INTERIM FINANCIAL STATEMENT

*April 2000–
September 2000*

Bank of Tokyo-Mitsubishi

The Bank of Tokyo-Mitsubishi, Ltd. (BTM), is Japan's premier bank. BTM's domestic network comprises more than 300 branches, sub-branches, and agencies. Overseas, the Bank of Tokyo-Mitsubishi Group consists of nearly 400 facilities located in all the major financial and commercial centers of the world.

The Group offers an extensive scope of financial products and services to businesses, governments, and private individuals. It provides a full spectrum of commercial, investment, and trust banking products and services through its global subsidiaries.

BTM is widely recognized for the quality of its assets and for its distinction as the only Japanese bank listed on the New York Stock Exchange. Its commitment to fulfilling its responsibilities as a global corporate citizen has also achieved positive recognition.

The Bank of Tokyo-Mitsubishi is one of Japan's most broadly owned corporations. Its shares are listed in Japan on the Tokyo, Osaka, Kyoto, and Sapporo stock exchanges and overseas on the New York and London stock exchanges. At the end of December 2000, BTM delisted its shares from the Paris and Swiss stock exchanges in connection with the formation of a new holding company.

Contents

This document contains statements that constitute forward-looking information. Such forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. A number of important factors could cause actual results to differ materially from those in the forward-looking statements.

Financial Highlights and Ratios (Unaudited)

Yen: in billions except per share data and percentages
U.S. dollars: in millions except per share data and percentages

Net interest income
Provision for credit losses
Non-interest income
Non-interest expenses
Income taxes
Net income
Amounts per share:
Earnings per common share—basic
Earnings per common share—assuming dilution
Cash dividends declared during the period—common share
Cash dividends declared during the period—preferred share (class 1)
At September 30:
Total assets
Loans, net of allowance for credit losses
Total liabilities
Deposits
Shareholders' equity
Average balances:
Total assets
Interest-earning assets
Interest-bearing liabilities
Shareholders' equity
Ratios:
Net income as a percentage of total average assets**
Net income as a percentage of average shareholders' equity**
Net interest income as a percentage of total average interest-earning assets**
Average shareholders' equity as a percentage of total average assets
Credit quality data at September 30:
Allowance for credit losses
Allowance for credit losses as a percentage of loans
Nonaccrual loans
Restructured loans
Accruing loans contractually past due 90 days or more
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans
Allowance for credit losses as a percentage of nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more

**The U.S. dollar amounts represent translations, for the convenience of readers, of yen amounts at the rate of ¥107.90 = US$1, the approximate rate of exchange on September 29, 2000.*
***Annualized.*

Six months ended September 30,		
1999	2000	
Yen	**Yen**	**U.S. Dollars***
¥ 472	**¥ 431**	**$ 3,995**
207	**257**	**2,384**
312	**352**	**3,260**
509	**448**	**4,153**
10	**46**	**431**
57	**31**	**287**
¥ 11.99	**¥ 5.91**	**5.48¢**
8.80	**5.91**	**5.48**
4.25	**4.25**	**3.94**
15.87	**41.25**	**38.23**
¥73,605	**¥73,622**	**$682,319**
40,973	**38,461**	**356,455**
70,670	**70,907**	**657,157**
46,357	**45,001**	**417,064**
2,935	**2,715**	**25,161**
¥72,665	**¥76,767**	**$711,466**
66,742	**67,478**	**625,377**
59,516	**59,369**	**550,220**
2,747	**2,953**	**27,371**
0.16%	**0.08%**	**0.08%**
4.16	**2.09**	**2.09**
1.41	**1.27**	**1.27**
3.78	**3.85**	**3.85**
¥ 1,211	**¥ 1,183**	**$ 10,961**
2.87%	**2.98%**	**2.98%**
¥ 1,688	**¥ 1,324**	**$ 12,269**
343	**716**	**6,639**
54	**76**	**707**
4.94%	**5.34%**	**5.34%**
58.12%	**55.88%**	**55.88%**

Letter to Shareholders

The Bank of Tokyo-Mitsubishi, Ltd. (BTM), made steady progress toward its strategic objectives during the first six months of the fiscal year, ended September 30, 2000. While interim results declined compared with the same period the previous year, we further streamlined our operations, implemented new information technology, and strengthened our balance sheet.

Competition in the banking industry intensified. Eased regulations in Japan are enabling banks to enter insurance areas and nonbanks to further expand into retail and commercial banking. Growth in information technology, meanwhile, brought new capabilities for customers and investors. Consolidation also progressed—Japan's top banks, including BTM, accelerated toward forming four major banking groups, while mergers among major foreign financial institutions continued.

This rapidly evolving, highly competitive environment presented BTM with challenges and opportunities. We are confident that the achievements detailed in this report helped position BTM to capitalize on its strengths.

Financial Results

The BTM Group recorded net income of ¥31.0 billion ($287.2 million) for the first six months, down 46.0% compared with the same period in fiscal 1999. This decrease was primarily due to a decrease in net interest income, an increase in provision for credit losses, and a decrease in net foreign exchange gains. These effects were partially offset by increases in net trading account profits and in net investment securities gains, and by a decrease in non-interest expenses.

Net interest income, our core earnings, totaled ¥431.1 billion ($3,995.0 million), a decrease of ¥41.0 billion compared with the same period the previous year mainly due to a lower interest rate margin. Fees and commissions, on the other hand, rose ¥16.7 billion, to ¥139.1 billion ($1,289.2 million), reflecting a strengthening of our fee-earning businesses.

Our provision for credit losses increased ¥49.9 billion, to ¥257.2 billion ($2,383.8 million), from the same period of the previous year, primarily because of an increase in impaired loans.

BTM's risk-adjusted capital ratio, calculated using generally accepted accounting principles in Japan (Japanese GAAP), decreased to 11.07% at September 30, 2000, from 11.46% on March 31, 2000. Our Tier 1 ratio stood at 5.55%, compared with 5.73%. These declines reflected a revised accounting standard for foreign currency transactions under Japanese GAAP.

Despite a challenging environment, BTM worked to efficiently manage its assets during the period. We remain committed to furthering these efforts in the future.

Progress on Strategy

In September, we announced our second long-term business plan, under the slogan, "Meet the challenge of reform." This plan covers the period to March 2003 and seeks to transform BTM into a world-class financial institution for the 21st century.

Mission 21, the comprehensive, Groupwide business strategy that we announced in September 1999, was a key area of progress.

It strives to position BTM to better compete in all its core businesses, domestically and overseas. In July 2000, we modified our organizational structure by introducing a business unit system throughout BTM. Each of the eight business units formed has specific responsibility and authority, supported by our Corporate Center.

Through the retail banking and commercial banking business units, we furthered our multichannel strategy and restructuring of our domestic branch network. This restructuring is on track for completion by spring 2001.

We also expanded our ATM network into convenience stores, and in line with Mission 21's priority on IT leadership we continued to aggressively promote our telephone, i-mode, and internet banking service, Tokyo-Mitsubishi Direct. We are determined to enhance these services and to take advantage of new banking technology to offer more industry-leading initiatives.

In investment banking, we have strengthened our capabilities through alliances. Since entering a business affiliation agreement with Kokusai Securities Co., Ltd. in December 1999, a variety of businesses have notably benefited. Kokusai Securities lent significant sales support to several IPOs lead managed by Tokyo-Mitsubishi Securities Co., Ltd. during the interim period. Additionally, a fund set up by Tokyo-Mitsubishi Asset Management Ltd. in cooperation with Kokusai Securities, and available only through the latter, attracted more than ¥80 billion in assets in its first six months. In November 2000, we increased our stake in Kokusai Securities to 32.8%.

By far the most significant of our initiatives is the planned management integration of BTM with The Mitsubishi Trust and Banking Corporation and Nippon Trust Bank Limited under a new holding company, Mitsubishi Tokyo Financial Group, Inc. (MTFG). Since making this landmark announcement in April 2000, the three banks have undertaken a series of tasks to complete integration in April 2001. We recently announced MTFG's organizational details and financial targets, including return on equity of around 12% and a BIS capital ratio of around 12%. MTFG will list on the Tokyo, Osaka, New York, and London stock exchanges.

The establishment of MTFG, approved by shareholders on December 21, 2000, but subject to regulatory approval, represents an exciting opportunity to add considerable value. It brings the product and service lines of each partner together to enhance our overall revenue base and productivity. MTFG will leverage the enormous combined client franchise of its partners to diversify its income sources and increase its profitability, while shared infrastructure and systems will help reduce costs and inefficiencies.

BTM is determined to heighten its status as the premier Japanese bank and as the best investment opportunity among its peers. We are confident that we can deliver performance to match our potential and look forward to your continued support.

Tokyo
December 2000

S. Kishi

Satoru Kishi
Chairman

S. Miki

Shigemitsu Miki
President

Topics

BTM's second long-term business plan covers the most recent interim period to March 2003. While continuing to implement Mission 21 and the management integration with The Mitsubishi Trust and Banking Corporation (MTBC), the plan outlines our commitment to improve our financial position and revamp our operational portfolio by strengthening investment banking, asset management, and other fee-earning business. With a clear focus on shareholder value, we aim to match the profitability and capital levels of the world's other leading financial institutions.

Mitsubishi Tokyo Financial Group

A number of organizational details were announced regarding BTM's planned integration of operations with MTBC and Nippon Trust Bank Limited, under a new holding company Mitsubishi Tokyo Financial Group, Inc. (MTFG).

- MTFG will be established on Monday, April 2, 2001, with statutory capital of ¥1,146.5 billion, based on the current aggregated capital of the three participating banks.
- A chairman, a president, and three senior managing directors will form an executive committee under the aegis of MTFG's board, which will comprise 11 members, of which two will be outside directors.
- Four main committees will support the executive committee. An advisory board made up of outside experts will also be established to advise the executive committee.
- The number of employees in MTFG will be around 90.
- MTFG seeks to realize synergies worth at least ¥40 billion, net of integration costs, in fiscal year 2003.
- Financial targets for MTFG for the fiscal year 2003 include consolidated net profit of ¥490 billion, consolidated ROE of around 12%, BIS capital ratio of around 12%, and Tier 1 ratio of around 7.5% (Japanese GAAP basis).
- MTFG will apply for stock exchange listing in Tokyo, Osaka, New York, and London.

The establishment of an integrated holding company by transfer of shares was approved at extraordinary meetings of shareholders of the three participating banks on December 21, 2000, subject to regulatory approval.

Retail Initiatives

During the period under review, BTM concentrated on further streamlining its branch operations and on introducing new technology to meet evolving demand. Through our multichannel strategy, we have sought to increase customer service and satisfaction by developing our direct channels and by providing convenient access to consulting and other high-value-added services in remodeled premises. By the end of November, we had expanded our E-net ATM services into 570 more Japanese convenience stores, while our telephone, i-mode, and internet banking service, Tokyo-Mitsubishi Direct, grew to boast almost 600,000 customers by early December. We have added an e-payment service to its capabilities to facilitate payments for some services offered by various companies.

BTM also unveiled several new retail products. We are expanding our investment trust business, aiming to handle ITM products at all domestic branches by the spring of 2001. Specialized life-planning desks are also being set up at some branches. MV (Master Vision), an investment trust fund series initiated by BTM, was launched in December. Managed by Tokyo-Mitsubishi Asset Management Ltd., MV features multi-manager funds of Frank Russell Investments (Japan), Ltd. During the term, BTM also became Japan's first bank to launch a two-year U.S. dollar time deposit.

Global Corporate and Investment Banking

The Group continued to fulfill the growing needs of its corporate and investment banking customers. Tokyo-Mitsubishi Securities Co., Ltd., an investment banking Group subsidiary, maintained its leading position and became the first bank-owned house to lead manage an IPO. BTM also increased its investment in Kokusai Securities Co., Ltd., to 32.8%, and began discussions aimed at coordinating that firm's securities business with that of the BTM Group. Tokyo-Mitsubishi TD Waterhouse Securities Co., Ltd., a joint venture aimed at self-directed online investors, launched its services in July.

In Samurai issues, BTM far exceeded its rivals by being appointed either Representative Commissioned Company for Bondholders or fiscal agent for well over half of all bonds launched during the period. We retained our leadership in a surging syndicated loan market, and in project finance arranged several milestone transactions in the oil field, electric power, and Japanese PFI areas. BTM continued to play a leading role in Japan's rapidly expanding mergers and acquisitions market, and entered into a strategic alliance with Vision Capital Corporation to pursue private equity investment opportunities.

BTM joined FXall, a 24-hour multi-dealer foreign exchange web site, to further improve currency trading efficiency. We also joined CFOWeb.com and SwapsWire, the B2B e-commerce portal for capital markets. We leveraged our financial engineering expertise to market weather derivatives products. BTM also retained its distinction as the top Japanese custodian bank in both size and quality.

Corporate Citizenship

BTM endeavors to contribute to society in each of the regions it does business. Examples of our activities in Japan and abroad include participation in various aid programs, supporting children's welfare, and funding scholarships for students.

On September 12, 2000, BTM's subsidiary Union Bank of California, N.A. (UBOC), received the U.S. Labor Department's highest honor for outstanding employment practices, the Opportunity 2000 award. UBOC is the first Japanese-owned company to receive this long-standing annual award. Opportunity 2000 recognizes the company that best demonstrates commitment to the employment of women, minorities, and individuals with disabilities.

Financial Review

Selected Income Statement Data (Unaudited)

(in millions except per share data)

Interest income
Interest expense
Net interest income
Provision for credit losses
Net interest income after provision for credit losses
Non-interest income
Non-interest expenses
Income before income taxes
Income taxes
Net income
Amounts per share:
Earnings per common share—basic
Earnings per common share—assuming dilution
Cash dividends declared during the period—common share
Cash dividends declared during the period—preferred share (class 1)

Introduction

The Bank of Tokyo-Mitsubishi, Ltd. (the "Bank"), provides financial services through its domestic and overseas offices, subsidiaries, and affiliates in global markets that are influenced by many unpredictable factors, including economic conditions, monetary policy, and market liquidity. Operations are affected by external factors, such as unexpected failures of customers and counterparties, the level and volatility of interest rates, currency exchange rates, securities and real estate markets, and other economic and market conditions. Accordingly, operating results may vary significantly from period to period because of unpredictable events.

Integration of Operations under Holding Company: Mitsubishi Tokyo Financial Group

On September 13, 2000, the Bank, The Mitsubishi Trust and Banking Corporation, and Nippon Trust Bank Limited, the Bank's subsidiary, agreed to proceed with the integration of their operations. The integration will be effected through the establishment of a holding company on April 2, 2001. The holding company will be known as Mitsubishi Tokyo Financial Group, Inc. One common share of the holding company will be issued in exchange for each 1,000 common shares of the Bank, 0.7 common share of the holding company will be issued in exchange for each 1,000 common shares of The Mitsubishi Trust and Banking Corporation, and 0.14 common share of the holding company will be issued in exchange for each 1,000 common shares of Nippon Trust Bank Limited. Each bank obtained the approval of their shareholders in December 2000, although the

Six months ended September 30,	
1999	**2000**
¥933,549	**¥921,951**
461,474	**490,891**
472,075	**431,060**
207,259	**257,216**
264,816	**173,844**
311,702	**351,738**
509,159	**448,136**
67,359	**77,446**
10,014	**46,453**
¥ 57,345	**¥ 30,993**
(in yen)	
¥11.99	**¥ 5.91**
8.80	**5.91**
4.25	**4.25**
15.87	**41.25**

integration is subject to the final approvals of relevant authorities. The business combination involving the Bank and The Mitsubishi Trust and Banking Corporation is expected to be accounted for under the "pooling of interests" method and, accordingly, the historical consolidated financial statements of the Bank and The Mitsubishi Trust and Banking Corporation presented in future reports will be restated to include the accounts and results of the holding company. Set forth below is the selected financial data of The Mitsubishi Trust and Banking Corporation as of March 31, 2000 (audited), and September 30, 2000 (unaudited), and for the six-month periods ended September 30, 1999 and 2000 (unaudited), which was derived from Japanese GAAP consolidated financial statements.

(in billions)	March 31, 2000	**Sept. 30, 2000**
Balance sheet data:		
Total assets	¥16,562	**¥17,127**
Deposits	9,805	**10,056**
Shareholders' equity	848	**957**

	Six-month periods ended September 30,	
(in billions)	1999	**2000**
Income statement data:		
Interest income	¥279	**¥246**
Trust fees	27	**31**
Other non-interest income	81	**97**
Interest expense	198	**164**
Non-interest expenses	158	**178**
Net income	14	**23**

Business Environment

Japan's domestic economy is gradually entering a phase of autonomous recovery, supported by an upward trend in private-sector demand. However, there remains substantial uncertainty over the overall economic performance and financial stability of the Japanese economy. The situation surrounding financial institutions, including the Bank, has not fully improved because of continuing business deterioration or failures of borrowers, in particular in the real estate and construction and the wholesale and retail industries. Amid such an environment, the Bank's restructured loans significantly increased during the 2000 interim period in connection with the rehabilitation plans of customers, while its nonaccrual loans decreased. Also, the decline in the Japanese stock and real estate markets have adversely affected Japan's financial institutions, including the performance of the Bank.

The Japanese stock markets experienced a significant downturn during the 2000 interim period, as evidenced by the 22.6% 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 15,747.26 at the end of the 2000 interim period. Since the end of the 2000 interim period, the sluggish equity markets have continued. The Japanese real estate markets have been weak, and real estate prices generally declined further during the 2000 interim period, although there were limited increases in certain commercial property markets in metropolitan areas.

Interest rates in the domestic market remained at a very low level during the 2000 interim period. In August 2000, the central bank removed the zero interest rate policy that had been followed since early 1999. Owing to the central bank's lifting of the zero interest rate policy, money market rates have gradually risen amid uncertainty over future movements in interest rates.

During the 2000 interim period, the exchange rate for the conversion of U.S. dollars into yen hovered around ¥105 to ¥110 per $1.00. The yen gradually depreciated against the U.S. dollar toward the end of the period and closed at ¥107.90 per $1.00 at September 29, 2000, compared with ¥102.73 per $1.00 at the prior year-end. The average exchange rate for the conversion of U.S. dollars into yen in the 2000 interim period was ¥107.17 per $1.00, compared with the 1999 interim period average rate of ¥117.35 per $1.00. As a result, the yen equivalent amount of foreign currency denominated assets and liabilities increased compared with the prior year-end, while yen amounts for transactions denominated in U.S. dollars for the 2000 interim period decreased compared with the 1999 interim period.

The U.S. economy remained strong during the 2000 interim period, although its growth rate has slowed. The U.S. stock markets were very volatile, with significant ups and downs amid growing uncertainty about future performance. The U.S. Federal Reserve Board further increased the overnight lending rate by 50 basis points in May 2000. Also, East Asian countries outside Japan, in particular China, Singapore, Malaysia, and South Korea, are generally showing steady economic growth, with brisk exports of IT-related products and growing individual consumption.

The financial services industry has changed rapidly and fundamentally. The Japanese financial services industry continued its phase of consolidations and mergers. As discussed on page 20F-6 of the 2000 Annual Report, a series of alliances among Japan's major banks will result in four banking groups: our Mitsubishi Tokyo Financial Group; the Mizuho Financial Group formed by the alliance of the Industrial Bank of Japan, Fuji Bank, and Dai-ichi Kangyo Bank; the UFJ Group formed by the merging of Sanwa Bank, Tokai Bank, and Toyo Trust and Banking Co.; and Mitsui Sumitomo Bank formed by the merging of Sumitomo Bank and Sakura Bank. In addition to the consolidations taking place, different sectors outside the financial services industry have entered banking businesses.

Summary

Net income for the 2000 interim period was ¥31.0 billion, a decrease of ¥26.3 billion, or 46.0%, from ¥57.3 billion for the 1999 interim period. Diluted earnings per common share decreased ¥2.89 from ¥8.80 in the 1999 interim period to ¥5.91 in the 2000 interim period.

Income before income tax expense for the 2000 interim period was ¥77.4 billion, an increase of ¥10.0 billion, or 15.0%, from ¥67.4 billion in the 1999 interim period. The following is a summary of the highlights for results of operations in the 2000 interim period compared with the 1999 interim period:

- Net interest income decreased ¥41.0 billion, or 8.7%, from ¥472.1 billion in the 1999 interim period to ¥431.1 billion in the 2000 interim period.
- Provision for credit losses increased ¥49.9 billion, or 24.1%, from ¥207.3 billion in the 1999 interim period to ¥257.2 billion in the 2000 interim period.
- Trading account profits—net increased ¥37.8 billion from ¥15.0 billion in the 1999 interim period to ¥52.8 billion in the 2000 interim period.
- Foreign exchange gains—net decreased ¥73.0 billion from ¥76.3 billion in the 1999 interim period to ¥3.3 billion in the 2000 interim period.
- Investment securities gains—net increased ¥55.3 billion from ¥74.8 billion in the 1999 interim period to ¥130.1 billion in the 2000 interim period.
- Fees and commissions and other non-interest income increased ¥19.9 billion from ¥145.6 billion in the 1999 interim period to ¥165.5 billion in the 2000 interim period.
- Non-interest expenses decreased ¥61.1 billion from ¥509.2 billion in the 1999 interim period to ¥448.1 billion in the 2000 interim period. The decrease mainly resulted from decreases of ¥35.9 billion in losses on other real estate owned, ¥19.3 billion in salaries and employee benefits, and ¥6.1 billion in other non-interest expenses.

Operating Results

Net interest income in the 2000 interim period was ¥431.1 billion, a decrease of ¥41.0 billion, or 8.7%, from ¥472.1 billion in the 1999 interim period. The decrease in net interest income was due primarily to a decreased interest rate margin amid a rising interest rate environment. The negative impact of the interest rate margin was partially offset by an increase in the proportion of funding provided by average non-interest-bearing deposits.

Net interest income as a percentage of average total interest-earning assets decreased 14 basis points from 1.41% in the 1999 interim period to 1.27% in the 2000 interim period. In the 2000 interim period, the average interest rate on total interest-earning assets declined 6 basis points, to 2.73%, and the average interest rate on interest-bearing liabilities increased 10 basis points, to 1.65%.

Total non-interest income in the 2000 interim period was ¥351.7 billion, an increase of ¥40.0 billion, or 12.8%, from ¥311.7 billion in the 1999 interim period. The increase of ¥40.0 billion was due primarily to increases of ¥16.7 billion in fees and commissions, ¥37.8 billion in trading account profits—net, and ¥55.3 billion in investment securities gains—net, partially offset by a decrease of ¥73.0 billion in foreign exchange gains—net.

Fees and commissions in the 2000 interim period were ¥139.1 billion, an increase of ¥16.7 billion, or 13.7%, from ¥122.4 billion in the 1999 interim period. The increase of ¥16.7 billion primarily reflected the inclusion of a full year of fees and commissions of a finance company that was consolidated at the prior year-end.

Net trading account profits in the 2000 interim period were ¥52.8 billion, an increase of ¥37.8 billion from ¥15.0 billion in the 1999 interim period. The net trading account profits primarily include net gains or losses on trading securities and on interest-based derivative instruments entered into for trading and risk management purposes, which do not qualify for hedge accounting. Gains or losses on currency derivative instruments entered into for such purposes are included in foreign exchange gains or losses—net. Generally, interest swap positions are integrated and interactively managed with currency swap positions. The increase of ¥37.8 billion was due primarily to an increase of ¥89.9 billion in profits on interest-based derivative positions under favorable market conditions, partially offset by trading account losses on trading securities. The increase in profits on interest rate swap positions, however, was substantially or in part counterbalanced by decreased gains on currency swap positions, as mentioned below.

Foreign exchange gains—net in the 2000 interim period were ¥3.3 billion, a decrease of ¥73.0 billion from ¥76.3 billion in the 1999 interim period. The decrease was due mainly to decreased gains on currency swap positions entered into for trading and risk management purposes, which do not qualify for hedge accounting.

Investment securities gains—net in the 2000 interim period were ¥130.1 billion, an increase of ¥55.3 billion, or 74.0%, from ¥74.8 billion in the 1999 interim period. The increase of ¥55.3 billion in investment securities gains—net was due primarily to an increase of ¥149.5 billion in net gains on sales of marketable equity securities from ¥123.7 billion in the 1999 interim period to ¥273.2 billion in the 2000 interim period. The increase was partially offset by an increase of ¥91.0 billion for the write-down of certain equity securities to reflect other-than-temporary declines from ¥39.5 billion in the 1999 interim period to ¥130.5 billion in the 2000 interim period.

Other non-interest income in the 2000 interim period was ¥26.4 billion, an increase of ¥3.2 billion, or 13.5%, from ¥23.2 billion in the 1999 interim period. Other non-interest income generally includes rental income, income on interbank refinancing, net gains on sales of property, and other sundry income.

Non-interest expenses in the 2000 interim period were ¥448.1 billion, a decrease of ¥61.1 billion, or 12.0%, from ¥509.2 billion in the 1999 interim period. The decrease of ¥61.1 billion in non-interest expenses reflected decreases of ¥19.3 billion in salaries and employee benefits, ¥35.9 billion in losses on other real estate owned, and ¥6.1 billion in other non-interest expenses.

Salaries and employee benefits in the 2000 interim period were ¥176.0 billion, a decrease of ¥19.3 billion, or 9.9%, from ¥195.3 billion in the 1999 interim period. The decrease of ¥19.3 billion was due principally to the appreciation of the yen against the U.S. dollar and other currencies on average and to a decrease in the number of employees. The average cost per employee in the 2000 interim period was substantially unchanged.

Occupancy expenses—net in the 2000 interim period were ¥47.9 billion, an increase of ¥0.4 billion, or 0.7%, from ¥47.5 billion in the 1999 interim period.

Losses on other real estate owned—net in the 2000 interim period were ¥14.5 billion, a decrease of ¥35.9 billion, or 71.3%, from ¥50.4 billion in the 1999 interim period. Losses on other real estate owned—net include valuation losses, operating expenses, and net losses on the sale of such properties. The decrease of ¥35.9 billion in losses on other real estate owned reflected a lower rate of decline in the real estate markets in Japan during the 2000 interim period than in the corresponding period of 1999.

Other non-interest expenses in the 2000 interim period were ¥209.8 billion, a decrease of ¥6.1 billion, or 2.8%, from ¥215.9 billion in the 1999 interim period. The decrease in other non-interest expenses mainly reflected the fact that the 1999 interim period included special charges, such as a restructuring charge of ¥9.6 billion incurred by UnionBanCal Corporation, a U.S. bank holding subsidiary, and costs to address year 2000-related problems.

Summary of loan loss experience
Allowance for credit losses at beginning of period
Charge-offs
Recoveries
Net charge-offs
Additions to allowance charged to operations
Foreign exchange translation adjustments and other
Allowance for credit losses at end of period

Component of allowance for credit losses
Allocated allowance
Specific—specifically identified problem loans
Specific—large groups of smaller balance homogeneous loans
Specific—loans exposed to specific country risk
Formula—substandard, special mention, and other loans
Unallocated allowance
Total allowance

Provision for Credit Losses

The provision for credit losses in the 2000 interim period was ¥257.2 billion, an increase of ¥49.9 billion, or 24.1%, from ¥207.3 billion in the 1999 interim period. The allocated allowance for impaired loans accounted for most of the total allowance, and the increase of ¥49.9 billion in the provision for credit losses primarily reflected an increase in impaired loans, which in principle consist of nonaccrual and restructured loans. See Financial Condition—Loans for the details of nonaccrual and restructured loans. Reflecting an increase in restructured loans, impaired loans increased ¥176.2 billion from ¥1,856.2 billion at March 31, 2000, to ¥2,032.4 billion at September 30, 2000, while impaired loans decreased ¥164.1 billion during the 1999 interim period. As a result, the allocated impairment allowance increased ¥41.3 billion during the 2000 interim period, while such allowance decreased ¥70.6 billion during the 1999 interim period. The allocated impairment allowance as a percentage of total impaired loans was 39.6% at September 30, 1999, 37.1% at March 31, 2000, and 35.9% at September 30, 2000.

It was announced in December 2000 that a U.S. subsidiary expects to record a provision for credit losses of approximately US$250 million for the fourth quarter ended December 31, 2000, which reflects both weakening business conditions and an aggressive approach to managing the loan portfolio. The provision to be recorded by the subsidiary will have a negative impact on the Bank's operating results for the latter half of the fiscal year ending March 31, 2001.

Six months ended Sept. 30, 1999	Year ended March 31, 2000	**Six months ended Sept. 30, 2000**
	(in millions)	
¥ 1,290,657	¥ 1,290,657	**¥ 1,137,181**
282,215	547,883	**244,464**
7,695	41,004	**15,489**
274,520	506,879	**228,975**
207,259	368,639	**257,216**
(11,902)	(15,236)	**17,269**
¥ 1,211,494	¥ 1,137,181	**¥ 1,182,691**

March 31, 2000	**Sept. 30, 2000**
(in millions)	
¥ 688,368	**¥ 731,191**
26,021	**43,320**
11,845	**11,741**
394,342	**382,985**
16,605	**13,454**
¥ 1,137,181	**¥ 1,182,691**

Income Tax Expense

The combined normal effective statutory tax rate was 42.0% in the 1999 interim period and 38.5% in the 2000 interim period. For the 2000 interim period, income tax expense as a percentage of income before income tax expense was 60.0%, which was 21.5% higher than the statutory tax rate of 38.5%. The higher tax rate in the 2000 interim period was due principally to an increase in the valuation allowance against which deferred tax assets arose from temporary differences of certain subsidiaries, partially offset by the effects of foreign tax credits and lower tax rates applicable to the income of foreign subsidiaries. The valuation allowance, however, decreased ¥9.9 billion from ¥220.7 billion at March 31, 2000, to ¥210.8 billion at September 30, 2000, because of a more than offsetting decrease in the valuation allowance relating to the operating loss carryforwards of a subsidiary that expired during the 2000 interim period. In May 2000, the Osaka Prefectural Assembly passed a new tax rule that changed the basis on which it taxes large banks doing business in Osaka Prefecture, and the new taxation decreased the normal statutory rate 0.5%, to 38.0%.

Business Segment Analysis

Operating profit decreased ¥94.6 billion, or 34.9%, from ¥270.8 billion in the 1999 interim period to ¥176.2 billion in the 2000 interim period. This decrease primarily reflected a ¥71.0 billion decrease in the operating profit of the Treasury Unit and a ¥15.0 billion decrease in the operating profit of the Investment Banking Business Unit. The decrease in the Treasury Unit was due to difficult conditions in the world financial markets, including an interest rate hike in the United States and stagnant stock markets in Japan, and to a flattening of the yen's yield curve. These decreases were partially offset by an increase in the operating profit of the Bank's subsidiary UnionBanCal Corporation, which is included in "Other

Financial Condition

Loans
Domestic
Manufacturing
Construction
Real estate
Services
Wholesale and retail
Banks and other financial institutions
Other industries
Consumer
Total domestic
Foreign
Total
Less unearned income and deferred loan fees
Total

At September 30, 2000, total loans were ¥39.64 trillion, a decrease of ¥1.33 trillion, or 3.2%, from ¥40.97 trillion at March 31, 2000. The September 30, 2000, loan balance consisted of ¥31.07 trillion of domestic loans and ¥8.57 trillion of foreign loans, and the March 31, 2000, loan balance consisted of ¥32.75 trillion of domestic loans and ¥8.22 trillion of foreign loans.

Domestic loans decreased ¥1.68 trillion, or 5.1%, from the prior year-end balance, to ¥31.07 trillion at September 30, 2000. The decrease in domestic loans primarily reflected the continued weak economy in Japan.

Foreign loans increased ¥0.35 trillion, or 4.3%, from the prior year-end, to ¥8.57 trillion at September 30, 2000. The increase in foreign loans primarily reflected the depreciation of the yen against the U.S. dollar and other foreign currencies.

Nonaccrual loans were ¥1,538.6 billion at March 31, 2000, and ¥1,323.8 billion at September 30, 2000. The decrease of ¥214.8 billion, or 14.0%, in nonaccrual loans primarily reflected charge-offs and sales made during the 2000 interim period and the fact that large loans to certain borrowers in financial difficulties were returned to accrual status (restructured loans) as a result of the modification of loan terms, including the reduction of principal and operating segments" in Note 8. Business Segments, due to a higher net interest margin in the 2000 interim period, which resulted from the increasing interest rate environment.

The overlapping allocation of net revenue decreased ¥4.6 billion, or 14.9%, from ¥30.9 billion in the 1999 interim period to ¥26.3 billion in the 2000 interim period. This decrease primarily reflected a ¥6.1 billion decrease in the overlapping allocation of net revenue between the Commercial Banking Business Unit and the Investment Banking Business Unit.

See "Note 8. Business Segments" of the Notes to Condensed Consolidated Financial Statements for the operating results of each segment.

Sept. 30, 1999	March 31, 2000	**Sept. 30, 2000**
	(in millions)	
¥ 5,698,896	¥ 5,597,318	**¥ 5,376,658**
1,549,707	1,460,653	**1,364,059**
4,165,378	3,698,842	**3,670,239**
3,814,000	3,813,850	**3,593,507**
6,428,257	5,956,815	**5,709,206**
2,079,575	2,193,633	**1,921,284**
2,098,120	3,155,294	**2,764,562**
6,646,500	6,873,500	**6,675,452**
32,480,433	32,749,905	**31,074,967**
9,783,323	8,247,805	**8,609,467**
42,263,756	40,997,710	**39,684,434**
79,726	30,205	**40,284**
¥42,184,030	¥40,967,505	**¥39,644,150**

interest. Restructured loans were ¥321.8 billion at March 31, 2000, and ¥716.4 billion at September 30, 2000. The increase of ¥394.6 billion, or 122.6%, in restructured loans was due mainly to the transfer from nonaccrual loans discussed above and to an increase in the rescheduling of loan terms for a number of borrowers. Accruing loans contractually past due 90 days or more increased ¥14.0 billion, or 22.5%, from ¥62.3 billion at March 31, 2000, to ¥76.3 billion at September 30, 2000.

Economies in East Asian countries generally have entered an expansion phase in their business cycle, but are still facing problems in their economic structure that may hinder further economic growth. The Bank maintains a substantial network of branches and subsidiaries in this region, which is an important market for its financial services, and has been reassessing the country risk of each country in the region to adjust its exposure levels and to review and revise its country credit policies on a regular basis. Cross-border outstandings to East Asian countries generally decreased during the 2000 interim period, including decreases of ¥48.9 billion, or 23.8%, to South Korea and of ¥10.8 billion, or 5.5%, to Thailand from March 31, 2000, to September 30, 2000.

Cross-border outstandings
South Korea
Indonesia
Thailand
Malaysia
Philippines
Hong Kong
China

Investment portfolio (September 30, 2000)
Securities available for sale:
Debt securities, principally Japanese government bonds and corporate bonds
Equity securities
Total securities available for sale
Other investment securities
Total
Investment portfolio (March 31, 2000)

The total investment portfolio decreased ¥0.74 trillion, or 5.1%, from ¥14.54 trillion at March 31, 2000, to ¥13.80 trillion at September 30, 2000. In September 2000, the Bank changed its intent to hold securities and transferred ¥0.37 trillion (carrying value) of securities classified as held to maturity to the securities available for sale category. An unrealized gain recorded in the shareholders'

Deposits
Domestic offices
Non-interest-bearing demand deposits
Interest-bearing demand deposits
Time deposits
Certificates of deposits
Total domestic offices
Overseas offices, principally interest-bearing
Total

The total liabilities at September 30, 2000, were ¥70.91 trillion, an increase of ¥2.30 trillion, or 3.4%, from ¥68.61 trillion at March 31, 2000. The increase was primarily attributable to an increase of ¥2.33 trillion in short-term borrowings, such as call money, funds purchased, payables under repurchase agreements, payables under securities lending transactions, and other short-term borrowings, and to an increase of ¥0.82 trillion in obligations to return securities received as collateral.

At September 30, 2000, market rate sensitive funding, consisting of large-denominated time deposits, including foreign currency deposits, CDs, short-term borrowings, and floating or adjustable

March 31, 2000	**September 30, 2000**
(in billions)	
¥ 205.4	**¥ 156.5**
98.3	**89.3**
195.4	**184.6**
96.1	**105.5**
55.6	**51.5**
388.3	**329.1**
189.1	**203.9**

Amortized cost	Estimated fair value	Net unrealized gains (losses)
	(in millions)	
¥ 7,491,517	¥ 7,471,231	¥ (20,286)
4,220,099	6,210,743	1,990,644
11,711,616	13,681,974	1,970,358
113,763	113,763	—
11,825,379	13,795,737	1,970,358
¥11,664,583	¥14,538,442	¥2,873,859

equity—unrealized gains on securities held for sale as a result of the transfer was not significant. Despite the increase by the transfer from securities classified as held to maturity, securities available for sale decreased ¥0.33 trillion, due primarily to a significant decrease in the fair value of marketable equity securities resulting from the significant decline in Japan's stock markets.

Sept. 30, 1999	March 31, 2000	**Sept. 30, 2000**
	(in millions)	
¥ 2,576,978	¥ 3,335,797	**¥ 2,677,413**
12,736,060	12,176,182	**11,837,735**
18,633,094	18,112,955	**18,248,364**
2,273,406	1,836,613	**1,061,777**
36,219,538	35,461,547	**33,825,289**
10,137,723	9,698,409	**11,175,907**
¥46,357,261	¥45,159,956	**¥45,001,196**

rate long-term debt, was ¥41.94 trillion, or 71.3% of total interest-bearing liabilities. Domestic funding was ¥27.84 trillion, or 47.4% of total interest-bearing liabilities, and foreign funding was ¥14.1 trillion, or 24.0% of total interest-bearing liabilities. At March 31, 2000, 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 amounted to ¥10.81 trillion, or 19.4%. Domestic funding remained substantially unchanged, and the increase in foreign funding was due mainly to an increase in call money, funds purchased, payables under repurchase agreements, and other short-term borrowings.

Liquidity and Asset-Liability Management

During the 2000 interim period, cash and cash equivalents decreased ¥308.2 billion, to ¥1,547.0 billion at September 30, 2000. The decrease principally reflected an increase of ¥2,446.8 billion in cash flows used in investing activities (principally a net increase in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions; a net increase in interest-earning deposits in other banks; and the purchases of investment securities available for sale, which were substantially offset by proceeds from sales and maturities of investment securities available for sale and a net decrease in loans). The decrease in cash flows used in investing activities was largely offset by an increase of ¥1,945.7 billion in cash flows provided by financing activities (primarily a net increase in call money, funds purchased, and payables under repurchase agreements and securities lending transactions).

We closely monitor interest rate movements and manage the interest rate and maturity structure of our assets and liabilities and through the use of financial futures, swaps, forward rate agreements, and other derivative financial instruments.

Capital Resources

Shareholders' equity was ¥2,714.9 billion at September 30, 2000, a decrease of ¥479.3 billion from ¥3,194.2 billion at March 31, 2000. The decrease of ¥479.3 billion in shareholders' equity primarily reflected a decrease in accumulated other changes in equity from nonowner sources, net of taxes.

Accumulated other changes in equity from nonowner sources, net of taxes, was ¥763.5 billion at September 30, 2000, a decrease of ¥486.7 billion from ¥1,250.2 billion at March 31, 2000. The decrease of ¥486.7 billion in accumulated other changes in equity was due mainly to a decrease of ¥473.0 billion in accumulated unrealized gains on investment securities, net of tax, which resulted from a decrease in fair values of investment securities available for sale due to the decline in Japan's stock markets.

The risk-adjusted capital ratio, calculated in accordance with the capital adequacy guidelines adopted by Japan's Financial Services Agency and applicable to Japanese banks with international operations which closely follows the risk-weighted approach proposed by the Basle Committee on Banking Supervisory Practices of the Bank for International Settlements, decreased 39 basis points, from 11.46% at March 31, 2000, to 11.07% at September 30, 2000. The decrease in the risk-adjusted capital ratio was primarily attributable to a decrease in Tier I capital resulting from the adoption of new accounting standards pursuant to Japanese GAAP.

Accounting Developments

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," and it amended that statement in June 2000. The Bank will adopt the new statement for the fiscal year ending March 31, 2002.

SFAS 133 requires that all derivatives be recorded on the balance sheet at fair value. In addition, under the new rules, fair value changes in derivatives that do not qualify for hedge accounting are to be recognized in earnings. When derivatives qualify as either a fair value or cash flow hedge, changes in the fair value of derivatives will be counterbalanced against changes in the fair value of hedged items or will be recognized in other comprehensive income until the hedged items affect earnings. The Bank anticipates a significant increase in the complexity of the accounting and documentation requirements for hedging activities and is assessing the impact of adopting the new rules. The Bank intends to continue the current accounting practice under which most derivatives have been accounted for on a mark-to-market basis and, accordingly, does not expect a material impact on its financial statements from adopting the new rules.

In September 2000, FASB issued Statement of Financial Accounting Standards No. 140 ("SFAS 140"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125."

SFAS 140 revises the standards set forth in SFAS 125 for the accounting for securitizations and other transfers of financial assets and collateral. Also, SFAS 140 requires new disclosures about securitizations and additional disclosures about collateral.

The disclosure provisions of SFAS 140 are effective for financial statements for fiscal years ending after December 15, 2000, and the provisions of SFAS 140 relating primarily to the transfer of financial assets and securitizations are effective for transfers taking place after March 31, 2001. The Bank is assessing the impact of the adoption of SFAS 140 but expects that a substantial amount of securities and obligations to return securities received as collateral will be removed from its balance sheet as a result of adopting SFAS 140.

Condensed Consolidated Balance Sheets (Unaudited)

(in millions)
Assets
Cash and due from banks
Interest-earning deposits in other banks
Call loans, funds sold, and receivables under resale agreements
Receivables under securities borrowing transactions
Trading account assets
Receivables for securities provided as collateral
Investment securities:
Securities available for sale—at fair value
Securities being held to maturity—at amortized cost
Other investment securities—at amortized cost
Total investment securities
Loans, net of unearned income and deferred loan fees
Allowance for credit losses
Net loans
Premises and equipment—net
Accrued interest
Customers' acceptance liability
Other assets
Total
Liabilities and Shareholders' Equity
Deposits:
Domestic offices:
Non-interest-bearing
Interest-bearing
Overseas offices, principally interest-bearing
Total deposits
Debentures
Call money, funds purchased, and payables under repurchase agreements
Payables under securities lending transactions
Other short-term borrowings
Trading account liabilities
Obligation to return securities received as collateral
Bank acceptances outstanding
Accrued interest
Long-term debt
Other liabilities
Total liabilities
Shareholders' equity:
Capital stock:
Preferred stock:
Class 1—authorized: 100,000,000 shares; issued, 81,400,000 shares at September 30, 2000, with no stated value (aggregate liquidation preference of ¥244,200 million)
Class 2—authorized: 100,000,000 shares; no shares issued
Common stock, ¥50 par—authorized: 8,000,000,000 shares; issued, 4,675,455,546 shares at September 30, 2000
Capital surplus
Retained earnings:
Appropriated for legal reserve
Unappropriated
Accumulated other changes in equity from nonowner sources
Total
Less treasury stock—at cost
Shareholders' equity—net
Total

See the accompanying notes to condensed consolidated financial statements.

Sept. 30, 1999 (Unaudited)	March 31, 2000	**Sept. 30, 2000 (Unaudited)**
¥ 1,568,324	¥ 1,855,196	**¥ 1,547,023**
3,112,370	3,980,188	**5,308,711**
1,559,250	1,042,459	**2,560,765**
1,675,381	1,380,905	**2,165,110**
4,990,486	6,367,705	**5,373,073**
887,133	1,025,246	**1,652,495**
15,497,647	14,014,339	**13,681,974**
512,232	408,649	**—**
121,615	109,455	**113,763**
16,131,494	14,532,443	**13,795,737**
42,184,030	40,967,505	**39,644,150**
(1,211,494)	(1,137,181)	**(1,182,691)**
40,972,536	39,830,324	**38,461,459**
443,581	413,898	**409,486**
147,797	194,270	**212,470**
49,218	36,223	**37,038**
2,067,922	1,143,282	**2,098,824**
¥73,605,492	¥71,802,139	**¥73,622,191**
¥ 2,576,978	¥ 3,335,797	**¥ 2,677,413**
33,642,560	32,125,750	**31,147,876**
10,137,723	9,698,409	**11,175,907**
46,357,261	45,159,956	**45,001,196**
5,063,006	4,543,557	**3,864,611**
3,959,329	2,535,272	**4,229,357**
899,644	1,198,745	**1,827,355**
1,581,049	1,488,831	**1,493,587**
3,379,288	3,227,504	**3,530,267**
3,197,723	2,984,905	**3,803,540**
49,218	36,223	**37,038**
134,667	109,349	**227,954**
3,603,682	3,973,690	**4,269,391**
2,445,302	3,349,947	**2,622,989**
70,670,169	68,607,979	**70,907,285**
122,100	122,100	**122,100**
—	—	**—**
663,870	663,870	**663,870**
592,057	592,055	**592,053**
165,108	169,754	**174,454**
445,907	396,163	**399,228**
946,291	1,250,231	**763,520**
2,935,333	3,194,173	**2,715,225**
10	13	**319**
2,935,323	3,194,160	**2,714,906**
¥73,605,492	¥71,802,139	**¥73,622,191**

Condensed Consolidated Statements of Income (Unaudited)

(in millions)
Interest income:
Loans, including fees
Deposits in other banks
Investment securities
Trading securities
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions
Total
Interest expense:
Deposits
Debentures
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions
Other short-term borrowings and securities sold, not yet purchased
Long-term debt
Total
Net interest income
Provision for credit losses
Net interest income after provision for credit losses
Non-interest income:
Fees and commissions
Trading account profits—net
Foreign exchange gains—net
Investment securities gains—net
Other non-interest income
Total
Non-interest expenses:
Salaries and employee benefits
Occupancy expenses—net
Losses on other real estate owned—net
Other non-interest expenses
Total
Income before income taxes
Income taxes
Net income
Net income attributable to preferred shareholders
Net income attributable to common shareholders
Amounts per share:
Earnings per common share—basic
Earnings per common share—assuming dilution
Cash dividends declared during the period—common share
Cash dividends declared during the period—preferred share (class 1)

See the accompanying notes to condensed consolidated financial statements.

Six months ended September 30,	
1999	**2000**
¥677,181	**¥ 640,698**
51,582	**93,485**
144,529	**133,374**
12,667	**10,456**
47,590	**43,938**
933,549	**921,951**
242,686	**298,073**
28,080	**18,217**
56,532	**54,073**
51,512	**38,851**
82,664	**81,677**
461,474	**490,891**
472,075	**431,060**
207,259	**257,216**
264,816	**173,844**
122,351	**139,108**
15,018	**52,835**
76,342	**3,315**
74,758	**130,099**
23,233	**26,381**
311,702	**351,738**
195,303	**175,985**
47,538	**47,885**
50,411	**14,493**
215,907	**209,773**
509,159	**448,136**
67,359	**77,446**
10,014	**46,453**
¥ 57,345	**¥ 30,993**
¥ 1,292	**¥ 3,358**
¥ 56,053	**¥ 27,635**
(in yen)	
¥11.99	**¥ 5.91**
8.80	**5.91**
4.25	**4.25**
15.87	**41.25**

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in millions)

Cash flows from operating activities:
Net income
Adjustments to reconcile net income to net cash provided by (used in) operating activities:
Provision for credit losses
Investment securities gains—net
Provision for deferred income taxes
Increase in trading account assets, excluding foreign exchange contracts
Increase (decrease) in trading account liabilities, excluding foreign exchange contracts
Decrease (increase) in accrued interest receivable and other receivables
Increase (decrease) in accrued interest payable and other payables
Other—net
Net cash provided by (used in) operating activities
Cash flows from investing activities:
Proceeds from sales and maturities of investment securities available for sale
Purchase of investment securities available for sale
Proceeds from maturities of investment securities being held to maturity
Purchase of investment securities being held to maturity
Proceeds from sales and maturities of other investment securities
Purchases of other investment securities
Net decrease in loans
Net increase in interest-earning deposits in other banks
Net decrease (increase) in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions
Other—net
Net cash used in investing activities
Cash flows from financing activities:
Net increase (decrease) in deposits
Net increase (decrease) in debentures
Net increase in call money, funds purchased, and payables under repurchase agreements and securities lending transactions
Net increase (decrease) in other short-term borrowings
Proceeds from issuance of long-term debt
Repayment of long-term debt
Dividends paid
Other—net
Net cash provided by financing activities
Effect of exchange rate changes on cash and cash equivalents
Net decrease in cash and cash equivalents
Cash and cash equivalents at beginning of period
Cash and cash equivalents at end of period
Supplemental disclosure of cash flow information
Cash paid during the period for:
Interest
Income taxes
Non-cash investing activities:
Loans transferred to other real estate owned
Investment securities held to maturity transferred to investment securities available for sale

See the accompanying notes to condensed consolidated financial statements.

Six months ended September 30,	
1999	**2000**
¥ 57,345	**¥ 30,993**
207,259	**257,216**
(74,758)	**(130,099)**
(18,898)	**(9,077)**
(91,276)	**(489,103)**
(399,346)	**500,102**
187,272	**(24,075)**
(185,523)	**107,194**
282,384	**(52,772)**
(35,541)	**190,379**
8,690,784	**23,386,240**
(11,305,975)	**(23,118,193)**
220,750	**57,459**
(181,351)	**(12,578)**
4,215	**16,867**
(4,341)	**(16,255)**
2,764,884	**1,013,984**
(885,129)	**(1,337,376)**
481,297	**(2,289,155)**
(179,321)	**(147,785)**
(394,187)	**(2,446,792)**
946,169	**(144,416)**
44,267	**(680,379)**
69,409	**2,380,138**
(762,678)	**116,874**
304,042	**623,603**
(352,135)	**(382,406)**
(21,157)	**(23,218)**
(72,798)	**55,553**
155,119	**1,945,749**
(2,330)	**2,491**
(276,939)	**(308,173)**
1,845,263	**1,855,196**
¥ 1,568,324	**¥ 1,547,023**
¥ 582,937	**¥ 458,146**
85,335	**170,642**
10,338	**2,437**
—	**370,438**

Notes to Condensed Consolidated Financial Statements
(Unaudited except for March 31, 2000, data)

1. *Basis of Semiannual Condensed Consolidated Financial Statements*—The accompanying unaudited semiannual condensed 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. Such consolidated financial statements include the accounts of the Bank and its consolidated subsidiaries (together, the "Group") and reflect all adjustments (consisting of normal recurring adjustments) that, in the opinion of management, are necessary for a fair presentation of amounts involved to conform with generally accepted accounting principles and prevailing practices within the banking industry in the United States of America ("U.S. GAAP"), on a basis consistent with the audited financial statements for the year ended March 31, 2000.

The preparation of condensed 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. *Amounts per Share*—Earnings per common share—basic excludes the dilutive effects of potential common shares and is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding for the period, while earnings per common share—assuming dilution gives effect to all dilutive potential common shares that were outstanding for the period.

The weighted average number of shares used in the computations of earnings per common share—basic and earnings per common share—assuming dilution were 4,675,442 thousand shares and 4,808,752 thousand shares, respectively, for the six-month period ended September 30, 1999 and in each case 4,675,443 thousand shares for the six-month period ended September 30, 2000.

Cash dividends per share shown for each period represent the interim dividends declared during the respective periods.

3. *Nonaccrual and Restructured Loans, and Accruing Loans Past Due 90 Days or More*—Loans are generally placed on nonaccrual status when they are past due 90 days or more and/or substantial doubt is judged to exist as to the ultimate collectibility of either principal or interest. A loan, however, may not be placed on nonaccrual status based upon the judgment of management when it is well secured (or guaranteed by financially responsible third parties) and in the process of collection.

The following is a summary of nonaccrual and restructured loans, and accruing loans past due 90 days or more at March 31, 2000, and September 30, 2000:

(in millions)	March 31, 2000	**Sept. 30, 2000**
Nonaccrual loans	¥1,538,573	**¥1,323,810**
Restructured loans	321,777	**716,358**
Accruing loans contractually past due 90 days or more	62,295	**76,317**
Total	¥1,922,645	**¥2,116,485**

4. *Assets Pledged*—At September 30, 2000, assets pledged as collateral for call money, funds purchased, payables for repurchase agreements and securities lending transactions, other short-term borrowings, and long-term debt and for certain other purposes were as follows:

(in millions)	
Call loans and funds sold	¥ 8,522
Receivables for securities provided as collateral	1,652,495
Trading securities	247,421
Investment securities	1,267,056
Loans	890,390
Other	524,810
Total	¥4,590,694

5. *Off-Balance-Sheet Financial Instruments*—The following is a summary of notional or contract amounts of off-balance-sheet financial instruments at March 31, 2000, and September 30, 2000:

(in billions)	March 31, 2000	**Sept. 30, 2000**
Commitments to extend credit	¥ 22,106	**¥ 20,823**
Standby letters of credit and guarantees	4,604	**4,119**
Commercial letters of credit	503	**450**
Other commitments	5,242	**5,717**
Interest rate contracts:		
Forwards and futures	140,562	**137,318**
Swaps and swap-related products	143,017	**142,748**
Options written	16,233	**9,955**
Options purchased	12,384	**13,144**
Foreign exchange contracts:		
Forwards and futures	27,063	**28,792**
Swaps	7,323	**7,307**
Options written	2,048	**1,906**
Options purchased	2,044	**1,859**
Other contracts, mainly equity and credit-related contracts	2,080	**1,654**

6. *Comprehensive Income*—The following is a summary of changes in equity from nonowner sources, net of related income taxes, for the six-month periods ended September 30, 1999 and 2000:

	Six months ended September 30,	
(in millions)	1999	**2000**
Net income	¥ 57,345	**¥ 30,993**
Net unrealized gains (losses) on investment securities available for sale	209,853	**(473,028)**
Minimum pension liability adjustments	(1,137)	**(16,296)**
Foreign currency translation adjustments	48,679	**2,613**
Total	¥314,740	**¥(455,718)**

7. *Events Subsequent to September 30, 2000*—On November 22, 2000, the Board of Directors authorized payment of a semiannual interim cash dividend to shareholders of record on September 30, 2000, of ¥4.25 per common share, or a total of ¥19,871 million, and of ¥41.25 per preferred share, or a total of ¥3,358 million, respectively.

8. *Business Segments*—The financial performance of the Group's business units, derived from the internal management reporting system, are summarized below. Business segment information on total assets is not available.

Six months ended September 30, 1999 *(in millions)* (Restated)	Retail banking	Commercial banking	Global corporate banking	Investment banking
Net revenue:				
The Bank:				
Net interest income	¥101,605	¥113,974	¥ 68,296	¥ 1,318
Net fees	8,900	16,859	23,202	9,339
Other	6,300	19,380	17,035	20,712
Subsidiaries	7,970	4,420	29,605	22,383
Total	124,775	154,633	138,138	53,752
Operating expenses	92,956	67,941	57,169	25,016
Operating profit	¥ 31,819	¥ 86,692	¥ 80,969	¥ 28,736
Six months ended September 30, 2000				
Net revenue:				
The Bank:				
Net interest income	**¥ 94,324**	**¥113,830**	**¥ 64,730**	**¥ (462)**
Net fees	**9,853**	**18,433**	**27,144**	**12,559**
Other	**6,295**	**14,343**	**12,550**	**10,638**
Subsidiaries	**44,777**	**4,102**	**24,906**	**22,942**
Total	**155,249**	**150,708**	**129,330**	**45,677**
Operating expenses	**125,706**	**65,619**	**55,637**	**31,979**
Operating profit	**¥ 29,543**	**¥ 85,089**	**¥ 73,693**	**¥ 13,698**

**Other operating segments include the Operating Services Unit and the Bank's subsidiary UnionBanCal Corporation.*

Effective July 1, 2000, the Bank implemented a new version of the business unit system, based on customer and product segmentation. Based on the new version, the Bank restated the prior-period business segment information.

Management measures the 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 and its major type of customers. Operating profit is a defined term in the Bank's reporting to the Financial Services Agency of Japan.

Management uses the internal management reporting system, which maintains information on the basis of accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The segment information, derived from

	Six months ended September 30, 1999		
(in millions)	Investment banking	Asset management	Treasury
Global corporate banking	¥15,715	¥ 894	¥155
Commercial banking	13,184	—	589
Retail banking	—	—	43
Investment banking	—	311	—
Total	¥28,899	¥1,205	¥787

Because of the significant difference in the segment measure for internal management reporting from financial reporting in accordance with U.S. GAAP, it is impracticable to present reconciliations of the business segments' total information, other than operating profit, to corresponding items in the accompanying condensed consolidated statements of income. A reconciliation of the segments' operating profit under the internal management reporting system for the six-month periods ended September 30, 1999 and 2000 to income before income taxes as shown on the accompanying condensed consolidated statements of income is as follows:

Asset management	Treasury	Other operating segments*	Administration and adjustments	Segment totals
¥ (2,084)	¥77,724	¥ 533	¥ (23,037)	¥338,329
3,677	(385)	1,689	(13,602)	49,679
2,780	5,302	512	(23,376)	48,645
21,502	437	119,290	10,613	216,220
25,875	83,078	122,024	(49,402)	652,873
18,785	12,084	75,847	32,244	382,042
¥ 7,090	¥70,994	¥ 46,177	¥ (81,646)	¥270,831

Asset management	Treasury	Other operating segments*	Administration and adjustments	Segment totals
¥ (1,081)	**¥32,873**	**¥ 382**	**¥ (5,377)**	**¥299,219**
3,510	**(1,504)**	**1,798**	**(16,935)**	**54,858**
473	**(19,765)**	**716**	**(1,857)**	**23,393**
20,018	**651**	**121,392**	**4,348**	**243,136**
22,920	**12,255**	**124,288**	**(19,821)**	**620,606**
18,846	**12,270**	**59,798**	**74,502**	**444,357**
¥ 4,074	**¥ (15)**	**¥ 64,490**	**¥ (94,323)**	**¥176,249**

the internal management reporting system, is based on Japanese GAAP and includes certain adjustments for management information purposes. Accordingly, it is not consistent with the accompanying condensed consolidated financial statements prepared in accordance with U.S. GAAP.

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 "Administration and adjustments" column. The following is the summary of the aggregate amounts of this overlapping allocation of net revenue for the business units for the six-month periods ended September 30, 1999 and 2000.

(Restated)	**Six months ended September 30, 2000**			
Total amount eliminated	Investment banking	Asset management	Treasury	Total amount eliminated
¥16,764	**¥16,513**	**¥580**	**¥ 151**	**¥17,244**
13,773	**7,065**	**—**	**1,642**	**8,707**
43	**—**	**—**	**49**	**49**
311	**—**	**278**	**—**	**278**
¥30,891	**¥23,578**	**¥858**	**¥1,842**	**¥26,278**

	Six months ended September 30,	
(in billions)	1999	**2000**
Operating profit shown on the above table	¥ 271	**¥ 176**
Provision for credit losses	(183)	**(215)**
Equity investment securities gains	84	**143**
Losses on other real estate owned	(50)	**(14)**
Goodwill amortization and impairment	—	**(2)**
Other—net	(55)	**(11)**
Income before income taxes	¥ 67	**¥ 77**

Average Balances and Interest Rates (Unaudited)

Assets
Interest-earning assets:
Interest-earning deposits in other banks
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions
Trading securities and other interest-earning trading assets
Investment securities
Loans
Total interest-earning assets
Non-interest-earning assets:
Cash and due from banks
Other non-interest-earning assets
Allowance for credit losses
Total non-interest-earning assets
Total average assets
Liabilities and Shareholders' Equity
Interest-bearing liabilities:
Deposits
Debentures
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions
Other short-term borrowings and securities sold, not yet purchased and other interest-bearing trading liabilities
Long-term debt
Total interest-bearing liabilities
Non-interest-bearing liabilities
Shareholders' equity
Total average liabilities and shareholders' equity
Net interest income and average interest rate spread
Net interest income as a percentage of total average interest-earning assets

Six months ended September 30,

1999			2000		
Average balance	Interest	Average rate	**Average balance**	**Interest**	**Average rate**
(in millions except percentages)					
¥ 3,465,033	¥ 51,582	2.97%	**¥ 4,377,186**	**¥ 93,485**	**4.26%**
2,897,697	47,590	3.28	**3,830,311**	**43,938**	**2.29**
1,715,242	12,667	1.47	**2,896,782**	**10,456**	**0.72**
14,012,711	144,529	2.06	**16,142,582**	**133,374**	**1.65**
44,650,897	677,181	3.02	**40,231,318**	**640,698**	**3.18**
66,741,580	933,549	2.79	**67,478,179**	**921,951**	**2.73**
1,098,909			**1,156,627**		
6,108,382			**9,280,551**		
(1,283,786)			**(1,148,213)**		
5,923,505			**9,288,965**		
¥72,665,085			**¥76,767,144**		
¥42,847,396	242,686	1.13	**¥42,398,060**	**298,073**	**1.40**
5,051,396	28,080	1.11	**4,213,144**	**18,217**	**0.86**
4,113,821	56,532	2.74	**4,928,125**	**54,073**	**2.19**
3,950,412	51,512	2.60	**3,558,404**	**38,851**	**2.18**
3,552,951	82,664	4.64	**4,271,000**	**81,677**	**3.81**
59,515,976	461,474	1.55	**59,368,733**	**490,891**	**1.65**
10,401,858			**14,445,066**		
2,747,251			**2,953,345**		
¥72,665,085			**¥76,767,144**		
	¥ 472,075	1.24%		**¥ 431,060**	**1.08%**
		1.41%			**1.27%**

Stock Exchange Listings

(As of September 2000)

Tokyo	New York
Osaka	London
Kyoto	Paris
Sapporo	Switzerland

Bank of Tokyo-Mitsubishi

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Printed in Japan

CORPORATE PROFILE

The Bank of Tokyo-Mitsubishi, Ltd. (BTM), is Japan's premier bank. BTM's domestic network comprises more than 300 branches, sub-branches, and agencies. Overseas, the Bank of Tokyo-Mitsubishi Group consists of approximately 400 facilities located in all the major financial and commercial centers of the world.

The Group offers an extensive scope of financial products and services to businesses, governments, and private individuals. It provides a full spectrum of commercial, investment, and trust banking products and services through its global subsidiaries.

BTM is widely recognized for the quality of its assets and for its distinction as the only Japanese bank listed on the New York Stock Exchange. Its commitment to fulfilling its responsibilities as a global corporate citizen has also achieved positive recognition.

The Bank of Tokyo-Mitsubishi is one of Japan's most broadly owned corporations. Its shares are listed in Japan on the Tokyo, Osaka, Kyoto, and Sapporo stock exchanges and overseas on the New York, London, Paris, and Swiss stock exchanges.

Contents

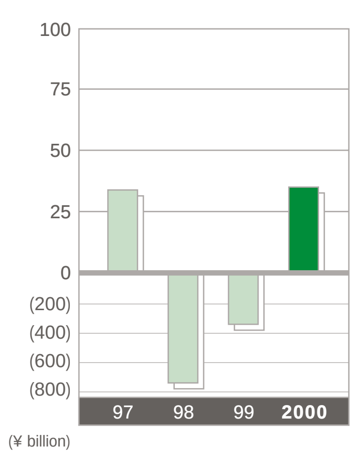
The Bank of Tokyo-Mitsubishi, Ltd., and Subsidiaries

Yen: in billions except per share data and percentages
U.S. dollars: in millions except per share data and percentages

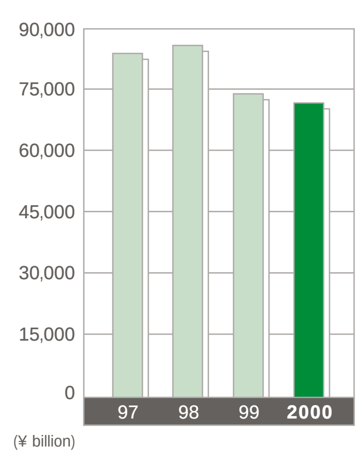
	Years ended March 31,			
	2000		1999	1998
	Yen	U.S. dollars	Yen	Yen
Net interest income	¥ 886	$ 8,628	¥ 940	¥ 769
Net income (loss)	35	345	(344)	(774)
Amounts per share:				
Earnings (loss) per common share—basic	¥ 6.59	6.41¢	¥ (73.67)	¥(165.67)
Earnings (loss) per common share—assuming dilution	3.73	3.63	(73.67)	(165.67)
Cash dividends declared during the year—common share	8.50	8.27	8.50	8.50
Cash dividends declared during the year—preferred share (class 1)	57.12	55.60	—	—
At March 31:				
Total assets	¥71,802	$698,940	¥74,211	¥ 86,814
Loans, net of allowance for credit losses	39,830	387,719	44,429	47,594
Total liabilities	68,608	667,848	71,569	84,071
Deposits	45,160	439,599	46,102	54,143
Shareholders' equity	3,194	31,093	2,642	2,744
Average balances:				
Interest-earning assets	¥67,104	$653,207	¥73,298	¥ 77,462
Interest-bearing liabilities	59,121	575,495	67,508	70,855
Total assets	73,889	719,256	82,091	84,305
Shareholders' equity	2,789	27,148	2,661	3,056
Ratios:				
Net income (loss) as a percentage of total average assets	0.05%	0.05%	(0.42)%	(0.92)%
Net income (loss) as a percentage of average shareholders' equity	1.27	1.27	(12.94)	(25.32)
Average shareholders' equity as a percentage of total average assets	3.77	3.77	3.24	3.62
Net interest income as a percentage of total average interest-earning assets	1.32	1.32	1.28	0.99
Allowance for credit losses as a percentage of loans	2.78	2.78	2.82	1.57
Risk-adjusted capital ratio (Japanese GAAP)	11.46	11.46	10.47	8.53

Note: *The U.S. dollar amounts represent translations, for the convenience of readers, of yen amounts at the rate of ¥102.73 = 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 on March 31, 2000.*

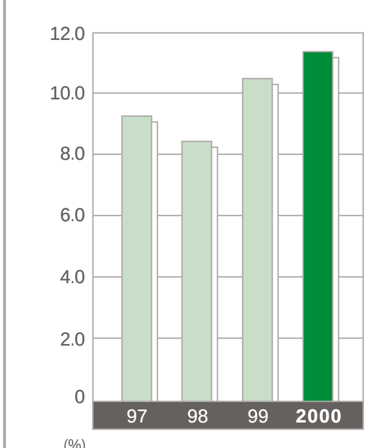
Net Income (Loss)



Total Assets



Risk-Adjusted Capital Ratio



It is our pleasure to report the fiscal 1999 results for the Bank of Tokyo-Mitsubishi, Ltd. (BTM). We will also review the steps that we took during the last year to build on our position as Japan's premier bank.

Firstly, however, we thank retiring chairman Tasuku Takagaki for his dedicated service to BTM over his long and distinguished career. As we assume our new roles of chairman and president, we look forward to building on the unrivaled strengths that he has helped to put in place at the Bank.

During the fiscal year ended March 31, 2000, we saw continued improvement in the domestic economic environment. Japan's GDP grew 0.5%, amid significant restructuring by many of Japan's largest corporations and continued economic growth internationally in the United States, Europe, and Asia.

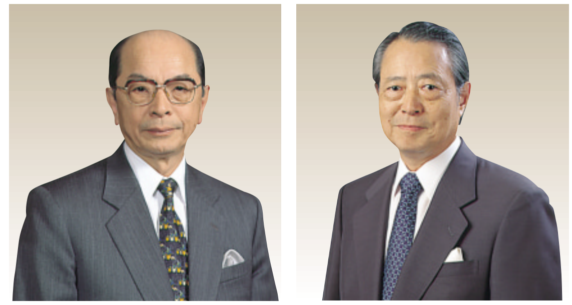
The domestic economy's ongoing growth was led by a recovery in parts of the private sector. This contrasts with the picture one year ago, when similar signs of economic growth were largely a result of increased public investment and a recovery in exports. Private consumption remained generally weak through the period under review, holding back overall economic growth. But the year did see an improving trend in fixed investment by business—particularly information technology (IT) investment—and this was aided by a further rise in housing construction and by some contribution from exports.

Initiatives aimed at structural reform in Japan's economy, especially among large companies, entered a new phase during the year and began to spread broadly across corporate Japan. The focus of corporate restructuring, in particular, shifted from cost reduction to the reform of operations and management systems. In this way, Japan's corporate sector sought to more efficiently allocate resources and to improve profitability. The benefits of this process were reflected in corporate profits, which recorded strong year-on-year growth.

Overall, Japan is undergoing substantial change. The swift global spread of the IT revolution became increasingly evident in Japan in fiscal 1999. E-commerce in all its forms is being widely adopted by businesses, and the use of the internet and of mobile and other communications systems grew rapidly throughout the year.

Financial deregulation, meanwhile, continued to draw new entrants to the financial services sector in Japan and to open up new opportunities for BTM beyond traditional banking activities. Many large domestic financial institutions, banks in particular, began to reorganize into new corporate groupings. This was a response to the changes brought about by Japan's Big Bang and an effort by financial institutions to shore up their competitive positions in a rapidly changing environment.

Against this background of the increasing globalization of economic and financial activity, the deregulation of Japan's financial sector, and the worldwide expansion of e-commerce, competition is intensifying among financial institutions, domestic and international, and across service sectors and geographic borders.


Satoru Kishi, Chairman *(left)*, and Shigemitsu Miki, President

Our response to these changes began with the merger of Mitsubishi Bank and the Bank of Tokyo four years ago. We followed up on this early initiative when, in fiscal 1998, BTM, Mitsubishi Trust & Banking Corporation, Tokio Marine and Fire Insurance Co., Ltd., and Meiji Life Insurance Company announced several joint business initiatives.

September 1999 marked a further milestone in our development when BTM announced its new business strategy, Mission 21. Our strategy is built around the core concepts of providing a diversity of expert financial services and cost-effectively matching those services to clients' needs through a multichannel approach. Mission 21 aims to reinforce BTM's position as Japan's premier bank, and we are now fully implementing our new business strategy throughout the BTM Group.

In April 2000, we took another significant step forward and announced plans to form a diversified financial group with Mitsubishi Trust & Banking Corporation (Mitsubishi Trust Bank); Nippon Trust Bank Limited (Nippon Trust Bank); and Tokyo Trust Bank, Ltd. (Tokyo Trust Bank).

We are also pleased to report that in February 2000 BTM paid back, in full, the public funds that it received in March 1998.

Financial Results

Our financial results in recent years have been affected by the severe economic conditions and the volatility of the financial markets in Japan. We are pleased to report that in fiscal year 1999, ended March 31, 2000, we returned to earnings and reported net income of ¥35.5 billion, or ¥6.59 per share. This compares with a net loss of ¥344.4 billion, or ¥73.67 per share, for fiscal year 1998, ended March 31, 1999.

The significant improvement in our financial results in fiscal 1999 primarily reflects a substantial decrease in expenses and losses relating to Japan's recent economic turmoil and financial turbulence. This includes declines in credit losses and in impairment losses on investment securities. 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 decrease in net interest income was attributable chiefly to a decrease in average interest-earning assets, particularly loans, despite a slight increase in interest margins. Our provision for credit losses in fiscal 1999 was ¥368.6 billion, a decrease of ¥550.8 billion, or 59.9%, from ¥919.4 billion in fiscal 1998. Although corporate restructuring and bankruptcies were still at a high level in fiscal 1999, we had largely anticipated these events and had made additional provisions for credit losses in fiscal 1998.

BTM's risk-adjusted capital ratio, calculated using accounting principles generally accepted in Japan, increased to 11.46% at March 31, 2000, from 10.47% at March 31, 1999. This improvement in our capital ratio was mainly attributable to a decline in risk-weighted assets and to an increase in retained earnings.

The Foundation of a Diversified Financial Services Group: The Mitsubishi Tokyo Financial Group

On April 19, 2000, BTM, Mitsubishi Trust Bank, Nippon Trust Bank, and Tokyo Trust Bank agreed in principle to integrate their operations. This landmark agreement proposes the integration of all the operations of the four parties under a holding company and the subsequent merger of the three trust banks. Subject to the approval of the banks' shareholders and of the relevant authorities, the holding company, which is planned to be called the Mitsubishi Tokyo Financial Group (MTFG), will be formed in April 2001 and will be listed on the Tokyo and New York stock exchanges.

BTM and its partners are looking to the 21st century, planning to establish a diversified financial services group that clients will trust above all others. MTFG will combine the know-how, human resources, infrastructure, and client bases of all four institutions. It will capitalize on each bank's expertise in such business areas as commercial banking, trust banking, international finance, asset management, and investment banking. MTFG aims to provide domestic and overseas clients with efficient, diversified, and high-quality financial services in all of its core business areas.

MTFG will be distinguished from other Japanese banking groups by a very low reliance on public funds in its capital base, by a unique international spread of businesses, and by a broadly diversified revenue base. In addition to listing MTFG on the Tokyo Stock Exchange, we will apply for a simultaneous listing of MTFG shares on the New York Stock Exchange. Shareholders thus will continue to receive the unique level of disclosure maintained by BTM for more than a decade.

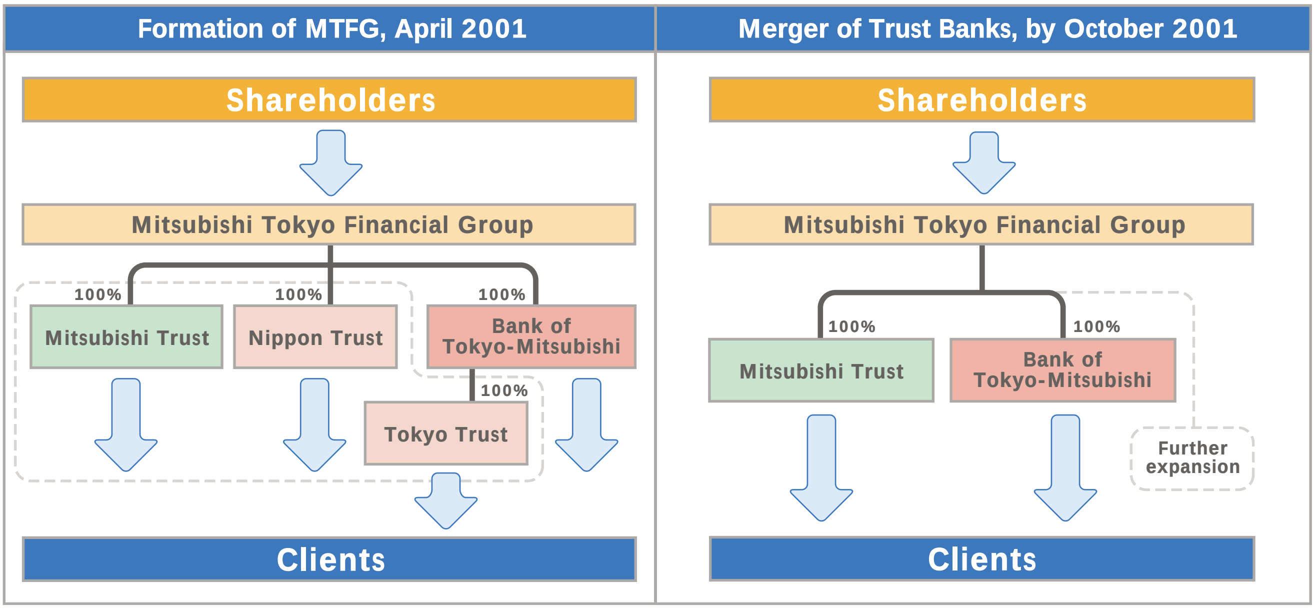
Planning the integration process has already begun. The integration process aims to achieve the following:

- to found a diversified financial services group that operates across business sectors,
- to establish an organization with the flexibility to develop further,
- to pursue rapid integration based on strong mutual trust,
- to enhance expertise and operational efficiencies through a merger of the trust businesses,
- to put in place a dependable financial services group with advanced risk management expertise.

MTFG is being formed with a firm commitment to enhance competitive advantage and is open to expansion in the future. The key benefits expected from integration are an enhanced revenue base and improved productivity. We believe that MTFG represents a powerful opportunity to achieve both of these objectives.

MTFG will combine the product and service lines of each partner, for significantly greater depth and reach. This, in turn, will enable the newly formed group to leverage its substantial client franchise and to build a strong platform for increasing its revenues.

The synergy benefits we have already seen between BTM and Nippon Trust Bank give us confidence that we can achieve significant synergies between BTM and Mitsubishi Trust Bank. The high-growth trust businesses, including asset management and processing services, offer further opportunities to expand revenues.



MTFG

The first stage in forming MTFG involves the establishment of a holding company in April 2001: The Mitsubishi Tokyo Financial Group. Through a stock-for-stock exchange Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank, and Nippon Trust Bank will become 100%-owned subsidiaries of MTFG. As a result, clients will gain access to the specialized products and services of a diversified financial services group. Shareholders of the three banks will become shareholders of the holding company and thus will enjoy the benefits that arise from the synergies generated through integration, including enhanced risk diversification.

The second stage, to be completed no later than October 2001, sees the merger of Mitsubishi Trust Bank, Nippon Trust Bank, and Tokyo Trust Bank, with Mitsubishi Trust Bank the surviving entity. By integrating the group's trust services under Mitsubishi Trust Bank, MTFG will improve convenience for its clients through the provision of more advanced and specialized trust products and services. Again, shareholders will benefit from the synergies and from the cost savings that are expected from this merger.

The holding company, MTFG, will be the sole listed company and will function as the corporate center for the new financial services group. It will coordinate strategic planning, risk management, and auditing. MTFG also will be responsible for maximizing shareholder value by coordinating the strategies and operations of its subsidiaries and by identifying and realizing synergies.

The merger of the three trust banks will allow us to concentrate systems, merge and close branches, and improve productivity. Through this merger and future alliances, we expect to increase assets under management and to achieve significant economies of scale in processing services.

In the banking business, MTFG will pursue productivity improvements through a shared infrastructure and the development of joint systems between BTM and Mitsubishi Trust Bank. An integration committee has been established to ensure a rapid and smooth integration.

BTM seeks the understanding and support of its shareholders and clients as it aspires with its partners to form this new financial services group. MTFG holds the promise to deliver diversified financial services of the highest professional standard to our clients and to deliver greater value to our shareholders.

BTM Mission 21 Update

BTM comprehensively reviewed its operations in fiscal 1999. We announced our new business strategy, which we named Mission 21, in September 1999. That strategy is being fully implemented throughout the BTM Group.

Mission 21 positions us to compete more effectively in all our core businesses, at home and abroad. We will strengthen our leading position in commercial banking and further enhance our investment banking and asset management businesses. Mission 21, moreover, places a high priority on maintaining BTM's leadership in information technology.

In our domestic branch network, we are implementing a multichannel strategy to increase the quality of service and to reduce costs. Corporate transactions formerly conducted from more than 300 full-service branches are being centralized in approximately 160 commercial banking branches with retail coverage. Of these, about 20 will be large, full-service branches with frontline specialist teams, such as a money desk. Some 115 branches will be purely retail. Comprehensive advisory services—tailored to regional and customer characteristics—on such matters as asset management, life planning, and mortgage loans will be offered through many of our branches.

In September, we launched our telephone banking and internet banking service, Tokyo-Mitsubishi Direct. This service had already attracted more than 300,000 customers by the end of April 2000, with internet users accounting for about 80% of this total. We will soon be making use of advanced internet technology to offer comprehensive financial services targeted at the growing number of internet-savvy individuals in the Japanese market. To increase our position in the consumer loans market, we strengthened the capital base of DC Card and made it a consolidated subsidiary in March 2000. DC Card can thus expand its credit card business and better spearhead the BTM Group's consumer loan operations.

International operations are one of our key business segments. As part of Mission 21, we are building a hub and spoke system in each of the world's major markets: the United States, Europe, and Asia. We have begun work on an ¥80 billion project to renovate the operational systems of our overseas businesses to reduce costs and to maximize efficiency.

In investment banking, we are reinforcing our customer base in high-value-added products and broadening and strengthening our capabilities through alliances. We are strengthening our approach to institutional investors through IPO support and other means in the domestic market. We are also increasing our retail sales capabilities through sales alliances with securities companies. We regard Japanese and other Asian issuers, investors, and currencies as our core strength in foreign markets. And we are focusing on relationships and transactions involving this core. In fiscal 1999, we formed alliances in several areas of investment banking. As part of a broad alliance, we increased our shareholding in Kokusai Securities, to become its largest shareholder. We also announced an alliance with Lehman Brothers, a leading global investment bank, to bolster our strength in mergers and acquisitions and private equity. In addition, we entered into an on-line securities venture with the world's second largest discount broker, TD Waterhouse Group, Inc.

Our asset management business is an area where we are aggressively promoting the sales of investment trust products and broadening our product range. The success that we have had in selling bond and equity products to individual customers has led to our decision to pursue investment trust sales throughout our network. Here, too, we are taking a multichannel approach and rapidly developing our internet and telephone sales routes. We are planning for the merger of trust businesses within the Mitsubishi Tokyo Financial Group. In the meantime, we will continue to enhance the asset management capabilities of our existing asset management vehicles.

We are committed to utilizing state-of-the-art information technology to increase the efficiency of our operations. At the same time, we will develop new business fields through heightened IT investment. In the four-year period through fiscal 2002, we intend to spend from ¥400 billion to ¥450 billion on software, hardware, and personnel.

On July 1, 2000, in order to successfully implement Mission 21 we introduced a business unit system throughout BTM. Each business unit has the authority and the responsibility it needs to manage its specific area. With our Corporate Management and Corporate Center to support them, we have established eight business units: Retail Banking; Commercial Banking; Global Corporate Banking; Investment Banking; Asset Management; UNBC (UnionBanCal Corporation); Operations Services; and Systems Services. Corporate Management will directly oversee the Treasury unit and the eBusiness and IT Initiatives unit.

The wide-ranging reforms that we initiated within BTM in fiscal 1999 are designed to develop our expertise in a broad range of financial services and to deliver the best and most appropriate service to individual and corporate clients globally.

We remain firm in our commitment to the highest standards of corporate governance, disclosure, and compliance. The plans that we are implementing are aimed at maximizing the competitive advantages of BTM as we develop as a diversified financial group. We are determined to leverage our strengths to ensure that we continue to create value for our clients and for our shareholders.

We thank you for your support over the past year and look forward to your continued interest in BTM as we meet the challenges of the future.

S. Kishi
Satoru Kishi
Chairman

S. Miki
Shigemitsu Miki
President

GLOBAL NETWORK

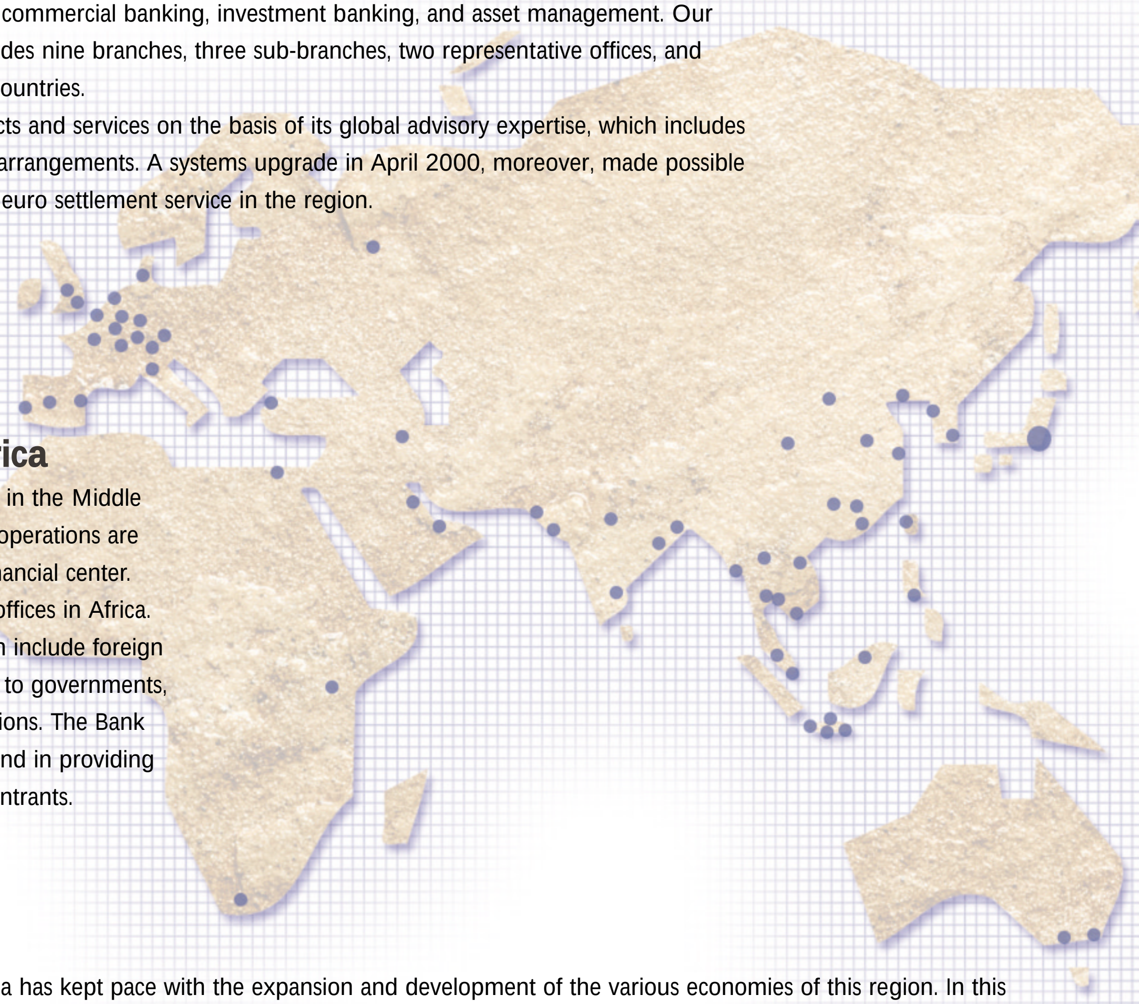
As of June 1, 2000

BTM delivers global reach. We have the broadest international network of any Japanese bank. Covering 45 countries and regions on six continents, BTM's network gives its customers access to all the world's major financial markets and key developing regions. Our extensive reach is a core resource for BTM as we service our growing global customer base.

Europe

To meet the diverse needs of customers in Europe's rapidly changing business environment, we continue to strengthen our relationships in commercial banking, investment banking, and asset management. Our extensive European network includes nine branches, three sub-branches, two representative offices, and nine principal affiliates across 12 countries.

BTM provides financial products and services on the basis of its global advisory expertise, which includes derivative and structured finance arrangements. A systems upgrade in April 2000, moreover, made possible our introduction of a high-quality euro settlement service in the region.



Middle East and Africa

BTM maintains a strong presence in the Middle East and Africa. Our Middle East operations are centered in Bahrain, a regional financial center. We also have two representative offices in Africa. The Bank's strengths in the region include foreign exchange operations and lending to governments, financial institutions, and corporations. The Bank is also active in trade promotion and in providing advisory services to new market entrants.

Asia and Oceania

BTM's growth in Asia and Oceania has kept pace with the expansion and development of the various economies of this region. In this rapidly changing environment, BTM has been able to provide the new kinds of financial services required for businesses to meet the challenges of the times.

BTM, with its comprehensive network and specialized staff, is a key player in many of the region's biggest transactions. The Bank's local knowledge and long history of service now extends through 49 facilities in 15 countries in Asia and Oceania, including the People's Republic of China, Hong Kong, Korea, Taiwan, the Philippines, Vietnam, Myanmar, Thailand, Malaysia, Indonesia, Singapore, India, Pakistan, Bangladesh, Australia, and New Zealand.

BTM expanded its branch network in China in April 2000, with the opening of its Tianjin branch. BTM's Shenzhen branch started handling renminbi operations in May 1999, making BTM the only Japanese bank with two branches authorized to undertake such transactions.

North America

BTM's network in North America extends from coast to coast with 11 branches and offices and 10 principal subsidiaries. To meet the sophisticated needs of customers, we endeavor to respond with speed, innovation, and quality services. The services that we offer in North America include retail, leasing, structured finance, financial futures, derivatives, equity business, and other specialized financial services through related companies.

BTM's subsidiary Union Bank of California (UBOC) places within the top 30 U.S. banks in terms of assets. It has more than 260 offices and offers its customers a full range of retail and trust business services. UBOC's holding company, UnionBanCal Corporation, was listed on the New York Stock Exchange in June 1999.

Latin America

BTM's Latin American network comprises four branches, four representative offices, and nine principal affiliates in nine countries and regions. As this emerging market begins to play a new role in the global economy, the Bank is actively expanding its business to take advantage of growing opportunities.

BTM provides financial products and services, including leasing and securitization, to a broad base of government, multinational, and local corporate customers. The Bank has been particularly active in assisting corporate customers expand amid a liberalization of Latin America's trade environment.

Japan

BTM has an efficient domestic network of more than 300 offices. Through this strong home market presence, the Bank is able to offer a universal lineup of competitive products and services to a diverse customer base that includes all business sectors.

BTM is taking a leading role in electronic commerce and has been integrating the latest information technology into every facet of its operations. This has enabled the Bank to efficiently increase delivery channels and to improve customer service throughout its domestic network, while reducing costs.

Global Corporate and Investment Banking

BTM's commercial banking operations have earned a reputation for excellence around the world.

The Bank boasts an unrivaled customer base and strong international business platforms in key locations, through which it offers a full range of products and services, including capital markets, project finance, mergers and acquisitions (M&A), syndicated loans, and derivatives. These are delivered with rapidity, attention to detail, and a focus on customer relationships, leading to comprehensive financial solutions.

Capital Markets

BTM has one of Japan's leading global capital market franchises. With international experience and expertise in the world's capital markets and as a preferred lender to governments, supranational bodies, and corporations worldwide, we continue to demonstrate our leadership in various markets.

Domestic interest rates remained low in fiscal 1999, and many Japanese companies took advantage of the conditions to issue bonds. BTM retained its dominance among Japanese banks, acting as commissioned company or as fiscal agent for 48 domestic bond issues totaling ¥705 billion. The Bank also handled 116 private placements worth an aggregate of ¥88.4 billion.

In the second half of the year, the Samurai bond market became particularly active, with a succession of issues from abroad. Amid the rush of bond issues, no other bank has been able to rival BTM's status as a Representative Commissioned Company for Bondholders and fiscal agent. In the summer of 1999, the Bank pioneered the newly introduced "fiscal agent method" in a Samurai bond issue.

The Japanese loan syndication market has continued to expand as corporate customers look to maintain stable funding even in a competitive funding environment. In fiscal 1999, BTM was voted joint best arranger of sovereign and public sector loans in a poll conducted by *Euro Week*, emphasizing the Bank's strong position in the euro syndication market.

BTM has taken an active role in meeting the needs of Asian borrowers. In 1999, BTM acted as co-arranger for a Japan Bank for International Cooperation (JBIC)-guaranteed syndicated loan facility for the government of Malaysia. The Bank also acted as sole mandated arranger for JBIC-guaranteed syndicated loan facilities for the National Power Corporation and for the Philippine National Oil Company-Energy Development Corporation (PNOC-EDC). In June 2000, BTM pioneered a JBIC-guaranteed Samurai bond issuance for PNOC-EDC, acting as joint lead arranger.

Tokyo-Mitsubishi International plc (TMI), our London-based investment banking subsidiary, is a top-tier lead manager in the global and euroyen bond markets. TMI won *Euro Week*'s Supranational Deal of the Year for its ¥150 billion global issue for Inter-American Development Bank in June 1999.

During this fiscal year, TMI has led FRN issues in U.S. dollars, sterling, euros, and yen for leading supranational, government, and corporate borrowers. The first quarter of 2000 saw a resurgence in yen issuance, and in April 2000 TMI jointly led IBM's first global yen bond, which, at ¥100 billion, was the largest corporate yen issue ever.

Our London branch was appointed common depositary for Clearstream and Euroclear in July 1999, and has since been mandated as common depositary for 17 euro issues.

Source: Petrobras, photographed by Mr. Jonio Machado

Project Finance

The BTM Group has globally recognized strength and a long history of excellence in project finance. Broad capital backing, a worldwide network, and a large client base complement our innovative structuring and rapid execution.

In fiscal 1999, BTM acted as financial advisor and lead arranger for a US$850 million financing package for Petróleo Brasileiro S.A. (Petrobras) to fund the Cabiunas natural gas processing and distribution development project in Brazil. JBIC is providing US$459 million for this project, and BTM and 10 other commercial banks are supplying US$306 million.

Strengthening Our Investment Banking Business

The BTM Group is committed to bolstering its investment banking business. In fiscal 1999, the Bank took a number of significant steps toward its goal of achieving its growth strategy and of maximizing its profitability.

The Group has been taking full advantage of market opportunities arising from the progressive deregulation of the Japanese financial services industry. Tokyo-Mitsubishi Securities Co., Ltd. (TMS), our securities subsidiary, commenced equity underwriting as soon as legislation covering that part of the equities business was deregulated on October 1, 1999.

Within Japan, the BTM Group has enhanced its investor network, moving to establish a strong retail network through Tokyo-Mitsubishi Personal Securities and through an alliance with Kokusai Securities, a leading securities firm in Japan. This alliance covers cooperation in underwriting and distributing such products as equities, bonds, and structured debt securities and in M&A and venture capital businesses.

An agreement to form a joint venture with TD Waterhouse Group, Inc., was announced in December 1999, spurred by the continued deregulation of the retail brokerage business and the fast growth in the use of the internet in Japan. This joint venture is aimed at providing increasingly sophisticated investors with a broader range of online investment services. The joint venture company, Tokyo-Mitsubishi TD Waterhouse Securities Co., Ltd., was established in March 2000.

BTM's determination to remain the leader in the corporate advisory field led it to enter a strategic alliance with Lehman Brothers, the leading U.S. investment bank, in December 1999. This alliance has further improved BTM's global ability to provide high-quality, value-added advisory services for transactions involving Japanese clients in this increasingly diverse and sophisticated market. In addition, BTM has continued to enhance its strong presence in North America through its alliance with Knox & Co., a U.S. M&A boutique.

BTM successfully introduced some innovative features in structuring finance for the Cabiunas project. This was the first cross-border lease of this size and nature in Brazil and the first time that such a deal has been coinsured by the Ministry of International Trade and Industry (MITI) of Japan and the Multilateral Investment Guarantee Agency. It is also the first ever transaction of this size in which MITI is covering credit risk without a guarantee from the host government.

During the year under review, BTM also demonstrated continued innovation in infrastructure finance. The US$448 million AES Parana gas-fired power generation project in Argentina was perhaps the first pure merchant power deal financed on a limited-recourse basis in an emerging market country. AES and PSEG selected BTM as their financial advisor in 1996, and BTM successfully steered the project through each of the Asian, Russian, and Brazilian currency crises before it was completed in June 1999.

The financial package for the Argentinian project included Inter-American Development Bank's A&B loan of US$112 million and a US$102 million facility from JBIC. This was the first time for both of these institutions together to finance a private enterprise. As one of the deal's three lead arrangers, BTM was also instrumental in syndicating a total of US$154 million through commercial banks. This deal was named Latin America Power Deal of the Year 1999 by *Project Finance* magazine.

M&A and Corporate Advisory

BTM has earned its reputation as Japan's corporate advisory leader through the complete utilization of its knowledge of industries, its research and coordination skills, and its global network. These resources enable BTM's financial and business specialists to create effective, tailor-made solutions for M&A, strategic alliances, and other alternatives.

Fiscal 1999 was notable for increases both in deal size and in the sophistication of the transactions the Bank was involved in. BTM increased its involvement in tender offer bids, stock-for-stock exchanges, and management buyouts and is further building its presence in these areas domestically and internationally.

Cross-border transactions continued to increase during fiscal 1999. This was due in part to the ongoing trend for Japanese firms to restructure their operations, leading to the divestiture of subsidiaries and business units in Japan and abroad. Foreign participation in Japanese companies has also increased substantially. BTM continues to be a leader in cross-border transactions, winning well over 100 mandates during fiscal 1999 and closing 29 cross-border deals.

BTM's domestic activities remain strong, with the number of domestic deals closed increasing significantly over fiscal 1998, to 28. BTM provided advisory services to a broad range of Japanese companies, on issues ranging from growth strategies to restructuring and corporate management.

In addition to M&A-related services, BTM has developed an extensive set of unique services to support corporate managers in planning medium- to long-term corporate strategies. BTM has provided optimal financial strategy proposals to the corporate managers of more than 3,500 companies, using BTM-developed support tools that analyze various strategic scenarios.

Treasury

BTM has a solid funding base and relationships with a wide range of customers and investors, maintaining a strong presence in the world's major currency markets. The Bank has global treasury offices in New York, London, Singapore, and Hong Kong that operate in unison with Tokyo head office. The Bank deals in a broad spectrum of currencies and is the leading player in the foreign exchange and money markets in Tokyo, where it maintains extensive operations in yen-related trading, Asian currencies trading, cross-currency trading, currency options, non-deliverable forwards and other aspects of the treasury business.

Treasury sales teams, based in our four international financial centers, provide cross-border services and advice on interest rate risk and currency risk hedging to clients throughout their regions. Moreover, deregulation in the Japanese financial market has allowed BTM to establish a global sales team in Tokyo to serve overseas clients directly from Japan. The Bank is proud of its reputation for providing efficient and reliable products and services to fulfill its customers' treasury needs on a global basis.

BTM is also active in its own portfolio management, investing in bonds and equities globally. In April 2000, the Bank instituted a new global securities investment structure that links Tokyo, London, and New York. This lays the foundation for even more efficient and profitable management of BTM's internationally diversified portfolio.

Financial Engineering

Our key areas of expertise in the rapidly developing business of financial engineering are in credit derivatives and asset securitization.

The Bank's operations in credit derivatives are supported by advanced risk management skills and by investments in information technology. BTM has a notional outstanding amount exceeding US$11 billion in this market and is firmly established as a leader in credit derivatives.

In the area of asset securitization, our asset-backed commercial paper program for the securitization of receivables has expanded steadily. It had reached US$10.9 billion on a global basis by March 31, 2000.

We had a busy year in real estate securitizations in fiscal 1999. The Bank arranged and participated in six transactions with a total value of ¥157 billion.

We entered the new and expanding field of weather derivatives in March 2000. This capability adds to our competency in commodity and other more traditional derivatives. As such, we are able to offer our corporate customers a full package of risk control products on a global basis.

Support for Foreign Companies in Japan

Foreign direct investment in Japan grew 79% to more than ¥2.3 trillion last year. In response to this rapid growth, BTM in February established an International Customers Team in Tokyo that specializes in supporting companies establishing operations in Japan. Backed by our substantial branch network and financial strength, our new team is actively helping new entrants with all aspects of running operations in Japan.

Global Service Banking

BTM is using advanced information technology to further enhance its global service banking (GSB) business. With worldwide reach and a strong reputation, the Bank is providing next-generation services in its core operations of correspondent banking, settlement business, and custody services.

Correspondent Banking and Settlements

BTM has a solid reputation for expertise in foreign exchange and is the world's leading bank for yen settlements. This has contributed to the development of the Bank's huge customer base. BTM holds correspondent arrangements with 3,350 foreign financial institutions and maintains 2,201 yen settlement accounts. The Bank also ranks first among Japanese financial institutions in the number of correspondent arrangements held and in the number of yen settlement accounts handled.

In April 2000, BTM introduced its Reconcile Assist Cash Management System (RACMS). This system allows financial institutions dealing with the Bank to access information on settlement accounts on a real-time basis through a secure international VAN. Using RACMS, banks that have commissioned BTM for their yen settlement business can perform functions such as checking account balances, reconciling debit and credit entries, and downloading data. This system greatly increases the speed, control, and efficiency of their cash management.

Custody

BTM has continued to develop custody as a core business. The Bank has by far the largest custody assets among Japanese banks. For the fiscal year 1999, the average balance of assets under custody within the BTM Group was approximately ¥53 trillion, an increase of 29% over the previous year.

The Bank enjoys an excellent reputation for yen custody services and has been top rated by *Global Custodian* magazine for 11 consecutive years. BTM's competitive advantage lies in the large scale of its operations and in the high quality of its service.

BTM offers global custody services, primarily to Japanese investors, through an international sub-custodian network spanning 30 countries. In response to increasingly complex customer needs, the Bank is developing a next-generation global custody system.

Asset Management

BTM is aggressively positioning itself as a major player in the asset management business in Japan through investment trust management, investment advisory, and pension fund management.

Several of the Bank's subsidiaries and affiliates play key roles in the expansion of this business. BTM subsidiary Tokyo-Mitsubishi Asset Management, Ltd. (TMAM), is responsible for investment trust and pension fund management, and Nippon Trust Bank and Tokyo Trust Bank provide an array of trust and other specialized services.

TMAM initiated the sale of investment trusts at BTM branches following deregulation in December 1998. The strong potential of this market has been confirmed by high customer response, and TMAM has been expanding its investment and trust product lineups.

The Bank has actively sought business alliances to complement its asset management capabilities. During the year under review, TMAM expanded its strategic alliance with Mellon Financial Group in the investment trust business in Japan. This enabled BTM to distribute its third jointly developed fund, the Tokyo-Mitsubishi/Dreyfus Global Equity Fund.

Moreover, we began marketing a new investment trust product—M·CUBE™—in July 1999. This product stems from the groundbreaking alliance BTM formed in fiscal 1998 with Frank Russell Company, a leading U.S. investment services firm. M·CUBE is offered through our domestic network and is mainly targeted at high net worth individuals.

Also in fiscal 1999, Mitsubishi Asset Brains Company, Limited, our venture with three other Mitsubishi group financial institutions, launched various services related to investment trusts. These services include consulting, data management, and the rating of investment trust funds. We add value to our rating services by incorporating sophisticated qualitative analysis alongside purely quantitative methods.

Together with other Mitsubishi group financial institutions, with Sumitomo group financial institutions, and with Daiwa Securities and Nikko Securities, BTM has been pursuing a defined contribution pension plan record keeping project. Our alliance with these firms resulted in the establishment of Nippon Record Keeping System Co., Ltd., in August 1999 and of Nippon Record Keeping Network Co., Ltd., in December 1999. Nippon Life Insurance, Japan's largest life insurer, joined this alliance in January 2000.

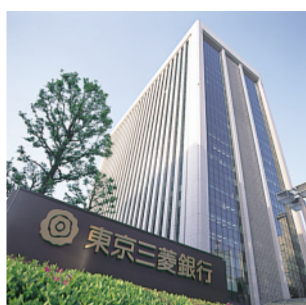
In April 2000, BTM, Mitsubishi Trust Bank, Nippon Trust Bank, and Tokyo Trust Bank announced their agreement in principle to integrate their operations by establishing a holding company and merging the three trust banks. The new financial services group that will be formed through this tie-up will significantly expand our opportunities in all aspects of asset management.

Domestic Retail Banking

BTM's longstanding reputation for reliability and financial strength, combined with its innovative and thorough approach to product development, has kept it in the forefront of Japan's rapidly evolving retail banking sector.

In September 1999, BTM announced wide-ranging initiatives as part of its Mission 21 business strategy to reorganize the structure and operations of its domestic retail business. These initiatives, which are now being introduced throughout BTM's domestic retail banking network, are designed to provide an efficient, multichannel service using technology to cost-effectively tailor products and services for BTM's large and diverse retail client base.

A number of other significant milestones were also achieved in the past year.



One of the Bank's major projects was introduced in September: Tokyo-Mitsubishi Direct. This sophisticated service enables customers to access a comprehensive range of banking and investment options by telephone or internet. Further flexibility is added through a connection to *i*-mode, Japan's hugely popular mobile phone internet access service, and by compatibility with a number of internet-enabled TV services.

Tokyo-Mitsubishi Direct has been extraordinarily well received, attracting more than 300,000 customers within its first seven months of operations. Registrations continue at a high rate, as individuals are drawn to the service's practical yet advanced functions.

In another initiative to improve accessibility and convenience for its account holders, BTM, together with other institutions, established E-net ATM services through six convenience store chains. Convenience stores have experienced strong growth in Japan over the past decade. They are now community focal points not only for quick-stop shopping but also for an expanding variety of services, including travel bookings, bill payments, and banking. By 2001, BTM customers will have access to 24-hour ATM services throughout Japan.

BTM has also taken steps to boost its ATM services internationally, by joining VISA's PLUS network. BTM cardholders can now make withdrawals overseas in local currency from more than 550,000 machines in upward of 100 countries.

The Bank has taken full advantage of Japan's Big Bang reforms to increase its number of customers and its volume of business in investment trusts. BTM's aim is to provide products that offer maximum flexibility and risk management.

Within Japan's deregulating financial environment, BTM is taking the opportunity to broaden the products and services that it can offer its clients. In March 2000, BTM leveraged its long history of expertise in foreign deposit services in Japan to introduce new types of foreign currency deposit accounts. These accounts combine the advantages of time deposits and ordinary deposits, increasing choice and performance for individual savers.

Deregulation in October 1999 made it possible for banks to issue domestic straight bonds. Since then, BTM has launched a number of bond issues, including a callable yen bond especially targeted at individual investors. This was issued directly by the Bank, without going through securities houses, for the first time in the history of Japanese banking.

In fiscal 1999, BTM introduced its Electronic Seal Inquiry System. This system uses advanced information technology to identify each customer's *hanko*, the personal seals used as signatures by the Japanese. The technology enables customers, when they visit other BTM locations, to receive the same services normally available to them at their main branch.

Union Bank of California: Continued Success in the United States

The Union Bank of California, N.A. (UBOC), is one of BTM's largest and most successful subsidiaries. It is the third-largest commercial bank in California and ranks among the 30 largest commercial banks in the United States. UBOC boasts a franchise of 246 full-service domestic branches, providing a comprehensive array of personal and commercial financial products and services to individuals, businesses, and government agencies. At year-end 1999, UBOC had assets of $33.7 billion and 8,904 employees.

UBOC and its holding company, UnionBanCal (UNBC), produced excellent performance in the fiscal year to December 31, 1999. On a pro forma basis, earnings per diluted share rose 19.3%, to $2.97, and return on average equity was 16.8%. (Pro forma results exclude the 1999 restructuring charge of $85 million and the 1998 reduction in California Franchise Tax Liability of $29.3 million.)

A highlight of the year was UNBC's listing in June on the New York Stock Exchange under the symbol UB, joining the great majority of large commercial banks on The Big Board.

BTM is proud of the important contribution that UBOC is making and is committed to ensuring the continued success of UBOC and other BTM Group companies.

Philanthropy

BTM is committed to being a good corporate citizen and is developing its contributions to society in each of the business regions around the world in which it operates. The Bank has set up a philanthropy section in its Tokyo headquarters that, in addition to keeping employees well informed, organizes ongoing programs such as regional contributions, aid to children's welfare institutions, and study scholarships for Asian students. It also responds appropriately to natural disasters locally and abroad.

BTM's international locations contribute autonomously, taking into account regional conditions and practices. Activities have included programs such as donating to local public institutions, and a Matching Gift Program where employees' private contributions are matched with Bank funds. Our employees have shown themselves to be keen volunteer participants in a variety of charity events. BTM is actively fulfilling the requirements of the Community Reinvestment Act in the United States.

Financial Summary

1. Basic Financial Data

1.1 Selected Financial Data (20F-3)

	Years ended March 31,				
	1996	1997	1998	1999	2000
	(in millions except per share data and percentages)				
Income statement data:					
Interest income	¥ 2,761,379	¥ 2,401,944	¥ 2,467,177	¥ 2,342,300	¥ 1,787,028
Interest expense	1,944,168	1,648,239	1,698,602	1,402,549	900,661
Net interest income	817,211	753,705	768,575	939,751	886,367
Provision for credit losses	521,704	393,681	1,356,231	919,427	368,639
Net interest income after provision for credit losses	295,507	360,024	(587,656)	20,324	517,728
Non-interest income	688,377	552,304	543,778	514,421	539,109
Non-interest expense	857,754	825,168	1,168,424	1,022,499	927,727
Income (loss) before income tax expense or benefit	126,130	87,160	(1,212,302)	(487,754)	129,110
Income tax expense (benefit)	81,848	54,833	(438,565)	(143,331)	93,635
Net income (loss)	¥ 44,282	¥ 32,327	¥ (773,737)	¥ (344,423)	¥ 35,475
Amounts per share:					
Earnings (loss) per common share—basic	¥ 9.56	¥ 6.94	¥ (165.67)	¥ (73.67)	¥ 6.59
Earnings (loss) per common share—assuming dilution	¥ 9.39	¥ 6.94	¥ (165.67)	¥ (73.67)	¥ 3.73
Number of shares used to calculate earnings per share (thousands of shares):					
—Earnings (loss) per common share—basic	4,630,435	4,657,636	4,670,457	4,675,446	4,675,442
—Earnings (loss) per common share—assuming dilution	4,633,071	4,657,641	4,670,457	4,675,446	4,822,435
Cash dividends declared during the year:					
—Common share	¥ 8.50	¥ 8.50	¥ 8.50	¥ 8.50	¥ 8.50
—Preferred share (Class 1)	—	—	—	—	57.12
Balance sheet data at year-end:					
Total assets	¥81,098,283	¥83,570,035	¥86,814,180	¥74,210,757	¥ 71,802,139
Loans, net of allowance for credit losses	46,416,692	48,016,463	47,593,504	44,429,461	39,830,324
Total liabilities	77,237,028	80,004,959	84,070,501	71,569,070	68,607,979
Deposits	49,224,420	52,349,890	54,143,458	46,102,053	45,159,956
Shareholders' equity	3,847,357	3,549,402	2,743,679	2,641,687	3,194,160
Average balances:					
Interest-earning assets	¥71,031,315	¥73,240,206	¥77,462,243	¥73,297,568	¥ 67,103,914
Interest-bearing liabilities	65,131,549	65,984,908	70,854,896	67,508,343	59,120,637
Total assets	79,587,204	80,088,763	84,305,420	82,091,298	73,889,166
Shareholders' equity	3,628,572	3,699,494	3,055,910	2,661,017	2,788,875
Return on equity and assets:					
Net income (loss) as a percentage of total average assets	0.06%	0.04%	(0.92)%	(0.42)%	0.05%
Net income (loss) as a percentage of average shareholders' equity	1.22%	0.87%	(25.32)%	(12.94)%	1.27%
Dividends per common share as a percentage of earnings per common share—basic	88.91%	122.48%	nm	nm	128.98%
Average shareholders' equity as a percentage of total average assets	4.56%	4.62%	3.62 %	3.24%	3.77%
Net interest income as a percentage of total average interest-earning assets	1.15%	1.03%	0.99 %	1.28%	1.32%
Credit quality data:					
Allowance for credit losses	¥ 1,126,712	¥ 1,062,446	¥ 760,323	¥ 1,290,657	¥ 1,137,181
Allowance for credit losses as a percentage of loans	2.37%	2.16%	1.57 %	2.82%	2.78%
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 2,153,676	¥ 1,880,848	¥ 1,229,410	¥ 2,268,563	¥ 1,922,645
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	4.53%	3.83%	2.54 %	4.96%	4.69%
Net loan charge-offs	¥ 213,195	¥ 487,803	¥ 1,670,448	¥ 348,574	¥ 506,879
Net loan charge-offs as a percentage of average loans	0.47%	1.03%	3.40 %	0.72%	1.17%
Average interest rate spread	0.91%	0.78%	0.79 %	1.12%	1.14%
Risk-adjusted capital ratio calculated under Japanese GAAP	9.93%	9.28%	8.53 %	10.47%	11.46%

nm = not meaningful

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

Consolidated Balance Sheets, March 31, 1999 and 2000 (20F-49)

	1999	2000
ASSETS	**(in millions)**	
Cash and due from banks (Note 9)	¥ 1,845,263	¥ 1,855,196
Interest-earning deposits in other banks (Note 9)	2,482,532	3,980,188
Call loans and funds sold (Note 12)	563,863	385,720
Receivables under resale agreements	631,540	656,739
Receivables under securities borrowing transactions	2,572,345	1,380,905
Trading account assets (Notes 2 and 9)	5,047,043	6,367,705
Receivables for securities provided as collateral (Note 9)	1,410,666	1,025,246
Investment securities (Notes 3 and 9):		
Securities available for sale—carried at estimated fair value (amortized cost of ¥10,321,173 million in 1999 and ¥11,146,961 million in 2000)	12,163,679	14,014,339
Securities being held to maturity (estimated fair value of ¥532,660 million in 1999 and ¥414,468 million in 2000)	526,447	408,649
Other investment securities (estimated fair value of ¥126,977 million in 1999 and ¥109,455 million in 2000)	126,977	109,455
Total investment securities	12,817,103	14,532,443
Loans, net of unearned income and deferred loan fees of ¥36,760 million in 1999 and ¥30,205 million in 2000 (Notes 4, 5 and 9)	45,720,118	40,967,505
Allowance for credit losses (Notes 4 and 6)	(1,290,657)	(1,137,181)
Net loans	44,429,461	39,830,324
Premises and equipment—net (Note 7)	446,756	413,898
Accrued interest	233,734	194,270
Customers' acceptance liability	73,851	36,223
Other assets (Notes 5, 8 and 15)	1,656,600	1,143,282
Total	¥74,210,757	¥71,802,139
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (Note 10):		
Domestic offices:		
Non-interest-bearing	¥ 2,876,613	3,335,797
Interest-bearing	32,456,309	32,125,750
Overseas offices:		
Non-interest-bearing	1,650,437	1,373,582
Interest-bearing	9,118,694	8,324,827
Total deposits	46,102,053	45,159,956
Debentures (Note 11)	5,015,587	4,543,557
Call money and funds purchased (Notes 9 and 12)	1,990,524	1,171,060
Payables under repurchase agreements (Note 9)	1,519,210	1,364,212
Payables under securities lending transactions (Note 9)	1,361,220	1,198,745
Other short-term borrowings (Notes 9 and 13)	2,389,577	1,488,831
Trading account liabilities (Note 2)	3,782,429	3,227,504
Obligations to return securities received as collateral	4,061,915	2,984,905
Bank acceptances outstanding	73,851	36,223
Accrued interest	291,194	109,349
Long-term debt (Notes 9 and 13)	3,581,717	3,973,690
Other liabilities (Notes 8, 14 and 15)	1,399,793	3,349,947
Total liabilities	71,569,070	68,607,979
Commitments and contingent liabilities (Notes 22 and 23)		
Shareholders' equity (Note 20):		
Capital stock (Notes 17 and 18):		
Preferred stock:		
Class 1—authorized: 100,000,000 shares; issued and outstanding: 81,400,000 shares in 1999 and 2000, 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—authorized: 8,000,000,000 shares; issued and outstanding: 4,675,455,546 shares in 1999 and 2000	663,870	663,870
Capital surplus	592,060	592,055
Retained earnings (Notes 19 and 30):		
Appropriated for legal reserve	160,808	169,754
Unappropriated	414,024	396,163
Accumulated other changes in equity from nonowner sources, net of taxes	688,896	1,250,231
Total	2,641,758	3,194,173
Less treasury stock—at cost	71	13
Shareholders' equity—net	2,641,687	3,194,160
Total	¥74,210,757	¥71,802,139

See the accompanying notes to Consolidated Financial Statements.

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

Consolidated Statements of Operations
For the Years Ended March 31, 1998, 1999 and 2000 (20F-50)

	1998	1999	2000
		(in millions)	
Interest income:			
Loans, including fees (Note 4)	¥ 1,647,668	¥1,598,366	¥1,293,344
Deposits in other banks	383,048	223,915	105,911
Investment securities:			
Interest	255,082	270,001	224,394
Dividends	51,618	47,107	54,553
Trading securities	19,013	29,789	13,112
Call loans and funds sold	36,368	55,717	17,788
Receivables under resale agreements and securities borrowing transactions	74,380	117,405	77,926
Total	2,467,177	2,342,300	1,787,028
Interest expense:			
Deposits	1,223,882	861,480	491,133
Debentures	101,736	66,818	51,852
Call money and funds purchased	38,562	36,484	15,187
Payables under repurchase agreements and securities lending transactions	88,438	152,791	82,988
Other short-term borrowings and securities sold, not yet purchased	79,862	103,255	82,574
Long-term debt	166,122	181,721	176,927
Total	1,698,602	1,402,549	900,661
Net interest income	768,575	939,751	886,367
Provision for credit losses (Notes 5 and 6)	1,356,231	919,427	368,639
Net interest income after provision for credit losses	(587,656)	20,324	517,728
Non-interest income:			
Fees and commissions (Note 24)	235,825	256,281	256,219
Foreign exchange gains—net (Note 2)	—	80,059	117,330
Trading account profits—net (Note 2)	268,647	112,987	—
Investment securities gains—net (Note 3)	—	—	132,518
Gains from sales of equity investments in a subsidiary (Note 16)	—	26,105	—
Other non-interest income	39,306	38,989	33,042
Total	543,778	514,421	539,109
Non-interest expense:			
Salaries and employee benefits (Note 14)	368,160	400,570	344,970
Occupancy expenses—net (Notes 7 and 23)	97,692	107,291	101,181
Foreign exchange losses—net (Note 2)	56,129	—	—
Trading account losses-net (Note 2)	—	—	18,475
Investment securities losses—net (Note 3)	160,791	50,437	—
Losses on other real estate owned	67,460	56,090	68,438
Goodwill amortization and impairment	109,219	62,648	3,486
Other non-interest expenses	308,973	345,463	391,177
Total	1,168,424	1,022,499	927,727
Income (loss) before income tax expense or benefit	(1,212,302)	(487,754)	129,110
Income tax expense (benefit) (Note 8)	(438,565)	(143,331)	93,635
Net income (loss)	¥ (773,737)	¥ (344,423)	¥ 35,475
Net income attributable to preferred shareholders	¥ —	¥ —	¥ 4,649
Net income attributable to common shareholders	¥ (773,737)	¥ (344,423)	¥ 30,826
		(in yen)	
Amounts per share (Notes 19 and 21):			
Earnings (loss) per common share—basic	¥ (165.67)	¥ (73.67)	¥ 6.59
Earnings (loss) per common share—assuming dilution	(165.67)	(73.67)	3.73
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

See the accompanying notes to Consolidated Financial Statements.

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

Consolidated Statements of Changes in Equity from Nonowner Sources For the Years Ended March 31, 1998, 1999 and 2000 (20F-51)

	Gains (Losses) before Income Taxes	Income Tax (Expense) Benefit	Gains (Losses) net of Income Taxes
		(in millions)	
Year ended March 31, 1998:			
Net loss			¥(773,737)
Other changes in equity from nonowner sources:			
Net unrealized holding losses on investment securities available for sale	¥(142,841)	¥ 67,593	(75,248)
Less: reclassification adjustment for losses included in net loss	141,005	(66,657)	74,348
Total	(1,836)	936	(900)
Minimum pension liability adjustments	(86,107)	40,628	(45,479)
Foreign currency translation adjustments	37,773	3,787	41,560
Less: reclassification adjustment for losses included in net loss	2,820	(1,438)	1,382
Total	40,593	2,349	42,942
Total changes in equity from nonowner sources			¥(777,174)
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
Less: 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)
Less: 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
Less: 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)
Less: 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

See the accompanying notes to Consolidated Financial Statements.

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

Consolidated Statements of Shareholders' Equity
For the Years Ended March 31, 1998, 1999 and 2000 (20F-52)

	1998	1999	2000
		(in millions)	
Preferred stock, Class 1 (Note 17):			
Balance at beginning of year			¥ 122,100
Shares issued		¥ 122,100	—
Balance at end of year		¥ 122,100	¥ 122,100
Common stock (Note 18):			
Balance at beginning of year	¥ 658,283	¥ 663,870	¥ 663,870
Shares issued for conversion of bonds (Note 13)	5,587	—	—
Balance at end of year	¥ 663,870	¥ 663,870	¥ 663,870
Capital surplus (Note 18):			
Balance at beginning of year	¥ 464,876	¥ 470,414	¥ 592,060
Excess of proceeds from issuance of preferred stock over the amount assigned to the preferred stock account (Note 17)	—	121,647	—
Excess of principal amount of bonds converted over the amount transferred to common stock account (Note 13)	5,544	—	—
Losses on sales of treasury stock, net of taxes	(6)	(1)	(5)
Balance at end of year	¥ 470,414	¥ 592,060	¥ 592,055
Retained earnings appropriated for legal reserve (Note 19):			
Balance at beginning of year	¥ 144,867	¥ 152,834	¥ 160,808
Transfer from unappropriated retained earnings	7,967	7,974	8,946
Balance at end of year (Note 29)	¥ 152,834	¥ 160,808	¥169,754
Unappropriated retained earnings (Note 19):			
Balance at beginning of year	¥1,627,537	¥ 806,163	¥ 414,024
Net income (loss)	(773,737)	(344,423)	35,475
Total	853,800	461,740	449,499
Deduct:			
Cash Dividends paid:			
Common share—¥8.50 per share in each of fiscal 1997, 1998 and 1999	(39,670)	(39,742)	(39,741)
Preferred share (Class 1)—¥57.12 per share in fiscal 1999	—	—	(4,649)
Transfer to retained earnings appropriated for legal reserve	(7,967)	(7,974)	(8,946)
Total	(47,637)	(47,716)	(53,336)
Balance at end of year (Note 29)	¥ 806,163	¥ 414,024	¥ 396,163
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	¥ 853,545	¥ 852,645	¥ 905,337
Net change during the year	(900)	52,692	593,763
Balance at end of year	¥ 852,645	¥ 905,337	¥1,499,100
Minimum pension liability adjustments (Note 14):			
Balance at beginning of year	¥ (21,748)	¥ (67,227)	¥ (41,772)
Net change during the year	(45,479)	25,455	25,844
Balance at end of year	¥ (67,227)	¥ (41,772)	¥ (15,928)
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (177,951)	¥(135,009)	¥ (174,669)
Net change during the year	42,942	(39,660)	(58,272)
Balance at end of year	¥ (135,009)	¥(174,669)	¥ (232,941)
Balance at end of year	¥ 650,409	¥ 688,896	¥1,250,231

See the accompanying notes to Consolidated Financial Statements.

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

Consolidated Statements of Cash Flows
For the Years Ended March 31, 1998, 1999 and 2000 (20F-53)

	1998	1999	2000
		(in millions)	
Cash flows from operating activities:			
Net income (loss)	¥ (773,737)	¥ (344,423)	¥ 35,475
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	59,242	59,211	63,384
Goodwill amortization and impairment	109,219	62,648	3,486
Provision for credit losses	1,356,231	919,427	368,639
Investment securities losses (gains)—net	160,791	24,332	(132,518)
Foreign exchange losses (gains)—net	168,482	(213,464)	(55,122)
Provision for deferred income tax benefit	(493,272)	(286,144)	(109,825)
Decrease (increase) in trading account assets, excluding foreign exchange contracts	(267,639)	213,939	404,551
Increase (decrease) in trading account liabilities, excluding foreign exchange contracts	484,772	(34,886)	(649,629)
Decrease in accrued interest receivable and other receivables	95,738	109,453	115,815
Increase (decrease) in accrued interest payable and other payables	(185,905)	30,090	(163,309)
Other—net	103,717	75,854	167,402
Net cash provided by operating activities	817,639	616,037	48,349
Cash flows from investing activities:			
Proceeds from sales of investment securities available for sale	5,669,412	7,639,777	25,825,681
Proceeds from maturities of investment securities available for sale	629,513	619,312	4,460,319
Purchases of investment securities available for sale	(7,023,874)	(7,958,575)	(31,723,773)
Proceeds from maturities of investment securities being held to maturity	173,523	396,971	197,389
Purchases of investment securities being held to maturity	(157,357)	(255,486)	(139,419)
Proceeds from sales of other investment securities	25,901	10,360	47,959
Purchases of other investment securities	(22,896)	(8,103)	(9,378)
Proceeds from sales of equity investments in a subsidiary	—	131,273	—
Net decrease (increase) in loans	(709,771)	1,007,453	2,253,294
Net decrease (increase) in interest-earning deposits in other banks	(199,219)	7,594,576	(1,878,408)
Net decrease (increase) in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions	(2,515,032)	1,114,791	1,260,917
Capital expenditures for premises and equipment	(58,410)	(41,661)	(33,303)
Other—net	79,249	101,904	(27,271)
Net cash provided by (used in) investing activities	(4,108,961)	10,352,592	234,007
Cash flows from financing activities:			
Net increase (decrease) in deposits	1,762,470	(6,536,105)	727,628
Net decrease in debentures	(541,389)	(877,192)	(477,206)
Net increase (decrease) in call money, funds purchased, and payables under repurchase agreements and securities lending transactions	204,021	(2,733,336)	(1,023,739)
Net increase (decrease) in other short-term borrowings	905,642	(1,267,412)	(162,007)
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	843,796	630,352	988,173
Repayment of long-term debt	(464,286)	(555,416)	(464,213)
Dividends paid	(39,670)	(39,742)	(44,385)
Other—net	419,085	(189,633)	228,257
Net cash provided by (used in) financing activities	3,089,669	(11,219,416)	(227,492)
Effect of exchange rate changes on cash and cash equivalents	52,878	(34,030)	(44,931)
Net increase (decrease) in cash and cash equivalents	(148,775)	(284,817)	9,933
Cash and cash equivalents at beginning of year	2,278,855	2,130,080	1,845,263
Cash and cash equivalents at end of year	¥ 2,130,080	¥ 1,845,263	¥ 1,855,196
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for:			
Interest	¥ 1,880,358	¥ 1,344,837	¥ 1,059,727
Income taxes	37,996	62,638	131,270
Non-cash investing and financing activities:			
Conversion of long-term debt into common stock	11,131	—	—
Loans transferred to other real estate owned	22,780	24,670	12,361

See the accompanying notes to Consolidated Financial Statements.

2. Non Performing Assets

2.1 Nonaccrual, Past Due and Restructured Loans (20F-115, 116)

We generally 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, 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 the Bank's and 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, 2000, based on the domicile and type of industry of the borrowers.

	At March 31,				
	1996	1997	1998	1999	2000
			(in millions)		
Nonaccrual loans:					
Domestic:					
Manufacturing	¥ 62,015	¥ 57,802	¥ 23,461	¥ 138,231	¥ 96,227
Construction	85,792	37,490	29,027	115,364	106,366
Real estate	192,156	214,130	132,785	528,100	497,814
Services	153,553	183,985	52,992	284,038	190,165
Wholesale and retail	109,402	130,869	53,285	370,417	354,157
Banks and other financial institutions	48,822	40,547	29,631	130,959	56,945
Other industries	5,272	4,185	3,266	23,258	21,353
Consumer	42,907	33,539	19,821	81,601	55,159
Total domestic	699,919	702,547	344,268	1,671,968	1,378,186
Foreign:					
Banks and other financial institutions	2,526	12,273	334	7,628	2,798
Commercial and industrial	89,898	103,072	36,937	110,105	111,870
Loans to refinancing countries (see Note 1)	59,780	38,347	7,799	47,924	26,799
Other	9,249	10,374	116	23,407	18,920
Total foreign	161,453	164,066	45,186	189,064	160,387
Total	861,372	866,613	389,454	1,861,032	1,538,573
Restructured loans:					
Domestic (see Note 2)	830,938	642,336	405,637	278,814	277,003
Foreign	28,882	34,245	58,167	21,635	44,774
Total	859,820	676,581	463,804	300,449	321,777
Accruing loans contractually past due 90 days or more:					
Domestic	395,714	324,848	358,775	76,357	61,022
Foreign	36,770	12,806	17,377	30,725	1,273
Total	432,484	337,654	376,152	107,082	62,295
Total	¥2,153,676	¥1,880,848	¥1,229,410	¥2,268,563	¥1,922,645

Notes:

1. Refinancing countries are countries rescheduling their external debt (both sovereign and non-sovereign).
2. Loans to the Jusen of ¥338,012 million at March 31, 1996, which had been included in restructured loans since 1993, were all collected or charged off during the year ended March 31, 1997. At March 31, 1995, loans to Diamond Mortgage Co., Ltd. and Diamond Factors Limited of ¥252,117 million were included in restructured loans. During the year ended March 31, 1998, the Bank assumed control of these companies and consolidated their accounts with those of the Bank.
3. 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.

2.2 Changes in the Allowance for Credit Losses (20F-68)

Changes in the allowance for credit losses for the years ended March 31, 1998, 1999 and 2000 are shown below:

	1998	1999	2000
		(in millions)	
Balance at beginning of year	¥1,062,446	¥ 760,323	¥1,290,657
Additions to allowance charged to operations	1,356,231	919,427	368,639
Charge-offs	1,679,236	358,381	547,883
Less—Recoveries	8,788	9,807	41,004
Net charge-offs	1,670,448	348,574	506,879
Reclassification of allowance on off-balance-sheet credit instruments	—	(14,741)	—
Other, principally foreign exchange translation adjustments	12,094	(25,778)	(15,236)
Balance at end of year	¥ 760,323	¥1,290,657	¥1,137,181

2.3 Loans Loss Experience by Type of Borrower's Business (20F-120)

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, 2000.

	Year ended March 31,				
	1996	1997	1998	1999	2000
	(in millions except percentages)				
Allowance for credit losses at beginning of year	¥ 805,130	¥1,126,712	¥1,062,446	¥ 760,323	¥1,290,657
Additions to allowance charged to operations	521,704	393,681	1,356,231	919,427	368,639
Charge-offs:					
Domestic:					
Real estate and construction	42,401	145,782	548,672	82,462	82,423
Banks and other financial institutions	68,434	289,622	295,606	41,889	27,970
Services	12,429	4,853	218,299	47,507	34,666
Other industries	60,439	12,246	306,492	39,553	260,977
Consumer	3,312	2,512	175,942	33,106	39,101
Foreign	35,687	39,893	134,225	113,864	102,746
Total	222,702	494,908	1,679,236	358,381	547,883
Recoveries:					
Domestic	88	132	445	1,337	23,137
Foreign	9,419	6,973	8,343	8,470	17,867
Total	9,507	7,105	8,788	9,807	41,004
Net charge-offs	213,195	487,803	1,670,448	348,574	506,879
Reclassification of allowance on off-balance-sheet credit instruments	—	—	—	(14,741)	—
Other—principally foreign exchange translation adjustments	13,073	29,856	12,094	(25,778)	(15,236)
Allowance for credit losses at end of year	¥1,126,712	¥1,062,446	¥ 760,323	¥1,290,657	¥1,137,181
Allowance for credit losses applicable to foreign activities:					
Balance at beginning of year	¥ 191,759	¥ 202,281	¥ 192,288	¥ 246,817	¥ 278,451
Balance at end of year	¥ 202,281	¥ 192,288	¥ 246,817	¥ 278,451	¥ 173,181
Additions to allowance charged to operations	¥ 23,717	¥ 22,015	¥ 167,998	¥ 170,377	¥ 886
Ratio of net charge-offs during the year to average loans outstanding during the year	0.47%	1.03%	3.40%	0.72%	1.17%

2.4 Allocation of Allowance for Credit Losses (20F-122)

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, 2000.

	At March 31,									
	1996		1997		1998		1999		2000	
	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	¥ 62,416	3.40%	¥ 34,268	3.28%	¥ 26,423	3.39%	¥ 74,458	3.55%	¥ 61,067	3.56%
Real estate	125,317	7.98	208,666	8.24	118,511	8.85	280,472	9.32	297,208	9.02
Service	52,557	10.29	111,630	10.08	63,952	9.23	147,513	8.81	117,125	9.30
Bank and other financial institutions	487,373	7.38	391,613	6.65	56,662	5.30	76,868	5.27	32,301	5.35
Other	163,461	32.06	103,044	30.45	178,189	31.21	358,879	34.47	314,763	35.88
Consumer	33,307	13.99	20,938	13.43	69,769	13.59	74,016	14.58	141,536	16.77
Foreign:										
Governments and official institutions	35,260	2.15	25,320	1.72	16,480	0.83	27,860	0.74	13,668	0.54
Bank and other financial institutions	9,435	1.86	11,078	2.71	22,118	2.53	23,736	1.14	6,828	1.18
Commercial and industrial	119,859	17.68	140,432	19.72	177,693	21.13	187,470	19.21	117,340	17.06
Other	37,727	3.21	15,457	3.72	30,526	3.94	39,385	2.91	35,345	1.34
Total	¥1,126,712	100.00%	¥1,062,446	100.00%	¥760,323	100.00%	¥1,290,657	100.00%	¥1,137,181	100.00%
Allowance as a percentage of loans	2.37%		2.16%		1.57%		2.82%		2.78%	
Allowance as a percentage of nonaccrual and restructured loans and accruing loans contractually past due 90 days or more	52.32%		56.49%		61.84%		56.9%		59.15%	

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. The unallocated allowance is included in "Other" of the above loan category. Accordingly, as the evaluation of credit risks changes, allocations of the allowance will be changed to reflect current conditions.

3. Risk Management

3.1 Notional Principal Amounts of Derivatives Financial Instruments (20F-92)

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, 1999 and 2000:

	1999			2000		
	Trading	Asset/Liability management	Total	Trading	Asset/Liability management	Total
			(in billions)			
Interest rate contracts:						
Forward and futures	¥145,411	¥ 6	¥145,417	¥140,556	¥ 6	¥140,562
Swap and swap-related products	144,555	428	144,983	142,613	404	143,017
Options written	17,684	243	17,927	16,166	67	16,233
Options purchased	13,798	413	14,211	12,282	102	12,384
Total	¥321,448	¥1,090	¥322,538	¥311,617	¥579	¥312,196
Foreign exchange contracts:						
Forward and futures						
Purchase	¥ 18,815	¥ 136	¥ 18,951	¥ 13,652	¥ 64	¥ 13,716
Sell	16,843	132	16,975	13,219	128	13,347
Swaps	8,177	40	8,217	7,309	14	7,323
Options written	2,419	—	2,419	2,048	—	2,048
Options purchased	2,986	—	2,986	2,044	—	2,044
Total	¥ 49,240	¥ 308	¥ 49,548	¥ 38,272	¥206	¥ 38,478

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 ¥2,018 billion and ¥2,080 billion, respectively, at March 31, 1999 and 2000.

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, 2000 principally expire within two years. Approximately 36% of swap contracts outstanding at March 31, 2000 will expire within one year, 47% from one year to five years and 17% after five years.

3.2 Estimated Fair Values of Financial Instruments (20F-102)

The following is a summary of carrying amounts and estimated fair values of financial instruments at March 31, 1999 and 2000:

	1999		2000	
	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	¥ 8,096	¥ 8,096	¥ 8,259	¥ 8,259
Trading securities	2,580	2,580	4,636	4,636
Receivables for securities provided as collateral	1,411	1,411	1,025	1,025
Investment securities	12,817	12,823	14,532	14,538
Loans, net of allowance for credit losses	44,429	44,537	39,830	39,857
Other financial assets	999	999	998	998
Derivative financial instruments:				
Trading activities	2,467	2,467	1,731	1,731
Asset and liability management activities	45	50	11	13
Financial liabilities:				
Non-interest-bearing deposits, call money and funds purchased, and payables under repurchase agreements and securities lending transactions	9,398	9,398	8,443	8,443
Interest-bearing deposits	41,575	41,624	40,451	40,476
Debentures	5,016	5,099	4,544	4,596
Trading securities sold, not yet purchased	1,763	1,763	1,709	1,709
Obligations to return securities received as collateral	4,062	4,062	2,985	2,985
Other short-term borrowings	2,390	2,390	1,489	1,489
Long-term debt	3,582	3,750	3,974	4,050
Other financial liabilities	900	900	2,866	2,866
Derivative financial instruments:				
Trading activities	2,020	2,020	1,518	1,518
Asset and liability management activities	39	40	3	15

3.3 Estimated Fair Values of Trading Derivatives (20F-61,62)

The following table shows trading account assets and liabilities, carried at estimated fair value, at March 31, 1999 and 2000. For trading derivative contracts executed under legally enforceable master netting agreements, related assets and liabilities are bilaterally offset and reported net by counterparty.

	1999	2000
	(in millions)	
Trading account assets:		
Trading securities, principally Japanese government obligations and money market instruments	¥ 2,579,942	¥ 4,636,375
Trading derivative assets:		
Interest rate contracts:		
Forward and futures	34,097	32,357
Swap and swap-related products	2,592,032	1,728,987
Options purchased	117,021	75,781
Total	2,743,150	1,837,125
Foreign exchange contracts:		
Forward and futures	919,106	500,273
Swaps	502,034	504,041
Options purchased	50,652	29,870
Total	1,471,792	1,034,184
Other contracts, mainly equity and credit-related contracts	221,159	57,382
Bilateral netting of derivatives under master netting agreements	(1,969,000)	(1,197,361)
Total	¥ 5,047,043	¥ 6,367,705
Trading account liabilities:		
Trading securities sold, not yet purchased	¥ 1,762,870	¥ 1,709,044
Trading derivative liabilities:		
Interest rate contracts:		
Forward and futures	28,529	38,448
Swap and swap-related products	2,193,965	1,514,742
Options written	128,773	83,421
Total	2,351,267	1,636,611
Foreign exchange contracts:		
Forward and futures	695,861	514,331
Swaps	669,864	422,907
Options written	56,382	38,231
Total	1,422,107	975,469
Other contracts, mainly equity and credit-related contracts	215,185	103,741
Bilateral netting of derivatives under master netting agreements	(1,969,000)	(1,197,361)
Total	¥ 3,782,429	¥ 3,227,504

See Note 27 for the methodologies and assumptions used to estimate the fair values.

For the years ended March 31, 1999 and 2000, the average estimated fair values of derivative financial instruments included in trading activities were as follows:

	For the year ended March 31,	
	1999	2000
	(in billions)	
Trading derivative assets:		
Interest rate contracts:		
Forward and futures	¥ 43	¥ 25
Swap and swap-related products	2,744	2,143
Options purchased	154	95
Total interest rate contracts	2,941	2,263
Foreign exchange contracts:		
Forward and futures	1,273	749
Swaps	565	501
Options purchased	94	43
Total foreign exchange contracts	1,932	1,293
Other contracts, mainly equity and credit-related contracts	125	162
Bilateral netting of derivatives	(2,166)	(1,589)
Total	¥ 2,832	¥ 2,129
Trading derivative liabilities:		
Interest rate contracts:		
Forward and futures	¥ 36	¥ 26
Swap and swap-related products	2,058	1,854
Options written	158	103
Total interest rate contracts	2,252	1,983
Foreign exchange contracts:		
Forward and futures	1,091	674
Swaps	931	554
Options written	98	48
Total foreign exchange contracts	2,120	1,276
Other contracts, mainly equity and credit-related contracts	114	179
Bilateral netting of derivatives	(2,166)	(1,589)
Total	¥ 2,320	¥ 1,849

3.4 Estimated Fair Values of Investment Securities (20F-63, 64)

The amortized cost and estimated fair values of investment securities at March 31, 1999 and 2000 are as follows:

	1999				2000			
	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	¥ 2,680,777	¥ 50,374	¥ 2,680	¥ 2,728,471	¥ 3,575,469	¥ 17,793	¥ 4,000	¥ 3,589,262
Japanese prefectural and municipal bonds	126,468	10,992	731	136,729	142,856	1,912	41	144,727
Foreign governments and official institutions bonds	975,346	23,474	14,569	984,251	677,162	7,257	11,925	672,494
Corporate bonds	771,250	26,810	12,029	786,031	957,976	192,721	2,610	1,148,087
Mortgage-backed securities	1,235,576	14,708	1,652	1,248,632	1,042,443	825	15,572	1,027,696
Other debt securities	85,202	2,666	3,998	83,870	299,971	18,165	10,277	307,859
Marketable equity securities	4,446,554	2,049,962	300,821	6,195,695	4,450,602	2,702,737	29,125	7,124,214
Total securities available for sale	10,321,173	2,178,986	336,480	12,163,679	11,146,479	2,941,410	73,550	14,014,339
Securities being held to maturity—debt securities:								
Foreign governments and official institutions bonds	146,587	4,427	1,546	149,468	92,761	2,075	949	93,887
Corporate bonds	338,746	4,651	2,098	341,299	259,126	5,357	1,476	263,007
Other debt securities	41,114	779	—	41,893	56,762	992	—	57,754
Total securities being held to maturity	526,447	9,857	3,644	532,660	408,649	8,424	2,425	414,648
Other investment securities—nonmarketable equity securities	126,977	—	—	126,977	109,455	—	—	109,455
Total	¥10,974,597	¥2,188,843	¥340,124	¥12,823,316	¥11,664,583	¥2,949,834	¥75,975	¥14,538,442

See Note 27 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, 2000 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	¥117,760	¥118,933	¥1,684,617	¥1,733,123
Due from one year to five years	194,270	195,349	3,911,395	4,034,403
Due from five years to ten years	87,728	91,276	891,770	914,012
Due after ten years	8,891	9,090	208,095	208,587
Total	¥408,649	¥414,648	¥6,695,877	¥6,890,125

4. Segment Information

4.1 Average Balance Sheets, Interest and Average Rates (20F-108, 109)

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,								
	1998			1999			2000		
	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	¥ 365,066	¥ 18,957	5.19%	¥ 546,758	¥ 18,512	3.39%	¥ 257,027	¥ 6,339	2.47%
Foreign	10,305,008	364,091	3.53	5,665,082	205,403	3.63	3,209,671	99,572	3.10
Total	10,670,074	383,048	3.59	6,211,840	223,915	3.60	3,466,698	105,911	3.06
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions:									
Domestic	2,924,890	19,276	0.66	2,549,864	15,324	0.60	1,561,292	7,093	0.45
Foreign	1,356,380	91,472	6.74	2,029,799	157,798	7.77	1,451,043	88,621	6.11
Total	4,281,270	110,748	2.59	4,579,663	173,122	3.78	3,012,335	95,714	3.18
Trading securities:									
Domestic	1,033,712	9,458	0.91	1,158,718	4,244	0.37	1,790,464	4,429	0.25
Foreign	801,668	9,555	1.19	768,016	25,545	3.33	624,767	8,683	1.39
Total	1,835,380	19,013	1.04	1,926,734	29,789	1.55	2,415,231	13,112	0.54
Investment securities:									
Domestic	8,250,745	108,079	1.31	8,884,110	104,245	1.17	12,220,979	113,436	0.93
Foreign	3,264,701	198,621	6.08	3,388,286	212,863	6.28	2,582,139	165,511	6.41
Total	11,515,446	306,700	2.66	12,272,396	317,108	2.58	14,803,118	278,947	1.88
Loans (see Note):									
Domestic	35,842,828	731,384	2.04	34,905,665	699,641	2.00	34,355,981	659,704	1.92
Foreign	13,317,245	916,284	6.88	13,401,270	898,725	6.71	9,050,551	633,640	7.00
Total	49,160,073	1,647,668	3.35	48,306,935	1,598,366	3.31	43,406,532	1,293,344	2.98
Total interest-earning assets:									
Domestic	48,417,241	887,154	1.83	48,045,115	841,966	1.75	50,185,743	791,001	1.58
Foreign	29,045,002	1,580,023	5.44	25,252,453	1,500,334	5.94	16,918,171	996,027	5.89
Total	77,462,243	2,467,177	3.19	73,297,568	2,342,300	3.20	67,103,914	1,787,028	2.66
Non-interest-earning assets:									
Cash and due from banks	1,170,063			1,169,531			1,233,412		
Other non-interest-earning assets	6,660,102			8,514,084			6,934,621		
Allowance for credit losses	(986,988)			(889,885)			(1,382,781)		
Total non-interest-earning assets	6,843,177			8,793,730			6,785,252		
Total average assets	¥84,305,420			¥82,091,298			¥73,889,166		

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.

	Year ended March 31,								
	1998			1999			2000		
	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	¥30,232,134	¥ 262,788	0.87%	¥33,228,280	¥ 249,133	0.75%	¥33,299,918	¥153,191	0.46%
Foreign	19,822,197	961,094	4.85	13,129,637	612,347	4.66	9,280,904	337,942	3.64
Total	50,054,331	1,223,882	2.45	46,357,917	861,480	1.86	42,580,822	491,133	1.15
Debentures— Domestic	6,170,050	101,736	1.65	5,375,976	66,818	1.24	4,940,270	51,852	1.05
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:									
Domestic	6,148,888	35,790	0.58	4,845,252	25,362	0.52	2,376,869	11,767	0.50
Foreign	1,564,263	91,210	5.83	2,171,884	163,913	7.55	1,889,972	86,408	4.57
Total	7,713,151	127,000	1.65	7,017,136	189,275	2.70	4,266,841	98,175	2.30
Other short-term borrowings and securities sold, not yet purchased:									
Domestic	2,154,078	8,346	0.39	4,146,087	35,671	0.86	2,800,204	42,645	1.52
Foreign	1,744,135	71,516	4.10	1,063,367	67,584	6.36	792,294	39,929	5.04
Total	3,898,213	79,862	2.05	5,209,454	103,255	1.98	3,592,498	82,574	2.30
Long-term debt:									
Domestic	1,113,731	54,089	4.86	1,336,002	54,674	4.09	1,561,769	62,151	3.98
Foreign	1,905,420	112,033	5.88	2,211,858	127,047	5.74	2,178,437	114,776	5.27
Total	3,019,151	166,122	5.50	3,547,860	181,721	5.12	3,740,206	176,927	4.73
Total interest-bearing liabilities:									
Domestic	45,818,881	462,749	1.01	48,931,597	431,658	0.88	44,979,030	321,606	0.72
Foreign	25,036,015	1,235,853	4.94	18,576,746	970,891	5.23	14,141,607	579,055	4.09
Total	70,854,896	1,698,602	2.40	67,508,343	1,402,549	2.08	59,120,637	900,661	1.52
Non-interest-bearing liabilities	10,394,614			11,921,938			11,979,654		
Shareholders' equity	3,055,910			2,661,017			2,788,875		
Total average liabilities and shareholders' equity	¥84,305,420			¥82,091,298			¥73,889,166		
Net interest income and average interest rate spread		¥ 768,575	0.79%		¥ 939,751	1.12%		¥886,367	1.14%
Net interest income as a percentage of average total interest-earning assets			0.99%			1.28%			1.32%

The percentage of average total assets attributable to foreign activities was 38.7% in fiscal 1997, 36.4% in fiscal 1998 and 25.7% in fiscal 1999.

The percentage of average total liabilities attributable to foreign activities was 40.1% in fiscal 1997, 37.7% in fiscal 1998 and 26.7% in fiscal 1999.

4.2 Loans Breakdown by Domicile and Type of Industry of Borrower (20F-114)

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, 2000. 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,				
	1996	1997	1998	1999	2000
			(in millions)		
Domestic:					
Manufacturing	¥ 6,393,794	¥ 6,172,159	¥ 6,082,231	¥ 5,956,780	¥ 5,597,318
Construction	1,619,865	1,609,534	1,639,638	1,624,933	1,460,653
Real estate	3,796,790	4,046,464	4,286,029	4,265,848	3,698,842
Services	4,894,013	4,953,125	4,468,329	4,031,474	3,813,850
Wholesale and retail	6,883,723	6,815,938	7,010,655	6,852,868	5,956,815
Banks and other financial institutions	3,514,179	3,269,644	2,565,419	2,410,410	2,193,633
Other industries	1,984,271	1,975,212	2,021,864	2,964,298	3,155,294
Consumer	6,660,833	6,600,916	6,579,240	6,670,452	6,873,500
Total domestic	35,747,468	35,442,992	34,653,405	34,777,063	32,749,905
Foreign:					
Governments and official institutions	1,022,574	847,292	401,041	337,101	223,219
Banks and other financial institutions	884,753	1,333,574	1,226,273	520,446	482,235
Commercial and industrial	8,414,296	9,691,626	10,233,599	8,789,634	6,993,928
Other	1,526,928	1,819,031	1,908,641	1,332,634	548,423
Total foreign	11,848,551	13,691,523	13,769,554	10,979,815	8,247,805
Total	47,596,019	49,134,515	48,422,959	45,756,878	40,997,710
Less unearned income and deferred loan fees	52,615	55,606	69,132	36,760	30,205
Total	¥47,543,404	¥49,078,909	¥48,353,827	¥45,720,118	¥40,967,505

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, credit card and leasing 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.

4.3 Geographical Breakdown (20F-100)

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, 1998, 1999 and 2000, and estimated gross revenue, total expenses, income or loss before income taxes 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 31, 1998:						
Total revenue	¥ 1,314,911	¥ 719,552	¥ 494,523	¥ 346,842	¥ 135,127	¥ 3,010,955
Total expenses	2,509,111	643,566	481,768	458,890	129,922	4,223,257
Income (loss) before income tax expense or benefit	(1,194,200)	75,986	12,755	(112,048)	5,205	(1,212,302)
Net income (loss)	(715,158)	39,620	9,733	(114,732)	6,800	(773,737)
Total assets at end of year	58,553,531	10,795,262	9,477,950	5,761,495	2,225,942	86,814,180
Year ended March 31, 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	54,475,345	8,601,225	5,745,806	3,145,968	2,242,413	74,210,757
Year ended March 31, 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	56,109,533	7,778,835	3,490,671	2,865,499	1,557,601	71,802,139

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

4.4 Cross-Border Outstandings and Commitments to Certain East Asian Countries (20F-118)

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

	Affiliates of Japanese corporations (See note)	Local corporations and sovereign	Local financial institutions	Total cross-border outstanding	Commitments
			(in billions)		
At March 31, 1999:					
South Korea	¥ 2.5	¥125.1	¥192.9	¥320.5	¥ 1.8
Indonesia	49.3	84.3	10.0	143.6	15.0
Thailand	190.8	115.7	15.3	321.8	21.7
Malaysia	76.7	49.0	3.5	129.2	1.2
Phillippines	27.6	19.3	17.2	64.1	14.4
Hong Kong	321.7	229.1	2.9	553.7	47.1
China	152.0	72.7	51.8	276.5	64.0
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

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.

4.5 Trading Profits (20F-63)

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, 1998, 1999 and 2000, comprised the following:

	1998	1999	2000
		(in billions)	
Interest rate and other contracts	¥269.5	¥ 80.2	¥ 4.3
Foreign exchange contracts	(41.4)	0.2	76.3
Trading securities	(0.9)	32.8	(22.8)
Net trading gains	¥227.2	¥113.2	¥ 57.8

4.6 Business Segments' Information (20F-97)

The financial performances of the Group's business units, derived from the internal management reporting system, are summarized below. Due to the introduction of a business unit structures during the year ended March 31, 1999, business segment results for the prior years are not available and, accordingly, the business segment disclosures are presented for the years ended March 31, 1999 and 2000 only. Management does not use information on segments' total assets to allocate resources and assess performance and business segments' information on total assets is also not available.

	Domestic Customers	Overseas Customers	Treasury	Investment Banking	Asset Management	Global Service Banking	Administration and Adjustments	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	(22,432)	101,731
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	(55,473)	1,243,712
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	¥ (96,581)	¥ 534,878

5. Severance Indemnities and Pension Plans (20F-80, 81)

Net periodic cost of the severance indemnities and pension plans, net of contributions made by employees, for the years ended March 31, 1998, 1999 and 2000 included the following components:

	1998	1999	2000
		(in millions)	
Service cost—benefits earned during the year	¥ 16,441	¥23,019	¥ 21,773
Interest costs on projected benefit obligation	21,610	20,069	21,730
Expected return on plan assets	(10,219)	(6,950)	(18,275)
Amortization of unrecognized net obligation at transition	2,298	2,293	2,293
Amortization of prior service cost	3,870	3,885	4,088
Amortization of net actuarial loss	4,837	9,822	6,587
Net periodic benefit cost	¥ 38,837	¥52,138	¥ 38,196

	1997	1998	1999
Weighted-average assumptions at December 31:			
Discount rates	2.90%	3.30%	3.10%
Rates of increase in future compensation	3.39%	3.30%	2.58%
Expected rates of return on plan assets	3.36%	1.98%	5.05%

The following table sets forth the funded status and amounts recognized in the Bank's consolidated balance sheets at March 31, 1999 and 2000 for the plans of the Bank and certain domestic subsidiaries:

	1999		2000	
	Severance indemnities plans and non-contributory pension plan	Contributory pension plans	Severance indemnities plans and non-contributory pension plan	Contributory pension plans
	(in millions)			
Change in benefit obligation:				
Benefit obligation at January 1, 1998 and 1999	¥ 89,420	¥612,699	¥ 85,522	¥584,151
Service cost	7,113	15,906	8,103	13,670
Interest cost	2,486	17,583	2,688	19,042
Plan participants' contributions	—	2,480	—	2,424
Actuarial (gain) loss	(2,347)	(52,466)	23,139	(58,210)
Benefits paid	(11,150)	(12,051)	(11,279)	(13,196)
Benefit obligation at December 31, 1998 and 1999	85,522	584,151	108,173	547,881
Change in plan assets:				
Fair value of plan assets at January 1, 1998 and 1999	11,845	324,995	11,489	347,188
Actual return on plan assets	395	(3,344)	382	52,815
Employer contribution	—	35,108	—	30,486
Plan participants' contributions	—	2,480	—	2,424
Benefits paid	(751)	(12,051)	(794)	(13,353)
Fair value of plan assets at December 31, 1998 and 1999	11,489	347,188	11,077	419,560
Projected benefit obligation in excess of plan assets at December 31, 1998 and 1999	(74,033)	(236,963)	(97,096)	(128,321)
Contributions to or benefits paid from plan assets during the three month periods ended March 31, 1999 and 2000	494	6,109	1,934	4,693
Unrecognized net actuarial loss	13,504	136,014	33,823	37,135
Unrecognized prior service cost	2,259	39,049	2,046	35,376
Unrecognized net (asset) obligation at transition	(3,601)	17,097	(3,045)	14,249
Net amount recognized	¥(61,377)	¥ (38,694)	¥(62,338)	¥ (36,868)
Amounts recognized in the balance sheets:				
Accrued benefit liability	(62,109)	(177,134)	(87,532)	(102,765)
Intangible assets	732	56,146	2,045	48,361
Accumulated other changes in equity from nonowner sources	—	82,294	23,149	17,535
Net amount recognized	¥(61,377)	¥ (38,694)	¥(62,338)	¥ (36,869)

Note—The aggregated accumulated benefit obligations of these plans were ¥584,850 million and ¥623,001 million, respectively, at March 31, 1999 and 2000.

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, 2000

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:

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")[1]
American Depositary Shares ("ADSs") each of which represents one Share	NYSE

(1) The listing of the registrant's Shares on the NYSE is 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:
None

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:

4,675,455,546 Shares of Common Stock at March 31, 2000

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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American Depositary Shares ("ADSs") representing shares of Common Stock, par value ¥50 per share (the "Shares"), of The Bank of Tokyo-Mitsubishi, Ltd. (the "Bank") are listed on the New York Stock Exchange. Each ADS represents one Share. The ADSs are evidenced by American Depositary Receipts ("ADRs") issued by The Bank of New York acting as depositary (the "Depositary"). The Shares underlying the ADSs are held by the Bank acting as custodian (the "Custodian") at its principal office in Tokyo.

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"). 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" and "our", we mean The Bank and its subsidiaries.

When we refer in this Annual Report to "yen" or "¥" we mean Japanese yen, when we refer to "US$," "$" or "US dollars", we mean to United States dollars. For convenience, this Annual Report contains translations of certain yen amounts into US dollars at specified rates. You should not take these translations as meaning that the yen amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. Unless stated otherwise, we have translated yen into US dollars at the rate of ¥102.73 = 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 31, 2000. See "Exchange Rates" for information regarding the rates of exchange between the yen and the US dollar for each of the five years in the period ended March 31, 2000.

Our fiscal year ends on March 31. We refer to the fiscal year ended March 31, 2000 throughout this Annual Report as fiscal 1999 or the 1999 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 the Bank in June of each year in Tokyo.

SELECTED FINANCIAL DATA

	Years ended March 31,				
	1996	1997	1998	1999	2000
	(in millions except per share data and percentages)				
Income statement data:					
Interest income	¥ 2,761,379	¥ 2,401,944	¥ 2,467,177	¥ 2,342,300	¥ 1,787,028
Interest expense	1,944,168	1,648,239	1,698,602	1,402,549	900,661
Net interest income	817,211	753,705	768,575	939,751	886,367
Provision for credit losses	521,704	393,681	1,356,231	919,427	368,639
Net interest income after provision for credit losses	295,507	360,024	(587,656)	20,324	517,728
Non-interest income	688,377	552,304	543,778	514,421	539,109
Non-interest expense	857,754	825,168	1,168,424	1,022,499	927,727
Income (loss) before income tax expense or benefit	126,130	87,160	(1,212,302)	(487,754)	129,110
Income tax expense (benefit)	81,848	54,833	(438,565)	(143,331)	93,635
Net income (loss)	¥ 44,282	¥ 32,327	¥ (773,737)	¥ (344,423)	¥ 35,475
Amounts per share:					
Earnings (loss) per common share—basic	¥ 9.56	¥ 6.94	¥ (165.67)	¥ (73.67)	¥ 6.59
Earnings (loss) per common share—assuming dilution	¥ 9.39	¥ 6.94	¥ (165.67)	¥ (73.67)	¥ 3.73
Number of shares used to calculate earnings per share (thousands of shares):					
—Earnings (loss) per common share—basic	4,630,435	4,657,636	4,670,457	4,675,446	4,675,442
—Earnings (loss) per common share—assuming dilution	4,633,071	4,657,641	4,670,457	4,675,446	4,822,435
Cash dividends declared during the year:					
—Common share	¥ 8.50	¥ 8.50	¥ 8.50	¥ 8.50	¥ 8.50
—Preferred share (Class 1)	—	—	—	—	57.12
Balance sheet data at year-end:					
Total assets	¥81,098,283	¥83,570,035	¥86,814,180	¥74,210,757	¥ 71,802,139
Loans, net of allowance for credit losses	46,416,692	48,016,463	47,593,504	44,429,461	39,830,324
Total liabilities	77,237,028	80,004,959	84,070,501	71,569,070	68,607,979
Deposits	49,224,420	52,349,890	54,143,458	46,102,053	45,159,956
Shareholders' equity	3,847,357	3,549,402	2,743,679	2,641,687	3,194,160
Average balances:					
Interest-earning assets	¥71,031,315	¥73,240,206	¥77,462,243	¥73,297,568	¥ 67,103,914
Interest-bearing liabilities	65,131,549	65,984,908	70,854,896	67,508,343	59,120,637
Total assets	79,587,204	80,088,763	84,305,420	82,091,298	73,889,166
Shareholders' equity	3,628,572	3,699,494	3,055,910	2,661,017	2,788,875
Return on equity and assets:					
Net income (loss) as a percentage of total average assets	0.06%	0.04%	(0.92)%	(0.42)%	0.05%
Net income (loss) as a percentage of average shareholders' equity	1.22%	0.87%	(25.32)%	(12.94)%	1.27%
Dividends per common share as a percentage of earnings per common share—basic	88.91%	122.48%	nm	nm	128.98%
Average shareholders' equity as a percentage of total average assets	4.56%	4.62%	3.62 %	3.24%	3.77%
Net interest income as a percentage of total average interest-earning assets	1.15%	1.03%	0.99 %	1.28%	1.32%
Credit quality data:					
Allowance for credit losses	¥ 1,126,712	¥ 1,062,446	¥ 760,323	¥ 1,290,657	¥ 1,137,181
Allowance for credit losses as a percentage of loans	2.37%	2.16%	1.57 %	2.82%	2.78%
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 2,153,676	¥ 1,880,848	¥ 1,229,410	¥ 2,268,563	¥ 1,922,645
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	4.53%	3.83%	2.54 %	4.96%	4.69%
Net loan charge-offs	¥ 213,195	¥ 487,803	¥ 1,670,448	¥ 348,574	¥ 506,879
Net loan charge-offs as a percentage of average loans	0.47%	1.03%	3.40 %	0.72%	1.17%
Average interest rate spread	0.91%	0.78%	0.79 %	1.12%	1.14%
Risk-adjusted capital ratio calculated under Japanese GAAP	9.93%	9.28%	8.53 %	10.47%	11.46%

nm = not meaningful

These financial data (except for average balance information for all periods presented and the risk-adjusted capital ratio calculated under accounting principles generally accepted in Japan (“Japanese GAAP”) for the year ended March 31, 1996) are derived from our audited consolidated financial statements.

Effective March 31, 1998, we 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 January 1, 1998, we adopted SFAS No.125 “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” as amended by SFAS No. 127 with respect to the accounting for repurchase agreements, securities lending, and similar transactions and for collateral arrangements under secured financing. At March 31, 1998, its effect was an increase in total assets and total liabilities of ¥1,599 billion.

FORWARD-LOOKING STATEMENTS

This Annual Report contains statements that constitute forward-looking statements. 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 officers 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. Such statements reflect our current views of 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 herein 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business" and "Supervision and Regulation", and elsewhere some (but not necessarily all) of the important factors that could cause these differences.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Years Ended March 31, 1998, 1999 and 2000

Recent Developments

Integrations and Mergers among Japan's Major Banks

The Bank of Tokyo-Mitsubishi, Ltd. (the "Bank") and The Mitsubishi Trust and Banking Corporation announced their agreement in principle to integrate their operations by establishing a bank holding company. In terms of total trust assets, The Mitsubishi Trust and Banking Corporation is one of Japan's largest trust banks and provides a full range of banking services and trust services in Japan and overseas. The Mitsubishi Trust and Banking Corporation is not an affiliate of the bank and its operations are conducted independently. The proposed agreement also includes the merger of The Mitsubishi Trust and Banking Corporation, Nippon Trust Bank Limited and The Tokyo Trust Bank, Ltd. Both Nippon Trust Bank Limited and The Tokyo Trust Bank, Ltd. have been consolidated subsidiaries of the Bank. Based on the proposed plan, in April 2001, the Bank, The Mitsubishi Trust and Banking Corporation and Nippon Trust Bank Limited will jointly establish a holding company under which the three banks will become wholly-owned subsidiaries of the holding company through a stock-for-stock exchange. The holding company's official name is planned to be "Mitsubishi Tokyo Financial Group, Inc." As a second step, Nippon Trust Bank Limited and The Tokyo Trust Bank, Ltd. will be merged with and into The Mitsubishi Trust and Banking Corporation no later than October 2001. The proposed transaction is subject to a number of conditions, including the execution of a definitive agreement, approval by shareholders of each respective company and clearance by governmental regulatory authorities.

The integration plan announced by the Bank and The Mitsubishi Trust and Banking Corporation is one of a number of announcements of integrations and mergers among other major Japanese banks mentioned below.

On August 19, 1999, three of Japan's larger banks, Industrial Bank of Japan, Fuji Bank and Dai-Ichi Kangyo Bank, announced a plan to consolidate and gradually merge their operations by the spring of 2002. The three institutions plan to form a holding company, Mizuho Holdings, that will exchange its shares for shares in the three banks in late 2000. Their operations will be reorganized into retail banking, investment banking and other areas in April 2002.

On October 14, 1999, Sumitomo Bank and Sakura Bank, two of Japan's larger banks, announced a plan to merge in 2002, and on April 21, 2000 the two banks decided to accelerate the merger to April 2001, one year earlier than originally planned. The name of the combined bank will be Mitsui Sumitomo Bank.

On June 15, 2000, Sanwa Bank, and Tokai Bank announced a plan to merge their operations.

When the series of alliances announced by Japan's leading banks is accomplished, the Japanese banking sector will be dominated by these four main camps.

Other Developments in the Japanese Banking Industry

On March 1, 2000, the Long-Term Credit Bank of Japan, which was placed under special public management (temporary nationalization) in October 1998, was sold to an investment group led by US-based Ripplewood Holdings. In connection with the sale, public funds of ¥240 billion were injected into the Long-Term Credit Bank of Japan in March 2000. The Long-Term Credit Bank of Japan was renamed "Shinsei Bank" on June 5, 2000.

On June 6, 2000, the Financial Reconstruction Commission announced that the Nippon Credit Bank would be sold to a consortium comprised of Softbank, Orix Corporation and Tokio Marine & Fire Insurance Company, subject to conclusion of the definitive agreement towards the end of June 2000. The Nippon Credit Bank, which was placed under special public management in December 1998, will receive public funds in connection with the sale. The new bank is expected to start operations in August 2000.

Other nonbanking organizations also have announced their plans to enter the Japanese banking market by establishing a new type of bank. On November 26, 1999, retailer Ito-Yokado applied to the Financial Supervisory Agency to obtain a bank license and establish a specialist funds clearing bank using its nationwide store chain in 2000. In addition, Sony Corporation announced on December 10, 1999, that it intends to set up an internet bank by 2001 that will handle personal deposits, small-lot loans and other services. These applications are subject to approvals by the Financial Reconstruction Commission and the Financial Supervisory Agency. The Financial Reconstruction Commission and the Financial Supervisory Agency released a draft set of licensing guidelines on May 30, 2000 that provide conditions that nonbanking organizations will be required to meet in order to enter into the banking sector.

Our New Business Strategy, Recent Reorganization and Strategic Alliances

In September 1999, we announced a new business strategy. The strategy includes restructuring all of our businesses, in Japan and overseas. It also includes developing our investment banking and asset management businesses and significantly increasing our investment in information technology. Specifically, it includes:

- Restructuring our domestic branch network, implementing a multichannel strategy to increase the quality of service while reducing costs. Corporate transactions conducted from our domestic branches will be centralized into approximately 160 commercial banking branches with retail coverage. Approximately 115 branches will be purely retail. In September 1999, we launched a new direct banking service combining telephone banking and Internet banking services.
- Restructuring our international operations by creating a hub and spoke system in each of the world's major markets: the United States, Europe, and Asia. We will completely renovate the operational systems of our overseas business, including centralizing certain parts of our operations in each of these markets, to reduce costs and to maximize efficiency.
- Reinforce our investment banking customer base in high-value-added products. The domestic market will see us strengthen our support for initial public offerings, our approach to institutional investors and our sales capabilities targeted to retail investors. In international markets, we regard Japanese and Asian issuers, investors and currencies as our core strength, and we will focus on cross-border transactions involving this core.
- Aggressively promoting retail sales of investment trust products to grow our asset management business. We intend to increase the number of branches selling these products and utilize direct channels, such as the internet. We also intend to enhance our asset management capabilities by strengthening our asset management products and services.
- Utilize state-of-the-art information technology to increase efficiency in our operations. We also intend to develop new business fields through further investment in information technology. In the four years through fiscal 2002, we intend to invest a total of approximately ¥400 billion to ¥450 billion, in software, hardware and personnel.

Effective July 1, 2000, as part of our business strategy, we implemented a new version of the business unit system that we introduced in July 1998. In July 1998, we organized our operations into the following seven separate business units: Domestic Customers, Overseas Customers, Investment Banking, Asset Management, Global Service Banking, Treasury and Administration. We discuss these business units and their business activities in greater detail in "Description of Our Business".

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

- Retail Banking
- Commercial Banking
- Global Corporate Banking
- Investment Banking
- Asset Management
- UnionBanCal Corporation
- Operations Services
- Systems Services

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 to be 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 will operate under the direct oversight of Corporate Management:

- Treasury
- eBusiness & IT Initiatives

In connection with our new strategy and as part of measures to develop our existing strengths in investing banking, we concluded several key agreements with business partners in fiscal 1999.

In December 1999, we formed a strategic alliance with Kokusai Securities, a leading securities firm in Japan. As part of the partnership, we acquired 11.99% of the common stock of Kokusai Securities to take our stake to 13.34% and become the largest shareholder. Our subsidiary, Tokyo-Mitsubishi Securities Co., Ltd., and Kokusai Securities cooperate in underwriting and distributing equity and debt securities by capitalizing on their respective strengths in the domestic securities market. We also share business knowledge with Kokusai Securities in the financial and securities business. Together, we will develop new products and services, including interest-related and currency-related derivatives and structured finance products. As part of the alliance, we plan to establish a company together to develop securities transactions systems and provide operational services for on-line securities transactions to meet the expected needs of securities companies.

On December 15, 1999, we announced our joint venture in on-line discount securities brokerage services with TD Waterhouse Group, Inc., which is a leading financial services firm and one of the world's largest discount brokers. On March 3, 2000, the joint venture was established with paid-in capital of ¥0.5 billion to take advantage of the speed and accessibility of the Internet to offer a wide array of financial services to meet the increasingly sophisticated needs of Japan's investors. We increased the capital of the joint venture to ¥5.5 billion in June 2000 and plan to start its operations shortly.

In December 1999, we also announced the formation of a strategic alliance with Lehman Brothers, a leading global investment bank, for M&A advisory activities. Together, we pursue M&A-related advisory opportunities on a worldwide basis. In addition to this alliance we and Lehman Brothers are considering opportunities to work together in the private equity business in Japan.

Other Initiatives Taken

On February 28, 2000, we repurchased undated subordinated bonds of ¥100.0 billion at 100.56% from the Resolution and Collection Corporation and cancelled the bonds. The bonds were issued in March 1998 under the "Law Concerning Emergency Measures for Stabilizing Financial Function" enacted to stabilize the financial system. Other Japanese banks have accepted government funds on a similar basis. We are the first to repay any such funds.

On February 21, 2000, the Bank issued $2,000,000,000 worth of 8.40% global senior subordinated notes due April 15, 2010 in the United States, Europe and Asia. The U.S. portion of this offering was a public offering made pursuant to a shelf registration made in November 1999.

Restructuring of Financial Assistance to Nonbank Subsidiaries

In March 2000, the Bank restructured the form in which the Bank provides financial assistance to its consolidated nonbank subsidiaries, Diamond Home Credit Co., Ltd. and Diamond Factors Limited. In the past, the Bank 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. The Bank provided ¥54.6 billion to Diamond Home Credit Co., Ltd. and ¥58.3 billion to Diamond Factors Limited of these types of financial assistance in fiscal 1999. In addition to the financial assistance made in the past, the Bank decided to increase the capital bases of nonbank subsidiaries as a new financial support measure. Under the new program, in March 2000, the Bank made capital investments of ¥109.6 billion in Diamond Home Credit Co., Ltd. and ¥0.5 billion in Diamond Factors Limited. This restructuring resulted in a significant increase in income tax expense due to the reduction in deferred tax assets previously recorded by the Bank. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Income Tax Expense (Benefit)."

Change in the Local Taxation Basis

On March 30, 2000, the Tokyo Metropolitan Assembly passed a new tax rule that changed the basis on which it taxes large banks (including the Bank) doing business in Tokyo. 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. We believe the new taxation will increase the level of tax payable by the Bank over the next five years as compared to the taxation system prior to April 1, 2000 under which banking institutions paid a local corporate tax based on their net income. With respect to effective income tax rate, however, the new taxation decreased the normal statutory rate by 3.5% to 38.5% effective April 1, 2000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Income Tax Expense (Benefit)."

On May 30, 2000, the 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.

Business Environment

We provide a wide range of banking products and other financial services in Japan and overseas. In response to the substantial and ongoing changes in the financial system, we have increased our investment banking and asset management businesses in Japan and overseas. The banking and financial services industry in which we operate 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 in Japan and other Asian countries have significantly affected our operations in recent years. Japanese financial institutions have experienced and in some cases are still experiencing protracted asset quality problems. Our operating results 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 has been in a prolonged depression and weak economic conditions have continued. Although some economic indices have shown signs for gradual improvement, personal spending, which is considered key to full recovery, has lacked the momentum to recover overall economic performance. The number of corporate bankruptcies has been increasing since late 1999, when repayment of loans extended under the special credit guarantee system began.

In expectation of an economic recovery, the Japanese stock market improved considerably during the year ended March 31, 2000, although there was a significant downturn after March 31, 2000. The advance in Japanese equity indices was partially attributable to demand by foreign investors. The Nikkei Stock Average closed the 1999 fiscal year at 20,337.32, an increase of 28.4% over 15,836.59 at March 31, 1999. The Nikkei Stock Average includes 225 blue-chip stocks listed on the Tokyo Stock Exchange. The rise in the Japanese stock prices contributed to net investment securities gains and a significant increase in unrealized gains at March 31, 2000. Subsequent to March 31, 2000, however, the Japanese equity indices dropped significantly following a steep plunge in US stock prices. On April 17, 2000, the Nikkei Stock Average fell to 19,008.64 with a one-day loss of 1,426.04, recording its fifth-largest one-day loss in history. Since the sharp drop in stock prices on April 17, 2000, the Nikkei Stock Average has hovered around 16,000 to 18,000 levels and closed at 16,332.45 on May 31, 2000.

During fiscal 1999 interest rates in domestic markets generally declined and remained at a very low level. Under the continuing zero-interest-rate policy of the central bank, the unsecured overnight call rate, an interbank market rate, at March 31, 2000 was 0.02% compared with 0.04% at March 31, 1999. The yield on 10-year government bonds, a benchmark for long-term rates, stayed below 2.0% throughout the year ended March 31, 2000.

In fiscal 1999 the yen value generally rose against the US dollar and other foreign currencies. The yen remained strong against the US dollar. It generally remained in the range of ¥100 to ¥110 per $1.00, after reaching nearly ¥120 per $1.00 in the first quarter of fiscal 1999. The yen closed the 1999 fiscal year at ¥102.73 per $1.00, a decrease of 13.3% from the fiscal 1998 year-end of ¥118.43 per $1.00. The average exchange rate for the conversion of US dollars into yen in the fiscal 1999 was ¥111.60 per $1.00, a decrease of 12.8% from the fiscal 1998 average exchange rate of ¥128.02 per $1.00.

During recent years, the Japanese real estate markets have been weak. The real estate markets affect the fair values of collateral-dependent loans and other real estate owned. In fiscal 1999 real estate prices continued to decline and the decline contributed to continued losses on other real estate owned.

The US economy continued to expand and the robust economy supported and fueled a strong stock market. The US equity markets experienced significant gains during the year ended March 31, 2000 with the continued advance of US equity indices to record levels, despite a series of interest rate hikes by the US Federal Reserve Board beginning in June 1999 and weakness in the US dollar against the Japanese yen. In the year ended March 31, 2000, the US Federal Reserve Board, citing inflation concerns, increased the overnight lending rate by 25 basis points five times, in June, August and November 1999, and in February and March 2000. Subsequent to March 31, 2000, the US equity indices tumbled sharply, and in particular the Nasdaq index fell by its largest percentage ever on

April 14, 2000. Since then, the US equity markets have been very volatile. The US Federal Reserve Board again increased the overnight lending rate by 50 basis points in May 2000. The economic conditions in European and Asian countries generally recovered in the year ended March 31, 2000. In particular, the East Asia region, in which we are active through a network of branches and subsidiaries, has been recovering from the severe economic downturn and is again growing. The South Korean economy has significantly improved with strong corporate earnings in a low interest environment. However, economic reforms in the region's countries are far from complete and the degree of risk regarding exposure to East Asian countries varies from country to country. For further discussion, see "Financial Condition—Allowance for Credit Losses, Nonperforming and Past Due Loans."

Overview

In recent years, our financial results have been largely affected by the Japan's severe economic conditions and volatility in the financial markets. In the year ended March 31, 2000, however, we returned to profitability and reported net income of ¥35.5 billion, compared with a net loss of ¥344.4 billion for the year ended March 31, 1999. The net loss of ¥344.4 billion in fiscal 1998 compared with a net loss of ¥773.7 billion for the year ended March 31, 1998.

The significant improvement in our financial results in fiscal 1999 primarily reflected a substantial decrease in expenses and losses relating to the recent economic turmoil and financial turbulence, including credit losses, impairment losses on investment securities and goodwill, despite a decline in our core earnings, net interest income. More specifically, the fiscal 1999 financial highlights are as follows:

- 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 decrease in net interest income was attributable primarily to a decrease in average interest-earning assets, particularly loans, despite a slight increase in interest margins.
- Provision for credit losses in fiscal 1999 was ¥368.6 billion, a decrease of ¥550.8 billion, or 59.9%, from ¥919.4 billion in fiscal 1998. Although corporate restructuring and bankruptcies were still at a high level during fiscal 1999, we had largely anticipated these failures and made additional provisions for credit losses in fiscal 1998. In addition, during fiscal 1999 there were no failures of large financial institutions as seen in fiscal 1998, such as the Long-Term Credit Bank of Japan, Ltd. and the Nippon Credit Bank, Ltd.
- Non-interest income in fiscal 1999 was ¥539.1 billion, an increase of ¥24.7 billion, or 4.8%, from ¥514.4 billion in fiscal 1998. The increase in non-interest income was attributable primarily to investment securities gains-net of ¥132.5 billion in fiscal 1999 owing to the rebound of Japan's equity markets while investment securities losses-net were reported in fiscal 1998 and included in the non-interest expense category. The effect of investment securities gains-net was partially offset by the absense of trading account profits-net in fiscal 1999 while trading account profits-net of ¥113.0 billion were reported in fiscal 1998. Trading account losses-net of ¥18.5 billion were reported in fiscal 1999 and are included in non-interest expense.
- Non-interest expenses in fiscal 1999 were ¥927.7 billion, a decrease of ¥94.8 billion, or 9.3%, from ¥1,022.5 billion in fiscal 1998. The decrease primarily reflected the absence of net investment securities losses in fiscal 1999 compared with net investment securities losses of ¥50.4 billion in fiscal 1998, a decrease of ¥55.7 billion in salaries and employee benefits and a decrease of ¥59.1 billion in goodwill amortization and impairment. These decreases were partially offset by an increase of ¥12.3 billion in losses on other real estate owned, and an increase of ¥45.7 billion in other non-interest expenses, including 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-downs of premises and equipment.

- Income tax expense in fiscal 1999 was ¥93.6 billion. The effective income tax rate reflected in the consolidated statements of operations in fiscal 1999 was 72.5%, compared with the effective statutory rate of 42.0%. There were two special events in fiscal 1999 that caused an increase in income tax expense in fiscal 1999 and/or will have a substantial effect on income tax expense in the future. As discussed in "Recent Developments-Restructuring of Financial Assistance to Nonbank Subsidiaries", the change in the form of financial assistance to nonbank subsidiaries resulted in an increase in income tax expense of ¥33.1 billion from the reduction in deferred tax assets previously recorded. Also, as discussed in "Recent Developments-Change in the Local Taxation Basis", the change in the basis of local taxation resulted in decreasing the effective statutory rate from 42.0% to 38.5% for computing deferred tax assets and liabilities at March 31, 2000. The tax rate change caused an increase of ¥1.3 billion in income tax expense.

We have operated as a global bank with a substantial portion of our business and customer base in foreign markets. The following table below sets forth total revenue, income (loss) before income taxes and net income (loss) on a regional basis, based principally on the domicile of activities in fiscal 1997, 1998 and 1999:

	Fiscal 1997	Fiscal 1998	Fiscal 1999
		(in billions)	
Total revenue (interest income and non-interest income):			
Domestic	¥ 1,314.9	¥1,153.9	¥1,239.4
Foreign	1,696.1	1,702.8	1,086.7
Total	¥ 3,011.0	¥2,856.7	¥2,326.1
Income (loss) before income tax expense or benefit:			
Domestic	¥(1,194.2)	¥ (703.2)	¥ (60.2)
Foreign	(18.1)	215.4	189.3
Total	¥(1,212.3)	¥ (487.8)	¥ 129.1
Net income (loss)			
Domestic	¥ (715.2)	¥ (414.2)	¥ (113.8)
Foreign	(58.5)	69.8	149.3
Total	¥ (773.7)	¥ (344.4)	¥ 35.5

Domestic total revenue in fiscal 1999 increased ¥85.5 billion, or 7.4%, to ¥1,239.4 billion from ¥1,153.9 billion in fiscal 1998. Domestic total revenue in fiscal 1998 decreased ¥161.0 billion, or 12.2%, from ¥1,314.9 billion in fiscal 1997. The fiscal 1999 increase in domestic total revenue was attributable primarily to an increase in non-interest income, particularly investment securities gains-net, offset by a decrease in interest income. The fiscal 1998 decrease was due primarily to a decrease in interest income resulting mainly from a continued decline in rate of interest earned on interest-earning assets under the lower interest rate environment in Japan.

Foreign total revenue in fiscal 1999 decreased ¥616.1 billion, or 36.2%, to ¥1,086.7 billion from ¥1,702.8 billion in fiscal 1998. Foreign total revenue in fiscal 1998 increased ¥6.7 billion, or 0.4%, from ¥1,696.1 billion in fiscal 1997. The fiscal 1999 decrease in foreign total 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. The fiscal 1998 decrease in foreign total revenue was due primarily to a decrease in interest income resulting from lower average interest-earning assets.

Loss before income taxes from domestic operations in fiscal 1999 was ¥60.2 billion, a decrease of ¥643.0 billion from ¥703.2 billion in fiscal 1998. Loss before income tax benefit from domestic operations in fiscal 1998 decreased ¥491.0 billion from ¥1,194.2 billion in fiscal 1997. 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, the absence of goodwill impairment 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. The fiscal 1998 decrease in loss from domestic operations primarily resulted from an increase in net interest income, a decrease in provision for credit losses and a decrease in other expenses, including investment securities losses-net and goodwill impairment.

Income before income taxes from foreign operations in fiscal 1999 was ¥189.3 billion, a decrease of ¥26.1 billion from ¥215.4 billion in fiscal 1998. Income before income taxes from foreign operations in fiscal 1998 increased ¥233.5 billion from a ¥18.1 billion loss before income taxes in fiscal 1997. The fiscal 1999 decrease in income was due primarily to a decrease in net interest income resulting from a decrease in average interest-earning assets. The fiscal 1998 increase was due primarily to strong earnings in the United States markets which more than offset a decline in our performance in emerging markets.

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 to the US dollar and other foreign currencies. Foreign assets are denominated primarily in US dollars. The following table shows total assets at March 31, 1999 and 2000 by geographic region based principally on the domicile of the obligors:

	At March 31,	
	1999	2000
	(in trillions)	
Japan	¥54.47	¥56.11
Foreign	19.74	15.69
Total	¥74.21	¥71.80

At March 31, 2000, the Noon Buying Rate was ¥102.73 per $1.00, as compared to ¥118.43 per $1.00 at March 31, 1999. 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.

Total assets at March 31, 2000 were ¥71.80 trillion, representing a decrease of ¥2.41 trillion, or 3.2%, from ¥74.21 trillion at March 31, 1999. Total liabilities at March 31, 2000 were ¥68.61 trillion, representing a decrease of ¥2.96 trillion, or 4.1%, from ¥71.57 trillion at March 31, 1999. The fiscal 1999 decrease of ¥2.41 trillion in total assets resulted primarily from a decrease of ¥4.75 trillion in loans (before allowance for credit losses). The decrease in loans was partially offset by an increase of ¥1.50 trillion in interest-earning deposits in other banks, and an increase of ¥1.32 trillion in trading account assets.

The fiscal 1999 decrease of ¥2.96 trillion in total liabilities primarily included a decrease of ¥0.94 billion in deposits, a decrease of ¥2.04 billion 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, and a decrease of ¥1.08 trillion in obligations to return securities received as collateral. Such 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 which resulted mainly from an increase in accounts payable relating to securities transactions.

The appreciation of the yen against the US dollar and other foreign currencies decreased the yen values for assets by approximately ¥3.2 trillion and the yen values for liabilities denominated in foreign currencies by approximately ¥2.8 trillion. During fiscal 1999, loans (before allowance for credit losses) decreased ¥4.75 trillion, or 10.4%, from ¥45.72 trillion at March 31, 1999 to ¥40.97 trillion at March 31, 2000. The decrease of ¥4.75 trillion in loans comprised a decrease of ¥2.03 trillion in domestic loans due primarily to the weak domestic markets and a decrease of ¥2.72 trillion in foreign loans due primarily to the effect of the yen appreciation.

Investment securities increased ¥1.71 trillion, or 13.3%, from ¥12.82 trillion at March 31, 1999 to ¥14.53 trillion at March 31, 2000. The increase of ¥1.71 trillion in investment securities primarily reflected an increase in government financial bills and one-year treasury bills, and an increase in fair value of marketable equity securities primarily resulting from the recovery in Japan's stock markets.

At March 31, 2000, shareholders' equity was ¥3.19 trillion, an increase of ¥0.55 trillion, or 20.8%, from ¥2.64 trillion at March 31, 1999. The increase of ¥0.55 trillion was due primarily to changes in equity from nonowner sources (''other comprehensive income'') of ¥0.60 trillion in fiscal 1999. Other comprehensive income resulted mainly from net unrealized gains of ¥0.59 trillion on investment securities available for sale.

The average exchange rate for the conversion of US dollar amounts into yen for the year ended March 31, 2000 was ¥111.60 per $1.00, a decrease of 12.8% from fiscal 1998 average rate of ¥128.02 per $1.00. As a result, yen amounts for transactions denominated in US dollars decreased. Due to the appreciation of the yen against US dollar and other foreign currencies, our total revenue, net interest income and income before income taxes for fiscal 1999 experienced translation losses of approximately ¥127.7 billion, ¥733.9 billion and ¥134.1 billion, respectively, as compared with the corresponding amounts in fiscal 1998.

Business Segment Analysis

Effective April 1, 1998, we adopted Statement of Financial Accounting Standards No.131, ''Disclosures about Segments of an Enterprise and Related Information.'' The Statement requires the reporting financial information on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments.

We measure performance of each business unit by ''operating profit'' which is a defined term in the Bank's regulatory reporting to the Financial Supervisory Agency of Japan. Operating profit and other segment information is based on Japanese GAAP and is not consistent with the consolidated financial statements prepared on the basis of US GAAP. Net revenue and operating expenses included in the measure of ''operating profit'' are also defined and the components are discussed in Note 25 of the notes to the Consolidated Financial Statements.

The following table shows the business segment information used by the Group executive management with respect to the years ended March 31, 1999 and 2000.

	Domestic Customers	Overseas Customers	Treasury	Investment Banking	Asset Management	Global Service Banking	Administration and Adjustments	Segments' Total
					(in billions)			
Year ended March 31, 1999:								
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
Year ended March 31, 2000:								
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

Note—A reconciliation of segments' total operating profit with income (loss) before income tax expense or benefit is included in Note 25 of the notes to the Consolidated Financial Statements.

When the business units work together in connection with providing services to customers, we do not apportion the net revenue relating to any particular transactions among the participating business units. Our 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 "Administration and Adjustments" column. The following is the summary of the aggregate amounts of such overlapping allocation of net revenue for the years ended March 31, 1999 and 2000.

	Domestic Customers	Overseas Customers	Global Service Banking	Total amount eliminated
Year ended March 31, 1999:				
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
Year ended March 31, 2000:				
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

As discussed in "Recent Developments", in July 1998, we organized our business operations into the seven business units described above. We discuss these business units and their business activities in a greater deal in "Description of Our Business". On July 1, 2000, we again restructured our operations. We now offer our products and services through eight different business units. We discuss these business units further in "Description of Our Business".

Our operating profit decreased ¥160.4 billion, or 23.1%, from ¥695.3 billion in fiscal 1998 to ¥534.9 billion in fiscal 1999. This decrease primarily reflected the ¥27.6 billion decrease in operating profit of our Overseas Customers Business Unit due to appreciation of the yen to the US dollar and other foreign currencies, and the ¥202.9 billion decrease in operating profit of our Treasury Business

Unit due to decreased income on our debt securities portfolio. These decreases were partially offset by the ¥35.3 billion increase in operating profit of our Domestic Customers Business Unit, primarily due to the increase in income from derivative transactions with customers. Our 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 our Domestic Customers Business Unit and our 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 1997, 1998 and 1999:

	Fiscal 1997		Fiscal 1998		Fiscal 1999	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	(in billions except percentages)					
Interest-earning assets:						
Domestic	¥48,417.2	1.83%	¥48,045.1	1.75%	¥50,185.7	1.58%
Foreign	29,045.0	5.44	25,252.5	5.94	16,918.2	5.89
Total	¥77,462.2	3.19%	¥73,297.6	3.20%	¥67,103.9	2.66%
Financed by:						
Interest-bearing funds;						
Domestic	¥45,818.9	1.01%	¥48,931.6	0.88%	¥44,979.0	0.72%
Foreign	25,036.0	4.94	18,576.7	5.23	14,141.6	4.09
Total	70,854.9	2.40	67,508.3	2.08	59,120.6	1.52
Non-interest funds	6,607.3	—	5,789.3	—	7,983.3	—
Total	¥77,462.2	2.20%	¥73,297.6	1.92%	¥67,103.9	1.34%
Spread on:						
Interest-bearing funds		0.79%		1.12%		1.14%
Total funds		0.99%		1.28%		1.32%

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 loans. The decrease of ¥8,387.7 billion in average interest-bearing liabilities mainly reflected a decrease of ¥3,848.7 billion in foreign deposits, a decrease of ¥2,750.3 billion in call money, fund purchased, payables under repurchase agreements and securities lending transactions and a decrease of ¥1,617.0 billion in other short-term borrowings.

Interest margins slightly increased in fiscal 1999 compared with fiscal 1998. Net interest income as a percentage of average total interest-earning assets increased 4 basis points to 1.32% in fiscal 1999 from 1.28% in fiscal 1998. The average interest rate spread increased 2 basis points to 1.14% in fiscal 1999 from 1.12% in fiscal 1998. The increase in interest margins in fiscal 1999 partially offset the effect of the decrease in average interest-earning assets.

Net interest income in fiscal 1998 was ¥939.8 billion, an increase of ¥171.2 billion, or 22.3%, from ¥768.6 billion in fiscal 1997. The fiscal 1998 increase was due primarily to the higher interest margins, particularly in Japan, under the falling interest rate environment. The higher interest margins more than offset the effect of a decrease in average interest-earning assets over interest-bearing liabilities. The average interest-earning assets decreased ¥4,164.6 billion, or 5.4%, in fiscal 1998, due primarily to a decrease of ¥4,640.0 billion in foreign interest-earning deposits with other banks.

The average interest-bearing liabilities decreased ¥3,346.6 billion, or 4.7%, in fiscal 1998, due primarily to a decrease of ¥6,692.3 billion in foreign interest-bearing deposits. The decrease in foreign interest-bearing deposits was substantially offset by an increase of ¥2,996.1 billion in domestic interest-bearing deposits. The domestic deposits continued to increase in fiscal 1998.

Net interest income as a percentage of average total interest-earning assets increased 29 basis points to 1.28% in fiscal 1998 from 0.99% in fiscal 1997. In fiscal 1998, the average interest rate on total interest-earning assets increased 1 basis point to 3.20%, and the average interest rate on interest-bearing liabilities declined 32 basis points to 2.08%.

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 1999 was ¥368.6 billion, representing a decrease of ¥550.8 billion, or 59.9%, from ¥919.4 billion in fiscal 1998. The provision for credit losses in fiscal 1998 reflected a decrease of ¥436.8 billion, 32.2%, from ¥1,356.2 billion in fiscal 1997. The fiscal 1999 decrease 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 occurred in fiscal 1997 and 1998. The fiscal 1997 provision reflected substantial credit losses relating to failures of the Hokkaido Takushoku Bank Limited, Yamaichi Securities Co., Ltd. and Sanyo Securities Co., Ltd. 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. As a result of legal measures taken by the Japanese government in late 1998 to stabilize and reconstruct the financial system, there were no failures of large financial institutions in fiscal 1999. Although the number of corporate bankruptcies in Japan remained at a high level and trended upward from late 1999, we had largely anticipated these failures and made additional provisions for credit losses in fiscal 1998. The economic recovery in East Asian countries also contributed to a lower provision in fiscal 1999 than in fiscal 1997 and 1998.

The fiscal 1998 decrease of ¥436.8 billion reflected the fact that the fiscal 1997 provision was extremely large due to significant net charge-offs related to the failures of large financial institutions and corporations as discussed above, an additional provision as a result of uncertain financial and economic prospects in Japan, and a significant provision for cross-border outstandings to East Asian countries relating to the financial and currency crisis that began in mid-1997. Although the fiscal 1998 provision was significantly lower than that in fiscal 1997, it was still a large amount due to the continued economic recession in Japan and Asia, with corporate bankruptcies reaching record highs.

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 we use to establish the allowance for credit losses.

Non-Interest Income

The following table is a summary of non-interest income in fiscal 1997, 1998 and 1999:

	Fiscal 1997	Fiscal 1998	Fiscal 1999
		(in billions)	
Fees and commissions:			
Fees on funds transfer and service charges for collection	¥ 48.9	¥ 50.8	¥ 52.6
Commissions and fees on international business	41.6	38.7	36.1
Trust fees	32.9	43.1	37.4
Other fees and commissions	112.4	123.7	130.1
Total	235.8	256.3	256.2
Trading account profits-net (see "Non-Interest Expense" below for fiscal 1999)	268.6	113.0	—
Foreign exchange gains-net (see "Non-Interest Expense" below for fiscal 1997)	—	80.0	117.3
Investment securities gains-net (see "Non-Interest Expense" below for fiscal 1997 and 1998)	—	—	132.5
Gains from a sale of equity investments in a subsidiary	—	26.1	—
Other	39.4	39.0	33.1
Total non-interest income	¥543.8	¥514.4	¥539.1

Non-interest income in fiscal 1999 was ¥539.1 billion, an increase of ¥24.7 billion, or 4.8%, from ¥514.4 billion in fiscal 1998. Non-interest income in fiscal 1998 reflected a decrease of ¥29.4 billion, or 5.4%, from ¥543.8 billion in fiscal 1997. 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. Trading transactions resulted in a net loss of ¥18.5 billion in fiscal 1999 and the net loss was reported in the non-interest expense category while net profits of ¥113.0 billion on trading transactions were reported in fiscal 1998. The fiscal 1998 decrease of ¥29.4 billion was due primarily to a decrease of ¥155.6 billion in trading account profits- net, partially offset by foreign exchange gains-net of ¥80.0 billion reported in fiscal 1998 compared to none in fiscal 1997, and one-time gains from sales of equity investments in UnionBancal Corporation of ¥26.1 billion in fiscal 1998.

Fees and commissions in fiscal 1999 were ¥256.2 billion, virtually unchanged from ¥256.3 billion in fiscal 1998. Fees and commissions in fiscal 1998 reflected an increase ¥20.5 billion, or 8.7%, from ¥235.8 billion in fiscal 1997. In comparing components of fiscal 1999 fees and commissions with fiscal 1998, trust fees decreased ¥5.7 billion to ¥37.4 billion in fiscal 1999, and other fees and commissions increased ¥6.4 billion to ¥130.1 billion in fiscal 1999. The decrease in trust fees was due to weak growth in trust accounts in Japan. Other fees and commissions primarily include fees on issuing guaranties, fees on underwriting business, service charges on deposits of overseas subsidiaries and branches, and commissions on custodial services. The fiscal 1999 increase in other fees and commissions reflects the development of our strengths in investment banking. The fiscal 1998 increase in fees and commissions was due primarily to an increase of ¥10.2 billion in trust fees of subsidiaries resulting from strong growth in trust accounts, particularly in the United States, and an increase in other fees and commissions.

Foreign exchange gains-net in fiscal 1999 were ¥117.3 billion, an increase of ¥37.3 billion, or 46.6%, from ¥80.0 billion in fiscal 1998. Net foreign exchange gains in fiscal 1998 reflected an increase of ¥136.1 billion from a net loss of ¥56.1 billion in fiscal 1997. Major components of foreign exchange gains (losses)-net by source of transactions in fiscal 1997, 1998 and 1999 were summarized below:

	Fiscal 1997	Fiscal 1998	Fiscal 1999
		(in billions)	
Transaction gains (losses) on translation of foreign currency long-term debts	¥(16.0)	¥23.1	¥ 28.8
Net gains (losses) on foreign exchange contracts entered into for trading purposes	(41.4)	0.2	76.3
Other	1.3	56.7	12.2
Total foreign exchange gains (losses)-net	¥(56.1)	¥80.0	¥117.3

The fiscal 1999 increase of ¥37.3 billion was due primarily to an increase of ¥76.1 billion in gains on foreign exchange contracts entered for trading purpose. Gains on foreign exchange contracts entered for trading purpose in fiscal 1999 were substantially offset by losses on interest rate swap positions included in trading losses-net. See the discussion on trading losses-net below. The fiscal 1998 net gains reflected more volatility in the foreign exchange markets, and the fiscal 1997 net losses resulted primarily from net losses on foreign exchange transactions entered into for trading purposes.

Investment securities gains-net in fiscal 1999 were ¥132.5 billion, representing an increase of ¥182.9 billion from a net loss of ¥50.4 billion in fiscal 1998. Net investment losses in fiscal 1998 reflected a decrease of ¥110.4 billion from ¥160.8 billion in fiscal 1997. As discussed below, investment securities gain-net in fiscal 1999 resulted primarily from marketable equity securities net sale gains under the significantly improved stock markets. The fiscal 1997 and 1998 net losses resulted primarily from a write-down of marketable equity securities to reflect declines in value that management considered other than temporary. Such write-downs were ¥274.5 billion in fiscal 1997, ¥108.7 billion in fiscal 1998 and ¥133.8 billion in fiscal 1999. Net investment securities gains or losses include marketable equity securities net sale gains (losses) of ¥89.4 billion in fiscal 1997, ¥(35.8) billion in fiscal 1998 and ¥299.7 billion in fiscal 1999. The remaining gains (losses) of ¥24.3 billion in fiscal 1997, ¥94.1 billion in fiscal 1998 and ¥(33.4) billion in fiscal 1999 are primarily net sales gains (losses) on sales of Japanese government bonds and bonds issued by foreign governments and other issuers.

Gains on sales of a portion of our equity investment in a subsidiary of ¥26.1 billion in fiscal 1998 were one-time gains from sales of equity investments in UnionBancal Corporation, which resulted in reducing our ownership of UnionBanCal Corporation from 81.5% to 64.1%.

Other non-interest income in fiscal 1999 was ¥33.1 billion, a decrease of ¥5.9 billion, or 15.1%, from ¥39.0 billion in fiscal 1998. Other non-interest income in fiscal 1998 reflected a decrease of ¥0.4 billion, or 1.0%, from ¥39.4 billion in fiscal 1997. Other non-interest income includes rental income, income on interbank refinancing, and other sundry income. The fiscal 1999 decrease of ¥5.9 billion 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 1997, 1998 and 1999:

	Fiscal 1997	Fiscal 1998	Fiscal 1999
		(in billions)	
Salaries and employee benefits	¥ 368.2	¥ 400.6	¥344.9
Occupancy expenses–net	97.7	107.3	101.2
Trading account losses–net (see "Non-Interest Income" above for 1997 and 1998)	—	—	18.5
Foreign exchange losses–net (see "Non-Interest Income" above for fiscal 1998 and 1999)	56.1	—	—
Investment securities losses–net (see "Non-Interest Income" above for fiscal 1999)	160.8	50.4	—
Goodwill amortization and impairment	109.2	62.6	3.5
Losses on other real estate owned	67.5	56.1	68.4
Other	308.9	345.5	391.2
	¥1,168.4	¥1,022.5	¥927.7

Non-interest expense in fiscal 1999 was ¥927.7 billion, a decrease of ¥94.8 billion, or 9.3%, from ¥1,022.5 billion in fiscal 1998. Non-interest expense in fiscal 1998 reflected a decrease of ¥145.9 billion, or 12.5%, from ¥1,168.4 billion in fiscal 1997. The fiscal 1999 decrease of ¥94.8 billion was due primarily to a decrease of ¥55.7 in salaries and employee benefits, the absence of 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 an increase of ¥14.1 billion in minority interests in earnings of subsidiaries and an increase of ¥15.9 billion in losses on sales and write-down of premises and equipment. The fiscal 1998 decrease of ¥145.9 billion was due primarily to a decrease of ¥110.4 billion in investment securities losses–net, a decrease of ¥46.6 billion in goodwill amortization and impairment, and ¥56.1 billion foreign exchange losses–net in fiscal 1997, which were reported in non-interest income category in fiscal 1998. The decreases were partially offset by an increase of ¥32.4 billion in salaries and employee benefits.

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. Salaries and employee benefits in fiscal 1998 reflected an increase of ¥32.4 billion, or 8.8%, from ¥368.2 billion in fiscal 1997. 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. The decrease in net periodic pension costs reflected a higher expected return on pension assets. The fiscal 1998 increase was due principally to an increase in net periodic pension cost, the inclusion of a full year of salaries and employee benefits of affiliated nonbank companies that were consolidated in fiscal 1997, and the yen depreciation. Average cost per employee in fiscal 1999 was substantially unchanged.

Occupancy expenses-net in fiscal 1999 were ¥101.2 billion, a decrease of ¥6.1, or 5.7%, from ¥107.3 billion in fiscal 1998. Occupancy expenses-net in fiscal 1998 reflected an increase of ¥9.6 billion, or 9.8%, from ¥97.7 billion in fiscal 1997. The fiscal 1999 decrease primarily reflected the appreciation of yen to the US dollar and other foreign currencies. The fiscal 1998 increase was due principally to the inclusion of a full year of occupancy expenses of affiliated nonbank companies that were consolidated in fiscal 1997.

Trading account losses–net in fiscal 1999 were 18.5 billion, a decline of ¥131.5 billion from net profits of ¥113.0 billion in fiscal 1998. Net trading account profits in fiscal 1998 reflected a decrease of ¥155.6 billion, or 57.9%, from ¥268.6 billion in fiscal 1997. The net trading account profits or losses primarily include net gains or losses on trading securities and interest-based derivative instruments entered into for trading purpose, while gains or losses on currency derivative instruments entered for trading purpose 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-based derivatives, are recorded in trading account profits or losses-net. The fiscal 1999 decline of ¥131.5 billion primarily reflected significant losses on interest rate swaps and interest rate futures under difficult market conditions. The fiscal 1998 decrease of ¥155.6 billion was due primarily to a decrease in profits on interest rate swap positions under difficult market conditions.

Goodwill amortization and impairment in fiscal 1999 was ¥3.5 billion, a decrease of ¥59.1 billion from ¥62.6 billion in fiscal 1998. Goodwill amortization and impairment in fiscal 1998 reflected a decrease of ¥46.6 billion from ¥109.2 billion in fiscal 1997. In fiscal 1997, we concluded that a portion of goodwill relating to our acquisition of Nippon Trust Bank Limited (“NTB”) was impaired, and recognized an impairment loss of ¥86.2 billion. The operations of NTB continued to generate losses in fiscal 1998, and we recognized the remaining unamortized goodwill of ¥50.0 billion as an impairment loss. No such impairment loss was recognized in fiscal 1999.

Losses on other real estate owned in fiscal 1999 were ¥68.4 billion, an increase of ¥12.3 billion, or 21.9%, from ¥56.1 billion in fiscal 1998. Losses on other real estate owned in fiscal 1998 reflected a decrease of ¥11.4 billion, or 16.9%, from ¥67.5 billion in fiscal 1997. Losses on other real estate owned include valuation losses, operating expenses and net losses on sale. The high level of losses on other real estate owned in fiscal 1997, 1998 and 1999 reflected the continued decline in the real estate markets in Japan.

Other non-interest expense in fiscal 1999 was ¥391.2 billion, an increase of ¥45.7 billion, or 13.2%, from ¥345.5 billion in fiscal 1998. Other non-interest expense in fiscal 1998 reflected an increase of ¥36.6 billion, or 11.8%, from ¥308.9 billion in fiscal 1997. 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-downs of premises and equipment, one-time restructuring charges of ¥9.7 billion in fiscal 1999 of UnionBancal Corporation and an increase in fees and commissions paid. The fiscal 1998 increase was primarily attributable to the inclusion of a full year of other non-interest expenses of affiliated nonbank companies that were consolidated in fiscal 1997 and the depreciation of the yen. Other non-interest expenses included Year 2000 remediation costs of ¥45.6 billion relating to the remediation project over the three year period ended March 31, 2000.

Income Tax Expense (Benefit)

The following table shows a summary of income tax expense (benefit) in fiscal 1997, 1998 and 1999:

	Fiscal 1997	**Fiscal 1998**	**Fiscal 1999**
Income (loss) before income taxes (in billions)	¥(1,212.3)	¥(487.8)	¥129.1
Income tax expense (benefit) (in billions)	¥ (438.6)	¥(143.3)	¥ 93.6
Effective tax rate	(36.2)%	(29.4)%	72.5%
Normal effective statutory tax rate	51.0 %	48.0 %	42.0%

The effective tax rate of 72.5% in fiscal 1999 was 30.5% higher than the normal effective statutory tax rate of 42%. The fiscal 1999 higher tax rate was attributable mostly to an increase in the valuation allowance that accounted for 27.6%. The increase in the valuation allowance resulted primarily from the change in the form of financial assistance provided to our nonbank subsidiaries as discussed in “Recent Developments—Restructuring of Financial Assistance to Nonbank Subsidiaries.” The change in the form of financial assistance to nonbank subsidiaries resulted in an increase in income tax expense of ¥33.1 billion due to the reduction in deferred tax assets previously recorded. Effective April 1, 2000, the normal effective statutory tax rate decreased 3.5% to 38.5% as a result of the change in the local taxation as discussed “Recent Development—Change in Taxation.” The tax rate change caused an increase of ¥1.3 billion in income tax expense due to the related adjustment of net deferred tax assets. Although the change in the local taxation decreased the normal effective statutory rate, we believe it will increase the level of tax payable by the Bank over the next five years. The new tax would be accounted for as non-interest expense rather than as income tax expense.

The effective tax credit rate of (29.4)% in fiscal 1998 shown in the above table was 18.6% lower than the effective statutory tax rate of 48%. The lower tax rate resulted primarily from the effect of tax rate change from 48% to 42% that accounted for approximately 11.7%, the effect of certain expenses not being deductible for income tax purposes, and the effect of tax expense on the realized subsidiary earnings through our sale of investments

The effective tax credit rate of (36.2)% in fiscal 1997 was 14.8% lower than the effective statutory tax rate of 51.0% due principally to an increase in valuation allowance which accounted for 6.8%, the effects of certain expenses not being deductible for income tax purposes, including goodwill amortization and impairment, partially offset by lower tax rates applicable to the income of foreign subsidiaries.

Financial Condition

Loan Portfolio

At March 31, 2000, total loans were ¥40.97 trillion, representing a decrease of ¥4.75 trillion, or 10.4%, from ¥45.72 trillion at March 31, 1999. Total loans at March 31, 1999 represented a decrease of ¥2.63 trillion, or 5.4%, from ¥48.35 trillion at March 31, 1998. The March 31, 2000 loan balance consisted of ¥32.75 trillion of domestic loans and ¥8.22 trillion of foreign loans. The March 31, 1999 loan balance consisted of ¥34.78 trillion of domestic loans and ¥10.94 trillion of foreign loans.

Domestic loans decreased ¥2.03 trillion, or 5.8%, to ¥32.75 trillion at March 31, 2000 from ¥34.78 trillion at March 31, 1999. In fiscal 1998, domestic loans remained substantially unchanged, reflecting an increase of ¥0.13 trillion, or 0.4%, from ¥34.65 trillion at March 31, 1998. The fiscal 1999 decrease in domestic loans primarily reflected the continued weak economy in Japan. In recent years, we focused on lending to small and medium-sized corporations and consumer lending, while decreasing loans to large-sized corporations.

Foreign loans decreased ¥2.72 trillion, or 24.9%, to ¥8.22 trillion at March 31, 2000 from ¥10.94 trillion at March 31, 1999. Foreign loans decreased ¥2.76 trillion, or 20.1%, to ¥10.94 trillion from ¥13.70 trillion at March 31, 1998. The fiscal 1998 and 1999 decreases were due primarily to the appreciation of the yen and a reduction in loan outstandings to borrowers in East Asian countries. In terms of the year-end exchange rate of the US dollar into yen, the US dollar decreased approximately 9% in fiscal 1998 and approximately 13% in fiscal 1999. See "Allowance for Credit Losses, Nonperforming and Past Due Loans" below for further information regarding 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, 2000. We will participate in these type of loans to the extent that credit risks are deemed prudent, and the portion of our 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 1997, 1998 and 1999:

	Fiscal 1997	Fiscal 1998	Fiscal 1999
		(in billions)	
Balance at beginning of year	¥ 1,062.4	¥ 760.3	¥1,290.7
Provision for credit losses	1,356.2	919.4	368.6
Charge-offs:			
Domestic	(1,545.0)	(244.5)	(445.1)
Foreign	(134.2)	(113.9)	(102.7)
Total	(1,679.2)	(358.4)	(547.8)
Recoveries	8.8	9.8	41.0
Net charge-offs	(1,670.4)	(348.6)	(506.8)
Reclassification (see note below)	—	(14.7)	—
Other, principally foreign exchange translation adjustments	12.1	(25.7)	(15.3)
Balance at end of year	¥ 760.3	¥1,290.7	¥1,137.2

Note—Prior to fiscal 1998, our allowance as a reduction of loans included the allowance for off-balance-sheet credit instruments. During fiscal 1998, we reclassified the allowance to other liabilities.

The following table summarizes the allowance for credit losses by component at March 31, 1998, 1999 and 2000:

	At March 31,		
	1998	1999	2000
		(in billions)	
Allocated allowance:			
Specific—specifically identified problem loans	¥320.7	¥ 874.8	¥ 688.4
Specific—large groups of smaller balance homogeneous loans	22.8	23.0	26.0
Specific—loans exposed to specific country risk	55.0	23.2	11.9
Formula—substandard, special mention and other loans	339.4	344.8	394.3
Unallocated allowance	22.4	24.9	16.6
Total allowance	¥760.3	¥1,290.7	¥1,137.2

(1) Allowance Policy

A key element of our policies used in determining the allowance for credit losses is our credit classification process. Effective April 1, 1996, we introduced a comprehensive credit rating system as part of credit risk management procedures. Our credit rating system is closely linked to the risk grading standards of regulatory authorities for asset classification under the prompt corrective action approach, and is used as a basis of 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 our 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 and 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. Borrowers with classified loans are ranked 8 to 10. For a more detail discussion of the borrowers with classified loans, see "Credit Risk Management-Quantification of Credit Risk."

(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 the Statement Financial Accounting Standards No.114. 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 represent the loans to the borrowers generally ranked 8 to 10, and include all of the loans to borrowers ranked 10, most loans to borrowers ranked 9 and some loans to borrowers ranked 8.

The increase of ¥554.1 billion in fiscal 1998 from ¥320.7 billion at March 31, 1998 to ¥874.8 billion at March 31, 1999 reflects a series of failures by significant borrowers engaged primarily in the real estate, wholesale, retail and service industries as a result of the prolonged severe economic recessions.

The decrease of ¥186.4 billion in fiscal 1999 from ¥874.8 billion at March 31, 1999 to ¥688.4 billion at March 31, 2000 resulted from the relatively small number of failures of significant borrowers and from large charge-offs, including waiver of loan principal and interest in connection with the restructuring of loans to large-sized corporations in financial difficulty, and sales of nonperforming loans made in fiscal 1999.

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, 1998, 1999 and 2000.

	At March 31,		
	1998	1999(a)	2000
	(in billions, except percentages)		
Nonaccrual loans:			
Domestic	¥ 344.3	¥ 1,671.9	¥ 1,378.2
Foreign	45.2	189.1	160.4
Total nonaccrual loans	389.5	1,861.0	1,538.6
Restructured loans:			
Domestic	405.6	278.8	277.0
Foreign	58.2	21.7	44.8
Total restructured loans	463.8	300.5	321.8
Accruing loans contractually past due 90 days or more:			
Domestic	358.7	76.4	61.0
Foreign	17.4	30.7	1.2
Total accruing loans contractually past due 90 days or more	376.1	107.1	62.2
Total	¥ 1,229.4	¥ 2,268.6	¥ 1,922.6
Total loans	¥48,353.8	¥45,720.1	¥40,967.5
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of total loans	2.54%	4.96%	4.69%

(a) We have reduced the past due period from six months to 90 days for placing loans on nonaccrual status effective April 1, 1998. The change in the nonaccrual policy resulted in an increase in nonaccrual loans of approximately ¥840 billion, and decreases of ¥560 billion in restructured loans and ¥280 billion in accruing loans contractually past due 90 days, at March 31, 1999.

The following table summarizes the balance of impaired loans and related impairment allowance at March 31, 1998, 1999 and 2000.

	At March 31,					
	1998		1999		2000	
	Loan balance	**Impairment allowance**	**Loan balance**	**Impairment allowance**	**Loan balance**	**Impairment allowance**
	(in billions)					
Requiring an impairment allowance	¥ 683.3	¥320.7	¥1,726.9	¥874.8	¥1,532.1	¥688.4
Not requiring an impairment allowance..	512.6	—	469.0	—	324.1	—
Total....................	¥1,195.9	¥320.7	¥2,195.9	¥874.8	¥1,856.2	¥688.4

Nonaccrual loans and restructured loans decreased ¥301.1 billion in fiscal 1999 from ¥2,161.5 billion at March 31, 1999 to ¥1,860.4 billion at March 31, 2000. Also, impaired loans decreased ¥339.7 billion from ¥2,195.9 billion at March 31, 1999 to ¥1,856.2 billion at March 31, 2000. The decreases primarily reflect charge-offs, including waivers of loan principal and interest in connection with restructuring of loans to large-sized corporations in financial difficulty, and sales of nonperforming loans made in fiscal 1999.

The increase of ¥1,308.2 billion in nonaccrual loans and restructured loans, and the increase of ¥1,000.0 billion in impaired loans in fiscal 1998 reflected an increase in problem loans resulting from a continued deterioration in Japanese economic conditions and a change of our policy with respect to placing loans on nonaccrual status. The financial condition, of some borrowers, particularly in the real estate, wholesale and service industries further deteriorated in fiscal 1998, which in some cases led to a waiver of loans in fiscal 1999, as discussed above. Starting April 1, 1998, we reduced the past due period from 6 months to 90 days for placing loans on nonaccrual status. The change in the nonaccrual policy resulted in an increase in nonaccrual loans of approximately ¥840 billion, and decreases of ¥560 billion in restructured loans and ¥280 billion in accruing loans contractually past due 90 days at March 31, 1999. This change in policy, however, had substantially no impact on the net result of operations because accrued interest income recorded under the former policy prior to fiscal 1998 was mostly offset by the allocated provision for credit losses.

(3) Allocated allowance for large groups of smaller-balance homogeneous loans

The specific allocated credit loss allowance for large groups of smaller-balance homogeneous (that is, loans of a similar type) loans is focused on loss experience for pools of smaller-balance homogeneous loans rather than on an analysis of these individual loans. Large groups of smaller-balance homogeneous loans primarily consist of housing loans to individuals. In determining the level of allowance for the pools of these loans, we classify the pools of homogeneous loans based on types of risk characteristics inherent in the homogeneous loans. We determine the credit loss allowance primarily based on probability of insolvency and credit loss experience by classes of these homogeneous loans. The loss experience is usually determined by reviewing the historical loss rate. The specific allocated credit loss allowance for large groups of smaller-balance homogeneous loans was ¥22.8 billion at March 31, 1998, ¥23.0 billion at March 31, 1999 and ¥26.0 billion at March 31, 2000.

(4) Allocated allowance for country risk exposure

The specific 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 have been divided into six ranks. To determine the risk rating, we consider instability of foreign currency, difficulties regarding debt service and other conditions. Major countries with substantial loan outstandings that were in the high-risk rating and subject to this allowance were Indonesia and Pakistan at March 31, 1998, 1999 and 2000, and Russia in addition to these two countries at March 31, 1998. 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 decrease of ¥31.8 billion in fiscal 1998 from ¥55.0 billion at March 31, 1998 to ¥23.2 billion at March 31, 1999 primarily resulted from a decrease in cross-border outstandings to Indonesia, which is rated a high risk, and recognition of impairment on certain exposures to Russia considering its credit condition, which had been reflected in the specific allowance for specifically identified problem loans.

The decrease of ¥11.3 billion in fiscal 1999 from ¥23.2 billion at March 31, 1999 to ¥11.9 billion at March 31, 2000 primarily resulted from a decrease in cross-border outstandings to Indonesia.

The Asian economic crisis that began in Thailand in 1997 has not been completely resolved. The crisis has seriously effected 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. However, some countries in the East Asia region have been recovering from the severe economic downturn and have returned to growth. In particular, the South Korean economy has significantly improved, with strong corporate earnings in a low interest environment. We have evaluated the degree of transfer risk by country and specifically provided an allowance for exposures to Indonesia. In classifying problem loans, we have used substantially the same risk rating system used for our domestic loans, and specifically 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, 1999 and 2000.

	Affiliates of Japanese corporations	Local corporations and sovereign	Local financial institutions	Total cross-border outstanding
	(in billions)			
At March 31, 1999:				
South Korea	¥ 2.5	¥125.1	¥192.9	¥320.5
Indonesia	49.3	84.3	10.0	143.6
Thailand	190.8	115.7	15.3	321.8
Malaysia	76.7	49.0	3.5	129.2
Philippines	27.6	19.3	17.2	64.1
Hong Kong	321.7	229.1	2.9	553.7
China	152.0	72.7	51.8	276.5
At March 31, 2000:				
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

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.

In addition to the allocated credit loss allowances for specifically identified problem loans, there are specific allowances for credit losses from the borrowers located in these countries (specific country risk) due to concerns with the financial condition of these borrowers and concerns over collectibility.

We reduced our aggregate cross-border outstandings to South Korea, Indonesia, Thailand, Malaysia and Philippines by ¥328.4 billion, or 33.5%, in fiscal 1999. Each of these countries were subject to International Monetary Fund support programs. The reduction was made primarily through obtaining additional legally enforceable guaranties from creditors in other countries, mainly Japan, and collections in an effort to minimize risk in these markets. 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 the specific allocated credit loss allowance for country risk exposure to East Asian countries except Indonesia at March 31, 1999 and 2000. Although certain markets in Asia, including South Korea and Thailand, are showing signs of recovery, it is difficult to predict the impact of the economic events in the region on our exposure.

(5) The formula allowance for substandard, special mention and other 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 loans. In determining the formula allowance, we rely on the mathematical calculation that incorporates a percentage of total loans based on historical experience. For each category of substandard, special mention and unclassified loans, we use the average annual charge-offs rate over a designated time period. The historical loss experience has been adjusted for recent changes in trends and economic conditions. The formula allowance at March 31, 2000 was ¥394.3 billion, compared to ¥344.8 billion at March 31, 1999 and ¥339.4 billion at March 31, 1998. The increase at March 31, 2000 reflected a higher annual charge-offs rate.

(6) The unallocated allowance

The unallocated allowance is based on an assessment of probable losses not adequately captured by the allocated allowance. We establish the unallocated allowance taking into consideration model and estimation risk, and various conditions that are not directly measured in the determination of the allocated allowance.

The decrease of ¥8.3 billion in fiscal 1999 from ¥24.9 billion at March 31, 1999 to ¥16.6 billion at March 31, 2000 resulted from a decrease in the unallocated allowance of a certain foreign subsidiary in the US. This decrease reflected management's view that the inherent losses related to general economic and business conditions affecting key lending areas, credit quality trends (including trends in nonperforming loans expected to result from existing conditions), collateral values and other conditions that existed at March 31, 1999 had been recognized through charge-offs or reflected in the formula or specific allowance or had declined.

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, included in other liabilities. Prior to fiscal 1998, the allowance for off-balance-sheet credit instruments, except an allowance for probable losses on guarantees by our trust banking subsidiary, was included in the allowance for credit losses on our loan portfolio as a reduction of loans. During fiscal 1998, we reclassified ¥14.7 billion from the allowance as a reduction of loans to other liabilities. If the allowance had been reclassified in fiscal 1997, the allowance for off-balance-sheet credit instruments and other credit exposure would have been ¥22.1 billion at March 31, 1998, ¥43.9 billion at March 31, 1999 and ¥79.2 billion at March 31, 2000. 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, we apply the same methodology used in determining the allowance for loan losses. The increase in fiscal 1999 partially reflected an additional provision for credit exposures to large-sized corporations in financial difficulty.

Investment Portfolio

At March 31, 2000, investment securities were ¥14.53 trillion, an increase of ¥1.71 trillion, or 13.3%, from ¥12.82 trillion at March 31, 1999. Investment securities at March 31, 1999 increased ¥1.17 trillion, or 10.0%, from ¥11.65 trillion at March 31, 1998.

Securities available for sale at March 31, 2000 were ¥14.01 trillion, representing an increase of ¥1.85 trillion, or 15.2%, from ¥12.16 trillion at March 31, 1999. Securities available for sale at March 31, 1999 increased ¥1.30 trillion, or 11.97%, from ¥10.86 trillion at March 31, 1998. 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. 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. The increase in marketable equity securities reflected a recovery in Japan's stock markets. The increase in fiscal 1998 was due primarily to an increase in marketable equity securities received as collateral for lending transactions.

Securities being held to maturity at March 31, 2000 were ¥0.41 trillion, representing a decrease of ¥0.12 trillion, or 22.6%, from ¥0.53 trillion at March 31, 1999. Securities being held to maturity primarily comprise Japanese corporate bonds, and bonds issued by foreign governments and official institutions. The decrease in fiscal 1999 reflected maturities of some securities.

Net unrealized gains included in the investment portfolio were ¥1.85 trillion at March 31, 1999 and ¥2.87 trillion at March 31, 2000. These net unrealized gains related principally to marketable equity securities.

Deposits in Other Banks

Interest-earning deposits in other banks at March 31, 2000 were ¥3.98 trillion, an increase of ¥1.50 trillion, or 60.5%, from ¥2.48 trillion at March 31, 1999. Interest-earning deposits in other banks at March 31, 1999 represented a decrease of ¥8.07 trillion, or 76.5%, from the fiscal 1997 balance of ¥10.55 trillion. Interest-earning deposits in other banks significantly fluctuate from month to month. The fiscal 1999 increase was due partially to the shift from short-term money markets such as the call and bill markets to deposits with other banks under the zero-interest-rate environment. The fiscal 1998 decrease reflected management's decision to reduce on-balance-sheet treasury operations in consideration of our capital ratios and the effect of appreciation of the yen against the US dollar and other foreign currencies.

Liabilities

At March 31, 2000, total liabilities were ¥68.61 trillion, a decrease of ¥2.96 trillion, or 4.1%, from ¥71.57 trillion at March 31, 1999. Total liabilities at March 31, 1999 represented a decrease of ¥12.50

trillion, or 14.9%, from the fiscal 1997 year end total of ¥84.07 trillion. The fiscal 1999 decrease was attributable primarily to a decrease of ¥0.94 trillion, or 2.0%, in total deposits, a decrease of ¥2.04 trillion, or 28.1%, 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 a decrease of ¥1.08 trillion in obligations to return securities received as collateral. 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 which resulted mainly from an increase in accounts payable relating to securities transactions. The decrease in deposits resulted from a decline in foreign deposits and was due mainly to the yen appreciation. The decrease in call money and other instruments in short-term money markets reflected a weak fund supply under the zero-interest-rate environment. The decrease in total liabilities in fiscal 1998 was attributable primarily to a decrease of ¥8.04 trillion, or 14.9%, in total deposits and a decrease of ¥4.19 trillion, or 36.6%, in short-term borrowings. The decrease in total deposits resulted mainly from a decrease of ¥8.82 trillion in interest-bearing deposits in foreign offices.

Year 2000

The Year 2000 problem refers to a broad range of problems that were identified, in the 1990s, as possible or likely to occur with the arrival of the year 2000, because many computer programs refer to dates by using only the last two digits of the year.

We considered our Year 2000 readiness as a top priority. Beginning in January of 1997, we took a number of measures to address the different threats to our business posed by the Year 2000 problem.

To achieve our Year 2000 readiness goals, we reviewed our computer systems and other facilities. We completed all of our planned renovation and testing of these systems and facilities by the end of September 1999. We conducted tests with all domestic and all major overseas payment and settlement systems with which we had direct connections.

We developed a comprehensive contingency plan to address possible Year 2000-related disruptions. Our contingency plan identified actions to be taken if important business functions could not be carried out in a normal manner because of a Year 2000 problem in a system or facility belonging to us, to a vendor, to a customer or to another third party. To improve our contingency plans, we conducted tests and training drills.

We established command centers that operated around the clock during the Millennium weekend to monitor and respond to any potential disruptions affecting our group, including our domestic and overseas branches and affiliates.

We spent approximately ¥45.6 billion on Year 2000-related issues over the three-year period ended March 31, 2000. These expenditures include compliance costs and costs associated with systems development, hardware and software packages and facilities. We funded the costs of addressing Year 2000-related problems with cash from operations.

We have been able to conduct all of our business operations as usual, with virtually no significant Year 2000-related problems, including during the critical Millennium weekend and since that time. We will continue to monitor and address any Year 2000-related disruptions that may occur in our continuing efforts to deliver high-quality financial services.

Risk Management

Our banking operations are subject to a variety of risks, including credit, market, liquidity, settlement, legal 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 our success in financial intermediation 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 properly allocate management resources.

In July 2000, a Corporate Risk Management Office was established to control and manage all the operational risks arising from various activities across product, operational and organizational lines. The Credit Policy Office has responsibility for credit risk management, and the Examination Office for compliance with laws, regulations and certain other rules. These offices report their findings to the appropriate committees, which consist of general managers and board members. The members of the committees decide on operational management policies based on the risk information supplied.

The Committees

The Risk Management Committee is a structure for comprehensively identifying and controlling our risks. This committee meets semi-annually. It formulates action plans and monitors their implementation in line with basic risk management policies.

The Credit Committee meets semi-annually and:

- Sets direction on issues such as credit exposure to individual borrowers in Japan and overseas, and credit exposure by country
- Administers the overall credit portfolio, setting direction on issues such as credit exposure concentration through analysis of portfolios by ratings, geographic regions, industries and individual collateral-type
- Sets credit policies for basic credit administration positions and credit rules
- Considers issues such as problem loans, marketable credit, and new categories of credit

The Asset and Liability Management Committee meets monthly and covers four subjects:

- Market and liquidity risk management policies
- Portfolio management policies for the banking account position
- Forecasts of the movement of interest rates through analysis of the fundamentals of each country's economy
- Optimization of our overall asset-liability structure

The Compliance Committee meets quarterly to consider issues of legal compliance.

Due to the increasing need for managing risks related to information security that has accompanied the progress in computer and communications technologies, the Information Security Management Committee was established in fiscal 1999. This committee meets semi-annually for the purpose of formulating plans for implementing and maintaining information security management systems.

The Board of Directors and the Executive Committee consider the findings of these committees in deciding our risk management policies, allocation of resources and basic operational strategies.

Capital Allocation System

We introduced a capital allocation system beginning with 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 so as to remain within that allocation. The capital allocated by this capital allocation system seeks to cover all risks, including credit risk, market risk, stock portfolio risk and the various operational risks. We provide for appropriate risk management by ensuring that the levels of risk taken by the units are within our capital adequacy and provide appropriate risk management. By optimizing capital allocation, we aim to maximize return after deducting cost of capital and our risk adjusted performance measurement (RAPM).

Controlling Operational Risk

We define operational risk as all risks other than credit risk and market risk, including the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. A self-assessment system has been introduced in each business unit for the purpose of identifying and quantifying operational risk. The self-assessment system divides operational risks into dozens of categories, specifies scenarios likely to have a substantial effect on business, and evaluates related amount of loss, frequency of occurrence, and controls. Each business unit performs its own assessment of operational risk and is responsible for planning and promoting risk management systems. The Inspection Office and Examination Office inspect and audit the self-assessment and risk management of each business unit, and the Corporate Risk Management Office prepares policy and sets systems and methods for self-assessment. The amount of operational risk is based on the scores assigned to individual risks identified as a result of self-assessment in each business unit, and is calculated by combining these scores in appropriate proportions. We continually refine our methods for measuring operational risk.

Credit Risk Management

Credit risk, particularly from commercial lending, is considered to be 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 that accompany traditional lending operations. Not only are risks becoming more diverse, but risks overlap with each other, including counterparty risk in market operations, settlement risk in clearing foreign exchange transactions across different time zones, and country risk from overseas lending operations.

Quantification of Credit Risk

We quantify credit risk based on the principle that identifying risk through precise quantification is essential for effective risk management. As an integral part of this process, we use a comprehensive credit rating system at all of our domestic and overseas offices and since April 1996 have assigned a credit rating to every customer and credit recipient.

<Credit Rating System>

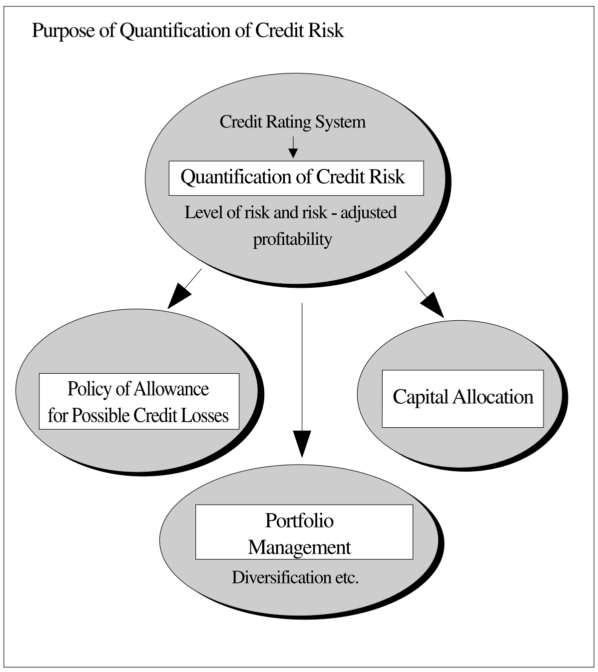
The key objectives of our credit rating system are consistency and objectivity.

Regarding consistency, the system is designed to be applied uniformly to all domestic and foreign borrowers, project finance and structured finance. Credit ratings are grouped by degree of credit risk; since all credits of the same rank have the same assigned degree of credit risk, management can more easily assess overall asset quality.

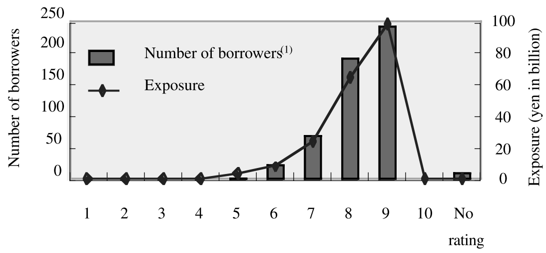
Regarding objectivity, the system is designed to eliminate the potential subjectivity of the lending officer from the process of determining ratings. In order to maintain objectivity, we:

- employ a scoring method in the rank-determining process to clarify and standardize credit risk analysis and decision-making
- consult with ratings of rating agencies and the evaluation systems of outside credit information companies
- have an independent Credit Examination Office conduct rating audits.

Under our 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. For example, the Financial Supervisory Agency of Japan defines borrowers with classified loans as “to be closely watched”, “likely to be in bankruptcy” and “legally or virtually in bankruptcy”. Borrowers ranked 8 are those which require close scrutiny due to such factors as virtual delinquency in principal or interest payments, inactive or unsteady business performance, or unfavorable financial conditions. Borrowers ranked 9 are those which, while not yet bankrupt, are in financial difficulty with poor progress in achieving their business restructuring plans and are likely to become bankrupt in the future. Borrowers ranked 10 are those which are legally bankrupt or are considered to be virtually bankrupt.



The chart below shows the number of bankruptcies and amounts involved in fiscal 1999 by credit rating graded one year before from the bankruptcy. The distribution shows that most of the companies declaring bankruptcy had lower ratings, as would be expected.

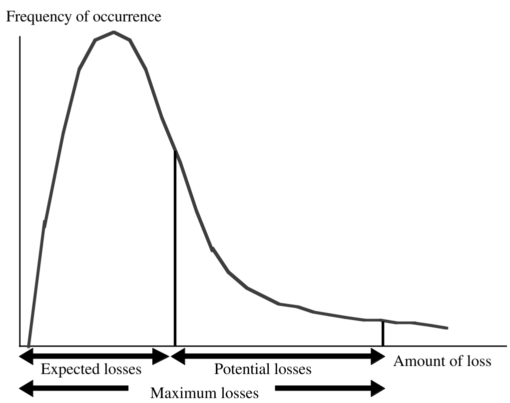


Notes: (1) Indicate number of borrowers with total exposure of ¥50 million or more whose borroer rating has dropped to "10" during fiscal 1999.
(2) Correlation between borroer rating and borrower grade in self-assessment of assets are generally described as follows:

Borrower rating	Borrower grade
1 to 7	: Normal
8	: To be closely watched
9	: Likely to be in bankruptcy
10	: Legally or virtually in bankruptcy

To measure credit risk, we evaluate three factors: credit exposures, probability of default and recovery ratio. We quantify the risk based on our internal data and incorporate the results in our portfolio management and policies. In our capital allocation system introduced in April 2000, where capital is specifically allocated to divisions, each division's credit risk performance is utilized to make division-by-division credit risk allocation capital plans, taking into consideration variations in credit balances, probability of default by rating category, expected recovery ratio by type of collateral and the results of stress testing. Credit risk is measured with our internal model for the qualification of credit risk, using simulations that take into account factors such as correlation between creditors to help show concentration of credit.

The chart below shows the amount of loss and frequency of occurrence calculated by the simulations. The credit risks include both expected losses and potential losses. Expected losses are the average value of probable losses expected to occur in the future, and are calculated by multiplying the probability of default for the amount of credit by "1 minus the expected recovery ratio" (proportion not recoverable after default). Potential losses are future losses in excess of the expected losses, and are calculated by deducting the expected losses from the maximum losses at a certain level of probability.

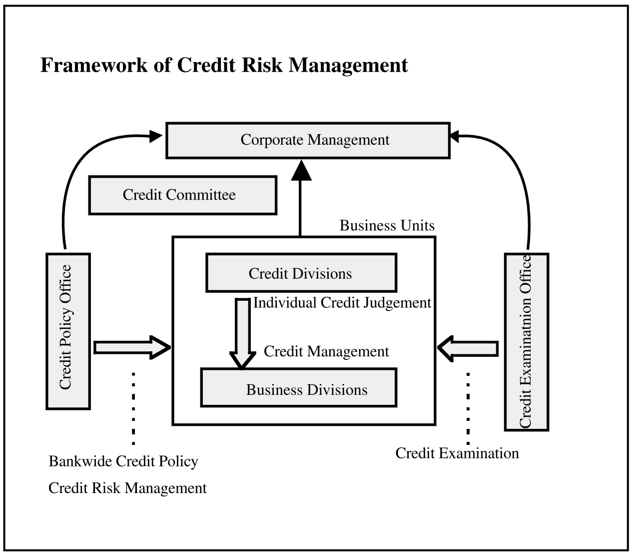


Framework of Risk Management

In the new business unit system which was introduced in July 2000, we have delegated authority as far as possible to individual business units in order that they can conduct their business in an appropriate way. Credit divisions decide credit judgement for each credit, and control credit management in each business unit. Each business unit separates business promotion and credit judgement functions in order to ensure proper checks and balances between the two.

Corporate Management will be supported by the Corporate Center and will discuss in advance the 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 becoming part of the system that contributes to overall business management.

The aim of the business unit structure is to achieve a system of corporate governance where the head of the division is strictly accountable to Corporate Management for the results of operations. This system has a restraint function, which includes the Credit Examination Office in the Corporate Center that rigorously 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.



Market Risk Management

Risk Management Structure

Our market risk management structure is three-tiered. It divides authority and responsibility among the senior management level, the line management level 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 to keep it independent of the individual business units. It manages our market risk on a global and consolidated basis, and it also integrates middle office functions to ensure integrity and transparency of market risk information. Using this structure, we seek to actively manage our market risk.

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 business lines. The Committee considers various factors, including our capital, earnings capacity and trading capability. Authority is given to the senior management responsible for each business.* The senior management in turn delegates this authority to the general managers in charge of business lines.

* Beginning in fiscal 2000 a capital allocation system has been introduced. The market risk amount is linked with the capital allocation. The framework for delegation of authority against market risk has been changed to general market risk + specific risk. (See "Specific Risk Management")

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 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—using Value at Risk methodology. It also monitors compliance with risk limits and stop loss rules.

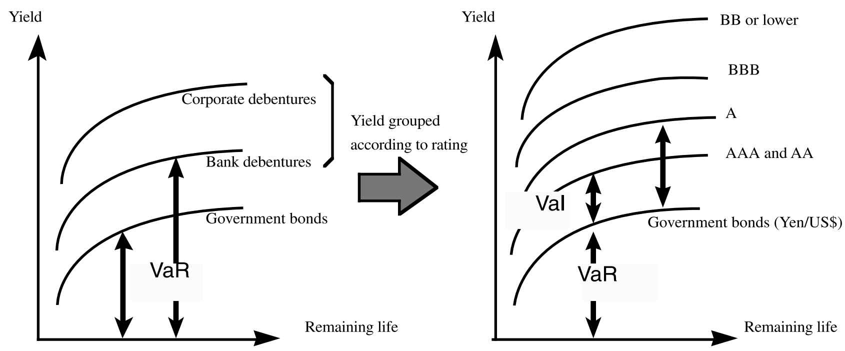
On a weekly basis, our managing directors and the general managers responsible for market operations meet at a Market Risk Management Committee to review and discuss our market risk profile and worldwide risk-taking activities. We also have a bank-wide Asset and Liability Management Committee that includes deputy presidents, managing 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.

Specific Risk Management

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. Specific risk is refers to the risk of changes in the prices of individual bond or stock owing to factors other than the general market risk. It can be 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, the Bank delegated authority as the market risk limit against the general market risk. 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, market risk management framework has been changed to general market risk + specific risk (VaR + VaI). VaE is calculated on a regular basis.

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.

BIS Market Risk Regulations

The market risk regulations stipulated by The Bank for International Settlements were implemented in Japan in fiscal 1997. In compliance with the regulations, we applied the "Internal Model Approach" for our general market 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.

Risk Measurement Systems

The Market Risk Information System uses a variance-covariance matrix of approximately 600 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 can now use our Market Risk Information System to manage their own market risks more effectively.

Market Risks in Fiscal 1999

(1) Trading Activities

In fiscal 1999, the average daily VaR (holding period: one day; confidence level: 97.7%) for trading activities on a global consolidated base was ¥2.21 billion, down from ¥2.25 billion in fiscal 1998. No major change in either in market conditions or in our trading policies between fiscal 1998 and fiscal 1999. As a result, the difference of VaR is not significant. To highlight trends of daily VaR, the average daily VaR in fiscal 1999 was ¥1.94 billion in the first quarter, ¥2.41 billion in the second quarter, ¥2.41 billion in the third quarter and ¥2.06 billion in the fourth quarter. During the year, the maximum VaR was ¥3.19 billion and the minimum was ¥1.37 billion.

The table below shows average daily VaR of trading activities by risk factor. The overall VaR of ¥2.21 billion was dominated by an interest rate risk of ¥1.40 billion and a foreign exchange rate risk of ¥0.56 billion. Simple summation of VaR by risk factor does not agree with the overall VaR, due to the diversification effect within the portfolio. Foreign exchange rate risk and equity risk were both higher at the close of fiscal 1999 than a year earlier, but interest rate risk was lower.

VaR for Trading Activities (1day-97.7%)

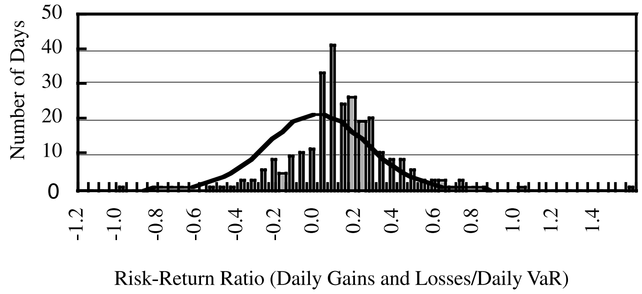
(Yen in billions)

Risk Category	Daily average FY 1999	High FY 1999	Low FY1999	March 31, 2000	March 31, 1999
Interest Rate	1.40	2.34	0.77	0.91	1.00
Japanese Yen	0.93	2.04	0.41	0.52	0.68
US Dollar	0.29	0.59	0.17	0.30	0.28
Foreign Exchange Rate	0.56	1.55	0.16	0.66	0.36
Equity	0.36	1.06	0.09	0.49	0.35
Commodity	0.25	0.51	0.06	0.27	0.11
Less: Diversification	(0.36)	-	-	(0.44)	(0.12)
Overall Portfolio	2.21	3.19	1.37	1.89	1.70

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

In our market risk management, we evaluate whether our earnings are sufficient in relation to our risk profile. The following histogram illustrates our risk-return ratio for trading activities for fiscal 1999. 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.

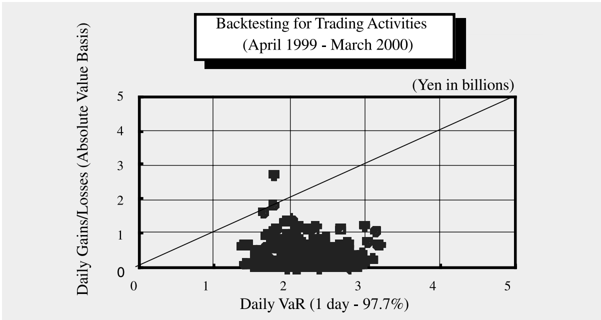
Histgram of Risk-Return Ratio for Trading Activities
(April 1999 - March 2000)



Backtesting

We conduct backtesting to verify the suitability 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 1999, absolute gains/losses exceeded VaR on just two out of 262 trading days (one case each of gains/losses being more positive/more negative with extraordinary fluctuations in US and European interest rates). In the context of the relatively volatile global market conditions that existed in fiscal 1999, this suggests that our VaR model is reliable.

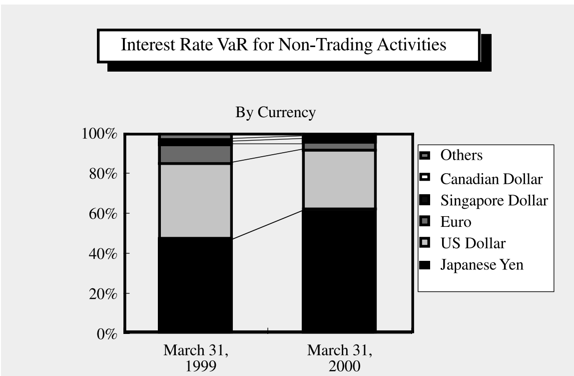


(2) Non-Trading Activities

In non-trading activities, 97% of the market risk stems from interest rate risk. (Strategic investment in equity for relationship management, excluded from non-trading activities, is disclosed in the following section.)

In fiscal 1999, the interest rate daily average VaR for non-trading activities was ¥15.4 billion, which was a ¥3.9 billion reduction on the fiscal 1998 average of ¥19.3 billion. The main cause of the reduction is that we decreased our positions due to caution about possible interest rate increases in the United States and Japan and the Year 2000 problem. Daily average VaR by quarter —April-June, July-September, October-December, and January-March— were ¥16.8 billion, ¥15.5 billion, ¥15.1 billion, and ¥14.4 billion respectively. The maximum was ¥19.8 billion and the minimum was ¥10.8 billion during the fiscal year.

The following charts demonstrate the distribution of risk by currency. Both in fiscal 1999 and in fiscal 1998, interest rate risk were primarily for the yen and US dollar. By operation type, the share of securities investments approximately 70% at the end of fiscal 1999. The risk exposure in our asset and liability management activities was around 30%, similar to that for fiscal 1998.



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 actively 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.

A typical example of stress tests result is shown in the table below.

Stress Tests Result (extract)
(At May 11, 2000)

(Yen in billions)

Stress Scenarios	Total Gains/Losses	Gains/Losses related to Option Risks out of Total Gains/Losses
Yen interest rate increase	-48.6	-11.1
US Dollar interest rate increase	-33.3	-
Euro interest rate increase	-3.9	0.3

Note: Gains/Losses illustrate the impact on the overall portfolio over a week, assuming yield curve shift by 4 standard deviations.
Both trading activities and non-trading activities on consolidated basis included.

In practice, the Corporate Risk Management Office continually performs stress tests based on market conditions, envisaging scenarios such as a fall in US stock markets, or Japan abandoning its zero interest rate policy. The results of such testing are reported to the weekly Market Risk Management Committee. This enables the front-line divisions to remain aware of the risk scenarios and use that information in their day to day operations.

Correlation Collapse Stress Testing and Market Liquidity Risk Management

Market liquidity risk is the risk of significant losses being caused by an inability to unwind or offset positions at a reasonable market price. It is particularly present in emerging markets and new products, in part because of the limited number of market participants. In market liquidity crises, such as occurred during the Asian currency crisis, the flight of money from low liquidity markets (such as the Thai baht) to highly liquid markets (such as the US dollar or yen markets) sparked an effect on other less liquid markets (such as certain Asian currencies), creating completely different correlations from those observed under normal conditions. When correlations collapse in this fashion, market movements suddenly become very large with high frequency, and create wider distribution ("fat tail distribution").

To enhance our market liquidity risk management, the Bank is developing stress tests of correlation collapse with adjustments for fat tail distributions. An example of such calculations is shown below.

No.	Scenario	Result
1	Liquidity crisis propagates through all the Asian currency markets, causing a flight to more liquid markets (Yen, US dollar or Euro).	12% increase
2	Liquidity crisis in Asian currency markets only propagates to the illiquid currencies, and there is no substantial effect on the liquid markets.	0.5% increase
3	Liquidity crisis in Asian currency markets leads to substantial confusion in the liquid markets.	47% increase

Note: These calculations were made on a non-consolidated global basis at the end of December 1999. The percentage figure given as the result represents the change over the VaR under normal circumstances.

We are working on the practical application of this sort of stress testing, and intend to enhance our market liquidity risk management.

Stock Portfolio (Strategic investment in equity for relationship management)

Our investment strategy for the stock portfolio is among several bank activities that are exposed to market risks, but it faces additional 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. As a result of stock price increases over the long-term, a large amount of unrealized gains exists in the portfolio.

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. It is appropriate to 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 (1,705.94 points at March 31, 2000) 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 ¥2.4 billion. At May 31, 2000, TOPIX was 1,522.84 points.

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 the 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.

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. This is reinforced by a high level of credibility supported by 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.

Settlement Risk Management

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. Of these settlement risks, foreign exchange settlement risk arises primarily from the timing of settlements across international time zones. 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 needed to reduce this risk. We are strengthening the management of foreign exchange settlement risk by establishing a framework that encompasses such risks as credit. At the same time, we have adopted a policy designed to reduce settlement volume by moving ahead with netting techniques. In addition, some large global banks plan to establish a special purpose bank, the Continuous Linked Settlement Bank, which will eliminate foreign exchange settlement risks. We are participating in this Continuous Linked Settlement project to achieve simultaneous settlements between different currencies. We are also working positively towards the full Real-Time Gross Settlement environment of the Bank of Japan Financial Network System planned by the start of the year 2001, which will result in the reduction of credit and systemic risks in yen settlement.

Clerical Risk Management

Clerical risk encompasses losses stemming from an employee's failure to handle clerical work accurately, accidents and fraud.

We recognize the importance of accurate clerical processing and strive to reduce related clerical risks. For example, 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. We also have reinforced clerical guidance to achieve higher customer credibility.

System Risk Management

System risk covers disruptions caused by computer system crashes and other malfunctions.

With the recent computerization and networking of bank operations, computer system malfunctions can be very damaging. We work to prevent or minimize the impact of such occurrences through system operations measures, such as our disaster recovery systems, infrastructural redundancy and emergency training. We have also established an Information Security Management Office. This office works to protect sensitive business information and defend the integrity of our systems against the risk of malicious outside attack.

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 consider 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.

Compliance

In February 1998, we established a separate compliance system to ensure that the importance given to compliance issues by management is thoroughly propagated throughout the bank. Important compliance issues are decided by the Compliance Committee, which undertake hearings and discussions concerning reports on the Bank's compliance system and its status worldwide. In the event of a significant breach of legislation, it is the Compliance Committee that 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 creating the Compliance manual, the code of ethics determined by our corporate principles, internal regulations, and legislation that must be complied with. All bank employees are familiarized with the contents of the manual through a variety of internal training programs.

The comprehensiveness of the compliance system in the Bank and the status of the compliance are examined by external specialists to provide evaluation and advice.

After the change to the business unit structure in July 2000, the Compliance Office will be responsible for coordinating the compliance setup throughout the Bank, making proposals to and supervising compliance work by individual business units in their own fields and further enhancing the effectiveness of the compliance system.

Compliance systems at divisions, offices and branches

We have appointed more than 500 compliance officers representing every division, office and branch in Japan and overseas. The compliance officers hold training sessions in their own branches, and implement quarterly checks on compliance using specially-designed 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 breach of legislation, if any. The Compliance Program is also submitted to the Compliance Office. The compliance officers are also in charge of reporting individual compliance issues to and seeking advice from the Compliance Office.

Each division also has an Archivist of Regulations to assist the compliance officer by monitoring revisions to and abolition of legislation affecting the division's work, and by providing the initial check of documents produced by the Bank to ensure that there are no clashes with its role as a public institution or with its role in society. The Compliance Office provide a secondary check of documents, and also consults at any time on individual compliance issues, presented by each division whose role is to ensure thorough implementation of compliance and check major issues arising in the course of business.

All of our affiliates within Japan have their own compliance systems appropriate for their particular businesses, and for overseas affiliates, compliance is managed as part of the Bank's own compliance system.

Funding and Liquidity

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 the 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 the 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, effected by the increased market activities. 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 the government expenditures and tax revenue. Formerly, most of such financing bills were assumed by The Bank of Japan with only a portion of each issuance bills assumed by qualified dealers in public. Commencing April 1999, all the issues are offered to and sold to the public to create an active market for short-term Japanese government bills and, as a result, the outstanding balances and transactions of financing bills significantly increased. Additionally, the Japanese government added one-year treasury bills in its issue in 1999, which, together with the public offering of financing bills, significantly increased open market activities for short-term government bills.

For fiscal 1998, our cash and cash equivalents decreased ¥0.28 trillion to ¥1.85 trillion at March 31, 1999 from ¥2.13 trillion at March 31, 1998. The decrease primarily resulted from a decrease in ¥11.22 trillion in financing activities, principally net decreases in deposits, debentures and short-term borrowings. This decrease was substantially, but not completely offset by an increase of ¥10.35 trillion in investing activities, principally net decreases in interest-bearing deposits in banks, call loans, funds sold, receivables under resale agreements, securities borrowing transactions and loans. For fiscal 1997, cash and cash equivalents decreased ¥0.15 trillion to ¥2.13 trillion at March 31, 1998 from ¥2.28 trillion at March 31, 1997. The decrease primarily resulted from a decrease in investment activities (principally purchases of available-for-sale securities, and net decrease in call loans, funds sold and receivables under resale agreements and securities borrowing transactions). This decrease was substantially offset by an increase in financing activities, principally net increases in deposits and short-term borrowings, and proceeds from an issuance of long-term borrowings. See "Consolidated Financial Statements—Consolidated Statement of Cash Flows."

At March 31, 2000, our market rate-sensitive funding, consisting of large denomination time deposits, including foreign currency deposits, money market certificates, CDs, short-term borrowings, and floating or adjustable rate long-term debt, was ¥38.66 trillion, or 69.2% of the total interest-bearing liabilities. Domestic funding amounted to ¥27.85 trillion, or 49.8%, and foreign funding was ¥10.81 trillion, or 19.4%. At March 31, 1999, this market rate-sensitive funding was ¥41.76 trillion, or 61.7% of total interest-bearing liabilities. Domestic funding amounted to ¥30.30 trillion, or 44.8%, and foreign funding was ¥11.46 trillion, or 16.9%. The decrease of ¥2.45 trillion in domestic funding from ¥30.30 trillion at March 31, 1999 to ¥27.85 trillion at March 31, 2000 was primarily due to a decrease in the our domestic market rate-sensitive deposits 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 1999 decreased ¥3.45 trillion, or 7.0%, to ¥46.16 trillion as compared to ¥49.61 trillion for fiscal 1998. The average amount of deposit balances for fiscal 1998 represented a decrease of ¥3.27 trillion, or 6.2%, as compared to ¥52.88 trillion for fiscal 1997. The fiscal 1999 decrease was due mainly to a decrease of ¥3.96 trillion in foreign deposits, principally time deposits and certificates of deposits. The fiscal 1998 decrease primarily resulted from a decrease of ¥6.47 trillion in foreign deposits, partially offset by an increase in domestic 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 deposits for domestic offices for fiscal 1999 amounted to ¥20.61 trillion as compared to ¥23.73 trillion for fiscal 1998 and ¥22.47 trillion during fiscal 1997. 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 58% 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, 1999 and 2000, we had unused lines of credit amounting to ¥781.3 billion and ¥814.3 billion, respectively.

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' 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 "high-tech" loans and complex options. 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, 2000, derivatives that meet the specific hedge criteria hedge or link to 0.6% of short-term placements, consisting principally of interest-earning deposits in other banks, call loans and funds sold, 0.4% of debt securities available for sale, 0.9% of loans and 0.7% 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 1999, 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 ¥0.7 billion, which was an increase of 0.09 basis points in average interest spread. The net gain consists of a ¥1.9 billion loss on interest rate contracts and a ¥2.6 billion gain on foreign exchange contracts. In fiscal 1998, the net impact of these activities on net interest income and loss before income tax benefit was a net loss of approximately ¥3 billion, or a 0.5 basis point decrease 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, 2000 are as follows: 37% in fiscal 2000, 17% in fiscal 2001, 11% in fiscal 2002, 18% in fiscal 2003 through fiscal 2004, 17% in fiscal 2005 and thereafter.

We have entered into interest rate swaption contracts with counterparties for trading purposes. The notional amount of interest rate swaption contracts was ¥4.37 trillion at March 31, 1999 and ¥4.33 trillion at March 31, 2000. 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, guaranties, and commercial letters of credit to meet the financing needs of our customers. At March 31, 1999 and 2000, the contract amounts of these off-balance-sheet financial instruments were ¥27.7 trillion and ¥27.2 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, 2000, approximately 82% of these commitments will expire within one year, 17% from one year to four years and 1% after four years.

Capital Resources

	At March 31, 1998	1999	2000
		(in billions)	
Preferred stock and surplus	—	¥ 243.7	¥ 243.8
Common stock and surplus	¥1,134.3	1,134.3	1,134.3
Retained earnings	959.0	574.8	565.9
Accumulated other changes in equity from nonowner sources	650.4	688.9	1,250.2
Total shareholders' equity	¥2,743.7	¥2,641.7	¥3,194.2
Ratio of total shareholders' equity to year end assets	3.16%	3.56%	4.19%

Total shareholders' equity increased ¥552.5 billion from ¥2,641.7 billion at March 31, 1999 to ¥3,194.2 billion at March 31, 2000, and the ratio of total shareholders' equity to total assets also showed an improvement of 0.63% from 3.56% at March 31, 1999 to 4.19% at March 31, 2000. The increase in total shareholders' equity in fiscal 1999, and the resulting improvement of the ratio to total assets, were principally attributable to a ¥593.8 billion increase in net unrealized gains on investment securities available for sale, net of taxes. Total shareholders' equity decreased ¥102.0 billion from ¥2,743.7 billion at March 31, 1998 to ¥2,641.7 billion at March 31, 1999. The decrease in total shareholders' equity in fiscal 1998 was due primarily to a decrease of ¥384.2 billion in retained earnings resulting from the net loss of ¥344.4 billion in fiscal 1998. The decrease was partially offset by the issuance of ¥243.7 billion of preferred stock in fiscal 1998. The ratio of total shareholders' equity to total assets was 3.56% at March 31, 1999, up 0.4% from 3.16% at March 31, 1998. The ratio increased primarily as a result of a reduction in total assets of ¥12,605.3 billion at March 31, 1999 compared to March 31, 1998.

The following table presents information relating to the accumulated net unrealized gains before tax effect in respect of marketable equity securities at March 31, 1998, 1999 and 2000:

	At March 31, 1998	1999	2000
Accumulated net unrealized gains (in billions)	¥1,531	¥1,749	¥2,673
Accumulated net unrealized gains to total assets	1.76%	2.36%	3.72%

As discussed in "Business Environment", the increase in accumulated net unrealized gains on marketable equity securities at March 31, 2000 resulted from the significant improvements in Japan's stock markets. However, there has been a significant downturn subsequent to March 31, 2000. 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 1999, we raised an aggregate of ¥254.8 billion through the issuances of subordinated term debt. See Note 13 of Notes to Consolidated Financial Statements for a description of our convertible bonds, notes and other long-term debt.

On June 29, 1999, the Bank's shareholders approved a transfer from unappropriated retained earnings to retained earnings appropriated for redemption of the preferred stock of ¥244.2 billion. Retained earnings appropriated for redemption of the preferred stock may be transferred to unappropriated retained earnings by a resolution of our shareholders. For the amount of retained earnings available for dividends, see Note 19 of the notes to the Consolidated Financial Statements.

Capital Adequacy

The capital adequacy guidelines adopted by the Financial Supervisory Agency applicable to Japanese banks with international operations closely follow the risk weighted approach proposed by the Basle 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 Supervisory 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, 1999 and 2000. These figures are calculated in accordance with Japanese GAAP as required by the Financial Supervisory Agency.

	At March 31, 1999	At March 31, 2000	Minimum capital ratios required
	(in billions except percentages)		
Capital components:			
Tier I capital	¥ 2,657.7	¥ 2,754.0	
Total risk-based capital	5,315.4	5,506.1	
Risk-weighted assets	50,765.7	48,034.8	
Capital ratios:			
Tier I capital	5.23%	5.73%	4.00%
Total risk-based capital	10.47	11.46	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, 2000, 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 in consideration of the requirements.

Our total risk-based capital ratio increased 0.99% from 10.47% at March 31, 1999 to 11.46% at March 31, 2000. The increase was due primarily to a reduction of ¥2,730.9 billion in risk-weighted assets and an increase in Tier I capital resulting from net income, using Japanese GAAP, during fiscal 1999.

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

Recent Accounting Pronouncements

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

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, 1999 and 2000, 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, 2000. 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, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

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

June 16, 2000
(June 29, 2000 as to Note 30)

THE BANK OF TOKYO-MITSUBISHI, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, MARCH 31, 1999 AND 2000

	1999	2000
ASSETS	**(in millions)**	
Cash and due from banks (Note 9)	¥ 1,845,263	¥ 1,855,196
Interest-earning deposits in other banks (Note 9)	2,482,532	3,980,188
Call loans and funds sold (Note 12)	563,863	385,720
Receivables under resale agreements	631,540	656,739
Receivables under securities borrowing transactions	2,572,345	1,380,905
Trading account assets (Notes 2 and 9)	5,047,043	6,367,705
Receivables for securities provided as collateral (Note 9)	1,410,666	1,025,246
Investment securities (Notes 3 and 9):		
Securities available for sale—carried at estimated fair value (amortized cost of ¥10,321,173 million in 1999 and ¥11,146,961 million in 2000)	12,163,679	14,014,339
Securities being held to maturity (estimated fair value of ¥532,660 million in 1999 and ¥414,468 million in 2000)	526,447	408,649
Other investment securities (estimated fair value of ¥126,977 million in 1999 and ¥109,455 million in 2000)	126,977	109,455
Total investment securities	12,817,103	14,532,443
Loans, net of unearned income and deferred loan fees of ¥36,760 million in 1999 and ¥30,205 million in 2000 (Notes 4, 5 and 9)	45,720,118	40,967,505
Allowance for credit losses (Notes 4 and 6)	(1,290,657)	(1,137,181)
Net loans	44,429,461	39,830,324
Premises and equipment—net (Note 7)	446,756	413,898
Accrued interest	233,734	194,270
Customers' acceptance liability	73,851	36,223
Other assets (Notes 5, 8 and 15)	1,656,600	1,143,282
Total	¥74,210,757	¥71,802,139
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (Note 10):		
Domestic offices:		
Non-interest-bearing	¥ 2,876,613	3,335,797
Interest-bearing	32,456,309	32,125,750
Overseas offices:		
Non-interest-bearing	1,650,437	1,373,582
Interest-bearing	9,118,694	8,324,827
Total deposits	46,102,053	45,159,956
Debentures (Note 11)	5,015,587	4,543,557
Call money and funds purchased (Notes 9 and 12)	1,990,524	1,171,060
Payables under repurchase agreements (Note 9)	1,519,210	1,364,212
Payables under securities lending transactions (Note 9)	1,361,220	1,198,745
Other short-term borrowings (Notes 9 and 13)	2,389,577	1,488,831
Trading account liabilities (Note 2)	3,782,429	3,227,504
Obligations to return securities received as collateral	4,061,915	2,984,905
Bank acceptances outstanding	73,851	36,223
Accrued interest	291,194	109,349
Long-term debt (Notes 9 and 13)	3,581,717	3,973,690
Other liabilities (Notes 8, 14 and 15)	1,399,793	3,349,947
Total liabilities	71,569,070	68,607,979
Commitments and contingent liabilities (Notes 22 and 23)		
Shareholders' equity (Note 20):		
Capital stock (Notes 17 and 18):		
Preferred stock:		
Class 1—authorized: 100,000,000 shares; issued and outstanding: 81,400,000 shares in 1999 and 2000, 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—authorized: 8,000,000,000 shares; issued and outstanding: 4,675,455,546 shares in 1999 and 2000	663,870	663,870
Capital surplus	592,060	592,055
Retained earnings (Notes 19 and 30):		
Appropriated for legal reserve	160,808	169,754
Unappropriated	414,024	396,163
Accumulated other changes in equity from nonowner sources, net of taxes	688,896	1,250,231
Total	2,641,758	3,194,173
Less treasury stock—at cost	71	13
Shareholders' equity—net	2,641,687	3,194,160
Total	¥74,210,757	¥71,802,139

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, 1998, 1999 AND 2000

	1998	1999	2000
		(in millions)	
Interest income:			
Loans, including fees (Note 4)	¥ 1,647,668	¥1,598,366	¥1,293,344
Deposits in other banks	383,048	223,915	105,911
Investment securities:			
Interest	255,082	270,001	224,394
Dividends	51,618	47,107	54,553
Trading securities	19,013	29,789	13,112
Call loans and funds sold	36,368	55,717	17,788
Receivables under resale agreements and securities borrowing transactions	74,380	117,405	77,926
Total	2,467,177	2,342,300	1,787,028
Interest expense:			
Deposits	1,223,882	861,480	491,133
Debentures	101,736	66,818	51,852
Call money and funds purchased	38,562	36,484	15,187
Payables under repurchase agreements and securities lending transactions	88,438	152,791	82,988
Other short-term borrowings and securities sold, not yet purchased	79,862	103,255	82,574
Long-term debt	166,122	181,721	176,927
Total	1,698,602	1,402,549	900,661
Net interest income	768,575	939,751	886,367
Provision for credit losses (Notes 5 and 6)	1,356,231	919,427	368,639
Net interest income after provision for credit losses	(587,656)	20,324	517,728
Non-interest income:			
Fees and commissions (Note 24)	235,825	256,281	256,219
Foreign exchange gains—net (Note 2)	—	80,059	117,330
Trading account profits—net (Note 2)	268,647	112,987	—
Investment securities gains—net (Note 3)	—	—	132,518
Gains from sales of equity investments in a subsidiary (Note 16)	—	26,105	—
Other non-interest income	39,306	38,989	33,042
Total	543,778	514,421	539,109
Non-interest expense:			
Salaries and employee benefits (Note 14)	368,160	400,570	344,970
Occupancy expenses—net (Notes 7 and 23)	97,692	107,291	101,181
Foreign exchange losses—net (Note 2)	56,129	—	—
Trading account losses-net (Note 2)	—	—	18,475
Investment securities losses—net (Note 3)	160,791	50,437	—
Losses on other real estate owned	67,460	56,090	68,438
Goodwill amortization and impairment	109,219	62,648	3,486
Other non-interest expenses	308,973	345,463	391,177
Total	1,168,424	1,022,499	927,727
Income (loss) before income tax expense or benefit	(1,212,302)	(487,754)	129,110
Income tax expense (benefit) (Note 8)	(438,565)	(143,331)	93,635
Net income (loss)	¥ (773,737)	¥ (344,423)	¥ 35,475
Net income attributable to preferred shareholders	¥ —	¥ —	¥ 4,649
Net income attributable to common shareholders	¥ (773,737)	¥ (344,423)	¥ 30,826
		(in yen)	
Amounts per share (Notes 19 and 21):			
Earnings (loss) per common share—basic	¥ (165.67)	¥ (73.67)	¥ 6.59
Earnings (loss) per common share—assuming dilution	(165.67)	(73.67)	3.73
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

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, 1998, 1999 AND 2000**

	Gains (Losses) before Income Taxes	Income Tax (Expense) Benefit	Gains (Losses) net of Income Taxes
		(in millions)	
Year ended March 31, 1998:			
Net loss			¥(773,737)
Other changes in equity from nonowner sources:			
Net unrealized holding losses on investment securities available for sale	¥(142,841)	¥ 67,593	(75,248)
Less: reclassification adjustment for losses included in net loss	141,005	(66,657)	74,348
Total	(1,836)	936	(900)
Minimum pension liability adjustments	(86,107)	40,628	(45,479)
Foreign currency translation adjustments	37,773	3,787	41,560
Less: reclassification adjustment for losses included in net loss	2,820	(1,438)	1,382
Total	40,593	2,349	42,942
Total changes in equity from nonowner sources			¥(777,174)
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
Less: 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)
Less: 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
Less: 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)
Less: 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

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, 1998, 1999 AND 2000

	1998	1999	2000
		(in millions)	
Preferred stock, Class 1 (Note 17):			
Balance at beginning of year			¥ 122,100
Shares issued		¥ 122,100	—
Balance at end of year		¥ 122,100	¥ 122,100
Common stock (Note 18):			
Balance at beginning of year	¥ 658,283	¥ 663,870	¥ 663,870
Shares issued for conversion of bonds (Note 13)	5,587	—	—
Balance at end of year	¥ 663,870	¥ 663,870	¥ 663,870
Capital surplus (Note 18):			
Balance at beginning of year	¥ 464,876	¥ 470,414	¥ 592,060
Excess of proceeds from issuance of preferred stock over the amount assigned to the preferred stock account (Note 17)	—	121,647	—
Excess of principal amount of bonds converted over the amount transferred to common stock account (Note 13)	5,544	—	—
Losses on sales of treasury stock, net of taxes	(6)	(1)	(5)
Balance at end of year	¥ 470,414	¥ 592,060	¥ 592,055
Retained earnings appropriated for legal reserve (Note 19):			
Balance at beginning of year	¥ 144,867	¥ 152,834	¥ 160,808
Transfer from unappropriated retained earnings	7,967	7,974	8,946
Balance at end of year (Note 29)	¥ 152,834	¥ 160,808	¥169,754
Unappropriated retained earnings (Note 19):			
Balance at beginning of year	¥1,627,537	¥ 806,163	¥ 414,024
Net income (loss)	(773,737)	(344,423)	35,475
Total	853,800	461,740	449,499
Deduct:			
Cash Dividends paid:			
Common share—¥8.50 per share in each of fiscal 1997, 1998 and 1999	(39,670)	(39,742)	(39,741)
Preferred share (Class 1)—¥57.12 per share in fiscal 1999	—	—	(4,649)
Transfer to retained earnings appropriated for legal reserve	(7,967)	(7,974)	(8,946)
Total	(47,637)	(47,716)	(53,336)
Balance at end of year (Note 29)	¥ 806,163	¥ 414,024	¥ 396,163
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	¥ 853,545	¥ 852,645	¥ 905,337
Net change during the year	(900)	52,692	593,763
Balance at end of year	¥ 852,645	¥ 905,337	¥1,499,100
Minimum pension liability adjustments (Note 14):			
Balance at beginning of year	¥ (21,748)	¥ (67,227)	¥ (41,772)
Net change during the year	(45,479)	25,455	25,844
Balance at end of year	¥ (67,227)	¥ (41,772)	¥ (15,928)
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (177,951)	¥(135,009)	¥ (174,669)
Net change during the year	42,942	(39,660)	(58,272)
Balance at end of year	¥ (135,009)	¥(174,669)	¥ (232,941)
Balance at end of year	¥ 650,409	¥ 688,896	¥1,250,231

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, 1998, 1999 AND 2000

	1998	1999	2000
		(in millions)	
Cash flows from operating activities:			
Net income (loss)	¥ (773,737)	¥ (344,423)	¥ 35,475
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	59,242	59,211	63,384
Goodwill amortization and impairment	109,219	62,648	3,486
Provision for credit losses	1,356,231	919,427	368,639
Investment securities losses (gains)—net	160,791	24,332	(132,518)
Foreign exchange losses (gains)—net	168,482	(213,464)	(55,122)
Provision for deferred income tax benefit	(493,272)	(286,144)	(109,825)
Decrease (increase) in trading account assets, excluding foreign exchange contracts	(267,639)	213,939	404,551
Increase (decrease) in trading account liabilities, excluding foreign exchange contracts	484,772	(34,886)	(649,629)
Decrease in accrued interest receivable and other receivables	95,738	109,453	115,815
Increase (decrease) in accrued interest payable and other payables	(185,905)	30,090	(163,309)
Other—net	103,717	75,854	167,402
Net cash provided by operating activities	817,639	616,037	48,349
Cash flows from investing activities:			
Proceeds from sales of investment securities available for sale	5,669,412	7,639,777	25,825,681
Proceeds from maturities of investment securities available for sale	629,513	619,312	4,460,319
Purchases of investment securities available for sale	(7,023,874)	(7,958,575)	(31,723,773)
Proceeds from maturities of investment securities being held to maturity	173,523	396,971	197,389
Purchases of investment securities being held to maturity	(157,357)	(255,486)	(139,419)
Proceeds from sales of other investment securities	25,901	10,360	47,959
Purchases of other investment securities	(22,896)	(8,103)	(9,378)
Proceeds from sales of equity investments in a subsidiary	—	131,273	—
Net decrease (increase) in loans	(709,771)	1,007,453	2,253,294
Net decrease (increase) in interest-earning deposits in other banks	(199,219)	7,594,576	(1,878,408)
Net decrease (increase) in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions	(2,515,032)	1,114,791	1,260,917
Capital expenditures for premises and equipment	(58,410)	(41,661)	(33,303)
Other—net	79,249	101,904	(27,271)
Net cash provided by (used in) investing activities	(4,108,961)	10,352,592	234,007
Cash flows from financing activities:			
Net increase (decrease) in deposits	1,762,470	(6,536,105)	727,628
Net decrease in debentures	(541,389)	(877,192)	(477,206)
Net increase (decrease) in call money, funds purchased, and payables under repurchase agreements and securities lending transactions	204,021	(2,733,336)	(1,023,739)
Net increase (decrease) in other short-term borrowings	905,642	(1,267,412)	(162,007)
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	843,796	630,352	988,173
Repayment of long-term debt	(464,286)	(555,416)	(464,213)
Dividends paid	(39,670)	(39,742)	(44,385)
Other—net	419,085	(189,633)	228,257
Net cash provided by (used in) financing activities	3,089,669	(11,219,416)	(227,492)
Effect of exchange rate changes on cash and cash equivalents	52,878	(34,030)	(44,931)
Net increase (decrease) in cash and cash equivalents	(148,775)	(284,817)	9,933
Cash and cash equivalents at beginning of year	2,278,855	2,130,080	1,845,263
Cash and cash equivalents at end of year	¥ 2,130,080	¥ 1,845,263	¥ 1,855,196
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for:			
Interest	¥ 1,880,358	¥ 1,344,837	¥ 1,059,727
Income taxes	37,996	62,638	131,270
Non-cash investing and financing activities:			
Conversion of long-term debt into common stock	11,131	—	—
Loans transferred to other real estate owned	22,780	24,670	12,361

See the accompanying notes to Consolidated Financial Statements.

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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 25 for more information by business segment.

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, 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 substantial 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.

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. 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—Net or Foreign Exchange Losses—Net. 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—Net or Foreign Exchange Losses—Net.

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 are not met, resale and repurchase agreements and securities lending and borrowing transactions are accounted for as secured lending or borrowing transactions.

For resale agreements and securities borrowing transactions accounted for as secured lending transactions where the Group, as the secured party, has taken control of securities received as collateral, the Group recognizes the securities in Trading Account Assets or Investment Securities, depending on the intended use of such securities, and records an obligation to return those securities in Obligations to Return Securities Received as Collateral. For repurchase agreements and securities lending transactions accounted for as secured borrowing transactions where the secured party has taken control of securities pledged by the Group as collateral, the Group reclassifies the securities pledged as Receivables for Securities Provided as Collateral.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 value. The Group maintains strict levels of collateralization governed by daily mark-to-market analyses for most securities lending transactions.

Trading Securities—Trading securities (i.e., 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 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 included in Trading Account Profits—Net.

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. 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 or less 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. Gains and losses on disposition of investment securities are computed on 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 and credits.

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 Profit—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. These derivatives are accounted for in a manner consistent with the accounting treatments appropriate for the related asset 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 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 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.

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 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.

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 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 future 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 specific 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."

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The specific 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 by the number of delinquencies.

The specific 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 loans not included in the above category. 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 loans. In determining the formula allowance, the Group relies on a mathematical calculation that incorporates loss factor percentages of total outstandings based on historical experience.

The unallocated allowance is based on a judgmental assessment of probable losses not adequately captured by the allocated allowance. The Group establishes the unallocated allowance taking into consideration model and estimation risk, and various conditions that are not directly measured in the determination of the allocated allowance, and other factors.

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 loan credit losses.

Prior to April 1, 1998, the allowance for credit losses included an allowance for off-balance-sheet credit instruments such as commitments to extend credit, guaranties and standby letters of credit. During the year ended March 31, 1999, the Group made a reclassification of such allowance to other liabilities, which had no impact on the results of operations. Subsequent to April 1, 1998, net changes in the allowance for off-balance-sheet credit instruments are accounted for as Other Non-interest Income or Other Non-interest Expenses.

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 20
Leasehold improvements	2 to 18

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

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 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 certain available information, in order to estimate future cash flows. When goodwill exceeds the expected future undiscounted cash flows, the excess is recognized as an impairment loss.

Software—Effective April 1, 1999, in compliance with Statement of Position ("SOP") 98-1, the Group capitalizes certain costs associated with the acquistion 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.

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.

Trust fees—Trust fees are recorded on the accrual basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 18.

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 21 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 19). 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 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—In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 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," 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. The Group has not completed the study of what effect SFAS No. 133, as amended by SFAS No. 138, will have on the Group's financial statements, and cannot reasonably estimate the impact on the Group's earnings and financial position of adopting SFASs No. 133 and 138. The Group will adopt the provisions of SFASs No. 133 and 138 in the fiscal year ending March 31, 2002.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2. TRADING ACCOUNT ASSETS AND LIABILITIES

The following table shows trading account assets and liabilities, carried at estimated fair value, at March 31, 1999 and 2000. For trading derivative contracts executed under legally enforceable master netting agreements, related assets and liabilities are bilaterally offset and reported net by counterparty.

	1999	2000
	(in millions)	
Trading account assets:		
Trading securities, principally Japanese government obligations and money market instruments	¥ 2,579,942	¥ 4,636,375
Trading derivative assets:		
Interest rate contracts:		
Forward and futures	34,097	32,357
Swap and swap-related products	2,592,032	1,728,987
Options purchased	117,021	75,781
Total	2,743,150	1,837,125
Foreign exchange contracts:		
Forward and futures	919,106	500,273
Swaps	502,034	504,041
Options purchased	50,652	29,870
Total	1,471,792	1,034,184
Other contracts, mainly equity and credit-related contracts	221,159	57,382
Bilateral netting of derivatives under master netting agreements	(1,969,000)	(1,197,361)
Total	¥ 5,047,043	¥ 6,367,705
Trading account liabilities:		
Trading securities sold, not yet purchased	¥ 1,762,870	¥ 1,709,044
Trading derivative liabilities:		
Interest rate contracts:		
Forward and futures	28,529	38,448
Swap and swap-related products	2,193,965	1,514,742
Options written	128,773	83,421
Total	2,351,267	1,636,611
Foreign exchange contracts:		
Forward and futures	695,861	514,331
Swaps	669,864	422,907
Options written	56,382	38,231
Total	1,422,107	975,469
Other contracts, mainly equity and credit-related contracts	215,185	103,741
Bilateral netting of derivatives under master netting agreements	(1,969,000)	(1,197,361)
Total	¥ 3,782,429	¥ 3,227,504

See Note 27 for the methodologies and assumptions used to estimate the fair values.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the years ended March 31, 1999 and 2000, the average estimated fair values of derivative financial instruments included in trading activities were as follows:

	For the year ended March 31,	
	1999	2000
	(in billions)	
Trading derivative assets:		
Interest rate contracts:		
Forward and futures	¥ 43	¥ 25
Swap and swap-related products	2,744	2,143
Options purchased	154	95
Total interest rate contracts	2,941	2,263
Foreign exchange contracts:		
Forward and futures	1,273	749
Swaps	565	501
Options purchased	94	43
Total foreign exchange contracts	1,932	1,293
Other contracts, mainly equity and credit-related contracts	125	162
Bilateral netting of derivatives	(2,166)	(1,589)
Total	¥ 2,832	¥ 2,129
Trading derivative liabilities:		
Interest rate contracts:		
Forward and futures	¥ 36	¥ 26
Swap and swap-related products	2,058	1,854
Options written	158	103
Total interest rate contracts	2,252	1,983
Foreign exchange contracts:		
Forward and futures	1,091	674
Swaps	931	554
Options written	98	48
Total foreign exchange contracts	2,120	1,276
Other contracts, mainly equity and credit-related contracts	114	179
Bilateral netting of derivatives	(2,166)	(1,589)
Total	¥ 2,320	¥ 1,849

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.

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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, 1998, 1999 and 2000, comprised the following:

	1998	1999	2000
		(in billions)	
Interest rate and other contracts	¥269.5	¥ 80.2	¥ 4.3
Foreign exchange contracts	(41.4)	0.2	76.3
Trading securities	(0.9)	32.8	(22.8)
Net trading gains	¥227.2	¥113.2	¥ 57.8

3. INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities at March 31, 1999 and 2000 are as follows:

	1999				2000			
	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	¥ 2,680,777	¥ 50,374	¥ 2,680	¥ 2,728,471	¥ 3,575,469	¥ 17,793	¥ 4,000	¥ 3,589,262
Japanese prefectural and municipal bonds	126,468	10,992	731	136,729	142,856	1,912	41	144,727
Foreign governments and official institutions bonds	975,346	23,474	14,569	984,251	677,162	7,257	11,925	672,494
Corporate bonds	771,250	26,810	12,029	786,031	957,976	192,721	2,610	1,148,087
Mortgage-backed securities	1,235,576	14,708	1,652	1,248,632	1,042,443	825	15,572	1,027,696
Other debt securities	85,202	2,666	3,998	83,870	299,971	18,165	10,277	307,859
Marketable equity securities	4,446,554	2,049,962	300,821	6,195,695	4,450,602	2,702,737	29,125	7,124,214
Total securities available for sale	10,321,173	2,178,986	336,480	12,163,679	11,146,479	2,941,410	73,550	14,014,339
Securities being held to maturity—debt securities:								
Foreign governments and official institutions bonds	146,587	4,427	1,546	149,468	92,761	2,075	949	93,887
Corporate bonds	338,746	4,651	2,098	341,299	259,126	5,357	1,476	263,007
Other debt securities	41,114	779	—	41,893	56,762	992	—	57,754
Total securities being held to maturity	526,447	9,857	3,644	532,660	408,649	8,424	2,425	414,648
Other investment securities—nonmarketable equity securities	126,977	—	—	126,977	109,455	—	—	109,455
Total	¥10,974,597	¥2,188,843	¥340,124	¥12,823,316	¥11,664,583	¥2,949,834	¥75,975	¥14,538,442

See Note 27 for the methodologies and assumptions used to estimate the fair values.

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The amortized cost and estimated fair value of debt securities being held to maturity and available for sale at March 31, 2000 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	¥117,760	¥118,933	¥1,684,617	¥1,733,123
Due from one year to five years	194,270	195,349	3,911,395	4,034,403
Due from five years to ten years	87,728	91,276	891,770	914,012
Due after ten years	8,891	9,090	208,095	208,587
Total	¥408,649	¥414,648	¥6,695,877	¥6,890,125

For the years ended March 31, 1998, 1999 and 2000, proceeds from sales of securities available for sale were ¥5,699,412 million, ¥7,639,777 million and ¥25,825,681 million, respectively. For the years ended March 31, 1998, 1999 and 2000, gross realized gains on those sales were ¥183,575 million, ¥141,250 million and ¥363,414 million, respectively, and gross realized losses on those sales were ¥45,437 million, ¥75,139 million and ¥97,079 million, respectively. There were no sales or transfers of securities being held to maturity during the years ended March 31, 1998, 1999 and 2000.

For the years ended March 31, 1998, 1999 and 2000, losses resulting from write-downs of investment securities to reflect the decline in value considered to be other than temporary were ¥292,352 million, ¥118,350 million and ¥133,817 million, respectively.

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4. LOANS

Loans at March 31, 1999 and 2000 by domicile and type of industry of borrower are summarized below:

	1999	2000
	(in millions)	
Domestic:		
Manufacturing	¥ 5,956,780	¥ 5,597,318
Construction	1,624,933	1,460,653
Real estate	4,265,848	3,698,842
Services	4,031,474	3,813,850
Wholesale and retail	6,852,868	5,956,815
Banks and other financial institutions	2,410,410	2,193,633
Other industries	2,964,298	3,155,294
Consumer	6,670,452	6,873,500
Total domestic	34,777,063	32,749,905
Foreign:		
Governments and official institutions	337,101	223,219
Banks and other financial institutions	520,446	482,235
Commercial and industrial	8,789,634	6,993,928
Other	1,332,634	548,423
Total foreign	10,979,815	8,247,805
Less unearned income and deferred loan fees	36,760	30,205
Total	¥45,720,118	¥40,967,505

Substantially all domestic loans are made under agreements which, as customary in Japan, provide that the Bank may, under certain conditions, require the borrower to provide collateral (or additional collateral) or guarantors with respect to the loans, and that the Bank may treat any collateral, whether furnished as security for loans or otherwise, as collateral for all indebtedness to the Bank. At March 31, 1999 and 2000, such collateralized loans, which were principally secured by real estate, marketable securities and accounts receivable, amounted to ¥7,467,826 million and ¥7,069,067 million, respectively, which represented, in each case, 21% of the total domestic outstanding loans at March 31, 1999 and 2000.

Nonaccrual and restructured loans were ¥2,161,481 million and ¥1,860,350 million at March 31, 1999 and 2000, 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, 1999 and 2000 would have been approximately ¥70.5 billion and ¥43.8 billion, respectively, of which approximately ¥9.1 billion and ¥11.2 billion, respectively, was included in interest income on loans in the accompanying consolidated statements of income.

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 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.

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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, 1999 and 2000 is shown below:

	1999		2000	
	Recorded loan balance	Impairment allowance	Recorded loan balance	Impairment allowance
	(in millions)			
Requiring an impairment allowance	¥1,726,915	¥874,810	¥1,532,133	¥688,368
Not requiring an impairment allowance	468,951	—	324,026	—
Total	¥2,195,866	¥874,810	¥1,856,159	¥688,368

The average recorded investments in impaired loans were approximately ¥1,560 billion, ¥1,688 billion and ¥2,028 billion, respectively, for the years ended March 31, 1998, 1999 and 2000.

For the years ended March 31, 1998, 1999 and 2000, the Group recognized interest income of approximately ¥21.9 billion, ¥9.3 billion and ¥11.2 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, 1999 and 2000, the components of the investment in direct financing leases were as follows:

	1999	2000
	(in millions)	
Minimum lease payment receivable	¥447,032	¥359,820
Estimated residual values of leased property	29,482	28,528
Less: Unearned income	(55,589)	(29,925)
Net investment in direct financing leases	¥420,925	¥358,423

Future minimum lease payment receivables under noncancellable leasing agreements as of March 31, 2000 are as follows:

	Direct financing leases
	(in millions)
Year ending March 31:	
2001	¥107,895
2002	85,132
2003	65,333
2004	44,129
2005	27,351
2006 and thereafter	29,980
Total minimum lease payment receivables	¥359,820

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"), 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, 1999 and 2000. 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, 1999 and 2000, which are included in Other Assets, were ¥74,595 million and ¥77,012 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.

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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, 1998, 1999 and 2000 are shown below:

	1998	1999	2000
		(in millions)	
Balance at beginning of year	¥1,062,446	¥ 760,323	¥1,290,657
Additions to allowance charged to operations	1,356,231	919,427	368,639
Charge-offs	1,679,236	358,381	547,883
Less—Recoveries	8,788	9,807	41,004
Net charge-offs	1,670,448	348,574	506,879
Reclassification of allowance on off-balance-sheet credit instruments	—	(14,741)	—
Other, principally foreign exchange translation adjustments	12,094	(25,778)	(15,236)
Balance at end of year	¥ 760,323	¥1,290,657	¥1,137,181

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.

7. PREMISES AND EQUIPMENT

Premises and equipment at March 31, 1999 and 2000 consisted of the following:

	1999	2000
	(in millions)	
Land	¥157,837	¥132,233
Buildings	332,706	323,934
Equipment and furniture	295,214	293,507
Leasehold improvements	207,904	211,364
Construction in progress	5,114	8,071
Total	998,775	969,109
Less accumulated depreciation	552,019	555,211
Premises and equipment—net	¥446,756	¥413,898

Premises and equipment include capitalized leases, principally related to data processing equipment, which amounted to ¥13,858 million of acquisition cost at March 31, 1999 and ¥18,544 million at March 31, 2000. Accumulated depreciation on such capitalized leases at March 31, 1999 and 2000 amounted to ¥11,664 million and ¥6,239 million, respectively.

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Depreciation and amortization expense of premises and equipment for the years ended March 31, 1998, 1999 and 2000 was ¥59,242 million, ¥59,211 million and ¥63,384 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, 1999 and 2000, the financing obligation was ¥100,600 million and ¥100,766 million, respectively, and total rental payments amounted to ¥704 million and ¥7,930 million, respectively, for the years ended March 31, 1999 and 2000.

8. INCOME TAXES

The detail of current and deferred income tax expense or benefit for the years ended March 31, 1998, 1999 and 2000 was as follows:

	1998	1999	2000
		(in millions)	
Current:			
Domestic	¥ 8,398	¥ 106,990	¥163,438
Foreign	38,656	35,823	30,405
Total current	47,054	142,813	193,843
Deferred:			
Domestic	(582,132)	(221,459)	351,083
Foreign	52,594	(21,427)	(19,775)
Total deferred	(529,538)	(242,886)	331,308
Total	¥(482,484)	¥(100,073)	¥525,151

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 51%, 48% and 42%, respectively, for the years ended March 31, 1998, 1999 and 2000. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

On March 30, 2000, a local tax regulation to change the basis on which it taxes large banks doing business in Tokyo was enacted. The Bank and its subsidiary, Nippon Trust Bank Limited, are subject to the new regulation. Under the new regulation, banking institutions pay a 3% tax on their gross operating profits, as defined, derived from Tokyo operations for a period of five years commencing April 1, 2000. Prior to April 1, 2000, the banking institutions paid a local corporate tax based on their

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net income. The change in local taxation decreased the normal effective tax rate by 3.5% to 38.5%. The tax rate change decreased deferred tax assets and liabilities at March 31, 2000 and resulted in an increase of ¥1,335 million in income tax expense for the year ended March 31, 2000. The new 3% tax would be accounted for as non-interest expenses from the year ending March 31, 2001.

Revisions of Japanese tax laws, which were enacted on March 31, 1998 and March 24, 1999, decreased the Group's normal effective statutory tax rate by 3% and 6%, respectively. For the years ended March 31, 1998 and 1999, income tax benefit included a ¥4,193 million charge and a ¥57,053 million charge, respectively, 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, 1998, 1999 and 2000 was as follows:

	1998	1999	2000
Combined normal effective statutory tax rate	(51.0)%	(48.0)%	42.0%
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	0.5	0.5	6.8
Goodwill amortization and impairment	5.2	6.0	0.5
Dividends from foreign subsidiaries	0.7	1.9	5.9
Foreign income exempted for income tax purposes	(0.3)	(2.8)	(7.7)
Lower tax rates applicable to income of foreign subsidiaries	(1.0)	(3.8)	(5.1)
Minority interest	(0.7)	0.9	6.0
Change in valuation allowance	6.8	0.9	27.6
Enacted change in tax rates	0.3	11.7	1.0
Gains from exchange of equity investments in subsidiaries	—	5.0	—
Other—net	3.3	(1.7)	(4.5)
Effective income tax rate	(36.2)%	(29.4)%	72.5 %

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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, 1999 and 2000 were as follows:

	1999	2000
	(in millions)	
Deferred tax assets:		
Allowance for credit losses	¥ 694,925	¥ 606,988
Net operating loss carryforwards	91,252	121,212
Accrued severance indemnities and pension liabilities	70,625	48,129
Other real estate owned	78,822	47,936
Accrued liabilities and other	78,804	45,732
Sale-and-leaseback transactions	39,536	36,435
Foreign currency translation losses on foreign currency debt	16,627	4,157
Depreciation	15,291	13,535
Derivative financial instruments	—	6,408
Valuation allowance	(205,259)	(220,688)
Total deferred tax assets	880,623	709,844
Deferred tax liabilities:		
Investment securities	406,466	592,262
Deferred profit on property for income tax purposes	23,332	12,712
Equipment and auto leasing	63,198	63,100
Derivative financial instruments	16,777	—
Other	4,484	2,452
Total deferred tax liabilities	514,257	670,526
Net deferred tax assets	¥ 366,366	¥ 39,318

A valuation allowance is established to reduce certain subsidiaries' deferred tax assets including deductible temporary differences and net operating losses and tax credit carryforwards to reflect the uncertainty associated with their realization. The valuation allowance increased by ¥65,203 million during the year ended March 31, 1998, decreased by ¥33,527 million during the year ended March 31, 1999 and increased by ¥15,429 million during the year ended March 31, 2000.

At March 31, 2000 certain subsidiaries had operating loss carryforwards of ¥327,438 million and tax credit carryforwards of ¥884 million for tax purposes. Such carryforwards expire through March 31, 2020, except for the operating losses of certain subsidiaries, which can be carried forward indefinitely.

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, 2000, such undistributed earnings of foreign subsidiaries amounted to approximately ¥177 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.

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Income (loss) before income tax expense or benefit for the years ended March 31, 1998, 1999 and 2000 was as follows:

	1998	1999	2000
		(in millions)	
Domestic income (loss)	¥(1,271,835)	¥(539,385)	¥ 59,205
Foreign income	59,533	51,631	69,905
Total	¥(1,212,302)	¥(487,754)	¥129,110

9. ASSETS PLEDGED

At March 31, 2000 assets pledged as collateral for short-term borrowings and long-term debt of the Group were as follows:

	(in millions)
Receivables for securities provided as collateral	¥1,025,246
Trading securities	405,000
Investment securities	453,967
Loans	502,122
Other	84,448
Total	¥2,470,783

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

	(in millions)
Call money and funds purchased	¥ 319,637
Payables under repurchase agreements and securities lending transactions	1,420,246
Other short-term borrowings	201,002
Long-term debt	182,536
Total	¥2,123,421

In addition, at March 31, 2000, certain investment securities, principally Japanese national government and Japanese government agency bonds, aggregating ¥918,453 million were pledged as collateral for acting as a collection agent of public funds, for settlement of exchange at The Bank of Japan 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, 1999 and 2000, the reserve funds maintained by the Group, which are included in Cash and Due from Banks and Interest-earning Deposits in Other Banks, were ¥323,164 million and ¥533,075 million, respectively. Average reserves during the years ended March 31, 1999 and 2000 were ¥518,742 million and ¥524,100 million, respectively.

See Note 13 regarding loans on notes and acceptances transferred with recourse.

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10. DEPOSITS

The balances of time deposits, including CDs, issued in amounts of ¥10 million (approximately US$97 thousand at the Noon Buying Rate on March 31, 2000) or more with respect to domestic deposits and issued in amounts of US$100,000 or more with respect to foreign deposits were ¥15,975,372 million and ¥5,782,097 million, respectively, at March 31, 1999, and ¥13,877,274 million and ¥4,441,267 million, respectively, at March 31, 2000.

The maturity information at March 31, 2000 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	¥1,584,424	¥ 72,595
Due after two years through three years	1,507,662	69,443
Due after three years through four years	243,757	18,100
Due after four years through five years	293,957	6,505
Due after five years	34,941	29,731
Total	¥3,664,741	¥196,374

11. 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, 1999 and 2000 comprised the following:

	1999	2000
	(in millions)	
One-year discount debentures, net of amortized discount of ¥3,589 million in 1999 and ¥1,455 million in 2000—discount at issuance of 0.14% to 0.19% (0.19% to 0.49% in 1999)	¥1,747,510	¥1,570,050
Three-year coupon debentures with interest of 0.20% to 1.50% (0.40% to 1.90% in 1999)	1,682,027	1,380,227
Five-year coupon debentures with interest of 0.80% to 2.70% (1.00% to 4.00% in 1999)	1,586,050	1,593,280
Total	¥5,015,587	¥4,543,557

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The following is a summary of maturities of debentures subsequent to March 31, 2000:

	(in millions)
Year ending March 31:	
2001	¥2,684,563
2002	680,018
2003	803,426
2004	186,020
2005	189,530
Total	¥4,543,557

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

A summary of funds transactions for the years ended March 31, 1998, 1999 and 2000 is as follows:

	1998	1999	2000
		(in millions)	
Average balance during the year:			
Call money and funds purchased	¥ 5,673,254	¥ 3,538,954	¥ 1,620,648
Call loans and funds sold	2,930,316	1,330,866	783,084
Net funds purchased position	¥ 2,742,938	¥ 2,208,088	¥ 837,564
Call money and funds purchased:			
Outstanding at end of year:			
Amount	¥ 4,212,228	¥ 1,990,524	¥ 1,171,060
Principal range of maturities	One day to 30 days	One day to 30 days	One day to 30 days
Weighted average interest rate	0.74%	0.68%	0.78%
Maximum balance at any month-end during the year	¥ 5,804,403	¥ 4,653,161	¥ 2,204,973
Weighted average interest rate paid during the year	0.68%	1.03%	0.94%

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.

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13. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 1999 and 2000, the Group had unused lines of credit amounting to ¥781,266 million and ¥814,265 million, respectively.

Other short-term borrowings at March 31, 1999 and 2000 comprised the following:

	1999	2000
	(in millions)	
Domestic offices:		
Loans on notes and acceptances transferred with recourse (rediscount)	¥ 129,855	¥ 158,087
Other	1,484,974	1,026,132
Total domestic offices	1,614,829	1,184,219
Foreign offices		
Commercial paper	272,732	228,871
Other	502,499	75,940
Total foreign offices	775,231	304,811
Total	2,390,060	1,489,030
Less unamortized discount	483	199
Other short-term borrowings—net	¥2,389,577	¥1,488,831
Weighted average interest rate on outstanding balance at end of year	3.79%	1.70%

A summary of other short-term borrowing transactions for the years ended March 31, 1998, 1999 and 2000 is as follows:

	1998	1999	2000
		(in millions)	
Average balance outstanding during the year	¥2,991,484	¥3,435,662	¥1,844,189
Maximum balance at any month-end during the year	3,818,103	3,310,795	2,365,005
Weighted average interest rate during the year	2.43%	2.25%	2.70%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Long-term debt (original maturities of more than one year) at March 31, 1999 and 2000 comprised the following:

	1999	2000
	(in millions)	
The Bank:		
Obligations under capital leases	¥ 2,492	¥ 11,289
Obligation under sale-and-leaseback transactions	100,600	100,766
Unsubordinated debt:		
Insurance companies and other institutions, maturing serially through 2022, principally 0.47%-7.49%	289,237	255,504
1¾% Convertible Bonds due 2002, payable in United States dollars	403	355
Fixed rate bonds, payable in Japanese yen, due 2002-2020, principally 0.67%-2.69%	—	320,000
Adjustable rate bonds, payable in Japanese yen, due 2003, principally 0.40%-0.45%	—	40,000
Subordinated debt:		
Fixed rate notes, payable in United States dollars, due 2010, 8.40%	—	212,112
Fixed rate borrowings, payable in Japanese yen, due 2000-2012, principally 2.70%-8.50%	363,117	368,366
Adjustable rate borrowings, payable in Japanese yen, due 2005-2009, principally 1.05%-8.70%	297,600	302,600
Floating rate borrowings, payable in Japanese yen, due 2000-2006, principally 0.14%-2.20%	146,000	145,000
Floating rate undated bonds, payable in Japanese yen, 1.11%	100,000	—
Total	1,299,449	1,755,992
Subsidiaries:		
Unsubordinated debt:		
Insurance companies and other institutions, due 2000-2007, principally 1.10%-5.60%	44,483	62,341
3% Exchangeable Guaranteed Notes due 2002, payable in United States dollars	241,025	212,234
Zero Coupon notes, payable in United States dollars due 2000-2001	6,370	20,654
Zero Coupon notes, payable in Italian lire, due 2000	13,884	12,288
Fixed rate bonds and notes, payable in United States dollars, due 2000-2011, principally 5.45%-7.78%	29,282	23,877
Fixed rate bonds and notes, payable in Japanese yen, due 2000-2017, principally 0.20%-7.20%	333,597	351,699
Adjustable rate bonds and notes, payable in United States dollars, due 2006-2010, principally 6.31%-7.99%	34,136	30,205
Adjustable rate bonds and notes, payable in Japanese yen, due 2000-2010, principally 0.39%-4.00%	89,648	107,974
Adjustable rate bonds and notes, payable in Deutsche mark, due 2002-2007, principally 3.81%-6.00%	2,149	—
Floating rate bonds and notes, payable in United States dollars, due 2000-2009, principally 6.06%-6.73%	41,200	59,904
Floating rate bonds and notes, payable in Japanese yen, due 2000-2013, principally 0.25%-5.12%	98,316	77,316
Floating rate notes, payable in Euro, due 2001, 3.62%	—	25,994
Obligations under capital leases and other miscellaneous debt	51,661	13,964
Total unsubordinated debt	985,751	998,450

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	1999	2000
	(in millions)	
Subordinated debt:		
Insurance companies and other institutions, due 2002-2010, principally 0.42%-3.39%	20,289	21,875
Exchangeable undated bonds, 4.25% through March 2003, floating thereafter	49,940	49,940
Undated notes, payable primarily in Japanese yen, principally 0.46%-7.00%	165,076	147,730
Fixed rate bonds and notes, payable in United States dollars, due 2006-2007, principally 6.20%-8.63%	60,461	46,180
Fixed rate bonds and notes, payable in Japanese yen, due 2003-2028, principally 0.40%-5.10%	83,375	83,832
Adjustable rate undated notes, payable in United States dollars, principally 6.57%-7.42%	67,106	59,392
Adjustable rate undated notes, payable in Japanese yen, principally 0.71%-3.16%	235,147	260,698
Adjustable rate bonds and notes, payable in United States dollars, due 2006-2009, principally 6.00%-7.50%	146,434	97,434
Adjustable rate bonds and notes, payable in Japanese yen, due 2001-2010, principally 0.51%-5.80%	329,671	320,052
Floating rate bonds and notes, payable in United States dollars, due 2000-2006, principally 5.98%-6.69%	44,089	25,407
Floating rate bonds and notes, payable in Japanese yen, due 2002-2027, principally 0.12%-3.07%	50,368	68,874
Other miscellaneous debt	2,211	1,994
Total subordinated debt	1,254,167	1,183,408
Mandatorily redeemable preferred securities of subsidiary grantor trust	42,350	35,840
Total	2,282,268	2,217,698
Total	¥3,581,717	¥3,973,690

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.

The conversion price at March 31, 2000 of the convertible bonds and the price at which they are redeemable at the option of the issuer at March 31, 2000, were as follows:

	Conversion price per share (a)	Redemption price (percentage of principal)
1¾% Convertible Bonds due 2002	2,597.20	100.0%

(a) Subject to computational provisions in the related indentures.

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On February 28, 2000, the Bank redeemed the adjustable rate undated bonds, payable in Japanese yen of ¥100,000 million from the Resolution and Collection Bank, Limited of Japan at a price of 100.56%. The resulting loss on the redemption was not material.

The Exchangeable Guaranteed Notes due 2002 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, 2000. 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 100% of their principal amount.

The exchangeable undated subordinated bonds are exchangeable through March 24, 2003 at the option of the bond holders for shares of the Bank's common stock at the exchange price of ¥1,725 per share. The bonds are redeemable at the option of the issuer, subject to certain conditions, in shares of the Bank's common stock during the period from March 31, 1998 to March 31, 2003 or in cash at 100% of their principal amount on or after March 31, 1998.

The redemption amount of Zero Coupon notes, payable in Italian lire, due 2000 is indexed to the average of 10-year US dollar swap spread and is subject to a minimum redemption amount of 100%.

Certain unsubordinated bonds and notes issued by subsidiaries, including the above exchangeable notes, at March 31, 2000 are guaranteed by the Bank or a subsidiary as to payment of principal and interest. Certain subordinated bonds and notes (aggregating ¥1,109,060 million at March 31, 2000) 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, 1999 and 2000. 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, 2000:

	The Bank	Subsidiaries	Total
		(in millions)	
Year ending March 31:			
2001	¥ 126,729	¥ 179,980	¥ 306,709
2002	81,035	141,681	222,716
2003	192,337	324,401	516,738
2004	56,223	173,791	230,014
2005	304,362	119,389	423,751
2006 and thereafter	995,306	1,278,456	2,273,762
Total	¥1,755,992	¥2,217,698	¥3,973,690

14. 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.

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Net periodic cost of the severance indemnities and pension plans, net of contributions made by employees, for the years ended March 31, 1998, 1999 and 2000 included the following components:

	1998	1999	2000
		(in millions)	
Service cost—benefits earned during the year	¥ 16,441	¥23,019	¥ 21,773
Interest costs on projected benefit obligation	21,610	20,069	21,730
Expected return on plan assets	(10,219)	(6,950)	(18,275)
Amortization of unrecognized net obligation at transition	2,298	2,293	2,293
Amortization of prior service cost	3,870	3,885	4,088
Amortization of net actuarial loss	4,837	9,822	6,587
Net periodic benefit cost	¥ 38,837	¥52,138	¥ 38,196

	1997	1998	1999
Weighted-average assumptions at December 31:			
Discount rates	2.90%	3.30%	3.10%
Rates of increase in future compensation	3.39%	3.30%	2.58%
Expected rates of return on plan assets	3.36%	1.98%	5.05%

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The following table sets forth the funded status and amounts recognized in the Bank's consolidated balance sheets at March 31, 1999 and 2000 for the plans of the Bank and certain domestic subsidiaries:

	1999		2000	
	Severance indemnities plans and non-contributory pension plan	Contributory pension plans	Severance indemnities plans and non-contributory pension plan	Contributory pension plans
	(in millions)			
Change in benefit obligation:				
Benefit obligation at January 1, 1998 and 1999	¥ 89,420	¥612,699	¥ 85,522	¥584,151
Service cost	7,113	15,906	8,103	13,670
Interest cost	2,486	17,583	2,688	19,042
Plan participants' contributions	—	2,480	—	2,424
Actuarial (gain) loss	(2,347)	(52,466)	23,139	(58,210)
Benefits paid	(11,150)	(12,051)	(11,279)	(13,196)
Benefit obligation at December 31, 1998 and 1999	85,522	584,151	108,173	547,881
Change in plan assets:				
Fair value of plan assets at January 1, 1998 and 1999	11,845	324,995	11,489	347,188
Actual return on plan assets	395	(3,344)	382	52,815
Employer contribution	—	35,108	—	30,486
Plan participants' contributions	—	2,480	—	2,424
Benefits paid	(751)	(12,051)	(794)	(13,353)
Fair value of plan assets at December 31, 1998 and 1999	11,489	347,188	11,077	419,560
Projected benefit obligation in excess of plan assets at December 31, 1998 and 1999	(74,033)	(236,963)	(97,096)	(128,321)
Contributions to or benefits paid from plan assets during the three month periods ended March 31, 1999 and 2000	494	6,109	1,934	4,693
Unrecognized net actuarial loss	13,504	136,014	33,823	37,135
Unrecognized prior service cost	2,259	39,049	2,046	35,376
Unrecognized net (asset) obligation at transition	(3,601)	17,097	(3,045)	14,249
Net amount recognized	¥(61,377)	¥ (38,694)	¥(62,338)	¥ (36,868)
Amounts recognized in the balance sheets:				
Accrued benefit liability	(62,109)	(177,134)	(87,532)	(102,765)
Intangible assets	732	56,146	2,045	48,361
Accumulated other changes in equity from nonowner sources	—	82,294	23,149	17,535
Net amount recognized	¥(61,377)	¥ (38,694)	¥(62,338)	¥ (36,869)

Note—The aggregated accumulated benefit obligations of these plans were ¥584,850 million and ¥623,001 million, respectively, at March 31, 1999 and 2000.

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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, 1998, 1999 and 2000 were ¥3,745 million, ¥3,981 million and ¥8,586 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, 1998, 1999 and 2000 were ¥3,502 million, ¥4,469 million and ¥6,983 million, respectively, including ¥1,842 million, ¥2,089 million and ¥2,490 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, 1998, 1999 and 2000 were ¥1,592 million, ¥1,802 million and ¥1,334 million, respectively.

Certain of 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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, 1999 and 2000 included the following components:

	1998	1999	2000
		(in millions)	
Service cost—benefits during the year	¥ 3,280	¥ 3,995	¥ 3,533
Interest costs on projected benefit obligation	3,976	4,818	4,587
Expected Return on Plan Assets	(3,811)	(4,849)	(4,867)
Amortization of unrecognized net obligation at transition	549	539	479
Amortization of unrecognized prior service cost	230	247	79
Recognized actuarial (gain) loss	(221)	(69)	235
Net periodic benefit cost	4,003	4,681	4,046
Curtailment loss	—	130	699
Settlement loss	—	—	132
Net cost after curtailment	¥ 4,003	¥ 4,811	¥ 4,877

	1997	1998	1999
Weighted-average assumptions at December 31:			
Discount rates	7.03%	6.52%	7.71%
Rates of increase in future compensation	5.00%	5.00%	5.00%
Expected rates of return on assets	8.29%	8.30%	8.30%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table sets forth the funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 1999 and 2000 for the employees' retirement and other benefit plans of certain subsidiaries in the United States of America:

	1998	1999
	(in millions)	
Change in benefit obligation		
Benefit obligation at January 1, 1998 and 1999	¥67,789	¥72,311
Service cost	4,125	3,533
Interest cost	4,818	4,587
Plan participants' contributions	126	118
Amendments	—	(97)
Actuarial loss (gain)	7,245	(9,988)
Curtailment	(31)	—
Settlements	—	(313)
Benefits paid	(2,549)	(2,794)
Translation adjustment	(9,212)	(7,708)
Benefit obligation at December 31, 1998 and 1999	72,311	59,649
Change in plan assets		
Fair value of plan assets at January 1, 1998 and 1999	68,142	70,645
Actual return on plan assets	9,454	8,014
Employer contribution	4,251	2,942
Plan participants' contributions	120	118
Benefits paid	(2,461)	(2,701)
Translation adjustment	(8,861)	(8,971)
Fair value of plan assets at December 31, 1998 and 1999	70,645	70,047
Projected benefit obligation in excess of plan assets at December 31, 1998 and 1999	(1,666)	10,398
Unrecognized net actuarial gain	(4,505)	(15,702)
Unrecognized prior service cost	765	211
Unrecognized net obligation at transition	6,375	4,887
Net amount recognized	¥ 969	¥ (206)
Amounts recognized in the balance sheets		
Prepaid pension cost	3,920	2,611
Accrued benefit liability	(3,288)	(2,946)
Intangible assets	48	35
Accumulated other changes in equity from nonowner sources	289	94
Net amount recognized	¥ 969	¥ (206)

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15. OTHER ASSETS AND LIABILITIES

Major components of other assets and liabilities at March 31, 1999 and 2000 were as follows:

	1999	2000
	(in millions)	
Other assets:		
Other real estate owned	¥ 171,935	¥ 62,682
Deferred charges and goodwill	127,165	143,470
Deferred income tax assets	400,823	75,073
Other	956,677	862,057
Total	¥1,656,600	¥1,143,282
Other liabilities:		
Accounts payable:		
Payables to brokers, dealers and customers for securities transactions	¥ 353,523	¥1,975,825
Other	189,405	543,930
Deferred income tax liabilities	34,457	35,755
Allowance for credit losses on off-balance-sheet credit instruments	43,862	79,163
Accrued pension liability	248,216	196,497
Accrued and other liabilities	530,330	518,777
Total	¥1,399,793	¥3,349,947

During the years ended March 31, 1998 and 1999, the Group recognized ¥86.2 billion and ¥50.0 billion, respectively, of impairment of goodwill from the acquisition of Nippon Trust Bank Limited.

At March 31, 1999 and 2000, 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 ¥147,364 million and ¥85,968 million, respectively. The valuation allowance decreased by ¥180,097 million, ¥56,805 million and ¥61,396 million, respectively, during the years ended March 31, 1998, 1999 and 2000.

16. 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 13).

17. 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.

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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 were ¥4,649 million, or ¥57.12 per share. Thereafter, annual dividends will be ¥6,715 million, or ¥82.50 per share.

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. Also, see Note 18.

18. COMMON STOCK AND CAPITAL SURPLUS

The changes in the number of issued shares of common stock during the years ended March 31, 1998, 1999 and 2000 were as follows:

	1998	1999	2000
	(in thousands of shares)		
Balance at beginning of year	4,666,828	4,675,456	4,675,456
Issued for conversion of bonds	8,628	—	—
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, 2000, would have increased capital accounts by ¥1,748,080 million with a corresponding decrease in unappropriated retained earnings.

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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, 2000, 175,943,294 shares of common stock were reserved for the conversion and the exchange of outstanding bonds and notes discussed in Note 13.

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.

19. RETAINED EARNINGS AND DIVIDENDS

Retained Earnings Appropriated for Legal Reserve

The Bank 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 Bank 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, 2000 (¥1,158,073 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 Bank 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 Bank 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.

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20. 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.

The Bank and its banking subsidiaries are subject to regulatory capital requirements administered by the Financial Supervisory Agency of Japan. Under the capital adequacy guidelines, the Bank and its banking subsidiaries must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance-sheet items as calculated under accounting principles generally accepted in Japan. The Financial Supervisory Agency has provided two sets of capital adequacy guidelines. One is a set of guidelines applicable to Japanese banks which are engaged in international operations and the other is applicable to Japanese banks which are not engaged in international operations. The capital adequacy guidelines applicable to banks with international operations conducted by foreign offices (as defined) (the "International Guidelines") closely follow the risk-weighted approach proposed by the Bank for International Settlements (the "BIS"). With regard to capital, the International Guidelines are in accordance with the standards of the BIS for the target minimum standard ratio of capital to risk-weighted assets of 8.0%. Capital is classified into three tiers, referred to as Tier I, Tier II, and Tier III (described below). At least 50% of the minimum capital requirements must be maintained in the form of Tier I capital, which generally consists of common stockholders' equity less any recorded goodwill.

Japanese banks, which do not have international operations conducted by foreign offices (as defined), are subject to the other sets of capital adequacy guidelines (the "Domestic Guidelines"). The Domestic Guidelines incorporates measure of credit risk under the risk-weighted approach similar to the International Guidelines; however, capital charges for market risks for trading positions are not required. Minimum standard capital adequacy ratio for banks without international operations is 4.0% and the capital is classified into Tier 1 and Tier 2 capital.

Pursuant to amendments to the banking laws enacted in June 1996, the prompt corrective action system was introduced on April 1, 1998. Such amended banking laws and related regulations require that banks be assigned to one of three categories, based on their risk-adjusted capital ratios. Two of the three categories indicate capital deterioration which may be subject to certain corrective action by the FSA. The other category, "not subject to corrective action," is for entities whose capital ratios are greater than or equal to a specific preestablished ratio, 8.0% for banks with international operations and 4.0% for banks without international operations.

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The risk-adjusted capital amounts and ratios of the Bank and Nippon Trust Bank Limited ("NTB"), its largest banking subsidiary in Japan, 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, 1999:			
Total capital (to risk-weighted assets):			
The Bank	¥5,315,499	10.47%	8.00%
NTB	78,562	8.18	4.00
Tier I capital (to risk-weighted assets):			
The Bank	2,657,749	5.23	4.00
NTB	72,564	7.56	2.00
At March 31, 2000:			
Total capital (to risk-weighted assets):			
The Bank	5,506,199	11.46	8.00
NTB	64,728	7.13	4.00
Tier I capital (to risk-weighted assets):			
The Bank	2,754,083	5.73	4.00
NTB	59,060	6.51	2.00

Management believes, as of March 31, 2000, that the Bank and NTB 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).

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

	Actual		Minimum capital ratios
	Amount	Ratio	required
	(in millions except percentages)		
UNBC:			
At December 31, 1998:			
Total capital (to risk-weighted assets)	$ 3,571	11.61%	8.0%
Tier I capital (to risk-weighted assets)	2,966	9.64	4.0
Tier I capital (to quarterly average assets)	2,966	9.38	4.0
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

	Actual		Minimum capital ratios	Ratios required to be "well capitalized"
	Amount	Ratio	required	
	(in millions except percentages)			
UBOC:				
At December 31, 1998:				
Total capital (to risk-weighted assets)	$3,397	11.16%	8.0%	10.0%
Tier I capital (to risk-weighted assets)	2,896	9.52	4.0	6.0
Tier I capital (to quarterly average assets)	2,896	9.21	4.0	5.0
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

Management believes, as of December 31, 1999, that UNBC and UBOC met all capital adequacy requirements to which they are subject.

As of December 31, 1998 and 1999, 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.

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21. 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, 1998, 1999 and 2000 were as follows:

	1998	1999	2000
		(in millions)	
Net income (loss)	¥ (773,737)	¥ (344,423)	¥ 35,475
Cash dividends to preferred shareholders	—	—	(4,649)
Foreign currency translation gains on convertible debt	—	—	(12,840)
Adjusted for diluted computation	¥ (773,737)	¥ (344,423)	¥ 17,986
		(thousands of shares)	
Weighted average common shares outstanding	4,670,457	4,675,446	4,675,442
Convertible debt	—	—	146,993
Adjusted for diluted computation	4,670,457	4,675,446	4,822,435
		(in yen)	
Earnings (loss) per common share—basic	¥ (165.67)	¥ (73.67)	¥ 6.59
Earnings (loss) per common share—assuming dilution	¥ (165.67)	¥ (73.67)	¥ 3.73

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 in the future, were outstanding. For the year ended March 31, 2000, 1¾% Convertible Bonds due 2002 and 3% Exchangeable Guaranteed Notes due 2002 were dilutive instruments.

22. 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 is also uses master netting agreements in order to reduce overall counterparty credit risk.

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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, 1999 and 2000:

	1999			2000		
	Trading	Asset/Liability management	Total	Trading	Asset/Liability management	Total
			(in billions)			
Interest rate contracts:						
Forward and futures	¥145,411	¥ 6	¥145,417	¥140,556	¥ 6	¥140,562
Swap and swap-related products	144,555	428	144,983	142,613	404	143,017
Options written	17,684	243	17,927	16,166	67	16,233
Options purchased	13,798	413	14,211	12,282	102	12,384
Total	¥321,448	¥1,090	¥322,538	¥311,617	¥579	¥312,196
Foreign exchange contracts:						
Forward and futures						
Purchase	¥ 18,815	¥ 136	¥ 18,951	¥ 13,652	¥ 64	¥ 13,716
Sell	16,843	132	16,975	13,219	128	13,347
Swaps	8,177	40	8,217	7,309	14	7,323
Options written	2,419	—	2,419	2,048	—	2,048
Options purchased	2,986	—	2,986	2,044	—	2,044
Total	¥ 49,240	¥ 308	¥ 49,548	¥ 38,272	¥206	¥ 38,478

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 ¥2,018 billion and ¥2,080 billion, respectively, at March 31, 1999 and 2000.

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, 2000 principally expire within two years. Approximately 36% of swap contracts outstanding at March 31, 2000 will expire within one year, 47% from one year to five years and 17% 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.

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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 is not satisfied.

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

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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 possible 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 theses 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, 2000, approximately 82% of these commitments will expire within one year, 17% from one year to four years and 1% after four years.

The following is a summary of the contract amounts of these financial instruments at March 31, 1999 and 2000:

	1999	2000
	(in billions)	
Commitments to extend credit	¥21,911	¥22,106
Standby letters of credit and guaranties	5,297	4,604
Commercial letters of credit	533	503

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, 1999 and 2000 included guaranties of securities of other issuers, principally domestic corporate customers, aggregating ¥562 billion and ¥384 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, 1999 and 2000 were ¥666 billion and ¥484 billion, respectively, which represented the possible 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 possible 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, 1999 and 2000, notional amounts of such security lending transactions with indemnification were ¥672 billion and ¥282 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, 1999 and 2000, contract amounts of such forward repurchase commitments were ¥702 billion and ¥4,960 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.

23. COMMITMENTS AND CONTINGENT LIABILITIES

The Group leases certain office space and equipment under noncancelable agreements expiring through the year 2016.

Future minimum rental commitments for noncancelable leases at March 31, 2000 were as follows:

	Capitalized leases	Operating leases
	(in millions)	
Year ending March 31:		
2001	¥ 2,975	¥ 21,454
2002	2,637	20,790
2003	2,429	18,723
2004	2,003	17,335
2005	1,681	16,618
2006 and thereafter	2,054	58,647
Total minimum lease payments	13,779	¥153,567
Amount representing interest	(718)	
Present value of minimum lease payments	¥13,061	

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Total rental expense for the years ended March 31, 1998, 1999 and 2000 was ¥46,403 million, ¥46,462 million and ¥38,880 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.

24. FEES AND COMMISSION INCOME

Details of fees and commission income for the three years ended March 31, 1998, 1999 and 2000 were as follows:

	1998	1999	2000
		(in millions)	
Fees on funds transfer and service charges for collections	¥ 48,908	¥ 50,746	¥ 52,594
Commissions and fees on international business	41,559	38,739	36,080
Trust fees	32,882	43,089	37,378
Other fees and commissions	112,476	123,707	130,167
Total	¥235,825	¥256,281	¥256,219

25. 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 accounting principles generally accepted in the United States of America ("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 intersegment allocation of interest income and interest expense from the Treasury business unit to other business units as well as net revenues of the Investment Banking and Global Service Banking business units which have also been included in other business units.

See Note 26 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.

The Group is organized in the following business units:

The Group provides a full range of banking products and services for customers in Japan and for customers outside of Japan through *Domestic Customers* business unit and *Overseas Customers* business unit, respectively. The Domestic Customers business unit serves domestic corporations, institutional investors, public organizations, and individuals. The Overseas Customers business unit serves Japanese and non-Japanese corporates and individuals through its global network.

Treasury business unit is in charge of managing the overall funding requirements and the asset and liability management functions, and credits or charges interest income and interest expense between business units using an internal transfer pricing system based on current market rates. The unit manages the debt investment securities portfolio, and oversees debt securities, derivatives and foreign exchange transactions, including trading, for its own account. The Treasury business unit also

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works with other business units to provide foreign currency futures, currency options, interest rate related derivatives transactions and commercial paper underwriting for customers.

Investment Banking business unit provides capital markets, derivatives and structured finance and corporate advisory services to domestic and overseas commercial customers.

Asset Management business unit provides asset management and trust services to individuals and institutions.

Global Services banking business Unit provides principally correspondent banking services, which include both settlement and remittance services, and custody services.

The financial performances of the Group's business units, derived from the internal management reporting system, are summarized below. Due to the introduction of a business unit structures during the year ended March 31, 1999, business segment results for the prior years are not available and, accordingly, the business segment disclosures are presented for the years ended March 31, 1999 and 2000 only. Management does not use information on segments' total assets to allocate resources and assess performance and business segments' information on total assets is also not available.

	Domestic Customers	Overseas Customers	Treasury	Investment Banking	Asset Management	Global Service Banking	Administration and Adjustments	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	(22,432)	101,731
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	(55,473)	1,243,712
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	¥ (96,581)	¥ 534,878

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 Supervisory 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

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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 "Administration and Adjustment" 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, 1999 and 2000.

	Domestic Customers	Overseas Customers	Global Service Banking	Total amount eliminated
		(in millions)		
Year ended March 31, 1999:				
Investment Banking	¥21,172	¥ 8,375	¥664	¥30,211
Global Service Banking	—	1,949	—	1,949
Total	¥21,172	¥10,324	¥664	¥32,160
Year ended March 31, 2000:				
Investment Banking	¥35,839	¥ 6,920	¥629	¥43,388
Global Service Banking	—	1,627	—	1,627
Treasury	1,978	—	—	1,978
Total	¥37,817	¥ 8,547	¥629	¥46,993

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.

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Reconciliation of the segments' operating profit under the internal management reporting system for the years ended March 31, 1999 and 2000 above to income (loss) before income tax expense or benefit shown on the consolidated statements of income are as follows:

	1999	2000
	(in billions)	
Operating profit	¥ 695	¥ 535
Provision for credit losses	(868)	(364)
Gains from sales of equity investments in a subsidiary	26	—
Equity investment securities losses—net	(149)	147
Losses on other real estate owned	(56)	(68)
Goodwill amortization and impairment	(63)	(3)
Other—net	(73)	(118)
Income (loss) before income tax expense or benefit	¥(488)	¥ 129

26. 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.

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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, 1998, 1999 and 2000, and estimated gross revenue, total expenses, income or loss before income taxes 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 31, 1998:						
Total revenue	¥ 1,314,911	¥ 719,552	¥ 494,523	¥ 346,842	¥ 135,127	¥ 3,010,955
Total expenses	2,509,111	643,566	481,768	458,890	129,922	4,223,257
Income (loss) before income tax expense or benefit	(1,194,200)	75,986	12,755	(112,048)	5,205	(1,212,302)
Net income (loss)	(715,158)	39,620	9,733	(114,732)	6,800	(773,737)
Total assets at end of year	58,553,531	10,795,262	9,477,950	5,761,495	2,225,942	86,814,180
Year ended March 31, 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	54,475,345	8,601,225	5,745,806	3,145,968	2,242,413	74,210,757
Year ended March 31, 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	56,109,533	7,778,835	3,490,671	2,865,499	1,557,601	71,802,139

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

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The following is an analysis of certain asset and liability accounts related to foreign activities at March 31, 1999 and 2000:

	1999	2000
	(in millions)	
Cash and due from banks	¥ 348,250	¥ 384,241
Interest-earning deposits in other banks	623,448	1,502,025
Total	¥ 971,698	¥1,886,266
Loans—net of unearned income and deferred loan fees	¥10,942,383	¥8,218,823
Deposits, principally time deposits and certificates of deposit by foreign banks	¥10,769,131	¥9,698,409
Funds borrowed:		
Call money, funds purchased, and receivables under repurchase agreements and securities lending transactions	¥ 1,094,865	¥ 867,569
Other short-term borrowings	775,231	304,811
Long-term debt	2,136,230	2,022,074
Total	¥ 4,006,326	¥3,194,454

The Group had no cross-border outstandings in any country which exceeded 1% of consolidated total assets at March 31, 1999 and 2000.

27. 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.

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The following is a summary of carrying amounts and estimated fair values of financial instruments at March 31, 1999 and 2000:

	1999		2000	
	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	¥ 8,096	¥ 8,096	¥ 8,259	¥ 8,259
Trading securities	2,580	2,580	4,636	4,636
Receivables for securities provided as collateral	1,411	1,411	1,025	1,025
Investment securities	12,817	12,823	14,532	14,538
Loans, net of allowance for credit losses	44,429	44,537	39,830	39,857
Other financial assets	999	999	998	998
Derivative financial instruments:				
Trading activities	2,467	2,467	1,731	1,731
Asset and liability management activities	45	50	11	13
Financial liabilities:				
Non-interest-bearing deposits, call money and funds purchased, and payables under repurchase agreements and securities lending transactions	9,398	9,398	8,443	8,443
Interest-bearing deposits	41,575	41,624	40,451	40,476
Debentures	5,016	5,099	4,544	4,596
Trading securities sold, not yet purchased	1,763	1,763	1,709	1,709
Obligations to return securities received as collateral	4,062	4,062	2,985	2,985
Other short-term borrowings	2,390	2,390	1,489	1,489
Long-term debt	3,582	3,750	3,974	4,050
Other financial liabilities	900	900	2,866	2,866
Derivative financial instruments:				
Trading activities	2,020	2,020	1,518	1,518
Asset and liability management activities	39	40	3	15

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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, receivables under resale agreements and securities borrowing transactions, and receivables for securities provided as collateral—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 and receivables for securities provided as collateral, 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 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.

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

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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, 1999 and 2000 was not material.

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 1999 and 2000. 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.

28. MANAGEMENT STOCK PLAN OF A SUBSIDIARY

UNBC has a management stock plan (the "Stock Plan") which has 6.6 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.

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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 1997, 1998 and 1999, UNBC granted options of 0.4 million shares, 0.5 million shares and 1.7 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 equipment. 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 1.4 million, 1.7 million and 3.3 million, respectively, of which 0.7 million shares, 0.9 million shares and 1.3 million shares, respectively, were exercisable at the price of $11.50, $13.77 and $20.01, respectively, at December 31, 1997, 1998 and 1999.

The weighted-average fair value of options granted was $6.94 during 1997, $11.99 during 1998, and $9.77 during 1999.

In 1997, 1998 and 1999, UNBC also granted 178,320, 184,935 and 1,050 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, 1997, 1998 and 1999, the number of restricted stock awards outstanding were 1.3 million, 1.5 million and 1.5 million, respectively, of which 0.9 million shares, 1.1 million shares and 1.3 million shares, respectively were vested at the price of $9.17, $10.18 and $11.84, respectively.

At December 31, 1997, 1998 and 1999, 3.4 million shares, 2.7 million shares and 1.0 million shares, respectively, were available for future grants as either stock options or restricted stock under the Stock Plan.

As permitted, 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.

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29. ANNOUNCEMENT OF BUSINESS INTEGRATION WITH THE MITSUBISHI TRUST AND BANKING CORPORATION

On April 19, 2000, the Bank announced that The Mitsubishi Trust and Banking Corporation (“MTB”), and the Bank and Nippon Trust Bank Limited (“NTB”) and The Tokyo Trust Bank, Ltd. (“TTB”), both consolidated subsidiaries of the Bank, agreed in principle to establish a bank holding company and integrate their business operations thereunder.

In terms of total trust assets, MTB is Japan’s largest trust bank and provides a full range of banking services and trust services in Japan and overseas. MTB is not a related party to the Group and its operations are conducted independently.

The proposed agreement also includes the merger of the MTB, NTB and TTB. Both NTB and TTB have been consolidated subsidiaries of the Bank. Based on the proposed plan, in April 2001, the Bank, MTB and NTB will jointly establish a holding company under which the three banks will become wholly-owned subsidiaries of the holding company through a stock-for-stock exchange. The holding company’s official name is planned to be “Mitsubishi Tokyo Financial Group, Inc.” As a second step, NTB and TTB will be merged with and into MTB no later than October 2001. The proposed transaction is subject to a number of conditions, including the execution of a definitive agreement, approval by shareholders of each respective company and clearance by governmental regulatory authorities. When formed in April 2001, this holding company is expected to be the world’s fifth largest bank as measured by total assets.

The Bank and MTB have not yet completed their studies or analyses as to accounting method for the business combination. Set forth below is the selected financial data of MTB as of and for the years ended March 31, 1998, 1999 and 2000, respectively, derived from its Japanese GAAP consolidated financial statements.

	1998	1999	2000
		(in billions)	
Income statement data:			
Interest income	¥ 713	¥ 634	¥ 524
Trust fees	159	90	68
Other non-interest income	359	268	355
Interest expense	555	464	383
Non-interest expenses	642	706	439
Net income (loss)	65	(163)	45
Balance sheet data:			
Total assets	18,965	17,621	16,562
Deposits	10,754	10,319	9,805
Shareholders’ equity	787	812	848

30. EVENTS SINCE MARCH 31, 2000 (EXCEPT FOR NOTE 29)

On June 29, 2000, the shareholders approved (1) payment of cash dividends to shareholders of record on March 31, 2000 of ¥41.25 per share of preferred stock, totalling ¥3,358 million, and of ¥4.25 per share of common stock, totalling ¥19,871 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,								
	1998			1999			2000		
	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	¥ 365,066	¥ 18,957	5.19%	¥ 546,758	¥ 18,512	3.39%	¥ 257,027	¥ 6,339	2.47%
Foreign	10,305,008	364,091	3.53	5,665,082	205,403	3.63	3,209,671	99,572	3.10
Total	10,670,074	383,048	3.59	6,211,840	223,915	3.60	3,466,698	105,911	3.06
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions:									
Domestic	2,924,890	19,276	0.66	2,549,864	15,324	0.60	1,561,292	7,093	0.45
Foreign	1,356,380	91,472	6.74	2,029,799	157,798	7.77	1,451,043	88,621	6.11
Total	4,281,270	110,748	2.59	4,579,663	173,122	3.78	3,012,335	95,714	3.18
Trading securities:									
Domestic	1,033,712	9,458	0.91	1,158,718	4,244	0.37	1,790,464	4,429	0.25
Foreign	801,668	9,555	1.19	768,016	25,545	3.33	624,767	8,683	1.39
Total	1,835,380	19,013	1.04	1,926,734	29,789	1.55	2,415,231	13,112	0.54
Investment securities:									
Domestic	8,250,745	108,079	1.31	8,884,110	104,245	1.17	12,220,979	113,436	0.93
Foreign	3,264,701	198,621	6.08	3,388,286	212,863	6.28	2,582,139	165,511	6.41
Total	11,515,446	306,700	2.66	12,272,396	317,108	2.58	14,803,118	278,947	1.88
Loans (see Note):									
Domestic	35,842,828	731,384	2.04	34,905,665	699,641	2.00	34,355,981	659,704	1.92
Foreign	13,317,245	916,284	6.88	13,401,270	898,725	6.71	9,050,551	633,640	7.00
Total	49,160,073	1,647,668	3.35	48,306,935	1,598,366	3.31	43,406,532	1,293,344	2.98
Total interest-earning assets:									
Domestic	48,417,241	887,154	1.83	48,045,115	841,966	1.75	50,185,743	791,001	1.58
Foreign	29,045,002	1,580,023	5.44	25,252,453	1,500,334	5.94	16,918,171	996,027	5.89
Total	77,462,243	2,467,177	3.19	73,297,568	2,342,300	3.20	67,103,914	1,787,028	2.66
Non-interest-earning assets:									
Cash and due from banks	1,170,063			1,169,531			1,233,412		
Other non-interest-earning assets	6,660,102			8,514,084			6,934,621		
Allowance for credit losses	(986,988)			(889,885)			(1,382,781)		
Total non-interest-earning assets	6,843,177			8,793,730			6,785,252		
Total average assets	¥84,305,420			¥82,091,298			¥73,889,166		

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.

	Year ended March 31,								
	1998			1999			2000		
	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	¥30,232,134	¥ 262,788	0.87%	¥33,228,280	¥ 249,133	0.75%	¥33,299,918	¥153,191	0.46%
Foreign	19,822,197	961,094	4.85	13,129,637	612,347	4.66	9,280,904	337,942	3.64
Total	50,054,331	1,223,882	2.45	46,357,917	861,480	1.86	42,580,822	491,133	1.15
Debentures—Domestic	6,170,050	101,736	1.65	5,375,976	66,818	1.24	4,940,270	51,852	1.05
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:									
Domestic	6,148,888	35,790	0.58	4,845,252	25,362	0.52	2,376,869	11,767	0.50
Foreign	1,564,263	91,210	5.83	2,171,884	163,913	7.55	1,889,972	86,408	4.57
Total	7,713,151	127,000	1.65	7,017,136	189,275	2.70	4,266,841	98,175	2.30
Other short-term borrowings and securities sold, not yet purchased:									
Domestic	2,154,078	8,346	0.39	4,146,087	35,671	0.86	2,800,204	42,645	1.52
Foreign	1,744,135	71,516	4.10	1,063,367	67,584	6.36	792,294	39,929	5.04
Total	3,898,213	79,862	2.05	5,209,454	103,255	1.98	3,592,498	82,574	2.30
Long-term debt:									
Domestic	1,113,731	54,089	4.86	1,336,002	54,674	4.09	1,561,769	62,151	3.98
Foreign	1,905,420	112,033	5.88	2,211,858	127,047	5.74	2,178,437	114,776	5.27
Total	3,019,151	166,122	5.50	3,547,860	181,721	5.12	3,740,206	176,927	4.73
Total interest-bearing liabilities:									
Domestic	45,818,881	462,749	1.01	48,931,597	431,658	0.88	44,979,030	321,606	0.72
Foreign	25,036,015	1,235,853	4.94	18,576,746	970,891	5.23	14,141,607	579,055	4.09
Total	70,854,896	1,698,602	2.40	67,508,343	1,402,549	2.08	59,120,637	900,661	1.52
Non-interest-bearing liabilities	10,394,614			11,921,938			11,979,654		
Shareholders' equity	3,055,910			2,661,017			2,788,875		
Total average liabilities and shareholders' equity	¥84,305,420			¥82,091,298			¥73,889,166		
Net interest income and average interest rate spread		¥ 768,575	0.79%		¥ 939,751	1.12%		¥886,367	1.14%
Net interest income as a percentage of average total interest-earning assets			0.99%			1.28%			1.32%

The percentage of average total assets attributable to foreign activities was 38.7% in fiscal 1997, 36.4% in fiscal 1998 and 25.7% in fiscal 1999.

The percentage of average total liabilities attributable to foreign activities was 40.1% in fiscal 1997, 37.7% in fiscal 1998 and 26.7% in fiscal 1999.

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 1997 compared to fiscal 1998 and fiscal 1998 compared to fiscal 1999.

	Fiscal 1997 versus fiscal 1998			Fiscal 1998 versus fiscal 1999		
	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	¥ 6,152	¥ (6,597)	¥ (445)	¥ (9,148)	¥ (3,025)	¥ (12,173)
Foreign	(163,935)	5,247	(158,688)	(86,704)	(19,127)	(105,831)
Total	(157,783)	(1,350)	(159,133)	(95,852)	(22,152)	(118,004)
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions:						
Domestic	(2,385)	(1,567)	(3,952)	(5,451)	(2,780)	(8,231)
Foreign	50,720	15,606	66,326	(41,074)	(28,103)	(69,177)
Total	48,335	14,039	62,374	(46,525)	(30,883)	(77,408)
Trading securities:						
Domestic	458	(5,672)	(5,214)	1,563	(1,378)	185
Foreign	(401)	16,391	15,990	(2,383)	(14,479)	(16,862)
Total	57	10,719	10,776	(820)	(15,857)	(16,677)
Investment securities:						
Domestic	7,432	(11,266)	(3,834)	30,973	(21,782)	9,191
Foreign	7,651	6,591	14,242	(50,645)	3,293	(47,352)
Total	15,083	(4,675)	10,408	(19,672)	(18,489)	(38,161)
Loans:						
Domestic	(18,987)	(12,756)	(31,743)	(10,679)	(29,258)	(39,937)
Foreign	5,635	(23,194)	(17,559)	(291,771)	26,686	(265,085)
Total	(13,352)	(35,950)	(49,302)	(302,450)	(2,572)	(305,022)
Total interest income:						
Domestic	(7,330)	(37,858)	(45,188)	7,258	(58,223)	(50,965)
Foreign	(100,330)	20,641	(79,689)	(472,577)	(31,730)	(504,307)
Total	¥(107,660)	¥(17,217)	¥(124,877)	¥(465,319)	¥(89,953)	¥(555,272)

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 1997 versus fiscal 1998			Fiscal 1998 versus fiscal 1999		
	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	¥ 22,464	¥(36,119)	¥ (13,655)	¥ 330	¥ (96,272)	¥ (95,942)
Foreign	(323,602)	(25,145)	(348,747)	(163,608)	(110,797)	(274,405)
Total	(301,138)	(61,264)	(362,402)	(163,278)	(207,069)	(370,347)
Debentures—Domestic	(10,873)	(24,045)	(34,918)	(4,846)	(10,120)	(14,966)
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:						
Domestic	(7,363)	(3,065)	(10,428)	(12,884)	(711)	(13,595)
Foreign	41,362	31,341	72,703	(14,453)	(63,052)	(77,505)
Total	33,999	28,276	62,275	(27,337)	(63,763)	(91,100)
Other short-term borrowings and securities sold, not yet purchased:						
Domestic	11,779	15,546	27,325	(11,579)	18,553	6,974
Foreign	(27,914)	23,982	(3,932)	(15,684)	(11,971)	(27,655)
Total	(16,135)	39,528	23,393	(27,263)	6,582	(20,681)
Long-term debt:						
Domestic	9,096	(8,511)	585	8,984	(1,507)	7,477
Foreign	17,602	(2,588)	15,014	(1,784)	(10,487)	(12,271)
Total	26,698	(11,099)	15,599	7,200	(11,994)	(4,794)
Total interest expense:						
Domestic	25,103	(56,194)	(31,091)	(19,995)	(90,057)	(110,052)
Foreign	(292,552)	27,590	(264,962)	(195,529)	(196,307)	(391,836)
Total	¥(267,449)	¥(28,604)	¥(296,053)	¥(215,524)	¥(286,364)	¥(501,888)
Net interest income:						
Domestic	¥ (32,433)	¥ 18,336	¥ (14,097)	¥ 27,253	¥ 31,834	¥ 59,087
Foreign	192,222	(6,949)	185,273	(277,048)	164,577	(112,471)
Total	¥ 159,789	¥ 11,387	¥ 171,176	¥(249,795)	¥ 196,411	¥ (53,384)

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 at March 31, 1998, 1999 and 2000.

	March 31, 1998			March 31, 1999			March 31, 2000		
	Amortized cost	Estimated market value	Net unrealized gains	Amortized cost	Estimated market value	Net unrealized gains	Amortized cost	Estimated market value	Net unrealized gains (losses)
					(in millions)				
Securities available for sale:									
Domestic:									
Japanese national government and Japanese government agency bonds	¥1,863,051	¥ 2,035,322	¥ 172,271	¥ 2,680,777	¥ 2,728,471	¥ 47,694	¥ 3,575,469	¥ 3,589,262	¥ 13,793
Corporate bonds	495,775	507,329	11,554	597,945	607,861	9,916	706,450	897,722	191,272
Equity securities	3,635,640	5,155,184	1,519,544	4,403,413	6,135,164	1,731,751	4,396,504	7,054,250	2,657,746
Other securities	147,623	159,085	11,462	143,004	153,265	10,261	406,932	417,783	10,851
Total domestic	6,142,089	7,856,920	1,714,831	7,825,139	9,624,761	1,799,622	9,085,355	11,959,017	2,873,662
Foreign:									
U.S. Treasury and other U.S. government agencies bonds	782,871	799,272	16,401	322,135	325,523	3,388	222,595	218,786	(3,809)
Other governments and official institutions bonds	810,650	829,386	18,736	653,211	658,728	5,517	454,567	453,708	(859)
Mortgage-backed securities	817,325	819,301	1,976	1,235,576	1,248,632	13,056	1,042,443	1,027,696	(14,747)
Other securities	545,152	558,635	13,483	285,112	306,035	20,923	341,519	355,132	13,613
Total foreign	2,955,998	3,006,594	50,596	2,496,034	2,538,918	42,884	2,061,124	2,055,322	(5,802)
Total	9,098,087	10,863,514	1,765,427	10,321,173	12,163,679	1,842,506	11,146,479	14,014,339	2,867,860
Securities being held to maturity:									
Domestic:									
Japanese national government and Japanese government agency bonds	—	—	—	—	—	—	—	—	—
Corporate bonds	264,067	270,861	6,794	264,569	266,901	2,332	206,790	210,492	3,702
Other securities	17,251	17,251	—	—	—	—	—	—	—
Total domestic	281,318	288,112	6,794	264,569	266,901	2,332	206,790	210,492	3,702
Foreign:									
U.S. Treasury and other U.S. government agencies bonds	52,371	54,229	1,858	38,858	40,447	1,589	7,347	7,893	546
Other governments and official institutions bonds	178,721	181,370	2,649	107,729	109,021	1,292	85,414	85,994	580
Other securities	169,318	170,674	1,356	115,291	116,291	1,000	109,098	110,269	1,171
Total foreign	400,410	406,273	5,863	261,878	265,759	3,881	201,859	204,156	2,297
Total	681,728	694,385	12,657	526,447	532,660	6,213	408,649	414,648	5,999
Other investment securities—nonmarketable equity securities:									
Domestic securities	105,236	105,236	—	106,691	106,691	—	108,657	108,657	—
Foreign securities	1,165	1,165	—	20,286	20,286	—	798	798	—
Total	106,401	106,401	—	126,977	126,977	—	109,455	109,455	—
Total	¥9,886,216	¥11,664,300	¥1,778,084	¥10,974,597	¥12,823,316	¥1,848,719	¥11,664,583	¥14,538,442	¥2,873,859

The following table presents the book values, maturities and weighted average yields of investment securities, excluding equity securities, at March 31, 2000. Weighted average yields are calculated based on amortized cost. 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	¥ 894,596	0.33%	¥2,369,220	1.44%	¥320,256	1.90%	¥ 5,190	2.45%	¥3,589,262	1.21%
Corporate bonds	261,149	2.94	594,768	1.90	38,149	3.33	3,656	2.24	897,722	2.21
Other securities	299,298	2.61	51,865	5.23	58,670	2.85	7,950	1.01	417,783	2.94
Total domestic	1,455,043	1.27	3,015,853	1.58	417,075	2.16	16,796	1.72	4,904,767	1.54
Foreign:										
U.S. Treasury and other U.S. government agencies	32,756	6.34	106,038	5.66	45,513	3.98	34,479	6.33	218,786	5.52
Other governments and official institutions	57,436	8.32	343,752	5.68	50,842	5.85	1,678	9.77	453,708	6.05
Mortgage-backed securities	114,089	6.34	408,707	6.14	365,122	6.35	139,778	6.42	1,027,696	6.27
Other securities	73,799	4.18	160,053	5.34	35,460	5.88	15,856	6.15	285,168	5.15
Total foreign	278,080	6.18	1,018,550	5.81	496,937	6.05	191,791	6.41	1,985,358	5.98
Total	¥1,733,123	2.05%	¥4,034,403	2.65%	¥914,012	4.28%	¥208,587	6.03%	¥6,890,125	2.82%
Securities being held to maturity:										
Domestic:										
Corporate bonds	¥ 38,724	3.53%	¥ 128,711	2.45%	¥ 38,354	2.26%	¥ 1,001	0.00%	¥ 206,790	2.61%
Foreign:										
U.S. Treasury and other U.S. government agencies	2,595	7.46	659	6.28	1,012	6.69	3,081	8.32	7,347	7.61
Other governments and official institutions	39,209	7.51	32,142	5.30	9,292	6.06	4,771	8.33	85,414	6.57
Other securities	37,232	2.97	32,758	5.42	39,070	2.73	38	6.95	109,098	3.62
Total foreign	79,036	5.37	65,559	5.37	49,374	3.44	7,890	8.32	201,859	5.01
Total	¥ 117,760	4.76%	¥ 194,270	3.44%	¥ 87,728	2.92%	¥ 8,891	7.38%	¥ 408,649	3.79%

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, 2000.

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, 2000. 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,				
	1996	1997	1998	1999	2000
			(in millions)		
Domestic:					
Manufacturing	¥ 6,393,794	¥ 6,172,159	¥ 6,082,231	¥ 5,956,780	¥ 5,597,318
Construction	1,619,865	1,609,534	1,639,638	1,624,933	1,460,653
Real estate	3,796,790	4,046,464	4,286,029	4,265,848	3,698,842
Services	4,894,013	4,953,125	4,468,329	4,031,474	3,813,850
Wholesale and retail	6,883,723	6,815,938	7,010,655	6,852,868	5,956,815
Banks and other financial institutions	3,514,179	3,269,644	2,565,419	2,410,410	2,193,633
Other industries	1,984,271	1,975,212	2,021,864	2,964,298	3,155,294
Consumer	6,660,833	6,600,916	6,579,240	6,670,452	6,873,500
Total domestic	35,747,468	35,442,992	34,653,405	34,777,063	32,749,905
Foreign:					
Governments and official institutions	1,022,574	847,292	401,041	337,101	223,219
Banks and other financial institutions	884,753	1,333,574	1,226,273	520,446	482,235
Commercial and industrial	8,414,296	9,691,626	10,233,599	8,789,634	6,993,928
Other	1,526,928	1,819,031	1,908,641	1,332,634	548,423
Total foreign	11,848,551	13,691,523	13,769,554	10,979,815	8,247,805
Total	47,596,019	49,134,515	48,422,959	45,756,878	40,997,710
Less unearned income and deferred loan fees	52,615	55,606	69,132	36,760	30,205
Total	¥47,543,404	¥49,078,909	¥48,353,827	¥45,720,118	¥40,967,505

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, credit card and leasing 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, 2000:

	Maturity			
	One year or less	One to five years	Over five years	Total
	(in millions)			
Domestic:				
Manufacturing	¥ 4,044,088	¥ 1,393,339	¥ 159,891	¥ 5,597,318
Construction	1,107,001	277,228	76,424	1,460,653
Real estate	1,767,948	1,195,476	735,418	3,698,842
Services	2,185,828	1,252,598	375,424	3,813,850
Wholesale and retail	4,616,909	1,180,158	159,748	5,956,815
Banks and other financial institutions	1,523,623	480,377	189,633	2,193,633
Other industries	2,238,853	711,236	205,205	3,155,294
Consumer:				
Installment loans to individuals	608,752	1,327,562	4,275,780	6,212,094
Other	538,346	27,833	95,227	661,406
	1,147,098	1,355,395	4,371,007	6,873,500
Total domestic	18,631,348	7,845,807	6,272,750	32,749,905
Foreign	4,253,461	2,674,125	1,320,219	8,247,805
Total	¥22,884,809	¥10,519,932	¥7,592,969	¥40,997,710

The above loans due after one year which had predetermined interest rates and floating or adjustable interest rates at March 31, 2000 are shown below:

	Domestic	Foreign	Total
		(in millions)	
Predetermined rate	¥ 5,135,750	¥ 945,893	¥ 6,081,643
Floating or adjustable rate	8,982,807	3,048,451	12,031,258
Total	¥14,118,557	¥3,994,344	¥18,112,901

Nonaccrual, Past Due and Restructured Loans

We generally 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, 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 the Bank's and 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, 2000, based on the domicile and type of industry of the borrowers.

	At March 31,				
	1996	1997	1998	1999	2000
			(in millions)		
Nonaccrual loans:					
Domestic:					
Manufacturing	¥ 62,015	¥ 57,802	¥ 23,461	¥ 138,231	¥ 96,227
Construction	85,792	37,490	29,027	115,364	106,366
Real estate	192,156	214,130	132,785	528,100	497,814
Services	153,553	183,985	52,992	284,038	190,165
Wholesale and retail	109,402	130,869	53,285	370,417	354,157
Banks and other financial institutions	48,822	40,547	29,631	130,959	56,945
Other industries	5,272	4,185	3,266	23,258	21,353
Consumer	42,907	33,539	19,821	81,601	55,159
Total domestic	699,919	702,547	344,268	1,671,968	1,378,186
Foreign:					
Banks and other financial institutions	2,526	12,273	334	7,628	2,798
Commercial and industrial	89,898	103,072	36,937	110,105	111,870
Loans to refinancing countries (see Note 1)	59,780	38,347	7,799	47,924	26,799
Other	9,249	10,374	116	23,407	18,920
Total foreign	161,453	164,066	45,186	189,064	160,387
Total	861,372	866,613	389,454	1,861,032	1,538,573
Restructured loans:					
Domestic (see Note 2)	830,938	642,336	405,637	278,814	277,003
Foreign	28,882	34,245	58,167	21,635	44,774
Total	859,820	676,581	463,804	300,449	321,777
Accruing loans contractually past due 90 days or more:					
Domestic	395,714	324,848	358,775	76,357	61,022
Foreign	36,770	12,806	17,377	30,725	1,273
Total	432,484	337,654	376,152	107,082	62,295
Total	¥2,153,676	¥1,880,848	¥1,229,410	¥2,268,563	¥1,922,645

Notes:

1. Refinancing countries are countries rescheduling their external debt (both sovereign and non-sovereign).
2. Loans to the Jusen of ¥338,012 million at March 31, 1996, which had been included in restructured loans since 1993, were all collected or charged off during the year ended March 31, 1997. At March 31, 1995, loans to Diamond Mortgage Co., Ltd. and Diamond Factors Limited of ¥252,117 million were included in restructured loans. During the year ended March 31, 1998, the Bank assumed control of these companies and consolidated their accounts with those of the Bank.
3. 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, 2000 was approximately ¥7.2 billion, of which ¥1.1 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, 2000 was approximately ¥36.5 billion, of which ¥10.1 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, 1998, 1999 and 2000. 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

Since mid-1997, some East Asian countries have experienced economic and financial difficulties. In response to recent economic deterioration, the Republic of Korea (''South Korea''), Thailand and Indonesia have been implementing financial reform programs under the supervision of the International Monetary Fund (''IMF''). Also, Malaysia is voluntarily implementing a similar reform program of its own.

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 are regularly reassessing 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, to certain East Asian countries significantly affected by the crisis:

	Affiliates of Japanese corporations (See note)	Local corporations and sovereign	Local financial institutions	Total cross-border outstanding	Commitments
			(in billions)		
At March 31, 1999:					
South Korea	¥ 2.5	¥125.1	¥192.9	¥320.5	¥ 1.8
Indonesia	49.3	84.3	10.0	143.6	15.0
Thailand	190.8	115.7	15.3	321.8	21.7
Malaysia	76.7	49.0	3.5	129.2	1.2
Phillippines	27.6	19.3	17.2	64.1	14.4
Hong Kong	321.7	229.1	2.9	553.7	47.1
China	152.0	72.7	51.8	276.5	64.0
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

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.

In addition to the exposure to the seven countries shown in the above table, we had cross-border outstandings of ¥143.5 billion, to counterparties in Singapore at March 31, 2000. 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, 2000, the total cross-border outstandings to the five countries (South Korea, Indonesia, Thailand, Malaysia and Philippines) decreased ¥328.4 billion, or 33.5%, to ¥650.8 billion in the aggregate from ¥979.2 billion of outstandings recorded a year ago through our proactive exposure management.

As of March 31, 2000, cross-border outstandings to the seven countries listed in the above table totaled ¥1,228.2 billion and included ¥532.1 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, however, has now become a point of concern because of the depressed consumer spending.

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 1999, Hong Kong's GDP growth rate recovered to 2.9% compared with (5.1%) for 1998, the lowest of the 1990s. 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

Since 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 ¥195.4 billion at March 31, 2000, consists mainly of credits to affiliates of major Japanese corporations.

Loan Concentrations

At March 31, 2000, 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 default probability 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 "Management's Discussion and Analysis of Financial Condition and Results of Operation—Risk Management."

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, 2000.

	Year ended March 31,				
	1996	1997	1998	1999	2000
	(in millions except percentages)				
Allowance for credit losses at beginning of year	¥ 805,130	¥1,126,712	¥1,062,446	¥ 760,323	¥1,290,657
Additions to allowance charged to operations	521,704	393,681	1,356,231	919,427	368,639
Charge-offs:					
Domestic:					
Real estate and construction	42,401	145,782	548,672	82,462	82,423
Banks and other financial institutions	68,434	289,622	295,606	41,889	27,970
Services	12,429	4,853	218,299	47,507	34,666
Other industries	60,439	12,246	306,492	39,553	260,977
Consumer	3,312	2,512	175,942	33,106	39,101
Foreign	35,687	39,893	134,225	113,864	102,746
Total	222,702	494,908	1,679,236	358,381	547,883
Recoveries:					
Domestic	88	132	445	1,337	23,137
Foreign	9,419	6,973	8,343	8,470	17,867
Total	9,507	7,105	8,788	9,807	41,004
Net charge-offs	213,195	487,803	1,670,448	348,574	506,879
Reclassification of allowance on off-balance-sheet credit instruments	—	—	—	(14,741)	—
Other—principally foreign exchange translation adjustments	13,073	29,856	12,094	(25,778)	(15,236)
Allowance for credit losses at end of year	¥1,126,712	¥1,062,446	¥ 760,323	¥1,290,657	¥1,137,181
Allowance for credit losses applicable to foreign activities:					
Balance at beginning of year	¥ 191,759	¥ 202,281	¥ 192,288	¥ 246,817	¥ 278,451
Balance at end of year	¥ 202,281	¥ 192,288	¥ 246,817	¥ 278,451	¥ 173,181
Additions to allowance charged to operations	¥ 23,717	¥ 22,015	¥ 167,998	¥ 170,377	¥ 886
Ratio of net charge-offs during the year to average loans outstanding during the year	0.47%	1.03%	3.40%	0.72%	1.17%

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. For fiscal 1996, based on our continuing evaluation of our overall portfolio, we reallocated ¥23,677 million of its allowance for credit losses from foreign activities to the domestic component of the allowance.

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, 2000.

	At March 31,									
	1996		1997		1998		1999		2000	
	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	¥ 62,416	3.40%	¥ 34,268	3.28%	¥ 26,423	3.39%	¥ 74,458	3.55%	¥ 61,067	3.56%
Real estate	125,317	7.98	208,666	8.24	118,511	8.85	280,472	9.32	297,208	9.02
Service	52,557	10.29	111,630	10.08	63,952	9.23	147,513	8.81	117,125	9.30
Bank and other financial institutions	487,373	7.38	391,613	6.65	56,662	5.30	76,868	5.27	32,301	5.35
Other	163,461	32.06	103,044	30.45	178,189	31.21	358,879	34.47	314,763	35.88
Consumer	33,307	13.99	20,938	13.43	69,769	13.59	74,016	14.58	141,536	16.77
Foreign:										
Governments and official institutions	35,260	2.15	25,320	1.72	16,480	0.83	27,860	0.74	13,668	0.54
Bank and other financial institutions	9,435	1.86	11,078	2.71	22,118	2.53	23,736	1.14	6,828	1.18
Commercial and industrial	119,859	17.68	140,432	19.72	177,693	21.13	187,470	19.21	117,340	17.06
Other	37,727	3.21	15,457	3.72	30,526	3.94	39,385	2.91	35,345	1.34
Total	¥1,126,712	100.00%	¥1,062,446	100.00%	¥760,323	100.00%	¥1,290,657	100.00%	¥1,137,181	100.00%
Allowance as a percentage of loans	2.37%		2.16%		1.57%		2.82%		2.78%	
Allowance as a percentage of nonaccrual and restructured loans and accruing loans contractually past due 90 days or more	52.32%		56.49%		61.84%		56.9%		59.15%	

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. The unallocated allowance is included in "Other" of the above 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, 2000.

	Year ended March 31,					
	1998		1999		2000	
	Average amount	Average rate	Average amount	Average rate	Average amount	Average rate
	(in millions except percentages)					
Domestic offices:						
Non-interest-bearing demand deposits	¥ 1,510,759	—	¥ 1,719,506	—	¥ 2,154,423	—
Interest-bearing demand deposits	6,623,435	0.19%	8,100,410	0.16%	11,054,263	0.08%
Deposits at notice	1,137,328	1.82	1,400,066	2.01	1,634,204	1.27
Time deposits	17,111,681	1.13	18,996,166	0.95	18,596,360	0.64
Certificates of deposit	5,359,690	0.68	4,731,638	0.57	2,015,091	0.19
Foreign offices, principally from banks located in foreign countries:						
Non-interest-bearing demand deposits	1,316,270	—	1,534,506	—	1,426,470	—
Interest-bearing deposits, principally time deposits and certificates of deposit	19,822,197	4.85	13,129,637	4.66	9,280,904	3.64
Total	¥52,881,360		¥49,611,929		¥46,161,715	

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, 1998, 1999 and 2000 was ¥314,287 million, ¥345,091 million and ¥381,608 million, respectively.

The balance and (in the case of domestic deposits) remaining maturities at March 31, 2000 of time deposits and CDs issued in amounts of ¥10 million (approximately US$97 thousand at the Noon Buying Rate on March 31, 2000) 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	¥ 6,998,629	¥1,080,688	¥ 8,079,317
Over three months through six months	1,981,186	579,734	2,560,920
Over six months through twelve months	2,017,492	112,980	2,130,472
Over twelve months	1,043,354	63,211	1,106,565
Total	¥12,040,661	¥1,836,613	¥13,877,274
Foreign offices			¥ 4,441,267

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, 2000.

	Year ended March 31,		
	1998	1999	2000
	(in millions except percentages)		
Call money, funds purchased and payables under repurchase agreements and securities lending transactions:			
Average balance outstanding during the year	¥7,713,151	¥7,017,136	¥4,266,841
Maximum balance outstanding at any month-end during year	8,173,424	7,984,300	5,112,912
Balance at end of year	7,689,721	4,870,954	3,734,017
Weighted average interest rate during the year	1.65%	2.70%	2.30%
Weighted average interest rate on balance at end of year	1.37%	1.86%	2.10%
Other short-term borrowings:			
Average balance outstanding during the year	¥2,991,484	¥3,435,662	¥1,844,189
Maximum balance outstanding at any month-end during the year	3,818,103	3,310,795	2,541,557
Balance at end of year	3,766,103	2,389,577	1,488,831
Weighted average interest rate during year	2.43%	2.25%	2.70%
Weighted average interest rate on balance at end of year	2.71%	3.79%	1.70%

DESCRIPTION OF OUR BUSINESS

Introduction

The Bank of Tokyo-Mitsubishi, Ltd. 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 nine "city", as opposed to regional, banks in Japan. As of March 31, 2000, we had total consolidated assets of ¥71.80 trillion (US$698.9 billion) and total deposits of ¥45.16 trillion (US$439.6 billion). Total shareholders' equity was ¥3.19 trillion (US$31.1 billion) as of the same date and net income for the year ended March 31, 2000 was ¥35.5 billion (US$345.3 million).

Our head office is located at 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8388, Japan.

The Bank of Tokyo-Mitsubishi, Ltd. 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 Kaish 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 the Bank, 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 25 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.

In July 1998, we restructured our organization into seven separate business units: Domestic Customers, Overseas Customers, Investment Banking, Asset Management, Global Service Banking, Treasury and Administration. We undertook this reorganization in response to substantial, ongoing changes in the Japanese financial system. Regulatory barriers that had previously prevented or limited banks from competing in the securities, investment trust and other businesses in Japan have been reduced substantially. These changes allowed us to increase our activities in several business sectors, including the provision of securities-related investment banking services and asset management services.

On July 1, 2000, we again restructured our operations, based on customer and product segmentation. We will now 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 products and services and risk management of subsidiaries
- UnionBanCal Corporation—a publicly traded majority-owned U.S. banking subsidiary 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 to be 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 will 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 as they existed before July 1, 2000 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 intersegment allocation of interest income and interest expense from the Treasury business unit to other business units. Net revenues of the Investment Banking and Global Service Banking business units were included in other business units and were eliminated in Administration and Adjustments. Operating segment information is presented for the years ended

March 31, 1999 and 2000 only. Due to the introduction of the business unit structure during the years ended March 31, 1999 and 2000, segment results for prior years are not available.

	Domestic Customers	Overseas Customers	Treasury	Investment Banking	Asset Management	Global Service Banking	Administration and adjustments	Segments' total
				(in millions)				
Year ended March 31, 1999:								
Net revenue	¥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	645,089	375,235	143,134	75,672	41,495	18,560	(55,473)	1,243,712
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	(96,581)	534,878

Management measured performance of each unit by "operating profit" which includes profits or losses of subsidiaries. Financial information of each subsidiary was 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 reporting to the Financial Supervisory Agency. In many cases, our business units worked together in connection with providing services to our customers. In accordance with our internal management accounting policies, we did not apportion the net revenue relating to any particular transaction among the participating business units. Instead, we assigned 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 were recorded as part of the operating results of more than one business unit. We eliminated any overlapping allocations in the "Administration and Adjustment" 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, 1999 and 2000.

	Domestic Customers	Overseas Customers	Global Service Banking	Total amount eliminated
		(in millions)		
Year ended March 31, 1999:				
Investment Banking	¥21,172	¥ 8,375	¥664	¥30,211
Global Service Banking	—	1,949	—	1,949
Total	¥21,172	¥10,324	¥664	¥32,160
Year ended March 31, 2000:				
Investment Banking	¥35,839	¥ 6,920	¥629	¥43,388
Global Service Banking	—	1,627	—	1,627
Treasury	1,978	—	—	1,978
Total	¥37,817	¥ 8,547	¥629	¥46,993

"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 business unit managed 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 did 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.

Major subsidiaries included in each business unit were:

Domestic Customers	Diamond Home Credit Company Limited, Diamond Mortgage Co., Ltd., and Diamond Factors Limited.
Overseas Customers	UnionBanCal Corporation, Union Bank of California, N.A., BTM Capital Corporation and Bank of Tokyo-Mitsubishi Trust Company.
Treasury	Tokyo-Mitsubishi Futures (USA), Inc
Investment Banking	Tokyo-Mitsubishi Securities Co., Ltd., Tokyo-Mitsubishi International plc, Tokyo-Mitsubishi International (HK) Ltd., Tokyo-Mitsubishi Securities (USA), Inc., Bank of Tokyo-Mitsubishi (Deutschland) AG and Bank of Tokyo-Mitsubishi (Switzerland) Ltd.
Asset Management	Nippon Trust Bank Limited and Tokyo Trust Bank, Ltd.
Global Service Banking	Bank of Tokyo-Mitsubishi (Luxembourg) S.A.

A detailed discussion of developments in each of our business units before July 1, 2000 (except the Administration business unit, which offered support functions) follows.

Domestic Customers Business Unit

Our Domestic Customers business unit provided a full range of banking products and services for customers in Japan. Its customers included domestic corporations, institutional investors, public organizations and individuals.

Products And Services

Deposits. Our deposit products include non-interest bearing checking accounts, interest bearing ordinary deposits, time deposits with maturities of up to ten years, and negotiable certificates of deposit. Most of our deposits are in Japanese yen, but we also offer deposits in many foreign currencies. We offer various types of sweep accounts that permit our customers to earn higher interest as their account balances grow. We also issue discount and coupon debentures.

During fiscal 1999, the average balance of our domestic deposits booked at the Bank's domestic branches, excluding foreign currency deposits and offshore deposits, increased by 2.8% and exceeded ¥32 trillion (under Japanese GAAP), the highest level of any private Japanese bank.

The following charts provide a summary of the components of the Bank's domestic deposits at March 31, 2000 (under Japanese GAAP):

Types of deposits	(in trillions)	
Current deposits	¥13.5	42%
Time deposits	16.6	51
Certificates of deposit	1.8	6
Other deposits	0.5	1
		100%

Note: Indicates deposits booked at the Bank's domestic branches, excluding foreign currency deposits and offshore deposits.

Source of deposits	(in trillions)	
Individuals	¥19.2	57%
Corporations	11.5	34
Others	3.0	9
		100%

Note: Indicates deposits booked at the Bank's domestic branches, excluding certificates of deposit.

Loans. We make loans in Japan to a broad range of industrial, commercial and individual customers. Our customers include major corporations. We also are active in providing loans to small and medium sized companies as well as to individuals. As of March 31, 2000, 62% of our domestic lending (using Japanese GAAP) to our corporate customers was for working capital purposes. Loans for investment in equipment, plant or other fixed assets made up the remainder. As of that date, total loans to our ten largest domestic borrowers amounted to less than 4% of our total domestic loan portfolio (using Japanese GAAP).

A profile of our domestic loan customers at March 31, 2000 (under Japanese GAAP) is as follows:

	Percentage of our total domestic loan portfolio
Large corporations	25%
Medium sized companies	7
Small business companies	49
Individuals	19
	100%

We have an active domestic consumer lending business. As of March 31, 2000, we had an outstanding consumer loan portfolio of ¥6.58 trillion (under Japanese GAAP). Home loans are an important part of our business and accounted for ¥5.89 trillion, or 89%, of our domestic consumer loan portfolio at the end of the 1999 fiscal year (under Japanese GAAP). In addition, we are Japan's top lender, by volume, for condominium purchases.

Foreign Exchange. The Domestic Customers business unit provided a wide range of foreign exchange products and services through our domestic branch network. Remittances are the unit's largest foreign exchange-related revenue source, but the unit also derives substantial revenues from trade finance and money exchange.

In addition, our Domestic Customers business unit offered its customers products and services developed by our other business units, some of which are described below.

Asset Management Products. The Domestic Customers business unit collaborated with the Asset Management Unit to offer asset management products such as investment trusts and commodity funds. We began over-the-counter sales of investment trusts at our branch offices in December 1998, and started selling two types of commodity funds from the Bank's investment trust sales counters in March 1999. We are preparing to offer defined contribution retirement plan products, which are similar to 401(k) accounts in the U.S., when they are introduced in Japan. This is expected to occur in fiscal year 2000.

Global Service Banking Services. The Domestic Customers business unit worked with the Global Service Banking business unit to provide its settlement and custody services, including cash management and foreign exchange-related products, to our domestic customers.

Investment Banking Services. Working closely with the Investment Banking business unit, the Domestic Customers business unit offered a full array of investment banking products. These products include derivatives, and asset securitizations, as well as M&A advisory services and securities services

Services Through Our Affiliates. We are also able to offer a range of services to our domestic customers through our affiliated companies. These complement our banking operations by allowing us to offer credit card, leasing, housing loan guarantee, mortgage-back securities, factoring and venture capital services.

Distribution Of Our Services

We offer our commercial banking services in Japan through our branch network, as well as through direct banking channels. As of March 31, 2000, our domestic banking network included:

- 291 branches, 26 sub-branches and two agencies;
- 563 automated teller machine (ATM) sites not located in our manned branches; and
- 39 loan plazas, which are offices dedicated to making home loans.

Of our branch, sub-branch and agency offices, 255 or 80%, are located in metropolitan Tokyo and another 44 or 14%, are located in the Kansai region. We provide our customers our full range of services from these offices.

Our loan plazas are offices dedicated to making home loans. More than half of our home loans and more than 80% of the loans we originate for the Japan Housing Loan Corporation, a government-owned enterprise that provides funds for mortgages, are originated through our loan plazas. Our loan plazas are located primarily in metropolitan Tokyo.

We are increasingly interacting with our customers directly, rather than through one of our offices or ATMs. Our customers use our bank-by-mail services for products and services such as public utility payments and updating account information. In September 1999, we started Tokyo-Mitsubishi Direct, full-line direct banking services through telephone, Internet and NTT DoCoMo's "i-mode". As of March 2000, approximately 300 thousand of our customers use these services.

Overseas Customers Business Unit

Our Overseas Customers business unit provided a full range of banking services to our customers outside of Japan. We served Japanese and non-Japanese corporate and individual customers through a global network spanning 45 countries and regions.

Products and Services

The Overseas Customers business unit focused primarily on providing commercial banking services, including accepting deposits, lending, money transfers, cash management services, trade finance, foreign exchange and issuing letters of credit. Working together with our Investment Banking business unit, our Overseas Customers business unit also provided derivatives, leasing, loan syndication, structured finance, corporate advisory services, equity underwriting, asset securitization and equity listing support. In collaboration with our Global Service Banking business unit, we offered settlement and custody services to our overseas customers and, in conjunction with our Asset Management business unit, pension trust management, investment trusts and investment advisory services.

Deposits. Our overseas branches and banking subsidiaries accept deposits, predominantly in U.S. dollars. They also raise funds in the Euro-markets and the United States money markets. These total non-yen deposits were ¥11.45 trillion (US$111.5 billion) as of March 31, 2000, accounting for 25% of our total deposits (under US GAAP). Our New York, Chicago, London and Singapore branches regularly issue US dollar denominated CDs with maturities of up to five years. Our London branch also issues CDs denominated in pounds sterling and Euro-yen.

The following chart provides a summary of the components of the Bank's type of deposits at the Bank's overseas branches, including foreign currency deposits and offshore deposits at the Bank's domestic branches, at March 31, 2000 (under Japanese GAAP):

Type of deposits	(in trillions)	
Current deposits	¥0.9	10%
Time deposits	5.4	59
Certificates of deposit	0.3	3
Other deposits	2.6	28
		100%

Loans. Our total loans outstanding to customers domiciled outside of Japan were ¥8.22 trillion (US$80.00 billion) as of March 31, 2000, accounting for 20% of our total loans (under US GAAP).

Distribution of Our Services

The Overseas Customers business unit provided services through the Bank's 44 overseas branches and 13 sub-branches and 18 information-gathering representative offices, as well as through a number of overseas banking subsidiaries.

The United States is our largest overseas market. We have two banking subsidiaries in the United States, including Union Bank of California, N.A., which is our largest overseas subsidiary. Union Bank of California is headquartered in San Francisco and provides a full range of commercial banking services. It is the third largest commercial bank in California, based on total assets and total deposits.

The geographic breakdown of our overseas operations as of March 31, 2000 is shown in the following table.

	Countries and regions	Branches	Sub-Branches	Representative offices	Principal subsidiaries and affiliates
North America	2	6	4	1	10
Latin America	9	4	0	4	9
Europe including Russia	12	9	3	2	9
Middle East & Africa	7	1	0	6	0
Asia excluding Japan	13	24	6	5	13
Oceania	2	0	0	0	1
Total	45	44	13	18	42

Treasury Business Unit

The Treasury business unit was in charge of managing our overall funding requirements. The unit was responsible for our asset liability management functions, and manages our debt securities portfolio, foreign exchange and derivatives transactions, including trading, for our own account. The Treasury business unit also worked 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 business unit was active in the world's main financial markets. The Treasury business unit had global treasury offices in New York, London, Singapore and Hong Kong that operate in unison with its Tokyo head office.

This unit credited our Domestic and Overseas Customers 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 business unit was responsible for asset liability management for our entire organization. It shared the resources of the Market Risk Management Division with the Investment Banking business unit. The Treasury business unit used 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 4% of total interbank transactions (under Japanese GAAP). We currently have approximately 3% share of the total Japanese domestic CD market (under Japanese GAAP).

In the international money market, the Treasury business unit raised 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, 2000, we had a portfolio of debt securities (including trading account assets and investment securities) with a carrying value of ¥10.99 trillion (US$107.0 billion) (under US GAAP). In securities investments, the Treasury business unit held 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 1999, we underwrote ¥276.8 billion of Japanese government bonds.

In addition, we are the leading market-maker 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 1999, we traded an aggregate of ¥71.24 trillion of bonds for our own account.

Investment Banking Business Unit

The Investment Banking business unit provided capital markets, derivatives and structured finance and corporate advisory services to our domestic and overseas customers. In recent years, deregulation in Japan and an increased demand for direct financing have increased competition and created new business opportunities in investment banking. We have taken advantage of these opportunities to become one of the market leaders among commercial banks in investment banking in Japan. The Investment Banking business unit shared the resources of the Market Risk Management Division with the Treasury business unit. The Investment Banking business unit assisted our other business units in providing investment banking products and services to their customers, both in Japan and overseas.

We conduct some of our investment banking business through the Bank itself, but for regulatory reasons, we conduct most of our securities business through subsidiaries and affiliates.

Products and Services

Securities Services of the Bank

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 1999, we acted as the commissioned company or fiscal agent for a total of 179 domestic bond issues, including public offerings and private placements, totaling ¥1,278.0 billion (US$12.44 billion). Especially in the area of representative commissioned company or fiscal agent business for Samurai Bonds (domestic bonds issued by foreign issuers), our market share during fiscal 1999 reached 56.4% in terms of the issuing amount (¥484.5 billion out of ¥859.5 billion) and 65.2% in terms of the number of issues (15 issues out of 23).

Capital Markets

Derivatives. Our Investment Banking business unit structured derivatives products and provided derivatives trading services for customers. It also conducted derivatives trading for our own account. It worked with our other business units to provide derivatives products for our customers worldwide, mainly through our offices in Tokyo, London, New York and Singapore. Recently, it was one of the leaders in Japan in the development of credit derivatives.

Securitization. In the securitization area, our Investment Banking business unit was 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, Hong Kong, Singapore, London and New York. We managed seven asset-backed commercial paper programs as of March 31, 2000.

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. In fiscal 1999, we ranked first among Japanese banks in terms of the total amount of the syndicated loans arranged on a global basis.

Structured Finance. In the structured finance area, we offer a wide range of expertise including financial advisory, debt arrangements and financing, and agency services with regard to project finance, real estate finance and lease finance transactions. In conjunction with the international teams that are located in Hong Kong, Singapore, London, New York, Boston and Los Angeles, we provide professional services on a global basis.

Corporate Advisory Services

The mergers & acquisitions ("M&A") market in Japan has expanded rapidly during the past several years. Fiscal 1999 was a significant year for us. As one of the leading M&A advisors in Japan, we were retained as financial advisor to over one hundred M&A transactions, fifty seven of which closed during the year.

However, through the course of business this year, we recognized that our clients' requirements for M&A advisory service were becoming more and more diverse and sophisticated. In December 1999, we entered into a strategic alliance in M&A advisory activities involving Japanese clients and transactions with the U.S. investment bank, Lehman Brothers. We believe that the combination of our domestic client base and expertise in Japan with Lehman Brothers' expertise in the global market will enable us to provide the highest level of M&A advisory services to our clients.

Securities Services Offered Through Subsidiaries and Affiliates

In Japan, our securities business for our corporate customers is operated primarily through Tokyo-Mitsubishi Securities Co., Ltd. We formed Tokyo-Mitsubishi Securities in 1994 to underwrite and distribute bonds in Japan. Since then, its role has expanded as the Japanese financial services industry has further been deregulated. Among its securities products and services in Japan, the Investment Banking business unit engages in underwriting, sales and dealing in equities, public bonds, commercial paper services, commissioned company services for corporate bonds, arrangement of private placements and other securities services.

In July 1999, we consolidated the operations of Tokyo-Mitsubishi Securities and Mitsubishi TB Securities Co., Ltd.

In December 1999, the Bank, Tokyo-Mitsubishi Securities Co., Ltd., and Kokusai Securities Co., Ltd., a leading securities firm in Japan, agreed to enter into a strategic alliance, and the Bank has become the largest shareholder of Kokusai Securities with a stake of 13.34% of its issued shares.

Our domestic retail securities business is operated through Tokyo-Mitsubishi Personal Securities Co., Ltd., which we formed in April 1999 through the merger of Ryoko Securities and Dainana Securities.

We have also established a joint venture company, Tokyo-Mitsubishi TD Waterhouse Securities Co., Ltd., with TD Waterhouse Group, Inc. The joint venture company will offer online financial services, including discount securities brokerage services, equity trading and a host of other financial products to the Japanese retail market through the Internet and other channels.

Overseas, London-based Tokyo-Mitsubishi International plc spearheads our securities business in the Euromarkets, including bond underwriting, structured bonds and equities operations. We merged the operations of our German, Swiss and Spanish subsidiaries with Tokyo-Mitsubishi International in April 1999. The purpose of the reorganization was to increase our effectiveness in the European securities markets by centralizing our financial and managerial resources. We also operate investment banking subsidiaries in Hong Kong and Singapore, and a securities subsidiary in the United States.

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 the Bank, two trust subsidiaries of the Bank, Nippon Trust Bank and Tokyo Trust Bank, and our asset management affiliate, Tokyo-Mitsubishi Asset Management.

Products and Services

In December 1998, the asset management business in Japan was significantly deregulated. Therefore, during fiscal 1998, we focused on developing asset management capabilities throughout our organization to take advantage of the new business opportunities presented by deregulation. We also formed alliances with leading market participants in the asset management business and introduced new products.

In December 1998, we began direct sales of investment trusts.

Tokyo-Mitsubishi Asset Management provides investment management and advisory services for institutional investors including pension funds as well as investment trust products. In December 1998, it became possible to distribute investment trusts to certain financial institution, such as banks (including the Bank) and life insurance companies. Taking advantage of this deregulation, Tokyo-Mitsubishi Asset Management has been expanding its investment trust product line. In order to meet customers' need for foreign investment products, Tokyo-Mitsubishi Asset Management has drawn on the asset management capabilities of Tokyo-Mitsubishi Asset Management (UK) Ltd., a subsidiary of Tokyo-Mitsubishi Asset Management, and HighMark Capital Management, Inc., the investment management arm of Union Bank of California, N.A. At the same time, Tokyo-Mitsubishi Asset Management has been working with the Mellon Group under the strategic alliance formed in 1998. Following the launch of the "Tokyo-Mitsubishi Global Balance" fund in 1997 and the "Tokyo-Mitsubishi/Dreyfus Global Bond" fund in 1998, we launched the "Tokyo-Mitsubishi/Dreyfus Global Equity" fund in September 1999 as the third fund of series of global quantitative investment trust funds co-developed with the Mellon Group.

As of March 2000, more than 40 Japanese financial institutions, mainly securities firms and regional banks, were marketing Tokyo-Mitsubishi Asset Management's products. Net investment trust assets of Tokyo-Mitsubishi Asset Management reached ¥217.8 billion (US$2.1billion) as of March 31, 2000, an increase of 56.5% from ¥139.2 billion a year ago.

Nippon Trust Bank is a subsidiary of the Bank with full trust banking powers. It 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 foreign bond lending and repurchase agreements. It also is increasing its trust asset business, mainly by managing securities trusts.

In September 1998, we concluded a business agreement with The Mitsubishi Trust and Banking Corp., Tokio Marine and Fire Insurance Co., Ltd., and Meiji Life Insurance Co. This led to the joint establishment in December 1998 of The Mitsubishi Asset Brains Co., Ltd., an investment trust evaluation company. This company relies on Abic Co., Ltd., an independent investment trust evaluator, for much of its evaluation information.

We have been pursuing a defined contribution pension plan recordkeeping project in alliance with other Mitsubishi group institutions, Sumitomo group institutions, Daiwa Securities and Nikko Securities. In January 2000, Nippon Life Insurance Co. joined the alliance.

The alliance established Nippon Record Keeping System Co., Ltd. in August 1999 for the purpose of developing an administration system. Nippon Record Keeping System increased its capital and allocated new shares to Nippon Life Insurance Co., IBM Japan, Mitsubishi Electric and Nippon Electric in March 2000. The alliance and Nippon Record Keeping System also established another company, Nippon Record Keeping Network Co.,Ltd., with 38 financial institutions in December 1999. Nippon Record Keeping Network will provide recordkeeping administration services for plan sponsors and participants.

In addition to establishing joint ventures with other domestic and foreign financial institutions, we have moved to capitalize on our alliance which was formed in fiscal 1998, with leading U.S. investment service firm Frank Russell Company. The alliance facilitates our sales of a new investment trust product named "M•CUBE Investment Program", including the Multi-Manager Funds provided by Frank Russell. We began marketing a new product "M•CUBE Investment Program" in July 1999. "M•CUBE Investment Program" is offered through our domestic network, mainly targeting high net worth individuals.

Global Service Banking Business Unit

The Global Service Banking business unit provided correspondent banking services, which include both settlement and remittance services, and custody services. This unit also acted as an agent bank for overseas development assistance provided by the Japanese Government. It earned primarily fee income from these services, which do not require a significant commitment of our assets.

Correspondent banking and settlement

Our Global Service Banking business unit establishes accounts for customers with which we have correspondent arrangements to provide settlement and remittance services. Through these accounts, among other things, we settle yen payments for foreign exchange transactions and remit yen and foreign currency overseas on their behalf.

As of March 31, 2000, we had correspondent arrangements with 3,350 foreign banks and other financial institutions, of which 2,201 had yen settlement accounts with us. At the same time, we also had correspondent arrangements with 89 Japanese financial institutions, for which we held 148 yen and US dollar accounts.

The Foreign Exchange Yen Clearing System, which was revised to reduce settlement risk in December 1998, introduced an entrustment procedure for yen clearing, by which banks in Japan may entrust other banks to conduct yen clearing for them. We have a dominant share of this business. As of March 31, 2000, 53 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 handle approximately 25% of these transactions by volume, making us the market leader in yen settlement through Foreign Exchange Yen Clearing System.

The Global Service Banking business unit also offered a foreign remittance service for Japanese financial institutions, under our brand name "Global Operation Automatic Link (GOAL)". As of March 31, 2000, 76 Japanese banks used this service.

Settlement is a high volume business, in which services can be provided most competitively by a highly efficient, high quality, low cost service provider. Only a limited number of institutions are capable of providing settlement services in Japan efficiently. We expect the trend for the outsourcing of settlements to continue, as Japanese banks continue to restructure their business.

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 1999 was approximately ¥53 trillion, which represented a 29% 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 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. Notwithstanding the consolidation, 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.

Geographic Information

The following information presents geographic data on a US GAAP basis for the three years ended March 31, 2000. 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, 1998:												
Total revenue	¥ 1,315	44%	¥ 720	24%	¥ 494	16%	¥ 347	12%	¥ 135	4%	¥ 3,011	100%
Net income (loss)	(715)	92	39	(5)	10	(1)	(115)	15	7	(1)	(774)	100
Total assets	58,554	67	10,795	12	9,478	11	5,761	7	2,226	3	86,814	100
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	54,475	73	8,601	12	5,746	8	3,146	4	2,243	3	74,211	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	56,109	78	7,779	11	3,491	5	2,865	4	1,558	2	71,802	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 Law") 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 financial system, including 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 the 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 the Bank) 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 the Bank) have been allowed to establish subsidiaries to engage in domestic non-equity related securities business. To date, many banks (including the Bank) 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 banking and securities business 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 Trust Bank, following their respective financial failure, represented a result of such 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 the Bank 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 the Bank) have been allowed to establish trust banking subsidiaries. In October 1999, restrictions on the business of such trust banking subsidiaries were abolished and a full line of trust businesses became allowed. Investment advisory companies, including those affiliated with city banks, have also been permitted to manage corporate pension funds.

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 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 the market rates and thus compete for deposits on terms similar to those of the private banks. Under the proposed comprehensive reorganization of Japanese governmental agencies, postal, savings and insurance businesses governed by the Ministry of Posts and Telecommunications are expected to be reorganized into public services corporations in the near future.

Integration among major banks is currently underway. It has been reported that in September 2000 The Dai-ichi Kangyo Bank, Ltd., The Fuji Bank, Ltd. and The Industrial Bank of Japan, Ltd. will jointly establish a holding company to own such three banks, and that, in April 2001, The Sumitomo Bank, Ltd. and The Sakura Bank, Ltd. will merge. It has also been reported that, in April 2001, The Sanwa Bank, Ltd., The Tokai Bank, Ltd. and The Asahi Bank, Ltd. will jointly establish a holding company to own such three banks, although more recently, The Asahi Bank, Ltd. announced that it would withdraw from such integration. On the part of the Bank, we intend to establish, in April 2001, a similar holding company together with The Mitsubishi Trust and Banking Corporation and The Nippon Trust Bank, Ltd. The latter two trust banks are scheduled to integrate their respective management by merging with The Tokyo Trust Bank, Ltd. by October 2001 at the latest.

Foreign

In the United States, the Bank and Union Bank of California face substantial competition in all aspects of their business. The Bank faces competition from the other large U.S. and foreign-owned money-center banks, as well as from similar institutions that provide financial services. Union Bank of

California competes 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 132, not including 88 foreign commercial banks with banking operations in Japan; trust banks, of which there are 31, including 9 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 nine, including the Bank, and regional banks, of which there are 123, 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 domestically on a nationwide scale 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 the Bank) in recent years have increased their emphasis on other markets. In accordance with recent announcements, the city banks are now in the process of tying up with each other and, in some cases, also with long-term credit or trust banks to form four major groups in the near future.

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 merger or business tie-up, certain regional banks have announced or are currently negotiating such 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 merger or business tie-up 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

Various proposals have been made by the Japanese government and other bodies for the further deregulation of the Japanese financial market and the improvement of the soundness of Japanese financial institutions. In November 1996, Prime Minister Hashimoto of Japan instructed cabinet members to study deregulatory measures to apply to the financial sector as a whole and announced the basic policy for the reform of the Japanese financial system (Japan's so-called "Big Bang") The basic policy aims to reconstruct the Japanese financial market to become an international market comparable with New York and London by 2001 under the principle of "Free, Fair and Global".

Pursuant to the instructions of Prime Minister Hashimoto, various measures were discussed by financial councils. Following the lifting of the ban on holding companies by amendments to the Antimonopoly Law promulgated in June 1997, legislation relating to the establishment of financial holding companies was effected in the early stages of the reform, in December 1997. The Financial System Reform Law was then promulgated in June 1998. This law is regarded as the core legislation for the reform of Japan's financial system, and comprehensively amends various financial laws, including the Bank Law, the Securities and Exchange Law, the Securities Investment Trust Law and the Insurance Business Law. The measures to be taken under the Financial System Reform Law are broad and include the elimination of barriers between banking and other financial service sectors, the transfer to a registration system from a license system with respect to the securities business, the liberalization of stock brokerage fees, the authorization of the sale of investment trusts by banks and other financial institutions and the establishment of regulations to ensure the soundness of banking management. Most provisions of the Financial System Reform Law were effective as of December 1998. Accordingly, financial institutions in Japan have gained the opportunity to provide a wide range of financial products and options to their customers, while at the same time each bank is now required to secure the soundness of its management more strictly than before, both internally and with respect to its entire group.

In June 1997, two major legislative measures were adopted by the Japanese Diet in order to reform the system of supervision of the financial sector by government authorities. These measures consisted of (i) amendments to The Bank of Japan Law, effected on April 1, 1998, which were intended to grant more independence to The Bank of Japan in relation to, among other things, adopting a monetary policy and aiding financial institutions with liquidity problems; and (ii) the establishment of the Financial Supervisory Agency, a new governmental agency, effective June 22, 1998, which assumed the supervisory and inspection functions of the Ministry of Finance with respect to private-sector financial institutions in Japan. The Ministry of Finance remains responsible for planning the overall Japanese financial system.

Within the last year, certain business entities other than traditional financial institutions have expressed their interest in venturing into the banking business or establishing new banks under new concepts such as Internet banking without a network of branches or providing banking services in manners quite different from the traditional ones. In order to address this movement, The Financial Reconstruction Commission and Financial Supervisory Agency published, in May 2000, a draft of new guidelines for the review of applications for new banking licenses and for supervision of banks under the current statutory regime (the "Proposed Guidelines"). Such draft is now open for public comments [until June 30, 2000] and is scheduled to be finalized after taking into account the reaction to such draft from the public.

Examination of Banks

After the Financial Supervisory Agency was established, it assumed the responsibilities of the Ministry of Finance with respect to the supervision and inspection of banks.This has led to changes in inspection practices that have also placed increased more emphasis on monitoring the present status of banks and their activities. By evaluating banks' systems of self-assessment, auditing their accounts and ensuring that banks are compliant with laws and regulations, the Financial Supervisory Agency will monitor the financial soundness of banks, including the status and performance of their control systems for business activities. In addition, 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. In April 1999, the revised and final form of the Financial Examination Manual was published by the Financial Supervisory Agency. The inspection of banks will now be performed pursuant to this Manual 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, a new agency called Financial Services Agency (Kinyu Cho) will be established taking over the Financial Supervisory Agency and assuming the policy-making functions for the overall Japanese financial system under the Ministry of Finance.

Under the Proposed Guidelines for the licensing and supervision of new types of banks, it is specifically noted, with regard to a bank 20% or more of the equity of which is owned by a business entity, that special care must be taken to ensure the independence of the management of such bank lest the financial soundness of such bank be impaired by the desire of such business entity to achieve its strategic business goals.

Furthermore, The Bank of Japan also conducts examinations of banks similar to those undertaken by the Financial Supervisory 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 Supervisory 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

In 1971, the Deposit Insurance Law was enacted in order to protect depositors in the case where a financial institution fails to meet its obligations. The Deposit Insurance Corporation was established in accordance with that law. The Deposit Insurance Law was amended in 1986 to provide a better means of achieving the system's goal of protecting depositors.

City banks (including the Bank), 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.

Due to the failures of several financial institutions including credit cooperatives, amendments to the Deposit Insurance Law were approved in June 1996 to provide a framework for streamlining bankruptcy procedures and providing additional temporary measures to protect depositors. Under these amendments, all deposits, including any amounts over ¥10 million with respect to each depositor, and other claims will be protected until March 31, 2001. Prior to the 1996 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. Major legislation includes the ''Law Concerning Emergency Measures for Reconstructing Financial Function'' (the ''Financial Reconstruction Law''), enacted in October 1998, and the ''Law Concerning Emergency Measures for Early Strengthening of Financial Function'' (the ''Early Strengthening Law''), enacted in October 1998.

In October 1998, the Financial Reconstruction Law was enacted, pursuant to which general principles for the treatment of failed financial institutions were provided and new measures were introduced, including (i) temporary state control of relevant financial institutions, (ii) dispatch of a financial resolution administrator to the relevant financial institutions, and (iii) the establishment of bridge banks. The Financial Stabilization Law was abolished by the enactment of this law.

Another important legislative initiative, the Early Strengthening Law, was also enacted in October 1998, pursuant to which government funds may be introduced to financial institutions ''prior to failure'' as well as to financial institutions with ''sound'' management until March 2001, for the purpose of increasing the ratio of capital of such financial institutions and to strengthen their function as financial market intermediaries. Pursuant to such measures, capital injections to financial institutions may be made by application of the relevant bank to the Resolution and Collection Corporation. This Corporation will subscribe for securities issued by the financial institutions, such as common stock and preferred stock, by using government funds. Banks are classified into four categories in accordance with their capital ratio status. Upon the introduction of these funds, stricter standards will be applied to those financial institutions with comparatively low capital ratios in order to avoid any moral hazard. In addition, financial institutions are required to submit a management strengthening plan to the Financial Reconstruction Committee through the Deposit Insurance Corporation together with an application for capital injection. The Financial Reconstruction Account, with holdings of ¥18 trillion, and the Early Strengthening of Financial Function Account, with holdings of ¥25 trillion, were newly established at the Deposit Insurance Corporation, and, together with the Special Business Account, with holdings of ¥17 trillion, the total amount of such government funds amounted to ¥60 trillion.

Under this framework, capital injections into 15 banks (excluding the Bank) were approved in March 1999. The total amount of the increase in capital of these banks amounted to approximately ¥7.5 trillion. The Financial Reconstruction Committee, which was established as an outside committee governed by the Prime Minister's Office in December 1998, has published the basic principles for increasing the capital of Japanese financial institutions and has inspected the applications requesting capital injections.

In May 2000, the Deposit Insurance Law was amended, and the temporary freezing of the enforcement of the provisions thereof relating to the maximum amount of protection of deposits (the so called ''pay-off'' limitation) has been extended until the fiscal year 2002. This means that all deposits and interest thereon 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 the securities business by banks. Under this law, banks (including the Bank) may not engage in the 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 effected 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 Law 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.

The Bank, as a publicly-owned company, is required to file with 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 Supervisory Agency applicable to Japanese banks with international operations (the "Guidelines") closely follow the risk-weighted approach proposed by the Basle Committee on Banking and Supervisory Practices of Bank for International Settlement, 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, 2000 was 11.46% as compared with 10.47% at March 31, 1999.

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 unrealized gains on investments in listed securities stated at the lower of cost or market value, 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, 2000. 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, 2000

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	¥ 9,931	0%	¥ —
Claims on domestic public entities, excluding central governments	2,248	10	225
Claims on banks incorporated in OECD countries and other 20% weight assets	7,313	20	1,463
Residential house mortgages	5,290	50	2,645
All other assets	37,860	100	37,860
Total	¥62,642		¥42,192

Off-balance-sheet exposure	Contract amount	Credit-equivalent amount		
Commitments and contingencies				
Direct credit substitutes	¥ 3,288	¥3,288	0-100%	¥ 2,272
Transaction-related	1,275	637	0-100	608
Trade-related	503	101	0-100	92
Repurchase agreements	1,677	1,677	0-100	427
Forward asset purchases	121	121	0-100	0
Long-term (over one year) commitments	3,713	1,857	0-100	1,701
Short-term (one year or less) commitments	18,343	—	0	—
Note issuance facilities and revolving underwriting facilities	49	25	0-100	25
Foreign exchange related contingencies	33,031	1,579	0-50	416
Interest rate related contingencies	161,450	2,547	0-50	617
Other contingencies	1,474	113	0-50	33
Sales of protections on credit derivatives	—	1	0-100	1
Purchase of protections on credit derivatives	—	(466)	0-100	(466)
Bilateral netting of derivatives	—	(1,518)	0-50	(335)
Total off-balance-sheet exposure	¥224,923	¥9,961		5,391
Total risk weighted assets compiled for credit risk purposes				47,583
Market risks multiplied by 12.5				452
Modified risk weighted assets				¥48,035

Note—Amounts total more than indicated total due to rounding.

The Bank of Tokyo-Mitsubishi, Ltd.
and Subsidiaries

Qualifying Capital
At March 31, 2000
(in billions except percentages)

Tier I		
Stockholders' equity, less any recorded goodwill		¥2,754
Tier II		
Unrealized gains on investment securities, after 55% discount	¥ 552	
Land revaluation excess, after 55% discount	158	
Allowance for credit losses	480	
Subordinated term debt (with original maturity of over five years)	1,938	
Total	3,128	
Tier II capital includable as qualifying capital	2,754	2,754
Tier III		
Short-term subordinated debt	—	
Deductions from total qualifying capital	(2)	(2)
Total qualifying capital		¥5,506

	Capital	Risk-adjusted capital ratio
Risk-adjusted capital and capital ratio at March 31, 2000:		
Tier I	¥2,754	5.73%
Tier II	2,754	5.73
Tier III	—	—
Deductions from total qualifying capital	(2)	—
Total	¥5,506	11.46%

Note—Amounts total greater or less than indicated total due to rounding.

The Bank continually monitors its risk-adjusted capital ratio closely and manages its operations in consideration of the capital ratio requirements. The Bank recognizes 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 its expectations with respect to the market values of Japanese equity securities and future foreign currency exchange rates, the Bank believes that it will continue to be in compliance with the required ratios.

Additionally, the Bank has 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. The Bank's 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 its operations in the United States, the Bank is 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"). In addition, its insured depository institution subsidiaries in the United States are supervised by the Federal Deposit Insurance Corporation ("FDIC") and in the case of Union Bank of California, N.A., the Office of the Comptroller of the Currency (the "Comptroller of the Currency"). Such regulation 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, the deposits of depositors in those institutions. The laws, regulations and policies affecting such businesses are regularly under review by the U.S. Congress and state legislatures, and Federal and state regulatory agencies. Changes in the laws, regulations or policies that impact the Bank cannot necessarily be predicted, but they may have a material effect on the business and earnings of the Bank.

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 and Bank Holding Company Act, the Bank and its subsidiaries are subject to various restrictions with respect to opening new U.S. domestic deposit-taking branches in states outside their home state. The Bank Holding Company Act generally prohibits the Bank 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 Federal Reserve Board has determined, by order or regulation, that such proposed activities are so closely related to banking or managing or controlling banks as to be a proper incident thereto. In addition, the Bank Holding Company Act requires the Bank to obtain the prior approval of the Federal Reserve Board before acquiring, directly or indirectly, the ownership or control of more than 5% of the voting shares of any United States bank or bank holding company. Subject to various limitations and restrictions, a U.S. bank holding company, with the prior approval of the Federal Reserve Board, may acquire an out-of-state bank, subject to deposit concentration limitations. Banks in states that do not prohibit out-of-state mergers may merge, with the approval of the appropriate Federal bank regulatory agency and both state regulatory authorities. Also, a bank may establish a new branch out of state if such branching is expressly permitted by the other state. In addition, under the Bank Holding Company Act, the 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 provides that each branch and agency of a foreign bank shall be subject to on-site examination by the appropriate state or Federal 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 capital distributions (including the payment of dividends) or the payment of any management fee to a holding company if thereafter the insured depository institution making such payment would subsequently be undercapitalized. If an insured depository institution is undercapitalized, its activities may be limited and its holding company obligated 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 the Bank's insured depository institutions subsidiaries 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 Comptroller of the Currency. In addition, state chartered banking subsidiaries are subject to dividend limitations imposed by applicable state and Federal laws.

Derivatives activities of banks continue to receive attention by the U.S. Congress, but it is not clear what the end result of this attention will be. The Federal banking regulators also 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.

The Bank is also subject to the supervision, examination and regulatory authority of the banking departments of each of the states in which it operates. The Bank has branches, agencies or representative offices in eight states and the District of Columbia. The Bank'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, the Bank 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 wholly owned subsidiaries of the Bank and liabilities of any international banking facility maintained by the New York Branch. 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 the Bank located in New York whenever specified events occur.

As a national bank, Union Bank of California, N.A. is subject to primary supervision, examination and regulatory authority by the Comptroller of the Currency. As an insured New York state chartered bank, Bank of Tokyo-Mitsubishi Trust Company is also subject to the supervision, examination and regulatory authority of the Superintendent. The FDIC insures deposits at Union Bank of California, N.A. and Bank of Tokyo-Mitsubishi Trust Company and, in that capacity, also regulates those institutions. A financial institution insured by the FDIC that is under common control 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 a subsidiary depository institution 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. 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.

The Bank and its U.S. insured depository institution subsidiaries are subject to risk-based capital and leverage 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 the liquidation or other resolution of a failed U.S. insured depository institution, deposits in 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 such as the Bank. Such priority creditors would include the FDIC, which succeeds to the position of insured depositors.

In addition, the Bank's non-bank subsidiaries engaged in securities-related activities in the United States are regulated by the Securities and Exchange Commission, any self-regulatory organizations of which they are a member, and the securities regulatory agencies of the states in which they are members in such activities.

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 has 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, a "financial holding company" (an "FHC"). A bank holding company that satisfies certain qualifying factors may elect to become an FHC and engage, through a bank subsidiary 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 this date, the Bank has not elected to become an FHC under the GLB Act. The Bank 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.

PROPERTY

The head office of the Bank 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. The Bank utilizes the entire building and its site. At March 31, 2000, the Bank conducted its banking operations either in its owned premises or in rented properties.

In March 1999, the Bank sold a 50% undivided interest each of its head office land and building and of its main office land and building, and at the same time, the Bank entered into an agreement to lease back from the buyer the 50% undivided interests of the buildings sold over a period of 7 years. The Bank 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 office and other properties at March 31, 2000:

	Area (in thousands of square feet)	Book value (in millions)
Owned land	10,478	¥132,233
Leased land	1,212	—
Owned buildings	14,651	131,738
Leased buildings	8,808	—

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 the Bank or any of its subsidiaries is a party or of which any of their property is the subject.

MANAGEMENT

The Bank's Board of Directors is responsible for the administration of the business of the Bank. The Bank's Articles of Incorporation provide that the number of Directors shall not exceed 70 and that the number of Corporate Auditors shall not exceed eight. The Bank's shareholders elect directors at an annual general meeting for staggered two-year terms. Shareholders elect Corporate Auditors at the annual general meeting of shareholders of the Bank for terms of three years.

The Corporate Auditors of the Bank are not required to be, and are not, certified public accountants. In accordance with Japanese law, the duties of the Corporate Auditors include examining the financial statements and business reports of the Bank 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 the Bank 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 the Bank or any of its subsidiaries. At least one Corporate Auditor must be elected from persons who have not been Directors, managers or other employees of the Bank or any of its subsidiaries for five years prior to taking of office.

The Board of Directors is empowered to appoint by resolution representative directors from among their number who may represent the Bank severally. The Board of Directors may also appoint from their number 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 the Bank. All of these senior officers, except for managing directors, are currently representative directors.

Set forth below is a list of the Directors and Corporate Auditors of the Bank at June 29, 2000.

Name	Current position	Director/Corporate Auditor since
Satoru Kishi	Chairman*	June 1983†
Kenji Yoshizawa	Deputy Chairman*	April 1996‡
Shigemitsu Miki	President*	June 1986‡

Name	Current position	Director/Corporate Auditor since
Shin Nakahara	Deputy President*	April 1996‡
Yasuyuki Hirai	Senior Managing Director*	June 1989†
Tetsuo Shimura	Senior Managing Director*	April 1996‡
Hiroshi Watanabe	Senior Managing Director*	April 1996‡
Masamichi Yamada	Senior Managing Director*	June 1991†
Nobuo Kuroyanagi	Managing Director	June 1992‡
Takuo Oi	Managing Director	April 1996‡
Setsuo Uno	Managing Director	June 1992‡
Yasumasa Gomi	Managing Director	June 1993†
Tatsunori Imagawa	Managing Director	June 1993†
Yasuhiko Nakanishi	Managing Director	April 1996‡
Haruo Kimura	Managing Director	April 1996‡
Asataro Miyake	Managing Director	April 1996‡
Naotaka Obata	Managing Director	June 1995†
Akira Okuhata	Managing Director	June 1996‡
Masayuki Tanaka	Managing Director	June 1995†
Akira Katayanagi	Managing Director	June 1995†
Masaharu Hamakawa	Managing Director	June 1996‡
Ichiro Terato	Managing Director	June 1996‡
Takahiro Moriguchi	Director	April 1996‡
Norimichi Kanari	Director	June 1997†
Kenichi Masuda	Director	June 1997†
Shunichi Tokuda	Director	June 1997†
Yoshihiro Watanabe	Director	June 1997†
Yukihiko Miyoshi	Director	June 1998‡
Ryuichi Murata	Director	June 1998‡
Yoshinobu Onishi	Director	June 1998‡
Shota Yasuda	Director	June 1998‡
Yasumasa Karaki	Director	June 1999†
Tetsuo Iwata	Director	June 1999†
Kyota Omori	Director	June 1999†
Tadashi Yanagisawa	Director	June 1999†
Fumiyuki Akikusa	Director	June 2000‡
Tsutomu Tanaka	Director	June 2000‡
Yutaka Nishizawa	Director	June 2000‡
Saburo Sano	Director	June 2000‡
Noboru Takeuchi	Director	June 2000‡
Izumi Tamai	Director	June 2000‡
Akira Tomioka	Director	June 2000‡

Name	Current position	Director/Corporate Auditor since
Ryuichi Ohho	Corporate Auditor (full-time)	June 2000µ
Yoshikazu Takagaki	Corporate Auditor (full-time)	June 1997µ
Takashi Uno	Corporate Auditor (full-time)	June 1998†
Takao Wada	Corporate Auditor (full-time)	June 2000µ
Shunji Kono	Corporate Auditor	June 1994µ
Kenjiro Hata	Corporate Auditor	June 1998†

* Representative Director.
† Term expires June 2001.
‡ Term expires June 2002.
µ Term expires June 2003.

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 the Bank other than in the normal course of business, on normal commercial terms and conditions.

COMPENSATION

We paid an aggregate of ¥1,371 million as remuneration, including bonuses but excluding retirement allowances, during the year ended March 31, 2000 to all of our Directors (including executive officers of the Bank) 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 the Bank'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 the Bank's performance. The Bank does not set aside reserves for any such retirement payments to the Directors and Corporate Auditors. During fiscal 1999, the Bank paid allowances totaling ¥1,472 million to retiring Directors and Corporate Auditors.

PRINCIPAL SHAREHOLDERS

The Bank was not, at March 31, 2000, directly or indirectly, owned or controlled by any other corporation or by any foreign government.

Common Stock

At March 31, 2000, to our knowledge, no person owned beneficially, directly or indirectly, more than 10% of the outstanding common stock of the Bank. The ten largest shareholders of our common stock of the Bank as of March 31, 2000, 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	168,703	3.60
The Dai-ichi Mutual Life Insurance Company	135,295	2.89
The Tokio Marine & Fire Insurance Company, Limited[(d)]	124,330	2.65
The Sumitomo Trust and Banking Company Limited[(c)]	105,562	2.25
Mitsubishi Heavy Industries, Ltd. [(d)]	93,883	2.00
The Mitsubishi Trust and Banking Corporation[(c)(d)]	70,319	1.50
The Taiyo Mutual Life Insurance Company	63,000	1.34
Hero & Co.[(b)]	60,336	1.29
The Mitsubishi Trust and Banking Corporation[(d)]	60,329	1.29
Total	1,114,886	23.84%

(a) Amounts total less than indicated actual total due to rounding.
(b) An owner of record for ADRs of the Bank.
(c) Shares held in trust accounts.
(d) Commonly described as members of the "Mitsubishi Group" of companies. See "Description of Our Business—Introduction."

At March 31, 2000, 878,488 shares, or 0.02%, of the outstanding common stock were held by Bank's Directors and Corporate Auditors.

The Bank 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 the Bank of ¥50 for each ¥1,000 so deducted. As of March 31, 2000, 10,133 employees of the Bank held an aggregate of 16,548,447 common stocks under the plan.

Preferred Stock

At March 31, 2000, the ten largest shareholders of the preferred stock of the Bank 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" of companies. See "Description of Our Business— Introduction."

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 the Bank. 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 the Bank 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 the Bank, 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 are 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 the Bank 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 will be required, and in specified circumstances, a prior notification may be 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 have adopted 1,000 Shares as one "unit" of Shares. Although the ADSs, each representing one

Share, may trade individually or in any number, the Bank may 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 may only accept deposit Shares constituting one or more units and may only vote Shares held by the Custodian in units of 1,000 Shares or integral multiples thereof. Accordingly, the Depositary may not be permitted to vote all Shares in respect of which it has 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, aggregates Shares for which the holders of ADRs evidencing such ADSs have given 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 have paid dividends on the Shares semiannually for each fiscal year since the Bank'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 19 of Notes to Consolidated Financial Statements.

The following table shows our historical dividends for common stock as declared by the Bank 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, 1995	4.25	0.0502
March 31, 1996	4.25	0.0419
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

Our Board of Directors presently intends to continue to pay cash dividends on the Shares twice a year. The payment, as well as the amount, of dividends in the future will, however, be subject to the level of the Bank's earnings, the Bank's financial condition and other factors.

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 the Bank, as appearing in its latest balance sheet, 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 is the Tokyo Stock Exchange. The Shares have been traded on the First Section of that exchange since 1949 and are 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 is the New York Stock Exchange, on which the ADSs have been listed under the symbol "MBK" since September 19, 1989. The ADSs are represented by ADRs issued by the Depositary. In addition, the Shares are listed on the London Stock Exchange and on the Paris Stock Exchange in the form of Shares of the Bank, and on the Swiss Exchange in the form of depositary receipts.

As of March 31, 2000, there were 760 record holders of Shares (including record holders of ADRs) with addresses in the United States, whose shareholdings represented approximately 5.75% 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 the reported high and low sales prices of the Shares on the Tokyo Stock Exchange and the reported high and low sales prices of the ADSs on the New York Stock Exchange for each quarter period indicated. The table also presents high and low sales price quotations from the TSE translated in each case into US dollars per ADS at the Noon Buying Rate on the relevant date.

Calendar period	TSE price per share		Translated into US$ per ADS		NYSE price per ADS	
	High (yen)	Low (yen)	High	Low	High (US$)	Low (US$)
1997						
First quarter	2,180	1,630	18.83	13.45	18.75	14.25
Second quarter	2,390	1,720	21.11	13.65	20.69	13.88
Third quarter	2,360	2,070	19.53	17.39	20.19	17.56
Fourth quarter	2,330	1,450	19.11	12.11	19.31	11.88
1998						
First quarter	1,960	1,600	15.48	12.01	16.00	12.00
Second quarter	1,700	1,195	13.06	8.30	13.25	8.63
Third quarter	1,601	875	11.32	6.41	11.69	6.56
Fourth quarter	1,404	801	11.99	5.90	11.88	6.06
1999						
First quarter	1,728	1,075	14.64	9.67	14.69	9.94
Second quarter	1,883	1,525	15.59	12.28	15.81	12.44
Third quarter	1,924	1,531	17.22	14.70	17.06	13.81
Fourth quarter	1,755	1,376	16.65	13.45	16.81	13.50
2000						
First quarter	1,544	1,240	14.62	11.34	14.25	11.44

EXCHANGE RATES

The following table presents the high, low and average Noon Buying Rates during each of the past five fiscal years and the Noon Buying Rates at the end of each of the past five fiscal years. The Noon Buying Rate is expressed in yen per US dollar.

Fiscal year ended March 31,	High	Low	Average	Fiscal year end
1996	¥ 81.12	¥ 107.29	¥ 97.09	¥ 107.00
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

Fluctuations in exchange rates affect the foreign currency equivalents of the yen price of the Shares on Japanese stock exchanges, and therefore are likely to affect the market price of ADSs in the United States. These fluctuations also will affect the foreign currency amounts received when cash dividends are remitted outside Japan to holders of Shares or ADSs. We do not contemplate undertaking any currency hedging activities with respect to the conversion of cash dividends paid to holders of our ADSs into US dollars.

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 29, 2000

CORPORATE ORGANIZATION

As of July 1, 2000

Retail Banking Business Unit

Retail Banking Branches

- Retail Marketing Division
- Direct Banking Division
- Retail Banking Development Division
  - (Consumer Loan Development Office)
  - (Corporate Employees Banking Services Office)
- Private Banking Division
- Business Loan Division
- Retail Credit Office

Commercial Banking Business Unit

Commercial Banking Branches

- Commercial Banking Development Division
  - (Electronic Banking Office)
    - CAMS Center
  - (International Business Development Office)
  - (Management Consulting Office)
- Business Development Division
  - (New Business Development Office)
- Financial Institutions Division
- Public & Institutional Business Division
- Credit Division
  - (Corporate Credit Supervision Office)
  - (On-site Credit Supervision Office)
- Credit Supervision Division No. 1
  - (Loan Management Office)
- Credit Supervision Division No. 2

Global Corporate Banking Business Unit

Overseas Branches

- Credit Division for the Americas
- Planning Office for the Americas
  - (North American Legal & Public Affairs Office)
- **Headquarters for the Americas**

European Business Division

- European Credit Division
- European Planning Office
- European Operation & Systems Office
- **European Headquarters**

Overseas Branches

- Asian Credit Division
- Asian Planning Office
- **Asian Headquarters**

- Corporate Banking Division No. 1–4 — **Corporate Banking Group No. 1**
- Corporate Banking Division No. 5, 6 — **Corporate Banking Group No. 2**
- Corporate Banking Credit Division

Investment Banking Business Unit

Investment Banking Group No. 1

- Corporate Advisory Division
- Capital Markets Division
  - (Investment Banking Marketing Office)

- European Investment Banking Division
- Investment Banking Division for the Americas

Structured Finance Group

- Structured Finance Division
  - (Syndications Office)
- Derivative & Structured Products Division
  - (Trading Office)
  - (ASEAN Derivative Office)
  - (Securitization Office)

Asset Management Business Unit

- Asset Management Business Division (Pension & Trust Services Office)
- Global Securities Services Division

UNBC Business Unit

- Union Bank of California, N.A.

Operations Services Unit

- Operations Division
  - Tokyo Operations Center
  - Osaka Operations Center
  - Operations Unit
  - Consumer Loan Administration Center
- Global Service Banking Division
  - (Settlement Strategy Office)
  - (Economic Cooperation Office)

Systems Services Unit

- Systems Division (Systems Planning Office)
- Data Processing Center

Retail Banking Planning Office
(Customer Services Office)
(Branch Network Reorganization Project Office)
Retail Banking Human Resources Office

Commercial Banking Planning Office
(Branch Network Reorganization Project Office)
Commercial Banking Human Resources Office

Global Corporate Banking Planning Office
Global Corporate Banking Human Resources Office
Global Corporate Banking IT Planning Office
International Business Division
(International Business Development Office)

Investment Banking Planning Office
(Investment Banking Human Resources Office)
Investment Banking Administration Division
(Investment Banking Operations & IT Planning Office)

Asset Management Planning Office

Operations Services Planning Office
Filing & Printing Center

Tama Data Center

General Meeting of Shareholders

Treasury Unit

Treasury Planning Office
(Treasury IT Planning Office)
Treasury & Investment Division
Foreign Exchange & Treasury Division
(Treasury Office for the Americas)
(European Treasury Office)
(ASEAN Treasury Office)
(East Asian Treasury Office)
Securities Investment Division
Treasury Operations Division

eBusiness & IT Initiatives Unit

eBusiness & IT Initiatives Division
(IT Solution Office)
(eFinancial Services Office)
(Electronic Banking Office)

Corporate Management

Board of Directors

Executive Committee

Board of Corporate Auditors

Corporate Auditors

Corporate Center

Secretariat
General Affairs Office
(Kansai General Affairs Office)
Human Resources Office
Career Development Center
Corporate Planning Office
(Integration Planning Office)
Public Relations Office
(Corporate Philanthropy Office)
Research Office
Corporate Risk Management Office
(Information Security Management Office)
Credit Policy Office
Legal Office
Inspection Office
(North American Audit Office)
(European Audit Office)
Examination Office
(Business Examination Office)
(Credit Examination Office)
(Compliance Office)

CORPORATE MANAGEMENT

As of June 30, 2000

Chairman of the Board

Satoru Kishi

Deputy Chairman

Kenji Yoshizawa

President

Shigemitsu Miki

Deputy President

Shin Nakahara

Senior Managing Directors

Yasuyuki Hirai
Tetsuo Shimura
Hiroshi Watanabe
Masamichi Yamada

Managing Directors

Nobuo Kuroyanagi
Takuo Oi
Setsuo Uno
Yasumasa Gomi
Tatsunori Imagawa
Yasuhiko Nakanishi
Haruo Kimura
Asataro Miyake
Takahiro Moriguchi
Naotaka Obata
Akira Okuhata
Masayuki Tanaka
Akira Katayanagi
Masaharu Hamakawa
Ichiro Terato

Directors

Norimichi Kanari
Kenichi Masuda
Shunichi Tokuda
Yoshihiro Watanabe
Yukihiko Miyoshi
Ryuichi Murata
Yoshinobu Onishi
Shota Yasuda
Yasumasa Karaki
Tetsuo Iwata
Kyota Ohmori
Tadashi Yanagisawa
Fumiyuki Akikusa
Tsutomu Tanaka
Yutaka Nishizawa
Saburo Sano
Noboru Takeuchi
Izumi Tamai
Akira Tomioka

Corporate Auditors

Ryuichi Ohno (full-time)
Yoshikazu Takagaki (full-time)
Takashi Uno (full-time)
Takao Wada (full-time)
Shunji Kono
Kenjiro Hata

As of June 1, 2000

Principal Domestic Subsidiaries and Affiliates	Location	Main Business
Nippon Trust Bank Limited	Tokyo, Japan	Commercial banking and trust services
Tokyo-Mitsubishi Securities Co., Ltd.	Tokyo, Japan	Securities
Tokyo Trust Bank, Ltd.	Tokyo, Japan	Commercial banking and trust services
Tokyo-Mitsubishi Asset Management, Ltd.	Tokyo, Japan	Investment management and investment trust services

BTM also has domestic subsidiaries and affiliates providing factoring, leasing, credit card, and other services.

Overseas Operations

North America	Location	Main Business
New York Branch	New York, U.S.A.	Commercial banking
Atlanta Agency	Atlanta, U.S.A.	Commercial banking
San Francisco Branch	San Francisco, U.S.A.	Commercial banking
Los Angeles Branch	Los Angeles, U.S.A.	Commercial banking
Chicago Branch	Chicago, U.S.A.	Commercial banking
Minnesota Corporate Banking Office	Minneapolis, U.S.A.	Loan production
Portland Branch	Portland, U.S.A.	Commercial banking
Seattle Branch	Seattle, U.S.A.	Commercial banking
Houston Agency	Houston, U.S.A.	Commercial banking
Dallas Corporate Banking Office	Dallas, U.S.A.	Loan production
Washington, D.C. Representative Office	Washington, D.C., U.S.A.	
UnionBanCal Corporation	San Francisco, U.S.A.	Holding services
Union Bank of California, N.A.	San Francisco, U.S.A.	Commercial banking and trust services
Bank of Tokyo-Mitsubishi Trust Company	New York, U.S.A.	Commercial banking and trust services
Tokyo-Mitsubishi Securities (USA), Inc.	New York, U.S.A.	Securities
BTM Leasing & Finance, Inc.	New York, U.S.A.	Leasing
BTM Information Services, Inc.	Jersey City, U.S.A.	Banking operational services
BTM Capital Corporation	Boston, U.S.A.	Leasing
Tokyo-Mitsubishi Futures (USA), Inc.	Chicago, U.S.A.	Futures
BTM North America International, Inc.	Dover, U.S.A.	Holding services
Bank of Tokyo-Mitsubishi (Canada)	Toronto, Canada	Commercial banking

Latin America	Location	Main Business
Panama Branch	Panama	Commercial banking
Cayman Branch	Cayman Islands	Commercial banking
Santiago Branch	Santiago, Chile	Commercial banking
Buenos Aires Branch	Buenos Aires, Argentina	Commercial banking
Mexico City Representative Office	Mexico City, Mexico	
Caracas Representative Office	Caracas, Venezuela	
Bogotá Representative Office	Bogotá, Colombia (c/o Caracas Representative Office)	
Rio de Janeiro Representative Office	Rio de Janeiro, Brazil	
BTM Cayman Finance Ltd.	Cayman Islands	Financing
BTM (Curaçao) Holdings N.V.	Curaçao, Netherlands Antilles	Holding and finance services
BTM Finance (Curaçao) N.V.	Curaçao, Netherlands Antilles	Financing
Bank of Tokyo-Mitsubishi (Mexico) S.A.	Mexico City, Mexico	Commercial banking
Banco de Tokyo-Mitsubishi Brasil S/A	São Paulo, Brazil	Commercial banking
Distribuidora BTM de Titulos e Valores Mobiliarios S/A	São Paulo, Brazil	Securities sales
BTM Leasing do Brasil S/A Arrendamento Mercantil	São Paulo, Brazil	Leasing
Empreendimentos BTM S/C Ltda.	São Paulo, Brazil	Real estate management
BTM Participaçoes e Empreendimentos S/A	São Paulo, Brazil	Investment

Europe	Location	Main Business
London Branch	London, U.K.	Commercial banking
Birmingham Sub-Branch	Birmingham, U.K.	Commercial banking
Paris Branch	Paris, France	Commercial banking
Brussels Branch	Brussels, Belgium	Commercial banking
Hamburg Branch	Hamburg, Germany	Commercial banking
Düsseldorf Branch	Düsseldorf, Germany	Commercial banking
München Sub-Branch	München, Germany	Commercial banking
Frankfurt Branch	Frankfurt, Germany	Commercial banking
Milano Branch	Milano, Italy	Commercial banking
Madrid Branch	Madrid, Spain	Commercial banking
Barcelona Sub-Branch	Barcelona, Spain	Commercial banking
Lisbon Branch	Lisbon, Portugal	Commercial banking
Berlin Representative Office	Berlin, Germany	
Moscow Representative Office	Moscow, Russia	

Europe *(cont.)*	Location	Main Business
Tokyo-Mitsubishi International plc	London, U.K.	Capital markets and derivative products
Tokyo-Mitsubishi Asset Management (UK) Ltd.	London, U.K.	Investment advisory services
Bank of Tokyo-Mitsubishi (Holland) N.V.	Amsterdam, Netherlands	Commercial banking and securities
Bank of Tokyo-Mitsubishi (Luxembourg) S.A.	Luxembourg, Luxembourg	Commercial banking and trust services
Bank of Tokyo-Mitsubishi (Switzerland) Ltd.	Zürich, Switzerland	Commercial banking and securities
Bank of Tokyo-Mitsubishi (Deutschland) AG	Frankfurt, Germany	Commercial banking and securities
BTM Lease (Deutschland) GmbH	Düsseldorf, Germany	Leasing
BTM Finanziaria (Italia) S.p.A.	Milano, Italy	Financing
BTM Securities (Spain) S.A. S.V.B.	Madrid, Spain	Securities

Middle East and Africa	Location	Main Business
Bahrain Branch	Manama, Bahrain	Commercial banking
Istanbul Representative Office	Istanbul, Turkey	
Cairo Representative Office	Cairo, Egypt	
Tehran Representative Office	Tehran, Iran	
Abu Dhabi Representative Office	Abu Dhabi, U.A.E.	
Nairobi Representative Office	Nairobi, Kenya	
Johannesburg Representative Office	Johannesburg, South Africa	

Asia and Oceania	Location	Main Business
Karachi Branch	Karachi, Pakistan	Commercial banking
Bombay Branch	Mumbai, India	Commercial banking
New Delhi Branch	New Delhi, India	Commercial banking
Calcutta Branch	Calcutta, India	Commercial banking
Chennai Branch	Chennai, India	Commercial banking
Bangkok Branch	Bangkok, Thailand	Commercial banking
PIBF Chon Buri Branch	Chon Buri, Thailand	Commercial banking
PIBF Chiang Mai Branch	Chiang Mai, Thailand	Commercial banking
PIBF Ayutthaya Branch	Ayutthaya, Thailand	Commercial banking
Ho Chi Minh City Branch	Ho Chi Minh City, Vietnam	Commercial banking
Hanoi Branch	Hanoi, Vietnam	Commercial banking
Labuan Branch	Labuan, Malaysia	Offshore lending
Kuala Lumpur Marketing Office	Kuala Lumpur, Malaysia	Offshore lending

Asia and Oceania *(cont.)*	Location	Main Business
Singapore Branch	Singapore	Commercial banking
Jurong Sub-Branch	Singapore	Deposit taking
Jakarta Branch	Jakarta, Indonesia	Commercial banking
Surabaya Sub-Branch	Surabaya, Indonesia	Commercial banking
Bandung Sub-Branch	Bandung, Indonesia	Commercial banking
Bekasi Service Point	Bekasi, Indonesia	Deposit taking
Manila Branch	Manila, Philippines	Commercial banking
Beijing Branch	Beijing, PRC	Commercial banking
Tianjin Branch	Tianjin, PRC	Commercial banking
Shanghai Branch	Shanghai, PRC	Commercial banking
Shenzhen Branch	Shenzhen, PRC	Commercial banking
Dalian Branch	Dalian, PRC	Commercial banking
Hong Kong Branch	Hong Kong	Commercial banking
Kowloon Branch	Hong Kong	Commercial banking
East Tsim Sha Tsui Sub-Branch	Hong Kong	Deposit taking
Taipei Branch	Taipei, Taiwan	Commercial banking
Seoul Branch	Seoul, Korea	Commercial banking
Busan Branch	Busan, Korea	Commercial banking
Dhaka Representative Office	Dhaka, Bangladesh	
Yangon Representative Office	Yangon, Myanmar	
Guangzhou Representative Office	Guangzhou, PRC	
Chengdu Representative Office	Chengdu, PRC	
Wuxi Representative Office	Wuxi, PRC	
BTM Finance and Securities (Thailand) Ltd.	Bangkok, Thailand	Financing and securities
BTM Holding (Thailand) Co., Ltd.	Bangkok, Thailand	Investment
BTM Leasing (Thailand) Co., Ltd.	Bangkok, Thailand	Leasing
Bank of Tokyo-Mitsubishi (Malaysia) Berhad	Kuala Lumpur, Malaysia	Commercial banking
Tokyo-Mitsubishi International (Singapore) Ltd.	Singapore	Investment banking
Sime Diamond Leasing (Singapore) Pte. Limited	Singapore	Leasing
Tokyo-Mitsubishi International (HK) Ltd.	Hong Kong	Investment banking
Kincheng-Tokyo Finance Company Limited	Hong Kong	Financing
Worldsec International Limited	Hong Kong	Securities (mainly Asian equities)
BTM Nominees (HK) Ltd.	Hong Kong	Nominee services
Nanjing International Leasing Co., Ltd.	Nanjing, PRC	Leasing
Bank of Tokyo-Mitsubishi (Australia) Ltd.	Sydney, Australia	Commercial banking

BTM's global network also includes 316 offices in Japan.