.0%.

As a result of the changing tax rates mentioned above, income tax expenses increased ¥1,335 million and ¥8,533 million for the years ended March 31, 2000 and 2001, respectively. Revisions of Japanese tax laws, which were enacted on March 24, 1999, decreased the Group's normal effective statutory tax rate by 6% and income tax benefit for the year ended March 31, 1999 included a ¥57,053 million charge resulting from tax rate reduction.

A reconciliation of the effective income tax rate reflected in the accompanying consolidated statements of operations to the combined normal effective statutory tax rate for the years ended March 31, 1999, 2000 and 2001 was as follows:

	1999	2000	2001
Combined normal effective statutory tax rate	(48.0)%	42.0%	(38.6)%
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	0.5	6.8	2.1
Goodwill amortization and impairment	6.0	0.5	1.3
Dividends from foreign subsidiaries	1.9	5.9	8.5
Foreign income exempted for income tax purposes	(2.8)	(7.7)	(5.3)
Lower tax rates applicable to income of foreign subsidiaries	(3.8)	(5.1)	(3.7)
Minority interest	0.9	6.0	6.4
Change in valuation allowance	0.9	9.7	3.5
Expiration of loss carryforwards of subsidiaries	—	17.9	25.9
Enacted change in tax rates	11.7	1.0	8.4
Gains from exchange of equity investments in subsidiaries	5.0	—	—
Other—net	(1.7)	(4.5)	(2.6)
Effective income tax rate	(29.4)%	72.5 %	5.9%

Deferred tax assets and liabilities are computed for each tax jurisdiction using current enacted tax rates applicable to periods when the temporary differences are expected to reverse. The tax effects of the items comprising the Group's net deferred tax assets at March 31, 2000 and 2001 were as follows:

	2000	2001
	(in millions)	
Deferred tax assets:		
Allowance for credit losses	¥ 606,988	¥683,621
Net operating loss carryforwards	98,047	105,371
Accrued severance indemnities and pension liabilities	48,129	73,734
Other real estate owned	47,936	19,925
Accrued liabilities and other	45,732	41,612
Sale-and-leaseback transactions	36,435	36,165
Foreign currency translation losses on foreign currency debt	4,157	17,589
Depreciation	13,535	15,808
Derivative financial instruments	6,408	—
Valuation allowance	(197,523)	(205,366)
Total deferred tax assets	709,844	788,459
Deferred tax liabilities:		
Investment securities	592,262	139,540
Deferred profit on property for income tax purposes	12,712	11,764
Equipment and auto leasing	63,100	66,557
Derivative financial instruments	—	27,793
Other	2,452	2,230
Total deferred tax liabilities	670,526	247,884
Net deferred tax assets	¥ 39,318	¥540,575

A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. The valuation allowance decreased by ¥33,527 million during the year ended March 31, 1999, decreased by ¥7,736 million during the year ended March 31, 2000 and increased by ¥7,843 million during the year ended March 31, 2001.

At March 31, 2001 certain subsidiaries had operating loss carryforwards of ¥289,666 million and tax credit carryforwards of ¥860 million for tax purposes. Such carryforwards, if not utilized, expire as follows:

	Operating loss carryforwards	Tax credit carryforwards
	(in millions)	
Year Ending March 31:		
2002	¥ 7,486	¥ —
2003	23,672	—
2004	53,191	—
2005	71,666	—
2006 and thereafter	103,779	—
No definite expiration date	29,872	860
Total	¥289,666	¥860

Income taxes are not provided on undistributed earnings of foreign subsidiaries which are considered to be indefinitely reinvested in the operations of such subsidiaries. At March 31, 2001, such undistributed earnings of foreign subsidiaries amounted to approximately ¥193 billion. Determination of the amount of unrecognized deferred tax liabilities with respect to these undistributed earnings is not practicable because of the complexity associated with its hypothetical calculation including foreign withholding taxes and foreign tax credits.

Income (loss) before income tax expense or benefit for the years ended March 31, 1999, 2000 and 2001 was as follows:

	1999	2000	2001
		(in millions)	
Domestic income (loss)	¥(539,385)	¥ 59,205	¥(208,707)
Foreign income	51,631	69,905	106,995
Total	¥(487,754)	¥129,110	¥(101,712)

10. PLEDGED ASSETS AND COLLATERAL

Pledged Assets

At March 31, 2001, assets mortgaged, pledged, or otherwise subject to lien were as follows:

	(in millions)
Trading account assets	¥ 478,314
Investment securities	1,358,888
Loans	814,776
Other	105,319
Total	¥2,757,297

The above pledged assets are classified by type of liabilities to which they relate as follows:

	(in millions)
Call money and funds purchased	¥ 679,085
Payables under repurchase agreements and securities lending transactions	1,491,871
Other short-term borrowings and long-term debt	451,999
Other	134,342
Total	¥2,757,297

In addition, at March 31, 2001, certain investment securities, principally Japanese national government and Japanese government agency bonds, aggregating ¥3,303,215 million were pledged as collateral for acting as a collection agent of public funds, for settlement of exchange at The Bank of Japan, for derivative transactions and for certain other purposes.

Under Japanese law, Japanese banks are required to maintain certain minimum reserves on deposit with The Bank of Japan based on the amount of deposit balances and certain other factors. There are similar reserve deposit requirements for foreign offices engaged in the banking business in foreign countries. At March 31, 2000 and 2001, the reserve funds maintained by the Group, which are included in Cash and Due from Banks and Interest-earning Deposits in Other Banks, were ¥533,075 million and ¥474,896 million, respectively. Average reserves during the years ended March 31, 2000 and 2001 were ¥524,100 million and ¥490,366 million, respectively.

Collateral

In connection with resale agreements, securities borrowing transactions, loans and derivative transactions, the Group receives securities and note receivables as collateral, which can be sold or repledged by contract or custom. A substantial portion of this collateral has been sold or repledged for the purposes of repurchase agreements, securities lending transactions and securities sold, not yet delivered.

At March 31, 2001, the fair value of the collateral that is permitted to be sold or repledged was approximately ¥5,030 billion, of which approximately ¥3,498 billion was sold or repledged.

In addition, at March 31, 2001, the Group had pledged ¥4,052 billion of collateral that may not be sold or repledged by the secured parties.

11. DEPOSITS

The balances of time deposits, including CDs, issued in amounts of ¥10 million (approximately US$80 thousand at the Noon Buying Rate on March 30, 2001) or more with respect to domestic deposits and issued in amounts of US$100,000 or more with respect to foreign deposits were ¥13,877,274 million and ¥4,441,267 million, respectively, at March 31, 2000, and ¥13,954,505 million and ¥8,561,598 million, respectively, at March 31, 2001.

The maturity information at March 31, 2001 for domestic and foreign time deposits, including CDs, with a remaining term of more than one year is summarized as follows:

	Domestic	Foreign
	(in millions)	
Due after one year through two years	¥1,595,234	¥123,015
Due after two years through three years	1,422,826	111,816
Due after three years through four years	252,349	24,761
Due after four years through five years	231,150	17,150
Due after five years	45,241	16,223
Total	¥3,546,800	¥292,965

12. DEBENTURES

In Japan, certain banks, including the Bank, issue discount and coupon debentures in the domestic market under applicable banking laws. The Bank of Tokyo, Ltd., which merged with The Mitsubishi Bank Limited to create the Bank, was authorized to issue such debentures and, after the merger, the Bank is permitted to issue discount and coupon debentures in the domestic market through March 2002 under the Law concerning the Merger and Conversion of Financial Institutions of Japan.

Debentures at March 31, 2000 and 2001 comprised the following:

	2000	2001
	(in millions)	
One-year discount debentures, net of amortized discount of ¥1,455 million in 2000 and ¥1,460 million in 2001—discount at issuance of 0.04% to 0.24% (0.14% to 0.19% in 2000)	¥1,570,050	¥1,369,907
Three-year coupon debentures with interest of 0.06% to 1.20% (0.20% to 1.50% in 2000)	1,380,227	936,531
Five-year coupon debentures with interest of 0.80% to 2.70% (0.80% to 2.70% in 2000)	1,593,280	1,104,351
Total	¥4,543,557	¥3,410,789

The following is a summary of maturities of debentures subsequent to March 31, 2001:

	(in millions)
Year ending March 31:	
2002	¥2,024,736
2003	798,250
2004	398,193
2005	189,610
Total	¥3,410,789

13. CALL LOANS AND FUNDS SOLD, AND CALL MONEY AND FUNDS PURCHASED

A summary of funds transactions for the years ended March 31, 1999, 2000 and 2001 is as follows:

	1999	2000	2001
		(in millions)	
Average balance during the year:			
Call money and funds purchased	¥ 3,538,954	¥ 1,620,648	¥ 1,792,201
Call loans and funds sold	1,330,866	783,084	1,073,937
Net funds purchased position	¥ 2,208,088	¥ 837,564	¥ 718,264
Call money and funds purchased:			
Outstanding at end of year:			
Amount	¥ 1,990,524	¥ 1,171,060	¥ 2,319,624
Principal range of maturities	One day to 30 days	One day to 30 days	One day to 30 days
Weighted average interest rate	0.68%	0.78%	0.79%
Maximum balance at any month-end during the year	¥ 4,653,161	¥ 2,204,973	¥ 2,395,429
Weighted average interest rate paid during the year	1.03%	0.94%	1.25%

Average balances are generally based on a daily average while a month-end average is used for certain average balances when it is not practicable to obtain applicable daily averages.

14. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2000 and 2001, the Group had unused lines of credit amounting to ¥1,202,003 million and ¥2,777,514 million, respectively. The amount at March 31, 2001 principally consists of the line of collateralized intraday overdrafts at no interest and collateralized overnight loans on bill at the official discount rate granted by The Bank of Japan ("BOJ"), which are used to cover shortages in the BOJ account and to meet liquidity needs. The Bank and a certain domestic subsidiary may borrow from BOJ on demand up to the total amount of collateral which BOJ currently defines eligible for credit extension.

Other short-term borrowings at March 31, 2000 and 2001 comprised the following:

	2000	2001
	(in millions)	
Domestic offices:		
Loans on notes and acceptances transferred with recourse (rediscount)	¥ 158,087	¥ 740,167
Due to trust account	430,331	422,737
Other	595,801	437,006
Total domestic offices	1,184,219	1,599,910
Foreign offices		
Commercial paper	228,871	298,757
Other	75,940	116,843
Total foreign offices	304,811	415,600
Total	1,489,030	2,015,510
Less unamortized discount	199	150
Other short-term borrowings—net	¥1,488,831	¥2,015,360
Weighted average interest rate on outstanding balance at end of year	1.70%	1.92%

A summary of other short-term borrowing transactions for the years ended March 31, 1999, 2000 and 2001 is as follows:

	1999	2000	2001
		(in millions)	
Average balance outstanding during the year	¥3,435,662	¥1,844,189	¥1,755,139
Maximum balance at any month-end during the year	3,310,795	2,365,005	3,099,159
Weighted average interest rate during the year	2.25%	2.70%	1.54%

Long-term debt (original maturities of more than one year) at March 31, 2000 and 2001 comprised the following:

	2000	2001
	(in millions)	
The Bank:		
Obligations under capital leases	¥ 11,289	¥ 24,273
Obligation under sale-and-leaseback transactions	100,766	101,210
Unsubordinated debt:		
Insurance companies and other institutions, maturing serially through 2022, principally 3.00%-6.47%	255,504	295,033
1¾% Convertible Bonds due 2002, payable in United States dollars	355	—
Fixed rate bonds, payable in Japanese yen, due 2002-2020, principally 0.67%-2.69%	320,000	879,400
Adjustable rate bonds, payable in Japanese yen, due 2003, 0.30%	40,000	16,360
Subordinated debt:		
Fixed rate notes, payable in United States dollars, due 2010, 8.40%	212,112	245,979
Fixed rate bonds, payable in Japanese yen, due 2010, 2.25%	—	69,700
Fixed rate borrowings, payable in Japanese yen, due 2001-2012, principally 2.05%-5.70%	368,366	395,373
Adjustable rate borrowings, payable in Japanese yen, due 2006-2011, principally 2.30%-6.30%	302,600	258,600
Floating rate borrowings, payable in Japanese yen, due 2001-2010, principally 0.43%-2.10%	145,000	75,500
Total	1,755,992	2,361,428
Subsidiaries:		
Unsubordinated debt:		
Insurance companies and other institutions, due 2001-2007, principally 1.29%-4.50%	62,341	90,602
3% Exchangeable Guaranteed Notes due 2002, payable in United States dollars	212,234	247,723
Zero Coupon notes, payable in United States dollars due 2000-2001	20,654	—
Zero Coupon notes, payable in Italian lire, due 2000	12,288	—
Fixed rate bonds and notes, payable in United States dollars, due 2001-2013, principally 5.45%-7.77%	23,877	22,028
Fixed rate bonds and notes, payable in Japanese yen, due 2001-2017, principally 1.37%-4.90%	351,699	253,373
Adjustable rate bonds and notes, payable in United States dollars, due 2006-2011, principally 6.50%-8.09%	30,205	37,498
Adjustable rate bonds and notes, payable in Japanese yen, due 2001-2020, principally 0.20%-4.09%	107,974	73,197
Floating rate bonds and notes, payable in United States dollars, due 2001-2010, principally 4.59%-8.00%	59,904	65,782
Floating rate bonds and notes, payable in Japanese yen, due 2001-2016, principally 0.38%-4.83%	77,316	83,061
Floating rate notes, payable in Euro, due 2001, 5.25%	25,994	29,129
Obligations under capital leases and other miscellaneous debt	13,964	15,871
Total unsubordinated debt	998,450	918,264

	2000	2001
	(in millions)	
Subordinated debt:		
Insurance companies and other institutions, due 2002-2010, principally 0.15%-3.39%	21,875	21,568
Exchangeable undated bonds, 4.25% through March 2003, floating thereafter	49,940	—
Undated notes, payable in Japanese yen, principally 0.51%-4.90%	147,730	60,000
Fixed rate bonds and notes, payable in United States dollars, due 2006-2007, principally 6.20%-8.63%	46,180	36,532
Fixed rate bonds and notes, payable in Japanese yen, due 2003-2028, principally 0.40%-5.10%	83,832	82,303
Adjustable rate undated notes, payable in United States dollars, principally 6.96%-7.96%	59,392	66,555
Adjustable rate undated notes, payable in Japanese yen, principally 1.02%-3.16%	260,698	359,764
Adjustable rate bonds and notes, payable in United States dollars, due 2007-2009, principally 6.47%-7.50%	97,434	103,104
Adjustable rate bonds and notes, payable in Japanese yen, due 2002-2010, principally 1.40%-5.00%	320,052	290,386
Floating rate bonds and notes, payable in United States dollars, due 2001-2006, principally 5.28%-8.75%	25,407	19,971
Floating rate bonds and notes, payable in Japanese yen, due 2002-2027, principally 0.49%-4.40%	68,874	68,850
Other miscellaneous debt	1,994	2,285
Total subordinated debt	1,183,408	1,111,318
Mandatorily redeemable preferred securities of subsidiary grantor trust	35,840	40,163
Total	2,217,698	2,069,745
Total	¥3,973,690	¥4,431,173

Note:—Adjustable rate debts are debts where interest rates are reset in accordance with the terms of the debt agreements, and floating rate debts are debts where interest rates are repriced in accordance with movements of market indices.

On August 29, 2000, the Bank redeemed the exchangeable undated subordinated guaranteed bonds, payable in Japanese yen of ¥49,940 million, at par with accrued interest.

The Exchangeable Guaranteed Notes due 2002 (the “Notes”) were issued by MBL International Finance (Bermuda) Trust which is a wholly owned finance subsidiary of the Bank. The Bank irrevocably and unconditionally guarantees all of the obligations of the issuer. The Notes are exchangeable for shares or American Depositary Shares (“ADSs”) of the Bank through November 25, 2002 at an exchange price of US$13.62 per ADS or share as of March 31, 2001. The exchange price is reset annually through 2001 to the lesser of the prevailing average ADS price, as defined, or the exchange price prior to such reset, but not less than US$13.62. The Notes are redeemable at the option of the issuer or the Bank in shares or ADSs on November 30 in any year beginning in 1998 through 2001 at an exchange price of US$13.62.

Effective April 2, 2001, in conjunction with the foundation of Mitsubishi Tokyo Financial Group, Inc. (''MTFG''), the terms described above were modified and shares or ADSs for which the Exchangeable Guaranteed Notes due 2002 are exchangeable, were changed from those of the Bank to those of MTFG. Also, MTFG has become an additional guarantor, and has the option of redemption.

Certain unsubordinated bonds and notes issued by subsidiaries, including the above exchangeable notes, at March 31, 2001 are guaranteed by the Bank or a subsidiary as to payment of principal and interest. Certain subordinated bonds and notes (aggregating ¥1,043,188 million at March 31, 2001) issued by subsidiaries are guaranteed, on a subordinated basis, by the Bank as to payment of principal and interest.

The mandatorily redeemable preferred securities represent UnionBanCal Finance Trust I US$350 million preferred securities sold to the public. The proceeds of such issuances, along with proceeds from issuance of US$10,824,750 common securities to UnionBanCal Corporation (''UNBC''), were invested by UnionBanCal Finance Trust I in US$360,824,750 aggregate principal amount of UNBC's 7⅜ percent debt securities due May 15, 2029 (the ''Trust Notes''). The Trust Notes represent the sole asset of UnionBanCal Finance Trust I. The Trust Notes mature on May 15, 2029, bear interest at the rate of 7⅜ percent, payable quarterly and are redeemable by UNBC beginning on or after February 19, 2004 at 100 percent of the principal amount thereof, plus any accrued and unpaid interest to the redemption date. Holders of the preferred securities and common securities are entitled to cumulative cash distributions at an annual rate of 7⅜ percent of the liquidation amount of US$25 per security. The preferred securities are subject to mandatory redemption upon repayment of the Trust Notes and are callable by UNBC at 100 percent of the liquidation amount beginning on or after February 19, 2004. The Trust exists for the sole purpose of issuing the preferred securities and investing the proceeds in the Trust Notes issued by UNBC. The UNBC has guaranteed, on a subordinated basis, distributions and other payments due on the preferred securities (the ''Guarantee''). The Guarantee, when taken together with the UNBC's obligations under the Trust Notes and in the indenture pursuant to which the Trust Notes were issued and the UNBC's obligations under the Amended and Restated Declaration of Trust governing the subsidiary trust, provide a full and unconditional guarantee of amounts due on the Trust Preferred securities.

The Bank and certain of its subsidiaries entered into interest rate and currency swaps for certain debt in order to manage exposure to interest rate and currency exchange rate movements. As a result of these swap arrangements, the effective interest rates may differ from the coupon rates reflected in the above table. The interest rates for the adjustable and floating rate debt shown in the above table are those in effect at March 31, 2000 and 2001. Certain rates are determined by formulas and may be subject to certain minimum and maximum rates.

Certain debt agreements permit the Bank and certain of its subsidiaries to redeem the related debt, as a whole or in part, prior to maturity at the option of the issuer on terms specified in the respective agreements.

The following is a summary of maturities of long-term debt subsequent to March 31, 2001:

	The Bank	Subsidiaries	Total
		(in millions)	
Year ending March 31:			
2002	¥ 118,425	¥ 188,476	¥ 306,901
2003	154,828	344,700	499,528
2004	290,951	194,910	485,861
2005	310,667	115,069	425,736
2006	347,755	49,595	397,350
2007 and thereafter	1,138,802	1,176,995	2,315,797
Total	¥2,361,428	¥2,069,745	¥4,431,173

15. SEVERANCE INDEMNITIES AND PENSION PLANS

The Bank and certain domestic subsidiaries have unfunded severance indemnities plans under which their employees in Japan, other than those who are directors, are entitled, under most circumstances, upon mandatory retirement at normal retirement age or earlier termination of employment, to lump-sum severance indemnities.

The Bank and certain domestic subsidiaries also have contributory defined benefit pension plans (private plans) which cover substantially all of their employees in Japan and provide for lifetime annuity payments commencing at age 60 based on eligible compensation at the time of severance, years of service and other factors. The Bank and certain domestic subsidiaries participate in a contributory defined benefit Japanese government welfare pension program for their employees under which they have the administrative and trustee responsibility, through employer/employee owned special judicial foundations, for premiums collected and invested and payment of benefits. This government program is combined with the private pension plans through the special judicial foundations. Pension benefits and plan assets applicable to the government program are included with the contributory pension plans of the Bank and certain domestic subsidiaries in the determination of net periodic costs and funding status.

The Bank also has a funded non-contributory defined benefit pension plan which covers certain retired employees, excluding directors, in Japan whose service period with the Bank was five years or more, and provides for lifetime or certain limited period annuity payments commencing at age 60 based on eligible compensation at the time of severance, years of service and other factors.

Net periodic cost of the severance indemnities and pension plans, net of contributions made by employees, for the years ended March 31, 1999, 2000 and 2001 included the following components:

	1999	2000	2001
		(in millions)	
Service cost—benefits earned during the year	¥23,019	¥ 21,773	¥17,063
Interest costs on projected benefit obligation	20,069	21,730	19,995
Expected return on plan assets	(6,950)	(18,275)	(23,005)
Amortization of unrecognized net obligation at transition	2,293	2,293	2,293
Amortization of prior service cost	3,885	4,088	3,611
Amortization of net actuarial loss	9,822	6,587	2,045
Net periodic benefit cost	¥52,138	¥ 38,196	22,002

	1998	1999	2000
Weighted-average assumptions at December 31:			
Discount rates in determining expense	2.90%	3.30%	3.10%
Discount rates in determining benefit obligation at year end	3.30%	3.10%	2.87%
Rates of increase in future compensation level for determining expense	3.39%	3.30%	2.58%
Rates of increase in future compensation level for determining benefit obligation at year end	3.30%	2.58%	2.71%
Expected rates of return on plan assets	1.98%	5.05%	5.17%

The following table sets forth the funded status and amounts recognized in the Bank's consolidated balance sheets at March 31, 2000 and 2001 for the plans of the Bank and certain domestic subsidiaries:

	2000		2001	
	Severance indemnities plans and non-contributory pension plans	Contributory pension plans	Severance indemnities plans and non-contributory pension plans	Contributory pension plans
	(in millions)			
Change in benefit obligation:				
Benefit obligation at January 1, 1999 and 2000	¥ 85,522	¥584,151	¥108,173	¥547,881
Service cost	8,103	13,670	5,106	11,957
Interest cost	2,688	19,042	3,278	16,717
Plan participants' contributions	—	2,424	—	2,509
Amendments	—	—	—	(4,319)
Actuarial (gain) loss	23,139	(58,210)	7,203	36,780
Benefits paid	(11,279)	(13,196)	(12,564)	(14,767)
Benefit obligation at December 31, 1999 and 2000	108,173	547,881	111,196	596,758
Change in plan assets:				
Fair value of plan assets at January 1, 1999 and 2000	11,489	347,188	11,077	419,560
Actual return (loss) on plan assets	382	52,815	100	(39,948)
Employer contribution	—	30,486	197	36,277
Plan participants' contributions	—	2,424	—	2,509
Benefits paid	(794)	(13,353)	(898)	(14,767)
Fair value of plan assets at December 31, 1999 and 2000	11,077	419,560	10,476	403,631
Projected benefit obligation in excess of plan assets at December 31, 1999 and 2000	(97,096)	(128,321)	(100,720)	(193,127)
Contributions to or benefits paid from plan assets during the three month periods ended March 31, 2000 and 2001	1,934	4,693	2,313	10,094
Unrecognized net actuarial loss	33,823	37,135	39,925	136,528
Unrecognized prior service cost	2,046	35,376	1,833	27,659
Unrecognized net (asset) obligation at transition	(3,045)	14,249	(2,490)	11,400
Net amount recognized	¥(62,338)	¥(36,868)	¥(59,139)	¥ (7,446)
Amounts recognized in the balance sheets:				
Prepaid pension cost	—	—	200	—
Accrued benefit liability	(87,532)	(102,765)	(89,130)	(161,312)
Intangible assets	2,045	48,361	1,833	39,058
Accumulated other changes in equity from nonowner sources	23,149	17,535	27,958	114,808
Net amount recognized	¥(62,338)	¥(36,869)	¥(59,139)	¥ (7,446)

Note—The aggregated accumulated benefit obligations of these plans were ¥623,001 million and ¥676,667 million, respectively, at December 31, 1999 and 2000.

The severance indemnities plans generally employ a multi-variable, non-linear formula based upon compensation at the time of severance, rank and years of service. Employees with service in excess of one year are qualified to receive lump-sum severance indemnities.

Plan assets, which include pension trust funds managed by certain life insurance companies and trust banks, consisted of interest-earning deposits at banks, Japanese government bonds, other debt securities and marketable equity securities. Pension assets managed by insurance companies are included in pooled investment portfolios.

In accordance with the provisions of SFAS No. 87, the Group has recorded an additional minimum liability representing the excess of the accumulated benefit obligation over the fair value of plan assets and accrued pension liabilities previously recorded. A corresponding amount is recognized as an intangible asset to the extent of unrecognized net obligation at transition and prior service costs, with the balance recorded as a separate reduction of shareholders' equity, net of income taxes.

In accordance with the Bank's and certain domestic subsidiaries' employment practices, certain employees are granted special early termination of employment, and receive special lump-sum termination benefits. The amounts charged to operations for such early termination benefits for the years ended March 31, 1999, 2000 and 2001 were ¥3,981 million, ¥8,586 million and ¥8,440 million, respectively.

Foreign Offices and Subsidiaries

Foreign offices and subsidiaries also have defined contribution plans and/or defined benefit plans which in the aggregate are not considered significant. The cost of such plans charged to operations for the years ended March 31, 1999, 2000 and 2001 were ¥4,469 million, ¥6,983 million and ¥5,486 million, respectively, including ¥2,089 million, ¥2,490 million and ¥2,555 million, respectively, for defined contribution plans.

Foreign offices and subsidiaries have postemployment and/or postretirement plans for eligible employees and retirees. The costs charged to operations for the years ended March 31, 1999, 2000 and 2001 were ¥1,802 million, ¥1,334 million and ¥1,125 million, respectively.

Certain of the Bank's subsidiaries in the United States of America maintain employees' retirement plans, which are qualified retirement plans covering substantially all of the employees of such subsidiaries. The plans are non-contributory defined benefit plans which provide benefit upon retirement based on years of service and average compensation. The plans are funded on a current basis in compliance with the requirement of the Employee Retirement Income Security Act of the United States of America. These subsidiaries also provide certain postemployment benefits and postretirement benefits other than pensions for employees. Plan assets are generally invested in U.S. government securities, corporate bonds and mutual funds.

Net periodic cost of the employees' retirement and other benefit plans of certain subsidiaries in the United States of America for the years ended March 31, 2000 and 2001 included the following components:

	1999	2000	2001
		(in millions)	
Service cost—benefits during the year	¥ 3,995	¥ 3,533	¥ 3,016
Interest costs on projected benefit obligation	4,818	4,587	5,163
Expected Return on Plan Assets	(4,849)	(4,867)	(5,980)
Amortization of unrecognized net obligation at transition	539	479	403
Amortization of unrecognized prior service cost	247	79	(26)
Recognized actuarial (gain) loss	(69)	235	28
Net periodic benefit cost	4,681	4,046	2,604
Curtailment loss	130	699	661
Settlement loss	—	132	(31)
Net cost after curtailment	¥ 4,811	¥ 4,877	¥ 3,234

	1998	1999	2000
Weighted-average assumptions at December 31:			
Discount rates in determining expense	7.03%	6.52%	7.71%
Discount rates in determining benefit obligation at year end	6.52%	7.71%	7.53%
Rates of increase in future compensation level for determining expense	5.00%	5.00%	5.00%
Rates of increase in future compensation level for determining benefit obligation at year end	5.00%	5.00%	5.00%
Expected rates of return on assets	8.30%	8.30%	8.35%

The following table sets forth the funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2000 and 2001 for the employees' retirement and other benefit plans of certain subsidiaries in the United States of America:

	1999	2000
	(in millions)	
Change in benefit obligation		
Benefit obligation at January 1, 1999 and 2000	¥72,311	¥59,649
Service cost	3,533	3,016
Interest cost	4,587	5,163
Plan participants' contributions	118	123
Amendments	(97)	(166)
Actuarial loss (gain)	(9,988)	7,405
Curtailment	—	—
Settlements	(313)	(9)
Benefits paid	(2,794)	(3,034)
Translation adjustment	(7,708)	7,997
Benefit obligation at December 31, 1999 and 2000	59,649	80,144
Change in plan assets		
Fair value of plan assets at January 1, 1999 and 2000	70,645	70,047
Actual return on plan assets	8,014	1,408
Employer contribution	2,942	3,379
Plan participants' contributions	118	123
Benefits paid	(2,701)	(2,955)
Translation adjustment	(8,971)	8,575
Fair value of plan assets at December 31, 1999 and 2000	70,047	80,577
Projected benefit obligation in excess of plan assets at December 31, 1999 and 2000	10,398	433
Unrecognized net actuarial gain	(15,702)	(2,946)
Unrecognized prior service cost	211	25
Unrecognized net obligation at transition	4,887	4,718
Net amount recognized	¥ (206)	¥ 2,230
Amounts recognized in the balance sheets		
Prepaid pension cost	2,611	5,432
Accrued benefit liability	(2,946)	(3,325)
Intangible assets	35	31
Accumulated other changes in equity from nonowner sources	94	92
Net amount recognized	¥ (206)	¥ 2,230

16. OTHER ASSETS AND LIABILITIES

Major components of other assets and liabilities at March 31, 2000 and 2001 were as follows:

	2000	2001
	(in millions)	
Other assets:		
Accounts receivable:		
Receivables from brokers, dealers and customers for securities transactions	¥ 151,368	¥ 559,801
Other	69,172	106,591
Deferred income tax assets	75,073	574,598
Deferred charges and goodwill	143,470	139,405
Other real estate owned	62,682	33,043
Other	428,463	398,409
Total	¥ 930,228	¥1,811,847
Other liabilities:		
Accounts payable:		
Payables to brokers, dealers and customers for securities transactions	¥1,975,825	¥1,233,099
Other	543,930	378,143
Deferred income tax liabilities	35,755	34,023
Allowance for off-balance-sheet credit instruments	79,163	47,548
Accrued pension liability	196,497	255,697
Accrued and other liabilities	518,777	396,777
Total	¥3,349,947	¥2,345,287

During the years ended March 31, 1999, the Group recognized ¥50.0 billion of impairment of goodwill from the acquisition of Nippon Trust Bank.

At March 31, 2000 and 2001, the valuation allowance to write down the carrying amounts of other real estate owned to their estimated fair value less the estimated cost to sell was ¥85,968 million and ¥34,203 million, respectively. The valuation allowance decreased by ¥56,805 million, ¥61,396 million and ¥51,765 million, respectively, during the years ended March 31, 1999, 2000 and 2001.

Investments in common stock of associated companies, which are included in the "other" line, include marketable securities carried at ¥90,958 million at March 31, 2001. Corresponding aggregate market values are ¥96,486 million.

17. SALES OF EQUITY INVESTMENTS IN SUBSIDIARY

On March 3, 1999, UNBC completed a secondary offering of 28.75 million shares of its common stock owned by the Bank. The Bank received the proceeds from this transaction. Concurrent with the secondary offering, UNBC repurchased 8.6 million shares of its outstanding common stock from the Bank and 2.1 million shares owned by a non-Group company with US$311 million of the net proceeds from the issuance of US$350 million of 7⅜ percent redeemable preferred securities (see Note 14).

18. PREFERRED STOCK

The Bank is authorized to issue 100 million shares of Class 1 Preferred Stock and 100 million shares of Class 2 Preferred Stock, without par value.

All classes of preferred stock to be issued are non-voting and have equal preference over the Bank's common stock for the payment of dividends and the distribution of assets in the event of a liquidation or dissolution of the Bank. They are all noncumulative and non-participating for dividend payments. Preferred stock shareholders receive a liquidation distribution at ¥3,000 per share and do not have the right to participate in any further liquidation distributions.

Class 1 Preferred Stock is redeemable at the option of the Bank. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥360 per share), and redemption terms, including a redemption price.

Class 2 Preferred Stock is convertible into common stock at the option of preferred stock shareholders during a conversion period. The conversion is mandatorily required on the date immediately following the closing date of the conversion period. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥150 per share), and conversion terms, including a conversion period.

On January 21, 1999, the Bank issued 81,400 thousand shares of Class 1 Preferred Stock at ¥3,000 per share (¥244,200 million in the aggregate). Dividends declared and paid during the year ended March 31, 2000 and 2001 were ¥4,649 million and ¥6,716 million, or ¥57.12 and ¥82.50 per share, respectively.

In accordance with the provisions of the Commercial Code in Japan (the ''Code''), the issuance was accounted for by crediting equal amounts of the issue price to capital stock account and to the capital surplus account.

The Bank may redeem shares of Class I Preferred Stock at ¥3,000 per share, in whole or in part, on or after January 21, 2004. In addition, the Bank may, at any time, purchase and retire, at fair value, either or both of Classes 1 and 2 Preferred Stock out of earnings available for distribution to the shareholders. See Note 19.

On April 2, 2001, all common and preferred shares issued by the Bank were exchanged for common and preferred shares of MTFG through the stock-for-stock exchanges. See Note 30.

19. COMMON STOCK AND CAPITAL SURPLUS

The changes in the number of issued shares of common stock during the years ended March 31, 1999, 2000 and 2001 were as follows:

	1999	2000	2001
	(in thousands of shares)		
Balance at beginning of year	4,675,456	4,675,456	4,675,456
Issued for conversion of bonds	—	—	—
Balance at end of year	4,675,456	4,675,456	4,675,456

In accordance with the provisions of the Code, the bond conversions have been accounted for by crediting equal amounts of the exercise price to the capital stock account and to the capital surplus account.

The Bank from time to time made a free distribution by way of a ''stock split,'' as defined in the Code (see Note 1), and also, as permitted by the Code prior to April 1, 1991, free share distributions, recording no changes in the capital accounts. These free distributions usually are from 5 to 10 percent of outstanding common stock and publicly-owned corporations in the United States issuing shares in similar transactions would be required to account for them as stock dividends as of the shareholders' record date by reducing retained earnings and increasing the appropriate capital accounts by an amount equal to the fair value of the shares issued. The application of such United States accounting practice to the cumulative free distributions made by the Bank at March 31, 2001, would have increased capital accounts by ¥1,748,080 million with a corresponding decrease in unappropriated retained earnings.

The Code permits, upon approval of the Board of Directors, the transfer of amounts from capital surplus to the capital stock account.

At March 31, 2001, 146,797,356 shares of common stock were reserved for the Exchangeable Guaranteed Notes due 2002 discussed in Note 14.

As permitted by the Code, pursuant to a resolution of an annual general meeting of the shareholders, the Bank may purchase its own issued shares for their retirement. In addition, pursuant to a resolution of the Board of Directors, the Bank may purchase its own shares for their retirement, not exceeding 460 million shares, in accordance with its articles of incorporation. Any shares of common stock or preferred stock, in whole or in part, are subject to such purchases made for purposes of retirement.

20. RETAINED EARNINGS AND DIVIDENDS

Retained Earnings Appropriated for Legal Reserve

The Banking Law of Japan provides that an amount at least equal to 20% of all cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 100% of common stock. The retained earnings so appropriated may be used to eliminate or reduce a deficit by a resolution of the shareholders or may be transferred to the common stock account by a resolution of the Board of Directors.

Unappropriated Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Code is based on the amount recorded in the Bank's general books of account maintained in accordance with accepted Japanese accounting practices. The adjustments included in the accompanying consolidated financial statements but not recorded in the Bank's general books of account as explained in Note 1 have no effect on the determination of retained earnings available for dividends under the Code.

In addition to the provision that requires an appropriation for legal reserve as described above, the Code and the Banking Law impose certain limitations on the amount of retained earnings available for dividends. None of the retained earnings shown by the Bank's general books of account, prepared in accordance with accounting principles generally accepted in Japan, as of March 31, 2001

(¥933,300 million, exclusive of the amount to be appropriated for legal reserve and unrealized gains on trading account asset (as defined), if any) is restricted by such limitations under the Code or by the Banking Law as described above.

The Code permits the transfer, upon approval of the shareholders, of a portion of unappropriated retained earnings available for dividends to the common stock account.

Annual dividends, including those for preferred stock, are approved by the shareholders at the annual meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, a semi-annual interim dividend payment may be made by resolution of the Board of Directors, subject to limitations imposed by the Code and the Banking Law.

In the accompanying consolidated statements of shareholders' equity, dividends and appropriations to legal reserve shown for each year represent dividends approved and paid during the year and the related appropriation to legal reserve.

21. REGULATORY CAPITAL REQUIREMENTS

The Bank and its banking and certain other subsidiaries are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which they operate. Failure to meet minimum capital requirements can initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Management believes that the Bank and its subsidiaries are in compliance with such requirements as of their most recent fiscal year-ends.

In Japan, the Bank and its banking subsidiaries are subject to regulatory capital requirements administered by the Financial Services Agency of Japan. The Financial Services Agency provides two sets of capital adequacy guidelines. One is a set of guidelines applicable to Japanese banks with foreign offices conducting international operations, and the other is applicable to Japanese banks which are not engaged in international operations.

Under the capital adequacy guidelines applicable to a Japanese bank with international operations conducted by foreign offices, the minimum target capital ratio of 8.0% is required. The capital adequacy guidelines adopt the approach of risk-weighted capital measure based on the framework developed and proposed by the Bank for International Settlements and involve quantitative credit measures of the assets and certain off-balance-sheet items as calculated under accounting principles generally accepted in Japan. In addition, a bank engaged in certain qualified trading activities is required to calculate additional capital charge for market risk using either the bank's own internal risk measurement model or a standardized process developed and defined by the Bank for International Settlements. Capital is classified into three tiers, referred to Tier I, Tier II and Tier III. Tier I generally consists of stockholders' equity less any recorded goodwill. Tier II generally consists of reserves for credit losses, 45% of the unrealized gains on marketable investment securities, 45% of the land revaluation excess and the balance of subordinated term debt with an original maturity of over five years up to 50% of Tier I capital. Tier III capital generally consists of short-term subordinated debt with an original maturity of at least two years, subject to certain limitations. At least 50% of the minimum capital ratio must be maintained in the form of Tier I capital.

If a bank is not engaged in international operations conducted by foreign offices, it is subject to the other set of capital adequacy requirement of the minimum target capital ratio of 4.0%. Such guidelines incorporate measures of risk under the risk-weighted approach similar to the guidelines applicable to banks with international operations. Qualifying capital is classified into Tier I and Tier II capital.

The Banking Law and related regulations require that one of three categories be assigned to a bank, based on its risk-adjusted capital adequacy ratio if the bank fails to meet the minimum target capital adequacy ratio. These categories indicate capital deterioration, which may be subject to certain prompt corrective action by the Financial Services Agency. If the capital ratio of a bank is equal to or greater than the specific preestablished minimum target capital ratio, the bank is not subject to the prompt corrective action.

The risk-adjusted capital amounts and ratios of the Bank and its subsidiary, Nippon Trust Bank, presented in the following table are based on amounts calculated in accordance with accounting principles generally accepted in Japan.

	Actual		Minimum capital ratios
	Amount	Ratio	required
	(in millions except percentages)		
At March 31, 2000:			
Total capital (to risk-weighted assets):			
The Bank	¥5,506,199	11.46%	8.00%
Nippon Trust Bank	64,728	7.13	4.00
Tier I capital (to risk-weighted assets):			
The Bank	2,754,083	5.73	4.00
Nippon Trust Bank	59,060	6.51	2.00
At March 31, 2001:			
Total capital (to risk-weighted assets):			
The Bank	4,896,616	9.69	8.00
Nippon Trust Bank	54,530	8.17	4.00
Tier I capital (to risk-weighted assets):			
The Bank	2,498,222	4.94	4.00
Nippon Trust Bank	35,362	5.30	2.00

The Bank has international operations conducted by foreign offices as defined and should maintain the minimum capital adequacy ration of 8.0% while certain domestic banking subsidiaries are subject to a 4.0% capital requirement. For the purpose of market risk measure, the Bank has adopted the internal risk measurement model approach for general market risk calculations.

Management believes, as of March 31, 2001, that the Bank and Nippon Trust Bank meet all capital adequacy requirements to which they are subject.

UNBC and its banking subsidiary Union Bank of California, N.A. (‘‘UBOC’’), the Bank’s largest subsidiaries operating outside Japan, are subject to various regulatory capital requirements administered by U.S. Federal banking agencies, including minimum capital requirements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, UNBC and UBOC must meet specific capital guidelines that involve quantitative measures of UNBC’s and UBOC’s assets, liabilities, and certain off-balance-sheet items as calculated under U.S. regulatory accounting practices. UNBC’s and UBOC’s capital amounts and UBOC’s prompt corrective action classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require UNBC and UBOC to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to quarterly average assets (as defined).

UNBC's and the UBOC's actual capital amounts and ratios are also presented, respectively, in the following tables.

	Actual		Minimum capital ratios required
	Amount	Ratio	
	(in millions except percentages)		
UNBC:			
At December 31, 1999:			
Total capital (to risk-weighted assets)	$3,926	11.79%	8.0%
Tier I capital (to risk-weighted assets)	3,309	9.94	4.0
Tier I capital (to quarterly average assets)	3,309	10.10	4.0
At December 31, 2000:			
Total capital (to risk-weighted assets)	4,091	12.07	8.0
Tier I capital (to risk-weighted assets)	3,471	10.24	4.0
Tier I capital (to quarterly average assets)	3,471	10.19	4.0

	Actual		Minimum capital ratios required	Ratios required to be "well capitalized"
	Amount	Ratio		
	(in millions except percentages)			
UBOC:				
At December 31, 1999:				
Total capital (to risk-weighted assets)	$3,615	11.00%	8.0%	10.0%
Tier I capital (to risk-weighted assets)	3,103	9.45	4.0	6.0
Tier I capital (to quarterly average assets)	3,103	9.55	4.0	5.0
At December 31, 2000:				
Total capital (to risk-weighted assets)	3,671	11.01	8.0	10.0
Tier I capital (to risk-weighted assets)	3,158	9.47	4.0	6.0
Tier I capital (to quarterly average assets)	3,158	9.24	4.0	5.0

Management believes, as of December 31, 2000, that UNBC and UBOC met all capital adequacy requirements to which they are subject.

As of December 31, 1999 and 2000, the most recent notification from the U.S. Office of the Comptroller of the Currency categorized UBOC as ''well capitalized'' under the regulatory framework for prompt corrective action. To be categorized as ''well capitalized,'' UBOC must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed UBOC's category.

22. EARNINGS PER COMMON SHARE

Reconciliations of net income (loss) and weighted average number of common shares outstanding used for the computation of earnings (loss) per common share—basic to the adjusted amounts for the computation of earnings (loss) per common share—assuming dilution for the years ended March 31, 1999, 2000 and 2001 were as follows:

	1999	2000	2001
		(in millions)	
Net income (loss)	¥ (344,423)	¥ 35,475	¥ (107,684)
Cash dividends to preferred shareholders	—	(4,649)	(6,716)
Effect of dilutive securities—interest expense and foreign currency translation gains on convertible debt	—	(12,840)	—
Adjusted for diluted computation	¥ (344,423)	¥ 17,986	¥ (114,400)
		(thousands of shares)	
Weighted average common shares outstanding	4,675,446	4,675,442	4,675,251
Convertible debt	—	146,993	—
Adjusted for diluted computation	4,675,446	4,822,435	4,675,251
		(in yen)	
Earnings (loss) per common share—basic	¥ (73.67)	¥ 6.59	¥ (24.47)
Earnings (loss) per common share—assuming dilution	¥ (73.67)	¥ 3.73	¥ (24.47)

The weighted average number of common shares outstanding during each year is appropriately adjusted to give retroactive effect to the free distribution of shares made to shareholders, if any.

1¾% Convertible Bonds due 2002, 3% Exchangeable Guaranteed Notes due 2002, and Exchangeable undated bonds, which could potentially dilute earnings per common share, were outstanding during this fiscal year (in August 2000, 1¾% Convertible Bonds due 2002 and Exchangeable undated bonds were redeemed) but not included in the computation of loss per common share—assuming dilution for the year ended March 31, 1999 and 2001 due to their antidilutive effects.

23. DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

The Group uses various derivative financial instruments both for trading purposes and for purposes other than trading and credit-related off-balance-sheet financial instruments in the normal course of business to meet the financing needs of its customers, as a source of revenue and to manage risk. These financial instruments involve, in varying degrees, elements of credit and market risk in excess of the amounts recognized in the consolidated balance sheets. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract. Market risk is the exposure created by potential fluctuations in market indices, including, but not limited to, interest or foreign exchange rates.

To reduce credit risk, the Group may require collateral or guaranties based on a case-by-case evaluation of each customer and instrument. Collateral varies but may include real estate, marketable securities and accounts receivable. Guarantors may include governments, affiliates of customers and financial institutions. The Group also uses master netting agreements in order to reduce overall counterparty credit risk.

Notional principal amounts are often used to express the volume of derivative transactions, and such amounts are generally much larger than the amounts subject to credit risk. Options purchased have no off-balance-sheet credit risk. The following is a summary of the notional principal amounts of derivative financial instruments related to interest rate and foreign exchange contracts entered into by the Group at March 31, 2000 and 2001:

	2000			2001		
	Trading	Asset/Liability management	Total	Trading	Asset/Liability management	Total
			(in billions)			
Interest rate contracts:						
Forward and futures	¥140,556	¥ 6	¥140,562	¥163,084	¥ 7	¥163,091
Swap and swap-related products	142,613	404	143,017	165,055	201	165,256
Options written	16,166	67	16,233	12,039	57	12,096
Options purchased	12,282	102	12,384	21,126	144	21,270
Total	¥311,617	¥579	¥312,196	¥361,304	¥409	¥361,713
Foreign exchange contracts:						
Forward and futures						
Purchase	¥ 13,652	¥ 64	¥ 13,716	¥ 18,529	¥178	¥ 18,707
Sell	13,219	128	13,347	17,724	4	17,728
Swaps	7,309	14	7,323	7,950	194	8,144
Options written	2,048	—	2,048	2,984	—	2,984
Options purchased	2,044	—	2,044	3,022	—	3,022
Total	¥ 38,272	¥206	¥ 38,478	¥ 50,209	¥376	¥ 50,585

The Group holds other types of derivative financial instruments, including equity, credit-related and commodity contracts for trading purposes. Notional amounts of such instruments for its trading account were ¥2,080 billion and ¥1,841 billion, respectively, at March 31, 2000 and 2001.

The timing of cash receipts and payments relating to these financial instruments is determined by the related contract. Interest rate and foreign exchange contracts, other than swap contracts, outstanding at March 31, 2001 principally expire within two years. Approximately 31% of swap contracts outstanding at March 31, 2001 will expire within one year, 53% from one year to five years and 16% after five years.

Classes of Derivative Financial Instruments

The Group uses the following classes of derivative financial instruments both for trading purposes and for purposes other than trading (primarily asset and liability management purposes).

Forward and futures contracts are commitments to buy or sell a financial instrument or a commodity at a specified rate or price, and may be settled in cash or through delivery of the underlying financial instrument or commodity. Credit risk associated with futures contracts is considered minimal since they are traded on organized exchanges. Organized exchanges approve counterparties, require security deposits, and require daily payment of variation margins, all of which reduce credit risk. Forward contracts are generally negotiated between two counterparties and, therefore, are subject to the performance of the counterparty.

Swap contracts are commitments to settle in cash at a future date or dates, based on differentials between specified financial indices, as applied to a notional principal amount. Principal amounts are generally not exchanged, with the exception of cross-currency swaps, where the principal amounts may be exchanged at inception and re-exchanged at maturity. The amounts potentially subject to credit risk are much smaller than the notional amounts presented above.

Options, which are traded on organized exchanges or negotiated directly between two counterparties, are contracts that allow the holder of the option to purchase from or sell to the writer of the option currency or another financial instrument at a specified rate or price and within a specified period of time. The Group, as a writer of options, receives premiums and bears the risk of unfavorable interest rate or foreign exchange rate changes.

Trading Activities

The Group's trading activities include dealing and other activities measured at fair value with gains and losses recognized currently in earnings. Non-dealing activities include risk management activities which is another important goal of the Group.

As part of its trading activities, the Group offers a variety of derivative financial instruments and debt instruments for managing interest rate and foreign exchange risk to its domestic and foreign, corporate and financial institution customers. The Group also enters into other types of derivative transactions, including equity, commodity and credit-related contracts, for its own account.

Asset and Liability Management Activities

The Group's principal objective in using derivative financial instruments for purposes other than trading is asset and liability management.

As an end-user, the Group uses various derivative transactions to manage its own asset and liability positions in order to control interest rate and currency exposures. Exposure to interest rate changes results from a variety of factors, including the maturities of interest-bearing assets and liabilities and the timing of interest rate repricings. The Group enters into interest rate swaps and other contracts as part of its interest rate risk management strategy primarily to alter the interest rate sensitivity of its loans, investment securities and deposit liabilities. The Group enters into forward exchange contracts, currency swaps and other contracts in response to currency exposures resulting from on-balance-sheet assets and liabilities denominated in foreign currencies in order to limit the net foreign exchange position by currency to an appropriate level.

Asset and liability management is also viewed as a principal source of revenue for the Group to manage its interest rate exposures as the Group's principal source of revenue is interest-bearing assets and liabilities. Even if the asset and liability management reduces the Group's risk exposures economically, the Group includes the related derivative financial instruments in its trading activities unless required criteria for hedge accounting are satisfied.

The Group generally does not hold or issue derivative financial instruments to hedge anticipated transactions.

Credit-Related Off-Balance-Sheet Financial Instruments

The Group issues certain credit-related off-balance-sheet financial instruments for purposes other than trading. Such credit-related financial instruments include commitments to extend credit, standby letters of credit, guaranties, and commercial letters of credit to meet the financing needs of its customers. For these financial instruments, the contract amount represents the credit risk associated with failure of the counterparty to perform in accordance with the terms and conditions of the contract, and the decline in value of the underlying collaterals. The credit risk associated with these financial instruments varies depending on the counterparty's creditworthiness and the value of any collateral held. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At March 31, 2001, approximately 82% of these commitments will expire within one year, 16% from one year to five years and 2% after five years.

The following is a summary of the contract amounts of these financial instruments at March 31, 2000 and 2001:

	2000	2001
	(in billions)	
Commitments to extend credit	¥22,106	¥24,804
Standby letters of credit and other guaranties	4,604	4,672
Commercial letters of credit	503	353

Commitments to extend credit, which generally have fixed expiration dates or other termination clauses, are legally binding agreements to lend to customers as long as there is no violation of any condition established in the contract.

Standby letters of credit and guaranties are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. The Group is obliged to pay the third party upon presentation of a claim that meets the conditions of the commitment; however, based on its past experience, the Group does not expect the third party to draw funds under such commitment. These guaranties at March 31, 2000 and 2001 included guaranties of securities of other issuers, principally domestic corporate customers, aggregating ¥384 billion and ¥340 billion, respectively, for the payment of bond and note principal and related interest.

The Bank's trust banking subsidiary is engaged in fiduciary activities on behalf of others. Under some trust agreements, the subsidiary guarantees the repayment of the principal of the customers' trust assets, and such guaranteed principal amounts as of March 31, 2000 and 2001 were ¥484 billion and ¥302 billion, respectively, which represented the credit and market risks associated with the impairment of trust assets.

Commercial letters of credit, used for facilitating trade transactions, are generally secured by underlying goods. The Group continually monitors the type and amount of collateral and other security, and requires counterparties to provide additional collateral or guarantors as necessary.

Resale and Repurchase Agreements and Secutity Lending Transactions

Security lending transactions involve the lending of securities borrowed from other financial institutions or customers' securities held in custody to third party borrowers. The Group generally obtains collateral from borrowers, including cash and securities, with similar fair value. The Group follows strict levels of collateralization governed by daily mark-to-market analyses and a review of the creditworthiness of borrowers to control exposure to credit losses resulting from a reduction in the underlying collateral value and nonperformance by borrowers.

Certain subsidiaries lend customer securities as agent and, at times, indemnifies their customers against counterparty default. At March 31, 2000 and 2001, notional amounts of such security lending transactions with indemnification were ¥282 billion and ¥441 billion, respectively.

The Group enters into repurchase and resale transactions. In a sale of securities or other financial instruments with agreement to repurchase them, the Group sells securities or other financial instruments at a stated price to a counterparty and agrees to repurchase identical financial instruments from the same counterparty at a later date at the predetermined price which reflect the principal amount and interest. In a purchase of securities or other financial instruments with agreement to resale them, the Group receives securities or other financial instruments for a stated price from a counterparty and agrees to sell them to the same counterparty at a later date at the predetermined price reflecting the principal amount and interest.

When certain conditions specified in SFAS No. 125 are met, the Group accounts for resale agreements as purchase of financial instruments with related off-balance-sheet forward resale commitments and repurchase agreements as sale of financial instruments with related off-balance-sheet forward repurchase agreements. The Group bears the off-balance-sheet risk related to the forward repurchase commitments, including credit risk and market risk. At March 31, 2000 and 2001, contract amounts of such forward repurchase commitments were ¥4,960 billion and ¥4,513 billion, respectively.

Concentration of Credit Risk

Although the Group's portfolio of financial instruments, including on-balance-sheet instruments, is widely diversified along industry and geographic lines, a significant portion of the transactions with off-balance-sheet risk are entered into with other financial institutions.

24. COMMITMENTS AND CONTINGENT LIABILITIES

The Group leases certain office space and equipment under noncancelable agreements expiring through the year 2015.

Future minimum rental commitments for noncancelable leases at March 31, 2001 were as follows:

	Capitalized leases	Operating leases
	(in millions)	
Year ending March 31:		
2002	6,172	21,676
2003	5,920	19,885
2004	4,992	18,043
2005	4,400	17,024
2006	3,535	15,802
2007 and thereafter	1,504	47,986
Total minimum lease payments	26,523	140,416
Amount representing interest	(642)	
Present value of minimum lease payments	25,881	

Total rental expense for the years ended March 31, 1999, 2000 and 2001 was ¥46,462 million, ¥38,880 million and ¥34,520 million, respectively.

The Group is involved in various litigious matters. In the opinion of management, the Group's liabilities, if any, when ultimately determined will not have a material adverse effect on the Group's financial position.

25. FEES AND COMMISSION INCOME

Details of fees and commission income for the three years ended March 31, 1999, 2000 and 2001 were as follows:

	1999	2000	2001
		(in millions)	
Fees on funds transfer and service charges for collections	¥ 50,746	¥ 52,594	¥ 56,147
Commissions and fees on international business	38,739	36,080	50,472
Trust fees	43,089	37,378	36,362
Commissions and fees on credit card business	—	—	47,828
Other fees and commissions	123,707	130,167	150,840
Total	¥256,281	¥256,219	¥341,649

26. BUSINESS SEGMENTS

The business segment information, set forth below, is derived from the internal management reporting system used by management to measure the performance of the business segments. Unlike financial accounting, there is no authoritative body of guidance for management accounting. The business segment information, set forth below, is based on the financial information prepared in accordance with Japanese GAAP. Accordingly, the format and information is presented on the basis of Japanese GAAP and is not consistent with the consolidated financial statements prepared on a basis of US GAAP. A reconciliation is provided for the segments' total operating profit with income (loss) before income tax expense or benefit under US GAAP. The information includes significant inter-segment allocation of net revenue from the Investment Banking business unit to other business units.

See Note 27 for financial information relating to the Group's operations by geographic area. The information is consistent with the basis of the accompanying consolidated financial statements.

Effective July 1, 2000, the Group implemented a new business unit system, based on customer and product segmentation.

The Retail Banking and Commercial Banking business units provide a full range of banking products and services for a broad range of customers. The Retail Banking business unit serves individuals and small corporate customers. The Commercial Banking business unit serves large and medium-sized corporations.

The Global Corporate Banking business unit serves large corporations and some small and medium-sized companies, particularly those with banking needs outside of Japan, and overseas customers (except for UnionBanCal Corporation's customers).

The Investment Banking business unit provides advisory and other services related to mergers and acquisitions (M&A), private and public securities offerings, project financing, derivatives and securitization and other investment banking activities.

The Asset Management business unit is responsible for strategic planning and support, including planning and development of asset management products and services, and risk management of the unit's trust and asset management subsidiaries.

The UNBC business unit is comprised of UnionBanCal Corporation, a publicly traded majority-owned U.S. banking subsidiary that is the holding company for Union Bank of California, N.A.

The Operations Services unit provides operations and settlement services to the Group's other business units, including settlement and foreign exchange.

The Treasury unit is responsible for the Group's asset and liability management and liquidity.

The financial performances of the Group's major business units, derived from the internal management reporting system, are summarized below. The business segment information for the year ended March 31, 2000 and 2001 is based on the new business unit structure effective July 1, 2000. However, it is not practicable to restate the fiscal 1998 segment information on the new basis of segmentation, and it is also impracticable to provide the fiscal 2000 segment information on the old basis of segmentation. Accordingly, the business segment disclosures on the new basis of segmentation are presented for the years ended March 31, 2000 and 2001, and the business segment disclosures on the old basis of segmentation are presented for the years ended March 31, 1999 and 2000. Management does not use information on segments' total assets to allocate resources and assess performance and has not prepared information on segment assets. Accordingly, business segments' information on total assets is also not available.

	Retail banking	Commercial banking	Global corporate banking	Investment banking	Asset management	UNBC	Operations services	Treasury	Other*	Segments' total
					(in millions)					
Year ended March 31, 2000:										
Net revenue:										
The Bank:										
Net interest income	¥199,190	¥219,265	¥132,881	¥ 1,931	¥(4,690)	¥ —	¥1,020	¥150,988	¥ (23,628)	¥ 676,957
Net fees	18,100	34,859	49,788	21,371	7,003	—	3,465	(2,057)	(30,797)	101,732
Other	11,100	24,319	27,808	17,908	5,440	—	1,090	(7,241)	3,172	83,596
Subsidiaries	16,653	6,141	50,286	37,053	42,524	205,065	14,361	751	8,594	381,428
Total	245,043	284,584	260,763	78,263	50,277	205,065	19,936	142,441	(42,659)	1,243,713
Operating expenses	186,659	132,336	108,478	49,407	31,862	122,570	16,563	23,736	37,223	708,834
Operating profit	¥ 58,384	¥152,248	¥152,285	¥28,856	¥18,415	¥ 82,495	¥3,373	¥118,705	¥ (79,882)	¥ 534,879
Year ended March 31, 2001:										
Net revenue:										
The Bank:										
Net interest income	¥197,832	¥215,186	¥141,339	¥(1,251)	¥(3,980)	¥ —	¥1,380	¥ 61,301	¥ (30,870)	¥ 580,937
Net fees	19,716	39,652	60,478	27,833	6,440	—	3,572	(2,924)	(35,577)	119,190
Other	12,229	22,803	22,612	22,253	(2,255)	—	1,380	48,238	43,014	170,274
Subsidiaries	72,276	9,047	53,850	46,141	46,066	256,225	16,040	1,500	8,432	509,577
Total	302,053	286,688	278,279	94,976	46,271	256,225	22,372	108,115	(15,001)	1,379,978
Operating expenses	231,700	130,453	124,491	72,112	32,947	131,869	18,107	25,402	146,766	913,847
Operating profit	¥ 70,353	¥156,235	¥153,788	¥22,864	¥13,324	¥124,356	¥4,265	¥ 82,713	¥(161,767)	¥ 466,131

* Other includes the Systems Services unit, the eBusiness & Initiatives unit, the Corporate Center and elimination of overlapping allocation.

	Domestic customers	Overseas customers	Treasury	Investment banking	Asset management	Global service banking	Other	Segments' total
				(in millions)				
Year ended March 31, 1999:								
Net revenue:								
The Bank:								
Net interest income	¥463,866	¥ 81,807	¥221,943	¥ 1,535	¥(3,592)	¥ 1,524	¥ (28,880)	¥ 738,203
Net fees	71,285	33,529	(3,048)	13,633	47	9,732	(26,951)	98,227
Other	46,700	24,543	126,107	28,069	(435)	1,027	18,688	244,699
Subsidiaries	33,952	290,628	798	32,478	36,550	5,321	11,828	411,555
Total	615,803	430,507	345,800	75,715	32,570	17,604	(25,315)	1,492,684
Operating expenses	361,672	242,508	20,959	36,899	39,942	10,070	85,290	797,340
Operating profit	¥254,131	¥187,999	¥324,841	¥38,816	¥(7,372)	¥ 7,534	¥(110,605)	¥ 695,344
Year ended March 31, 2000:								
Net revenue:								
The Bank:								
Net interest income	¥475,503	¥ 74,543	¥145,848	¥ 2,015	¥(4,727)	¥ 1,400	¥ (17,625)	¥ 676,957
Net fees	72,660	28,359	(1,598)	13,761	225	10,756	(22,431)	101,732
Other	63,430	10,803	(1,867)	29,021	5,106	1,132	(24,029)	83,596
Subsidiaries	33,496	261,530	751	30,875	40,891	5,272	8,613	381,428
Total	645,089	375,235	143,134	75,672	41,495	18,560	(55,472)	1,243,713
Operating expenses	355,714	214,846	21,214	38,077	27,715	10,160	41,108	708,834
Operating profit	¥289,375	¥160,389	¥121,920	¥37,595	¥13,780	¥ 8,400	¥ (96,580)	¥ 534,879

Management measures performance of each business unit by ''operating profit'' which includes profits or losses of subsidiaries. Financial information of each subsidiary is assigned to only one business unit, based on its major products or services provided and its major type of customers. ''Operating profit'' is a defined term in the Bank's regulatory reporting to the Financial Services Agency.

''Net revenue'' above includes net interest income, net fees (that is, fees and commissions received, net of fees paid and other related expenses), and other gains, such as net trading gains, net foreign exchange gains, and net gains from sales of debt investment securities measured under Japanese GAAP. Interest income and expenses between business units are determined using an internal transfer pricing system, based on current market rates. ''Operating expenses'' include salaries and employee benefits, occupancy and certain other non-interest expenses. In determining operating profit, the Group does not assign to each business unit certain income and expense items such as most of the provision for credit losses, equity investment securities gains or losses, minority interest in earnings or losses of subsidiaries, equity in earnings or losses of affiliated companies, goodwill amortization and impairment, net gains or losses from disposition of premises and equipment, and other certain non-interest income and expense items.

In many cases, the business units work together in connection with providing services to customers. In accordance with the Group's internal management accounting policies, the Group does not apportion the net revenue relating to any particular transaction among the participating business units. Instead, the Group assigns the total amount of net revenue relating to each of these transactions to each participating business unit. As a result, some items of net revenue are recorded as part of the operating results of more than one business unit. Any overlapping allocations are eliminated in the ''Other'' column. The following is the summary of the aggregate amounts of this overlapping allocation of net revenue for the business units for the years ended March 31, 2000 and 2001.

	Retail banking	Commercial banking	Global corporate banking	Asset management	Total amount eliminated
			(in millions)		
Year ended March 31, 2000:					
Investment banking	¥—	¥3,823	¥21,785	¥629	¥26,237
Year ended March 31, 2001:					
Investment banking	¥ 3	¥5,606	¥28,005	¥538	¥34,152

As set forth above, the measurement bases and the income and expense items covered are very different between the internal management reporting system and the accompanying consolidated statements of operations. Therefore, it is impracticable to present reconciliations of the business segments' total information, other than operating profit, to corresponding items in the accompanying consolidated statements of operations.

Reconciliation of the segments' operating profit under the internal management reporting system for the years ended March 31, 2000 and 2001 above to income (loss) before income tax expense or benefit shown on the consolidated statements of operations are as follows:

	2000	2001
	(in billions)	
Operating profit	¥ 535	¥ 466
Equity investment securities gains—net	147	41
Provision for credit losses	(364)	(557)
Loss on other real estate owned	(68)	(16)
Goodwill amortization	(3)	(4)
Minority interest	(17)	(20)
Trading account profits (losses)—net	(68)	105
Foreign exchange gains (losses)—net	74	(66)
Other—net	(107)	(51)
Income (loss) before income tax expense or benefit	¥ 129	¥ (102)

27. FOREIGN ACTIVITIES

Foreign operations include the business conducted by overseas offices, as well as international business conducted from domestic offices, principally several international banking-related divisions of the Bank's Head Office in Tokyo and involve various transactions with debtors and customers residing outside Japan. The close integration of the Group's foreign and domestic activities makes precise estimates of the amounts of assets, liabilities, income and expenses attributable to foreign operations difficult and necessarily subjective. Assets, income and expenses attributable to foreign operations are allocated to geographical areas based on the domiciles of the debtors and customers.

Generally, interest rates with respect to funds borrowed and loaned between domestic and foreign operations are based on prevailing money market rates appropriate for the transactions. In general, the Group has allocated all direct expenses and a proportionate share of general and administrative expenses to income derived from foreign loans and other transactions by the Group's foreign operations. The following table sets forth estimated total assets at March 31, 1999, 2000 and 2001, and estimated gross revenue, total expenses, income or loss before income tax expense or benefit and net income or loss for the respective years then ended.

	Domestic	Foreign				
	Japan	United States of America	Europe	Asia/Oceania excluding Japan	Other Areas*	Total
			(in millions)			
Year ended March 1999:						
Total Revenue	¥1,153,922	¥ 775,624	¥ 478,858	¥ 273,427	¥ 174,890	¥2,856,721
Total Expenses	1,857,169	591,931	426,841	324,385	144,149	3,344,475
Income (loss) before income tax expense or benefit	(703,247)	183,693	52,017	(50,958)	30,741	(487,754)
Net income (loss)	(414,152)	58,841	25,306	(28,723)	14,305	(344,423)
Total assets at end of year	50,413,430	8,601,225	5,745,806	3,145,968	2,242,413	70,148,842
Year ended March 2000:						
Total Revenue	¥1,239,438	¥ 545,432	¥ 194,810	¥ 205,242	¥ 141,215	¥2,326,137
Total Expenses	1,299,603	468,790	184,464	149,656	94,514	2,197,027
Income (loss) before income tax expense or benefit	(60,165)	76,642	10,346	55,586	46,701	129,110
Net income (loss)	(113,825)	50,003	10,302	45,062	43,933	35,475
Total assets at end of year	53,124,628	7,778,835	3,490,671	2,865,499	1,557,601	68,817,234
Year ended March 2001:						
Total Revenue	¥1,205,219	¥ 628,593	¥ 307,319	¥ 250,474	¥ 170,237	¥2,561,842
Total Expenses	1,594,824	583,154	214,586	155,697	115,293	2,663,554
Income (loss) before income tax expense or benefit	(389,605)	45,439	92,733	94,777	54,944	(101,712)
Net income (loss)	(352,301)	15,592	90,960	84,287	53,778	(107,684)
Total assets at end of year	54,869,073	10,226,729	6,213,544	3,074,029	1,993,528	76,376,903

* Other Areas primarily include Canada, Latin America and the Caribbean.

The following is an analysis of certain asset and liability accounts related to foreign activities at March 31, 2000 and 2001:

	2000	2001
	(in millions)	
Cash and due from banks	¥ 384,241	¥ 495,249
Interest-earning deposits in other banks	1,502,025	2,436,768
Total	¥1,886,266	¥ 2,932,017
Trading account assets	¥1,003,802	¥ 2,262,925
Investment securities	¥2,257,979	¥ 3,941,146
Loans—net of unearned income and deferred loan fees	¥8,218,823	¥ 9,870,611
Deposits, principally time deposits and certificates of deposit by foreign banks	¥9,698,409	¥12,848,687
Funds borrowed:		
Call money, funds purchased, and receivables under repurchase agreements and securities lending transactions	¥ 867,569	¥ 1,515,570
Other short-term borrowings	304,811	415,600
Long-term debt	2,022,074	1,858,836
Total	¥3,194,454	¥ 3,790,006
Trading account liabilities	¥ 762,799	¥ 2,173,197

The Group had no cross-border outstandings in any foreign country which exceeded 1% of consolidated total assets at March 31, 2000 and 2001.

28. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices, where available, are used to estimate fair values of financial instruments. However, quoted market prices are not available for a substantial portion of financial instruments and fair values for such financial instruments are estimated using discounted cash flow models or other valuation techniques. Although management uses its best judgment in estimating fair values of financial instruments, estimation methodologies and assumptions used to estimate fair values are inherently subjective. Accordingly, the estimates presented herein are not necessarily indicative of net realizable or liquidation values. The use of different estimation methodologies and/or market assumptions may have a significant effect on the estimated fair values. The estimated fair values of financial instruments do not include valuations of related intangible assets such as core deposits.

The following is a summary of carrying amounts and estimated fair values of financial instruments at March 31, 2000 and 2001:

	2000		2001	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(in billions)			
Financial assets:				
Cash, due from banks, call loans and funds sold, and receivables under resale agreements and securities borrowing transactions	¥ 8,259	¥ 8,259	¥12,047	¥12,047
Trading account assets, excluding derivatives	3,751	3,751	3,623	3,623
Investment securities	13,562	13,568	16,201	16,201
Loans, net of allowance for possible credit losses	39,830	39,857	38,790	38,959
Other financial assets	785	785	1,177	1,177
Derivative financial instruments:				
Trading activities	1,731	1,731	2,969	2,969
Asset and liability management activities	11	13	5	31
Financial liabilities:				
Non-interest-bearing deposits, call money and funds purchased, and payables under repurchase agreements and securities lending transactions	¥ 8,443	¥ 8,443	¥12,455	¥12,455
Interest-bearing deposits	40,451	40,476	44,725	44,845
Debentures	4,544	4,596	3,411	3,444
Trading account liabilities, excluding derivatives	1,230	1,230	1,451	1,451
Obligations to return securities received as collateral	479	479	296	296
Other short-term borrowings	1,489	1,489	2,015	2,015
Long-term debt	3,974	4,050	4,431	4,573
Other financial instruments	2,866	2,866	2,109	2,109
Derivative financial instruments:				
Trading activities	1,518	1,518	2,500	2,500
Assets and liability management activities	3	15	4	17

The methodologies and assumptions used to estimate the fair value of the financial instruments are summarized below.

Cash, due from banks, call loans and funds sold and receivables under resale agreements and securities borrowing transactions—For cash, due from banks including interest-earning deposits, and call loans and funds sold, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature and limited credit risk. For receivables under resale agreements and securities borrowing transactions, the fair values are based on quoted market prices, when available, or estimated using quoted market prices for similar instruments when quoted market prices do not exist.

Trading account securities—Trading securities and short trading positions of securities are carried at fair value, which is based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Investment securities—The fair values of investment securities, where quoted market prices or secondary market prices are available, are equal to such market prices. For investment securities, when quoted market prices or secondary market prices are not available, the fair values are estimated using quoted market prices for similar securities or based on appraised value as deemed appropriate by management. The fair values of investment securities other than available for sale or being held to maturity (including nonmarketable equity securities) at March 31, 2000 and 2001 were not readily determinable. Therefore, the above summary does not include such other investment securities which are carried at cost of ¥109 billion and ¥112 billion, at March 31, 2000 and 2001, respectively.

Loans—The fair values of loans are estimated for groups of similar loans based on type of loan, credit quality and remaining maturity. In incorporating the credit risk factor, management concluded that the allowance for credit losses adequately adjusts the related book values for credit risk. For floating- or adjustable-rate loans, which mature or reprice within a short period of time, the carrying values are considered to be a reasonable estimate of fair values. For fixed-rate loans, market prices are not generally available and the fair values are estimated by discounting the estimated cash flows based on the contracted maturity of the loans. The discount rates are based on the current market rates for the applicable maturity. Where market prices are available, primarily for loans to refinancing countries and certain other foreign loans, the fair values are based on such market prices, including secondary market prices. For non-performing loans, the fair values are generally determined on an individual basis by discounting the estimated future cash flows and may be based on the estimated appraisal value of underlying collateral as appropriate.

Other financial assets—The estimated fair values of other financial assets, which primarily include accrued interest receivable, customers' acceptance liabilities and accounts receivable, approximate their carrying amounts.

Derivative financial instruments—The estimated fair values of derivative financial instruments are the amounts the Group would receive or pay to terminate the contracts at the balance-sheet date, taking into account the current unrealized gains or losses on open contracts. They are based on market or dealer quotes when available. Valuation models such as present value or pricing models are applied to current market information to estimate fair values when such quotes are not available.

Non-interest-bearing deposits, call money and funds purchased, payables under repurchase agreements and securities lending transactions, and obligations to return securities received as collateral—The fair values of non-interest-bearing deposits are equal to the amounts payable on demand. For call money and funds purchased, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature. For payables under repurchase agreements and securities lending transactions and obligations to return securities received as collateral, the fair values are generally based on quoted market prices, when available, or estimated using quoted market prices for similar instruments when quoted market prices do not exist.

Interest-bearing deposits—The fair values of demand deposits, deposits at notice, and certificates of deposit maturing within a short period of time are the amounts payable on demand. Fair values of time deposits and certificates of deposit maturing after a short period of time are estimated by discounting the estimated cash flows using the rates currently offered for deposits of similar remaining maturities or the applicable current market rates.

Debentures—The fair values of debentures are estimated using a discounted cash flow model based on quoted market rates or secondary market rates currently available for debentures with similar terms and remaining maturities.

Other short-term borrowings—For most other short-term borrowings, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature. For certain borrowings, fair values are estimated by discounting the estimated cash flows using applicable current market interest rates or the current market interest rates for similar instruments, which represent the Group's cost to raise funds with a similar remaining maturity.

Long-term debt—For convertible bonds and certain subordinated debt, the fair values are estimated based on the quoted market prices of the instruments. The fair values of other long-term debt are estimated using a discounted cash flow model based on rates available to the Group for debt with similar terms and remaining maturities.

Other financial liabilities—The estimated fair values of other financial liabilities, which primarily include accrued interest payable, bank acceptances and accounts payable, approximate their carrying amounts.

The fair values of certain credit-related financial instruments held for purposes other than trading, including commitments to extend credit, standby letters of credit and guaranties and commercial letters of credit, are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the credit quality. The aggregate fair value of such instruments, distinguishing between assets and liabilities, at March 31, 2000 and 2001 was not material.

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2000 and 2001. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since that date and, therefore, current estimates of fair values may have changed significantly from the amounts presented herein.

29. UNBC MANAGEMENT STOCK PLAN

UNBC has a management stock plan (the "Stock Plan") which has 10 million shares of the UNBC's common stock authorized to be awarded to key employees and outside directors of the UNBC and its subsidiaries at the discretion of the Executive Compensation and Benefits Committee of the UNBC's Board of Directors (the "Committee"). Committee members and employees on rotational assignment from the Bank are not eligible for stock awards.

The Committee determines the term of each stock option grant, up to a maximum of ten years from the date of grant. The exercise price of the options issued under the Stock Plan shall not be less than the fair market value on the date the option is granted. Unvested restricted stock issued under the Stock Plan is shown as a reduction to retained earnings. The value of the restricted shares at the date of grant is amortized to compensation expense over its vesting period. All cancelled or forfeited options and restricted stock become available for future grants.

In 1998, 1999 and 2000, UNBC granted options of 0.5 million shares, 1.7 million shares and 2.1 million shares, respectively, to various key employees, including principal officers, under the Stock Plan. The stock options vest pro rata on each anniversary of the grant date and become fully exercisable three years from the grant date, provided that the employee has completed the specified continuous service requirement. They vest earlier if the employee dies, is permanently and totally disabled, or retires under certain grant, age and service conditions.

Under the Stock Plan, the number of shares on options outstanding were 1.7 million, 3.3 million and 5.2 million, respectively, of which 0.9 million shares, 1.3 million shares and 2.1 million shares, respectively, were exercisable at the price of $13.77, $20.01 and $25.90, respectively, at December 31, 1998, 1999 and 2000.

The weighted-average fair value of options granted was $11.99 during 1998, $9.77 during 1999 and $10.21 during 2000.

In 1998, 1999 and 2000, UNBC also granted 184,935, 1,050 and 13,500 shares, respectively, of restricted stock to key officers, including executive officers, under the Stock Plan. The awards of restricted stock vest pro rata on each anniversary of the grant date and become fully vested four years from the grant date, provided that the employee has completed the specified continuous service requirement. They vest earlier if the employee dies, is permanently and totally disabled,or retires under certain grant, age, and service conditions. Restricted shareholders have the right to vote their restricted shares and receive dividends.

At December 31, 1998, 1999 and 2000, the number of restricted stock awards outstanding were 1.5 million, 1.5 million and 1.5 million, respectively, of which 1.1 million shares, 1.3 million shares and 1.4 million shares, respectively were vested at the price of $10.18, $11.84 and $13.00, respectively.

At December 31, 1998, 1999 and 2000, 2.7 million shares, 1.0 million shares and 9.0 million shares, respectively, were available for future grants as either stock options or restricted stock under the Stock Plan.

As permitted by SFAS No. 123, ''Accounting for Stock-Based Compensation,'' UNBC recognizes compensation expense using the intrinsic value-based method of valuing stock options prescribed in Accounting Principle Board Opinion No. 25, ''Accounting for Stock Issued to Employees'' and related Interpretations.

When the stock option is exercised, the Bank accounts for a decrease in its ownership as a sale of a portion of its investment in UNBC, and the resulting gains or losses are recognized in earnings.

30. BUSINESS INTEGRATION WITH THE MITSUBISHI TRUST AND BANKING CORPORATION

On April 2, 2001, the Bank, Mitsubishi Trust and Nippon Trust Bank, a former subsidiary of the Bank, established a holding company known as MTFG through stock-for-stock exchanges. The Bank, Mitsubishi Trust, and Nippon Trust Bank each became a wholly-owned subsidiary of MTFG, and the common and preferred shareholders of these three banks received shares of MTFG as a result of the stock-for-stock exchanges. The business combination involving the Bank and Mitsubishi Trust has been accounted for under the ''pooling of interests'' method and, accordingly, the historical consolidated financial statements of the Bank and Mitsubishi Trust will be restated in future reports to include the accounts and results of the both banks and their subsidiaries.

Set forth below is the selected financial data of Mitsubishi Trust as of and for the years ended March 31, 1999, 2000 and 2001, respectively, derived from its US GAAP consolidated financial statements.

	At March 31, 1999	At March 31, 2000	At March 31, 2001
	(in billions)		
Balance sheet data:			
Total assets	¥ 16,848	¥ 16,590	¥ 17,773
Loans, net of allowance for credit losses	8,815	8,783	9,217
Total liabilities	15,857	15,622	16,891
Deposits	10,325	9,781	11,301
Shareholders' equity	991	968	882

	For the year ended March 31, 1999	2000	2001
	(in billions)		
Operating results:			
Interest income	¥ 491	¥ 386	¥ 402
Interest expense	296	191	225
Non-interest income	271	118	272
Non-interest expense	316	435	232
Net income (loss)	(136)	(83)	37

The following table sets forth an unaudited pro forma combined summary of operations of the Bank and Mitsubishi Trust for each of the three years in the period ended March 31, 2001, giving effect to the business combination as if it had been effective for all periods presented:

	At March 31, 1999	2000	2001
	(in billions)		
Interest income	¥ 2,812	¥ 2,166	¥ 2,283
Net Interest income	1,134	1,080	972
Non-interest income	695	520	960
Net loss	(482)	(48)	(57)
	(in yen)		
Loss per common share:			
Loss per common share—basic	¥(87,953.14)	¥(9,663.81)	¥(11,797.27)
Loss per common share—assuming dilution	(87,953.14)	(9,663.81)	(11,797.27)

The unaudited pro forma combined summary of operations is not necessarily indicative of the results of operations that would have occurred had the business combination been in effect for all the periods presented or that may be obtained in the future.

On May 24, 2001, Mitsubishi Trust, Nippon Trust Bank and The Tokyo Trust Bank, Ltd., a wholly-owned subsidiary of the Bank, signed a merger agreement following resolutions of their respective board of directors. According to the merger agreement, on October 1, 2001, Nippon Trust Bank and Tokyo Trust Bank will be merged with and into Mitsubishi Trust, which will be the surviving entity of the merger.

31. EVENTS SINCE MARCH 31, 2001 (EXCEPT FOR NOTE 30)

On June 27, 2001, MTFG, the sole shareholder of the Bank, approved (1) payment of cash dividends to shareholders of record on March 31, 2001 of ¥41.25 per share of preferred stock, totalling ¥3,358 million, and of ¥4.25 per share of common stock, totalling ¥19,870 million and (2) a transfer from unappropriated retained earnings to retained earnings appropriated for legal reserve of ¥4,700 million.

SELECTED STATISTICAL DATA

Due to the close integration of foreign and domestic activities, it is difficult to make a precise determination of assets, liabilities, income and expenses of our foreign operations. The foreign operations as presented include the business conducted by overseas subsidiaries and branches, and the international business conducted by the several international banking related divisions of the Bank's Head Office in Tokyo. Management of the Bank believes that the results appropriately represent our domestic and foreign activities.

I. Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

Average Balance Sheets, Interest and Average Rates

The following table shows our average balances, interest and average interest rates for the last three fiscal years. Average balances are generally based on a daily average while a month-end average is used for certain average balances when it is not practicable to obtain applicable daily averages. The average balances determined by such methods are considered to be representative of our operations.

	Year ended March 31,								
	1999			2000			2001		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(in millions except percentages)								
Assets:									
Interest-earning assets:									
Interest-earning deposits in other banks:									
Domestic	¥ 546,758	¥ 18,512	3.39%	¥ 257,027	¥ 6,339	2.47%	¥ 384,474	¥ 13,334	3.47%
Foreign	5,665,082	205,403	3.63	3,209,671	99,572	3.10	4,603,082	193,929	4.21
Total	6,211,840	223,915	3.60	3,466,698	105,911	3.06	4,987,556	207,263	4.16
Call loans, funds sold, receivables under resale agreements and securities borrowing transactions:									
Domestic	2,549,864	15,324	0.60	1,561,292	7,093	0.45	2,318,411	11,034	0.48
Foreign	2,029,799	157,798	7.77	1,451,043	88,621	6.11	2,175,321	143,012	6.57
Total	4,579,663	173,122	3.78	3,012,335	95,714	3.18	4,493,732	154,046	3.43
Trading account assets:									
Domestic	1,158,718	4,244	0.37	1,790,464	4,429	0.25	2,326,737	10,597	0.46
Foreign	768,016	25,545	3.33	624,767	8,683	1.39	606,213	4,401	0.73
Total	1,926,734	29,789	1.55	2,415,231	13,112	0.54	2,932,950	14,998	0.51
Investment securities:									
Domestic	8,884,110	104,245	1.17	12,220,979	113,436	0.93	11,738,575	74,402	0.63
Foreign	3,388,286	212,863	6.28	2,582,139	165,511	6.41	2,858,860	170,334	5.96
Total	12,272,396	317,108	2.58	14,803,118	278,947	1.88	14,597,435	244,736	1.68
Loans (see Note 1):									
Domestic	34,905,665	699,641	2.00	34,355,981	659,704	1.92	32,144,708	628,396	1.95
Foreign	13,401,270	898,725	6.71	9,050,551	633,640	7.00	8,454,984	647,270	7.66
Total	48,306,935	1,598,366	3.31	43,406,532	1,293,344	2.98	40,599,692	1,275,666	3.14
Total interest-earning assets:									
Domestic	48,045,115	841,966	1.75	50,185,743	791,001	1.58	48,912,905	737,763	1.51
Foreign	25,252,453	1,500,334	5.94	16,918,171	996,027	5.89	18,698,460	1,158,946	6.20
Total	73,297,568	2,342,300	3.20	67,103,914	1,787,028	2.66	67,611,365	1,896,709	2.81
Non-interest-earning assets:									
Cash and due from banks	1,169,531			1,233,412			1,148,614		
Other non-interest-earning assets	4,855,128			3,310,086			5,563,017		
Allowance for credit losses	(889,885)			(1,382,781)			(1,159,936)		
Total non-interest-earning assets	5,134,774			3,160,717			5,551,695		
Total average assets	¥78,432,342			¥70,264,631			¥73,163,060		

Notes:

1. Average balances on loans outstanding include all nonaccrual and restructured loans. See "III. Loan Portfolio." The amortized portion of net loan origination fees (costs) is included in interest income on loans, representing an adjustment to the yield and insignificant.
2. Tax-exempt income has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.
3. Average non-interest-earning assets and non-interest-bearing liabilities for the years ended March 31, 1999 and 2000 were restated to conform to SFAS No. 140.

	Year ended March 31,								
	1999			2000			2001		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(in millions except percentages)								
Liabilities and shareholders' equity:									
Interest-bearing liabilities:									
Deposits:									
Domestic	¥33,228,280	¥ 249,133	0.75%	¥33,299,918	¥153,191	0.46%	¥32,787,961	¥ 176,342	0.54%
Foreign	13,129,637	612,347	4.66	9,280,904	337,942	3.64	10,106,541	461,390	4.57
Total	46,357,917	861,480	1.86	42,580,822	491,133	1.15	42,894,502	637,732	1.49
Debentures—Domestic	5,375,976	66,818	1.24	4,940,270	51,852	1.05	3,922,112	32,296	0.82
Call money, funds purchased, payables under repurchase agreements and securities lending transactions:									
Domestic	4,845,252	25,362	0.52	2,376,869	11,767	0.50	3,795,365	65,767	1.73
Foreign	2,171,884	163,913	7.55	1,889,972	86,408	4.57	2,604,320	161,901	6.22
Total	7,017,136	189,275	2.70	4,266,841	98,175	2.30	6,399,685	227,668	3.56
Other short-term borrowings and trading account liabilities:									
Domestic	4,146,087	35,671	0.86	2,800,204	42,645	1.52	2,272,490	19,165	0.84
Foreign	1,063,367	67,584	6.36	792,294	39,929	5.04	840,703	17,963	2.14
Total	5,209,454	103,255	1.98	3,592,498	82,574	2.30	3,113,193	37,128	1.19
Long-term debt:									
Domestic	1,336,002	54,674	4.09	1,561,769	62,151	3.98	2,374,530	83,793	3.53
Foreign	2,211,858	127,047	5.74	2,178,437	114,776	5.27	1,923,281	81,438	4.23
Total	3,547,860	181,721	5.12	3,740,206	176,927	4.73	4,297,811	165,231	3.84
Total interest-bearing liabilities:									
Domestic	48,931,597	431,658	0.88	44,979,030	321,606	0.72	45,152,458	377,363	0.84
Foreign	18,576,746	970,891	5.23	14,141,607	579,055	4.09	15,474,845	722,692	4.67
Total	67,508,343	1,402,549	2.08	59,120,637	900,661	1.52	60,627,303	1,100,055	1.81
Non-interest-bearing liabilities	8,262,982			8,355,119			9,904,587		
Shareholders' equity	2,661,017			2,788,875			2,631,170		
Total average liabilities and shareholders' equity	¥78,432,342			¥70,264,631			¥73,163,060		
Net interest income and average interest rate spread		¥ 939,751	1.12%		¥886,367	1.14%		¥ 796,654	1.00%
Net interest income as a percentage of average total interest-earning assets			1.28%			1.32%			1.18%

The percentage of average total assets attributable to foreign activities was 37.5% in fiscal 1998, 26.6% in fiscal 1999 and 30.1% in fiscal 2000.

The percentage of average total liabilities attributable to foreign activities was 38.9% in fiscal 1998, 27.6% in fiscal 1999 and 31.3% in fiscal 2000.

Analysis of Net Interest Income

The following table shows changes in our net interest income between changes in volume and changes in rate for fiscal 1998 compared to fiscal 1999 and fiscal 1999 compared to fiscal 2000.

	Fiscal 1998 versus fiscal 1999			Fiscal 1999 versus fiscal 2000		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
	(in millions)					
Interest income:						
Interest-earning deposits in other banks:						
Domestic	¥ (9,148)	¥ (3,025)	¥ (12,173)	¥ 3,845	¥ 3,150	¥ 6,995
Foreign	(86,704)	(19,127)	(105,831)	51,709	42,648	94,357
Total	(95,852)	(22,152)	(118,004)	55,554	45,798	101,352
Call loans, funds sold, receivables under resale agreements and securities borrowing transactions:						
Domestic	(5,451)	(2,780)	(8,231)	3,589	352	3,941
Foreign	(41,074)	(28,103)	(69,177)	47,167	7,224	54,391
Total	(46,525)	(30,883)	(77,408)	50,756	7,576	58,332
Trading account assets:						
Domestic	1,563	(1,378)	185	1,620	4,548	6,168
Foreign	(2,383)	(14,479)	(16,862)	(139)	(4,143)	(4,282)
Total	(820)	(15,857)	(16,677)	1,481	405	1,886
Investment securities:						
Domestic	30,973	(21,782)	9,191	(3,173)	(35,861)	(39,034)
Foreign	(50,645)	3,293	(47,352)	16,487	(11,664)	4,823
Total	(19,672)	(18,489)	(38,161)	13,314	(47,525)	(34,211)
Loans:						
Domestic	(10,679)	(29,258)	(39,937)	(42,461)	11,153	(31,308)
Foreign	(291,771)	26,686	(265,085)	(41,696)	55,326	13,630
Total	(302,450)	(2,572)	(305,022)	(84,157)	66,479	(17,678)
Total interest income:						
Domestic	7,258	(58,223)	(50,965)	(36,580)	(16,658)	(53,238)
Foreign	(472,577)	(31,730)	(504,307)	73,528	89,391	162,919
Total	¥(465,319)	¥(89,953)	¥(555,272)	¥ 36,948	¥ 72,733	¥109,681

Notes:

1. Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total "net change."
2. Tax-exempt income has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.

	Fiscal 1998 versus fiscal 1999			Fiscal 1999 versus fiscal 2000		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
			(in millions)			
Interest expense:						
Deposits:						
Domestic	¥ 330	¥ (96,272)	¥ (95,942)	¥ (2,355)	¥ 25,506	¥ 23,151
Foreign	(163,608)	(110,797)	(274,405)	32,044	91,404	123,448
Total	(163,278)	(207,069)	(370,347)	29,689	116,910	146,599
Debentures—Domestic	(4,846)	(10,120)	(14,966)	(9,503)	(10,053)	(19,556)
Call money, funds purchased, payables under repurchase agreements and securities lending transactions:						
Domestic	(12,884)	(711)	(13,595)	10,406	43,594	54,000
Foreign	(14,453)	(63,052)	(77,505)	38,679	36,814	75,493
Total	(27,337)	(63,763)	(91,100)	49,085	80,408	129,493
Other short-term borrowings and trading account liabilities:						
Domestic	(11,579)	18,553	6,974	(5,253)	(18,227)	(23,480)
Foreign	(15,684)	(11,971)	(27,655)	1,034	(23,000)	(21,966)
Total	(27,263)	6,582	(20,681)	(4,219)	(41,227)	(45,446)
Long-term debt:						
Domestic	8,984	(1,507)	7,477	28,681	(7,039)	21,642
Foreign	(1,784)	(10,487)	(12,271)	(11,733)	(21,605)	(33,338)
Total	7,200	(11,994)	(4,794)	16,948	(28,644)	(11,696)
Total interest expense:						
Domestic	(19,995)	(90,057)	(110,052)	21,976	33,781	55,757
Foreign	(195,529)	(196,307)	(391,836)	60,024	83,613	143,637
Total	¥(215,524)	¥(286,364)	¥(501,888)	¥ 82,000	¥117,394	¥ 199,394
Net interest income:						
Domestic	¥ 27,253	¥ 31,834	¥ 59,087	¥(58,556)	¥ (50,439)	¥(108,995)
Foreign	(277,048)	164,577	(112,471)	13,504	5,778	19,282
Total	¥(249,795)	¥ 196,411	¥ (53,384)	¥(45,052)	¥ (44,661)	¥ (89,713)

Notes:

1. Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total "net change."
2. Tax-exempt income has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.

II. Investment Portfolio

The following table shows information as to the value of our investment securities available for sale and being held maturity at March 31, 1999, 2000 and 2001.

	March 31, 1999			March 31, 2000			March 31, 2001		
	Amortized cost	Estimated fair value	Net unrealized gains	Amortized cost	Estimated fair value	Net unrealized gains (losses)	Amortized cost	Estimated fair value	Net unrealized gains (losses)
					(in millions)				
Securities available for sale:									
Domestic:									
Japanese national government and Japanese government agency bonds	¥2,393,408	¥ 2,441,102	¥ 47,694	¥ 3,943,950	¥ 3,957,743	¥ 13,793	¥ 6,334,641	¥ 6,367,721	¥ 33,080
Corporate bonds	597,945	607,861	9,916	706,450	897,722	191,272	873,851	885,500	11,649
Equity securities	3,428,922	5,160,673	1,731,751	3,166,568	5,824,314	2,657,746	2,908,108	4,740,280	1,832,172
Other securities	143,004	153,265	10,261	406,932	417,783	10,851	261,356	267,405	6,049
Total domestic	6,563,279	8,362,901	1,799,622	8,223,900	11,097,562	2,873,662	10,377,956	12,260,906	1,882,950
Foreign:									
U.S. Treasury and other U.S. government agencies bonds	322,135	325,523	3,388	222,595	218,786	(3,809)	590,122	596,513	6,391
Other governments and official institutions bonds	653,211	658,728	5,517	454,567	453,708	(859)	640,677	645,420	4,743
Mortgage-backed securities	1,235,576	1,248,632	13,056	1,042,443	1,027,696	(14,747)	1,735,528	1,744,061	8,533
Other securities	285,112	306,035	20,923	341,519	355,132	13,613	934,163	954,397	20,234
Total foreign	2,496,034	2,538,918	42,884	2,061,124	2,055,322	(5,802)	3,900,490	3,940,391	39,901
Total	¥9,059,313	¥10,901,819	¥1,842,506	¥10,285,024	¥13,152,884	¥2,867,860	¥14,278,446	¥16,201,297	¥1,922,851
Securities being held to maturity:									
Domestic:									
Corporate bonds	¥ 264,569	¥ 266,901	¥ 2,332	¥ 206,790	¥ 210,492	¥ 3,702	¥ —	¥ —	¥ —
Total domestic	264,569	266,901	2,332	206,790	210,492	3,702	—	—	—
Foreign:									
U.S. Treasury and other U.S. government agencies bonds	38,858	40,447	1,589	7,347	7,893	546	—	—	—
Other governments and official institutions bonds	107,729	109,021	1,292	85,414	85,994	580	—	—	—
Other securities	115,291	116,291	1,000	109,098	110,269	1,171	—	—	—
Total foreign	261,878	265,759	3,881	201,859	204,156	2,297	—	—	—
Total	¥ 526,447	¥ 532,660	¥ 6,213	¥ 408,649	¥ 414,648	¥ 5,999	¥ —	¥ —	¥ —

Investment securities other than available for sale or being held to maturity (including nonmarketable equity securities i.e., Other investment securities) were carried at costs of ¥126,977 million, ¥109,455 million and ¥111,584 million, at March 31, 1999, 2000 and 2001, respectively. The corresponding estimated fair values at those dates were not readily determinable.

The following table presents the book values, maturities and weighted average yields of investment securities, excluding equity securities, at March 31, 2001. Weighted average yields are calculated based on amortized cost (which does not give effect to changes in fair value that are reflected in shareholders' equity). Yields on tax exempt obligations have not been calculated on a tax equivalent basis because the effect of such calculation would not be material.

	Maturities within one year		Maturities after one year but within five years		Maturities after five years but within ten years		Maturities after ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(in millions except percentages)									
Securities available for sale:										
Domestic:										
Japanese national government and Japanese government agency bonds	¥3,460,053	0.11%	¥1,968,254	1.70%	¥ 939,414	1.92%	¥ —	—%	¥ 6,367,721	0.87%
Corporate bonds	103,420	2.39	741,621	1.91	39,464	3.23	995	2.31	885,500	2.03
Other securities	29,254	0.64	163,055	3.77	75,096	2.49	—	—	267,405	3.07
Total domestic	3,592,727	0.18	2,872,930	1.87	1,053,974	2.01	995	2.31	7,520,626	1.08
Foreign:										
U.S. Treasury and other U.S. government agencies	187,594	5.22	342,377	6.16	47,016	5.69	19,526	3.07	596,513	5.73
Other governments and official institutions	98,375	5.81	317,347	4.87	177,551	4.58	52,147	5.56	645,420	4.99
Mortgage-backed securities	91,089	6.07	479,029	5.82	626,854	5.21	547,089	6.42	1,744,061	5.80
Other securities	97,751	3.21	456,833	4.41	178,295	5.26	100,172	4.55	833,051	4.47
Total foreign	474,809	5.09	1,595,586	5.30	1,029,716	5.13	718,934	6.01	3,819,045	5.36
Total	¥4,067,536	0.75%	¥4,468,516	3.10%	¥2,083,690	3.55%	¥719,929	6.00%	¥11,339,671	2.52%

Excluding Japanese national government bonds and mortgage-backed securities issued by Federal National Mortgage Association, there were no securities of individual issuers held in our investment securities portfolio which exceeded 10% of the Bank's shareholders' equity at March 31, 2001.

III. Loan Portfolio

The following table shows our loans outstanding, before deduction of allowance for credit losses, by domicile and type of industry of borrower at March 31 of each of the five years in the period ended March 31, 2001. Classification of loans by industry is based on the industry segment loan classification as defined by The Bank of Japan for regulatory reporting purposes and is not necessarily based on use of proceeds.

	March 31,				
	1997	1998	1999	2000	2001
			(in millions)		
Domestic:					
Manufacturing	¥ 6,172,159	¥ 6,082,231	¥ 5,956,780	¥ 5,597,318	¥ 5,232,119
Construction	1,609,534	1,639,638	1,624,933	1,460,653	1,400,401
Real estate	4,046,464	4,286,029	4,265,848	3,698,842	3,974,597
Services	4,953,125	4,468,329	4,031,474	3,813,850	3,729,534
Wholesale and retail	6,815,938	7,010,655	6,852,868	5,956,815	5,705,179
Banks and other financial institutions	3,269,644	2,565,419	2,410,410	2,193,633	2,012,321
Other industries	1,975,212	2,021,864	2,964,298	3,155,294	1,589,648
Consumer	6,600,916	6,579,240	6,670,452	6,873,500	6,661,251
Total domestic	35,442,992	34,653,405	34,777,063	32,749,905	30,305,050
Foreign:					
Governments and official institutions	847,292	401,041	337,101	223,219	296,003
Banks and other financial institutions	1,333,574	1,226,273	520,446	482,235	581,433
Commercial and industrial	9,691,626	10,233,599	8,789,634	6,993,928	8,218,468
Other	1,819,031	1,908,641	1,332,634	548,423	804,434
Total foreign	13,691,523	13,769,554	10,979,815	8,247,805	9,900,338
Total	49,134,515	48,422,959	45,756,878	40,997,710	40,205,388
Less unearned income and deferred loan fees	55,606	69,132	36,760	30,205	30,233
Total	¥49,078,909	¥48,353,827	¥45,720,118	¥40,967,505	¥40,175,155

Notes:

1. Loans to the so-called nonbanks are generally included in the ''Banks and other financial institutions'' category. Nonbanks include finance companies which are primarily engaged in consumer lending, factoring, mortgage lending and credit card businesses.
2. In fiscal 1997, the Bank consolidated five nonbanks, which resulted in decreasing loans outstanding to ''Banks and other financial institutions'' and adding their loans to other categories based on their portfolio.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table shows the maturities of our loan portfolio at March 31, 2001:

	Maturity			
	One year or less	One to five years	Over five years	Total
	(in millions)			
Domestic:				
Manufacturing	¥ 3,921,596	¥1,183,201	¥ 127,322	¥ 5,232,119
Construction	1,088,267	244,634	67,500	1,400,401
Real estate	2,093,136	1,082,702	798,759	3,974,597
Services	2,110,981	1,208,122	410,431	3,729,534
Wholesale and retail	4,504,168	1,067,682	133,329	5,705,179
Banks and other financial institutions	1,299,913	490,898	221,510	2,012,321
Other industries	856,345	583,959	149,344	1,589,648
Consumer:				
Installment loans to individuals	351,560	1,312,990	4,204,761	5,869,311
Other	625,451	54,873	111,616	791,940
	977,011	1,367,863	4,316,377	6,661,251
Total domestic	16,851,417	7,229,061	6,224,572	30,305,050
Foreign	5,273,245	1,940,545	2,686,548	9,900,338
Total	¥22,124,662	¥9,169,606	¥8,911,120	¥40,205,388

The above loans due after one year which had predetermined interest rates and floating or adjustable interest rates at March 31, 2001 are shown below:

	Domestic	Foreign	Total
		(in millions)	
Predetermined rate	¥ 4,943,685	¥1,172,800	¥ 6,116,485
Floating or adjustable rate	8,509,948	3,454,293	11,964,241
Total	¥13,453,633	¥4,627,093	¥18,080,726

Nonaccrual, Past Due and Restructured Loans

We discontinue the accrual of interest income on loans when substantial doubt is judged to exist as to the full and timely collection of either principal or interest, or when principal or interest is contractually past due 90 days or more for certain subsidiaries, except when the loans are well secured (or guaranteed by financially sound third parties) and in the process of collection based upon the judgment of management. Prior to April 1, 1998, loans by the Bank and certain domestic subsidiaries were generally placed on nonaccrual status when they were past due more than six months, in each case as to either principal or interest. The change in nonaccrual policy resulted in an increase in nonaccrual loans of approximately ¥840 billion and decreases in accruing restructured loans and accruing loans contractually past due 90 days or more approximately ¥560 billion and ¥280 billion, respectively, at March 31, 1999. For certain domestic subsidiaries' past due loans, the interest accrual period is generally limited to 90 days from the date of default on payment of interest or principal under terms of the related loan agreements.

The following table shows the distribution of our nonaccrual and restructured loans, and accruing loans which are contractually past due 90 days or more as to principal or interest payments at March 31 of each of the five years in the period ended March 31, 2001, based on the domicile and type of industry of the borrowers.

	At March 31,				
	1997	1998	1999	2000	2001
			(in millions)		
Nonaccrual loans:					
Domestic:					
Manufacturing	¥ 57,802	¥ 23,461	¥ 138,231	¥ 96,227	¥ 109,726
Construction	37,490	29,027	115,364	106,366	165,991
Real estate	214,130	132,785	528,100	497,814	618,146
Services	183,985	52,992	284,038	190,165	188,598
Wholesale and retail	130,869	53,285	370,417	354,157	214,691
Banks and other financial institutions	40,547	29,631	130,959	56,945	87,703
Other industries	4,185	3,266	23,258	21,353	30,423
Consumer	33,539	19,821	81,601	55,159	161,665
Total domestic	702,547	344,268	1,671,968	1,378,186	1,576,943
Foreign:					
Banks and other financial institutions	12,273	334	7,628	2,798	1,630
Commercial and industrial	103,072	36,937	110,105	111,870	130,607
Loans to refinancing countries (see Note 1)	38,347	7,799	47,924	26,799	28,011
Other	10,374	116	23,407	18,920	22,204
Total foreign	164,066	45,186	189,064	160,387	182,452
Total	866,613	389,454	1,861,032	1,538,573	1,759,395
Restructured loans:					
Domestic	642,336	405,637	278,814	277,003	1,574,503
Foreign	34,245	58,167	21,635	44,774	86,983
Total	676,581	463,804	300,449	321,777	1,661,486
Accruing loans contractually past due 90 days or more:					
Domestic	324,848	358,775	76,357	61,022	23,254
Foreign	12,806	17,377	30,725	1,273	2,008
Total	337,654	376,152	107,082	62,295	25,262
Total	¥1,880,848	¥1,229,410	¥2,268,563	¥1,922,645	¥3,446,143

Notes:

1. Refinancing countries are countries rescheduling their external debt (both sovereign and non-sovereign).
2. The above table does not include real estate acquired in full or partial satisfaction of debt and certain assets under the management of the Cooperative Credit Purchasing Company which are recorded at estimated fair value less estimated cost to sell.

Gross interest income which would have been accrued at the original terms on foreign nonaccrual and restructured loan outstandings for the year ended March 31, 2001 was approximately ¥13.5 billion, of which ¥9.5 billion was included in the results of operations for the year. Gross interest income which would have been accrued at the original terms on domestic nonaccrual and restructured loan outstandings during the year ended March 31, 2001 was approximately ¥77.4 billion, of which ¥57.6 billion was included in the results of operations for the year.

Foreign Outstandings

We had no cross-border outstandings to borrowers in any foreign country which in total exceeded 0.75% of the consolidated total assets at March 31, 1999, 2000 and 2001. Cross-border outstandings are defined, for this purpose, as including loans (including accrued interest), acceptances, interest-earning deposits with other banks, other interest-earning investments and any other monetary assets denominated in Japanese yen or other non-local currencies. Material local currency outstandings which are neither hedged nor funded by local currency borrowings are included in cross-border outstandings.

Guaranties of outstandings of borrowers of other countries are considered to be outstandings of the guarantor. Loans made to, or deposits placed with, a branch of a foreign bank located outside the foreign bank's home country are considered to be loans to, or deposits with, the foreign bank. Outstandings of a country do not include principal or interest amounts of which are supported by written, legally enforceable guaranties by guarantors of other countries or the amounts of outstandings to the extent that they are secured by tangible, liquid collateral held and realizable by the Bank and its subsidiaries outside the country in which they operate.

In addition to credit risk, cross-border outstandings are subject to country risk that as a result of political or economic conditions in a country, borrowers may be unable or unwilling to pay principal and interest according to contractual terms. Other risks related to cross-border outstandings include the possibility of insufficient foreign exchange and restrictions on its availability.

In order to manage country risk, we establish various risk management measures internally. Among other things, we first regularly monitor economic conditions and other factors globally and assesses country risk in each country where we have cross-border exposure. For purposes of monitoring and controlling the amount of credit exposed to country risk, we set a country limit, the maximum amount of credit exposure for an individual country, in consideration of the level of country risk and our ability to bear such potential risk. We also determine our credit policy for each country in accordance with its country risk level and our business plan with regard to the country. Assessment of country risk, establishment of country limits, and determination of country credit policies are subject to review and approval by our senior management and are updated periodically.

Exposure to East Asia

For a period beginning in mid-1997, some East Asian countries experienced severe economic and financial difficulties. In response to economic deterioration, the Republic of Korea ("South Korea"), Thailand and Indonesia implemented financial reform programs under the supervision of the International Monetary Fund ("IMF"). The region has now generally recovered from these difficulties, with certain exceptions.

We maintain a substantial network of branches and subsidiaries in East Asia and the region has been an important market for our financial services. In response to recent developments in the regional economy, we regularly reassess the country risk of each country in the region, to adjust exposure levels, and to review and revise country credit policies.

The following table represents our cross-border outstandings and commitments at March 31, 2000 and 2001, to certain East Asian countries significantly affected by the crisis:

	Affiliates of Japanese corporations (See note)	Local corporations and governments	Local financial institutions	Total cross-border outstanding	Commitments
			(in billions)		
At March 31, 2000:					
South Korea	¥ 2.3	¥75.7	¥127.4	¥205.4	¥1.3
Indonesia	30.1	60.4	7.8	98.3	5.0
Thailand	120.0	68.7	6.7	195.4	10.9
Malaysia	51.0	42.0	3.1	96.1	11.8
Philippines	17.8	15.1	22.7	55.6	9.8
Hong Kong	218.5	155.7	14.1	388.3	27.1
China	92.4	64.0	32.7	189.1	8.9
At March 31, 2001:					
South Korea	14.4	49.9	79.7	144.0	0.5
Indonesia	39.9	56.5	6.6	103.0	18.8
Thailand	128.9	69.6	5.1	203.6	4.1
Malaysia	53.3	45.7	5.2	104.2	4.2
Phillippines	20.8	23.9	18.5	63.2	7.2
Hong Kong	209.4	171.5	11.1	392.0	21.3
China	75.5	44.6	38.5	158.6	11.4

Note—Affiliates of Japanese corporations include subsidiaries and branches of Japanese corporations, joint ventures between Japanese corporations and local corporations, and other entities whose credit is, in many cases, significantly enhanced, in our view, by an express or implied commitment by a Japanese corporation to provide some level of support to such entity.

Although exposures in foreign currencies have generally declined, exposures in yen equivalent amounts have not significantly changed because of the depreciation in the yen against foreign currencies during fiscal 2000.

In addition to the exposure to the seven countries shown in the above table, we had cross-border outstandings of ¥209.0 billion, to counterparties in Singapore at March 31, 2001. Although Singapore has also been affected by the crisis, the Bank's management does not expect any significant credit problems with exposure to the country.

From a credit perspective, we regard affiliates of Japanese corporations differently from other types of customers since, in many cases, we obtain some kind of guaranty or other form of assurance of support from the affiliated Japanese corporations.

At March 31, 2001, the total cross-border outstandings to the five countries (South Korea, Indonesia, Thailand, Malaysia and Philippines) decreased ¥32.8 billion, or 5.0%, to ¥618.0 billion in the aggregate from ¥650.8 billion of outstandings recorded a year ago.

As of March 31, 2001, cross-border outstandings to the seven countries listed in the above table totaled ¥1,168.6 billion and included ¥542.2 billion to affiliates of Japanese corporations, which accounted for nearly half of the total outstandings to these countries.

The followings are economic and political conditions of the two largest Asian countries in terms of our cross-border outstandings:

China/Hong Kong

China has a strong external payments position and maintains capital controls, which has minimized, to some extent, vulnerability to the impacts of the Asian currency and financial turmoil. Its economic policies currently seek to generate a high rate of GDP growth in the short term and, simultaneously, structural reforms of the financial and state-enterprises which will determine the country's long-term economic prospects. China's economic growth has now been supported mainly by an increase in exports and by a fiscal stimulus package.

On the other hand, Hong Kong's economic growth has slowed significantly since the final quarter of 1997. Higher interest rates in Hong Kong markets, resulting from the Asian currency crisis, have caused slower growth, reduction of consumer confidence, and the fall of property prices. During 2000, however, Hong Kong's GDP growth rate recovered to 10.5% compared with minus 5.3% for 1998 and 3.1% for 1999. The country has a strong position in external and domestic finance with minimum government interference regulated by the Basic Law. Continued maintenance of the framework will be crucial for a strong market-based economy. Accordingly, the Bank continues to monitor these situations in China and Hong Kong.

The cross-border exposure to China consists primarily of credits to affiliates of major Japanese corporations, while the exposure to Hong Kong also includes short and medium term credits to local corporations.

Thailand

In late 1997, the government of Thailand began to implement measures in accordance with its IMF program to stabilize its economic situation. In 1998, the success of the measures was evidenced by the appreciation in the Thai baht from its lowest value, a trade and current account surplus, and a containment of inflation. Continued implementation of appropriate measures, however, will be crucial in restructuring Thailand's troubled financial and corporate sectors and to revive its economy.

The cross-border exposure to Thailand, standing at ¥203.6 billion at March 31, 2001, consists mainly of credits to affiliates of major Japanese corporations.

Loan Concentrations

At March 31, 2001, there were no concentrations of loans to a single industry group of borrowers, as defined by The Bank of Japan for industry segment loan classification, which exceeded 10% of our consolidated total loans except for domestic consumer loans.

Credit Risk Management

We have a credit rating system, under which borrowers and transactions are graded on a scale of one to ten based on objective standards on a worldwide basis. We calculate probability of default by statistical means and manage our credit portfolio based on this credit rating system. For a detailed description of this system and other elements of our risk management structure, see the ''Operating and Financial Review and Prospects—Risk Management'' section.

IV. Summary of Loan Loss Experience

The following table shows an analysis of our loan loss experience by type of borrowers' business for each of the five years in the period ended March 31, 2001.

	Year ended March 31,				
	1997	1998	1999	2000	2001
	(in millions except percentages)				
Allowance for credit losses at beginning of year	¥1,126,712	¥1,062,446	¥ 760,323	¥1,290,657	¥1,137,181
Additions to allowance charged to operations	393,681	1,356,231	919,427	368,639	665,954
Charge-offs:					
Domestic:					
Real estate and construction	145,782	548,672	82,462	82,423	135,818
Banks and other financial institutions	289,622	295,606	41,889	27,970	15,815
Services	4,853	218,299	47,507	34,666	52,535
Other industries	12,246	306,492	39,553	260,977	165,104
Consumer	2,512	175,942	33,106	39,101	33,725
Foreign	39,893	134,225	113,864	102,746	77,050
Total	494,908	1,679,236	358,381	547,883	480,047
Recoveries:					
Domestic	132	445	1,337	23,137	16,341
Foreign	6,973	8,343	8,470	17,867	18,439
Total	7,105	8,788	9,807	41,004	34,780
Net charge-offs	487,803	1,670,448	348,574	506,879	445,267
Reclassification of allowance on off-balance-sheet credit instruments	—	—	(14,741)	—	—
Other—principally foreign exchange translation adjustments	29,856	12,094	(25,778)	(15,236)	27,142
Allowance for credit losses at end of year	¥1,062,446	¥ 760,323	¥1,290,657	¥1,137,181	¥1,385,010
Allowance for credit losses applicable to foreign activities:					
Balance at beginning of year	¥ 179,215	¥ 163,826	¥ 224,465	¥ 253,619	¥ 156,576
Balance at end of year	¥ 163,826	¥ 224,465	¥ 253,619	¥ 156,576	¥ 198,820
Additions to allowance charged to operations	¥ 19,719	¥ 176,878	¥ 160,777	¥ 10,344	¥ 89,859
Ratio of net charge-offs during the year to average loans outstanding during the year	1.03%	3.40%	0.72%	1.17%	1.10%

For each of the four years in the period ended March 31, 2000, we reallocated the foreign component of the allowance for credit losses in connection with the change in the allocation of our allowance for credit losses shown in the following table. As the unallocated allowance is separately presented this year, the allowance for credit losses for the foreign component decreased ¥28,462 million at March 31, 1997, ¥22,352 million at March 31, 1998, ¥24,832 million at March 31, 1999 and ¥16,605 million at March 31, 2000 from the amounts reflected in prior years.

For fiscal 1998, we reclassified a ¥14,741 million of allowance previously established for credit losses on certain off-balance-sheet credit instruments and recorded such allowance as a liability.

The following table shows an allocation of our allowance for credit losses at the end of each of the five years in the period ended March 31, 2001.

	At March 31,									
	1997		1998		1999		2000		2001	
	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans
	(in millions except percentages)									
Domestic:										
Construction	¥ 34,268	3.28%	¥ 26,423	3.39%	¥ 74,458	3.55%	¥ 63,044	3.56%	¥ 93,767	3.48%
Real estate	208,666	8.24	118,511	8.85	280,472	9.32	298,817	9.02	374,555	9.89
Services	111,630	10.08	63,952	9.23	147,513	8.81	123,756	9.30	132,256	9.28
Bank and other financial institutions	391,613	6.65	56,662	5.30	76,868	5.27	34,407	5.35	55,350	5.01
Other industries	103,043	30.45	178,189	31.21	358,879	34.47	341,010	35.88	367,327	31.15
Consumer	20,938	13.43	69,769	13.59	74,016	14.58	102,966	16.77	104,775	16.56
Foreign:										
Governments and official institutions	25,320	1.72	16,480	0.83	27,860	0.74	13,668	0.54	16,868	0.74
Bank and other financial institutions	11,078	2.71	22,118	2.53	23,736	1.14	6,828	1.18	8,156	1.45
Commercial and industrial	117,179	19.72	159,568	21.13	187,470	19.21	117,340	17.06	161,628	20.44
Other	10,249	3.72	26,299	3.94	14,553	2.91	18,740	1.34	12,168	2.00
Unallocated	28,462	—	22,352	—	24,832	—	16,605	—	58,160	—
Total	¥1,062,446	100.00%	¥760,323	100.00%	¥1,290,657	100.00%	¥1,137,181	100.00%	¥1,385,010	100.00%
Allowance as a percentage of loans	2.16%		1.57%		2.82%		2.78%		3.45%	
Allowance as a percentage of nonaccrual and restructured loans and accruing loans contractually past due 90 days or more	56.49%		61.84%		56.89%		59.15%		40.19%	

The allowance for credit losses is available for credit losses in the entire loan portfolio and the allocations shown above are not intended to be restricted to the specific loan category. Accordingly, as the evaluation of credit risks changes, allocations of the allowance will be changed to reflect current conditions.

V. Deposits

The following table shows the average amount of, and the average rate paid on, the following deposit categories for each of the three years in the period ended March 31, 2001.

	Year ended March 31,					
	1999		2000		2001	
	Average amount	Average rate	Average amount	Average rate	Average amount	Average rate
	(in millions except percentages)					
Domestic offices:						
Non-interest-bearing demand deposits	¥ 1,719,506	—	¥ 2,154,423	—	¥ 2,087,781	—
Interest-bearing demand deposits	8,100,410	0.16%	11,054,263	0.08%	11,248,424	0.12%
Deposits at notice	1,400,066	2.01	1,634,204	1.27	1,400,429	1.66
Time deposits	18,996,166	0.95	18,596,360	0.64	18,292,158	0.73
Certificates of deposit	4,731,638	0.57	2,015,091	0.19	1,846,950	0.32
Foreign offices, principally from banks located in foreign countries:						
Non-interest-bearing demand deposits	1,534,506	—	1,426,470	—	1,409,355	—
Interest-bearing deposits, principally time deposits and certificates of deposit	13,129,637	4.66	9,280,904	3.64	10,106,541	4.57
Total	¥49,611,929		¥46,161,715		¥46,391,638	

Deposits at notice represent interest-bearing demand deposits which require the depositor to give two or more days advance notice for withdrawal.

The average amount of total deposits by foreign depositors included in domestic offices for the years ended March 31, 1999, 2000 and 2001 was ¥345,091 million, ¥381,608 million and ¥367,301 million, respectively.

The balance and (in the case of domestic deposits) remaining maturities at March 31, 2001 of time deposits and CDs issued in amounts of ¥10 million (approximately US$80 thousand at the Noon Buying Rate on March 30, 2001) or more with respect to domestic deposits and issued in amounts of US$100,000 or more with respect to foreign deposits are shown in the following table.

	Time deposits	CDs	Total
		(in millions)	
Domestic offices:			
Three months or less	¥ 6,977,123	¥1,458,911	¥ 8,436,034
Over three months through six months	1,970,645	612,687	2,583,332
Over six months through twelve months	1,970,839	68,292	2,039,131
Over twelve months	865,208	30,800	896,008
Total	¥11,783,815	¥2,170,690	¥13,954,505
Foreign offices			¥ 8,561,598

VI. Short-Term Borrowings

The following table shows certain additional information with respect to our short-term borrowings for each of the three years in the period ended March 31, 2001.

	Year ended March 31,		
	1999	2000	2001
	(in millions except percentages)		
Call money, funds purchased and payables under repurchase agreements and securities lending transactions:			
Average balance outstanding during the year	¥7,017,136	¥4,266,841	¥6,399,685
Maximum balance outstanding at any month-end during year	7,984,300	5,112,912	9,752,632
Balance at end of year	4,870,954	3,734,017	8,041,237
Weighted average interest rate during the year	2.70%	2.30%	3.56%
Weighted average interest rate on balance at end of year	1.86%	2.10%	2.13%
Other short-term borrowings:			
Average balance outstanding during the year	¥3,435,662	¥1,844,189	¥1,755,139
Maximum balance outstanding at any month-end during the year	3,310,795	2,541,557	3,099,159
Balance at end of year	2,389,577	1,488,831	2,015,360
Weighted average interest rate during year	2.25%	2.70%	1.54%
Weighted average interest rate on balance at end of year	3.79%	1.70%	1.92%

INFORMATION ON THE BANK OF TOKYO-MITSUBISHI, LTD.

History and Development

The Bank of Tokyo-Mitsubishi, Ltd. (''BTM'') is one of the major commercial banking organizations in Japan and provides a broad range of domestic and international banking services from its offices in Japan and around the world. We are one of the eight ''city'', as opposed to regional, banks in Japan. As of March 31, 2001, we had total consolidated assets of ¥76.38 trillion (US$608.4 billion) and total deposits of ¥49.14 trillion (US$391.4 billion). Total shareholders' equity was ¥2.41 trillion (US$19.2 billion) as of the same date and net loss for the year ended March 31, 2001 was ¥107.7 billion (US$857.8 million).

Our head office is located at 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8388, Japan, and its telephone number is 81-3-3240-1111.

Set forth below is a list of significant subsidiaries of BTM at March 31, 2001.

Name	Country of incorporation	Proportion of ownership interest (%)
Nippon Trust Bank Limited	Japan	83.04
Tokyo-Mitsubishi Securities Co., Ltd.	Japan	90.71
The Diamond Home Credit Company Limited	Japan	99.99
Tokyo-Mitsubishi Personal Securities Co., Ltd.	Japan	33.98
The Tokyo Trust Bank, Ltd.	Japan	100.00
DC Card Co., Ltd.	Japan	43.60
The Diamond Mortgage Co., Ltd.	Japan	99.87
Tokyo-Mitsubishi Asset Management, Ltd.	Japan	52.51
The Diamond Factors Limited	Japan	63.50
BOT Lease Co., Ltd.	Japan	13.72
UnionBanCal Corporation	United States	66.57
Union Bank of California, N.A.	United States	66.57
Bank of Tokyo-Mitsubishi Trust Company	United States	100.00
Tokyo-Mitsubishi International plc	United Kingdom	100.00

BTM was formed through the merger, on April 1, 1996, of The Mitsubishi Bank, Limited and The Bank of Tokyo, Ltd. The origins of Mitsubishi Bank can be traced to the Mitsubishi Exchange Office, a money exchange house established in 1880 by Yataro Iwasaki, a key figure in the Japanese industrial revolution and the founder of the Mitsubishi industrial, commercial and financial group. In 1895, the Mitsubishi Exchange Office was succeeded by the Banking Division of the Mitsubishi Goshi Kaisha the holding company of the ''Mitsubishi group'' of companies that began in the late 19th century with interests in shipping and trading.

The expression ''Mitsubishi group'' is used to describe 28 companies, including BTM, with historical links to the prewar group, but does not indicate a legal affiliation. Although there are numerous, generally small, cross-shareholdings among these companies and frequent organized gatherings of their chairmen and presidents, the Mitsubishi group companies are managed and operated independently. The shares of 23 of the Mitsubishi group companies are publicly listed in Japan, and these companies are engaged in a broad range of activities including manufacturing, trading, natural resources, transportation, real estate, banking and insurance.

Mitsubishi Bank had been a principal banker to many of the Mitsubishi group companies, but broadened its relationships to cover a wide selection of Japanese industry and commerce, small and medium-sized companies and individuals.

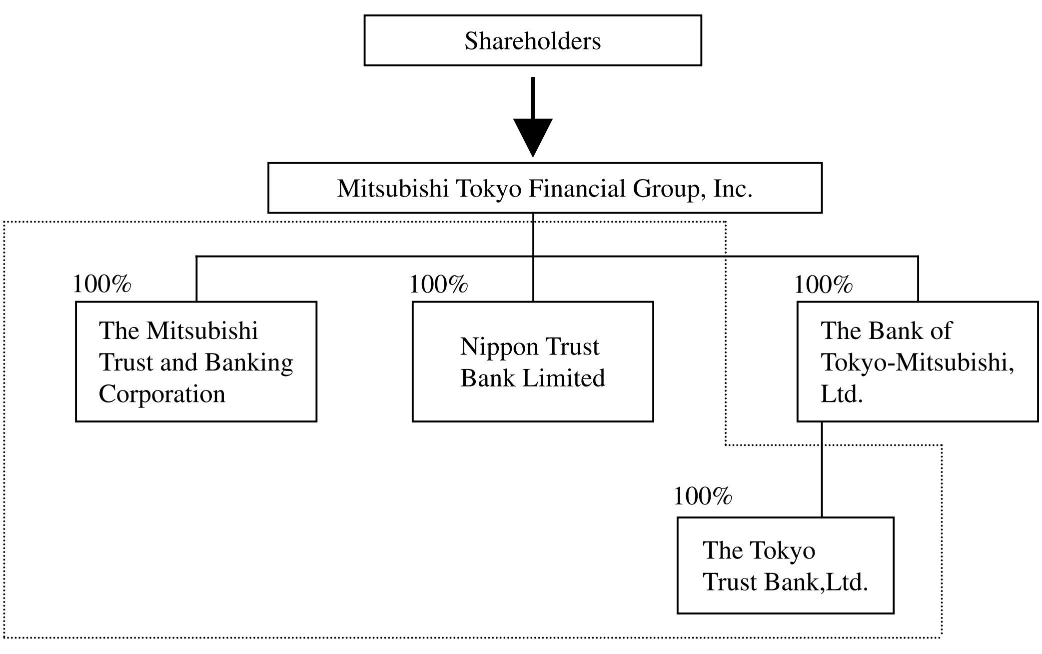
Bank of Tokyo was established in 1946 as a successor to The Yokohama Specie Bank, Ltd., a special foreign exchange bank, established in 1880. In the postwar period, because of the need to establish a financial institution specializing in foreign trade financing, the government of Japan promulgated the Foreign Exchange Bank Law in 1954, and Bank of Tokyo became the only bank licensed under that law. Because of its license, the bank received special consideration from the Ministry of Finance in establishing its offices abroad and in many other aspects of its foreign exchange and international finance. The worldwide network of Bank of Tokyo was more extensive than that of any other Japanese bank, and engaged in a full range of commercial banking activities, both in Japan and overseas, and its international network served the diverse financial requirements of its clients throughout the world.

Organization Structure

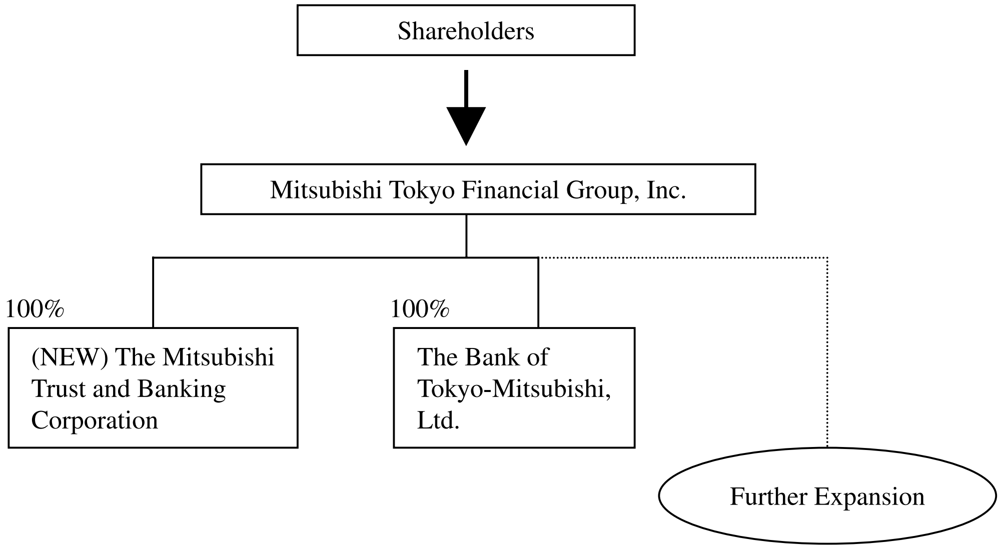
On April 19, 2000, BTM and The Mitsubishi Trust and Banking Corporation (“Mitsubishi Trust”) agreed to integrate their operations by establishing a holding company. The integration also includes the scheme under which Nippon Trust Bank Limited and The Tokyo Trust Bank, Ltd. will merge with and into Mitsubishi Trust.

Mitsubishi Trust is one of the major trust banks in Japan, providing trust and banking services to meet the long-term financing and investment needs of retail and corporate clients. Mitsubishi Trust is also a global trust bank, providing services to individual investors, major corporations and industrial companies in Japan and the rest of Asia, as well as the United States and Europe. Mitsubishi Trust has recently expanded its asset management services into various fields, including retirement benefits trusts and assets administration services.

On April 2, 2001, BTM, Mitsubishi Trust and Nippon Trust Bank jointly established a holding company, Mitsubishi Tokyo Financial Group, Inc. (“MTFG”) Through the stock-for-stock exchange, the three banks have become wholly-owned subsidiaries of MTFG.



Within MTFG, Mitsubishi Trust, Nippon Trust Bank and Tokyo Trust Bank are scheduled to be merged by October 2001 and thereby the integration of MTFG will be completed.



Business Overview

On July 1, 2000, we restructured our operations, based on customer and product segmentation. We offer our products and services through:

- Retail Banking—serving individuals and some small and medium-sized companies
- Commercial Banking—serving large corporations and some small and medium-sized companies
- Global Corporate Banking—serving large corporations and some small and medium-sized companies, particularly those with banking needs outside of Japan, and overseas customers (except for UnionBanCal's customers)
- Investment Banking—providing advisory and other services related to mergers and acquisitions (M&A), private and public securities offerings, project financing, derivatives and securitization and other investment banking activities
- Asset Management—responsible for strategic planning and support, including planning and development of asset management products and services, and risk management of the unit's trust and asset management subsidiaries
- UnionBanCal Corporation (UNBC)—a publicly traded U.S. banking subsidiary majority-owned by us that is the holding company for Union Bank of California, N.A.
- Operations Services—provides operations and settlement services to our other business units, including settlement and foreign exchange
- Systems Services—responsible for our computer systems

Each of these business units is given the authority and responsibility it needs to manage its specific area. For example, each handles its own business planning, systems planning, human resources and credit management. Each business unit is overseen by Corporate Management, which is supported by the Corporate Center. Corporate Management is responsible for issues that affect the whole bank including our responsibilities to shareholders. The Corporate Center retains functions such as strategic planning, overall risk management, internal auditing and compliance.

In addition to the eight business units, the following two units operate under the direct oversight of Corporate Management:

- Treasury—responsible for our asset and liability management and liquidity
- eBusiness & IT Initiatives—responsible for developing information technology business opportunities

Information about our major business units and other segment information are summarized below. The information presented is consistent with the content of operating segments data provided to our executive management. The format and information described below and used by executive management is not consistent with the consolidated financial statements prepared on a US GAAP basis and included elsewhere in this report. The information was generated from our management information system, which is maintained on a Japanese GAAP basis and included significant inter-segment allocation of interest income and interest expense from the Treasury unit to other business units. Net revenues of the Investment Banking business unit were included in other business units and were eliminated in the "Other" column. Operating segment information is presented for the years ended March 31, 2000 and 2001 only. Due to the introduction of the current business unit structure during the years ended March 31, 2000 and 2001, segment results for prior years are not available.

	Retail banking	Commercial banking	Global corporate banking	Investment banking	Asset management	UNBC	Operations services	Treasury	Other	Segments' total
					(in millions)					
Year ended March 31, 2000:										
Net revenue	¥245,043	¥284,584	¥260,763	¥78,263	¥50,277	¥205,065	¥19,936	¥142,441	¥(42,659)	¥1,243,713
Operating expenses	186,659	132,336	108,478	49,407	31,862	122,570	16,563	23,736	37,223	708,834
Operating profit	58,384	152,248	152,285	28,856	18,415	82,495	3,373	118,705	(79,882)	534,879
Year ended March 31, 2001:										
Net revenue	¥302,053	¥286,688	¥278,279	¥94,976	¥46,271	¥256,225	¥22,372	¥108,115	¥(15,001)	¥1,379,978
Operating expenses	231,700	130,453	124,491	72,112	32,947	131,869	18,107	25,402	146,766	913,847
Operating profit	70,353	156,235	153,788	22,864	13,324	124,356	4,265	82,713	(161,767)	466,131

Management measures performance of each unit by "operating profit" which includes profits or losses of subsidiaries. Financial information of each subsidiary is assigned to only one business unit, based on its major products or services provided and its major type of customers. "Operating profit" is a defined term in BTM's reporting to the Financial Services Agency. In many cases, our business units work together in connection with providing services to our customers. In accordance with our internal management accounting policies, we do not apportion the net revenue relating to any particular transaction among the participating business units. Instead, we assign the total amount of net revenue relating to each of these transactions to each participating business unit. As a result, some items of net revenue are recorded as part of the operating results of more than one business unit. We eliminate any overlapping allocations in the "Other" column. The following is the summary of the aggregate amounts of overlapping allocation of net revenue for our business units for the years ended March 31, 2000 and 2001.

	Retail banking	Commercial banking	Global corporate banking	Asset management	Total amount eliminated
			(in millions)		
Year ended March 31, 2000:					
Investment banking	¥—	¥3,823	¥21,785	¥629	¥26,237
Year ended March 31, 2001:					
Investment banking	¥ 3	¥5,606	¥28,005	¥538	¥34,152

“Net revenue” includes net interest income, net fees (that is, fees and commissions received, net of fees paid and other related expenses), and other gains, such as net trading gains, net foreign exchange gains, and net gains from sales of debt investment securities, measured under Japanese GAAP. Our Treasury unit manages our overall funding and asset/liability management functions, and credits or charges interest income and expense to other business units using an internal transfer pricing system based on current market rates. “Operating expenses” include salaries and employee benefits, occupancy and certain other non-interest expenses. In determining operating profit, we do not assign to each business unit certain income and expense items, including most of the provision for credit losses, equity investment securities gains or losses, minority interests in earnings or losses of subsidiaries, equity in earnings or losses of affiliated companies, goodwill amortization and impairment, net gains or losses from disposition of premises and equipment, and other certain non-interest income and expense items.

A detailed discussion of developments in our major business units follows.

Retail Banking Business Unit

Our Retail Banking business unit provides a full range of banking products and services including consulting and other high value-added services, for individual and small corporate customers in Japan. With around 7,000 staff, the Retail Banking business is our largest business unit. Recently the unit has been focusing on improving its distribution channels by reorganizing at branch level and further developing its direct distribution channels including E-net ATMs, Tokyo-Mitsubishi Direct, cash management services, mail order and credit cards. As of March 31, 2001, the domestic network includes 278 branches, 31 sub-branches, two agencies, 53 loan plazas, 569 branch ATMs, and 1,391 E-net ATMs.

Products and services

Deposits and loans. Our deposit products include a multiple purpose bank account, which incorporates ordinary deposits into overdrafts collateralized by time deposits, bank debentures and public bonds held in custody, and a ‘Superpack’, which automatically converts balances in ordinary deposits into higher interest-earning time deposits. We also offer housing loans, educational loans, special purpose loans, card loans and other loans to individuals.

Investment trusts. We offer 22 equity and bond funds (including MVs), and a program fund (M•CUBE Program), each of which has been selected from the point of view of risk diversification and its ability to meet our customers’ needs.

Tokyo-Mitsubishi Direct. Tokyo-Mitsubishi Direct is a banking service which enables our customers to obtain banking services simply by calling BTM on the telephone, over the Internet, or from a mobile phone Internet system such as NTT DoCoMo’s i-mode or J-PHONE’s J-Sky. These services are available 24 hours a day and, in the case of telephone banking, the service is also fully staffed around the clock. The number of customers using the service has grown steadily since it was launched in September 1999, and as of March 2001 more than 700,000 of our customers, approximately 5% of our total individual customers, use the service.

Credit Cards. We have formed alliances with the world’s two largest credit card companies, VISA and MasterCard, with the result that the Tokyo-Mitsubishi Card is available throughout the world. We issue variety of credit cards to our customers through our subsidiaries, DC Card Co., Ltd. and Tokyo Credit Service, Ltd.

Review of fiscal 2000

In January 2001, BTM launched its new 'MAIN BANK' service, which offers BTM's customers various benefits depending on their business transactions with BTM. The service is tailored to provide a comprehensive solution to the various financial requirements (wealth creation, asset management, housing loans, etc.) that arise at the different stages of customers' lives. Its benefits include advantageous interest rates and discounted commissions. The 'Super Ordinary Deposits' of customers who use this service attract higher interest rates and lower charges the more a customer does business with BTM. These accounts have proved to be popular with its customers. As of March 2001, approximately 63,000 customers had opened Super Ordinary Deposits with total balances of approximately ¥117.1 billion.

In December 2000, we introduced a new type of investment trust under the name MV (Master Vision). This fund of funds brings together a selection of funds, each of which invests in a different asset class, into a single fund, which is managed and invested by Tokyo-Mitsubishi Asset Management, Ltd. The product was designed with long-term wealth creation in mind, and is offered for minimum investments of ¥100,000. It draws on the expertise of the Frank Russell Group, which has built an outstanding track record around the world as a consultant in the field of public and corporate pension management.

In November 2000, BTM introduced a two-year foreign currency deposit for individuals, a first for Japanese banks.

In December 2000, Tokyo-Mitsubishi Direct introduced an Internet-based settlement service named 'e-payment'. This service is unique to BTM in Japan and enables users to settle online purchases with ease 24 hours a day. BTM's Tokyo-Mitsubishi Direct customers can use this service without completing any further application forms.

Strategy

Our strategy for the Retail Banking business unit is to:

- Provide individual customers with packaged products and services appropriate for their business volume with us.
- Increase customer convenience and become more cost effective by expanding direct channels such as Tokyo-Mitsubishi Direct and E-net ATMs.
- Deploy experienced, highly skilled private bankers, financial planners, and life planners to provide agency services for our customers, offer them consulting and advisory services, and provide them with financial products and services tailored to their individual needs.
- Utilize Tokyo-Mitsubishi Direct as a key tool in our Information Technology strategy and expand our customer base by marketing its enhanced services, and strengthening its investment trust, foreign currency deposit, and other asset management services in anticipation of the introduction of a defined contribution retirement plan in Japan.
- Seek synergies with Mitsubishi Trust by:
  - — cutting costs and improving efficiency through sharing branch facilities,
  - — jointly develop and market investment products, and
  - — integrating business strategy.

Commercial Banking Business Unit

Our Commercial Banking business unit provides banking products and services including sophisticated consultancy services to meet the needs of a broad range of customers, from large corporations to medium-sized and small businesses. Including the individuals associated with those businesses, the Commercial Banking business unit has approximately 160,000 customers.

The Commercial Banking business unit has approximately 1,900 relationship managers and staff deployed nationwide in approximately 180 Offices. With the support of approximately 700 head office staff, including highly skilled experts in the field, the relationship managers and staff work with other business units and affiliated companies to provide customers of the Commercial Banking business unit with "total solutions".

Review of fiscal 2000

In fiscal 2000 we established a wholly owned subsidiary administered by the Commercial Banking business unit, Tokyo Diamond Servicer Co., Ltd., to oversee our loan collection activities.

In addition to centralizing and improving the efficiency of our loan collection operations, Tokyo Diamond Servicer will also focus on building our expertise in loan collection operations. To this end, it will concentrate on the collection of our non-performing loans, primarily commercial loans, and loans sold to investors by bulk sales.

Strategy

Our strategy for the Commercial Banking business unit is to:

- Effectively manage our assets, including by increasing good quality loans and strategically managing problem loans.
- Maximize our earnings by:
  - — further refining group strategy including that of our subsidiaries,
  - — establishing an organizational framework that will enable our Offices to develop their fee-based businesses, and
  - — securing a leading position in the field of B2B business through sophisticated basic infrastructure and the development of new business models.
- Collaborate with other business units including:
  - — the Retail Banking business unit in the area of banking services for corporate owners and employees,
  - — the Global Corporate Banking business unit, including BTM's overseas branches, in the area of tie-ups between the domestic and overseas branch networks, and
  - — the Investment Banking business unit and Treasury unit in the area of market-related businesses such as the promotion of derivatives and foreign exchange products.
- Undertake other businesses through Tokyo Diamond Servicer, including handling the loan servicing requirements of MTFG, such as loan collections of other financial institutions, purchased loans and securitized loans.

Global Corporate Banking Business Unit

Our Global Corporate Banking business unit provides a full range of banking services to large Japanese corporations and their overseas subsidiaries, as well as the overseas subsidiaries of corporate clients of the Commercial Banking business unit, and non-Japanese corporations and their subsidiaries worldwide. We serve these customers through a global network of 58 overseas branches and sub-branches, 18 representative offices, and our overseas banking subsidiaries. At March 31, 2001, the unit had approximately 5,800 staff, including around 5,000 locally employed staff working for our overseas branches and subsidiaries.

Review of fiscal 2000

Japan's business climate started to deteriorate in the second half of fiscal 2000. While some corporations and industries have continued to perform well, the stronger their cash flow and the better their overall performance, the greater has been their tendency to write down unrealized losses and reduce interest-bearing liabilities in preparation for the introduction of 'mark to market' accounting rules under Japanese GAAP in fiscal 2001. As a result, our loans to Japanese corporations have declined.

On the other hand, we have achieved growth in our loan/credit businesses with non-Japanese corporate customers for the first time in several years. This positive development is partly the result of our strong marketing efforts to enhance relationships with major leading non-Japanese corporate clients. We have successfully established core bank relationships with many of those clients.

In Japan, business restructuring has led to strategic alliances, mergers and acquisitions on a much greater scale. We have responded to this trend by providing our customers with strategic business advice, and by offering them appropriate solutions to the challenges brought about by these changes. Our services and solutions in this area are highly regarded by our customers.

In the information technology area, we started providing newly advanced cash management services designed to meet the increasingly sophisticated needs of our clients. After the introduction of these new products, we have been successfully strengthening our presence in this product area, particularly in Asian markets. The number of countries where the new services are available is gradually increasing, and clients in Vietnam and parts of China will also be able to use the service from fiscal 2001.

Strategy

Our strategy for the Global Corporate Banking business unit is to:

- Identify clear business objectives and action plans for each of our clients, and strongly pursue businesses in a globally consistent manner under close coordination with the product offices that are in charge of value-added products that we believe will appeal to those clients.
- Provide both conventional banking services and high value-added solutions tailored to sophisticated needs of our customers in such areas as mergers & acquisitions, cash management, asset securitization and e-banking.
- Pursue close collaboration with other business units such as the Investment Banking business unit.
- Maximize synergies with Mitsubishi Trust by increasing cooperation in the areas of pension trust and real estate services.
- Pursue further efficiency in the operation of our global overseas office network particularly by upgrading overseas systems infrastructure and developing 'hub-and-spoke' approach to back-office operations.
- Further enhance systematic corporate management and risk management by utilizing advanced systems infrastructure.

Investment Banking Business Unit

Our Investment Banking business unit provides capital markets, derivatives, structured finance, corporate advisory and securities services to our domestic and overseas customers. In recent years, deregulation in Japan and an increased demand for direct financing and cross-border transactions have created new business opportunities in the investment banking arena. In order to take advantage of these opportunities, during fiscal 2000 our Investment Banking business unit implemented a new system which aligned all of our subsidiaries and affiliates globally by business type. For each business category, a person has been assigned as Global Head to be responsible for our business on a global basis across all its entities within the particular category. The Investment Banking business unit is led by seven Global Heads, under the supervision of the business unit chief executive.

We conduct some of our investment banking business through BTM itself, but for regulatory reasons, we conduct most of our securities business through subsidiaries and affiliates.

Products and Services

Derivatives. Our Investment Banking business unit structures derivatives products to suit our customers' financial challenges and enhance their business performance. The unit also conducts derivatives trading for its own account. In order to provide seamless service for the global activities of our customers, the unit keeps four major trading desks in Tokyo, Singapore, London and New York. Our operation is highly regarded in the derivatives market in Tokyo not only as one of the major market makers but also as the leading institution in the development of credit derivatives and weather derivatives. In June 2000, BTM ranked first among Japanese banks in the foreign exchange and interest rate derivatives markets in Japan, according to the league table compiled by Asia Risk Magazine.

Securitization. In the securitization area, our Investment Banking business unit is primarily engaged in asset-backed commercial paper programs and the development of other asset-backed securities involving the securitization of our customers' assets, as well as our own. We are also engaged in securitizing residential mortgage loans and real estate. We expect significant and rapid growth in this market, which we consider to be strategically important to our business. We have securitization teams based in Tokyo, New York, London, Hong Kong and Singapore. Our asset-backed commercial paper outstanding balance as of March 2001 was over ¥1,780 billion (US$14 billion), which makes us one of the largest sponsors worldwide.

Syndicated Loans. Syndicated loan markets are rapidly growing in Japan and overseas. Through our syndicated loan teams in Tokyo, Hong Kong, Singapore, London and New York, we provide first class services to our customers. We are one of the leading Japanese syndication houses, and intend to further strengthen this business on a global basis.

Structured Finance. In the structured finance area, we offer a wide range of innovative financial services for project finance, lease finance, real estate finance and other type of non-recource financings. We provide a complete financial package to our customers, including financial advisory (FA) services, debt arrangements, financings, and agency services in these highly competitive markets. We provide professional services on a global basis in conjunction with our international teams located in Tokyo, Hong Kong, Singapore, London, New York, Boston and Los Angeles. In fiscal 2000, we successfully arranged project financings with total assets of US$1.3 billion, and were ranked 18th among global lead arrangers by the Project Finance International Magazine.

Corporate Advisory Services. Mergers & acquisitions (''M&A'') activity in Japan is expanding as consolidation among both domestic and international companies becomes increasingly common. Our M&A teams in Tokyo, New York and Singapore work together closely to render advisory services for both domestic and cross-border transactions, representing not only Japanese clients but also non-Japanese clients. In 2000, BTM ranked first among Japanese M&A advisors in the Japanese market according to the league table compiled by Thomson Financial Securities Data.

Securities Services. We provide commissioned company services for bonds issued in Japan by domestic and foreign issuers. We act as the representative commissioned company for bondholders and also as the paying agent and recording agency. During fiscal 2000, we acted as the commissioned company or fiscal agent for a total of 448 domestic bond issues, including public offerings and private placements, totaling ¥1,837.3 billion (US$14.64 billion).

Services Offered Through Subsidiaries and Affiliates

Securities Services

In Japan, our wholesale securities business is conducted through Tokyo-Mitsubishi Securities Co., Ltd. Tokyo-Mitsubishi Securities derives most of its net revenue from sales, trading, underwriting and the distribution of fixed income and equity products. Since its start in 1994 as a bond house, Tokyo-Mitsubishi Securities has grown to become a major player in the Japanese fixed income market. The Company launched its equity operations in October 1999, and established a strong presence during fiscal 2000, including acting as lead manager for several public stock offerings. In July 1999, we consolidated the operations of Tokyo-Mitsubishi Securities and Mitsubishi TB Securities Co., Ltd.

On December 15, 1999, BTM and KOKUSAI Securities Co., Ltd. entered into a business affiliation agreement. In November 2000, we further increased its stake in KOKUSAI Securities to 32.7%. KOKUSAI Securities has lent significant sales support to several IPOs lead managed by Tokyo-Mitsubishi Securities. In addition, Tokyo-Mitsubishi Asset Management has set up funds in cooperation with KOKUSAI Securities, which are available only through KOKUSAI Securities.

Our domestic retail securities business is operated through Tokyo-Mitsubishi Personal Securities Co.,Ltd., which has 11 branches in the Tokyo area and 7 branches in the Osaka area. Tokyo-Mitsubishi Personal Securities offers sales and dealing in public bonds, corporate bonds, equities and other securities services.

Tokyo-Mitsubishi TD Waterhouse Securities Co., Ltd., a joint venture among BTM and TD Waterhouse Group, Inc. of the U.S., was established in March 2000 and started online trading services in July 2000. Tokyo-Mitsubishi TD Waterhouse Securities offers Japanese and U.S. equities, mutual funds and covered warrants through several sales channels including the Internet, call centers with 24 hour a day, 365 days a year operator assistance, ‘‘push-phone trading’’ and NTT DoCoMo’s i-mode.

Tradeone Systems Co., Ltd., a joint venture among us, KOKUSAI Securities and Japan Future Information Technology & Systems Co., Ltd., was established in March 2001. Tradeone Systems is a securities back office firm targeting mainly online securities brokers in Japan.

Overseas, London-based Tokyo-Mitsubishi International plc heads our securities business in the Euromarkets, including bond underwriting, structured bonds and equity operations. In addition, Tokyo-Mitsubishi International acts as the European hub of the Investment Banking business unit, covering our German, Swiss and Spanish subsidiaries. Our global financial services are also offered through investment banking subsidiaries in Hong Kong and Singapore, and a securities subsidiary in the United States.

Other Services

In the U.S., we maintain two leasing subsidiaries, BTM Capital Corporation and BTM Leasing and Finance, Inc. BTM Capital, formerly a leasing subsidiary of the Bank of New England, offers a wide range of leasing services to our non-Japanese customers. BTM Leasing and Finance targets the U.S. subsidiaries and affiliates of Japanese corporations.

Strategy

Our strategy for the Investment Banking business unit includes:

- Coordinating activities of our domestic securities subsidiaries, Tokyo-Mitsubishi Securities, Tokyo-Mitsubishi Personal Securities and KOKUSAI Securities to be able to provide better and more diverse securities products and services to our institutional and individual customers.

- Strengthening our global operations, which began in 2000, by focusing on and allocating resources to more profitable markets for each business category.

- Allocating resources to new and strategic business areas including business risk dervatives, J-Reit (real estate securitization in Japan), secondary loan trading, and the private equity and venture capital business.

- Integrating product office functions within MTFG, and cross-selling investment banking products and services to all of our customers throughout MTFG.

Asset Management Business Unit

Our Asset Management business unit is responsible for our asset management and trust operations, which we conduct mainly in Japan. Our asset management operations are performed by several parts of our organization, including divisions within BTM, our trust banking subsidiary, Tokyo Trust Bank, and our asset management subsidiary, Tokyo-Mitsubishi Asset Management, Ltd. In addition, until its integration with MTFG on April 2, 2001, certain of our trust and asset management operations were also performed by Nippon Trust Bank, which was then our subsidiary.

In October 2001, Nippon Trust Bank and Tokyo Trust Bank will merge with Mitsubishi Trust. BTM and Mitsubishi Trust aim to expand their market share in the asset management business and the trust and fiduciary business through their extensive expertise.

Products and Services

Asset Management and Trust Operations

Tokyo-Mitsubishi Asset Management provides investment management and advisory services for institutional investors including pension funds and investment trust products. Taking advantage of industry deregulation, Tokyo-Mitsubishi Asset Management has been expanding its investment trust product line and distribution channels. In June 2000, Tokyo-Mitsubishi Asset Management launched the ''Tokyo-Mitsubishi/Mellon Global Innovation fund'', a fund jointly managed with Newton Investment Management Limited through KOKUSAI Securities. Also in December 2000, Tokyo-Mitsubishi Asset Management launched its first fund of funds called ''MV'' co-developed with Frank Russell Investments (Japan), Ltd.

As of March 2001, more than 50 Japanese financial institutions, including BTM, were marketing Tokyo-Mitsubishi Asset Management, Ltd.'s products. The net investment trust assets of Tokyo-Mitsubishi Asset Management reached ¥378.5 billion as of March 31, 2001, an increase of 73.8% from ¥217.8 billion a year ago.

Until its integration with MTFG on April 2, 2001, Nippon Trust Bank was one of our subsidiaries. Nippon Trust Bank has full trust powers and offers a full range of trust-related services, including pension, securities, real estate and testamentary trusts, other specialized asset management services and proxy services. Tokyo Trust Bank specializes in securities lending and repurchase agreements. It is also increasing its trust asset business, mainly by managing securities trusts.

In March 2001, in a significant step for our Japanese defined contribution retirement plan business, we established Defined Contribution Plan Consulting of Japan Co., Ltd. (''DCJ'') in cooperation with other Mitsubishi group financial institutions. DCJ has capital of ¥3 billion, and is currently in the initial operating stage. With the introduction of defined contribution pensions in October 2001, DCJ will provide the following services in accordance with The Defined Contribution Plan Law, which was voted into law by the Diet in June 2001.

- Operative and administrative services (record keeping and investment related), which will be prescribed in the Defined Contribution Plan Law

- Consultation services for companies planning to introduce defined contribution plans

- Educational services for participants

Since April 2000, we have substantially expanded our mutual fund product line-up, which mainly contains products managed by Tokyo-Mitsubishi Asset Management. These include some innovative products such as ''MV,'' a jointly produced Fund of Funds by Tokyo-Mitsubishi Asset Management and Frank Russell Company, and ''Royal Select'' which is also co-produced by Tokyo-Mitsubishi Asset Management and Schroder Investment Management (Japan), Ltd. We also continue to maintain a mutually beneficial business relationship with Mellon Bank N.A. and its asset management affiliates.

Custody

We offer custody services for securities investment in Japan by foreign investors. We also provide global custody services for Japanese investors using sub-custodians. The average balance of assets under our custody during fiscal 2000 was approximately ¥56 trillion, which represented a 6% increase from the previous year.

In our custody services for securities investment in Japan, we serve a range of overseas institutional investors including banks, insurance companies, major global custodians, central banks and international settlement organizations. As a global custodian, we primarily serve Japanese customers in the field of offshore securities investment. Our Japanese customers include insurance companies, trust banks and regional banks.

Custody operations increasingly demand significant information technology investments. As a result, there has been a significant consolidation among market participants within Japan and throughout the global custody industry worldwide. Despite this, we maintain the largest market share in custody services both for securities investment in Japan by foreign investors and for offshore securities investment by Japanese investors.

Strategy

Our strategy for the Asset Management business unit is to take advantage of greater market opportunities resulting from the deregulation of the Japanese financial services industry, including:

• Aiming to be the market leader as a ''total service provider'' in the asset management business,

• Invest to maintain our market leader position and generate stable cash flow and pursue low cost operations in high cost business areas, and

• Increasing high growth and high profitability business.

In order to further strengthen and improve our custody services, we continue to make significant investments in information technology. Our new global custody system named ''CASTLE'' will be released on October 2001, and enhancements will be made to the yen custody system to cope with market developments and the migration to ISO15022 messaging standards.

UNBC Business Unit (UnionBanCal Corporation)

UNBC is a 67% owned subsidiary of BTM. A publicly traded company listed on the New York Stock Exchange, UNBC is a U.S. commercial bank holding company incorporated in the State of California in 1952 and is among the oldest banks on the West Coast, having roots as far back as 1864. UNBC was formed as a result of the combination of Union Bank with BanCal Tri-State Corporation on April 1, 1996. Union Bank of California, N.A., UNBC's bank subsidiary, is the third largest commercial bank in California based on total assets and total deposits.

UNBC provides a wide range of financial services to consumers, small businesses, middle-market companies and major corporations, primarily in California, Oregon, and Washington, but also nationally and internationally.

UNBC's operations are divided into four primary groups.

The Community Banking and Investment Services Group (retail banking group) offers customers a complete spectrum of financial products under one convenient umbrella. With a full line of checking and savings, investment, loan and fee-based banking products, individual and business clients, including not-for-profit, small and institutional investors, can each have their specific needs met through our full service branches. In addition, the group offers international and settlement services, e-banking through its web site, check cashing services at Cash & Save locations and tailored loan investment products to high net worth customers. Institutional customers are offered employee benefit, 401 (k) administration, corporate trust, securities lending and custody services. The group also includes a registered investment advisor.

The Commercial Financial Services Group offers a variety of commercial financial services, including commercial and project loans, real estate financings, asset-backed and leveraged commercial financing, trade finance and letters of credit, lease financing, customized cash management services and selected capital markets products. The group's customers include middle-market companies, large corporations, real estate companies and other more specialized industry customers. In addition, specialized depository services are offered to title and escrow companies, retailers, domestic financial institutions, bankruptcy trustees and other customers with significant deposit volumes.

The International Banking Group primarily provides correspondent banking and trade finance-related products and services to financial institutions worldwide, primarily in Asia. This focus includes products and services such as letters of credit, international payments, collections and financing of mostly short-term transactions. The group also serves foreign firms and U.S. corporate clients in selected countries worldwide, particularly in Asia. This group has a long and stable history of providing correspondent and trade-related services to international financial institutions.

The Global Markets Group collaborates with our other business groups to provide customers a broad range of products, including a variety of foreign exchange products and risk management products, such as interest rate swaps and caps. The group trades money market and fixed income securities in the secondary market and serves institutional investment needs.

Review of Fiscal 2000

During the year, the retail banking group was reorganized to include investment services, and our "wealth management" services were consolidated, augmented with the acquisition of a leading provider of business trust, custody and high net worth services in the Pacific Northwest. The Commercial Financial Services Group produced strong earnings growth by providing specialized financing expertise to specific geographic markets and industry segments, such as communications, energy, entertainment and retail. Relationship managers and credit executives provided credit services and access to high quality cash management services.

The International Banking Group, affected by slower than expected economic recovery in Asia, experienced a slight decline in profit, while the Global Markets Group experienced a sharp increase in profit, due primarily to higher foreign exchange profits.

Strategy

The Community Banking and Investment Services Group will emphasize growth in the consumer asset portfolio, expanding wealth management services, extending the small business franchise and expanding the branch network. The Commercial Financial Services Group will emphasize growth in loans in core competency markets, expanding capital markets activities, increasing domestic trade financing and expanding the item processing business. Overall, our business philosophy is to attract high-quality customers by developing a reputation for superior customer service and long-term relationship banking.

Operations Services Unit

Our Operations Services unit provides operations and settlement services to our other business units. The unit earns fee income by providing settlement and remittance services, including correspondent banking services, to our customers. The unit also generates profit by offering competitive operations and settlement services to other financial institutions to meet their outsourcing needs.

Operations Services

The Operations Division of our Operations Services unit provides operations services for the domestic commercial banking activities of the Retail Banking, Commercial Banking, and Global Corporate Banking business units. During 2000, BTM introduced a new Super Banking Terminal System throughout its domestic branches, which provides efficient operations with image processing and integrated information processing capabilities. BTM expanded centralized processing at its operations centers, which will increase the efficiency of its branch offices. As of March 31, 2001, BTM had made an alliance with nine other regional banks to cooperate with regard to logistics among domestic branches, which will result in more efficient branch network operations.

Correspondent Banking and Settlement

The Global Service Banking Division of our Operations Services unit maintains financial institutions' accounts with correspondent arrangements. As of March 31, 2001, BTM had correspondent arrangements with 3,259 foreign banks and other financial institutions, of which 2,040 had yen settlement accounts with BTM. BTM also had correspondent arrangements with 157 Japanese financial institutions, for which BTM held 143 yen and foreign currency accounts.

The Foreign Exchange Yen Clearing System in Japan introduced an entrustment procedure for yen clearing by which banks may entrust other banks to conduct yen clearing for them. We have the largest share of this business in the market. As of March 31, 2001, 52 regional and foreign banks in Japan outsourced their yen clearing operations to us. The Foreign Exchange Yen Clearing System processes an average of 40,000 settlement transactions (one-way) a day, worth an aggregate of approximately ¥30 trillion. We handled approximately 25% of these transactions by volume and are a market leader in the yen settlement business.

In January 2001, The Bank of Japan introduced Real Time Gross Settlement (the real time settlement of funds or securities transfers individually on an order-by-order basis without netting) for the Bank of Japan Financial Network System. In addition to providing Real Time Gross Settlement operations for ourselves, we provide these services to other financial institutions. Our Settlement Strategy Office is also taking the initiative in global implementation of the Continuous Linked Settlement operation, which is intended to eliminate the settlement risk which can occur when foreign exchange deals are settled.

Settlement is a high volume business, in which only highly efficient, high quality, and low cost service providers can offer the most competitive service. We expect the trend for the outsourcing of settlements to continue, as Japanese banks continue to restructure their business.

The Global Services Banking Division also offers a foreign remittance service for Japanese financial institutions, under our brand name "Global Operation Automatic Link (GOAL)". As of March 31, 2001, 73 Japanese banks utilized this service. Also, the Economic Cooperation Office of the Division provides services related to Japan's official development assistance.

Strategy

Our strategy for the Operations Services unit is to:

- Enhance the efficiency of our operations with advanced information technology, centralization of operations including through the use of hub and spoke systems, and alliances with regional banks with regard to branch network logistics and ATM network operations.
- Expand our settlement business and increase our outsourcing business from other financial institutions.
- Seek efficient and innovative operation by utilizing electronic data tools such as Bolero.

Treasury Unit

The Treasury unit is in charge of managing our overall funding requirements. The unit is responsible for our asset liability management functions, and manages our debt securities portfolio, foreign exchange and derivatives transactions, including trading, for our own account. It also works with our other business units to provide foreign currency futures, currency options, interest rate transactions, commercial paper underwriting, market forecasts and hedging arrangements for our customers.

The Treasury unit is active in the world's main financial markets and has global treasury offices in New York, London, Singapore and Hong Kong that operate in unison with its Tokyo head office.

The unit credits our Retail Banking, Commercial Banking, Global Corporate Banking business units for funds generated from deposit activities and charges the units for funds provided for lending activities based on an internal transfer pricing system, reflecting current market rates.

Operations

The Treasury unit is responsible for asset liability management for our entire organization. It shares the resources of the Corporate Risk Management Office with the Investment Banking business unit. The Treasury unit uses asset liability management in an effort both to control the interest rate and liquidity risks that result from the mix of our assets and liabilities and to make it possible for us to conduct our investment and fund-raising activities within an appropriate range of risk. For example, the unit attempts to control the risk of interest rate fluctuation by combining derivatives, such as interest rate swaps, futures and options, while adjusting fund raising and liquidity collateral raised through interbank fund transactions.

In the domestic yen money market, we currently account for approximately 10% of total interbank transactions by volume. We currently have approximately a 4% share of the total Japanese domestic CD market by volume.

In the international money market, the Treasury unit raises foreign currency funds through interbank transactions, client deposits and certificates of deposit.

We actively deal in short-term yen-denominated instruments, such as interest rate swaps, futures and futures options. We are a major market-maker of short-term yen interest rate swaps.

At March 31, 2001, we had a portfolio of debt securities (including trading account assets and investment securities) with a carrying value of ¥13.77 trillion (US$109.7 billion) (under US GAAP). In securities investments, the Treasury unit holds primarily Japanese and overseas government bonds and corporate bonds. We are one of the core syndicators in the Japanese government bonds underwriting business. In fiscal 2000, we underwrote ¥255.7 billion of Japanese government bonds.

In addition, we are one of the leading market-makers in the Tokyo over-the-counter currency option market and in the Tokyo foreign exchange market. We have a large market share of transactions in the dollar-yen sector and in major cross-currencies and currency options trading.

We actively trade in the secondary market for Japanese government bonds, local government bonds and government-guaranteed bonds. During fiscal 2000, we traded an aggregate of ¥60.29 trillion of bonds for our own account.

Strategy

Our strategy for the Treasury unit is to:

- Be one of the leading banks in world financial markets by increasing the sophistication of our Treasury operation, including upgrading our market systems.

- Maximize earnings by more effective management of assets and liabilities, including securities portfolios. Stabilize earnings by increasing profit from trading operations and from our customer services.

- Upgrade management technique with regard to interest rate risk and liquidity risk. We seek to introduce more efficient risk management systems in cooperation with the Corporate Risk Management Office and other business units.

Geographic Information

The following information presents geographic data on a US GAAP basis for the three years ended March 31, 2001. Total revenue includes interest income and non-interest income.

	Domestic		Foreign									
	Japan		United States of America		Europe		Asia/Oceania excluding Japan		Other Areas		Total	
	(in billions except percentages)											
Year ended March 31, 1999:												
Total revenue	¥ 1,154	40%	¥ 776	27%	¥ 479	17%	¥ 273	10%	¥ 175	6%	¥ 2,857	100%
Net income (loss)	(414)	120	59	(17)	25	(7)	(28)	8	14	(4)	(344)	100
Total assets	50,413	73	8,601	12	5,746	8	3,146	4	2,243	3	70,149	100
Year ended March 31, 2000:												
Total revenue	1,240	54	545	23	195	8	205	9	141	6	2,326	100
Net income (loss)	(114)	(327)	50	143	10	29	45	129	44	126	35	100
Total assets	53,125	78	7,779	11	3,491	5	2,865	4	1,558	2	68,818	100
Year ended March 31, 2001:												
Total revenue	1,206	47	629	25	307	12	250	10	170	6	2,562	100
Net income (loss)	(352)	326	16	(15)	91	(84)	84	(78)	54	(49)	(107)	100
Total assets	54,869	72	10,226	13	6,214	8	3,074	4	1,994	3	76,377	100

COMPETITION

We face strong competition in all of our principal areas of operation. Structural reform plans, called Japan's Big Bang, are bringing drastic change to the Japanese financial system and we are increasingly exposed to more severe competition, not only with other financial institutions but also in some areas with other types of businesses.

Japan

In recent years, competition has intensified not only among our peer group of commercial banks in Japan but also with foreign banks, domestic and foreign securities firms, insurance companies and other non-bank financial institutions. A number of mutually reinforcing factors have led to stronger competition in the financial industry. For example, deregulation has broken down barriers between different types of Japanese financial institutions, which are now able to compete directly against each other. Deregulation and market factors have facilitated the entry of various large foreign financial institutions into the Japanese domestic market. Large Japanese corporations have increasingly raised funds through the capital markets, both within Japan and overseas.

In April 1998, in the first stages of a series of reforms relating to Japan's Big Bang, an amended Foreign Exchange and Foreign Trade Law and related laws and regulations became effective, substantially liberalizing Japanese regulation of foreign exchange and foreign trade. Under these amendments, foreign exchange transactions were completely liberalized for corporations that are not financial institutions and for individuals.

In June 1998, the Law amending the Relevant Laws for the Reform of the Financial System (the ''Financial System Reform Act'') was promulgated. The purpose of this law is to promote access to financial services by individuals and efficient funding for emerging businesses. The law provides a framework for drastic reform of the financial system, including the relaxation of barriers between the banking, securities and insurance businesses.

In the corporate sector, the principal manifestation of this program has been the gradual and ongoing erosion of two structural features of Japan's highly specialized and segmented financial system: the separation of banking and securities businesses in Japan, and distinctions among the permissible activities of Japan's three principal types of private banking institutions.

Article 65 of the Securities and Exchange Law of Japan, similar to the Glass-Steagall Act in the United States, separates the banking and securities businesses in Japan. However, banks in Japan (including BTM) have been pressing for authorization to combine traditional commercial and investment banking activities in order to offer customers a wider range of services. For example, although banks in Japan may deal in and trade government bonds to the same extent as securities houses, banks can only act as commissioned companies and bond administration companies in the case of corporate bonds. Japanese banks cannot underwrite or trade in equity securities except in respect of their own portfolio investments or, through affiliated companies, in connection with asset management for limited categories of separate client accounts. Since April 1993, banks in Japan (including BTM) have been allowed to establish subsidiaries to engage in domestic non-equity related securities business. To date, many banks (including BTM) have established such subsidiaries. Competition in this new market has been high, as the bank-owned operations vie to draw business opportunities from established securities houses and establish their position in the market. In October 1999, restrictions on the business of such securities subsidiaries were abolished, and a ''full-line'' of securities businesses became allowed. To the extent that the reduction or elimination of traditional distinctions between the banking and securities businesses in Japan continues, competition in the newly allowed areas of activity will be keen.

A second traditional distinction in Japan is the division of permissible banking activities among ordinary banks (including city banks), trust banks and long-term credit banks. This distinction has become increasingly blurred in recent years. The distinction between ordinary banks and long-term credit banks can be traced to the high growth environment that characterized Japan's economy in the first few decades after World War II, when specialized institutions were deemed necessary in order to assure a source of long-term loans to Japanese industry. Since then, however, 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 ordinary banks (which can accept time deposits with maturities of up to ten years) have given greater emphasis to long-term business. The temporary nationalization in late 1998 of two long-term credit banks, namely The Long Term Credit Bank of Japan and The Nippon Credit Bank, following their financial failures, was a result of this trend. In October 1999, ordinary banks in Japan became allowed to issue straight bonds and accordingly the distinction between long-term and short-term markets has been substantially eliminated.

Trust banks in Japan, like long-term credit banks, can provide long-term loans. They can also engage in trust business and manage pension fund accounts. Trust banks are another likely source of increased competition for BTM as the city banks seek to eliminate the traditional separation of trust and commercial banking activities in Japan. Since April 1993, banks in Japan (including BTM) have been allowed to establish trust banking subsidiaries. In October 1999, restrictions on the business of these trust banking subsidiaries were abolished and a full line of trust business was allowed. Investment advisory companies, including those affiliated with city banks, are now also permitted to manage corporate pension funds. In January 2001, the Financial Services Agency introduced a policy which allows city banks to engage in a full line of trust business excluding real estate brokerage, execution of testaments and the administration of bequests, and the investment advisory business (provided that real estate trust business under which a trustee has the power to dispose of real estate is limited to securitization). The amendments to the laws to effect these deregulations are expected to become effective as from October 2001.

In addition, banks have been allowed to sell insurance products to a limited extent as from April 2001. Banks are now allowed to sell long-term fire insurance relating to housing loans, insurance for repayment of liabilities, credit life insurance and overseas travel accident insurance.

Within the Japanese consumer banking sector, the continuing deregulation of interest rates on yen deposits has enabled us to offer our customers an increasingly attractive and diversified range of products. We face competition in this sector from the other city and regional banks as well as from the Postal Savings, a government entity that traditionally has had a significant competitive advantage 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. The Postal Savings is the world's largest holder of deposits. However, the Postal Savings' competitive advantage has been somewhat reduced as a result of the requirement, imposed in 1994, that the Postal Savings link its interest rates on deposits more closely to market rates and thus compete for deposits on terms similar to those of the private banks. As a result of the comprehensive reorganization of Japanese governmental agencies in January 2001, the three postal businesses—postal, savings and insurance, were succeeded by the Postal Services Agency, an agency of the Ministry of Public Management, Home Affairs, Posts and Telecommunications. The Postal Services Agency is scheduled to be reorganized into public services corporations in 2003.

Integration among major banks is currently underway. In September 2000, The Dai-Ichi Kangyo Bank, The Fuji Bank and The Industrial Bank of Japan jointly established a holding company, Mizuho Financial Group, to own the three banks. In April 2001, The Sumitomo Bank and The Sakura Bank were merged into Sumitomo Mitsui Banking Corporation. In April 2001, The Sanwa Bank, The Tokai Bank and The Toyo Trust and Banking Company jointly established a holding company, UFJ Holdings, to own the three banks. In line with this trend, BTM established MTFG in April 2001 together with Mitsubishi Trust and Nippon Trust Bank. Mitsubishi Trust, Nippon Trust Bank and Tokyo Trust Bank are scheduled to be merged on October 1, 2001, thereby completing the integration of MTFG's management.

Foreign

In the United States, we face substantial competition in all aspects of our business. BTM itself faces competition from the other large U.S. and foreign-owned money-center banks, as well as from similar institutions that provide financial services. Through Union Bank of California, we compete principally with U.S. and foreign-owned money-center and regional banks, thrift institutions, insurance companies, money market funds, consumer finance companies, credit unions and other financial institutions.

In other international markets, we face 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 we conduct business.

THE JAPANESE BANKING SYSTEM

Private banking institutions in Japan are normally classified into three categories: ordinary banks, of which there are 128, not including 83 foreign commercial banks with banking operations in Japan; trust banks, of which there are 31, including nine Japanese subsidiaries of foreign financial institutions and 16 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 eight, including BTM, and regional banks, of which there are 120, including member banks of the second association of regional banks that were formerly counted among the mutual loan and savings banks. In general, the operations of ordinary banks correspond to commercial banking operations in the United States. 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 city banks are generally considered to be the largest and most influential group of banks in Japan. Generally, these banks are based in large cities, such as Tokyo and Osaka, and operate nationally through networks of branch offices. City banks have traditionally emphasized their business 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 BTM) in recent years have increased their emphasis on other markets. As discussed above, the city banks have been tying up with each other and, in some cases, also with long-term credit or trust banks to form four major groups.

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 extends its operations into neighboring prefectures. Their clients are mostly regional enterprises and local public utilities, although the regional banks also lend to large corporations. In line with the recent trend among financial institutions toward mergers or business tie-ups, certain regional banks have announced or are currently negotiating this integration, in many cases in order to be able to undertake the huge investment required in the field of information technology.

Both long-term credit banks and trust banks are 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. As discussed elsewhere, the recent changes in the financial markets have adversely affected the traditional function of long-term credit banks, two of which were temporalily nationalized in 1998 following their financial failure. Such changes have also affected the trust banks, which are also trying to effect mergers or business tie-ups with other trust banks or, in some cases, with city banks.

In addition to ordinary banks, trust banks and long-term credit banks, other private financial institutions in Japan, including credit associations and credit cooperatives, are engaged primarily in making loans to small businesses and individuals.

Since World War II, a number of government financial institutions have been organized in order to supplement, rather than compete with, the activities of the private banking institutions. These corporations are wholly owned by the government and operate under its supervision. Their funds are provided mainly from government sources. Among them are:

- The Development Bank of Japan, established upon the merger of The Japan Development Bank and the Hokkaido/Tohoku Development Corporation in October 1999, the purpose of which is to contribute to the economic development of Japan by extending long-term loans, mainly to basic industry;
- The Japan Bank for International Cooperation, created upon the merger in April 1999 of The Export-Import Bank of Japan and the Overseas Economic Cooperation Fund (“OECF”), the purpose of which is to supplement and encourage the private financing of exports, imports, overseas investments and overseas economic cooperation; and
- The Small Business Finance Corporation, The Housing Loan Corporation and The Agriculture, Forestry and Fisheries Finance Corporation, the purpose of each of which is to supplement private financing in its respective field of activity.

SUPERVISION AND REGULATION

Japan

Supervision and Japan's Big Bang

Since 1996, the Japanese government has taken a number of deregulatory measures relating to the Japanese financial market and Japanese financial institutions. This reform of the Japanese financial system is sometimes called Japan's ''Big Bang''. This deregulation has included:

- Allowing the use of financial holding companies
- Elimination of many barriers between banking and other financial service sectors
- Changing from a licensing system to a registration system for securities business
- Liberalization of stock brokerage fees
- Allowing banks to sell investment trust products

As a result of these and other measures, financial institutions in Japan gained the opportunity to provide a wide range of financial products and options to their customers, while at the same time being required to secure the soundness of their management more strictly than before.

As of April 1, 1998, The Bank of Japan was given greater independence in relation to monetary policy and aiding financial institutions with liquidity problems. On June 22, 1998, a new governmental agency called the Financial Supervisory Agency was established and given supervisory and inspection functions with respect to private-sector financial institutions in Japan. Previously, the Ministry of Finance had these functions in addition to continuing responsibility for planning the overall Japanese financial system.

Examination of Banks

The Financial Supervisory Agency is responsible for the supervision and inspection of banks. By evaluating banks' systems of self-assessment, auditing their accounts and ensuring that they are compliant with laws and regulations, the Financial Supervisory Agency monitors the financial soundness of banks, including the status and performance of their control systems for business activities. In April 1998, banks were required to adopt a new system of self-assessment involving prompt corrective action to ensure effective control over asset quality and capital adequacy. The inspection of banks is now performed pursuant to a Financial Examination Manual published by the Financial Supervisory Agency with a view to emphasizing (i) each bank's self-assessment rather than the advice of the governmental authority and (ii) risk management made by each bank instead of a simple assessment of its assets. As of July 1, 2000, the Financial Services Agency (Kinyu Cho) was established taking over the Financial Supervisory Agency and assuming the policy-making functions for the overall Japanese financial system under the Ministry of Finance. Then, under the comprehensive reorganization of Japanese governmental agencies in January 2001, the Financial Services Agency was reorganized as an agency of the Cabinet Office and succeeded to the functions concerning insolvency proceedings of financial institutions which had been assumed by the Financial Reconstruction Committee.

Under the proposed amendments to the Banking Law which include rules concerning venturing into the banking business as discussed above, a business entity which desires to hold 20% or more of the equity of a bank is required to obtain approval in advance for this holding of shares. In addition, the supervising authority may inspect the business entity if necessary.

The Bank of Japan also conducts examinations of banks similar to those undertaken by the Financial Services Agency. We expect that the examinations by The Bank of Japan will be conducted more intensively and flexibly in coordination with the examinations by the Financial Services Agency. The amended Bank of Japan Law explicitly provides that The Bank of Japan and financial institutions may agree as to the form of examination to be conducted by The Bank of Japan.

Deposit Insurance System and Government Investment in Financial Institutions

The Deposit Insurance Law is intended to protect depositors when a financial institution fails to meet its obligations. The Deposit Insurance Corporation was established in accordance with that law.

City banks (including BTM), regional banks, including member banks of the second association of regional banks, long-term credit banks, trust banks, credit associations, credit cooperatives and labor credit unions participate in the deposit insurance system on a compulsory basis.

Under amendments to the Deposit Insurance Law approved in June 1996, all deposits and other claims were protected until March 31, 2001 (as described below, thereafter the term of these temporary measures was extended to March 31, 2002). Prior to these amendments, a maximum amount of ¥10 million with respect to each depositor was protected. In connection with this additional coverage, the Deposit Insurance Corporation charges special premiums equal to 0.036% of total deposits to financial institutions in addition to its ordinary insurance premiums. The ordinary insurance premiums have also increased by four times, from 0.012% to 0.048% and, as a result, total premiums amount to 0.084%, which is seven times greater than the previous level of premiums.

In addition, since 1998, the failures of large scale financial institutions have led to various measures, including financial support from the national budget, taken with a view to stabilizing Japan's financial systems.

The ''Law Concerning Emergency Measures for Revitalization of Financial Function'' (the ''Financial Revitalization Law''), enacted in October 1998, provides for (i) temporary state control of failed financial institutions, (ii) dispatch of a financial resolution administrator to the failed financial institutions, and (iii) the establishment of bridge banks.

The ''Law Concerning Emergency Measures for Early Strengthening of Financial Function'' (the ''Financial Function Early Strengthening Law''), also enacted in October 1998, provided for government funds to be made available to financial institutions ''prior to failure'' as well as to financial institutions with ''sound'' management, for the purpose of increasing the ratio of capital of such financial institutions and to strengthen their function as financial market intermediaries. The availability of new funds for this purpose ended on March 31, 2001.

The total amount of capital injections made under the Financial Function Early Strengthening Law amounted to approximately ¥10 trillion. Starting in April 2001, a new framework which enables a bank to receive capital injections in case systemic risk is expected was established by amendments to the Deposit Insurance Law.

In May 2000, the Deposit Insurance Law was amended, and the temporary freezing of the enforcement of the provisions of the law relating to the maximum amount of protection of deposits (the so called ''pay-off'' limitation) was extended until March 31, 2002. All deposits at qualifying financial institutions will be fully protected until the end of March 2002, despite the statutory maximum amount of protection of ¥10 million per deposit. Future issues applicable to the rehabilitation of the Japanese financial system have been identified as the early detection of financially troubled financial institutions and the consequent implementation of speedy remedial action, as well as the expedited closure of financial institutions which are unable to recover.

The Securities and Exchange Law

Article 65 of the Japanese Securities and Exchange Law is intended to generally prohibit the conduct of securities business by banks. Under this law, banks (including BTM) may not engage in securities business except for limited activities such as dealing in, underwriting and brokerage of Japanese governmental bonds, Japanese local government bonds and Japanese government guaranteed bonds, which became accessible to banks during the period from 1982 to 1985.

In general, the restrictions of the Securities and Exchange Law do not extend directly to the subsidiaries of banks outside Japan, which have engaged in the securities business mainly in connection with overseas funding by Japanese companies. However, due to the domestic restrictions on the securities business by banks, banks have sometimes found it difficult to meet all of their customers' needs.

However, under recent deregulation, banks, securities companies and trust companies are now allowed to engage in the business of other financial sectors through their subsidiaries in Japan. This deregulation, implemented by the Financial System Reform Law which came into effect in 1993, also allowed securities subsidiaries in Japan to engage in underwriting and dealing in bonds generally.

During the course of further deregulation, the Financial System Reform Act made additional amendments to the Securities and Exchange Law, concurrent with the implementation of the Japanese "Big Bang". In April 1999, the fire wall around banks and their securities subsidiaries was largely removed and in October 1999, it became possible for banks' securities subsidiaries in Japan to engage in the underwriting and brokerage of equity securities. This has enabled banks as a group to offer a full line of securities-related services to their customers.

BTM is required to file with the Director of the Kanto Local Finance Bureau of the Ministry of Finance a Securities Report for each fiscal period, supplemented by semi-annual and extraordinary reports, pursuant to the Securities and Exchange Law.

Capital Adequacy

The capital adequacy guidelines adopted by the Financial Services Agency applicable to Japanese banks with international operations (the "Guidelines") closely follow the risk-weighted approach proposed by the Basel Committee on Banking and Supervisory Practices of the Bank for International Settlements, and are intended to further strengthen the soundness and stability of Japanese banks.

In addition to credit risk, 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 requirements are (1) the risks pertaining to interest rate related instruments and equities in the trading book; and (2) foreign exchange risk and commodities risk throughout the bank.

Under the risk-based capital framework for credit risk purposes 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%, 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 accordance with the standards of the Bank for International Settlement for a target minimum standard ratio of capital to the sum of risk-weighted assets compiled for credit risk purposes and market risks multiplied by 12.5 (hereafter, "Modified Risk-

Weighted Assets'') of 8.0%. The Guidelines place considerable emphasis on tangible common stockholders' equity as the core element of the capital base, with appropriate recognition of other components of capital. Our risk-adjusted capital ratio at March 31, 2001 was 9.69% as compared with 11.46% at March 31, 2000.

Capital is classified into three tiers, referred to as Tier I, Tier II, and Tier III. Tier I capital generally consists of stockholders' equity less any recorded goodwill. Tier II capital generally consists of reserves for credit losses, subject to a limit of 1.25% of Modified Risk-Weighted Assets, 45% of the valuation differences of marketable securities available for sale, 45% of the land revaluation excess, and the balance of subordinated term debt with original maturity of over five years up to 50% of Tier I capital. Tier III capital generally consists of short-term subordinate debt with original maturity of at least two years and which is subject to a ''lock-in'' provision stipulating that neither interest nor principal may be paid if such payment would cause the bank's overall capital amount to less than its minimum capital requirement. At least 50% of the minimum capital requirements must be maintained in the form of Tier I capital.

Set forth below, in accordance with the Guidelines, is a schedule of Modified Risk-Weighted Assets, together with details of our qualifying capital, at March 31, 2001. The amounts and percentages shown below have been calculated in accordance with accounting principles generally accepted in Japan, as required by the Guidelines.

The Bank of Tokyo-Mitsubishi, Ltd.
and Subsidiaries

Risk-Weighted Assets Compiled for
Credit Risk Purposes and Market Risks
At March 31, 2001

Risk Asset Grouping		Balance	Risk weight	Risk-adjusted balance
		(in billions except percentages)		
Cash, claims on domestic and Organization for Economic Cooperation and Development ("OECD") central governments and central banks and other zero weight assets		¥16,442	0%	¥ —
Claims on domestic public entities, excluding central governments		2,105	10	211
Claims on banks incorporated in OECD countries and other 20% weight assets		10,779	20	2,156
Residential house mortgages		5,636	50	2,818
All other assets		37,930	100	37,930
Total		¥72,893		43,114

Off-balance-sheet exposure	Contract amount	Credit-equivalent amount		
Commitments and contingencies				
Direct credit substitutes	¥ 3,896	¥ 3,896	0-100%	2,895
Transaction-related	804	402	0-100	388
Trade-related	353	71	0-100	67
Repurchase agreements	1,287	1,287	0-100	74
Forward asset purchases	11	11	0-100	2
Long-term (over one year) commitments	4,214	2,107	0-100	1,976
Short-term (one year or less) commitments	20,525	—	0	—
Note issuance facilities and revolving underwriting facilities	65	32	0-100	32
Foreign exchange related contingencies	42,662	2,327	0-50	595
Interest rate related contingencies	179,848	3,731	0-50	907
Other contingencies	1,148	189	0-50	68
Sales of protections on credit derivatives	—	1	0-100	1
Bilateral netting of derivatives	—	(2,185)	0-50	(359)
Total off-balance-sheet exposure	¥254,814	¥11,869		6,647
Total risk weighted assets compiled for credit risk purposes				49,762
Market risks multiplied by 12.5				757
Modified risk weighted assets				¥50,519

Note—Amounts total more than indicated total due to rounding.

The Bank of Tokyo-Mitsubishi, Ltd.
and Subsidiaries

Qualifying Capital
At March 31, 2001
(in billions except percentages)

Tier I		
Stockholders' equity, less any recorded goodwill		¥2,498
Tier II		
Unrealized gains on investment securities, after 55% discount	¥ 254	
Land revaluation excess, after 55% discount	154	
Allowance for credit losses	604	
Subordinated term debt (with original maturity of over five years)	1,937	
Total	2,950	
Tier II capital includable as qualifying capital	2,498	2,498
Tier III		
Short-term subordinated debt	—	
Deductions from total qualifying capital	(100)	(100)
Total qualifying capital		¥4,897

	Capital	Risk-adjusted capital ratio
Risk-adjusted capital and capital ratio at March 31, 2001:		
Tier I	¥2,498	4.94%
Tier II	2,498	4.94
Tier III	—	—
Deductions from total qualifying capital	(100)	—
Total	¥4,897	9.69%

Note—Amounts total greater or less than indicated total due to rounding.

We continually monitor our risk-adjusted capital ratio closely and manage our operations in consideration of the capital ratio requirements. We recognize that these ratios are not only affected by asset growth, but also by fluctuations in the value of the yen against the US dollar and other currencies and general price levels of Japanese equity securities. Based on our expectations with respect to the market values of Japanese equity securities and future foreign currency exchange rates, we believe that we will continue to be in compliance with the required ratios.

Additionally, we have adopted the internal models approach for market risk capital measurement purposes, and developed the Market Risk Information System, the Value at Risk measuring and reporting system. Our risk management procedure, including the Market Risk Information System, was reviewed by internal auditors and external specialists before implementation. Their assessment was that it substantially meets quantitative and qualitative criteria for the adoption of the internal models approach.

United States

As a result of our operations in the United States, we are subject to a high degree of regulation, including supervision and examination by the Federal Reserve Board under the International Banking Act of 1978 (as amended, the ''International Banking Act'') and the Bank Holding Company Act of

1956 (as amended and together with related regulations, the ‘‘Bank Holding Company Act’’). BTM itself and our insured depository institution subsidiaries in the United States are also supervised by other Federal and state bank regulatory authorities as described below. Such supervision is intended, among other things, to protect the soundness and stability of the banking system as a whole, and with respect to insured depository institutions and the deposits of depositors in those institutions. The laws, regulations and policies affecting such businesses are regularly under review by the U.S. Congress, state legislatures, and Federal and state regulatory agencies. Changes in the laws, regulations or policies that impact us cannot necessarily be predicted, but they may have a material effect on our business and earnings.

The following is a summary of significant statutes, regulations and policies that apply to the operation of banking institutions. This summary is qualified in its entirety by reference to the full text of such statutes, regulations or policies.

Under the International Banking Act, the Bank Holding Company Act, and various state laws, any foreign bank and its subsidiaries are subject to various restrictions with respect to expansion of banking and non-banking operations in the United States. The Bank Holding Company Act generally prohibits a foreign bank that maintains offices in the United States from, directly or indirectly, acquiring more than 5% of the voting shares of any company engaged in non-banking activities in the United States unless the foreign bank has elected to become a financial holding company (an ‘‘FHC’’), as discussed below, or the Federal Reserve Board has determined, by order or regulation, that such activities are so closely related to banking as to be a proper incident thereto. In addition, the Bank Holding Company Act and the Bank Merger Act require any entity to obtain the prior approval of an appropriate federal banking authority before acquiring, directly or indirectly, the ownership of more than 5% of the voting shares or control of any U.S. bank or bank holding company. Subject to deposit concentration and other limitations, and with the prior approval of appropriate Federal and state regulators, a bank holding company may acquire or merge with an out-of-state bank. Also, a bank may establish a new out-of-state branch if such branching is expressly permitted by the other state. In addition, under the Bank Holding Company Act, a bank is prohibited from engaging in certain tying arrangements in connection with any extension of credit or sale or lease of any property or provision of any services.

The International Banking Act provides, among other things, that the Federal Reserve Board may examine U.S. branches and agencies of foreign banks, and that each such branch and agency shall be subject to on-site examination by the appropriate Federal or state bank supervisor as frequently as would a U.S. bank. The International Banking Act also provides that if the Federal Reserve Board determines that a foreign bank is not subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country, or if there is reasonable cause to believe that the foreign bank or its affiliate has committed a violation of law or engaged in an unsafe or unsound banking practice in the United States, the Federal Reserve Board may order the foreign bank to terminate activities conducted at a branch or agency in the United States. The foreign bank receiving the order must comply with the requirements of applicable Federal and state law with respect to procedures for the closure or dissolution of the branch or agency. The International Banking Act also provides that a state branch or agency of a foreign bank may not engage in any type of activity that is not permissible for a Federal branch or agency of a foreign bank unless the Federal Reserve Board has determined that such activity is consistent with sound banking practice.

In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 (‘‘FDICIA’’) provides, among other things, for expanded regulation of depository institutions and their parent holding companies. As required by FDICIA, the Federal banking agencies have established five capital tiers ranging from ‘‘well capitalized’’ (the highest) to ‘‘critically undercapitalized’’ for insured depository institutions. In addition, FDICIA generally prohibits an insured depostory institution from making capital distributions (including the payment of dividends) or the payment of any management fee to its holding company, if the insured depository institution would subsequently become undercapitalized. If an insured depository institution is undercapitalized, its activities may be limited and its holding company may be required by regulators to restore the institution's capital. As an institution's capital position deteriorates, the Federal banking regulators may take progressively stronger actions, such as further restricting affiliate transactions, activities, asset growth or interest payments. These actions could culminate in the appointment of a receiver for a "critically undercapitalized" insured depository institution. The availability of dividends from insured depository institutions in the United States is limited by various other statutes and regulations. The National Bank Act and other Federal laws prohibit the payment of dividends by a national bank under certain circumstances, and limit the amount a national bank can pay without the prior approval of the Office of the Comptroller of the Currency (the "Comptroller of the Currency"). In addition, state chartered banking institutions are subject to dividend limitations imposed by applicable Federal and state laws.

BTM is also subject to the supervision, examination and regulatory authority of the banking departments of each of the states in which they operate. The Bank has branches, agencies or representative offices in eight states and the District of Columbia. BTM's branch in New York (the "New York Branch"), for example, is licensed by the New York State Superintendent of Banks (the "Superintendent") pursuant to the New York Banking Law. Under the New York Banking Law and the Superintendent's Regulations, BTM must maintain on deposit assets equal to at least 5% of the total liabilities of the New York Branch, excluding amounts due and other liabilities owed to other offices, agencies, branches or our wholly owned subsidiaries and liabilities of any international banking facility maintained by the New York Branch. The New York Branch must also submit written reports concerning its assets and liabilities and other matters, to the extent required by the Superintendent, and is examined at periodic intervals by the New York State Banking Department. In addition, the Superintendent is authorized to take possession of the business and property of BTM located in New York whenever specified events occur.

As a national bank, Union Bank of California, N.A. is subject to the primary supervision, examination and regulatory authority of the Comptroller of the Currency. As an insured New York state chartered bank, Bank of Tokyo-Mitsubishi Trust Company is subject to the primary supervision, examination and regulatory authority of the Superintendent. The Federal Deposit Insurance Corporation (the "FDIC") insures deposits at Union Bank of California, N.A. and Bank of Tokyo-Mitsubishi Trust Company and, in that capacity, also monitors the supervision of those institutions.

An FDIC-insured institution that is affiliated with a failed or failing FDIC-insured institution can be required to indemnify the FDIC for losses resulting from the insolvency of the failed institution, even if this causes the affiliated institution also to become insolvent. Any obligation or liability owed by an insured depository institution subsidiary to its parent company is subordinate to the subsidiary's cross-guarantee liability with respect to commonly controlled insured depository institutions and to the rights of depositors. In the liquidation or other resolution of a failed FDIC-insured depository institution, deposits in its U.S. offices and other claims for administrative expenses and employee compensation are afforded a priority over other general unsecured claims, including deposits in offices outside the United States, nondeposit claims in all offices, and claims of a parent company. Such priority creditors would include the FDIC, which succeeds to the position of insured depositors. Moreover, under long-standing Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength for its subsidiary banks and to commit resources to support such banks.

BTM itself and our U.S. insured depository institution subsidiaries are subject to applicable risk-based and leverage capital guidelines issued by U.S. regulators for banks and bank holding companies. The regulatory agencies are required by law to take specific prompt actions with respect to institutions that do not meet minimum capital standards.

In addition, our non-bank subsidiaries engaged in securities or futures-related activities in the United States are regulated by appropriate functional regulators, such as the Securities and Exchange Commission and the Commodities Futures and Trading Commission, any self-regulatory organizations of which they are members, and the appropriate state regulatory agencies. These non-bank subsidiaries are required to meet separate minimium capital standards as imposed by those regulatory authorities.

Federal and state banking regulators closely monitor bank involvement in the derivatives area, and have issued guidance on derivatives activities. These guidelines focus on risk management, oversight, accounting and disclosure.

On November 12, 1999, the Gramm-Leach-Bliley Act (the ''GLB Act'') became law. The GLB Act, which is the most significant U.S. banking legislation in over 65 years, contains sweeping reforms that are likely to bring about significant changes in the manner in which financial services are provided in the United States.

The GLB Act removed almost all of the pre-existing statutory barriers to affiliations between commercial banks and securities firms by repealing Sections 20 and 32 of the Glass-Steagall Act. In addition, it amended the Bank Holding Company Act to provide for a new kind of comprehensive financial organization, an FHC. A bank holding company that satisfies certain qualifying factors may elect to become an FHC and engage, directly or indirectly through subsidiaries and other affiliates, in a wide range of activities that are ''financial in nature,'' including securities and insurance underwriting activities. An FHC may also make controlling investments in companies engaged in commercial activities, subject to certain conditions. The GLB Act also modified the National Bank Act to permit a national bank to establish a financial subsidiary to engage in many of the activities that an FHC may engage in.

Nevertheless, the GLB Act did not eliminate the authority of banking regulators to continue granting bank holding companies permission to engage in nonbanking activities under existing laws. Accordingly, bank holding companies that do not elect to become FHCs may continue to obtain pre-GLB Act authorizations.

To date, BTM has not become an FHC under the GLB Act. BTM cannot determine at this time what the effect of this decision will be, nor can it determine as yet whether it will seek FHC qualification in the future.

On April 2, 2001, MTFG was established in Japan and, through an exchange of stock, became the sole shareholder of BTM. MTFG is not a bank and does not do business directly in the United States. However, MTFG, by virtue of its indirect ownership through BTM and Mitsubishi Trust of insured depository institution subsidiaries in the United States, is deemed to be a bank holding company as defined in the Bank Holding Company Act. As a result, the regulatory and supervisory requirements of the Bank Holding Company Act as described above are also applicable to MTFG.

PROPERTY

Our head office is located in a modern 24-story building at 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, comprising approximately 1,326,000 square feet of office space. We utilize the entire building and its site. At March 31, 2001, we conducted our banking operations either in our owned premises or in rented properties.

In March 1999, BTM sold a 50% undivided interest in each of its head office land and building and of its main office land and building, and at the same time, BTM entered into an agreement to lease back from the buyer the 50% undivided interests of the buildings sold over a period of 7 years. We accounted for these transactions as financing arrangements.

Our properties are stated at historical cost although in many cases we believe that the current market values of these properties are considerably in excess of book values.

The following table presents the areas and book values of our material office and other properties at March 31, 2001:

	Area (in thousands of square feet)	Book value (in millions)
Owned land	9,197	¥125,368
Leased land	1,212	—
Owned buildings	16,648	135,232
Leased buildings	10,153	—

Our offices outside Japan, with the exception of Union Bank of California headquarters, the principal Hong Kong branch, Buenos Aires branch, the Australia subsidiary and the Brazil subsidiary, are generally located in rented premises.

LEGAL PROCEEDINGS

There are no material pending legal proceedings to which BTM or any of its subsidiaries is a party or of which any of their property is the subject.

MANAGEMENT AND EMPLOYEES

Management

BTM's Articles of Incorporation was amended on June 27, 2001 to provide that the number of Directors shall not exceed 20 and that the number of Corporate Auditors shall not exceed eight. BTM's shareholders elect directors at an annual general meeting of shareholders of BTM for staggered two-year term. BTM's shareholders also elect Corporate Auditors at the annual general meeting of shareholders of BTM for three-year term.

The Corporate Auditors of BTM are not required to be certified public accountants. In accordance with Japanese law, the duties of the Corporate Auditors include examining the financial statements and business reports of BTM that the Board of Directors submits to the shareholders at general meetings. Their statutory duties also include examination of the administration of the affairs of BTM by the Directors. They are entitled to attend meetings of the Board of Directors and to express their opinions, but are not entitled to vote. Any person serving as a Corporate Auditor may not at the same time be a Director, manager or employee of BTM or any of its subsidiaries. At least one Corporate Auditor must be elected from persons who have not been Directors, managers or employees of BTM or any of its subsidiaries for five years prior to taking office.

The Board of Directors is empowered to appoint by resolution representative directors from among their members who may represent BTM severally. The Board of Directors may also appoint from their members by resolution a chairman, a deputy chairman, a president, deputy presidents, senior managing directors and managing directors. Senior managing directors and the managing directors assist the president and deputy presidents managing the day-to-day business of BTM. All of these senior officers, are currently representative directors.

In June 2001, BTM reformed its management structure. The change in management structure enhances the corporate governance of ongoing reforms affecting BTM's customers, shareholders and employees. These reforms include fundamental reorganization of delivery channels to more efficiently provide customers with optimum products and services, managerial integration with The Mitsubishi Trust and Banking Corporation and the introduction of separate human resources management in each business unit.

By reviewing the roles of each board member and introducing a non-board member director system, BTM seeks to strengthen the decision-making and supervisory capabilities of the board while also improving business execution capabilities. Key details of the new management structure are as follows:

(1) Reform of the board of directors

The actual number of board members was reduced from 42 to 13, as a means of further stimulating speed and focus in management activities. The board comprises the chairman, deputy chairman, president, deputy president, business unit chief executives, and managing directors in charge of the Corporate Center.

(2) Introduction of non-board member directors

A new non-board member director status, with responsibility only for business execution and no board responsibilities, is created to further promote BTM's business strategy. These new directors will be responsible for the development and management of business units.

Non-board member directors are appointed by the board. Moreover, certain members of the board such as the president, the deputy president, chief executives of each business units, and managing directors in charge of the Corporate Center, concurrently bear business execution responsibilities.

The new management structure took effect after the general meeting of shareholders held on June 27, 2001.

Set forth below is a list of the Board of Directors and Corporate Auditors of BTM at June 27, 2001.

Name	Age	Business activities performed inside and outside BTM
‡Satoru Kishi	71	Mr. Kishi has served as Chairman of BTM since June 2000. He served as President of BTM from January 1998 to June 2000 and as a Deputy President of BTM from February 1992 to January 1998. Mr. Kishi has served as a Director of BTM since June 1983.
†Kenji Yoshizawa	69	Mr. Yoshizawa has served as Deputy Chairman of BTM since June 2000. He served as a Deputy President of BTM from April 1996 to June 2000 and as a Deputy President of The Bank of Tokyo, Ltd. from June 1990 until March 1996. Mr. Yoshizawa has served as a Director of BTM since April 1996, and served as a Director of The Bank of Tokyo, Ltd. from June 1984 until March 1996.
†Shigemitsu Miki	66	Mr. Miki has served as President of BTM since June 2000. He served as a Deputy President of BTM from May 1997 to June 2000 and as a Senior Managing Director of BTM from June 1994 to May 1997. He has served as President and Co-Chief Executive Officer of MTFG since April 2001. Mr. Miki has served as a Director of BTM since June 1986.

Name	Age	Business activities performed inside and outside BTM
†Tetsuo Shimura	62	Mr. Shimura has served as Deputy President and Chief Executive, Global Corporate Banking Business Unit, Treasury Unit and eBusiness & IT Initiatives Unit of BTM since June 2001. He served as a Senior Managing Director of BTM from June 1998 to June 2001, as a Managing Director of BTM from April 1996 to June 1998, and as a Managing Director of The Bank of Tokyo, Ltd. from June 1993 until March 1996. Mr. Shimura has served as a Director of BTM since April 1996, and served as a Director of The Bank of Tokyo, Ltd. from June 1990 until March 1996.
‡Masamichi Yamada	61	Mr. Yamada has served as Senior Managing Director, Chief Executive, Investment Banking Business Unit and Group Head, Structured Finance Group of BTM since November 2000. He has served as a Senior Managing Director of BTM since June 2000, and served as a Managing Director of BTM from June 1995 to June 2000. Mr. Yamada has served as a Director of BTM since June 1991.
‡Yasumasa Gomi	58	Mr. Gomi has served as Managing Director and Chief Executive, Commercial Banking Business Unit of BTM since May 2001. He has served as a Managing Director of BTM since May 1997. Mr. Gomi has served as a Director of BTM since June 1993.
‡Tatsunori Imagawa	57	Mr. Imagawa has served as a Managing Director in charge of the Corporate Center of BTM since July 2000. He has served as a Managing Director of BTM since May 1997. He has served as a Director of MTFG since April 2001. Mr. Imagawa has served as a Director of BTM since June 1993.
†Takahiro Moriguchi......................	57	Mr. Moriguchi has served as Managing Director of BTM and President and Chief Executive Officer, UnionBanCal Corporation since June 2000. He served as Director of BTM and President and Chief Executive Officer of UnionBanCal Corporation from May 1997 to June 2000, as Director of BTM and Vice Chairman of UnionBanCal Corporation from April 1996 to May 1997, and as Director of The Bank of Tokyo, Ltd. and Vice Chairman of Union Bank from June 1995 until March 1996. Mr. Moriguchi has served as a Director of BTM since April 1996, and served as a Director of The Bank of Tokyo, Ltd. from June 1995 until March 1996.
†Masayuki Tanaka	57	Mr. Tanaka has served as Managing Director and Chief Executive, Retail Banking Business Unit of BTM since July 2000. He has served as a Managing Director of BTM since May 1999. Mr. Tanaka has served as a Director of BTM since June 1995.

Name	Age	Business activities performed inside and outside BTM
‡Masaharu Hamakawa	56	Mr. Hamakawa has served as a Managing Director in charge of the Corporate Center since July 2000. He has served as a Managing Director of BTM since June 2000. He has served as a Director of MTFG since April 2001. Mr. Hamakawa has served as a Director of BTM since June 1996.
†Ichiro Terato	55	Mr. Terato has served as Managing Director and Chief Executive, Operations Services Unit and Systems Services Unit of BTM since July 2000. He has served as a Managing Director of BTM since June 2000. Mr. Terato has served as a Director of BTM since June 1996.
‡Norimichi Kanari	54	Mr. Kanari has served as a Managing Director of BTM since June 2001. Mr. Kanari has served as a Director of BTM since June 1997.
‡Shunichi Tokuda	56	Mr. Tokuda has served as Managing Director and Chief Executive, Asset Management Business Unit of BTM since May 2001. Mr. Tokuda has served as a Director of BTM since June 1997.
‡Ryuichi Ohno	61	Mr. Ohno has served as a full-time Corporate Auditor of BTM since June 2000. Mr. Ohno served as a Senior Managing Director of BTM from May 1999 to June 2000, as a Managing Director of BTM from April 1996 to May 1999, and as a Managing Director of The Bank of Tokyo, Ltd. from June 1994 until March 1996.
µYutaka Hasegawa	61	Mr. Hasegawa has served as a full-time Corporate Auditor of BTM since June 2001. Mr. Hasegawa served as President of The Diamond Business Consulting Co., Ltd. from June 1998 to June 2001 and as a Managing Director of BTM from May 1993 to June 1998.
µTakashi Uno	59	Mr. Uno has served as a full-time Corporate Auditor of BTM since June 1998. He served as a Director of BTM from April 1996 to June 1998 and as a Director of The Bank of Tokyo, Ltd. from June 1994 until March 1996. Mr. Uno has served as a Corporate Auditor of MTFG since April 2001.
‡Takao Wada	54	Mr. Wada has served as a full-time Corporate Auditor of BTM since June 2000. Mr. Wada served as a Director of BTM from June 1997 to June 2000.
‡Yoshikazu Takagaki	58	Mr. Takagaki has served as a Corporate Auditor of BTM since April 2001. He served as a full-time Corporate Auditor of BTM from June 1997 to April 2001 and as a Director of BTM from June 1992 to June 1997. Mr. Takagaki has served as a full-time Corporate Auditor of MTFG since April 2001.

Name	Age	Business activities performed inside and outside BTM
µMitsuo Minami	67	Mr. Minami has served as a Corporate Auditor of BTM since June 2001. He served as Chairman and Chief Executive Officer of Tohmatsu & Co. from May 1995 to May 1997. Mr. Minami has served as a Corporate Auditor of MTFG since April 2001 and as a Professor, Department of Business Administration, Bunkyo Women's University since April 1999.
µIchiro Nagaishi	58	Mr. Nagaishi has served as a Corporate Auditor of BTM since June 2001. Mr. Nagaishi has served as an attorney-at-law since April 1972.

† Term expires 2002.
‡ Term expires 2003.
µ Term expires 2004.

There are no family relationships between or among any of the Directors or Corporate Auditors.

No loans have been made to the Directors or Corporate Auditors of BTM other than in the normal course of business, on normal commercial terms and conditions.

Employees

On March 31, 2000 we had 36,487 employees and on March 31, 2001 we had 36,289 employees. The following tables show the percentages of our employees in our different business units and geographically, as at March 31, 2001. These percentages did not change significantly from March 31, 2000.

Business unit	Percentage of total employees
Retail Banking and Commercial Banking	34%
Global Corporate Banking	16%
Investment Banking	7%
Asset Management	5%
UnionBanCal Corporation	24%
Operations Services	5%
Treasury	2%
Other units	7%

Location	Percentage of total employees
Japan	61%
United States	27%
Europe	3%
Asia/Oceania excluding Japan	8%
Other areas	1%

Most of our employees are members of employees' union of either BTM or its subsidiaries, which negotiates on behalf of employees in relation to remuneration and working conditions.

COMPENSATION

BTM paid an aggregate of ¥1,267 million as remuneration, including bonuses but excluding retirement allowances, during the year ended March 31, 2001 to its Directors (including executive officers of BTM) and Corporate Auditors.

In accordance with customary Japanese business practice, when a Director or Corporate Auditor retires, a proposal to pay a lump-sum retirement allowance is submitted at the annual general meeting of shareholders for approval. After the shareholders' approval is obtained, the amount of the retirement allowance for a Director or Corporate Auditor is fixed by the Board of Directors in accordance with BTM's internal regulations and practice and generally reflects the position of the Director or Corporate Auditor at the time of retirement, the length of his service as a Director or Corporate Auditor and his contribution to BTM's performance. BTM does not set aside reserves for any such retirement payments to the Directors and Corporate Auditors. During fiscal 2000, BTM paid allowances totaling ¥2,200 million to retiring Directors and Corporate Auditors.

PRINCIPAL SHAREHOLDERS

This Annual Report is in respect of the fiscal year ended March 31, 2001. Accordingly, our statements in this Report are, unless otherwise indicated, in respect of that period. On March 31, 2001, BTM was not owned or controlled by any other person. However, on April 2, 2001, as a result of the business integration between BTM, Mitsubishi Trust and Nippon Trust Bank, BTM became a consolidated subsidiary of MTFG. All of BTM's common stock and preferred stock are now held by MTFG. For further discussion of the business integration, see the ''Operating and Financial Review and Prospects—Recent Developments'' section.

Common Stock

At March 31, 2001, to our knowledge, no person owned beneficially, directly or indirectly, more than 5% of the outstanding common stock of BTM. The ten largest shareholders of our common stock of BTM as of March 31, 2001, expressed as a percentage of the total number of common stock then outstanding, were as follows:

	Number of common stocks in thousands[(a)]	Percentage of total common stocks outstanding[(a)]
The Meiji Life Insurance Company[(d)]	233,125	4.98%
Nippon Life Insurance Company	163,442	3.49
Japan Trustee Services Bank, Ltd. [(c)]	161,454	3.45
The Tokio Marine & Fire Insurance Company, Limited[(d)]	124,330	2.65
The Dai-ichi Mutual Life Insurance Company	112,612	2.40
Mitsubishi Heavy Industries, Ltd. [(d)(e)]	93,883	2.00
The Mitsubishi Trust and Banking Corporation[(c)(d)]	82,519	1.76
The Taiyo Mutual Life Insurance Company	63,212	1.35
Hero & Co.[(b)]	62,083	1.32
The Toyo Trust and Banking Company, Limited[(c)]	51,584	1.10
Total	1,148,246	24.55%

(a) Amounts total less than indicated actual total due to rounding.
(b) An owner of record for ADRs of BTM.
(c) Shares held in trust accounts.
(d) Commonly described as members of the ''Mitsubishi Group'' companies. See ''Information on The Bank of Tokyo-Mitsubishi, Ltd.—History and Development''.
(e) Shares held in a pension trust account with The Mitsubishi Trust and Banking Corporation, for the benefit of retirement plans with retained voting right by Mitsubishi Heavy Industries, Ltd.

At March 31, 2001, 750,113 shares, or 0.02%, of the outstanding common stock were held by BTM's Directors and Corporate Auditors.

BTM operates an employee stock purchase plan pursuant to which a plan administrator makes open market purchases of common stock for the accounts of participating employees on a monthly basis. The purchases are made out of amounts deducted from each participating employee's salary, with a contribution from BTM of ¥50 for each ¥1,000 so deducted. As of March 31, 2001, 9,646 employees of BTM held an aggregate of 16,526,447 common stocks under the plan.

Preferred Stock

At March 31, 2001, the ten largest shareholders of the preferred stock of BTM were as follows:

	Number of preferred stocks in thousands	Percentage of total preferred stocks outstanding[(a)]
The Tokio Marine & Fire Insurance Company, Limited[(b)]	16,700	20.51%
Mitsubishi Corporation[(b)]	16,700	20.51
The Meiji Life Insurance Company[(b)]	16,700	20.51
Kirin Brewery Company, Limited[(b)]	10,000	12.28
Asahi Glass Company, Limited[(b)]	3,400	4.17
Diamond Lease Company Limited	3,400	4.17
Tokyu Corporation	3,400	4.17
Honda Motor Co., Ltd.	3,400	4.17
Mitsubishi Chemical Corporation[(b)]	2,000	2.45
Mitsubishi Electric Corporation[(b)]	1,700	2.08
Total	77,400	95.08%

(a) Amounts total less than indicated actual total due to rounding.
(b) Commonly described as members of the "Mitsubishi Group" companies. See "Information on the Bank of Tokyo-Mitsubishi, Ltd.—History and Development."

Related Party Transactions

We had, and expect to have in the future, banking transactions and other transactions in the ordinary course of business with our related parties. Although for the years ended March 31, 1999, 2000 and 2001, such transactions included, but were not limited to, call money, loans, electronic data processing, leases and management of properties, those transactions were immaterial. In the opinion of management, such transactions were made at prevailing market rates, terms, and conditions and do not involve more than the normal risk of collectibility or present other unfavorable features.

We make loans to related parties including directors and affiliated companies. In the opinion of management, these related party loans were made on substantially the same terms, including interest rates and collateral requirements, as terms prevailing in the market. The loans to directors in aggregate were not greater than 5% of stockholders' equity as of March 31, 2000 and 2001.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

Foreign Exchange and Foreign Trade Law

The Foreign Exchange and Foreign Trade Law of Japan, (together with related cabinet orders and ministerial ordinances the "Foreign Exchange and Foreign Trade Law") governs several aspects of the issuance of Shares and equity-related securities by BTM. It also governs the acquisition and holding of Shares or ADRs representing such Shares by non-residents of Japan and by foreign investors. The Foreign Exchange and Foreign Trade Law currently in effect does not affect the right of a non-resident of Japan to purchase or sell an ADR outside Japan for non-Japanese currency.

The Foreign Exchange and Foreign Trade Law defines "Non-residents of Japan" as individuals who are not resident in Japan and corporations whose principal offices are located outside Japan. Branches and other offices of Japanese corporations located outside Japan are treated as non-residents of Japan, but branches and other offices located within Japan of non-resident corporations are regarded as residents of Japan. The Foreign Exchange and Foreign Trade Law defines "Foreign investors'' as individuals not resident in Japan and corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan. ''Foreign Investors'' also include other corporations of which (a) 50% or more of the shares are held by individuals not resident of Japan and corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan, (b) a majority of officers consists of non-resident individuals or (c) a majority of officers having the power of representation are non-resident individuals.

Acquisitions of Shares

Under the Foreign Exchange and Foreign Trade Law, the acquisition of shares of stock of a Japanese company listed on any stock exchange in Japan or traded on the over-the-counter market in Japan (the ''listed shares'') from a resident of Japan, including a corporation, by a non-resident of Japan is subject to various requirements depending on the percentage ownership of the shares being purchased held by such person.

If a foreign investor acquires listed shares constituting, together with its current holding, if any, ten percent (10%), or more, of the then total outstanding shares of the subject corporation (the ''Direct Domestic Investment''), the foreign investor is generally required to file a report after the fact with the Minister of Finance and any other minister sharing jurisdiction over the business of the corporation (together, the ''Ministers''). However, if the acquisition concerns national security or meets other conditions specified in the Foreign Exchange and Foreign Trade Law, the foreign investor must file a prior notification in respect of the proposed acquisition with the Ministers, and the Ministers may request a modification or prohibition of the proposed acquisition. If the foreign investor does not agree with the request, the Ministers may issue an order for the modification or prohibition of such acquisition.

A non-resident of Japan is generally not required to report or obtain prior approval of acquisitions of listed shares that would result in the foreign investors owing less than ten percent (10%) of the then total outstanding shares of the subject corporation. However, the Foreign Exchange and Foreign Trade Law does provide the Ministry of Finance with the power, in very exceptional circumstances, to require prior approval for any such acquisition from resident(s) by a non-resident.

Dividends and Proceeds of Sales

Under Japanese foreign exchange controls currently in effect, dividends paid on, and the proceeds of sales in Japan of, Shares of BTM held by non-residents of Japan may be converted into any foreign currency and repatriated abroad. The acquisition of Shares by non-resident shareholders by way of stock splits is not subject to any of the notification and confirmation requirements described in ''Acquisitions of Shares'' above. See ''Distributions—Stock Splits.''

Reporting of Substantial Shareholdings

Under Japan's Securities and Exchange Law, any person who becomes, beneficially and solely or jointly, a holder of more than five percent (5%) of the total issued shares of capital stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan generally must report their share ownership to The Financial Reconstruction Commission within 5 business days. A similar report must also be made in respect of any subsequent change of one percent (1%) or more in any previously reported holding. For this purpose, shares issuable to such person upon conversion of convertible securities or exercise of warrants held by him are taken into account in determining both the size of his holding and the company's total issued share capital. Copies of each ownership report must also be furnished to the issuer of such shares and to all Japanese stock exchanges on which the shares are listed or (in the case of shares traded over-the-counter) the Japan Securities Dealers Association.

Deposits and Withdrawals Under ADR Facility

The deposit of Shares with BTM, in its capacity as custodian and as agent for the Depositary, in Tokyo, the issuance of ADRs by the Depositary to a non-resident of Japan in respect of such deposit and the withdrawal of such underlying Shares upon the surrender of such ADRs were not subject to any formalities or restrictions referred to under "Acquisitions of Shares" above, except where as a result of a deposit or withdrawal the aggregate number of Shares held by the Depositary (including Shares deposited with BTM as custodian for the Depositary) or the holder surrendering ADRs, as the case may be, would be 10% or more of the total outstanding Shares, in which event a report was required, and in specified circumstances, a prior notification may have been required, as noted under "Acquisitions of Shares" above.

Unit Share System

Like most of the other Japanese companies whose shares are listed on Japanese stock exchanges, we adopted 1,000 Shares as one "unit" of Shares. Although the ADSs, each representing one Share, were able to be traded individually or in any number, BTM could not issue share certificates for any number of Shares constituting less than one unit or an integral multiple of units except under limited cases.

Because of the unit share system, the Depositary could only accept deposit Shares constituting one or more units and could only vote Shares held by the Custodian in units of 1,000 Shares or integral multiples thereof. Accordingly, the Depositary was not necessarily permitted to vote all Shares in respect of which it received voting instructions from record holders of ADRs. However, in voting Shares represented by ADSs, in order to maximize the number of votes permitted to be cast, the Depositary, to the extent possible, aggregated Shares for which the holders of ADRs evidencing such ADSs gave the same or similar voting instructions.

JAPANESE TAXATION

The discussion of Japanese income tax set forth below is intended only as a summary and does not purport to be a complete analysis or listing of all the potential Japanese tax consequences that may be relevant to the purchase of ADSs by a person who is not a resident of Japan.

Generally, a non-resident of Japan or a non-Japanese corporation is subject to Japanese withholding tax on dividends. Stock splits, in general, are not subject to Japanese income tax. However, a stock split in connection with a capitalization of retained earnings or legal reserve by Japanese corporations is subject to Japanese income tax. A capitalization of retained earnings or legal reserve is subject to Japanese income tax even if no stock split is made. A stock split in connection with a capitalization of capital surplus and a stock split where the total par value of the shares outstanding after the stock split does not exceed the stated capital (other than in connection with the capitalization of retained earnings or legal reserve) are not subject to withholding tax.

Pursuant to the Agreement between the United States and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes and Income, a Japanese withholding tax at the maximum rate of 15% is imposed, generally speaking, on dividend payments made by a Japanese corporation to a United States resident or corporation. However, if the recipient of the dividend has a "permanent establishment" in Japan and the shares on which the dividends are paid are effectually connected with the "permanent establishment," then the rate of withholding tax is 20%.

The amount of withholding tax imposed on dividends payable to the holders of the Shares and ADSs who reside in a country other than the United States depends on the provisions of the conventions or agreements that may exist between that country and Japan. In the absence of any convention or agreement, the rate of Japanese withholding tax imposed on dividends paid by Japanese corporations is 20%.

Gains derived from the sale outside Japan of the Shares or ADSs by an individual not resident in Japan or a non-Japanese corporation, or from the sale of Shares within Japan by an individual not resident in Japan or a non-Japanese corporation not having a permanent establishment in Japan, are generally not subject to Japanese income or corporation taxes. Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Shares or ADSs as a distributee, legatee or donee.

DISTRIBUTIONS

Dividends

We paid dividends on the Shares semiannually for each fiscal year since BTM's founding in 1919, except during the immediate post-World War II period. The Board of Directors recommends an annual dividend for shareholders' approval at the ordinary general meeting of shareholders customarily held in June of each year. The annual dividend is usually distributed immediately following shareholders' approval to holders of record at the preceding March 31. In addition to annual cash dividends, we may make cash distributions from retained earnings to shareholders of record as of September 30 in each year by resolution of our Board of Directors. See Note 20 of Notes to Consolidated Financial Statements.

The following table shows our historical dividends for common stock as declared by BTM during each of the six-month periods indicated, which amounts are translated into US dollars per ADS (each representing one Share) at the Noon Buying Rate on each of the respective declaration dates for dividends.

Six months ended	Dividend per share	Translated into US$ per ADS
	(yen)	
September 30, 1996	4.25	0.0388
March 31, 1997	4.25	0.0381
September 30, 1997	4.25	0.0344
March 31, 1998	4.25	0.0333
September 30, 1998	4.25	0.0298
March 31, 1999	4.25	0.0353
September 30, 1999	4.25	0.0352
March 31, 2000	4.25	0.0405
September 30, 2000	4.25	0.0404
March 31, 2001	4.25	0.0386

Under Japanese foreign exchange controls currently in effect, dividends paid on Shares held by non-residents of Japan may be converted into any foreign currency and repatriated abroad. Under the terms of the Deposit Agreement pursuant to which ADRs are issued, the Depositary is required, to the extent that in its judgment it can convert Japanese yen on a reasonable basis into US dollars and transfer the resulting dollars to the United States, to convert all cash dividends that it receives in respect of deposited Shares into US dollars and to distribute the amount received (after deduction of applicable withholding taxes) to the holders of ADRs. See "Exchange Controls and Other Limitations Affecting Security Holders."

Stated Capital and Capital Surplus

We are required to account for the entire amount of the issue price of new Shares as stated capital. However, we may account for an amount not exceeding one-half of the issue price as capital surplus, so long as the remainder is not less than the total par value of the new Shares issued. We may at any time transfer the whole or any part of our capital surplus and legal reserve to stated capital by resolution of the Board of Directors. The whole or any part of the retained earnings which may be distributed as annual dividends may also be transferred to stated capital by resolution of our shareholders.

Stock Splits

We may at any time split the outstanding Shares into a greater number of Shares by resolution of the Board of Directors if the total par value of the Shares outstanding after the stock split does not exceed the stated capital and the net assets of BTM, as they appear in its latest balance sheet, and if the total par value divided by the number of Shares outstanding after the stock split is at least ¥50. Generally, unless a stock split involves a change in the par value of the Shares (which would be subject to shareholders' approval), shareholders will not be required to exchange share certificates for new share certificates, but certificates representing the additional Shares resulting from the stock split will be issued to shareholders subject to the limitations under the unit share system as described under "Exchange Controls and Other Limitations Affecting Security Holders — Unit Share System." If an exchange of share certificates is not required, we must give public notice of the stock split, specifying a record date therefor, not less than two weeks before the record date. In addition, we must give notice promptly after the stock split takes effect to each shareholder specifying the number of shares to which such shareholder is entitled by virtue of the stock split. If an exchange of share certificates is required, the Bank must give public notice and notify each shareholder that, within a period of not less than one month specified in the notice, share certificates must be submitted to the Bank for exchange.

MARKET PRICE INFORMATION

The primary market for the Shares was the Tokyo Stock Exchange. The Shares had been traded on the First Section of that exchange since 1949 and were also listed on The Osaka Securities Exchange, Kyoto Stock Exchange and The Sapporo Securities Exchange. The primary market for the ADSs in the United States was the New York Stock Exchange, on which the ADSs had been listed under the symbol "MBK" since September 19, 1989. The ADSs were represented by ADRs issued by the Depositary. In addition, the Shares were listed on the London Stock Exchange and on the Paris Stock Exchange in the form of Shares of BTM, and on the SWX Swiss Exchange in the form of depositary receipts.

The Shares were delisted from the Tokyo Stock Exchange, the Osaka Securities Exchange, the Kyoto Stock Exchange, and the Sapporo Stock Exchange on March 26, 2001. In addition, the Shares were also delisted from the London Stock Exchange on March 23, 2001, from the Paris Stock Exchange on December 22, 2000, and from the SWX Swiss Exchange on December 29, 2000. However, as part of the procedure to list Mitsubishi Tokyo Financial Group on the New York Stock Exchange, MTFG was treated as the successor of BTM, and therefore MTFG replaced BTM on the New York Stock Exchange without a formal delisting procedure.

As of March 31, 2001, there were 649 record holders of Shares (including record holders of ADRs) with addresses in the United States, whose shareholdings represented approximately 5.20% of the outstanding Shares on that date. Because some of these Shares were held by brokers or other nominees, the number of record holders with addresses in the United States might not be fully indicative of the number of beneficial owners in the United States or of where the beneficial owners reside.

The following table presents (1) the information for annual high and low market prices of the Shares on the Tokyo Stock Exchange ("TSE"), and of the ADSs in the New York Stock Exchange ("NYSE") for each of the five most recent fiscal years, (2) the information for quarterly high and low market prices for each of the two most recent fiscal years, and (3) the information for high and low market prices for each month for the most recent six months. The table also includes high and low market prices quotations from the TSE translated in each case into US dollars per ADS at the Noon Buying Rate on the relevant date. As a result of the business integration of BTM, Mitsubishi Trust and Nippon Trust Bank, holders of BTM Shares and ADS's received shares of MTFG in a stock exchange. MTFG was treated as BTM's successor and replaced BTM on the New York Stock Exchange effective as of April 2, 2001.

Fiscal	TSE price per share		Translated into US$ per ADS		NYSE price per ADS	
	High	Low	High	Low	High	Low
	(yen)	(yen)			(US$)	(US$)
(1) Annual high and low market prices						
Fiscal 1996	2,600	1,630	23.90	13.45	23.75	14.25
Fiscal 1997	2,390	1,450	21.11	12.01	20.69	11.88
Fiscal 1998	1,728	801	14.64	5.90	14.69	6.06
Fiscal 1999	1,924	1,240	17.22	11.34	17.06	11.44
Fiscal 2000	1,576	953	15.01	7.80	14.88	8.51
(2) High and low market prices for each quarter						
Fiscal 1999						
First quarter	1,883	1,525	15.59	12.28	15.81	12.44
Second quarter	1,924	1,531	17.22	14.70	17.06	13.81
Third quarter	1,755	1,376	16.65	13.45	16.81	13.50
Fourth quarter	1,544	1,240	14.62	11.34	14.25	11.44
Fiscal 2000						
First quarter	1,576	1,155	15.01	10.93	14.88	11.63
Second quarter	1,403	1,084	13.09	9.88	13.06	10.06
Third quarter	1,405	1,120	12.93	9.93	12.81	9.69
Fourth quarter (see note 1)	1,229	953	10.54	7.80	10.43	8.51
(3) High and low market prices for each month						
October 2000	1,405	l,258	12.93	11.64	12.81	11.75
November 2000	1,310	1,145	12.09	10.29	12.06	10.50
December 2000	1,308	1,120	11.78	9.93	11.56	9.69
January 2001	1,188	1,009	10.09	8.58	10.25	9.00
February 2001	1,229	1,001	10.54	8.61	10.43	8.73
March 2001	1,218	953	10.17	7.80	10.12	8.51

Note: (1) As mentioned above, the Shares were delisted from the Tokyo Stock Exchange, the Osaka Securities Exchange, the Kyoto Stock Exchange, and the Sapporo Stock Exchange on March 26, 2001.

DOCUMENTS ON DISPLAY

BTM files periodic reports and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document that BTM files with the SEC at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-732-0330 for further information on the operation of its public reference room. You may also inspect BTM's SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. Some of this information may also be found on the BTM website at http://www.btm.co.jp.

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REPORT OF INDEPENDENT AUDITORS

The Mitsubishi Trust and Banking Corporation
(Mitsubishi Shintaku Ginko Kabushiki Kaisha):

We have audited the accompanying consolidated balance sheets of The Mitsubishi Trust and Banking Corporation (Mitsubishi Shintaku Ginko Kabushiki Kaisha) (''Mitsubishi Trust'') and subsidiaries as of March 31, 2000 and 2001, and the related consolidated statements of operations, changes in equity from nonowner sources, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2001. These financial statements are the responsibility of Mitsubishi Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Mitsubishi Trust and subsidiaries at March 31, 2000 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, for the year ended March 31, 2001 Mitsubishi Trust changed its method of accounting for transfers of financial collateral to conform to Statement of Financial Accounting Standards No. 140 and restated the consolidated balance sheet as of March 31, 2000 for the change.

As discussed in Note 27 to the consolidated financial statements, on April 2, 2001, Mitsubishi Trust, The Bank of Tokyo-Mitsubishi, Ltd. (''BTM'') and Nippon Trust Bank Limited (''Nippon Trust Bank''), a former subsidiary of BTM, established a holding company known as Mitsubishi Tokyo Financial Group, Inc. (''MTFG'') through stock-for-stock exchanges. Mitsubishi Trust, BTM and Nippon Trust Bank each became a wholly-owned subsidiary of MTFG, and the common and preferred shareholders of these three banks received shares of MTFG as a result of the stock-for-stock exchanges.

/s/ Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU
Tokyo, Japan

June 15, 2001
(June 27, 2001 as to the last paragraph of Note 27)

THE MITSUBISHI TRUST AND BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, MARCH 31, 2000 AND 2001

	2000*	2001
ASSETS	**(in millions)**	
Cash and due from banks (Note 9)	¥ 260,515	¥ 184,321
Interest-earning deposits in other banks	995,251	723,612
Call loans and funds sold (Note 11)	350,289	108,357
Receivables under resale agreements	52,543	304,863
Receivables under securities borrowing transactions	—	26,401
Trading account assets (including ¥112,493 million pledged as collateral that the secured party is permitted to sell or repledge in 2000 and ¥55,995 million in 2001) (Notes 2 and 9)	589,070	577,345
Investment securities (Notes 3 and 9):		
Securities available for sale—at estimated fair value (including ¥257,099 million pledged as collateral that the secured party is permitted to sell or repledge in 2000 and ¥380,142 million in 2001)	4,677,400	5,624,181
Securities being held to maturity—at amortized cost (estimated fair value of ¥270,595 million in 2000 and ¥320,927 million in 2001)	270,397	306,207
Other investment securities	81,486	77,075
Total investment securities	5,029,283	6,007,463
Loans, net of unearned income and deferred loan fees (including ¥268,112 million pledged as collateral that the secured party is permitted to sell or repledge in 2001) (Notes 4, 5 and 9)	9,132,544	9,548,700
Allowance for credit losses (Notes 4 and 6)	(349,095)	(332,053)
Net loans	8,783,449	9,216,647
Premises and equipment—net (Note 7)	186,636	170,798
Accrued interest	51,424	59,311
Other assets (Notes 5, 7, 8 and 15)	291,437	394,218
Total	¥16,589,897	¥17,773,336
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (Note 10):		
Domestic offices:		
Non-interest-bearing	¥ 148,284	¥ 144,880
Interest-bearing	7,844,931	9,519,667
Overseas offices:		
Non-interest-bearing	23,772	1,131
Interest-bearing	1,763,637	1,634,928
Total deposits	9,780,624	11,300,606
Call money and funds purchased (Note 11)	13,513	58,412
Payables under repurchase agreements (Note 9)	260,740	540,067
Payables under securities lending transactions (Note 9)	221,651	210,598
Due to trust account (Note 12)	3,841,587	3,249,981
Other short-term borrowings (Notes 9 and 13)	627,169	554,168
Trading account liabilities (Note 2)	63,139	144,164
Accrued interest	85,530	99,821
Long-term debt (Notes 9 and 13)	589,459	572,159
Other liabilities (Notes 8, 14 and 15)	138,722	161,387
Total liabilities	15,622,134	16,891,363
Commitments and contingent liabilities (Notes 21 and 22)		
Shareholders' equity:		
Capital stock (Notes 16 and 17):		
Preferred stock:		
Class 1—authorized: 150,000,000 shares; issued and outstanding: 100,000,000 shares in 2000 and 2001, with no stated value (aggregate liquidation preference of ¥200,000 million)	100,000	100,000
Class 2—authorized: 50,000,000 shares; no shares issued or outstanding	—	—
Common stock, ¥50 par—authorized: 3,000,000,000 shares; issued 1,302,303,109 shares in 2000 and 2001	192,794	192,794
Capital surplus (Note 17)	245,953	245,952
Retained earnings (Notes 18 and 27):		
Appropriated for legal reserve	40,442	42,590
Unappropriated	2,306	26,296
Accumulated other changes in equity from nonowner sources, net of taxes	386,280	274,363
Total	967,775	881,995
Less treasury stock—at cost: 45,663 common shares in 2000 and 61,530 common shares in 2001	12	22
Shareholders' equity—net	967,763	881,973
Total	¥16,589,897	¥17,773,336

* Restated to conform to SFAS No. 140.

See the accompanying notes to Consolidated Financial Statements.

THE MITSUBISHI TRUST AND BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED MARCH 31, 1999, 2000 AND 2001

	1999	2000	2001
		(in millions)	
Interest income:			
Loans, including fees (Note 4)	¥ 251,395	¥ 201,019	¥201,343
Deposits in other banks	51,287	35,242	42,476
Investment securities:			
Interest	134,880	102,660	104,651
Dividends	20,635	19,618	20,227
Trading account assets	3,403	2,594	1,964
Call loans and funds sold	11,021	4,051	3,003
Receivables under resale agreements and securities borrowing transactions	18,723	20,330	28,066
Total	491,344	385,514	401,730
Interest expense:			
Deposits	205,900	113,797	149,893
Call money and funds purchased	4,637	1,013	316
Payables under repurchase agreements and securities lending transactions	28,832	26,994	33,312
Due to trust account	37,830	29,650	24,750
Other short-term borrowings and trading account liabilities	6,725	4,727	3,470
Long-term debt	12,133	15,258	13,390
Total	296,057	191,439	225,131
Net interest income	195,287	194,075	176,599
Provision for credit losses (Notes 5 and 6)	319,621	3,793	131,142
Net interest income (loss) after provision for credit losses	(124,334)	190,282	45,457
Non-interest income:			
Fees and commissions (Note 23)	129,633	112,937	119,051
Trading account profits—net (Note 2)	120,245	—	34,452
Investment securities gains—net (Note 3)	11,056	—	114,290
Other non-interest income	9,965	5,192	4,612
Total	270,899	118,129	272,405
Non-interest expense:			
Salaries and employee benefits (Note 14)	82,446	84,433	76,290
Occupancy expenses—net (Notes 7 and 22)	29,259	28,930	32,066
Foreign exchange losses—net (Note 2)	123,598	84,752	54,887
Trading account losses—net (Note 2)	—	124,590	—
Investment securities losses—net (Note 3)	—	52,673	—
Other non-interest expenses	80,285	59,630	68,385
Total	315,588	435,008	231,628
Income (loss) before income tax expense or benefit	(169,023)	(126,597)	86,234
Income tax expense (benefit) (Note 8)	(32,738)	(43,267)	49,360
Net income (loss)	¥(136,285)	¥ (83,330)	¥ 36,874
Net income attributable to preferred shareholders	¥ —	¥ 815	¥ 1,620
Net income (loss) attributable to common shareholders	¥(136,285)	¥ (84,145)	¥ 35,254
		(in yen)	
Amounts per share (Notes 18 and 20):			
Earnings (loss) per common share—basic	¥ (104.65)	¥ (64.61)	¥ 27.07
Earnings (loss) per common share—assuming dilution	(104.65)	(64.61)	23.58
Cash dividends declared during the year—common share	8.00	7.00	7.00
Cash dividends declared during the year—preferred share (Class 1)	—	8.15	16.20

See the accompanying notes to Consolidated Financial Statements.

THE MITSUBISHI TRUST AND BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FROM NONOWNER SOURCES FOR THE YEARS ENDED MARCH 31, 1999, 2000 AND 2001

	Gains (Losses) before Income Taxes	Income Tax (Expense) Benefit	Gains (Losses) net of Income Taxes
		(in millions)	
Year ended March 31, 1999:			
Net loss			¥(136,285)
Other changes in equity from nonowner sources:			
Net unrealized holding gains on investment securities available for sale	¥ 44,251	¥(21,458)	22,793
Reclassification adjustment for gains included in net loss	(15,447)	7,126	(8,321)
Total	28,804	(14,332)	14,472
Minimum pension liability adjustments	(2,159)	1,028	(1,131)
Foreign currency translation adjustments	(7,018)	3,213	(3,805)
Total changes in equity from nonowner sources			¥(126,749)
Year ended March 31, 2000:			
Net loss			¥ (83,330)
Other changes in equity from nonowner sources:			
Net unrealized holding gains on investment securities available for sale	63,433	(27,137)	36,296
Reclassification adjustment for losses included in net loss	53,456	(22,085)	31,371
Total	116,889	(49,222)	67,667
Minimum pension liability adjustments	2,159	(1,028)	1,131
Foreign currency translation adjustments	(6,111)	2,827	(3,284)
Reclassification adjustment for losses included in net loss	5,887	(1,646)	4,241
Total	(224)	1,181	957
Total changes in equity from nonowner sources			¥ (13,575)
Year ended March 31, 2001:			
Net income			¥ 36,874
Other changes in equity from nonowner sources:			
Net unrealized holding losses on investment securities available for sale	(63,095)	25,671	(37,424)
Reclassification adjustment for gains included in net income	(114,804)	44,949	(69,855)
Total	(177,899)	70,620	(107,279)
Minimum pension liability adjustments	(16,079)	6,303	(9,776)
Foreign currency translation adjustments	2,977	(2,382)	595
Reclassification adjustment for losses included in net income	5,981	(1,438)	4,543
Total	8,958	(3,820)	5,138
Total changes in equity from nonowner sources			¥ (75,043)

See the accompanying notes to Consolidated Financial Statements.

THE MITSUBISHI TRUST AND BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED MARCH 31, 1999, 2000 AND 2001

	1999	2000	2001
		(in millions)	
Preferred stock (Class 1) (Note 16):			
Balance at beginning of year		¥100,000	¥ 100,000
Shares issued	¥ 100,000	—	—
Balance at end of year	¥ 100,000	¥100,000	¥ 100,000
Common stock (Note 17):			
Balance at beginning of year	¥ 192,793	¥192,794	¥ 192,794
Shares issued for conversion of bonds (Note 13)	1	—	—
Balance at end of year	¥ 192,794	¥192,794	¥ 192,794
Capital surplus (Note 17):			
Balance at beginning of year	¥ 146,367	¥245,955	¥ 245,953
Excess of proceeds from issuance of preferred stock over the amount assigned to the preferred stock account (Note 16)	99,589	—	—
Losses on sales of treasury stock, net of taxes	(1)	(2)	(1)
Balance at end of year	¥ 245,955	¥245,953	¥ 245,952
Retained earnings appropriated for legal reserve (Note 18):			
Balance at beginning of year	¥ 36,371	¥ 38,455	¥ 40,442
Transfer from unappropriated retained earnings	2,084	1,987	2,148
Balance at end of year (Note 27)	¥ 38,455	¥ 40,442	¥ 42,590
Unappropriated retained earnings (Note 18):			
Balance at beginning of year	¥ 246,341	¥ 97,554	¥ 2,306
Net income (loss)	(136,285)	(83,330)	36,874
Total	110,056	14,224	39,180
Deduct:			
Cash dividends paid:			
Common share—¥8.00 per share in fiscal 1998, and ¥7.00 per share in fiscal 1999 and 2000	(10,418)	(9,116)	(9,116)
Preferred share (Class 1)—¥8.15 per share in fiscal 1999 and ¥16.20 per share in fiscal 2000	—	(815)	(1,620)
Transfer to retained earnings appropriated for legal reserve	(2,084)	(1,987)	(2,148)
Total	(12,502)	(11,918)	(12,884)
Balance at end of year (Note 27)	¥ 97,554	¥ 2,306	¥ 26,296
Accumulated other changes in equity from nonowner sources, net of taxes:			
Net unrealized gains on investment securities available for sale (Note 3):			
Balance at beginning of year	¥ 317,721	¥332,193	¥ 399,860
Net change during the year	14,472	67,667	(107,279)
Balance at end of year	¥ 332,193	¥399,860	¥ 292,581
Minimum pension liability adjustments (Note 14):			
Balance at beginning of year	¥ —	¥ (1,131)	¥ —
Net change during the year	(1,131)	1,131	(9,776)
Balance at end of year	¥ (1,131)	¥ —	¥ (9,776)
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (10,732)	¥(14,537)	¥ (13,580)
Net change during the year	(3,805)	957	5,138
Balance at end of year	¥ (14,537)	¥(13,580)	¥ (8,442)
Balance at end of year	¥ 316,525	¥386,280	¥ 274,363

See the accompanying notes to Consolidated Financial Statements.

THE MITSUBISHI TRUST AND BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MARCH 31, 1999, 2000 AND 2001

	1999	2000	2001
		(in millions)	
Cash flows from operating activities:			
Net income (loss)	¥ (136,285)	¥ (83,330)	¥ 36,874
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization on premises and equipment	9,378	10,005	8,737
Provision for credit losses	319,621	3,793	131,142
Investment securities losses (gains)—net	(11,056)	52,673	(114,290)
Foreign exchange losses (gains)—net	14,878	(12,820)	(23,315)
Provision for deferred income tax expense (benefit)	(62,567)	(53,399)	45,415
Decrease (increase) in trading account assets, excluding foreign exchange contracts	(129,398)	295,438	59,449
Increase (decrease) in trading account liabilities, excluding foreign exchange contracts	8,414	54,776	(51,317)
Increase in accrued interest receivable and other receivables	(6,799)	(14,472)	(3,375)
Increase in accrued interest payable and other payables	15,160	15,767	9,380
Other—net	(206)	(25,243)	34,809
Net cash provided by operating activities	21,140	243,188	133,509
Cash flows from investing activities:			
Proceeds from sales of investment securities available for sale	1,955,961	3,062,194	3,161,438
Proceeds from maturities of investment securities available for sale	695,950	1,142,745	1,118,549
Purchases of investment securities available for sale	(1,883,936)	(4,254,593)	(5,166,664)
Proceeds from maturities of investment securities being held to maturity	3,245	3,785	22,120
Purchases of investment securities being held to maturity	(6,233)	(160,200)	(56,242)
Proceeds from sales of other investment securities	9,235	46,985	7,020
Purchases of other investment securities	(24,122)	(66,912)	(8,068)
Net decrease (increase) in loans	165,647	(70,202)	(394,319)
Net decrease (increase) in interest-earning deposits in other banks	170,073	(158,634)	286,519
Net decrease (increase) in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions	16,651	155,284	(28,776)
Capital expenditures for premises and equipment	(9,382)	(11,435)	(7,746)
Other—net	25,215	12,498	(33,899)
Net cash provided by (used in) investing activities	1,118,304	(298,485)	(1,100,068)
Cash flows from financing activities:			
Net increase (decrease) in deposits	(169,591)	(203,885)	1,256,184
Net increase (decrease) in call money, funds purchased, and payables under repurchase agreements and securities lending transactions	(558,284)	(186,182)	299,930
Net increase (decrease) in due to trust account	(665,028)	513,746	(591,606)
Net increase (decrease) in other short-term borrowings	32,111	44,136	(49,904)
Proceeds from issuance of preferred stock	199,295	—	—
Proceeds from issuance of long-term debt	99,712	55,021	205,066
Repayment of long-term debt	(1,552)	(35,441)	(222,438)
Dividends paid	(10,418)	(9,931)	(10,736)
Other—net	(37,192)	(20,094)	258
Net cash provided by (used in) financing activities	(1,110,947)	157,370	886,754
Effect of exchange rate changes on cash and cash equivalents	(937)	(2,279)	3,611
Net increase (decrease) in cash and cash equivalents	27,560	99,794	(76,194)
Cash and cash equivalents at beginning of year	133,161	160,721	260,515
Cash and cash equivalents at end of year	¥ 160,721	¥ 260,515	¥ 184,321
Supplemental Disclosure of Cash Flow Information:			
Cash paid (received) during the year for:			
Interest paid	¥ 280,440	¥ 175,641	¥ 216,568
Income taxes paid (refunded), net	31,273	21,377	(8,292)
Non-cash financing activities:			
Conversion of long-term debt into common stock	1	—	—

See the accompanying notes to Consolidated Financial Statements.

THE MITSUBISHI TRUST AND BANKING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which The Mitsubishi Trust and Banking Corporation (Mitsubishi Shintaku Ginko Kabushiki Kaisha) (''Mitsubishi Trust'') is incorporated and principally operates. The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America and prevailing practices within the banking industry in the United States of America. In certain respects, the accompanying consolidated financial statements reflect adjustments which are not included in the consolidated financial statements issued by Mitsubishi Trust and certain of its subsidiaries in accordance with applicable statutory requirements and accounting practices in the countries of incorporation. The major adjustments include those relating to (1) investment securities, (2) income taxes, (3) derivative financial instruments, (4) allowance for credit losses, (5) foreign currency translation, (6) premises and equipment and (7) pension liability.

Fiscal periods of certain subsidiaries, all of which ended on or after December 31, and Mitsubishi Trust's fiscal year which ended on March 31 have been treated as coterminous. Significant events and transactions occurring during the intervening periods are incorporated and reflected in the accompanying consolidated financial statements.

Description of Business

Mitsubishi Trust and its subsidiaries (together, the ''Mitsubishi Trust Group'') conduct their banking and trust businesses with a wide range of corporate and individual customers through domestic and overseas network of branches and subsidiaries in Japan, the Americas, Europe and Asia. The banking business provides deposit, lending, treasury and other commercial banking services to retail and corporate customers. The trust business provides asset management and administration services. The Mitsubishi Trust Group provides other fiduciary and agency services including stock-transfer-agency services and real estate-related services. See Note 24 for more information by business segment.

As a trust bank, Mitsubishi Trust has been a provider of longer-term funds to customers. Such funds are primarily used in customers' capital investments, including, but not limited to, construction, plant and real estate acquisition and development. In addition to traditional lending activities conducted in the course of its banking business, Mitsubishi Trust uses loan trusts as a vehicle to extend loans to satisfy customers' funding needs.

Summary of Significant Accounting Policies

Significant accounting policies applied in the accompanying consolidated financial statements are summarized below:

Use of Estimates — The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses on loans and off-balance-sheet credit instruments, and valuation of deferred income tax assets and derivative financial instruments.

Consolidation—The consolidated financial statements include the accounts of Mitsubishi Trust and its subsidiaries over which substantive control is exercised through either majority ownership of voting stock and/or other means. Intercompany accounts and transactions have been eliminated. Investments in affiliated companies (companies over which the Mitsubishi Trust Group has the ability to exercise significant influence) are accounted for by the equity method of accounting and are reported in Other Assets. Mitsubishi Trust's equity interest in the earnings of these equity investees and gains and losses realized on disposition of investments are reported in Other Non-interest Income.

Assets that the Mitsubishi Trust Group holds in an agency, fiduciary or trust capacity are not assets of the Mitsubishi Trust Group and, accordingly, are not included in the accompanying consolidated balance sheets.

Cash Flows—For the purposes of reporting cash flows, cash and cash equivalents include cash and balance due from banks, substantially all of which have maturities of three months or less and are presented in the consolidated balance sheets under the caption Cash and Due from Banks. Cash flows from hedging activities are classified in the same category as the item being hedged.

Translation of Foreign Currency Financial Statements and Foreign Currency Transactions—Financial statements of overseas entities are translated into Japanese yen using the respective year-end exchange rates for assets and liabilities. Income and expense items are translated at average rates of exchange for the respective periods.

Foreign currency translation gains and losses related to the financial statements of overseas entities of the Mitsubishi Trust Group, net of related income tax effects, are credited or charged directly to Foreign Currency Translation Adjustments, a component of accumulated other changes in equity from nonowner sources. Tax effects of gains and losses on foreign currency translation of financial statements of overseas entities are not recognized unless it is apparent that the temporary difference will reverse in the foreseeable future.

Foreign currency denominated assets and liabilities are translated into Japanese yen at the respective year-end exchange rates. Resulting gains or losses are included in income unless the exposure is effectively hedged, in which case the gain or loss is deferred. Income and expenses are translated using average rates of exchange for the respective periods. Gains and losses from such translation are included in Foreign Exchange Gains—Net or Foreign Exchange Losses—Net, as appropriate.

Repurchase Agreement, Securities Lending and Other Secured Financing Transactions—The Mitsubishi Trust Group generally accounts for its repurchase agreements and securities lending transactions as sales of securities with related off-balance-sheet forward repurchase commitments and accounts for its resale agreements and securities borrowing transactions as purchases of securities with related off-balance-sheet forward resale commitments. If the conditions for the surrender of control over transferred securities as provided by Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", are not met, resale and repurchase agreements and securities lending and borrowing transactions are accounted for as secured lending or borrowing transactions.

The Mitsubishi Trust Group generally obtains collateral from counterparties for repurchase agreements and securities lending transactions, including cash, securities with similar fair value and letters of credit. The Mitsubishi Trust Group maintains strict levels of collateralization governed by daily mark-to-market analyses for most securities lending transactions.

Collateral—For secured lending transactions, including resale agreements, securities borrowing transactions, commercial lending and derivative transactions, the Mitsubishi Trust Group, as a secured party, receives collateral, including letters of credit, and cash, securities and other financial assets. Such financial assets are generally permitted to be sold or repledged by secured parties. If the Mitsubishi Trust Group sells these financial assets, it recognizes the proceeds from the sale and its obligation to return the collateral. For secured borrowing transactions, principally repurchase agreements and securities lending transactions and derivative transactions, where the secured party has the right to sell or repledge financial assets pledged as collateral, the Mitsubishi Trust Group separately reports those financial assets pledged as collateral in the consolidated balance sheets.

Trading Account Securities—Trading account securities (principally, securities and money market instruments held in anticipation of short-term market movements and for resale to customers) included in Trading Account Assets, as well as any short trading positions of instruments which are classified as Trading Account Liabilities, are carried at fair value. Related gains and losses, both realized and unrealized, are recognized in Trading Account Profits—Net or Trading Account Losses—Net, as appropriate. Gains and losses on disposition of trading securities are recognized on the trade date.

Investment Securities—Debt securities for which the Mitsubishi Trust Group has both the positive intent and ability to hold to maturity are classified as Securities Being Held to Maturity and carried at amortized cost. Debt securities that the Mitsubishi Trust Group may not hold to maturity and marketable equity securities, other than those classified as trading securities, are classified as Securities Available for Sale, and are carried at their fair values, with unrealized gains and losses reported on a net-of-tax basis within accumulated other changes in equity from nonowner sources, which is a component of shareholders' equity. Nonmarketable equity securities are stated at cost, unless written down, as Other Investment Securities. Individual debt and equity securities are written down when, in the opinion of management, a decline in estimated fair value below the cost of such securities is other than temporary. Interest and dividends on investment securities are reported in Interest Income on an accrual basis. Dividends on equity securities are recognized when the shareholder's right to receive the dividend is established. Gains and losses on disposition of investment securities are computed using the average cost method and are recognized on the trade date.

Derivative Financial Instruments—The Mitsubishi Trust Group uses swap, forward and option contracts, and other types of derivative contracts. These financial instruments are used in trading activities to generate trading revenues and fee income, and some are also used to manage exposure to fluctuations in interest and foreign exchange rates, equity prices and other variables.

Derivatives entered into for trading purposes are carried at fair value and are reported as Trading Account Assets or Trading Account Liabilities, as appropriate. The fair values of contracts executed with the same counterparty under legally enforceable master netting agreements are presented on a net basis. Changes in the fair value of such contracts are recognized currently in Foreign Exchange Gains—Net or Foreign Exchange Losses—Net, as appropriate, with respect to foreign exchange contracts and in Trading Account Profit—Net or Trading Account Losses—Net, as appropriate, with respect to interest rate contracts and other types of contracts.

Derivatives are also used for asset and liability management to manage exposures to fluctuations in interest and foreign exchange rates arising from mismatches of asset and liability positions. These derivatives are accounted for in a manner consistent with the accounting treatments appropriate for the related assets or liabilities (or groups of similar assets and liabilities), generally, on an accrual basis if they qualify for hedge accounting. Derivatives that do not qualify for hedge accounting are considered trading positions and are accounted for as such. Hedge criteria include having a high correlation between the derivative financial instrument and the item being hedged, both at inception and throughout the hedge period, and identifying the specific asset, or liability or firm commitment being hedged. For futures, the criteria also include demonstrating the manner in which the hedge will reduce risk. Income and expense from swaps and option contracts (including caps and floors) used to manage interest rate exposures are recognized as adjustments to interest income or interest expense applicable to the related assets or liabilities; gains and losses on futures and forward contracts are deferred as an adjustment to the carrying amounts of the related assets or liabilities and ultimately recognized in income as part of those carrying amounts; and interest rate contracts used in connection with securities available for sale are carried at fair value with gains and losses, net of taxes, reported within changes in equity from nonowner sources, which is a separate component of shareholders' equity. Gains and losses related to management of foreign currency exposures are deferred and amortized as Foreign Exchange Gains—Net or Foreign Exchange Losses—Net, as appropriate, over the life of the related asset or liability. Fees on instruments used for asset and liability management are deferred and amortized over the life of the related contract as adjustments to interest income or expense on related assets or liabilities, or Foreign Exchange Gains—Net or Foreign Exchange Losses—Net, as appropriate. If a derivative contract is terminated early, any resulting gain or loss is deferred and amortized as interest income or expense of the related asset or liability over the remaining life of the original agreement. If the assets or liabilities hedged or linked are sold or otherwise disposed of, the related gains and losses on the derivative contracts are recognized as a component of the gain or loss on disposition of the related assets or liabilities.

Loans are carried at the principal amount outstanding, adjusted for unearned income and deferred net nonrefundable loan fees and costs. Loans are generally placed on nonaccrual status when principal or interest is contractually past due 90 days or more. In addition, a loan may be placed on nonaccrual status if substantial doubt is judged to exist as to the full and timely collection of either principal or interest. Loans that are well secured (or guaranteed by financially sound third parties) and in the process of collection may not be placed on nonaccrual status, based upon the judgement of management. A nonaccrual loan may be restored to an accrual status when interest and principal payments are current and management expects that the borrower will make future contractual payments as scheduled. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income.

Interest revenue on nondiscounted loans is accrued based on the principal amount outstanding. Interest income on discounted loans is accrued based on methods that approximate the interest method.

Allowance for Credit Losses—The Mitsubishi Trust Group maintains an allowance for credit losses at the level deemed sufficient to absorb losses inherent in its loan portfolio. Actual credit losses (amounts deemed uncollectible, in whole or in part), net of recoveries, are deducted from the allowance for credit losses, as net charge-offs. A provision for credit losses is added to bring the allowance to a level which, in management's opinion, is appropriate to absorb probable losses inherent in the credit portfolio.

A key element relating to policies and discipline used in determining the allowance for credit losses is the credit classification and the related borrower categorization process. The Mitsubishi Trust Group employs a comprehensive credit rating system as part of its credit management framework. The credit rating system is similar to the risk grading standards of regulatory authorities for asset classification under the prompt corrective action measures and is used as a base for establishing the allowance for credit losses. The categorization is based on conditions that may affect the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends surrounding the borrower. Under the credit rating system, credit ratings have been divided into 14 ranks, in which the lowest 5 ranks are defined to conform to the risk grading standards of regulatory authorities for classified loans. The ranking is based on financial and other conditions of borrowers indicating the probability of collection. Loans to borrowers ranked 1 through 7 are generally performing loans where little loss is anticipated. Loans to borrowers with the next 3 ranks have weakness in their ability to meet existing obligations and deserve management's close attention. Loans to borrowers with the lowest 4 ranks are loans where weakness in the financial condition of borrowers may cause a greater likelihood of default and loss. In determining the appropriate level of the allowance, the Mitsubishi Trust Group evaluates the probable loss by category of loan based on type and characteristics.

The credit loss allowance for individual borrowers represents the impairment allowance determined in accordance with SFAS No.114, "Accounting by Creditors for Impairment of a Loan." Loans are considered impaired when, based on currently available information, it is probable that the Mitsubishi Trust Group will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. The impairment of a loan is measured, based on the present value of expected future cash flows discounted at the loan's effective interest rate, on the loan's observable market price, or based on the fair value of the collateral if the loan is collateral dependent. Some impaired loans are aggregated for the purpose of measuring impairment using historical loss factors as a mean of measurement. Excluded from the measurement of impairment are large groups of smaller-balance homogenous loans such as consumer and residential mortgage loans. Generally, the Mitsubishi Trust Group's impaired loans include nonaccrual loans and restructured loans, though other loans may be specifically recognized for impairment.

The credit loss allowance for large groups of smaller-balance homogeneous loans is focused on loss experience for the pool rather than on an analysis of individual loans. The allowance is determined primarily based on past experience of net charge-offs and the probability of insolvency based on the number of delinquencies.

The credit loss allowance for country risk exposure is based on an estimate of probable losses relating to the exposure to countries that are identified by management to have a high degree of transfer risk.

The formula allowance is calculated by applying loss factors to outstanding substandard, special mention and unclassified loans. The evaluation of inherent loss for these loans involves a high degree of uncertainty, subjectivity and judgement because probable credit losses are not easily identified. In determining the formula allowance, the Mitsubishi Trust Group relies on a mathematical calculation that incorporates a percentage of total loans based on historical experience. The average annual charge-offs rate over a designated time period by category of substandard, special mention and unclassified loans is used as a basis for historical loss experience, adjusted for recent changes in trends and economic conditions.

Allowance for Off-Balance-Sheet Credit Instruments—In addition to the allowance for credit losses on the loan portfolio, the Mitsubishi Trust Group maintains an allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, various types of guarantees, standby letters of credit and other financial instruments. The allowance is recorded as a liability and includes the allowance for specifically identified exposures to losses and the allocated formula allowance, to a level which, in management's opinion, is appropriate to absorb probable losses in the portfolio.

Mitsubishi Trust periodically assesses the credit exposures related to individual investment assets within trust accounts in order to determine the level of allowance required for guarantees for repayment of certain trust principal. Provisions for credit losses are recognized in Mitsubishi Trust's consolidated financial statements when, in the opinion of management, aggregate credit losses are judged to exceed the statutory reserve set aside within the trust account and profits earned during the accounting period of each trust account, and the trust principal is deemed to be impaired.

With regard to the specific allowance for specifically identified credit exposure and the allocated formula allowance, the Mitsubishi Trust Group follows the same methodology used in determining the allowance for loan credit losses.

Net changes in the allowance for off-balance-sheet credit instruments are accounted for as Other Non-interest Expense.

Premises and Equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to operating expense over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the terms of the respective leases or the estimated useful lives of the improvements, whichever are shorter. Depreciation of premises and equipment is computed using the declining-balance method with respect to premises and equipment of Mitsubishi Trust and certain subsidiaries and under the straight-line method with respect to premises and equipment of other subsidiaries, at rates principally based on the following estimated useful lives:

	Years
Buildings	15 to 50
Equipment and furniture	5 to 10
Leasehold improvements	2 to 18

Maintenance, repairs and minor improvements are charged to operating expenses as incurred. Major improvements are capitalized.

Long-lived assets that are held or that are to be disposed of and certain intangibles are evaluated periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment is calculated as the difference between the present value of expected future cash flows of a long-lived asset, if lower, and its carrying value. The impairment loss is reflected in Non-interest Expenses.

Other Real Estate Owned—Real estate assets acquired in full or partial satisfaction of debt are held for sale, and are initially recorded at fair value less estimated cost to sell at the date of acquisition and classified as Other Assets. After acquisition, valuations are periodically performed by management and the real estate assets are carried at the lower of the carrying amount or fair value less estimated cost to sell. Routine holding costs, subsequent declines in appraisal value, and net gains or losses on disposal are included in Other Non-interest Expense as incurred.

Software—Effective April 1, 1999, in compliance with Statement of Position (''SOP'') 98-1, ''Accounting for the Costs of Computer Software Development or Obtained for Internal Use,'' the Mitsubishi Trust Group capitalizes certain costs associated with the acquisition or development of internal-use software. Previously, the Mitsubishi Trust Group generally expensed the costs as incurred. The adoption of the SOP resulted in an increase of ¥11,798 million in the capitalization of software development costs as of March 31, 2000. Once the software is ready for its intended use, the Mitsubishi Trust Group begins to amortize capitalized costs on a straight-line basis over a period not greater than 5 years.

Accrued Severance and Pension Liabilities—Mitsubishi Trust and certain subsidiaries have defined benefit retirement plans, including unfunded lump-sum severance indemnities plans. The costs of the plans, based on actuarial computations of current and future employee benefits, are charged to Salaries and Employee Benefits.

It is Mitsubishi Trust's policy to fund actuarially computed pension costs accrued to the extent permitted under governing Japanese income tax regulations.

Long-Term Debt—Premiums, discounts and issuance costs of long-term debt are amortized based on a method that approximates the interest method over the terms of the long-term debt.

Fees and commissions—Trust fees are recorded on the accrual basis, generally based on the volume of trust assets entrusted by customers and/or the results of the management of such trust assets for the account period of each trust account. With respect to trust accounts with guarantee of trust principal, trust fees are determined based on the profits earned by individual trust account during the trust accounting period, less provision for statutory reserve, impairment for individual investments and dividends paid to beneficiary certificate holders. Management accrues the trust fees for these trust accounts based on the trust fees expected to be earned during the accounting period of each trust account.

Commissions and fees on international business primarily consist of fees from trade financing and foreign exchange service including funds transfer and collection service. Fees from trade financing are recognized over the period of financing. Fees on funds transfer and service charges for collections and commissions and foreign exchange service are generally recognized when the related services are performed.

Other fees and commissions, principally fees from underwriting and agent businesses, are generally recognized over the period that the services are provided.

Income Taxes—The provision for income taxes is determined using the asset and liability method of accounting for income taxes. Under this method, deferred income taxes reflect the net tax effects of (1) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (2) operating loss and tax credit carryforwards. A valuation allowance is recognized for any portion of the deferred tax assets where it is considered more likely than not that it will not be realized. The provision for deferred taxes is based on the change in the net deferred tax asset or liability from period to period.

Free Distributions of Common Shares—As permitted by the Commercial Code of Japan, Japanese companies, upon approval by the Board of Directors, may make a free distribution of shares, in the form of a ''stock split'' as defined, to shareholders to the extent that the aggregate par value of the shares to be distributed does not exceed the excess of the capital stock amount over the par value of shares issued and outstanding. In accordance with accepted accounting practice in Japan, such distribution does not give rise to any change in capital stock or capital surplus account. Common shares distributed are recorded as shares issued on the distribution date. See Note 17.

Amounts per Common Share—Basic earnings per share (''EPS'') excludes dilutive effects of potential common shares and is computed by dividing income available to common stock shareholders by the weighted average number of common shares outstanding for the period, while diluted EPS gives effect to all dilutive potential common shares that were outstanding during the period. See Note 20 for the computation of basic and diluted EPSs.

Cash dividends per share shown for each year represent the cash dividends declared for common stock during the respective years (see Note 18). Appropriate retroactive adjustments have been made to give effect to the increases in the number of shares resulting from the free distribution of shares mentioned above.

Comprehensive Income—The Mitsubishi Trust Group's comprehensive income includes net income or loss and other changes in equity from nonowner sources. All changes in unrealized gains and losses on investment securities available for sale, minimum pension liability adjustments and foreign currency translation adjustments constitute the Mitsubishi Trust Group's changes in equity from nonowner sources and are presented, with related income tax effect, in the consolidated statements of changes in equity from nonowner sources.

New Accounting Pronouncements

Derivative Financial Instruments—In June 1998, the Financial Accounting Standards Board (''FASB'') issued SFAS No. 133, ''Accounting for Derivative Instruments and Hedging Activities''. SFAS No. 133 requires that all derivatives be recorded on the balance sheet at fair value. Fair value changes for derivatives that do not qualify for hedge accounting will be adjusted through earnings. When derivatives qualify as either a fair value or cash flow hedge, changes in the fair value of the derivatives will either be counterbalanced against the change in fair value of the hedged asset, liability or firm commitment through earnings, or be recognized in other comprehensive income until the hedged item affects earnings. In June 1999, FASB issued SFAS No. 137, ''Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date,'' which delays the effective date of SFAS No. 133 for one year, to fiscal years beginning after June 15, 2000 and, in June 2000, FASB issued SFAS No. 138, ''Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133,'' which addresses certain implementation issues and is required to be adopted concurrently with SFAS No. 133 with respect to an entity that has not adopted SFAS No. 133 before June 15, 2000. On April 1, 2001, the Mitsubishi Trust Group adopted SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138. The cumulative effect of the change in accounting principle on net income and accumulated other changes from nonowner sources, net of tax, was not material.

Transfer of Assets and Collateral—In September 2000, FASB issued SFAS No. 140, ''Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement 125,'' which revises the standards for accounting for the securitization and other transfers of financial assets and collateral, and requires certain disclosures, but carries over most of SFAS No. 125's provisions. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 while it is effective for fiscal year ended March 31, 2001 for certain disclosures regarding securitizations of financial assets accounted for as sales and disclosures of collateral pledged. As of March 31, 2001, the Mitsubishi Trust Group adopted the provision of SFAS No. 140 relating to the recognition, reclassification and disclosures of collateral. As a result of the adoption of SFAS No. 140, the total assets and liabilities decreased approximately ¥1,589 billion as of March 31, 2001, while no impact was recognized in the results of operations. The financial statements for the previous period have been restated for the purpose of comparative presentation. With respect to the provisions of SFAS No. 140 other than those relating to the recognition, reclassification and disclosures of collateral, the Mitsubishi Trust Group is in the process of assessing the impact of the adoption of the related provisions of SFAS No. 140 and management believes that the impact on the financial position and results of operations will not be material.

Business combination, goodwill and other intangible assets—In June 2001, FASB issued SFAS No. 141 "Business Combination" (SFAS No. 141), and SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and that the use of the pooling-of-interest method is no longer allowed. SFAS No. 142 requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on an annual basis. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. The Mitsubishi Trust Group has not completed the study of what effect SFAS Nos. 141 and 142 will have on the Mitsubishi Trust Group's financial statement, and cannot reasonably estimated the impact on the Mitsubishi Trust Group's earnings and financial position of adopting SFAS Nos. 141 and 142.

Reclassifications

Certain prior period amounts are reclassified to conform to the current period presentation.

2. TRADING ACCOUNT ASSETS AND LIABILITIES

The following table shows trading account assets and liabilities, carried at estimated fair value, at March 31, 2000 and 2001. For trading derivative contracts executed under legally enforceable master netting agreements, related assets and liabilities are bilaterally offset and reported net by counterparty.

	2000	2001
	(in millions)	
Trading account assets:		
Trading securities, principally Japanese government obligations	¥ 82,116	¥ 82,065
Commercial paper, certificate of deposits and other money market instruments	273,058	276,603
Trading derivative assets:		
Interest rate contracts:		
Forwards and futures	1,621	1,629
Swap and swap-related products	342,250	583,413
Options purchased	11,648	1,650
Total	355,519	586,692
Foreign exchange contracts:		
Forwards and futures	42,755	105,552
Swaps	30,157	10,762
Options purchased	493	2,957
Total	73,405	119,271
Bilateral netting of derivatives under master netting agreements	(195,028)	(487,286)
Total	¥ 589,070	¥ 577,345
Trading account liabilities:		
Trading derivative liabilities:		
Interest rate contracts:		
Forwards and futures	¥ 3,057	¥ 6,012
Swap and swap-related products	188,088	425,045
Options written	9,756	10,785
Total	200,901	441,842
Foreign exchange contracts:		
Forwards and futures	36,100	83,853
Swaps	20,412	102,987
Options written	754	2,768
Total	57,266	189,608
Bilateral netting of derivatives under master netting agreements	(195,028)	(487,286)
Total	¥ 63,139	¥ 144,164

See Note 26 for the methodologies and assumptions used to estimate the fair values.

For the years ended March 31, 2000 and 2001, the average estimated fair values of derivative financial instruments included in trading activities were as follows:

	For the year ended March 31, 2000	For the year ended March 31, 2001
	(in billions)	
Trading derivative assets:		
Interest rate contracts:		
Forwards and futures	¥ 1	¥ 1
Swap and swap-related products	433	409
Options purchased	19	6
Total interest rate contracts	453	416
Foreign exchange contracts:		
Forwards and futures	62	60
Swaps	66	18
Options purchased	1	—
Total foreign exchange contracts	129	78
Bilateral netting of derivatives under master netting agreements	(244)	(298)
Total	¥ 338	¥ 196
Trading derivative liabilities:		
Interest rate contracts:		
Forwards and futures	¥ 2	¥ 1
Swap and swap-related products	226	281
Options written	9	10
Total interest rate contracts	237	292
Foreign exchange contracts:		
Forwards and futures	42	49
Swaps	48	47
Options written	1	1
Total foreign exchange contracts	91	97
Bilateral netting of derivatives under master netting agreements	(244)	(298)
Total	¥ 84	¥ 91

Average balances are generally based on a daily average while a month-end average are used for certain fair value balances when it is not practicable to obtain applicable daily averages.

The Mitsubishi Trust Group is engaged in trading activities through market-making, sales and arbitrage, while maintaining risk levels within appropriate limits. Net trading gains or losses for the years ended March 31, 1999, 2000 and 2001 comprised the following:

	1999	2000	2001
		(in billions)	
Interest rate contracts	¥123.5	¥(130.0)	¥ 40.5
Foreign exchange contracts	(46.6)	6.0	(164.7)
Trading account assets, excluding derivatives	(3.3)	5.4	(6.0)
Net trading gains (losses)	¥ 73.6	¥(118.6)	¥(130.2)

A substantial portion of derivative transactions are to manage interest rate and foreign exchange risks arising from mismatches of recorded asset and liability positions. Management expects such derivative activities to achieve certain risk management objectives, however, such instruments are treated as trading positions for accounting purposes if they fail to meet conditions to qualify for hedge accounting.

3. INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities available for sale and being held to maturity at March 31, 2000 and 2001 are as follows:

	2000				2001			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(in millions)							
Securities available for sale:								
Debt securities:								
Japanese national government and Japanese government agency bonds	¥1,267,160	¥ 19,149	¥ 2,579	¥1,283,730	¥1,605,913	¥ 46,147	¥ 1,094	¥1,650,966
Japanese prefectural and municipal bonds	72,169	2,219	56	74,332	77,843	4,334	—	82,177
Foreign governments and official institutions bonds	598,837	9,731	13,156	595,412	624,698	26,364	707	650,355
Corporate bonds	512,021	5,691	3,143	514,569	834,119	19,743	3,088	850,774
Mortgage-backed securities	29,080	—	33	29,047	375,293	16,494	92	391,695
Other debt securities	150,271	2,710	1,088	151,893	126,663	382	79	126,966
Marketable equity securities	1,248,271	864,813	84,667	2,028,417	1,362,603	556,986	48,341	1,871,248
Total securities available for sale	¥3,877,809	¥904,313	¥104,722	¥4,677,400	¥5,007,132	¥670,450	¥53,401	¥5,624,181
Securities being held to maturity—debt securities:								
Japanese government agency bonds	¥ 120,536	¥ 81	¥ —	¥ 120,617	¥ 114,489	¥ 5,629	¥ —	¥ 120,118
Japanese prefectural and municipal bonds	87,062	—	—	87,062	116,773	5,711	2	122,482
Foreign governments and official institutions bonds	57,494	198	68	57,624	72,469	3,306	14	75,761
Corporate bonds	5,287	—	13	5,274	2,476	90	—	2,566
Other debt securities	18	—	—	18	—	—	—	—
Total securities being held to maturity	¥ 270,397	¥ 279	¥ 81	¥ 270,595	¥ 306,207	¥ 14,736	¥ 16	¥ 320,927

Investment securities other than available for sale or being held to maturity (including nonmarketable equity securities i.e., Other investment securities) were carried at cost of ¥81,486 million and ¥77,075 million, at March 31, 2000 and 2001, respectively. The corresponding estimated fair values at those dates were not readily determinable.

See Note 26 for the methodologies and assumptions used to estimate the fair values.

The amortized cost and estimated fair value of debt securities being held to maturity and available for sale at March 31, 2001 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, such as mortgage-backed securities, are included in the table below based on their final maturities.

	Held-to-maturity		Available-for-sale	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in millions)			
Due in one year or less	¥ 27,670	¥ 28,323	¥ 323,151	¥ 327,474
Due from one year to five years	169,979	178,646	1,825,622	1,877,169
Due from five years to ten years	108,558	113,958	1,456,370	1,508,733
Due after ten years	—	—	39,386	39,557
Total	¥306,207	¥320,927	¥3,644,529	¥3,752,933

For the years ended March 31, 1999, 2000 and 2001, proceeds from sales of securities available for sale were ¥1,955,961 million, ¥3,062,194 million and ¥3,161,438 million, respectively. For the years ended March 31, 1999, 2000 and 2001, gross realized gains on those sales were ¥70,600 million, ¥31,449 million and ¥207,313 million, respectively, and gross realized losses on those sales were ¥20,745 million, ¥34,712 million and ¥46,235 million, respectively. There were no sales or transfers of securities being held to maturity during the years ended March 31, 1999, 2000 and 2001.

For the years ended March 31, 1999, 2000 and 2001, losses resulting from write-downs of investment securities to reflect declines in value considered to be other than temporary were ¥41,179 million, ¥50,764 million and ¥47,961 million, respectively.

4. LOANS

Loans at March 31, 2000 and 2001 by domicile and type of industry of borrower are summarized below:

	2000	2001
	(in millions)	
Domestic:		
Manufacturing	¥1,280,416	¥1,219,553
Construction	355,685	325,877
Real estate	1,346,476	1,298,190
Services	1,236,143	1,076,056
Wholesale and retail	969,385	887,481
Banks and other financial institutions	1,765,452	2,068,807
Other industries (see Note)	682,515	1,207,771
Consumer	268,189	273,189
Total domestic	7,904,261	8,356,924
Foreign:		
Governments and official institutions	20,953	19,318
Banks and other financial institutions	210,087	202,068
Commercial and industrial	658,822	601,673
Other	339,084	368,789
Total foreign	1,228,946	1,191,848
Less unearned income and deferred loan fees	663	72
Total	¥9,132,544	¥9,548,700

Note—Loans to Japanese national, prefectural and municipal governments are included in the ''Other Industries'' category.

Substantially all domestic loans are made under agreements which, as is customary in Japan, provide that Mitsubishi Trust may, under certain conditions, require the borrower to provide collateral (or additional collateral) or guaranties with respect to the loans, and that Mitsubishi Trust may treat any collateral, whether furnished as security for loans or otherwise, as collateral for all indebtedness to Mitsubishi Trust in accordance with the agreements. At March 31, 2000 and 2001, such loans, which were principally collateralized by real estate, marketable securities and accounts receivable, amounted to ¥3,312,419 million and ¥2,974,075 million, respectively, which represented 42% and 36%, respectively, of the total domestic outstanding loans at March 31, 2000 and 2001.

Loans are generally placed on nonaccrual status when substantial doubt is judged to exist as to the full and timely collection of either principal or interest. Loans are also placed on nonaccrual status when principal or interest is contractually past due 90 days or more, except when the loans are well secured (or guaranteed by financially sound third parties) and in the process of collection, based upon the judgement of management.

The following table shows the distribution of nonaccrual and restructured loans, and accruing loans which are contractually past due 90 days or more as to principal or interest payments at March 31, 2000 and 2001, based on the domicile and type of industry of the borrowers.

	At March 31, 2000	At March 31, 2001
	(in millions)	
Nonaccrual loans:		
Domestic:		
Manufacturing	¥ 16,018	¥ 9,209
Construction	119,804	36,515
Real estate	331,802	321,121
Services	100,121	59,099
Wholesale and retail	35,105	15,274
Banks and other financial institutions	83,983	37,946
Other industries	2,568	9,540
Consumer	1,047	1,411
Total domestic	690,448	490,115
Foreign:		
Banks and other financial institutions	1,894	574
Commercial and industrial	26,801	24,272
Loans to refinancing countries(*)	19,498	13,027
Other	785	3,519
Total foreign	48,978	41,392
Total	739,426	531,507
Restructured loans:		
Domestic	172,670	281,113
Foreign	8,432	11,896
Total	181,102	293,009
Accruing loans contractually past due 90 days or more:		
Domestic	1,264	751
Foreign	478	1,384
Total	1,742	2,135
Total	¥922,270	¥826,651

(*) Refinancing countries are countries rescheduling their external debt (both sovereign and non-sovereign).

Had interest on these loans been accrued at the original terms of agreement, gross interest income on such loans for the years ended March 31, 2000 and 2001 would have been approximately ¥22.0 billion and ¥14.7 billion, respectively, of which approximately ¥10.6 billion and ¥11.1 billion, respectively, was included in interest income on loans in the accompanying consolidated statements of operations.

Loan Concentration

At March 31, 2001, there was no concentration of loans to a single industry group of borrowers, as defined by The Bank of Japan for industry segment loan classification, which exceeded 10% of the consolidated total loans, except for the banking and financial, and the real estate industries.

Impaired Loans

Generally, the Mitsubishi Trust Group's impaired loans include nonaccrual loans, restructured loans and other loans specifically recognized for impairment. A summary of the recorded balances of impaired loans and related impairment allowance at March 31, 2000 and 2001 is shown below:

	2000		2001	
	Recorded loan balance	Impairment allowance	Recorded loan balance	Impairment allowance
	(in millions)			
Requiring an impairment allowance	¥835,966	¥282,718	¥762,685	¥253,215
Not requiring an impairment allowance	84,552	—	59,265	—
Total	¥920,518	¥282,718	¥821,950	¥253,215

The average recorded investments in impaired loans were approximately ¥1,221.4 billion, ¥1,080.3 billion and ¥796.6 billion, respectively, for the years ended March 31, 1999, 2000 and 2001.

For the years ended March 31, 1999, 2000 and 2001, the Mitsubishi Trust Group recognized interest income of approximately ¥13.0 billion, ¥10.6 billion and ¥11.1 billion, respectively, on impaired loans. Interest income on nonaccrual loans was recognized on a cash basis. Interest income on accruing impaired loans, including restructured loans and other loans specifically recognized for impairment, was recognized on an accrual basis to the extent that the collectibility of interest income was reasonably certain based on management's evaluation.

5. GOVERNMENT-LED LOAN RESTRUCTURING PROGRAM

Under the legislation enacted by the Japanese Diet in June 1996, which incorporates the restructuring program for the loans of seven failed housing-loan companies (the ''Jusen''), the Deposit Insurance Corporation (the ''DIC'') established a Housing Loan Corporation (the ''HLAC'') to collect and dispose of the loans of the liquidated Jusen. In 1999, the HLAC merged with the Resolution and Collection Bank Limited to create the Resolution and Collection Corporation (''RCC''). The RCC is wholly owned by the DIC.

Financial institutions, including the Mitsubishi Trust Group, waived the repayment of substantial amounts of the loans to Jusen and transferred the remaining balances to the HLAC. Financial institutions were requested to make loans to the HLAC to finance its collection activities, and in fiscal 1996 the Mitsubishi Trust Group made loans of ¥222,881 million which were included in the loan portfolio as of March 31, 2000 and 2001. The 15-year term loans to the HLAC, which are guaranteed by the DIC under the legislation and the loan agreements, mature in 2011 and earn interest at TIBOR (Tokyo Interbank Offered Rate) plus 0.125%. The terms and conditions on the loans of other financial institutions to the HLAC are the same except for agricultural financial institutions.

Under this restructuring program, a Financial Stabilization Fund (the ''Special Fund'') was established within the DIC, and The Bank of Japan and other financial institutions established another fund (the ''New Fund''). These funds are principally invested in Japanese government bonds. The Mitsubishi Trust Group made non-interest-earning deposits of ¥64,965 million with the Special Fund and the New Fund in fiscal 1996. The deposit balances as of March 31, 2000 and 2001, which are included in Other Assets, were ¥47,948 million and ¥49,243 million, respectively, reflecting a present value discount and subsequent amortization of the discount during the period until the expected maturity date. The non-interest-earning deposits with these funds are expected to mature in 15 years from the deposit dates, which coincides with the planned operational lifespan of the HLAC.

It is uncertain what losses (so-called Stage Two Losses), if any, may ultimately be incurred by the RCC through the collection and disposal of the Jusen loans during the 15-year term. If any such losses ultimately occur, the Japanese government will be liable for half of such losses, and the investment income to be earned by the Special Fund during the 15 years is to be used to cover the remaining half of the losses. The investment income to be earned by the New Fund during the 15 years is used to compensate for a portion of the public funds used for the Jusen restructuring.

At this time, management believes all loans and deposits will be collectible according to their respective terms.

6. ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses for the years ended March 31, 1999, 2000 and 2001 are shown below:

	1999	2000	2001
		(in millions)	
Balance at beginning of year	¥520,801	¥523,104	¥349,095
Additions to allowance charged to operations	319,621	3,793	131,142
Charge-offs	315,194	176,149	164,392
Less—Recoveries	315	3,292	11,297
Net charge-offs	314,879	172,857	153,095
Other, principally foreign exchange translation adjustments	(2,439)	(4,945)	4,911
Balance at end of year	¥523,104	¥349,095	¥332,053

7. PREMISES AND EQUIPMENT

Premises and equipment at March 31, 2000 and 2001 consisted of the following:

	2000	2001
	(in millions)	
Land	¥ 96,395	¥ 89,722
Buildings	122,362	118,123
Equipment and furniture	54,417	52,873
Leasehold improvements	21,717	21,174
Construction in progress	1,299	210
Total	296,190	282,102
Less accumulated depreciation	109,554	111,304
Premises and equipment—net	¥186,636	¥170,798

Premises and equipment include capitalized leases, principally related to data processing equipment, of which acquisition cost amounted to ¥3,933 million and ¥3,714 million at March 31, 2000 and 2001, respectively. Accumulated depreciation on such capitalized leases at March 31, 2000 and 2001 amounted to ¥2,820 million and ¥3,095 million, respectively.

Depreciation and amortization expense of premises and equipment for the years ended March 31, 1999, 2000 and 2001 was ¥9,378 million, ¥10,005 million and ¥8,737 million, respectively.

8. INCOME TAXES

The detail of current and deferred income tax expense or benefit for the years ended March 31, 1999, 2000 and 2001 was as follows:

	1999	2000	2001
		(in millions)	
Current:			
Domestic	¥ 11,991	¥ 916	¥ 1,285
Foreign	17,838	9,216	2,660
	29,829	10,132	3,945
Deferred:			
Domestic	(44,173)	(31,702)	34,540
Foreign	(18,394)	(21,697)	10,875
	(62,567)	(53,399)	45,415
Income tax expense (benefit)	(32,738)	(43,267)	49,360
Income tax expense (benefit) reported in shareholders' equity related to:			
Investment securities available for sale	14,332	49,222	(70,620)
Minimum pension liability adjustments	(1,028)	1,028	(6,303)
Foreign currency translation adjustments	(3,213)	(1,181)	3,820
	10,091	49,069	(73,103)
Total	¥(22,647)	¥ 5,802	¥(23,743)

Income taxes in Japan applicable to the Mitsubishi Trust Group are imposed by the national, prefectural and municipal governments, and in the aggregate resulted in a normal effective statutory rate of 47.6%, 41.7% and 39.2%, respectively, for the years ended March 31, 1999, 2000 and 2001. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

On March 30, 2000, a local enterprise tax regulation to change the basis on which large banks doing business in Tokyo are taxed was enacted. Mitsubishi Trust is subject to the new regulation. Under the new regulation, banking institutions pay a 3% enterprise tax on their gross operating profits, as defined, derived from Tokyo operations for a period of five years commencing April 1, 2000. Prior to March 31, 2000, the banking institutions paid a local corporate tax based on their net income. The change in local taxation decreased the normal effective tax rate by 2.5% to 39.2%. The tax rate change resulted in a increase of ¥8,246 million in income tax expense for the year ended March 31, 2000. The 3% tax has been accounted for as non-interest expense.

On May 30, 2000, a new enterprise tax regulation concerning the banking business in Osaka Prefecture was enacted. The new tax regulation has changed the basis on which certain eligible large banks doing business in the prefecture are taxed and is applicable to Mitsubishi Trust's business for the fiscal years beginning after April 1, 2001. The taxation decreased the normal statutory rate 0.6% to 38.6%, resulting in a ¥4,333 million income tax expense for the year ended March 31, 2001.

Revisions of Japanese national tax regulations, which were enacted on March 24, 1999, decreased the Mitsubishi Trust Group's normal effective statutory tax rate by 5.9%. For the year ended March 31, 1999, income tax benefit included a ¥17,379 million income tax expense, resulting from the tax rate changes.

A reconciliation of the effective income tax rate reflected in the accompanying consolidated statements of operations to the combined normal effective statutory tax rate for the years ended March 31, 1999, 2000 and 2001 was as follows:

	1999	2000	2001
Combined normal effective statutory tax rate	(47.6)%	(41.7)%	39.2%
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	0.5	0.3	6.8
Dividends from foreign subsidiaries	—	2.6	2.2
Foreign income exempted for income tax purposes	1.1	2.7	(1.2)
Nondeductible foreign taxes paid	0.3	8.4	0.7
Foreign tax refund	—	(8.5)	—
Foreign currency translation adjustments	2.4	0.0	(1.5)
Lower tax rates applicable to income of foreign subsidiaries	0.6	(0.1)	0.5
Change in valuation allowance	12.6	0.3	7.7
Enacted change in tax rates	10.3	6.5	5.0
Other—net	0.4	(4.7)	(2.2)
Effective income tax rate	(19.4)%	(34.2)%	57.2%

Deferred tax assets and liabilities are computed for each tax jurisdiction using current enacted tax rates applicable to periods when the temporary differences are expected to reverse. The tax effects of the items comprising the Mitsubishi Trust Group's net deferred tax assets at March 31, 2000 and 2001 were as follows:

	2000	2001
	(in millions)	
Deferred tax assets:		
Allowance for credit losses	¥185,447	¥160,538
Net operating loss carryforwards	14,430	41,968
Accrued severance indemnities and pension liabilities	8,843	11,753
Other real estate owned	10,908	7,881
Accrued liabilities and other	12,138	4,870
Depreciation	10,919	13,142
Derivative financial instruments	5,383	—
Valuation allowance	(1,080)	(7,762)
Total deferred tax assets	246,988	232,390
Deferred tax liabilities:		
Investment securities	117,468	63,211
Deferred profit on property for income tax purposes	3,556	3,408
Derivative financial instruments	—	9,567
Other	147	209
Total deferred tax liabilities	121,171	76,395
Net deferred tax assets	¥125,817	¥155,995

A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. The valuation allowance increased by ¥21,182 million during the year ended March 31, 1999, decreased by ¥22,667 million during the year ended March 31, 2000 and increased by ¥6,682 million during the year ended March 31, 2001.

At March 31, 2001 certain subsidiaries had operating loss carryforwards of ¥66 million. Such carryforwards expire through March 31, 2005.

Income taxes are not provided on undistributed earnings of foreign subsidiaries which are considered to be indefinitely reinvested in the operations of such subsidiaries. At March 31, 2001, such undistributed earnings of foreign subsidiaries amounted to approximately ¥15 billion. Determination of the amount of unrecognized deferred income tax liabilities with respect to these undistributed earnings is not practicable because of the complexity associated with its hypothetical calculation including foreign withholding taxes and foreign tax credits.

Income (loss) before income tax expense or benefit for the years ended March 31, 1999, 2000 and 2001 was as follows:

	1999	2000	2001
		(in millions)	
Domestic income (loss)	¥(151,060)	¥ (54,069)	¥36,398
Foreign income (loss)	(17,963)	(72,528)	49,836
Total	¥(169,023)	¥(126,597)	¥86,234

9. PLEDGED ASSETS AND COLLATERAL

Pledged assets

At March 31, 2001, assets pledged as collateral for the purpose of short-term funding and long-term debt of the Mitsubishi Trust Group were as follows:

	(in millions)
Trading account assets	¥ 55,995
Investment securities	789,202
Loans	696,692
Other	619
Total	¥1,542,508

The above pledged assets are classified by the type of obligation to which they relate as follows:

	(in millions)
Payables under repurchase agreements and securities lending transactions	¥ 753,640
Other short-term borrowings	788,249
Long-term debt	619
Total	¥1,542,508

Additionally, at March 31, 2001, the Mitsubishi Trust Group pledged ¥79,330 million of investment securities available for sale as collateral for potential obligations related to derivative transactions.

At March 31, 2001, certain investment securities, principally Japanese national government and marketable equity securities, aggregating ¥793,475 million were pledged as collateral for acting as a collection agent of public funds, for settlements of exchanges at The Bank of Japan and Tokyo Bankers Association and for certain other purposes.

Under Japanese law, Japanese banks are required to maintain certain minimum reserves on deposit with The Bank of Japan based on the amount of deposit balances and certain other factors. There are similar reserve deposit requirements for foreign offices engaged in the banking business in foreign countries. At March 31, 2000 and 2001, the reserve funds maintained by the Mitsubishi Trust Group, which are principally included in Cash and Due from Banks, were ¥170,358 million and ¥130,806 million, respectively. Average reserves during the years ended March 31, 2000 and 2001 were ¥79,748 million and ¥77,058 million, respectively.

Collateral

The Mitsubishi Trust Group accepts and provides financial assets as collateral for transactions, principally commercial loans, repurchase agreements and securities lending transactions, call moneys, and derivatives. Financial assets eligible for such collateral may include marketable equity securities, trade and note receivables and CDs.

Secured parties, including creditors and counterparties to certain transactions with the Mitsubishi Trust Group, may sell or repledge financial assets provided as collateral. If a secured party is permitted to sell or repledge financial assets provided as collateral by contract or custom, the Mitsubishi Trust Group reports such pledged financial assets separately on the face of the consolidated balance sheets. A secured party, however, may be prohibited to sell or repledge collateral by contract or custom. Certain contracts may not be specific about the secured party's right to sell or repledge collateral and whether or not the secured party is permitted to sell or repledge a collateral would differ depending on the interpretations of specific provisions of the contract or certain market practices. If the Mitsubishi Trust Group determines, based on available information, that a financial asset provided as collateral is not permitted to be sold or repledged by the secured parties, such collateral is not separately reported in the consolidated balance sheets.

At March 31, 2001, Investment Securities Available for Sale and Loans included approximately ¥1,710 billion pledged as collateral that the secured parties are not permitted to sell or repledge and that are not separately reported in the Mitsubishi Trust Group's consolidated balance sheet.

Mitsubishi Trust accepts collateral for commercial loans and certain banking transactions under a standardized agreement with non-bank customers. Financial assets pledged as collateral are generally negotiable and transferable instruments. In principle, Japanese legislation permits a bank to repledge financial assets accepted as collateral unless otherwise prohibited by contract or relevant regulations; however, it is not customary for a bank to dispose of collateral before a debtor's default. Certain derivative agreements used in the marketplace do not prohibit a secured party's disposition of financial assets received as collateral. Mitsubishi Trust does not sell or repledge such collateral accepted in connection with commercial loans and certain transactions before a debtor's default or other events specified in the respective agreements. In connection with resale agreements and securities borrowing transactions, the Mitsubishi Trust Group receives securities as collateral, which may be sold or repledged by contract or custom.

At March 31, 2001, the fair value of the collateral accepted by the Mitsubishi Trust Group that is permitted to be sold or repledged was approximately ¥361 billion.

10. DEPOSITS

The balances of time deposits, including CDs, issued in amounts of ¥10 million (approximately US$80 thousand at the Noon Buying Rate on March 30, 2001) or more with respect to domestic deposits and issued in amounts of US$100,000 or more with respect to foreign deposits were ¥4,306,574 million and ¥1,718,094 million, respectively, at March 31, 2000, and ¥5,691,965 million and ¥1,546,098 million, respectively, at March 31, 2001.

The maturity information at March 31, 2001 for domestic time deposits, including CDs, with a remaining term of more than one year is summarized as follows:

	(in millions)
Due after one year through two years	¥1,362,975
Due after two years through three years	1,064,377
Due after three years through four years	700,837
Due after four years through five years	1,035,735
Total	¥4,163,924

Foreign time deposits, including CDs, with a remaining term of more than one year were not significant.

11. CALL LOANS AND FUNDS SOLD, AND CALL MONEY AND FUNDS PURCHASED

A summary of funds transactions for the years ended March 31, 1999, 2000 and 2001 is as follows:

	1999	2000	2001
		(in millions)	
Average balance during the year:			
Call money and funds purchased	¥ 194,109	¥ 35,721	¥ 12,878
Call loans and funds sold	431,674	455,183	144,037
Net funds sold position	¥ (237,565)	¥ (419,462)	¥ (131,159)
Call money and funds purchased:			
Outstanding at end of year:			
Amount	¥ 46,573	¥ 13,513	¥ 58,412
Principal range of maturities	One day to 30 days	One day to 30 days	One day to 30 days
Weighted average interest rate	4.54%	6.04%	4.92%
Maximum balance at any month-end during the year	¥ 328,535	¥ 107,574	¥ 80,203
Weighted average interest rate during the year	2.39%	2.84%	2.45%

Average balances are generally based on a daily average while a month-end average are used for certain average balances when it is not practicable to obtain applicable daily averages.

12. DUE TO TRUST ACCOUNT

Mitsubishi Trust holds assets in an agent, fiduciary or trust capacity. Such trust account assets are not the Mitsubishi Trust Group's proprietary assets and are managed and accounted for separately. However, excess cash funds of individual trust accounts are often deposited with Mitsubishi Trust. Due to trust account reflects a temporary placement of excess funds from individual trust accounts managed by Mitsubishi Trust in its fiduciary and trust capacity. In view of the Mitsubishi Trust Group's fundings, due to trust account bears a nature of short-term funding, including demand deposits and other overnight funds purchased, in that the balance changes in response to the day-to-day changes in excess funds placed by the trust accounts.

A summary of due to trust account transactions for the years ended March 31, 1999, 2000 and 2001 is as follows:

	1999	2000	2001
		(in millions)	
Average balance outstanding during the year	¥3,634,457	¥3,775,239	¥3,461,754
Maximum balance at any month-end during the year	3,918,480	3,939,917	3,812,904
Weighted average interest rate during the year	1.04%	0.79%	0.71%

13. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2000 and 2001, the Mitsubishi Trust Group had unused lines of credit amounting to ¥66,207 million and ¥317,578 million, respectively. The March 31, 2001 amount principally consists of the line of intraday overdraft granted by The Bank of Japan for the purpose of the real-time gross settlements of Japanese national government bonds. Mitsubishi Trust may, at any time, withdraw funds from The Bank of Japan up to the amount of collateral. No fees are charged on the line of intraday overdraft.

Other short-term borrowings at March 31, 2000 and 2001 comprised the following:

	2000	2001
	(in millions)	
Domestic offices:		
Borrowings from financial institutions	¥456,675	¥429,448
Commercial paper	20,000	—
Other	76,257	96,600
Total domestic offices	552,932	526,048
Foreign offices:		
Due to foreign banks	30,208	26,741
Other	44,096	2,263
Total foreign offices	74,304	29,004
Total	627,236	555,052
Less unamortized discount	67	884
Other short-term borrowings—net	¥627,169	¥554,168
Weighted average interest rate on outstanding balance at end of year	0.95%	0.70%

A summary of other short-term borrowing transactions for the years ended March 31, 1999, 2000 and 2001 is as follows:

	1999	2000	2001
		(in millions)	
Average balance outstanding during the year	¥303,964	¥420,733	¥ 481,088
Maximum balance at any month-end during the year	537,033	807,045	1,000,778
Weighted average interest rate during the year	2.19%	1.12%	0.72%

Long-term debt (original maturities of more than one year) at March 31, 2000 and 2001 comprised the following:

	2000	2001
	(in millions)	
Mitsubishi Trust:		
Obligations under capital leases	¥ 1,680	¥ 1,096
Unsubordinated debt:		
Insurance companies and other institutions, due 2001-2007, principally 0.50%-4.75%	51,758	48,951
Convertible Bonds, payable in United States dollars, due 2001, 2.50%	24	—
Convertible Bonds, payable in United States dollars, due 2002, 1.75%	383	—
Convertible Bonds, payable in United States dollars, due 2003, 3.25%	791	—
Subordinated debt:		
First Floating-Rate Perpetual Bonds, payable in Japanese yen, 1.30%	50,000	—
Second Floating-Rate Perpetual Bonds, payable in Japanese yen, 1.95%	100,000	—
Perpetual Bonds, payable in Japanese yen, principally 1.61%-2.25%	—	29,700
Fixed rate borrowings, payable in Japanese yen, due 2004-2011, principally 2.33%-4.92%	20,000	35,000
Fixed rate bonds, payable in Japanese yen, due 2010, 2.70%	—	30,000
Adjustable rate borrowing, payable in Japanese yen, due 2006-2010, principally 0.92-3.25%	5,000	33,000
Adjustable rate bonds, payable in Japanese yen, due 2010-2016, principally 0.90%-2.45%	—	42,500
Floating rate borrowings, payable in Japanese yen, due 2002-2003, principally 1.90%-3.60%	105,000	65,000
Total	334,636	285,247
Subsidiaries:		
Obligations under capital leases	3	19
Unsubordinated debt:		
Insurance companies and other institutions, due 2002, principally 3.00%-7.71%	30,120	27,993
Subordinated debt:		
Perpetual Bonds, payable in Japanese yen, principally 1.59%-3.15%	—	20,300
Fixed rate bonds and notes, payable in Japanese yen, due 2004-2011, principally 2.50%-4.60%	61,300	46,100
Adjustable rate bonds and notes, payable in Japanese yen, due 2003-2014, principally 0.70%-3.88%	153,400	182,500
Floating rate bonds and notes, payable in Japanese yen, due 2005, principally 0.26%-0.34%	10,000	10,000
Total	254,823	286,912
Total	¥589,459	¥572,159

Note:—Adjustable rate debts are debts where interest rates are reset in accordance with the terms of the debt agreements, and floating rate debts are debts where interest rates are repriced in accordance with movements of market indices.

Subordinated bonds (aggregating ¥258,900 million at March 31, 2001) issued by a subsidiary are guaranteed, on a subordinated basis, by Mitsubishi Trust as to payment of principal and interest.

Mitsubishi Trust and certain of its subsidiaries entered into interest rate and currency swaps for certain debt in order to manage exposure to interest rate and currency exchange rate movements. As a result of these swap arrangements, the effective interest rates may differ from the coupon rates reflected in the above table. The interest rates for the adjustable and floating rate debt shown in the above table are those in effect at March 31, 2000 and 2001. Certain rates are determined by formulas and may be subject to certain minimum and maximum rates.

Certain debt agreements permit Mitsubishi Trust and certain of its subsidiaries to redeem the related debt, as a whole or in part, prior to maturity at the option of the issuer on terms specified in the respective agreements.

Under the Law Concerning Emergency Measures for Revitalization of Financial Function enacted in October 1998 to enhance capital ratios of financial institutions, the Japanese government set up special accounts within the DIC to provide public funds to certain eligible financial institutions through purchase of preferred shares and subordinated bonds. In March 1998, Mitsubishi Trust applied to the Japanese government for public funds and issued callable First Floating-Rate Perpetual Bonds of ¥50,000 million to the DIC. Further, the Law Concerning Emergency Measures for Early Strengthening of Financial Function (the "Financial Function Early Strengthening Law") was enacted in October 1998, to increase capital ratios of financial institutions and strengthen their function as financial intermediaries. Under the Law, the DIC may purchase subordinated bonds and preferred shares from certain eligible banks, which are required to submit a management plan to improve their financial strength to the Financial Reconstruction Commission of Japan. Management decided to apply for an additional purchase of its subordinated bonds and preferred shares and issued callable Second Floating-Rate Perpetual Bonds of ¥100,000 million and preferred shares of ¥200,000 million to the DIC in March 1999 (also, see Note 16). At the application for capital injection, Mitsubishi Trust submitted its improvement plan and, thereafter, periodically reported the progress of the plan to the Financial Reconstruction Commission.

The First and Second Floating-Rate Perpetual Bonds are callable at the option of the issuer. On December 22, 2000, Mitsubishi Trust exercised the call option, and reacquired and retired the First Floating-Rate Perpetual Bonds at ¥100.004 per face value of ¥100 and the Second Floating-Rate Perpetual Bonds at ¥101.807 per face value of ¥100. Mitsubishi Trust recognized a loss of ¥1,809 million, as non-interest expense, on reacquisition and retirement of these Perpetual Bonds for the year ended March 31, 2001.

The following is a summary of maturities of long-term debt subsequent to March 31, 2001.

	Mitsubishi Trust	Subsidiaries	Total
		(in millions)	
Year ending March 31:			
2002	¥ 618	¥ 1,177	¥ 1,795
2003	14,979	26,825	41,804
2004	56,418	6,503	62,921
2005	20,371	3	20,374
2006	29,618	12,003	41,621
2007 and thereafter	163,243	240,401	403,644
Total	¥285,247	¥286,912	¥572,159

14. SEVERANCE INDEMNITIES AND PENSION PLANS

Mitsubishi Trust and certain domestic subsidiaries have severance indemnities plans under which their employees in Japan, other than those who are directors, are entitled, under most circumstances, upon mandatory retirement at normal retirement age or earlier termination of employment, to lump-sum severance indemnities.

Mitsubishi Trust also has contributory defined benefit pension plans (private plans) which cover substantially all of their employees in Japan and, at the option of eligible employees, provide for either lifetime annuity payments commencing at age 60 or lump-sum payments commencing at the month following the retirement, based on eligible compensation at the time of severance, years of service and other factors. Mitsubishi Trust participates in a contributory defined benefit Japanese government welfare pension program for their employees under which Mitsubishi Trust has the administrative and trustee responsibility, through employer/employee owned special judicial foundations, for premiums collected and invested and payment of benefits. This government program is combined with the private pension plans through special judicial foundations. Pension benefits and plan assets applicable to the government program are included with the contributory pension plans of Mitsubishi Trust in the determination of net periodic costs and funding status.

Mitsubishi Trust also has a funded non-contributory defined benefit pension plan which covers certain retired employees, excluding directors, in Japan whose service period with Mitsubishi Trust was 20 years or more, and provides for 10-year period annuity payments commencing at the month following the retirement or, at the option of each eligible employee at age 60 based on eligible compensation at the time of severance, years of service and other factors.

Net periodic cost of the severance indemnities and pension plans of Mitsubishi Trust, net of contributions made by employees, for the years ended March 31, 1999, 2000 and 2001 included the following components:

	1999	2000	2001
		(in millions)	
Service cost—benefits earned during the year	¥ 4,990	¥ 5,258	¥ 5,045
Interest costs on projected benefit obligation	5,045	5,084	5,295
Expected return on plan assets	(718)	(283)	(4,266)
Amortization of unrecognized net obligation at transition	1,919	1,919	1,919
Amortization of prior service cost	—	—	(90)
Amortization of net actuarial loss	—	239	13
Net periodic benefit cost	¥11,236	¥12,217	¥ 7,916

	1999	2000	2001
Weighted-average assumptions at March 31:			
Discount rates	3.30%	3.10%	2.90%
Rates of increase in future compensation	4.05%	4.05%	4.74%
Expected rates of return on plan assets	0.87%	0.32%	3.50%

The following table sets forth the funded status and amounts recognized in Mitsubishi Trust's balance sheets at March 31, 2000 and 2001 for the plans of Mitsubishi Trust:

	2000		2001	
	Severance Indemnities plan and non-contributory pension plan	Contributory pension plan	Severance Indemnities plan and non-contributory pension plan	Contributory pension plan
	(in millions)			
Change in benefit obligation:				
Benefit obligation at April 1, 1999 and 2000	¥ 28,657	¥ 135,335	¥ 28,644	¥ 136,833
Service cost	1,444	3,814	1,462	3,583
Interest cost	889	4,195	917	4,379
Plan participants' contributions	—	488	—	492
Actuarial (gain) loss	277	(3,828)	753	9,840
Benefits paid	(2,623)	(3,171)	(2,485)	(3,417)
Benefit obligation at March 31, 2000 and 2001	28,644	136,833	29,291	151,710
Change in plan assets:				
Fair value of plan assets at April 1, 1999 and 2000	7,216	80,194	9,113	112,764
Actual return on plan assets	368	10,976	(300)	(12,918)
Employer contribution	1,865	24,277	1,362	15,220
Plan participants' contributions	—	488	—	492
Benefits paid	(336)	(3,171)	(401)	(3,417)
Fair value of plan assets at March 31, 2000 and 2001	9,113	112,764	9,774	112,141
Projected benefit obligation in excess of plan assets at March 31, 2000 and 2001	(19,531)	(24,069)	(19,517)	(39,569)
Unrecognized net actuarial loss	2,798	3,427	4,157	30,132
Unrecognized prior service cost from amendment	—	(1,360)	—	(1,269)
Unrecognized net obligation at transition	561	11,910	475	10,078
Net amount recognized	¥ (16,172)	¥ (10,092)	¥ (14,885)	¥ (628)
Amounts recognized in the balance sheets:				
Accrued benefit liability	¥ (16,583)	¥ (11,223)	¥ (15,917)	¥ (26,208)
Intangible assets	411	1,131	455	10,078
Accumulated other changes in equity from nonowner sources	—	—	577	15,502
Net amount recognized	¥ (16,172)	¥ (10,092)	¥ (14,885)	¥ (628)

Note:—The aggregated accumulated benefit obligations of these plans were ¥148,771 million and ¥162,672 million, respectively, at March 31, 2000 and 2001.

The severance indemnities plans generally employ a multi-variable, non-linear formula based upon compensation at the time of severance, rank and years of service. Employees with service in excess of one year are qualified to receive lump-sum severance indemnities.

Plan assets, which include pension trust funds managed by certain life insurance companies, investment advisory companies and trust banks, consisted of interest-earning deposits in other banks, Japanese government bonds, other debt securities and marketable equity securities. Pension assets managed by insurance companies are included in pooled investment portfolios.

In accordance with the provisions of SFAS No. 87 ''Employers' accounting for pensions'', Mitsubishi Trust has recorded an additional minimum liability representing the excess of the accumulated benefit obligation over the fair value of plan assets and accrued pension liabilities previously recorded. A corresponding amount is recognized as an intangible asset to the extent of unrecognized net obligation at transition and prior service costs, with the balance recorded as a separate reduction of shareholders' equity, net of income taxes.

In accordance with Mitsubishi Trust's and certain domestic subsidiaries' employment practices, certain employees are granted special early termination of employment, and receive special lump-sum termination benefits. The amounts charged to operations for such early termination benefits for the years ended March 31, 1999, 2000 and 2001 were ¥446 million, ¥1,701 million and ¥1,946 million, respectively. Foreign offices and subsidiaries also have defined contribution plans and/or defined benefit plans which in the aggregate are not considered significant.

Mitsubishi Trust management concluded that it is not feasible to obtain the actuarial information necessary to implement SFAS No. 87 as of the effective date specified in the standard, which was the fiscal year ended March 31, 1990 for Mitsubishi Trust. Accordingly, Mitsubishi Trust assumed that it adopted SFAS No. 87 as of April 1, 1995 for the purpose of the consolidated financial statements. The net obligation at transition was ¥33,577 million and the estimated remaining service period is 17.5 years at the date of adoption. Six years have passed between the effective date and the assumed adoption date. Mitsubishi Trust recorded ¥11,512 million of the net transition obligation directly to equity and is amortizing the remaining portion of the obligation over the 11.5 years.

15. OTHER ASSETS AND LIABILITIES

Major components of other assets and liabilities at March 31, 2000 and 2001 were as follows:

	2000	2001
	(in millions)	
Other assets:		
Other real estate owned	¥ 3,262	¥ 849
Deferred charges	12,453	36,376
Deferred income tax assets	127,803	158,588
Other	147,919	198,405
Total	¥291,437	¥394,218
Other liabilities:		
Accounts payable:		
Payables to brokers, dealers and customers for securities transactions	¥ 70,030	¥ 76,577
Other	7,257	9,812
Deferred income tax liabilities	1,986	2,593
Allowance for off-balance-sheet credit instruments	10,178	8,754
Accrued pension liability	28,725	43,059
Accrued and other liabilities	20,546	20,592
Total	¥138,722	¥161,387

At March 31, 2000 and 2001, the valuation allowance provided for the carrying amounts of other real estate owned to their estimated fair value less the estimated cost to sell was ¥7,878 million and ¥3,453 million, respectively. The valuation allowance increased by ¥122 million, decreased by ¥7,805 million and decreased by ¥4,425 million, respectively, during the years ended March 31, 1999, 2000 and 2001.

16. PREFERRED STOCK

Mitsubishi Trust is authorized to issue 150 million shares of Class 1 Preferred Stock and 50 million shares of Class 2 Preferred Stock, without par value.

All classes of preferred stock to be issued are non-voting and have equal preference over Mitsubishi Trust's common stock for the payment of dividends and the distribution of assets in the event of a liquidation or dissolution of Mitsubishi Trust. They are all non-cumulative and non-participating for dividend payments. Preferred shareholders receive a liquidation distribution at ¥2,000 per share and do not have the right to participate in any further liquidation distributions.

Class 1 Preferred Stock

Class 1 Preferred Stock has non-voting and non-cumulative features and is convertible into common stock at the option of the shareholders during a conversion period. The conversion is mandatorily required on the date immediately following the closing date of the conversion period. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥150 per share), and conversion terms, including a conversion period.

On March 31, 1999, Mitsubishi Trust issued 100,000 thousand shares of Class 1 Preferred Stock at ¥2,000 per share (¥200,000 million in the aggregate) (see Note 13). All the shares of Class 1 Preferred Stock were issued to and purchased by the DIC, through the RCC, based on the Mitsubishi Trust's application for public fund injection as permitted by the Financial Function Early Strengthening Law. The Law requires the RCC's early collection of the public fund investments through transfer of investments and other means of disposition. In accordance with the provisions of the Commercial Code of Japan (the "Code") (see Note 1), the issuance was accounted for by crediting equal amounts of the issue price to capital stock account and to the capital surplus account.

At the option of the shareholders, Class 1 Preferred Stock is convertible into common stock during the period from July 31, 2003 to July 31, 2008 at the conversion price of ¥974 per share. The conversion price will be revised annually on August 1 of each year from 2003 through 2007 to reflect, with certain adjustments as defined, the average market closing price of the common stock traded on the Tokyo Stock Exchange for the 30 business days starting from the 45th business day prior to the date of revision of the conversion price. The conversion price will not exceed the initial conversion price of ¥974 nor be below ¥500 unless certain events or circumstance as defined arise after the issuance of the preferred stocks.

Preferred Stocks which are not converted at the option of the shareholders will be mandatorily converted into the common stock on August 1, 2008, at the conversion price determined based on the average market closing price of the common stock traded on the Tokyo Stock Exchange for the 30 business days starting from the 45th business day prior to the date of mandatory conversion. In case that the average market closing price is below the par value of the common stock or ¥500, whichever is higher, the conversion price will be the higher price.

Dividends declared and paid during the year ended March 31, 2000 and 2001 were ¥815 million, or ¥8.15 per share, and ¥1,620 million, or ¥16.20 per share, respectively.

In January 2001, the DIC sold their investment in shares of Class 1 Preferred Stock to third party investors, which had no impact on Mitsubishi Trust's shareholders' equity.

Class 2 Preferred Stock

Class 2 Preferred Stock is redeemable at the option of Mitsubishi Trust. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥200 per share), and redemption terms, including a redemption price. No shares of the Class 2 Preferred Stock are issued and outstanding at March 31, 2000 and 2001.

Mitsubishi Trust may, at any time, purchase and retire, at fair value, either or both of Classes 1 and 2 Preferred Stock out of earnings available for distribution to the shareholders. Also, see Note 17.

On April 2, 2001, all common and preferred shares issued by Mitsubishi Trust was exchanged for the common and preferred shares of Mitsubishi Tokyo Financial Group, Inc. through a stock-for-stock exchange. Also, see Note 27.

17. COMMON STOCK AND CAPITAL SURPLUS

The changes in the number of issued shares of common stock during the years ended March 31, 1999, 2000 and 2001 were as follows:

	1999	2000	2001
	(in thousands of shares)		
Balance at beginning of year	1,302,302	1,302,303	1,302,303
Issued for conversion of bonds	1	—	—
Balance at end of year	1,302,303	1,302,303	1,302,303

In accordance with the provisions of the Code, the bond conversions have been accounted for by crediting equal amounts of the exercise price to the capital stock account and to the capital surplus account.

Mitsubishi Trust from time to time made a free distribution by way of a "stock split," as defined in the Code, and also, as permitted by the Code prior to April 1, 1991, free share distributions, recording no changes in the capital accounts. These free distributions usually are from 5 to 10 percent of outstanding common stock and publicly-owned corporations in the United States issuing shares in similar transactions would be required to account for them as stock dividends as of the shareholders' record date by reducing retained earnings and increasing the appropriate capital accounts by an amount equal to the fair value of the shares issued. The application of such United States accounting practice to the cumulative free distributions made by Mitsubishi Trust through March 31, 2001, would have increased capital accounts by ¥162,026 million with a corresponding decrease in unappropriated retained earnings (see Note 1).

The Code permits, upon approval of the Board of Directors, the transfer of amounts from capital surplus to the capital stock account.

As permitted by the Code, pursuant to a resolution of an annual general meeting of the shareholders, Mitsubishi Trust may purchase its own issued shares for their retirement. In addition, pursuant to a resolution of the Board of Directors, Mitsubishi Trust may purchase its own shares for their retirement, not exceeding 130 million shares, in accordance with its articles of incorporation. Any shares of common stock or preferred stock, in whole or in part, are subject to such purchases made for purposes of retirement.

Under the Code, a company is generally prohibited from acquiring its outstanding common stock. The Code, however, permits a company to acquire and hold its treasury shares to achieve certain objectives subject to restrictive conditions and the treasury shares should be disposed of as early as possible. Dividends are not permitted on treasury shares.

18. RETAINED EARNINGS AND DIVIDENDS

Retained Earnings Appropriated for Legal Reserve

The Banking Law of Japan provides that an amount at least equal to 20% of all cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 100% of common stock. The retained earnings so appropriated may be used to eliminate or reduce a deficit by a resolution of the shareholders or may be transferred to the common stock account by a resolution of the Board of Directors.

Unappropriated Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Code is based on the amount recorded in Mitsubishi Trust's general books of account maintained in accordance with accepted Japanese accounting practices. The adjustments included in the accompanying consolidated financial statements but not recorded in Mitsubishi Trust's general books of account as explained in Note 1 have no effect on the determination of retained earnings available for dividends under the Code.

In addition to the provision that requires an appropriation for legal reserve as described above, the Code and the Banking Law impose certain limitations on the amount of retained earnings available for dividends. The retained earnings shown by Mitsubishi Trust's general books of account, prepared in accordance with accounting principles generally accepted in Japan, as of March 31, 2001 (¥201,714 million, exclusive of the amount to be appropriated for legal reserve and unrealized gains on trading account asset (as defined), if any) is not restricted by such limitations under the Code or by the Banking Law as described above.

The Code permits the transfer, upon approval of the shareholders, of a portion of unappropriated retained earnings available for dividends to the common stock account.

Annual dividends, including those for preferred stock, are approved by the shareholders at the annual meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, a semi-annual interim dividend payment may be made by resolution of the Board of Directors, subject to limitations imposed by the Code and the Banking Law.

In the accompanying consolidated statements of shareholders' equity, dividends and appropriations to legal reserve shown for each year represent dividends approved and paid during the year and the related appropriation to legal reserve.

19. REGULATORY CAPITAL REQUIREMENTS

Mitsubishi Trust and certain subsidiaries are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which they operate. Failure to meet minimum capital requirements can initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on Mitsubishi Trust's consolidated financial statements. Management believes that Mitsubishi Trust and its subsidiaries are in compliance with such requirements as of the most recent fiscal year-ends.

In Japan, Mitsubishi Trust is subject to regulatory capital requirements administered by the Financial Services Agency of Japan. The Financial Services Agency provides two sets of capital adequacy guidelines. One is a set of guidelines applicable to Japanese banks with foreign offices conducting international operations, as defined, and the other is applicable to Japanese banks which are not engaged in international operations.

Under the capital adequacy guidelines applicable to a Japanese bank with international operations conducted by foreign offices, the minimum target capital ratio of 8.0% is required. The capital adequacy guidelines adopt the approach of risk-weighted capital measure based on the framework developed and proposed by the Bank for International Settlements and involve quantitative credit measures of the assets and certain off-balance-sheet items as calculated under accounting principles generally accepted in Japan. In addition, a bank engaged in certain qualified trading activities, as defined, is required to calculate an additional capital charge for market risk using either the bank's own internal risk measurement model or a standardized process developed and defined by the Bank for International Settlements. Capital is classified into three tiers, referred to Tier I, Tier II and Tier III. Tier I generally consists of stockholders' equity less any recorded goodwill. Tier II generally consists of reserves for credit, 45% of the unrealized gains on investment securities available for sale, 45% of the land revaluation excess and the balance of subordinated term debt with an original maturity of over five years, up to 50% of Tier I capital. Tier III capital generally consists of short-term subordinated debt with an original maturity of at least two years, subject to certain limitations. At least 50% of the minimum capital ratio must be maintained in the form of Tier I capital.

If a bank is not engaged in international operations conducted by foreign offices, it is subject to the other set of capital adequacy requirements with a minimum target capital ratio of 4.0%. Such guidelines incorporate measures of risk under the risk-weighted approach similar to the guidelines applicable to banks with international operations. Qualifying capital is classified into Tier I and Tier II capital.

The Banking Law and related regulations require that one of three categories be assigned to a bank, based on its risk-adjusted capital adequacy ratio if the bank fails to meet the minimum target capital adequacy ratio. These categories indicate capital deterioration, which may be subject to certain prompt corrective action by the Financial Services Agency. If the capital ratio of a bank is equal to or greater than the specific preestablished minimum target capital ratio, the bank is not subject to prompt corrective action.

The risk-adjusted capital amounts and ratios of Mitsubishi Trust presented in the following table are based on amounts calculated in accordance with accounting principles generally accepted in Japan.

	Actual Amount	Ratio	Minimum Capital Ratios Required
	(in millions except percentages)		
At March 31, 2000:			
Total capital (to risk-weighted assets)	¥1,382,205	11.27%	8.00%
Tier I capital (to risk-weighted assets)	846,792	6.90	4.00
At March 31, 2001:			
Total capital (to risk-weighted assets)	¥1,471,132	12.06%	8.00%
Tier I capital (to risk-weighted assets)	841,038	6.89	4.00

Mitsubishi Trust has international operations conducted by foreign offices as defined and is subject to the 8.0% capital adequacy requirement. For the purpose of market risk measure, Mitsubishi Trust has adopted the internal risk measurement model approach for general market risk calculations.

20. EARNINGS PER COMMON SHARE

Reconciliations of net income (loss) and the weighted average number of common shares outstanding used for the computation of earnings (loss) per common share—basic to the adjusted amounts for the computation of earnings (loss) per common share—assuming dilution for the years ended March 31, 1999, 2000 and 2001 were as follows:

	1999	2000	2001
		(in millions)	
Net income (loss)	¥ (136,285)	¥ (83,330)	¥ 36,874
Cash dividends to preferred shareholders	—	(815)	(1,620)
Income (loss) available to common shareholders	(136,285)	(84,145)	35,254
Income (loss) adjusted for diluted computation	¥ (136,285)	¥ (84,145)	¥ 36,874
		(thousands of shares)	
Weighted average common shares outstanding	1,302,256	1,302,255	1,302,253
Convertible Preferred Stock (Class 1)	—	—	261,780
Adjusted for diluted computation	1,302,256	1,302,255	1,564,033
		(in yen)	
Earnings (loss) per common share—basic	¥ (104.65)	¥ (64.61)	¥ 27.07
Earnings (loss) per common share—assuming dilution	¥ (104.65)	¥ (64.61)	¥ 23.58

The weighted average number of common shares outstanding during each year is appropriately adjusted to give retroactive effect to the free distribution of shares made to shareholders, if any.

2½% Convertible Bonds due 2001, 1¾% Convertible Bonds due 2002, 3¼% Convertible Bonds due 2003, and Class 1 Preferred Stock could potentially dilute earnings per common share in the future. For the year ended March 31, 2001, 2½% Convertible Bonds due 2001, 1¾% Convertible Bonds due 2002 and 3¼% Convertible Bonds due 2003 were not dilutive instruments.

21. DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

The Mitsubishi Trust Group uses various derivative financial instruments both for trading purposes and for purposes other than trading, as a source of revenue and to manage risk. It also employs credit-related off-balance-sheet financial instruments in the normal course of business to meet the financing needs of its customers. These financial instruments involve, in varying degrees, elements of credit and market risk in excess of the amounts recognized in the consolidated balance sheets. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract. Market risk is the exposure created by potential fluctuations in market indices, including, but not limited to, interest or foreign exchange rates.

To reduce credit risk, the Mitsubishi Trust Group may require collateral or guaranties based on a case-by-case evaluation of each customer and instrument. Collateral varies but may include real estate, marketable securities, accounts receivable and other negotiable instruments. Guarantors may include governments, affiliates of customers and financial institutions. In the area of derivatives business, the Mitsubishi Trust Group also uses standardized master netting agreements in order to mitigate overall counterparty credit risk.

Notional principal amounts are often used to express the volume of derivative transactions, and such amounts are generally much larger than the amounts subject to credit risk. Options purchased have no off-balance-sheet credit risk. The following is a summary of the notional principal amounts of derivative financial instruments related to interest rate and foreign exchange contracts entered into by the Mitsubishi Trust Group at March 31, 2000 and 2001:

	2000			2001		
	Trading	Asset/Liability management	Total	Trading	Asset/Liability management	Total
	(in billions)					
Interest rate contracts:						
Forwards and futures	¥ 5,101	¥—	¥ 5,101	¥ 1,637	¥—	¥ 1,637
Swap and swap-related products	29,980	5	29,985	33,998	4	34,002
Options written	621	—	621	652	—	652
Options purchased	1,562	—	1,562	728	—	728
Total	¥37,264	¥ 5	¥37,269	¥37,015	¥ 4	¥37,019
Foreign exchange contracts:						
Forwards and futures						
Purchase	¥ 2,501	¥—	¥ 2,501	¥ 2,291	¥—	¥ 2,291
Sell	1,446	—	1,446	2,253	—	2,253
Swaps	2,055	—	2,055	1,673	—	1,673
Options written	66	—	66	80	—	80
Options purchased	65	—	65	81	—	81
Total	¥ 6,133	¥—	¥ 6,133	¥ 6,378	¥—	¥ 6,378

The Mitsubishi Trust Group holds other types of derivative financial instruments, including equity and credit-related contracts for trading purposes. Notional amounts of such instruments for its trading account were ¥9 billion at March 31, 2000. The Mitsubishi Trust Group held no such derivative financial instruments at March 31, 2001.

The timing of cash receipts and payments relating to these financial instruments is determined by the related contract. Interest rate and foreign exchange contracts, other than swap contracts, outstanding at March 31, 2001 principally expire within two years. Approximately 35% of swap contracts outstanding at March 31, 2001 will expire within one year, 62% from one year to five years and 3% after five years.

Classes of Derivative Financial Instruments

The Mitsubishi Trust Group uses the following classes of derivative financial instruments both for trading purposes and for purposes other than trading.

Forward and futures contracts are commitments to buy or sell a financial instrument at a specified rate or price, and may be settled in cash or through delivery of the underlying financial instrument. Credit risk associated with futures contracts is considered minimal since they are traded on organized exchanges. Organized exchanges approve counterparties, require security deposits, and require daily payment of variation margins, all of which reduce credit risk. Forward contracts are generally negotiated between two counterparties and, therefore, are subject to the performance of the counterparty.

Swap contracts are commitments to settle in cash at a future date or dates, based on differentials between specified financial indices, as applied to a notional principal amount. Principal amounts are generally not exchanged, with the exception of cross-currency swaps, where the principal amounts may be exchanged at inception and re-exchanged at maturity. The amounts potentially subject to credit risk are much smaller than the notional amounts presented above.

Options, which are traded on organized exchanges or negotiated directly between two counterparties, are contracts that allow the holder of the option to purchase from or sell to the writer of the option currency or another financial instrument at a specified rate or price and within a specified period of time. The Mitsubishi Trust Group, as a writer of options, receives premiums and bears the risk of unfavorable interest rate or foreign exchange rate changes.

Trading Activities

The Mitsubishi Trust Group's trading activities include dealing and other activities measured at fair value with gains and losses recognized currently in earnings. Non-dealing activities include risk management which is another important goal of the Mitsubishi Trust Group.

As part of its trading activities, the Mitsubishi Trust Group offers a variety of derivative financial instruments and debt instruments for managing interest rate and foreign exchange risk to its domestic and foreign, corporate and financial institution customers. The Mitsubishi Trust Group also enters into other types of derivative transactions, including equity and credit-related contracts, for its own account.

As part of risk management activities, the Mitsubishi Trust Group uses certain derivative transactions to manage its interest rate and currency exposures. The Mitsubishi Trust Group enters into interest rate swaps and other contracts as part of its interest rate risk management strategy primarily to alter the interest rate sensitivity of its loans, investment securities and deposit liabilities. The Mitsubishi Trust Group enters into forward exchange contracts, currency swaps and other contracts in response to currency exposures resulting from on-balance-sheet assets and liabilities denominated in foreign currencies in order to limit the net foreign exchange position by currency to an appropriate level. The risk management activities reduces the Mitsubishi Trust Group's risk exposures economically, however, derivatives used for the risk management activities often fail to meet certain conditions to qualify for hedge accounting and the Mitsubishi Trust Group accounts for such derivatives as trading positions.

Asset and Liability Management Activities

The Mitsubishi Trust Group's principal objective in using derivative financial instruments for purposes other than trading is asset and liability management. Asset and liability management is viewed as a method for the Mitsubishi Trust Group to manage its interest rate exposures on interest-bearing assets and liabilities.

The Mitsubishi Trust Group generally does not hold or issue derivative financial instruments to hedge anticipated transactions.

Credit-Related Off-Balance-Sheet Financial Instruments

The Mitsubishi Trust Group issues certain credit-related off-balance-sheet financial instruments for purposes other than trading. Such credit-related financial instruments include commitments to extend credit, standby letters of credit, guarantees, and commercial letters of credit to meet the financing needs of its customers. For these financial instruments, the contract amount represents the credit risk associated with failure of the counterparty to perform in accordance with the terms and conditions of the contract, and the decline in value of the underlying collateral. The credit risk associated with these financial instruments varies depending on the counterparty's creditworthiness and the value of any collateral held. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At March 31, 2001, approximately 76% of these commitments will expire within one year, 11% from one year to five years and 13% after five years.

The following is a summary of the contract amounts of these financial instruments at March 31, 2000 and 2001:

	2000	2001
	(in billions)	
Commitments to extend credit	¥1,758	¥1,948
Guarantee for repayment of trust principal	5,170	4,576
Standby letters of credit and other guarantees	430	593

Commitments to extend credit, which generally have fixed expiration dates or other termination clauses, are legally binding agreements to lend to customers as long as there is no violation of any condition established in the contract.

Standby letters of credit and guarantees are conditional commitments issued by the Mitsubishi Trust Group to guarantee the performance of a customer to a third party. The Mitsubishi Trust Group is obliged to pay the third party upon presentation of a claim that meets the conditions of the commitment; however, based on its past experience, the Mitsubishi Trust Group does not expect such third parties to draw funds under such commitments. These guarantees at March 31, 2000 and 2001 included guarantees of securities of other issuers, principally domestic corporate customers, aggregating ¥38 billion and ¥30 billion, respectively, for the payment of bond and note principal and related interest.

Guarantee for Repayment of Trust Principal

Trust banks, offering a variety of trust arrangements, manage trust funds including various portfolios of assets and properties. Some trust arrangements are in the form of money in trusts. Money in trust is a trust arrangement in which money is entrusted to form a trust fund and may be operated jointly to collect funds from individual investors through issuance of beneficiary certificates, which are pooled to achieve greater diversification of investments, stability of income, or other investment objectives. Loan trust is a type of jointly operated trust through which funds are invested principally in commercial lending. In view of the trust bank's investment discretion, money trusts are categorized as specified money trust and designated money trust. As to specified money trust, investors specifically instruct investments of trust assets. A trust bank does not exercise investment decisions, but invests each trust asset in accordance with the specific instructions from the investors. As to designated money trusts, however, a trust bank is allowed to exercise certain investment discretion, subject to the investors' designation of the investment classes of assets.

Mitsubishi Trust manages and administers trust assets in a capacity of agent or fiduciary on behalf of customers and, in principle, will not assume risks associated with the trust assets. However, as permitted by applicable laws, Mitsubishi Trust may provide guarantees for repayment of principal of certain jointly operated money trusts, such as loan trusts, and is contingently liable to the guarantee for principal of individual trust assets.

The accounting principles and practices used for the Mitsubishi Trust Group's consolidated financial statements do not apply to the trust accounts. Generally, the application of trust accounting does not affect the recorded assets and liabilities of the Mitsubishi Trust Group. However, for the purpose of identifying an impairment of a loan within the trust account, Mitsubishi Trust follows substantially the same methodology used in determining the specific allowance for loan credit losses, with variations in treatment peculiar to trust fund accounting. Under Mitsubishi Trust's trust accounting, amounts of loans deemed to be impaired are written off directly and are charged to the profit earned by the trust account during the trust accounting period. Marketable equity securities are recorded at the lower of cost or market, and debt securities, principally Japanese government bonds and corporate debentures, are stated at amortized cost. Related write-downs of these securities are also directly charged to the trust account profits. In addition, a statutory reserve is set aside to absorb losses in the trust asset portfolios within each trust account. An allowance for losses on such guarantees is required in the financial statements when aggregate losses on trust assets are judged to exceed the statutory reserve and the profit earned in the trust account, and the principal is deemed to be impaired.

At March 31, 2000 and 2001, Mitsubishi Trust management believes that the statutory reserve is sufficient to absorb probable losses inherent in the trust portfolio and has not recorded an allowance for credit losses on guarantee for repayment of trust principal on the consolidated balance sheets.

Resale and Repurchase Agreements and Security Lending Transactions

Security lending transactions involve the lending of securities borrowed from other financial institutions or customers' securities held in custody to third party borrowers. The Mitsubishi Trust Group generally obtains collateral from borrowers, including cash and securities, with similar fair values. The Mitsubishi Trust Group follows strict levels of collateralization governed by daily mark-to-market analyses and a review of the creditworthiness of borrowers to control exposure to credit losses resulting from a reduction in the underlying collateral value and nonperformance by borrowers.

The Mitsubishi Trust Group enters into repurchase and resale transactions. In a sale of securities or other financial instruments with an agreement to repurchase, the Mitsubishi Trust Group sells securities or other financial instruments at a stated price to a counterparty and agrees to repurchase identical financial instruments from the same counterparty at a later date at the predetermined price which reflect the principal amount and interest. In a purchase of securities or other financial instruments with an agreement to resell, the Mitsubishi Trust Group receives securities or other financial instruments for a stated price from a counterparty and agrees to sell to the same counterparty at a later date at the predetermined price reflecting the principal amount and interest.

When conditions for the surrender of control over transferred securities specified in SFAS No. 125 are met, the Mitsubishi Trust Group accounts for resale agreements as a purchase of financial instruments with related off-balance-sheet forward resale commitments and repurchase agreements as sale of financial instruments with related off-balance-sheet forward repurchase agreements. The Mitsubishi Trust Group bears the off-balance-sheet risk related to the forward repurchase commitments, including credit risk and market risk. At March 31, 2000 and 2001, contract amounts of such forward repurchase commitments were ¥13 billion and ¥13 billion, respectively.

Concentration of Credit Risk

Although the Mitsubishi Trust Group's portfolio of financial instruments, including on-balance-sheet instruments, is widely diversified along industry and geographic lines, a significant portion of the transactions with off-balance-sheet risk are entered into with other financial institutions.

22. COMMITMENTS AND CONTINGENT LIABILITIES

The Mitsubishi Trust Group leases certain office space and equipment under noncancelable agreements expiring through the year 2007.

Future minimum rental commitments for noncancelable leases at March 31, 2001 were as follows:

	Capitalized leases	Operating leases
	(in millions)	
Year ending March 31:		
2002	¥ 580	¥ 659
2003	372	545
2004	250	290
2005	56	290
2006	15	290
2007 and thereafter	—	314
Total minimum lease payments	1,273	¥2,388
Amount representing interest	(159)	
Present value of minimum lease payments	¥1,114	

Total rental expense for the years ended March 31, 1999, 2000 and 2001 was ¥14,821 million, ¥13,644 million and ¥12,025 million, respectively.

The Mitsubishi Trust Group is involved in various litigation matters. In the opinion of management, the Mitsubishi Trust Group's liabilities, if any, when ultimately determined will not have a material adverse effect on the Mitsubishi Trust Group's financial position.

23. FEES AND COMMISSION INCOME

Details of fees and commission income for the three years ended March 31, 1999, 2000 and 2001 are as follows:

	1999	2000	2001
		(in millions)	
Trust fees	¥ 84,799	¥ 68,805	¥ 78,242
Fees on funds transfer and service charges for collections	10,562	8,088	3,891
Bond underwriting fees	10,302	11,548	13,866
Real estate agent commissions	6,347	8,023	10,995
Other fees and commissions	17,623	16,473	12,057
Total	¥129,633	¥112,937	¥119,051

24. BUSINESS SEGMENTS

The business segment information, set forth below, is derived from the internal management reporting system used by management to measure the performance of the business segments. Unlike financial accounting, there is no authoritative body of guidance for management accounting. The business segment information, set forth below, is based on the non-consolidated financial information prepared in accordance with Japanese GAAP. Accordingly, the format and information is presented on the basis of Japanese GAAP and is not consistent with the consolidated financial statements prepared on a basis of US GAAP. A reconciliation is provided for the segments' total operating profit with income (loss) before income tax expense or benefit under US GAAP.

See Note 25 for financial information relating to the Mitsubishi Trust Group's operations by geographic area. This information is consistent with the basis of the accompanying consolidated financial statements.

Effective April 1, 2000, Mitsubishi Trust reorganized its business groups structure and redefined functions and activities performed by each of its operating groups; Banking, Trust Assets and Global Markets.

The *Banking* business group provides a full range of commercial banking products and services to corporations, institutional investors, public organizations and individual customers in Japan and overseas. It serves the corporate customers by providing financial products to meet the customers' short- and long-term asset management and fund-raising objective. It also provides retail customers with investment and other products for the creation of wealth. The *Banking* business group also manages loan portfolios associated with certain jointly operated designated money trusts such as loan trusts. A jointly operated designated money trust manages pooled funds collected from individual investors for investment returns. A loan trust is a type of jointly operated money trust primarily investing in long-term commercial loans. Other services provided by the *Banking* business group include stock-transfer-agency services and real estate-related services. Mitsubishi Trust offers agency services for the transfer of the title of stocks and related advisory services and acts as a broker of real estate transactions and advisor for optimal utilization of real estate.

The *Trust Assets* business group covers fiduciary asset management and administration services. In line with fiduciary asset management services, Mitsubishi Trust takes charge of corporate pensions, public pensions, public sector funds, individual funds and certain other funds, based on the customers' needs. Actuarial and other pension-related consulting services are also provided. In the asset administration service, a broad range of custodial services is provided to corporations, institutional investors and other customers.

The *Global Markets* business group is active in various financial operations, including banking, money and capital markets operations, securities investments and custody operations and asset management, through the network of foreign branches and subsidiaries in the Americas, Europe and Asia. The *Global Markets* business group also manages investment securities portfolios and placements of excess funds associated with certain jointly operated designated money trusts.

The financial performance of the Mitsubishi Trust Group's business groups, derived from the internal management reporting system, are summarized below. Business segment information for the prior periods has been restated to reflect reorganizational changes that have occurred. Management does not use information on segments' total assets to allocate resources and assess performance, and has not prepared information on segment assets. Accordingly, business segments' information on total assets is not available.

	Banking	Trust Assets	Global Markets	Administration and Adjustments	Segments' Total
			(in millions)		
Year ended March 31, 1999:					
Net revenue:					
Net interest income	¥ 49,053	¥ —	¥106,355	¥10,793	¥166,201
Fees on jointly operated designated money trusts	33,351	—	80,960	12,377	126,688
Other fees	22,734	47,696	(989)	—	69,441
Other	621	—	76,615	(209)	77,027
Total	105,759	47,696	262,941	22,961	439,357
Operating expenses:	77,193	32,047	20,086	26,774	156,100
Operating profit	¥ 28,566	¥15,649	¥242,855	¥ (3,813)	¥283,257
Year ended March 31, 2000:					
Net revenue:					
Net interest income	¥ 69,429	¥ —	¥ 65,243	¥ 8,243	¥142,915
Fees on jointly operated designated money trusts	25,668	—	33,513	21,160	80,341
Other fees	26,355	49,996	(129)	—	76,222
Other	312	—	22,044	(210)	22,146
Total	121,764	49,996	120,671	29,193	321,624
Operating expenses:	74,918	28,872	16,725	23,336	143,851
Operating profit	¥ 46,846	¥21,124	¥103,946	¥ 5,857	¥177,773
Year ended March 31, 2001:					
Net revenue:					
Net interest income	¥ 75,848	¥ —	¥ 59,255	¥15,069	¥150,172
Fees on jointly operated designated money trusts	19,163	—	32,415	14,612	66,190
Other fees	31,384	49,904	287	—	81,575
Other	213	—	9,140	350	9,703
Total	126,608	49,904	101,097	30,031	307,640
Operating expenses:	73,970	26,796	16,587	27,212	144,565
Operating profit	¥ 52,638	¥23,108	¥ 84,510	¥ 2,819	¥163,075

Management measures performance of each business group by "operating profit" which excludes profits or losses of subsidiaries. "Operating profit" is a defined term in Mitsubishi Trust's regulatory reporting to the Financial Services Agency of Japan.

"Net revenue" above includes net interest income, net fees (that is, fees and commissions received, net of fees paid and other related expenses), and other gains, such as net trading gains, net foreign exchange gains, and net gains from sales of investment debt securities measured under Japanese GAAP. "Operating expenses" include salaries and employee benefits, occupancy and certain other non-interest expenses. In determining operating profit, the Mitsubishi Trust Group does not assign to each business group certain income and expense items such as provision for loan loss reserve, equity investment securities gains or losses, minority interest in earnings or losses of subsidiaries, equity in earnings or losses of affiliated companies, goodwill amortization and impairment, net gains or losses from disposition of premises and equipment, and other certain non-interest income and expense items.

"Fees on jointly operated designated money trusts" include trust fees, accounted for on a cash basis, which are associated with loan trusts and other types of jointly operated designated money in trusts, including certain money trusts with guarantee for repayment of principal. The amounts assigned to the *Banking* business group are such fees associated with the return on lending activites and the amounts assigned to the *Global Markets* business group are fees resulting from the management of investment securities included in the trust accounts. Amounts of write-downs recorded within each trust account, which eventually reduce the trust fees to be recognized in Mitsubishi Trust's financial statements, are excluded from the business group's performance measure on jointly operated money trusts, and the fee amounts are before provision for write-downs of individual investments. Such write-downs recognized within each trust are shown in the reconciliations of the business segments' total operating profit to the income (loss) before income tax expense or benefit. Fees on such trusts are determined at the end of respective accounting periods of individual trust accounts and Mitsubishi Trust recognizes such fees, on a cash basis, in its Japanese GAAP financial statements. For measuring the performance of the *Banking* and *Global Markets* business groups, Mitsubishi Trust focuses on the results of performance during the term corresponding to the fiscal period. Since the trust accounting periods do not necessarily correspond with Mitsubishi Trust's fiscal period, fee amounts shown in the Japanese GAAP financial statements do not meet the objective of management reporting without certain adjustments. Accordingly, Mitsubishi Trust allocates amounts to the business group to show the fee amounts that would have been earned, on an accrual basis, if each trust accounting period have corresponded with Mitsubishi Trust's fiscal period.

"Other fees" include trust fees other than fees on certain jointly operated money trusts, such as pension trusts and fiduciary and custodial services related to asset management and administration.

"Net revenue" included in the "Administration and Adjustments" column includes interest and dividends on certain investment securities held for relationship management. "Fees on jointly operated money trusts" under "Administration and Adjustments" include the amounts representing the recoveries of trust assets previously written off and reversal of the statutory reserve, both of which are accounted for as a reduction of the trust fees. Also, included in the amounts under "Administration and Adjustments" are the adjustments for the amounts of the *Banking* business group based on Mitsubishi Trust's fiscal period to the segments' total amounts, which are determined, based on the accounting periods of the trust accounts.

As set forth above, the measurement bases and the income statement items covered are very different between the internal management reporting system and the accompanying consolidated statements of operations. Therefore, it is impracticable to present reconciliations of the business segments' total information, other than operating profit, to corresponding items in the accompanying consolidated statements of operations.

Reconciliations of the segments' operating profit under the internal management reporting system for the years ended March 31, 1999, 2000 and 2001 above to income (loss) before income tax expense or benefit shown on the consolidated statements of operations are as follows:

	1999	2000	2001
	(in billions)		
Operating profit shown on the above table	¥ 283	¥ 178	¥ 163
Write-downs recorded within trust accounts	(81)	(60)	(37)
Provision for credit losses	(320)	(4)	(131)
Trading account profit (losses)—net	33	(181)	(9)
Equity investment securities gains (losses)—net	(39)	(47)	104
Foreign exchange gains (losses)—net	(14)	14	(7)
Other—net	(31)	(27)	3
Income (loss) before income tax expense or benefit	¥(169)	¥(127)	¥ 86

25. FOREIGN ACTIVITIES

Foreign operations include business conducted by overseas offices, as well as international business conducted from domestic offices, principally international banking-related divisions of Mitsubishi Trust's Head Office in Tokyo, and involve various transactions with debtors and customers residing outside Japan. The close integration of the Mitsubishi Trust Group's foreign and domestic activities makes precise estimates of the amounts of assets, liabilities, income and expenses attributable to foreign operations difficult and necessarily subjective. Assets, income and expenses attributable to foreign operations are allocated to geographical areas based on the domiciles of the debtors and customers.

Generally, interest rates with respect to funds borrowed and loaned between domestic and foreign operations are based on prevailing money market rates appropriate for the transactions. In general, the Mitsubishi Trust Group has allocated all direct expenses and a proportionate share of general and administrative expenses to income derived from foreign loans and other transactions by the Mitsubishi Trust Group's foreign operations. The following table sets forth estimated total assets at March 31, 1999, 2000 and 2001, and estimated gross revenue, total expenses, income or loss before income tax expense on benefit and net income or loss for the respective years then ended. Gains and losses on investment securities, trading account activities and foreign exchange transactions are included in either "Revenue" or "Expenses" on a net basis by geographic area. If the net results of trading accounts and foreign exchange transactions attributable to operations conducted in a geographic area is a gain, such gain is included in "Revenue" of the related geographic area. If the results is a loss, such loss is included in the related "Expenses" of the related geographic area.

	Domestic	Foreign				
	Japan	United States of America	Europe	Asia/Oceania excluding Japan	Other Areas*	Total
			(in millions)			
Year ended March 31, 1999:						
Revenue	¥ 327,376	¥ 141,838	¥ 421,583	¥ 68,551	¥ 35,908	¥ 995,256
Expenses	614,964	298,043	119,295	99,020	32,957	1,164,279
Income (loss) before income tax expense or benefit	(287,588)	(156,205)	302,288	(30,469)	2,951	(169,023)
Net income (loss)	(238,410)	(168,308)	296,336	(28,852)	2,949	(136,285)
Total assets at end of year	12,336,663	2,108,044	1,064,247	944,507	394,778	16,848,239
Year ended March 31, 2000:						
Revenue	291,363	97,524	48,541	47,068	23,407	507,903
Expenses	276,410	140,550	167,961	37,129	12,450	634,500
Income (loss) before income tax expense or benefit	14,953	(43,026)	(119,420)	9,939	10,957	(126,597)
Net income (loss)	80,153	(58,280)	(125,086)	8,928	10,955	(83,330)
Total assets at end of year	12,883,522	1,566,457	1,004,197	656,902	478,819	16,589,897
Year ended March 31, 2001:						
Revenue	434,249	133,363	109,443	24,606	41,421	743,082
Expenses	405,958	92,795	88,619	35,281	34,195	656,848
Income (loss) before income tax expense or benefit	28,291	40,568	20,824	(10,675)	7,226	86,234
Net income (loss)	(19,019)	39,981	20,950	(12,264)	7,226	36,874
Total assets at end of year	13,760,719	1,788,073	1,219,119	393,247	612,178	17,773,336

* Other Areas primarily include Canada, Latin America and the Caribbean.

The following is an analysis of certain asset and liability accounts related to foreign activities at March 31, 2000 and 2001:

	2000	2001
	(in millions)	
Cash and due from banks	¥ 21,733	¥ 7,096
Interest-earning deposits in other banks	974,967	620,699
Total	¥ 996,700	¥ 627,795
Trading account assets	¥ 226,095	¥ 182,371
Investment securities	¥ 965,403	¥1,616,899
Loans—net of unearned income and deferred loan fees	¥1,227,117	¥1,192,035
Deposits, principally time deposits and certificates of deposit by foreign banks	¥1,787,409	¥1,636,059
Funds borrowed:		
Call money, funds purchased, and receivables under repurchase agreements and securities lending transactions	¥ 148,246	¥ 484,075
Other short-term borrowings	74,304	29,006
Long-term debt	229,385	262,510
Total	¥ 451,935	¥ 775,591
Trading account liabilities	¥ 24,308	¥ 68,881

The Mitsubishi Trust Group had no cross-border outstandings in any country which exceeded 1% of consolidated total assets at March 31, 2000 and 2001.

26. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices, where available, are used to estimate fair values of financial instruments. However, quoted market prices are not available for a substantial portion of financial instruments and fair values for such financial instruments are estimated using discounted cash flow models or other valuation techniques. Although management uses its best judgment in estimating fair values of financial instruments, estimation methodologies and assumptions used to estimate fair values are inherently subjective. Accordingly, the estimates presented herein are not necessarily indicative of net realizable or liquidation values. The use of different estimation methodologies and/or market assumptions may have a significant effect on the estimated fair values. The estimated fair values of financial instruments do not include valuations of related intangible assets such as core deposits.

The following is a summary of carrying amounts and estimated fair values of financial instruments at March 31, 2000 and 2001:

	2000		2001	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(in billions)			
Financial assets:				
Cash, due from banks, interest-earning deposits, call loans and funds sold, and receivables under resale agreements and securities borrowing transactions	¥1,659	¥1,659	¥ 1,348	¥ 1,348
Trading account securities	355	355	359	359
Investment securities	4,948	4,948	5,930	5,945
Loans, net of allowance for credit losses	8,783	8,864	9,217	9,332
Other financial assets	217	217	257	257
Derivative financial instruments, principally held for trading activities	234	234	219	219
Financial liabilities:				
Non-interest-bearing deposits, call money and funds purchased, and payables under repurchase agreements and securities lending transactions	668	668	955	955
Interest-bearing deposits	9,609	9,619	11,155	11,178
Due to trust account	3,842	3,842	3,250	3,250
Other short-term borrowings	627	627	554	554
Long-term debt	589	631	572	626
Other financial liabilities	161	161	194	194
Derivative financial instruments, principally held for trading activities	63	63	144	144

The methodologies and assumptions used to estimate the fair value of the financial instruments are summarized below.

Cash, due from banks, interest-earning deposits, call loans and funds sold, and receivables under resale agreements and securities borrowing transactions—For cash, due from banks, interest-earning deposits, and call loans and funds sold, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature and limited credit risk. For receivables under resale agreements and securities borrowing transactions, the fair values are based on quoted market prices, when available, or estimated using quoted market prices for similar instruments when quoted market prices do not exist.

Trading account securities—Trading securities and short trading positions of securities are carried at fair value, which is based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Investment securities—The fair values of investment securities, where quoted market prices or secondary market prices are available, are equal to such market prices. For investment securities, when quoted market prices or secondary market prices are not available, the fair values are estimated using quoted market prices for similar securities or based on appraised value as deemed appropriate by management. The fair values of investment securities other than available for sale or being held to maturity (including nonmarketable equity securities) at March 31, 2000 and 2001 were not readily determinable. Therefore, the above summary does not include such other investment securities which are carried at cost of ¥81.5 billion and ¥77.1 billion at March 31, 2000 and 2001, respectively.

Loans—The fair values of loans are estimated for groups of similar loans based on type of loan, credit quality and remaining maturity. In incorporating the credit risk factor, management concluded that the allowance for credit losses adequately adjusts the related book values for credit risk. For floating- or adjustable-rate loans, which mature or reprice within a short period of time, the carrying values are considered to be a reasonable estimate of fair values. For fixed-rate loans, market prices are not generally available and the fair values are estimated by discounting the estimated cash flows based on the contracted maturity of the loans. The discount rates are based on the current market rates for the applicable maturity. Where market prices are available, primarily for loans to refinancing countries and certain other foreign loans, the fair values are based on such market prices, including secondary market prices. For non-performing loans, the fair values are generally determined on an individual basis by discounting the estimated future cash flows and may be based on the estimated appraisal value of underlying collateral as appropriate.

Other financial assets—The estimated fair values of other financial assets, which primarily include accrued interest receivable, and accounts receivable, approximate their carrying amounts.

Derivative financial instruments—The estimated fair values of derivative financial instruments are the amounts the Mitsubishi Trust Group would receive or pay to terminate the contracts at the balance-sheet date, taking into account the current unrealized gains or losses on open contracts. They are based on market or dealer quotes when available. Valuation models such as present value or pricing models are applied to current market information to estimate fair values when such quotes are not available.

Non-interest-bearing deposits, call money and funds purchased, and payables under repurchase agreements and securities lending transactions—The fair values of non-interest-bearing deposits are equal to the amounts payable on demand. For call money and funds purchased, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature. For payables under repurchase agreements and securities lending transactions, the fair values are generally based on quoted market prices, when available, or estimated using quoted market prices for similar instruments when quoted market prices do not exist.

Interest-bearing deposits—The fair values of demand deposits, deposits at notice, and certificates of deposit maturing within a short period of time are the amounts payable on demand. Fair values of time deposits and certificates of deposit maturing after a short period of time are estimated by discounting the estimated cash flows using the rates currently offered for deposits of similar remaining maturities or the applicable current market rates.

Due to trust account—For due to trust account, which reflects a temporary placement of excess fund from individual trust accounts managed by Mitsubishi Trust in its fiduciary and trust capacity, the carrying amount is a reasonable estimate of its fair value due to its nature of short-term funding, including demand deposits and other overnight funds purchased, in that the balance changes in response to the day-to-day changes in excess funds placed by the trust accounts.

Other short-term borrowings—For most other short-term borrowings, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature. For certain borrowings, fair values are estimated by discounting the estimated cash flows using applicable current market interest rates or the current market interest rates for similar instruments, which represent the Mitsubishi Trust Group's cost to raise funds with a similar remaining maturity.

Long-term debt—The fair values of long-term debt are estimated based on quoted market prices, if available, otherwise estimated using a discounted cash flow model based on rates available to the Mitsubishi Trust Group for debt with similar terms and remaining maturities.

Other financial liabilities—The estimated fair values of other financial liabilities, which primarily include accrued interest payable, bank acceptances and accounts payable, approximate their carrying amounts.

The fair values of certain credit-related financial instruments held for purposes other than trading, including commitments to extend credit, guarantee for repayment of trust principal and standby letters of credit and other guarantees, are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the credit quality. The aggregate fair value of such instruments at March 31, 2000 and 2001 was not material.

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2000 and 2001. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since that date and, therefore, current estimates of fair values may have changed significantly from the amounts presented herein.

27. EVENTS SINCE MARCH 31, 2001

On April 2, 2001, Mitsubishi Trust, The Bank of Tokyo-Mitsubishi, Ltd. ("BTM") and Nippon Trust Bank Limited, a BTM subsidiary, established a holding company known as Mitsubishi Tokyo Financial Group, Inc. ("MTFG") through stock-for-stock exchanges. One share of Class 1 Preferred Stock of MTFG was exchanged for each 1,000 shares of Class 1 Preferred Stock of BTM, and one share of Class 2 Preferred Stock of MTFG was exchanged for each 1,000 shares of Class 1 Preferred Stock of Mitsubishi Trust. One common share of MTFG was exchanged for each 1,000 common shares of BTM, and 0.70 common shares of MTFG was exchanged for each 1,000 common shares of Mitsubishi Trust. Also, 1,000 shares of common and subordinated shares of Nippon Trust Bank Limited were exchanged for 0.14 shares and 0.126 shares, respectively, of MTFG's common stock. Mitsubishi Trust, BTM and Nippon Trust Bank Limited each became a wholly-owned subsidiary of MTFG and the common, preferred and subordinated shareholders of these three bank received shares of MTFG as a result of the stock-for-stock exchanges.

The business combination involving Mitsubishi Trust and BTM has been accounted for under the "pooling of interests" method and, accordingly, the historical consolidated financial statements of Mitsubishi Trust and BTM will be restated in future reports to include the accounts and results of MTFG.

The following table sets forth an unaudited pro forma combined summary of operations of BTM and Mitsubishi Trust for each of the three years in the period ended March 31, 1999, 2000 and 2001, giving effect to the business combination as if it had been effective for all periods presented (all financial data are derived from the US GAAP financial statements):

	For the year ended March 31,		
	1999	2000	2001
		(in billions)	
Interest income	¥ 2,812	¥ 2,166	¥ 2,283
Net interest income	1,134	1,080	972
Non-interest income	695	520	960
Net loss	(482)	(48)	(57)
		(in yen)	
Loss per common share:			
Loss per common share—basic	¥(87,953.14)	¥(9,663.81)	¥(11,797.27)
Loss per common share—assuming dilution	(87,953.14)	(9,663.81)	(11,797.27)

The unaudited pro forma combined summary of operations is not necessarily indicative of the results of operations that would have occurred had the business combination been in effect for all the periods presented or that may be obtained in the future.

On May 24, 2001, Mitsubishi Trust, Nippon Trust Bank Limited and The Tokyo Trust Bank, Ltd., a wholly-owned subsidiary of BTM, signed a merger agreement following resolutions of their respective boards of directors. According to the merger agreement, on October 1, 2001, Nippon Trust Bank Limited and The Tokyo Trust Bank, Ltd. will be merged with and into Mitsubishi Trust, which will be the surviving entity.

On June 27, 2001, in accordance with the resolution at the extraordinary meeting of shareholders in December 2000, MTFG, the sole shareholder of Mitsubishi Trust, approved (1) payment of cash dividends to shareholders of record on March 31, 2001, of ¥8.10 per share of preferred stock, totaling ¥810 million, and of ¥3.50 per share of common stock, totaling ¥4,558 million, and (2) a transfer from unappropriated retained earnings to retained earnings appropriated for legal reserve of ¥1,074 million.

* * * * *

THE BANK OF TOKYO-MITSUBISHI, LTD. AND
THE MITSUBISHI TRUST AND BANKING CORPORATION
SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL DATA

Giving pro forma effect to the April 2, 2001 Business Combination creating Mitsubishi Tokyo Financial Group, Inc.

	Years ended March 31,			
	1998	1999	2000	2001
	(in millions except per share data and percentages)			
Operating results:				
Interest income	¥ 2,971,119	¥ 2,811,638	¥ 2,165,643	¥ 2,282,974
Interest expense	1,999,409	1,677,554	1,086,126	1,310,618
Net interest income	971,710	1,134,084	1,079,517	972,356
Provision for credit losses	1,476,027	1,239,000	372,449	797,081
Net interest income (expense) after provision for credit losses	(504,317)	(104,916)	707,068	175,275
Non-interest income	793,978	695,229	519,892	960,059
Non-interest expense	1,488,527	1,247,273	1,224,342	1,127,510
Income (loss) before income tax expense or benefit	(1,198,866)	(656,960)	2,618	7,824
Income tax expense (benefit)	(425,490)	(174,537)	50,160	64,373
Net loss	¥ (773,376)	¥ (482,423)	¥ (47,542)	¥ (56,549)
Amounts per share:				
Loss per common share—basic	¥(141,127.01)	¥(87,953.14)	¥ (9,663.81)	¥(11,797.27)
Loss per common share—assuming dilution	¥(141,127.01)	¥(87,953.14)	¥ (9,663.81)	¥(11,797.27)
Number of shares used to calculate loss per share (thousands of shares):				
—Loss per common share—basic	5,480	5,485	5,485	5,500
—Loss per common share—assuming dilution	5,480	5,485	5,485	5,500
Cash dividends declared during the year (historical):				
—Common share issued by BTM	¥ 8.50	¥ 8.50	¥ 8.50	¥ 8.50
—Common share issued by Mitsubishi Trust	8.00	8.00	7.50	7.00
—Preferred share issued by BTM	—	—	57.12	82.50
—Preferred share issued by Mitsubishi Trust	—	—	8.15	16.20
Balance sheet data at year-end:				
Total assets	¥101,273,096	¥86,392,525	¥84,996,000	¥93,488,950
Loans, net of allowance for credit losses	56,864,082	53,215,070	48,563,172	47,953,919
Total liabilities	97,762,900	82,923,595	80,981,592	90,287,654
Deposits	64,157,285	56,094,893	54,777,171	60,105,742
Shareholders' equity	3,510,196	3,468,930	4,014,408	3,201,296
Average balances:				
Interest-earning assets	¥ 94,209,422	¥90,683,194	¥83,166,023	¥83,396,382
Interest-bearing liabilities	86,642,633	84,033,397	74,566,168	75,749,784
Total assets	99,723,902	96,090,045	86,620,645	89,341,483
Shareholders' equity	3,848,452	3,356,754	3,599,596	3,464,251
Return on equity and assets:				
Net loss as a percentage of total average assets	(0.78)%	(0.50)%	(0.05)%	(0.07)%
Net loss as a percentage of average shareholders' equity	(20.10)%	(14.37)%	(1.32)%	(1.63)%
Dividends per common share as a percentage of earnings per common share —basic	nm	nm	nm	nm
Average shareholders' equity as a percentage of total average assets	3.86%	3.49%	4.16%	3.88%
Net interest income as a percentage of total average interest-earning assets	1.03%	1.25%	1.30%	1.17%
Credit quality data:				
Allowance for credit losses	¥ 1,281,091	¥ 1,813,680	¥ 1,486,212	¥ 1,716,984
Allowance for credit losses as a percentage of loans	2.20%	3.30%	2.97%	3.46%
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 2,282,529	¥ 3,477,768	¥ 2,844,915	¥ 4,272,794
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	3.93%	6.32%	5.68%	8.60%
Net loan charge-offs	¥ 1,765,356	¥ 663,453	¥ 679,736	¥ 598,362
Net loan charge-offs as a percentage of average loans	3.01%	1.15%	1.30%	1.21%
Average interest rate spread	0.84%	1.10%	1.14%	1.01%
Risk-adjusted capital ratio calculated under Japanese GAAP (historical):				
—BTM	8.53%	10.47%	11.46%	9.69%
—Mitsubishi Trust	10.35%	11.65%	11.27%	12.06%

nm = not meaningful

Selected financial data set forth above (except for cash dividends and risk-adjusted capital ratio information) present the unaudited pro forma combined results of The Bank of Tokyo-Mitsubishi, Ltd. ("BTM") and The Mitsubishi Trust and Banking Corporation ("Mitsubishi Trust") as if the combination of BTM and Mitsubishi Trust had been in effect for all periods presented. See "Unaudited Pro Forma Combined Condensed Financial Statements."

THE BANK OF TOKYO-MITSUBISHI, LTD. AND
THE MITSUBISHI TRUST AND BANKING CORPORATION

Unaudited Pro Forma Combined Condensed Financial Statements

The following Unaudited Pro Forma Combined Condensed Balance Sheet as of March 31, 2001 and the Unaudited Pro Forma Condensed Statements of Operations for each of the three years in the period ended March 31, 2001 combine the historical consolidated balance sheets and consolidated statements of operations of The Bank of Tokyo-Mitsubishi, Ltd. and its subsidiaries (''BTM Group'') and The Mitsubishi Trust and Banking Corporation and its subsidiaries (''Mitsubishi Trust Group''), giving effect of the business combination, which has been accounted for as a pooling of interests, after reflecting the pro forma adjustments described in the Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

The Unaudited Pro Forma Combined Condensed Balance Sheet gives effect to the business combination as if it had been effective on March 31, 2001. The Unaudited Pro Forma Combined Condensed Statements of Operations give effect to the business combination as if it had been effective as of the beginning of the three years in the period ended March 31, 2001. This information should be read in conjunction with the historical consolidated financial statements of BTM Group and Mitsubishi Trust Group, including their respective notes thereto, which have been prepared in accordance with US GAAP.

The unaudited pro forma financial information is not necessarily indicative of the financial position or results of operations that would have occurred had the business combination been made at the beginning of the periods presented or the future results of the combined operations. See ''Integration of Operations with The Mitsubishi Trust and Banking Corporation.''

THE BANK OF TOKYO-MITSUBISHI, LTD. AND
THE MITSUBISHI TRUST AND BANKING CORPORATION

Unaudited Pro Forma Combined Condensed Balance Sheet

	At March 31, 2001			
	BTM Historical	Mitsubishi Trust Historical	Pro Forma Adjustments	Pro Forma Combined
	(in millions)			
ASSETS				
Cash and due from banks	¥ 1,545,714	¥ 184,321	¥ (367)[1]	¥ 1,729,668
Interest-earning deposits in other banks	5,621,870	723,612	(333,521)[1] 2,944[4]	6,014,905
Call loans and funds sold	1,740,392	108,357	(20,000)[1]	1,828,749
Receivables under resale agreements	1,129,850	304,863	(6,225)[1]	1,428,488
Receivables under securities borrowing transactions	2,008,830	26,401	(96,731)[1]	1,938,500
Trading account assets	6,591,713	577,345	(25,749)[1]	7,143,309
Investment securities:				
Securities available for sale	16,201,297	5,624,181	(89,333)[1][2] (5,230)[4]	21,730,915
Securities being held to maturity	—	306,207		306,207
Other investment securities	111,584	77,075	(20,112)[4]	168,547
Total investment securities	16,312,881	6,007,463	(114,675)	22,205,669
Loans, net of unearned income and deferred loan fees	40,175,155	9,548,700	(52,952)[1]	49,670,903
Allowance for credit losses	(1,385,010)	(332,053)	79[1]	(1,716,984)
Net loans	38,790,145	9,216,647	(52,873)	47,953,919
Premises and equipment—net	518,865	170,798		689,663
Accrued interest	261,244	59,311	(3,614)[1]	316,941
Customers' acceptance liability	43,552	—		43,552
Other assets	1,811,847	394,218	(13,699)[1] (4,810)[3] 8,031[4]	2,195,587
Total	¥76,376,903	¥17,773,336	¥(661,289)	¥93,488,950

(continued)

See Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD. AND
THE MITSUBISHI TRUST AND BANKING CORPORATION

	At March 31, 2001			
	BTM Historical	Mitsubishi Trust Historical	Pro Forma Adjustments	Pro Forma Combined
	(in millions)			
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Domestic offices:				
Non-interest-bearing	¥ 2,739,489	¥ 144,880	¥ (338)(1)	¥ 2,884,031
Interest-bearing	33,550,848	9,519,667	(5,588)(1)	43,064,927
Overseas offices:				
Non-interest-bearing	1,674,409	1,131	(29)(1)	1,675,511
Interest-bearing	11,174,278	1,634,928	(327,933)(1)	12,481,273
Total deposits	49,139,024	11,300,606	(333,888)	60,105,742
Debentures	3,410,789	—	(6,378)(1)	3,404,411
Call money and funds purchased	2,319,624	58,412	(20,000)(1)	2,358,036
Payables under repurchase agreements	2,512,776	540,067	(6,225)(1)	3,046,618
Payables under securities lending transactions	3,208,837	210,598	(96,731)(1)	3,322,704
Due to trust account and other short-term borrowings	2,015,360	3,804,149	(16,800)(1)	5,802,709
Trading account liabilities	3,951,577	144,164	(22,934)(1)	4,072,807
Obligations to return securities received as collateral	295,694	—		295,694
Bank acceptances outstanding	43,552	—		43,552
Accrued interest	293,094	99,821	(3,614)(1)	389,301
Long-term debt	4,431,173	572,159	(39,877)(1)	4,963,455
Other liabilities	2,345,287	161,387	(13,642)(1) 5,347(3) (15,754)(4)	2,482,625
Total liabilities	73,966,787	16,891,363	(570,496)	90,287,654
Shareholders' equity:				
Capital stock:				
Preferred stock	122,100	100,000		222,100
Common stock	663,870	192,794		856,664
Capital surplus	592,051	245,952	(6,898)(5)	831,105
Retained earnings:				
Appropriated for legal reserve	179,099	42,590		221,689
Unappropriated	232,677	26,296	19,366(1)(2)(5) (6,027)(3) 1,559(4)	273,871
Accumulated other changes in equity from nonowner sources, net of taxes	620,701	274,363	9,241(1)(2) 628(3) (134)(4)	904,799
Total	2,410,498	881,995	17,735	3,310,228
Less treasury stock—at cost	382	22	108,528(2)	108,932
Shareholders' equity—net	2,410,116	881,973	(90,793)	3,201,296
Total	¥76,376,903	¥17,773,336	¥(661,289)	¥93,488,950

See Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD. AND
THE MITSUBISHI TRUST AND BANKING CORPORATION

Unaudited Pro Forma Combined Condensed Statement of Operations

	For the Year Ended March 31, 1999			
	BTM Historical	Mitsubishi Trust Historical	Pro Forma Adjustments	Pro Forma Combined
		(in millions)		
Interest income:				
Loans, including fees	¥1,598,366	¥ 251,395	¥ (267)(1)	¥1,849,494
Deposits in other banks	223,915	51,287	(19,331)(1)	255,871
Investment securities:				
Interest	270,001	134,880	(159)(1)	404,722
Dividends	47,107	20,635	(954)(1)	66,788
Trading account assets	29,789	3,403	(122)(1)	33,070
Call loans and funds sold	55,717	11,021	(181)(1)	66,557
Receivables under resale agreements and securities borrowing transactions	117,405	18,723	(992)(1)	135,136
Total	2,342,300	491,344	(22,006)	2,811,638
Interest expense:				
Deposits	861,480	205,900	(19,453)(1)	1,047,927
Debentures	66,818	—	(159)(1)	66,659
Call money and funds purchased	36,484	4,637	(181)(1)	40,940
Payables under repurchase agreements and securities lending transactions	152,791	28,832	(992)(1)	180,631
Due to trust account, other short-term borrowings and trading account liabilities	103,255	44,555	(81)(1)	147,729
Long-term debt	181,721	12,133	(186)(1)	193,668
Total	1,402,549	296,057	(21,052)	1,677,554
Net interest income	939,751	195,287	(954)	1,134,084
Provision for credit losses	919,427	319,621	(48)(1)	1,239,000
Net interest income (loss) after provision for credit losses	20,324	(124,334)	(906)	(104,916)
Non-interest income:				
Fees and commissions	256,281	129,633		385,914
Foreign exchange gains—net	80,059	—	(80,059)	—
Trading account profits—net	112,987	120,245		233,232
Investment securities gains—net	—	11,056	(11,056)	—
Gain from sales of equity investments in a subsidiary	26,105	—		26,105
Other non-interest income	38,989	9,965	1,024 (4)	49,978
Total	514,421	270,899	(90,091)	695,229
Non-interest expense:				
Salaries and employee benefits	400,570	82,446		483,016
Occupancy expenses—net	107,291	29,259		136,550
Foreign exchange losses—net	—	123,598	(80,059)	43,539
Investment securities losses—net	50,437	—	(11,056)	39,381
Losses on other real estate owned	56,090	1,228		57,318
Goodwill amortization and impairment	62,648	1,841	(56)(4)	64,433
Other non-interest expenses	345,463	77,216	357 (4)	423,036
Total	1,022,499	315,588	(90,814)	1,247,273
Loss before income tax benefit	(487,754)	(169,023)	(183)	(656,960)
Income tax benefit	(143,331)	(32,738)	24 (1) 1,005 (3) 503 (4)	(174,537)
Net loss	¥ (344,423)	¥(136,285)	¥ (1,715)	¥ (482,423)
		(in yen)		
Earnings per share(6):				
Loss per common share—basic	(73.67)	(104.65)		(87,953.14)
Loss per common share—assuming dilution	(73.67)	(104.65)		(87,953.14)
Number of shares used to calculate loss per share (thousands of shares):				
Loss per common share—basic	4,675,446	1,302,256		5,485
Loss per common share—assuming dilution	4,675,446	1,302,256		5,485

See Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD. AND
THE MITSUBISHI TRUST AND BANKING CORPORATION

Unaudited Pro Forma Combined Condensed Statement of Operations

	For the Year Ended March 31, 2000			
	BTM Historical	Mitsubishi Trust Historical	Pro Forma Adjustments	Pro Forma Combined
	(in millions)			
Interest income:				
Loans, including fees	¥1,293,344	¥ 201,019	¥ (292)(1)	¥1,494,071
Deposits in other banks	105,911	35,242	(4,823)(1)	136,330
Investment securities:				
Interest	224,394	102,660	(134)(1)	326,920
Dividends	54,553	19,618	(925)(1)	73,246
Trading account assets	13,112	2,594		15,706
Call loans and funds sold	17,788	4,051	(132)(1)	21,707
Receivables under resale agreements and securities borrowing transactions	77,926	20,330	(593)(1)	97,663
Total	1,787,028	385,514	(6,899)	2,165,643
Interest expense:				
Deposits	491,133	113,797	(4,823)(1)	600,107
Debentures	51,852	—	(134)(1)	51,718
Call money and funds purchased	15,187	1,013	(132)(1)	16,068
Payables under repurchase agreements and securities lending transactions	82,988	26,994	(593)(1)	109,389
Due to trust account, other short-term borrowings and trading account liabilities	82,574	34,377	(189)(1)	116,762
Long-term debt	176,927	15,258	(103)(1)	192,082
Total	900,661	191,439	(5,974)	1,086,126
Net interest income	886,367	194,075	(925)	1,079,517
Provision for credit losses	368,639	3,793	17 (1)	372,449
Net-interest income after provision for credit losses	517,728	190,282	(942)	707,068
Non-interest income:				
Fees and commissions	256,219	112,937		369,156
Foreign exchange gains—net	117,330	—	(84,752)	32,578
Investment securities gains—net	132,518	—	(52,673)	79,845
Other non-interest income	33,042	5,192	79 (4)	38,313
Total	539,109	118,129	(137,346)	519,892
Non-interest expense:				
Salaries and employee benefits	344,970	84,433		429,403
Occupancy expenses—net	101,181	28,930		130,111
Foreign exchange losses—net	—	84,752	(84,752)	—
Trading account losses—net	18,475	124,590		143,065
Investment securities losses—net	—	52,673	(52,673)	—
Losses on other real estate owned	68,438	1,762		70,200
Goodwill amortization and impairment	3,486	—	(624)(4)	2,862
Other non-interest expenses	391,177	57,868	(344)(4)	448,701
Total	927,727	435,008	(138,393)	1,224,342
Income (loss) before income tax expense or benefit	129,110	(126,597)	105	2,618
Income tax expense (benefit)	93,635	(43,267)	(8)(1) (228)(3) 28 (4)	50,160
Net income (loss)	¥ 35,475	¥ (83,330)	¥ 313	¥ (47,542)
Net income attributable to preferred shareholders	¥ 4,649	¥ 815		¥ 5,464
Net income (loss) attributable to common shareholders	¥ 30,826	¥ (84,145)	¥ 313	¥ (53,006)
	(in yen)			
Earnings per share(6):				
Earnings (loss) per common share—basic	6.59	(64.61)		(9,663.81)
Earnings (loss) per common share—assuming dilution	3.73	(64.61)		(9,663.81)
Number of shares used to calculate earnings (loss) per share (thousands of shares):				
Earnings (loss) per common share—basic	4,675,442	1,302,255		5,485
Earnings (loss) per common share—assuming dilution	4,822,435	1,302,255		5,485

See Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD. AND THE MITSUBISHI TRUST AND BANKING CORPORATION

Unaudited Pro Forma Combined Condensed Statement of Operations

	For the Year Ended March 31, 2001			
	BTM Historical	Mitsubishi Trust Historical	Pro Forma Adjustments	Pro Forma Combined
	(in millions)			
Interest income:				
Loans, including fees	¥1,275,666	¥ 201,343	¥ (800)(1)	¥1,476,209
Deposits in other banks	207,263	42,476	(13,113)(1)	236,626
Investment securities:				
Interest	201,217	104,651	(36)(1)	305,832
Dividends	43,519	20,227	(897)(1)	62,849
Trading account assets	14,998	1,964	(8)(1)	16,954
Call loans and funds sold	25,726	3,003	(230)(1)	28,499
Receivables under resale agreements and securities borrowing transactions	128,320	28,066	(381)(1)	156,005
Total	1,896,709	401,730	(15,465)	2,282,974
Interest expense:				
Deposits	637,732	149,893	(13,113)(1)	774,512
Debentures	32,296	—	(11)(1)	32,285
Call money and funds purchased	22,366	316	(230)(1)	22,452
Payables under repurchase agreements and securities lending transactions	205,302	33,312	(381)(1)	238,233
Due to trust account, other short-term borrowings and trading account liabilities	37,128	28,220	(293)(1)	65,055
Long-term debt	165,231	13,390	(540)(1)	178,081
Total	1,100,055	225,131	(14,568)	1,310,618
Net interest income	796,654	176,599	(897)	972,356
Provision for credit losses	665,954	131,142	(15)(1)	797,081
Net interest income after provision for credit losses	130,700	45,457	(882)	175,275
Non-interest income:				
Fees and commissions	341,649	119,051	(1,297)(1)	459,403
Trading account profits—net	195,171	34,452	(115)(1)	229,508
Investment securities gains—net	94,360	114,290	23,827 (2)(5) 25 (4)	232,502
Other non-interest income	33,953	4,612	(307)(1) 388 (4)	38,646
Total	665,133	272,405	22,521	960,059
Non-interest expense:				
Salaries and employee benefits	327,443	76,290	6 (4)	403,739
Occupancy expenses—net	105,307	32,066		137,373
Foreign exchange losses—net	49,730	54,887		104,617
Losses on other real estate owned	15,828	606		16,434
Goodwill amortization and impairment	4,444	—		4,444
Other non-interest expenses	394,793	67,779	(1,518)(1) (151)(4)	460,903
Total	897,545	231,628	(1,663)	1,127,510
Income (loss) before income tax expense	(101,712)	86,234	23,302	7,824
Income tax expense	5,972	49,360	4,273 (1)(5) 4,641 (3) 127 (4)	64,373
Net income (loss)	¥ (107,684)	¥ 36,874	¥14,261	¥ (56,549)
Net income attributable to preferred shareholders	¥ 6,716	¥ 1,620		¥ 8,336
Net income (loss) attributable to common shareholders	¥ (114,400)	¥ 35,254	¥14,261	¥ (64,885)
	(in yen)			
Earnings per share(6):				
Earnings (loss) per common share—basic	(24.47)	27.07		(11,797.27)
Earnings (loss) per common share—assuming dilution	(24.47)	23.58		(11,797.27)
Number of shares used to calculate earnings (loss) per share (thousands of shares):				
Earnings (loss) per common share—basic	4,675,251	1,302,253		5,500
Earnings (loss) per common share—assuming dilution	4,675,251	1,564,033		5,500

See Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD. AND
THE MITSUBISHI TRUST AND BANKING CORPORATION

Notes to Unaudited Pro Forma Combined Condensed Financial Statements

(1) Adjustments to eliminate balances and transactions between BTM Group and Mitsubishi Trust Group included in the historical consolidated financial statements for the periods set forth therein.

(2) Adjustments to eliminate the cross-holding common shares of BTM and Mitsubishi Trust, aggregating ¥81,801 million included in investment securities available for sale in each bank's consolidated balance sheet, together with the related net unrealized losses on BTM's shares of ¥9,312 million included in accumulated other changes in equity from nonower sources (net of taxes) in the Mitsubishi Trust's consolidated balance sheet and the impairment losses on Mitsubishi Trust's shares of ¥12,657 million recognized in the BTM's statement of operations for the year ended March 31, 2001, and to record these cross-holding shares as treasury stock at cost.

(3) Adjustments to eliminate the income tax effect on the unrealized losses included in and the impairment loss recognized on the cross-shareholdings of common stock by BTM and Mitsubishi Trust eliminated by the adjustments described in Note (2).

(4) Adjustments to reflect the combined interests in consolidated subsidiaries and equity method investees, including amortization of goodwill and changes in minority interest, together with related income tax effect.

(5) Adjustments to eliminate losses on sales of the cross-shareholding common shares of ¥11,170 million and the related current income tax benefit of ¥4,272 million, and to record the losses on such sales, net of taxes, as capital transactions.

(6) Loss per common share are calculated based on pro forma combined income or loss attributable to common shareholders. For the years ended March 31, 1999, 2000 and 2001, the number of outstanding common shares and potential common shares with dilutive effect were calculated as if the business combination had taken place at the beginning of each period, giving effect to the stock-for-stock exchange of 1,000 BTM common shares and 1,000 Mitsubishi Trust common shares, in each case, for 1 common share and 0.70 common shares of Mitsubishi Tokyo Financial Group, Inc., effected under the Commercial Code of Japan, and treasury shares resulting from the cross-shareholdings by BTM and Mitsubishi Trust.

CROSS REFERENCE INDEX FOR FORM 20-F

The Securities and Exchange Commission has not approved or disapproved this Annual Report on Form 20-F nor has the Commission passed upon its accuracy or adequacy.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE BANK OF TOKYO-MITSUBISHI, LTD.
(Registrant)

By /s/ SHIGEMITSU MIKI
Shigemitsu Miki
President

Date: June 27, 2001