MTFG

Mitsubishi Tokyo Financial Group

Bank of Tokyo-Mitsubishi

THE MITSUBISHI TRUST
AND BANKING CORPORATION

NTB NIPPON TRUST BANK

ANNUAL REPORT 2001

Corporate Profiles

Mitsubishi Tokyo Financial Group, Inc.

Mitsubishi Tokyo Financial Group, Inc., is a holding company established on April 2, 2001, to oversee the operations of the Bank of Tokyo-Mitsubishi, Ltd. (BTM), the Mitsubishi Trust and Banking Corporation (MTBC), Nippon Trust Bank Limited (NTB), and their subsidiaries. Its primary responsibilities center on facilitating business synergies among the entities of the Mitsubishi Tokyo Financial Group, on setting the Group's overall strategic directions, and on managing the Group's risk globally. Shares of MTFG trade on the Tokyo, Osaka, New York (NYSE ticker: MTF), and London stock exchanges.

The Bank of Tokyo-Mitsubishi, Ltd.

BTM is Japan's premier bank. Through its Group, it offers an extensive scope of commercial, investment, and trust banking products and services to businesses, governments, and individuals worldwide. BTM's domestic network comprises more than 300 branches, sub-branches, and agencies. Its overseas operations consist of approximately 400 facilities located in all the major financial and commercial centers of the world.

The Mitsubishi Trust and Banking Corporation

MTBC has evolved into one of Japan's foremost financial institutions. It provides a full array of trust and banking offerings to meet the long-term financing and investment needs of clients in Japan and around the world. MTBC is a top provider of pension, asset management, fiduciary, real estate, stock transfer agency, and additional services for retail and corporate customers. In October 2001, MTBC is scheduled to become the surviving entity following its planned merger with NTB and the Tokyo Trust Bank, Ltd.

Nippon Trust Bank Limited

NTB is a leading, full-service trust bank in Japan. As a trust business within the BTM Group, NTB has concentrated on pension trust, securities, real estate, property management, and stock transfer agency services. It works closely with BTM to jointly develop products and services and to share functions that enhance mutual synergies.

Contents

Financial Highlights *(U.S. GAAP)*

Mitsubishi Tokyo Financial Group, Inc.

Selected pro forma combined financial data[1]
Yen: in billions except per share data
U.S. dollars: in millions except per share data

	Years ended March 31,		
	2001		2000
	Yen	**U.S. Dollars**[2]	Yen
Net interest income	**¥ 972**	**$ 7,745**	¥ 1,080
Net loss	**(57)**	**(450)**	(48)
Amounts per share:			
Loss per common share—basic	**(11,797.27)**	**(93.97)**	(9,663.81)
Loss per common share—assuming dilution	**(11,797.27)**	**(93.97)**	(9,663.81)
At March 31:			
Total assets	**93,489**	**744,695**	84,996
Shareholders' equity	**3,201**	**25,500**	4,014

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

Net interest income	**¥ 797**	**$ 6,346**	¥ 886
Net income (loss)	**(108)**	**(858)**	35
At March 31:			
Total assets	**76,377**	**608,387**	68,817

Financial results of Nippon Trust Bank Limited are included in those of the Bank of Tokyo-Mitsubishi, Ltd.

The Mitsubishi Trust and Banking Corporation, and Subsidiaries

Net interest income	**¥ 177**	**$ 1,407**	¥ 194
Net income (loss)	**37**	**294**	(83)
At March 31:			
Total assets	**17,773**	**141,575**	16,590

Note 1: *The selected financial data set forth above have been derived from unaudited pro forma combined financial statements, which present the combined results of the Bank of Tokyo-Mitsubishi, Ltd. and the Mitsubishi Trust and Banking Corporation, as if the merger of those banks had been in effect for all periods presented.*

Note 2: *The U.S. dollar amounts represent translations, for the convenience of readers, of yen amounts at the rate of ¥125.54 = US$1, the noon buying rate in New York City for cable transfers in yen as certified for customs purposes by the Federal Reserve Bank of New York on March 30, 2001.*

Message from Management

We are proud to present the inaugural annual report of Mitsubishi Tokyo Financial Group, Inc., and its subsidiaries (collectively, "MTFG" and "the Group"). There is much to report, and we wish to share our excitement for the future of our organization with you, our shareholders and clients.

In a world marked by consolidation, rapid innovation, and demand for topflight solutions, financial institutions must evolve to lead. They must draw on the full abilities of their people to anticipate challenges and to consistently exceed client demands. And without exception, they must maintain exceptionally solid financial bases to underpin their strength.

Our organization, MTFG, derives much of its power from these concepts. At the same time, we are determined to build on our leadership to stay abreast of change and to remain ahead of our competition. This annual report offers a thorough examination of the strategies and initiatives that we are putting in place to extend our advantages as a premier banking group in Japan and around the world.

MTFG is committed to achieving much more than scale. We strive to intelligently pool the strengths of our member institutions to deliver unparalleled financing capabilities to retail, corporate, institutional, and governmental clients. In all it does, MTFG emphasizes rigorous client focus, optimal operating efficiency, and strict risk management.

Financial institutions must evolve to lead.

The establishment of MTFG on April 2, 2001, was a critical first step for our member banks: the Bank of Tokyo-Mitsubishi, Ltd. (BTM), the Mitsubishi Trust and Banking Corporation (MTBC), and Nippon Trust Bank Limited (NTB). The formation of a holding company structure laid a solid foundation for the three banks to mutually improve and expand their businesses. More broadly, it also provided the Japanese financial industry overall with a powerful new blueprint for growth in an evolving global marketplace.

The second phase in our development is planned for October 2001, when MTBC, NTB, and the Tokyo Trust Bank, Ltd., a wholly owned subsidiary of BTM, merge to become a unified trust banking organization under the MTBC name. Looking ahead, we are contemplating a range of initiatives to further build on the Group's ability to offer first-rate solutions and returns.

Combined fiscal 2000 performance

Fiscal 2000, ended March 31, 2001, marked the final year that BTM, MTBC, and NTB operated outside the holding company structure as publicly listed entities. This annual report, therefore, provides the combined Group's year-on-year performance on a pro forma basis, together with financial results and operating highlights for our member banks.

In fiscal 2000, MTFG's combined interest and non-interest income increased ¥557.5 billion, to ¥3.2 trillion. This 20.8% increase from the previous fiscal year was primarily driven by growth in trading account profits, which incurred a loss in fiscal 1999. We are particularly gratified to note that fees and commissions, an area of focus at MTFG, increased 24.4%, to ¥459.4 billion, in the period under review. This increase was chiefly the result of BTM's consolidation of DC Card Co., Ltd., a consumer credit card company, in March 2000.

Akio Utsumi, Chairman & Co-CEO (left), *and Shigemitsu Miki, President & Co-CEO*

Non-interest expenses, meanwhile, decreased 7.9%, to ¥1.1 trillion, during the period. While the consolidation of DC Card boosted expenses, a decline in salaries and employee benefits combined with a decrease in losses on other real estate owned served to offset that increase.

The Group took a considerably more aggressive stance toward the management of nonperforming loans and other credit risks in fiscal 2000 because of continued economic weakness in Japan. On a combined basis, the Group increased its provision for credit losses by ¥424.6 billion, to ¥797.1 billion, to strengthen reserves against credit claims and recorded net loan charge-offs of ¥598.4 billion during the year.

Overall, fiscal 2000 saw MTFG record a combined net loss of ¥56.5 billion, compared with a net loss of ¥47.5 billion the prior year. We are disappointed with this bottom line, but we are heartened by the solid growth achieved in our core businesses and in our operating earnings, because they underline the potential synergies within our Group. We furthermore believe that steps taken by the Group in fiscal 2000 to address credit issues have enabled us to move more aggressively in the year ahead as we complete our integration and reap the benefits of being a financially robust organization.

Message from Management

MTFG's Strategic Advantages

We are excited by MTFG's prospects and foresee solid growth opportunities in the near and long term. We base our assessment on a series of unique strategic advantages that enable the Group to quickly achieve, and flexibly sustain, dominance in key domestic and international businesses.

Central control and specialized businesses. MTFG draws on its individual member institutions' leadership in core business areas. We believe, though, that the Group benefits most from a holding company structure that enables each of its subsidiaries to focus on, and fully develop, its natural strengths. Thus, BTM and MTBC will concentrate on an even deeper implementation of their respective business strategies, Mission 21 and Leading Trust Bank 21, while MTFG, the holding company, will work to develop Group synergies and new business opportunities. Importantly, the holding company also effects centralized global risk management to boost the Group's financial strength.

The Group benefits most from a structure that lets each of its subsidiaries focus on its strengths.

Minimal overlap. Unique among Japanese financial groups, MTFG benefits from minimal operational overlap among its core operating subsidiaries. This will be particularly the case once the October 2001 trust bank unification is complete. We believe that our lack of the costs normally associated with wide-scale reorganizations and branch combinations and closures enables MTFG to expand its business and to achieve growth substantially faster and more efficiently than its competitors.

Complementary businesses. Upon full integration, the Group will have complementary strengths in high-growth areas, such as retail, commercial, trust, and investment banking, as well as in asset management. Each of these businesses holds significant potential for cross-client marketing. An intelligent sharing of client bases will enhance synergies and contribute to growth in MTFG's overall business flow.

For instance, BTM and the unified MTBC will leverage their leadership positions in commercial banking and trust banking to cross market products and services to their unrivaled client bases. BTM can introduce MTBC's top-ranked trust banking products, including real estate broking, testamentary services, and financial planning, to its profitable and growing segment of high net worth retail banking clients. In turn, MTFG's vast corporate client base can rely on the Group for solutions that combine BTM's and MTBC's investment, commercial, and trust banking capabilities.

Asset management is an enormous opportunity for the Group. A newly unified MTBC will manage approximately ¥14 trillion in assets. As investment requirements multiply, Group institutions will work together to develop global pension and investment products and to share marketing channels.

Comprehensive and well-balanced business portfolio. Each of the Group institutions boasts leadership positions across a full range of business areas set to grow considerably. BTM's retail banking business leads Japan, and its list of corporate banking clients is one of Japan's largest. A global network in every major city and country of the world also sets BTM apart from its competitors. MTBC, already Japan's top trust bank, will become more formidable at unification. MTBC's pension, asset management, real estate, and testamentary businesses are first-rate and well positioned to grow in tandem with vast social and economic changes in Japan.

A formula for success

MTFG's built-in advantages—minimal business overlap, speedy and low-cost integration, complementary businesses and customer bases, and unrivaled leadership in critical areas—yield a powerful formula for growth. Most importantly, these strengths enable the Group to cohesively offer clients around the world first-rate solutions, reach, and expertise that help them tackle today's and tomorrow's challenges. To fully unleash this potential, we have identified a series of specific initiatives aimed at fostering natural synergies and at creating and maintaining financial health that will serve to underpin the Group's efforts.

Initiatives to Enhance Competitiveness

Foster synergies. Nothing is more important to the success of MTFG than the speedy leveraging of synergies and natural strengths within the Group. The prompt introduction of BTM's corporate and retail clients to the services of MTBC is therefore critical. Thankfully, we can draw on the successful steps that BTM and NTB have already taken to develop synergies among their operations. That expertise puts the Group at a distinct advantage as it sets its sights on developing greater cooperation between BTM and the unified MTBC in the months and years ahead.

Specialized sections will be established within MTBC to handle pension, real estate, and stock transfer agency duties for BTM's corporate clients. MTBC will also offer new private banking sections for individual real estate and testamentary trust operations. In asset management, meanwhile, BTM and MTBC will jointly research and develop products and share back-office processing functions. And in investment banking, the two institutions will cooperate on pre- and post-public offering businesses and on real estate securitization.

Nothing is more important to MTFG's success than the speedy leveraging of synergies within the Group.

Message from Management

Establish a sound financial base. In addition to maintaining a strong focus on the Group's nonperforming loans, we are initiating a series of steps to bolster our financial base. Following are our principal goals and the markers by which we will evaluate our progress.

Unify risk management across the Group. A chief MTFG goal is the global introduction of substantially heightened risk awareness and management. MTFG measures Group risk by using the value at risk (VaR) method and stress and back testing to ensure that all operations conform to Bank for International Settlements (BIS) regulations.

MTFG has set up a dedicated Corporate Risk Management Division that sets and enforces single standards across the Group for credit, market, liquidity, operations, and information security risk. In the area of credit risk, for instance, MTFG has established a rigorous policy for the self-assessment of assets, write-offs, and reserves against credit losses. It will also establish a uniform credit rating. Furthermore, by fiscal 2003 MTFG aims to have reduced the aggregate value of its member banks' equity investments by at least ¥1.2 trillion.

A Corporate Risk Management Committee meets once every three months to evaluate the Corporate Risk Management Division's activities and to report to senior management on progress and issues. We urge you to examine the detailed information on this subject that is presented later in this annual report.

Boost and diversify revenues. Substantial revenue growth is of particular importance to the Group as it seeks to increase earnings. In addition to traditional sources of income, MTFG sees notable opportunities for growth in the rapidly expanding fee-generating businesses. These include fiduciary asset management, stock transfer agency services, real estate broking, and investment banking. Specifically, we target a groupwide ¥145 billion increase in fee income by fiscal 2003.

In pursuit of our revenue objective, we are reallocating exceptionally talented staff within our Group to strengthen areas that have strong revenue growth potential. This strategic application of human resources is aimed at developing a strong cadre of specialists within MTFG, as opposed to a generalist training and development approach.

Increase operating profits in retail banking. Retail banking offers enormous potential for expansion. By broadening the services offered to BTM's private banking clients and by more fully developing information technology (IT) strategies to enlarge our customer base, we seek to substantially boost our net retail banking operating profit by ¥120 billion. Our target assumes a strengthening of our sale of home loans, investment trusts, and foreign currency deposits and a rise in market interest rates. We also expect the planned liberalization of insurance product marketing in fiscal 2002 to benefit our retail results.

MTFG listed on the New York Stock Exchange on April 2, 2001.

Improve the risk-return profile of the Group's loan portfolio. MTFG seeks to optimize its risk-adjusted return on assets, from 0.3% today to approximately 0.8%, primarily by repricing its loan assets and by restructuring its loan portfolio. In addition, MTFG seeks to reduce its credit costs to around ¥170 billion by fiscal 2003, equal to approximately 40 basis points on MTFG's current outstanding loan balance.

Develop and leverage IT in high-growth areas. Substantial business opportunities present themselves to banking institutions that leverage state-of-the-art IT in areas that do not yet fully apply technology. In Japan, the Group has targeted front- and back-office asset management operations, high net worth client businesses, and corporate solutions. We will also use IT to strengthen our price competitiveness in retail channels like BTM's Tokyo-Mitsubishi Direct and to better mass market other retail services. Additionally, to reduce costs, maximize efficiency, and build on its international operations, BTM is fully renovating its operational systems abroad. Overall, from fiscal 2000 through fiscal 2003, we plan to invest ¥550 billion to ¥600 billion on a Group basis to enhance our IT infrastructure. Yet cost reductions gleaned through the upcoming trust bank merger and the sharing of office and system resources will help to offset our increased IT expenses.

Maintain strict corporate governance and transparency. Maintaining the objectivity and transparency of corporate decisions is a priority at MTFG. Along these lines, we are implementing strict corporate governance. We have, for instance, invited outside directors to join MTFG's board of directors, while BTM and MTBC are similarly reforming their boards. We are also putting into place a Compliance Advisory Committee of outside lawyers, accountants, and business executives to monitor our management of MTFG. MTFG's distinction, meanwhile, as the only Japanese banking group listed on the New York Stock Exchange subjects it to that market's disclosure rules and therefore brings more transparency to our operations and results than those of our competitors.

Message from Management

The Years Ahead

Many challenges lie ahead for the Group and for the global banking industry. Our organization is nevertheless ideally positioned to respond to and to capitalize on those challenges. It has a solid strategy to achieve substantial, sustainable growth and to reach its global potential. Contingent upon a range of uncertain factors, including worldwide stock market performance, global economic growth, and a turnaround in the domestic economy, we have set a range of financial targets for MTFG to achieve by no later than fiscal 2003. These targets, which are based on Japanese generally accepted accounting principles (Japanese GAAP), include consolidated net profit of ¥490 billion and return on equity of approximately 12%. We also expect our BIS capital ratio and Tier 1 ratio to rise to about 12% and 7.5%, respectively.

Such levels of growth and efficiency may at first glance look ambitious. But we are convinced that MTFG's strategic advantages and growth initiatives, as outlined, put it on the road to achieving these goals substantially faster than its competitors.

To you, our shareholders and clients, we extend our sincerest appreciation for your ongoing support. We look forward to regularly reporting to you on our progress.

Fiscal 2003 targets *(Japanese GAAP)*	
Consolidated gross operating profit	¥2,080 billion
Consolidated net operating profit*	¥1,030 billion
Consolidated net profit	¥490 billion
Ratio of costs to gross revenue**	44%
Consolidated ROE	Approx. 12%
BIS capital ratio	Approx. 12%
Tier 1 ratio	Approx. 7.5%

*Consolidated net operating profit (prior to trust account depreciation and bad debt reserve)

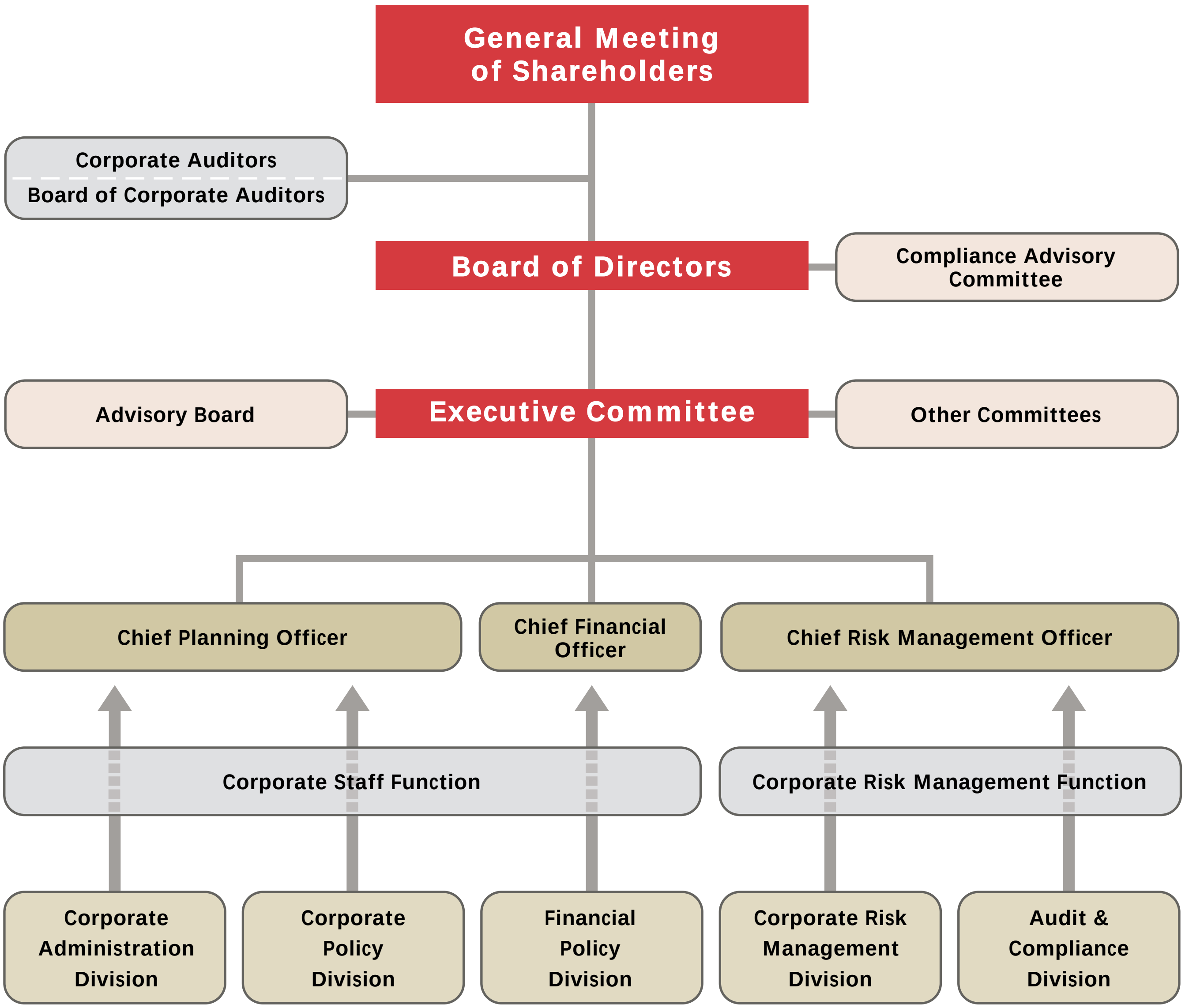
**Total costs divided by the gross operating profit of BTM (nonconsolidated) and of MTBC (nonconsolidated, prior to trust accounting depreciation)

Benefits in fiscal 2003 vs. fiscal 1999 results *(Japanese GAAP)*	¥ billions
Gross operating profit	+32
Savings from cost reductions	+11
Cost increases	-3
Total benefit from integration synergies	**+40**

Akio Utsumi
Chairman & Co-CEO

Shigemitsu Miki
President & Co-CEO

Organization



Global Network *(As of June 1, 2001)*

MTFG delivers global reach. The Group has the broadest international network among its Japanese peers. Covering 45 countries and territories on six continents, MTFG's network gives its customers access to all the world's major financial markets and key developing regions. An extensive reach is a core resource for MTFG as it services its growing global customer base.

Europe, the Middle East, and Africa

London
Birmingham
Dublin
Paris
Brussels
Düsseldorf
Munich
Frankfurt
Hamburg
Berlin
Milan
Madrid
Barcelona
Lisbon
Moscow
Amsterdam
Luxembourg
Zürich
Bahrain
Istanbul
Cairo
Tehran
Abu Dhabi
Nairobi
Johannesburg

Asia and Oceania

Karachi
Mumbai
New Delhi
Calcutta
Chennai
Dhaka
Yangon
Bangkok
Chon Buri
Chiang Mai
Ayutthaya
Labuan
Kuala Lumpur
Singapore
Jakarta
Surabaya
Bandung
Bekasi

Japan

MTFG's network in Japan includes 382 branches, offices, and agencies.

- The Bank of Tokyo-Mitsubishi, Ltd.
- The Mitsubishi Trust and Banking Corporation

Manila
Ho Chi Minh City
Hanoi
Beijing
Tianjin
Shanghai
Dalian
Shenzhen
Guangzhou
Chengdu
Wuxi
Nanjing
Hong Kong
Taipei
Seoul
Busan
Sydney

The Americas

New York
Atlanta
Chicago
Minnetonka
Portland
Seattle
San Francisco
Los Angeles
Houston
Dallas
Washington, D.C.
Greenwich
Jersey City
Boston
Toronto
Mexico City
Panama
Santiago
Buenos Aires
Caracas
Bogotá
São Paulo
Rio de Janeiro
Cayman Islands
Curaçao
Aruba

Corporate Management *(As of July 1, 2001)*

■ *Member of the Board of Directors*

Mitsubishi Tokyo Financial Group, Inc.

■ Akio Utsumi	Chairman & Co-CEO	Yoshikazu Takagaki	Corporate Auditor (full-time)
■ Shigemitsu Miki	President & Co-CEO	Yousuke Serizawa	Corporate Auditor (full-time)
■ Hiroshi Watanabe	Senior Managing Director	Takashi Uno	Corporate Auditor
■ Setsuo Uno	Senior Managing Director	Mitsuo Minami	Corporate Auditor
■ Tadahiko Fujino	Senior Managing Director	Takeo Imai	Corporate Auditor
■ Tatsunori Imagawa	Director		
■ Hajime Sugizaki	Director		
■ Masaharu Hamakawa	Director		
■ Katsunori Nagayasu	Director		
■ Koukei Higuchi	Director		
■ Ryoutaro Kaneko	Director		

The Bank of Tokyo-Mitsubishi, Ltd.

■ Satoru Kishi	Chairman of the Board	Tadashi Yanagisawa	Director
■ Kenji Yoshizawa	Deputy Chairman	Fumiyuki Akikusa	Director
■ Shigemitsu Miki	President	Tsutomu Tanaka	Director
■ Tetsuo Shimura	Deputy President	Yutaka Nishizawa	Director
■ Masamichi Yamada	Senior Managing Director	Saburo Sano	Director
■ Yasumasa Gomi	Managing Director	Noboru Takeuchi	Director
■ Tatsunori Imagawa	Managing Director	Izumi Tamai	Director
■ Takahiro Moriguchi	Managing Director	Akira Tomioka	Director
■ Masayuki Tanaka	Managing Director	Hiroshi Egami	Director
■ Masaharu Hamakawa	Managing Director	Toshihiro Kashizawa	Director
■ Ichiro Terato	Managing Director	Seiji Naito	Director
■ Norimichi Kanari	Managing Director	Tatsuo Tanaka	Director
■ Shunichi Tokuda	Managing Director	Toshiro Toyoizumi	Director
Nobuo Kuroyanagi	Managing Director	Ryusaburo Harasawa	Director
Takuo Oi	Managing Director	Nobuyuki Hirano	Director
Yasuhiko Nakanishi	Managing Director	Akira Naito	Director
Haruo Kimura	Managing Director	Yuichi Shono	Director
Asataro Miyake	Managing Director	Tsutomu Sugiyama	Director
Naotaka Obata	Managing Director		
Akira Katayanagi	Managing Director	Ryuichi Ohno	Corporate Auditor (full-time)
Yoshihiro Watanabe	Managing Director	Yutaka Hasegawa	Corporate Auditor (full-time)
Yukihiko Miyoshi	Director	Takashi Uno	Corporate Auditor (full-time)
Ryuichi Murata	Director	Takao Wada	Corporate Auditor (full-time)
Yoshinobu Onishi	Director	Yoshikazu Takagaki	Corporate Auditor
Shota Yasuda	Director	Mitsuo Minami	Corporate Auditor
Tetsuo Iwata	Director	Ichiro Nagaishi	Corporate Auditor
Kyota Ohmori	Director		

The Mitsubishi Trust and Banking Corporation

■ Toyoshi Nakano	Chairman
■ Akio Utsumi	President
■ Noriyoshi Yamaguchi	Deputy President
■ Haruya Uehara	Senior Managing Director
■ Hajime Sugizaki	Senior Managing Director
■ Yoshifumi Ohno	Senior Managing Director
■ Yuji Ohashi	Managing Director
■ Toshio Koyama	Managing Director
■ Kunichiro Adachi	Managing Director
■ Ryujiro Yagasaki	Managing Director
Tetsuo Hachiro	Managing Director
Akira Fujii	Managing Director
Noriaki Hanamizu	Managing Director
Fujio Higaki	Director
Michio Hoshino	Director
Masanobu Umemura	Director
Shinichi Ono	Director
Yoshiki Kamada	Director
Akira Nakamura	Director
Hiroshi Kakegawa	Director
Yasushi Okada	Director
Teisuke Ochi	Director
Koji Kaihotsu	Director
Osamu Tsugawa	Director
Kinya Okauchi	Director
Yuji Suzuki	Director
Yuji Matsuda	Director
Tadashi Ishizuka	Corporate Auditor (full-time)
Hiroaki Nakajima	Corporate Auditor (full-time)
Yousuke Serizawa	Corporate Auditor
Jotaro Takagi	Corporate Auditor
Kazuhiko Matsui	Corporate Auditor

Nippon Trust Bank Limited

■ Tomoaki Hirano	Chairman
■ Isao Itoga	President
■ Yuzo Morio	Senior Managing Director
■ Tetsuya Nakasuji	Managing Director
■ Yoshihiko Momoi	Managing Director
■ Junichi Ichikawa	Managing Director
■ Katsunori Nagayasu	Managing Director
■ Mineo Onuki	Director
■ Yoshiki Mori	Director
■ Jun Sumita	Director
Kouichi Saiki	Corporate Auditor (full-time)
Toshihiro Suzuki	Corporate Auditor (full-time)
Minoru Doshida	Corporate Auditor
Keishi Fukuma	Corporate Auditor

Bank of Tokyo-Mitsubishi

Review of Operations

Organization

Review of Operations

Fiscal 2000 results

The Bank of Tokyo-Mitsubishi, Ltd. (BTM), and its consolidated subsidiaries (BTM Group) recorded a consolidated net loss of ¥107.7 billion in fiscal 2000, compared with net income of ¥35.5 billion in the prior fiscal year. Net interest income declined 10.1% from the previous year, to ¥796.7 billion.

The Bank's fiscal 2000 performance was impacted primarily by an increase in its credit loss provision to ¥666.0 billion, from ¥368.6 billion the year before. BTM took this aggressive step in the face of continued domestic economic weakness and to best prepare for integration into MTFG. At March 31, 2001, BTM's risk-adjusted capital ratio, calculated using Japanese GAAP, stood at 9.69%, compared with 11.46% one year earlier.

Implementation of Mission 21

Throughout fiscal 2000, the BTM Group put considerable effort into implementing Mission 21, the comprehensive business strategy unveiled in September 1999. The Bank introduced a new business unit system in July 2000 and completed redesign of its domestic branch network in May the following year.

Going forward, BTM is focusing on its Second Long-Term Business Plan, which was introduced in September 2000. The core challenge of the plan is to ensure that Mission 21 reforms are fully leveraged in order to maximize the Bank's competitive advantages.

Global Corporate Banking Business Unit

The Global Corporate Banking Business Unit serves the worldwide financial needs of Japanese and non-Japanese corporations by utilizing BTM's global and domestic networks. The unit works closely with BTM's Investment Banking, Asset Management, Retail Banking, and Treasury business units. Together, they offer complete services, including fund-raising, fund investment, overseas investment, mergers and acquisitions advisory, global cash management, and corporate treasury efficiency services.

Global Network

The Americas

North America is BTM's largest overseas market. And with 11 branches, sub-branches, and representative offices in North America, BTM has one of the most comprehensive networks among foreign banks operating there. The Bank also maintains a host of local subsidiaries, including the Bank of Tokyo-Mitsubishi (Canada) in Toronto and the Bank of Tokyo-Mitsubishi Trust Company in New York.

The Union Bank of California, N.A., which is among the 35 largest banks in the United States in terms of asset size, is another key subsidiary. It offers its customers a full range of retail and trust business services through a network of more than 250 branches.

In Latin America, BTM has operations in seven countries and one territory. Those facilities offer innovative products that allow BTM's customers to participate in the region's emerging and increasingly liberalized markets.

Review of Operations

Europe, the Middle East, and Africa

BTM's network in Europe, the Middle East, and Africa covers 15 countries and consists of 21 offices, including branches, sub-branches, and representative offices. As the 2002 launch of the European monetary union approaches, BTM continues to refine its local systems and euro-denominated settlement services in anticipation of increased opportunities resulting from a single economic zone and expanded European Union membership. Japanese companies and multinationals will increasingly turn to established banking partners for advice and assistance with local investments, and BTM is determined to maintain strong capabilities to meet this demand. In Russia, the Middle East, and Africa, BTM Group companies are acting promptly to address possible changes in the economic environment and are advising customers on a diversity of business development issues.

Asia and Oceania

In line with anticipated economic growth across Asia and Oceania, BTM has bolstered its network throughout the region to 36 branches, sub-branches, and representative offices in 12 countries. Augmented regional demand has seen the addition of trade and local investment information capabilities to BTM's already comprehensive range of services, which include cash management and the financing of resource, infrastructure, and plant construction.

Alliance with Asahi Bank

Since striking a preliminary alliance agreement with Asahi Bank in May 2001, BTM anticipates a marked expansion in its global presence and client base. Handling such client transactions as loans, deposits, and foreign exchange—currently undertaken at Asahi's overseas branches—will be transferred, in principle, to BTM by the end of December 2001.

Comprehensive cash management and electronic banking services worldwide

BTM is dedicated to providing international cash management services to the clients of its Global Corporate Banking and its Commercial Banking business units. Following its launch in May 2000, the BTM Global Cash Management System (BTM-GCMS) has succeeded in notably increasing the cash management efficiency of 600 of the Bank's global corporate clients. The web browser based system was initially offered as Local CMS in London, Jakarta, Bangkok, Kuala Lumpur, Manila, and Taipei and soon thereafter expanded to major cities in Korea and Australia. It utilizes cutting-edge technology to enhance such local cash management operations as account information verification and cross-border remittance instruction. To address the growing need for remote access to effective settlement services, BTM has developed a range of electronic banking services. These include domestic bank transfers, international cash transfers, and the arrangement of letters of credit. For companies operating on a global basis, the Bank has introduced secure global cash management products. Included are top-of-the-line funding administration products, such as pooling, netting, and intercompany capital and forex transfer services. International companies also need cash management systems attuned to local market conditions. BTM has won praise among Japanese affiliate companies in Asia for its pooling system and in-house banking system. The Bank plans to similarly strengthen its asset management related services in Japan to better serve multinationals' needs in Asia.

Investment Banking Business Unit

BTM's Investment Banking Business Unit provides BTM Group customers with a full range of financial solutions and services, including derivatives, asset securitization, syndicated loans, structured finance, corporate advisory, securities depositary, bond and equity underwriting, trading and sales, and venture capital support.

Corporate advisory services

Mergers and acquisitions (M&A) activity in Japan is expanding as consolidation among domestic and international companies becomes increasingly common. BTM's M&A teams in Tokyo, New York, and Singapore work together closely to render advisory services for domestic and cross-border transactions on behalf of Japanese and non-Japanese clients. In fiscal 2000, the Bank was the top Japanese financial institution acting as M&A advisor to domestic corporations according to Thomson Financial Securities Data.

Derivatives and securitization

BTM is recognized as a leader in derivatives markets in Japan. The Bank accounts for more than US$7 billion of credit derivative transactions in the Japanese market. BTM is also Japan's top provider of commodity derivatives and is the market pioneer for weather derivatives. In June 2000, BTM ranked first for foreign exchange derivative products and interest rate derivative products among Japanese banks according to the league table compiled by *Asia Risk Magazine*.

The asset-backed securitization market has been growing rapidly worldwide. And BTM is one of Japan's leading players in trade receivables and lease securitization, accounting for more than ¥1.78 trillion of asset-backed commercial paper transactions worldwide. It is highly active in the U.S. and Japanese securitization markets and seeks to build a substantial presence in Europe. In March 2001, Tokyo-Mitsubishi International plc, the Bank's securities arm in London, entered the U.K. residential mortage backed securities market and successfully won a £150 million securitization mandate from Britannia Building Society.

So far during the fiscal year under way, BTM has successfully structured innovative deals, including the securitization of receivables of Japan's Self-Defense Agency. It has also arranged 13 commercial mortgage backed transactions totaling ¥300 billion.

Structured finance and syndicated loans

BTM's structured finance offerings span a wide range of innovative financial services for project finance, lease finance, and real estate and other types of nonrecourse financing. In fiscal 2000, BTM served as financial advisor and arranger for a consortium, led by Nippon Steel Corporation and local authorities, engaged in constructing a ¥10 billion state-of-the-art waste-disposal facility in Japan.

The syndicated loan market has been growing rapidly worldwide, and BTM is consolidating its global presence in this business area. The Bank was appointed as lead manager of a £16.5 billion syndicated loan for British Telecom and as co-lead manager of an M&A-related syndicated loan to France Telecom. In addition, the Bank co-lead managed a US$25 billion syndicated revolving credit facility for AT&T in the United States and lead managed a ¥170 billion syndicated revolving credit facility for Mitsubishi Motors Corporation in Japan.

Securities services

Tokyo-Mitsubishi Securities Co., Ltd. (TMS), Tokyo-Mitsubishi Personal Securities, and Kokusai Securities Co., Ltd., cooperate closely to provide comprehensive wholesale and retail securities services. In fiscal 2000, TMS was the top-ranked lead manager and book runner of government-guaranteed bond issues in Japan. For straight corporate bonds, the firm ranked number three in Japan, serving as lead manager for 13% of primary issues. TMS has also distinguished itself by becoming the first bank-affiliated securities company to lead manage an initial public offering.

Japan's online securities trading arena is evolving rapidly. In July 2000, Tokyo-Mitsubishi TD Waterhouse Securities, a joint venture between BTM and TD Waterhouse Group, launched its services. In March 2001, BTM established TradeOne Systems Co., Ltd., a joint venture with Kokusai Securities and Japan Future Information Technology & Systems Co., Ltd. TradeOne Systems will provide IT system and back-office services mainly targeting online securities firms in Japan.

Asset Management Business Unit

The Asset Management Business Unit assumes responsibility for all of the BTM Group's activities in three primary areas. For the first such area, Tokyo-Mitsubishi Asset Management, Ltd. (TMAM), takes responsibility, mainly covering investment trusts and investment advisory services. The second area is trust banking services related to asset management and administration. Nippon Trust Bank holds the central role here, focusing on pension trust services, securities operations, real estate services, property management services, and stock transfer agency services. Tokyo Trust Bank, meanwhile, specializes in securities lending and securitization. The third area is asset administration, which is assured mainly by BTM's custody operations. BTM additionally takes responsibility for the overall business strategy and planning of the business unit.

Following the October 2001 merger of the three trust banks, the resulting combination of operations will increase the efficiency of and significantly strengthen MTFG's asset management capabilities.

Recent product developments

BTM has substantially expanded its mutual fund product lineup, which largely comprises products managed by TMAM. Innovative products of note include MV (Master Vision), a fund of funds produced by TMAM and the Frank Russell Company, and Royal Select, a TMAM and Schroder Investment Management (Japan) Ltd. creation. BTM also maintains a mutually beneficial business relationship with Mellon Financial Corporation and its asset management affiliates.

BTM established Defined Contribution Plan Consulting of Japan Co., Ltd. (DCJ), in March 2001 together with MTBC, Meiji Life Insurance Company, and the Tokio Marine and Fire Insurance Co., Ltd. DCJ works closely with corporate clients to provide them with comprehensive support in, for example, plan consulting, investments, and employee education.

In custody services, BTM holds the largest share of the Japanese market. It does so in securities investment in Japan and in offshore securities investment by domestic investors. And BTM continues to enhance its range of services in yen custody in the face of securities market developments and the imminent switch to ISO 15022 messaging standards.

In global custody services, BTM is working to become the first Japanese bank with a fully integrated processing system on a global scale. BTM's system, scheduled for completion by the end of 2001, will center all of the Bank's main custodial functions at the Bank of Tokyo-Mitsubishi (Luxembourg) S.A. This centralization encompasses the management of securities and cash accounts, settlement, interest and dividend processing, and the exercise of share rights.

Commercial Banking Business Unit

BTM's Commercial Banking Business Unit serves a wide range of clients, from small companies to large corporates. In addition to providing its corporate customers with banking, loan, settlement, and foreign exchange solutions, the unit provides a full range of businesses with sophisticated financial products and advice on strategies. The unit's advisory efforts are distinguished by an industry-specialized approach in which highly experienced teams offer corporate customers financial advice attuned to the needs and trends of particular industries.

Management and financial strategy support

BTM provides corporate executives with a complete array of industry sector specific advisory services, including those related to M&A, corporate inheritance, and public offering strategies. Balance sheet restructuring is another area of focus, particularly among corporate clients seeking to devise strategies to strengthen their financial bases. The Bank advises on a range of issues, including commitment lines, off-balance sheet receivable strategies, and the securitization of real estate holdings.

Risk management support

Corporations increasingly face a variety of risks, including those related to foreign exchange, interest rate volatility, and even weather and its potential impact on sales and earnings. To meet their needs, BTM offers its corporate clientele a variety of swaps, options, and other risk-hedging schemes by applying the newest financial engineering techniques.

Fund-raising and fund investment support

The Bank provides fund-raising schemes appropriate to the specific requirements of its corporate customers. These range from conventional loans to derivative-related loans and asset-backed commercial paper. Fund-raising schemes also include syndicated loans. In addition to conventional deposits, the Bank offers its clients a variety of products to support their investment activities. These include derivative-related deposits, public and corporate bond offerings, and trust funds.

In fiscal 2000, BTM topped Japan's league tables for privately placed bonds secured by the Credit Guarantee Corporation. The Bank placed 315 such issues for corporations, worth an aggregate ¥32.3 billion.

Overseas investment support

BTM leverages its uniquely comprehensive international network by offering corporate clients access to timely and accurate intelligence from around the world. The Bank's particularly strong presence in Asia is of notable interest among Japanese corporations as they invest extensively in the region.

B2B strategies

Japan's B2B sector is growing rapidly. It is projected to be worth ¥110 trillion by 2005. BTM plans to offer a wide range of value-added B2B products, including digital certification, web-based banking, and electronic trade settlements.

Retail Banking Business Unit

With an estimated ¥1,400 trillion in personal financial assets, the Japanese retail market is positioned to grow substantially. To become the top bank serving this growing sector, BTM's Retail Banking Business Unit is providing a range of advanced specialized products and services that boost convenience and reduce costs for customers. The following products provide a full range of support to domestic and overseas individual customers.

Expansion of Tokyo-Mitsubishi Direct functions

BTM offers a comprehensive range of telephone- and internet-based banking and investment services through its product Tokyo-Mitsubishi Direct. In March 2001, the Bank added foreign currency denominated deposit services to the product's internet channel to enable customers to make banking transactions in a variety of currencies. Investment trust information support was also added to the product so that customers can view investment quotes, performance trends, and simulated trends 24 hours a day.

Tokyo-Mitsubishi Direct now offers a range of services for customers posted abroad. These include One Statement Service, the ability to place requests via the internet for the remittance of funds overseas, and transaction requests by fax.

ATM network in convenience stores

One way BTM is expanding its direct marketing channels is by placing more ATMs in Japanese convenience stores. As of June 1, 2001, its E-net network included terminals at 1,674 convenience store outlets in 18 prefectures and large urban centers throughout the country. BTM is looking to extend E-net to include about 5,000 locations nationwide. The Bank is also planning to install ATMs in about 4,000 outlets of another convenience store chain throughout the country starting in autumn 2001. BTM's network of convenience store ATMs offers complete withdrawal, balance, and transfer services 24 hours a day, year-round.

International Card

BTM's International Card offers balance inquiry services and cash withdrawal functions 24 hours a day, 365 days a year, for customers when abroad. As of June 2001, BTM cardholders can access 640,000 VISA PLUS network ATMs and cash dispensers in 100 countries worldwide.

Meeting long-term investment needs

By adding investment trusts to its deposit services, BTM will be able to cater to all its customers' long-term asset management needs. Customers will be able to diversify their risk by investing in a range of 21 investment trust funds and 1 program fund, all rigorously selected to reflect different types of investments and investment styles.

In December 2000, moreover, BTM introduced MV (Master Vision), its new investment trust products. MVs are fund of funds products developed and managed by Tokyo-Mitsubishi Asset Management, Ltd., and the Frank Russell Company that minimize investment risk by diversifying a client's investments.

Comprehensive Main Bank service

BTM's comprehensive Main Bank service gives preferred customers access to services that meet their varying needs according to individual life plans and stages. Depending on the range of their business relationships with the Bank, for instance, customers can benefit from lower charges and better pricing for ATM services, installment plans for investment trusts, foreign currency deposits, and more.

Life Plan Consulting Desks

In July 2001, BTM introduced Life Plan Consulting Desks in an initial 38 domestic branches. The desks are designed to provide advice on borrowing and asset management plans geared to individuals' life stages. Customers can also receive a range of financial planning simulations that include analyses of lifetime projected cash flow, fund performance estimations, and savings needs to enable customers to achieve their aspirations.

UNBC Business Unit

BTM owns 67% of UnionBanCal Corporation (UNBC), a publicly traded commercial bank holding company listed on the New York Stock Exchange. UNBC's primary subsidiary, Union Bank of California, N.A. (UBOC), is California's third-largest commercial bank and is among the 35 largest banks in the United States in terms of assets. UBOC is also one of BTM's biggest and most successful subsidiaries. It boasts a franchise of more than 250 full-service domestic branches and offers an entire spectrum of personal and commercial financial products and services to individuals, businesses, and government agencies.

UNBC maintained excellent growth through its fiscal year to December 31, 2000, posting assets of US$35.2 billion, with an employee base of approximately 9,000.

UBOC extends complete banking services to individual clients, including deposit, loan, investment trust fund, international settlement, and fee-based banking products. For business clients, UBOC provides a variety of commercial financing services, such as commercial and project loans; real estate financing; lease financing; customized cash management; specialized deposits; selected capital markets products; and trust services, including investment trust funds, corporate 401 (k) plans, securities lending, custody, and corporate trust services.

UBOC's offerings emphasize first-rate technology. The subsidiary is a recognized leader in telephone banking, internet banking, and video kiosk services.

UBOC offers U.S. dollar denominated trade settlement to its U.S. corporate clients. Its 14 overseas offices, meanwhile, engage primarily in correspondent banking, mainly offering U.S. dollar denominated trade settlement services to overseas commercial banks.

In October 2000, UBOC became the first foreign-owned company to receive the U.S. Labor Department's prestigious Opportunity 2000 award. It was recognized as the top-ranked company in the United States for its equal employment opportunity efforts.

To sustain its growth, UBOC constantly seeks to expand its product range and to exploit developing market opportunities. In particular, UBOC is focusing on enlarging its consumer asset portfolios, enhancing its wealth management services, extending its small business franchise and branch network, and increasing its loans in core competency markets. It is also expanding its capital markets activities, increasing its domestic trade financing, and further building its processing business.

Review of Operations

Treasury Unit

BTM enjoys a solid funding base and serves a wide selection of clients and investors, capitalizing on its considerable presence in the world's major financial markets. The Bank has global treasury offices in New York, London, Singapore, and Hong Kong that operate in unison with its head office in Tokyo. It deals in a broad spectrum of currencies and is the leading player in foreign exchange and money markets in Tokyo.

BTM's global treasury sales teams provide cross-border services and advice on interest rate risk and currency risk management to clients throughout their regions. The Bank also has an international sales team in Tokyo that serves overseas clients directly from Japan. The Bank is proud of the high-level efficiency and reliability of its treasury-related products and services. It was ranked number one in that regard in the 2000 *Euromoney* Tokyo-FX poll.

Together with other major global banks, BTM is the only Japanese bank to have invested in FX Alliance, LLC, which manages the multi-bank web site FXall. FXall enables customers such as corporations with global networks as well as institutional investors to execute foreign exchange trades by comparing prices quoted by several banks on a real-time basis, 24 hours a day. In addition, it enables the customers to access various analysis reports and market information.

Operations Services Unit

The Operations Services Unit provides operations and settlement services for BTM's domestic deposit, debenture and note, foreign exchange, and commercial lending businesses.

Operations Division

The Unit's Operations Division offers operations services in support of the domestic commercial banking activities of the Retail Banking Business, Commercial Banking Business, and Global Corporate Banking Business units.

Settlement systems and technology continue to evolve, and BTM is taking a role in the promotion of innovative offerings that reduce operating costs. The Bank participates in Bolero, an electronic data interchange system supported by the global SWIFT association. Another innovation is the Trade Electronic Data Interchange, or TEDI, promoted by Japan's Ministry of Economy, Trade and Industry.

Global Service Banking Division

The Unit's Global Service Banking Division and its subsidiary are constantly able to enhance their capabilities through the development of cutting-edge information technology systems. The Bank enjoys an excellent reputation for the quality of its next-generation correspondent banking and settlement business services.

BTM continues to be the world's leading bank for yen settlements and is renowned for the strength of its foreign exchange operations. As of March 31, 2001, the Bank maintained correspondent arrangements with 3,259 foreign financial institutions and handled 2,040 yen-settlement accounts, ranking first in volume in both areas among Japanese financial institutions.

BTM also applies its expertise and economies of scale to offer a range of operations-related services to foreign and Japanese financial institutions. These include yen clearing products provided through the globally recognized Foreign Yen Clearing System, foreign remittance capabilities offered under the Bank's brand name "Global Operation Automatic Link (GOAL)," and a selection of back-office trade services.

In January 2001, the Bank of Japan introduced Real Time Gross Settlement (RTGS), which allows the continuous, real-time settlement of accounts. BTM has developed a high level of expertise in RTGS execution, enabling it to handle its own settlements in an effective manner and to offer expert RTGS services to other financial institutions.

BTM's Settlement Strategy Office, moreover, is taking the initiative of establishing appropriate systems and procedures in anticipation of the global implementation of CLS (Continuous Linked Settlement) operations. CLS will eliminate the settlement risk that can occur when foreign exchange deals are settled.

eBusiness & IT Initiatives Unit

The eBusiness & IT Initiatives Unit is responsible for creating e-business opportunities in order to promote a leading role of the Bank in the field of information technology. By developing and deploying best-in-class technology and services, the unit plans and implements strategic initiatives and solutions to meet the respective needs of our corporate and retail clients as well as other business units.

Systems Services Unit

BTM's Systems Services Unit plans, develops, maintains, and operates the Bank's computer infrastructure. The unit focuses in particular on ensuring the Bank's continued IT advantages amid rapid global change.

BTM has committed itself to substantially developing its IT capabilities. It will increase its IT investment over the four-year period from fiscal 1999 through fiscal 2002 to between ¥450 billion and ¥500 billion.

In fiscal 2000, BTM optimized its successful internet banking product Tokyo-Mitsubishi Direct. The Bank also introduced a new operating system to all its domestic branches. This system is designed to enhance operating efficiency throughout the branch network.

Corporate Center

BTM's Corporate Center comprises 13 offices that work independently of BTM's business units to coordinate and oversee their operations and to provide management support and risk management functions across the scope of BTM's operations.

Corporate Center provides support for Corporate Management through its Secretariat, General Affairs, Human Resources, Corporate Planning, Public Relations, and Research offices. Corporate Center's Corporate Risk Management, Credit Policy, Legal, Inspection, Business Examination, Credit Examination, and Compliance offices offer broader risk management functions.

Organization *(As of July 1, 2001)*

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 Division No. 5, 6
Corporate Banking Credit Division
Corporate Banking Group No. 1
Corporate Banking Group No. 2

Investment Banking Business Unit

Corporate Advisory Division
Capital Markets Division
(Investment Banking Marketing Office)
Investment Banking Group No. 1

European Investment Banking Division
Investment Banking Division for the Americas

Structured Finance Division
(Syndications Office)
Derivative & Structured Products Division
(Trading Office)
(ASEAN Derivative Office)
(Securitization Office)
Structured Finance Group

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)
Retail Banking Human Resources Office

Commercial Banking Planning 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
Public Relations Office
(Corporate Philanthropy Office)
Research Office
Corporate Risk Management Office
(Information Security Management Office)
Credit Policy Office
Legal Office
Inspection Office
(European Audit Office)
(Audit Office for the Americas)
Business Examination Office
Credit Examination Office
(European Credit Examination Office)
(Credit Examination Office for the Americas)
Compliance Office

THE MITSUBISHI TRUST
AND BANKING CORPORATION

Review of Operations

Trust-Banking Business Group

Trust Assets Business Group

Real Estate Business Group

Global Markets Business Group

Organization

Review of Operations

Fiscal 2000 results

The Mitsubishi Trust and Banking Corporation (MTBC) recorded a net income of ¥36.9 billion in fiscal 2000, compared with a net loss of ¥83.3 billion in the prior year. The Bank's net interest income totaled ¥176.6 billion, down 9.0% from fiscal 1999 because of a decline in interest spreads.

MTBC increased its provision for credit losses in fiscal 2000 to ¥131.1 billion, from ¥3.8 billion a year earlier. A substantial portion of the increase was due to the adoption of a stricter assessment process and more conservative provisioning for loans.

Revised Seventh Medium-Term Management Plan

In April 2001, MTBC initiated its Revised Seventh Medium-Term Management Plan, a comprehensive three-year strategic outline for the Bank's future development. Based on MTBC's Seventh Medium-Term Management Plan enacted in April 2000, the revised plan has taken into account ensuing business environment changes, including the formation of MTFG. The plan leverages the Bank's membership in the Group to put in place a strategy focused on positioning MTBC as the leading trust bank of the 21st century.

MTBC aims to combine traditional trust services with an enhanced set of trust banking capabilities to offer clients improved levels of service and a specialized product range. The Bank's trust services cover areas related to pensions, real estate, stock transfer agency business, and testamentary trusts. Its trust banking expertise supports clients with lending and asset securitization, and asset management services, such as medium- and long-term deposit accounts, and a full range of investment products.

As part of the plan, MTBC has revised its divisional management structure into a quasi-division company structure as a means of strengthening its management systems, effective April 2001. The new structure is shown below:

Business Groups	Line of Services
Trust-Banking Business Group	Retail Banking Services, Corporate Financing Services, Stock Transfer Agency Services
Trust Assets Business Group	Trust Assets Management Services, Asset Administrative and Custodial Services
Real Estate Business Group	Real Estate Services
Global Markets Business Group	Global Markets Business

The following is an in-depth review of the operating highlights for each of the above business groups.

Trust-Banking Business Group

Retail Banking Services

MTBC concentrates on providing high-quality products and tailored solutions that suit clients' needs. The Bank has combined its banking and trust banking services, thereby strengthening its consulting capabilities and enhancing its product range, to provide specialized solutions for individuals seeking to develop long-term asset-building strategies. Emphasizing liquidity, security, and profitability, MTBC blends its range of savings instruments and investment products to create tailor-made portfolios for clients.

In November 1999, MTBC established its Excellent Club, which now boasts more than 200,000 households. With the aim of consolidating and expanding its core client base, membership in the club enables access to attractive financial benefits, such as reduced ATM charges and better interest rates, and to non-financial services covering health care and medical consulting.

Convenient banking services

MTBC provides a range of telephone banking services and has significantly expanded its number of ATM units. As of June 1, 2001, its E-net network included terminals at 1,674 convenience store outlets in 18 prefectures and large urban centers throughout the country. MTBC is looking to extend E-net to include about 5,000 locations nationwide. Additionally, MTBC joined with BTM and Nippon Trust Bank to begin offering customers free-of-charge cash withdrawals, subject to certain time limits, from a combined network of 3,592 cash dispenser (CD) and ATM units in 932 locations nationwide as of June 1, 2001.

Consulting services

MTBC provides a comprehensive array of retail trust and banking consulting services. It advises its clients on loans, asset management, property-related, and other issues. The Bank is focusing on enhancing its consulting capabilities, specifically for real estate brokerage and testamentary trusts, which it has identified as future areas of growth.

Corporate Financing Services

MTBC is an acknowledged leader in corporate financing services. It leverages its core trust banking business lines to service a long-standing client base with expertise in pensions, property, and a range of financing techniques.

MTBC has integrated its loans, real estate, and pension operations into regional corporate banking business divisions. Four such division groups have been set up in the Tokyo metropolitan area, and the remaining divisions are located in the key areas of Osaka, Nagoya, and Kyushu. These and other of MTBC's specialist divisions coordinate seamlessly to speedily meet diverse and sophisticated client needs, serving as one-stop solutions providers of services that include advice on balance sheet, business restructuring and expansion, and IPO issues. In March 2001, MTBC established the specialized Structured Finance Division to serve the advanced financing needs of corporate clients.

Balance sheet consulting

In the wake of Japan's Big Bang financial deregulations, domestic companies are increasingly in need of diversified financing techniques and expert advice on balance sheet and business portfolio restructuring. MTBC draws upon its expertise in real estate and asset-backed securitization to enhance the efficiency of clients' asset and capital utilization.

MTBC also applies its trust banking know-how to offer a range of customized financing schemes incorporating syndicated loans, commitment lines, asset-backed loans, and asset-backed securities.

Business restructuring advice

MTBC's M&A team comprises specialists in chemicals, pharmaceuticals, biotechnology, telecommunications, and legal issues. Highly active in domestic M&A, the Bank also cooperates closely with the European M&A boutique Ermgassen & Co. to offer cross-border restructuring strategies, including advice on transaction structures.

Venture capital services

MTBC also offers venture capital related services that enable start-ups to fund business expansion. Its subsidiary, MTB Capital Co., Ltd., concentrates primarily on providing clients with venture capital specific products, such as financial policy planning and public share offering support.

Securitization advice

MTBC combines its trust banking expertise with top-of-the-line financial technology to provide clients with strategic support in the disposal of property holdings. The Bank's advisory portfolio covers real estate, asset-backed securitization, bills, and account receivables.

In fiscal 2000, MTBC worked to develop new securitization capabilities, unveiling a financing scheme that pools monetary claims off balance sheet. It continued, meanwhile, to offer a comprehensive range of products covering nonrecourse loans, property holdings securitization, and real estate management trusts for metropolitan-based office space and commercial facilities throughout Japan.

MTBC is a leader in the debt assumption trust market. It offers efficient balance sheet management and complies fully with the operational standards established by the Japanese Institute of Certified Public Accountants.

Stock Transfer Agency Services

MTBC's Stock Transfer Agency Services cover a wealth of equity-related expertise to listed and soon-to-be-listed companies. Renowned for its consultation services and administrative support, MTBC offers expert advice on corporate legal issues and on equity-related topics, such as public listings, share issuance, internal management systems, and compiling articles of association. It also advises already listed companies on investor relations; corporate governance; key equity market developments; and revisions to pertinent legislation, including Japan's Commercial Code.

Consultation services

MTBC maintains a seasoned team of corporate law and equity professionals who furnish leading-edge consultation to corporate clients. In response to a growing need among Japanese listed companies for services relating to foreign shareholders' voting rights, MTBC established an operational procedures consultation service that brings clients advice from such respected sources as consultant Raita Sakai, who draws on an extensive network of U.S. institutional investors. MTBC's consultation service combines that network with MTBC's expertise to give clients detailed insight into all areas of stock voting rights, including proxy procedures for their foreign shareholders.

Client base of approximately 5.5 million shareholders

As of the end of fiscal 2000, MTBC served companies with an aggregate shareholder count of approximately 5.5 million. The upcoming October 2001 merger with Nippon Trust Bank, and continued collaboration with BTM, will significantly expand this total.

Trust Assets Business Group

The Trust Assets Business Group is responsible for the prudent management and administration of a wide range of assets, including corporate pensions and public funds. By applying the highest level of investment and management techniques, MTBC is ranked among Japan's top class within its field.

As of the end of fiscal 2000, MTBC managed approximately ¥32 trillion in trust assets. The Bank has built a solid reputation among its clients for reliability based on its accumulated years of know-how.

Review of Operations

MTBC seeks to further strengthen its asset management and administration capabilities. Its ongoing business integration with BTM and the upcoming October 2001 trust bank merger will build on these capabilities. Furthermore, MTBC's Revised Seventh Medium-Term Management Plan aims to strengthen the Bank's business foundation by further enhancing these trust-related services.

Pension Trusts

MTBC's pension trust operations furnish a comprehensive lineup of pension-related services. That lineup includes advice to companies looking to introduce pension schemes, investment strategies, pension asset custody services, and participant benefit payment services.

The focus on pension schemes in Japan has become acute in line with the rapid aging of Japanese society. And as deregulation has accelerated in Japan, the range of pension planning and management schemes has expanded and developed. Furthermore, the introduction of new pension accounting standards in Japan in fiscal 2000 has considerably increased the impact of retirement allowances and pension plans upon corporate financial management, boosting the need for advice in effectively meeting revised requirements. MTBC is, therefore, currently concentrating on the enhancement of its pension-related product lineup, asset management capabilities, and the consultation services it offers covering all aspects of Japanese pension systems.

Entrusted pension assets

As of March 31, 2001, MTBC managed ¥10.9 trillion in corporate pension funds, including the balance of its specified money trusts for pension funds. This accounts for over 10% of the ¥80 trillion held in corporate pension funds in Japan, which consist mainly of tax-qualified pension plans and employees' pension funds.

Consultation services for a changing regulatory environment

The Defined Contribution Pension Law and the Fixed Benefits Corporate Pension Law, enacted in Japan in June 2001, will soon be followed by an influx of defined contribution and hybrid pension plans into the market. As a result, corporate employers and employees alike will have access to a previously unavailable range of pension planning options. This significant development, together with accounting changes, is leading to a greater need among corporations for consultation services that enable them to reform their pension schemes. MTBC seeks to meet this demand by offering a comprehensive range of pension-related advice. Pension trusts thus represent a key growth business for the Bank.

Trust Assets Management Services

MTBC manages a full range of investments, including corporate and public pensions, as well as public-sector and individual funds. It applies quantitative analysis and passive management with global research, and it cooperates with overseas asset management institutions to deliver customized investment and hedge fund products to its customers.

MTBC has developed a range of transition management and overlay products that boost performance and reduce the costs of portfolio management. These products will meet increased demand upon the upcoming introduction of the master trust system in Japan.

Investment structure

MTBC's Trust Assets Management Business Unit comprises eight divisions that execute fund management, portfolio management, planning, and research. The divisions work closely with one another to foster cohesive and efficient investment management.

The quantitative investment approach employed by MTBC is supported by MTB Investment Technology Institute Co., Ltd. This wholly owned subsidiary is widely recognized for its highly developed methods of investment theory research. MTBC also forges links with overseas companies. Close relationships, for instance, with Morley Fund Management Limited, of the United Kingdom, and with the Northern Trust group, of the United States, help MTBC to broaden its region-specific investment products and to accurately meet the diverse international needs of clients.

Asset Administrative and Custodial Services

As investment managers and plan sponsors amass increasingly diverse and globalized portfolios, their demand for topflight administrative and custodial services grows. MTBC is meeting this surge in demand by offering high-value-added services in addition to advice on a range of timely issues, including transition management and currency overlay.

Determined to keep abreast of change, MTBC joined with Nippon Life Insurance Company, the Toyo Trust and Banking Co., Ltd., Meiji Life Insurance Company, and Deutsche Bank in May 2000 to establish the Master Trust Bank of Japan, Ltd. (MTBJ). The following month, the new bank started a web-based, on-line information service. In April 2001, MTBJ upgraded the service, named Mainet, by adding to it an integrated reporting function for employees' pension funds.

Pending regulatory approval, MTBJ plans to consolidate certain administrative services of MTBC and Toyo Trust to introduce enhanced asset administrative and custodial services in 2002. It will leverage the accumulated expertise of the two trust banks to offer services that address recent reforms in the securities market practices of Japan, such as the T+1 settlement cycle. MTBJ, as its name suggests, will also introduce Japanese master trust businesses.

MTBJ's assets under administration to be consolidated from MTBC and Toyo Trust stood at approximately ¥60 trillion at the end of March 2001. With the addition of life insurance participation, MTBJ seeks in the near term to boost its assets under administration to over ¥100 trillion.

Real Estate Business Group

Real Estate Services

MTBC's Real Estate Business Group works closely with the Bank's client base to offer a host of property-related brokerage services. MTBC applies its wealth of expertise in real estate securitization, development, management, and appraisal to meet all aspects of clients' needs. MTBC also specializes in real estate related advisory, offering property holders ideas for restructuring their balance sheets.

Aiming to be Japan's top real estate agency

Leveraging MTFG's expanded client and product base, MTBC is able to gain greater access to essential market information. The Bank seeks to generate annual real estate fees and commissions of ¥30 billion and to capture outright leadership of the Japanese real estate brokerage business. In fiscal 2000, MTBC intermediated 1,576 property transactions worth ¥446.9 billion.

Consulting services

Corporations regard real estate as central to their management strategies. MTBC thus offers comprehensive real estate related consulting, using its expertise, its information network, and its planning capabilities.

Infrastructure growth and the expansion of real estate securitization

Anticipating expansion of Japan's real estate investment trust (J-REIT) and securitization markets, in fiscal 2000 MTBC earned ISO 9001 certification for its real estate management systems. It has also developed the MTBC-IKOMA real estate investment index in cooperation with Ikoma Data Service System Co., Ltd. The index is an effective infrastructure in estimating potential income for individual pieces of property, based on valuations such as the current value, lease income, and operating costs of a property.

Global Markets Business Group

Global Markets Business

The Global Markets Business Group extends MTBC's reach into major business and financial markets in America, Europe, and Asia. The group's activities are central to MTBC's overall effectiveness in Japan and abroad and are highly profitable.

MTBC's overseas network consists of five branches, three representative offices, and various subsidiaries. The Bank is reinforcing this network through tie-ups with leading local banks, particularly in Asia.

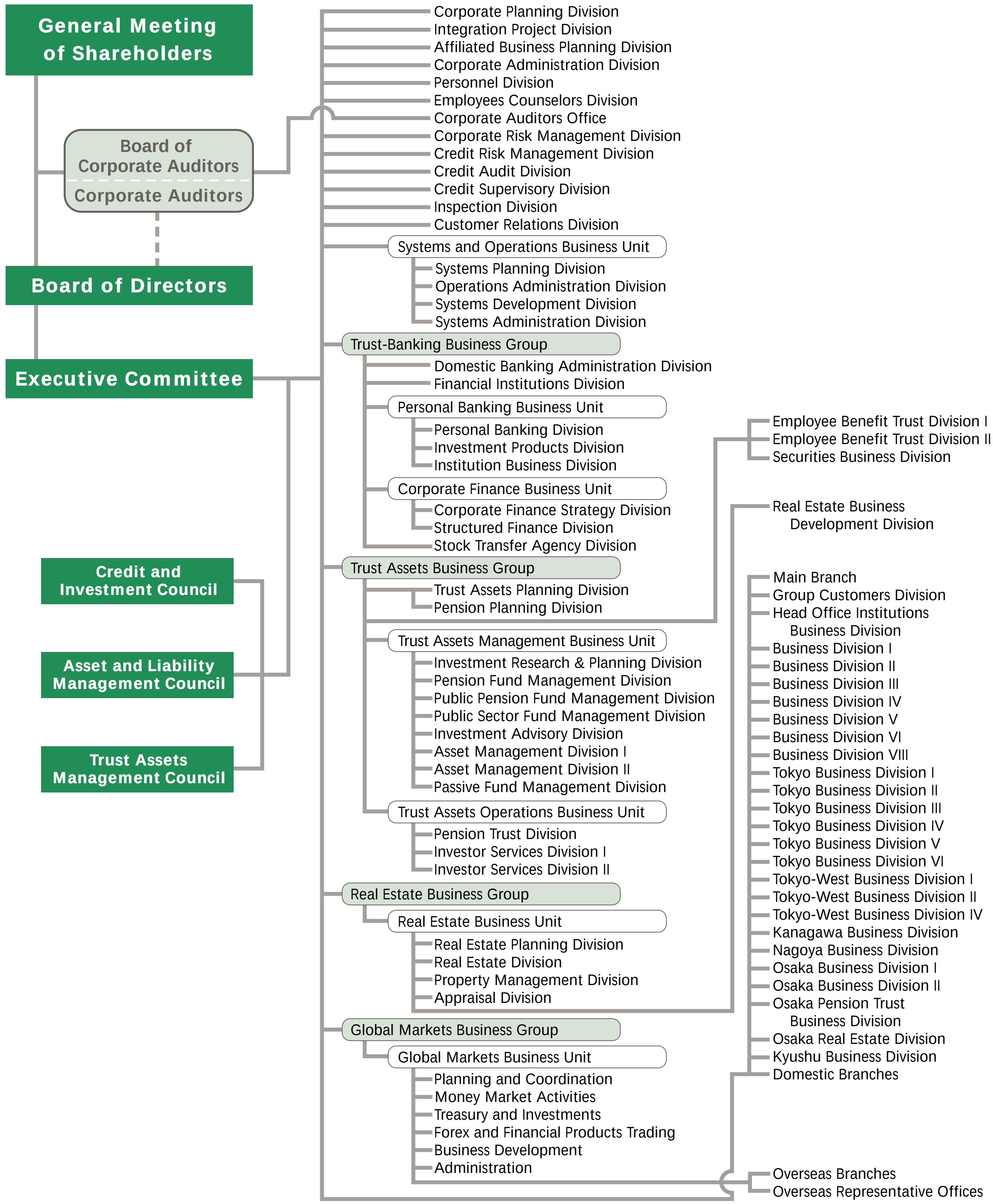
Japanese corporations are increasingly seeking internationally diversified investment opportunities and overseas financial services. MTBC is well positioned among Japanese trust banks to assist such needs with global financing and the management of diversified currency assets. Inside Japan, non-Japanese clients, too, are accessing MTBC's capabilities, particularly for services related to domestic real estate. In line with its focus on this area, MTBC held an international seminar in January 2001 that presented insights into property-related investment opportunities in the Japanese market.

The Global Markets Business Group supports the overseas operations of MTBC's other business groups, effectively channeling the Bank's specialized trust banking skills into the global arena. In addition, the group serves as a focal point for overseas market information provided by MTBC analysts stationed in New York, London, and other major financial centers. MTBC applies this information to the consultation that it offers its clients on global financing issues.

MTBC, for example, is a financial advisor to British Airways Plc. It has been providing that airline with loan syndication and credit lines for the purchase of new aircraft. The Bank regularly employs leveraged lease and Japanese operating lease structures to bring investors and airlines such as British Airways together in mutually attractive arrangements for the purchase of new equipment.

MTBC is also a leader in technological foreign currency hedging solutions for asset management businesses. Its currency overlay services help fund managers hedge against currency fluctuations, freeing them to concentrate on asset performance. MTBC has established an alliance with Pareto Partners, Ltd., of the United Kingdom, a specialist in currency overlay control.

Organization *(As of July 1, 2001)*



NIPPON TRUST BANK

Review of Operations

Pension Trust Services

Securities Operations

Real Estate Services

Property Management Services

Stock Transfer Agency Services

Organization

Review of Operations

Nippon Trust Bank Limited (NTB) offers banking services and an entire selection of trust services to corporations, public institutions, and individuals through a network of 15 branch offices in Japan, as of June 1, 2001.

Strategic overview

NTB organizes its businesses in five main areas: pension trust, securities, real estate, property management, and stock transfer services. In each, NTB maintains a strong client focus to ensure that its products and services expertly meet evolving market needs. In fiscal 2000, NTB further concentrated its resources on these key business areas and continued to introduce a range of innovative products to satisfy this goal. It also worked to improve its operating efficiency and to convey new technological solutions to its customers.

NTB continues to strengthen its financial footing. Management has a policy to rigorously address problem loans through collection efforts and by adopting ever stricter standards of classification for nonperforming assets. Risk management also remains a priority at NTB. NTB has determined to improve its assessment of credit, market, and other risk and continues to enforce strict compliance with operating standards and regulations.

NTB also continues to focus on ensuring the smooth integration of its operations with those of MTBC and Tokyo Trust Bank. Scheduled for completion in October 2001, this merger is expected to realize substantial synergies and to greatly enhance trust banking innovation within MTFG overall. NTB will continue to consolidate the advantages it has already realized through joint system development with BTM.

Pension Trust Services

Corporate pension systems in Japan are undergoing vast change in pension planning and retirement benefits. NTB continued to follow these issues carefully during fiscal 2000 to ensure that it is well positioned to meet these changes.

NTB has been providing an exceptionally comprehensive range of services, from pension system planning to pension management consulting. It also directly invests and manages pension fund assets and administers pension programs.

In fiscal 2000, NTB offered consulting services to corporations regarding recently modified accounting standards for retirement benefits. It also advised on retirement benefit liability accounting and related issues.

For Japanese corporations that have entrusted a portion of their employee pension funds to external asset managers, NTB has introduced an innovative system that allows it to continue administering those funds. Corporate customers responded favorably to this service for its continuity of approach.

Asset Management

The asset management activities of NTB emphasize solid risk management, systematic approaches, and transparent reporting line procedures. NTB conducts its activities with a solid focus on client needs and seeks to gain above-market returns through the use of modern investment techniques and state-of-the-art information and investment systems.

NTB is distinguished by its Manager of Managers approach to portfolio investing. This portfolio management system clarifies each portfolio manager's tasks and responsibilities for the performance of investments.

NTB concentrates on developing pension fund asset management systems that can adapt quickly and flexibly to market and regulatory changes. It is a leader in leveraging advanced technology, and in fiscal 2000 NTB continued to introduce systems that heighten convenience and that address recent mark-to-market accounting changes. NTB also maintains a vast information collection system that catalogs key data from domestic and overseas sources.

Securities Operations

NTB offers tailor-made solutions to a broad array of securities business needs. It has responded quickly to the significant changes ushered in by Japan's Big Bang deregulation. And it competes aggressively with Japanese and foreign competitors for a share of Japan's estimated ¥1,400 trillion in personal savings. In particular, NTB has concentrated on using its years of experience in securities investment and custody to meet customers' individual needs.

NTB offers independently operated designated money trusts and fund trusts and assumes full responsibility for investment, custody, and the management of assets held. In addition, NTB offers paying agency services and securities brokerage capabilities.

Real Estate Services

NTB operates a network of real estate brokerages and rental agencies in Japan. That network concentrates on a diverse listing of business and residential properties, including offices, factories, warehouses, shops, condominiums, apartments, and homes. NTB's real estate and rental operations are distinguished by their reliance on first-rate, current information fed to them through a comprehensive data network.

Real estate appraisal is another area of business that benefits from NTB's vast information sources. Likewise, NTB is involved in land trusts, real estate securitization and trading, and real estate investment consultation services.

Property Management Services

Each NTB branch boasts specialists who offer customers advice on inheritance, testamentary, and other property issues. NTB offers estate settlement, testamentary trust, charitable trust, and gift trust services.

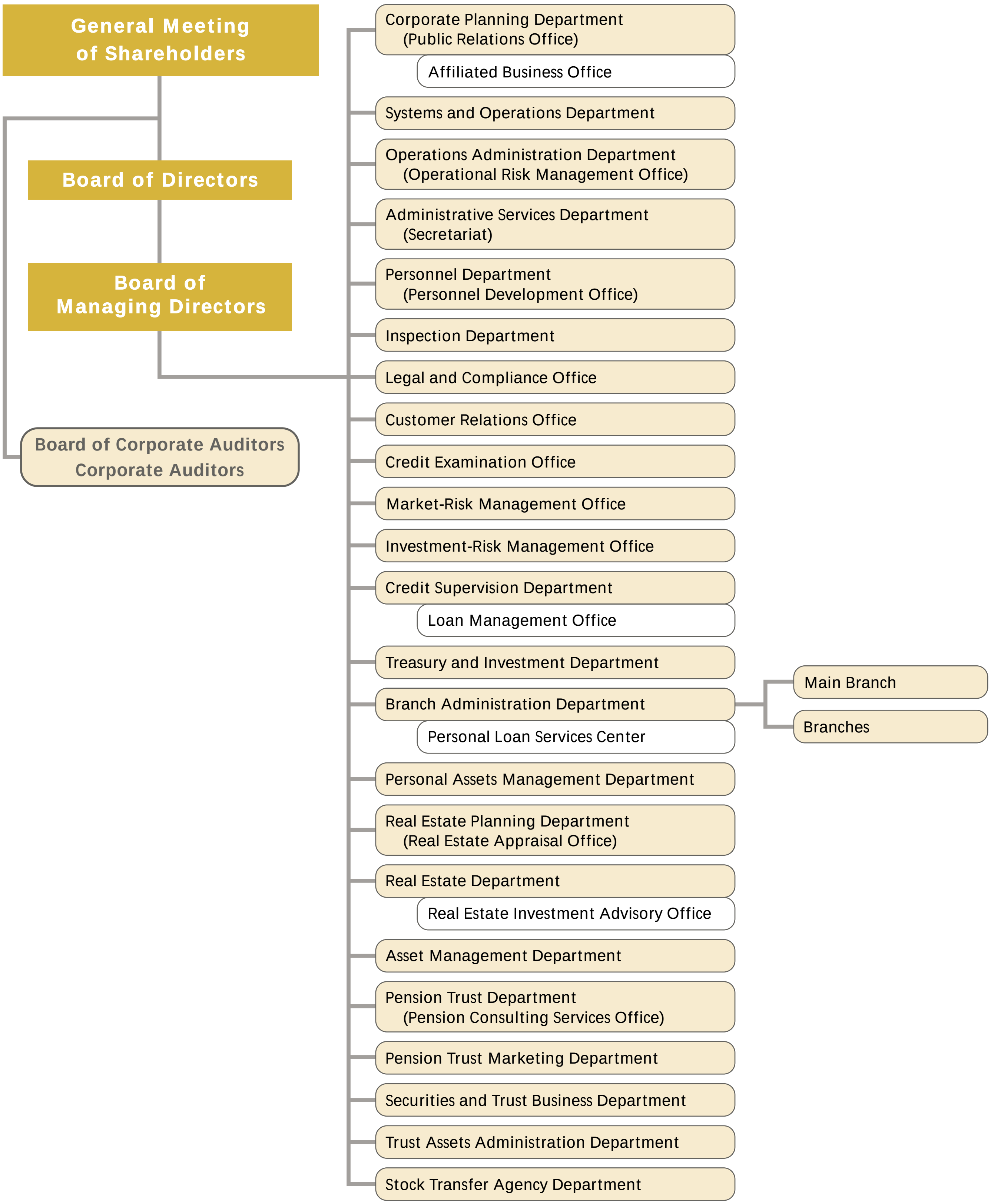
Testamentary services at NTB center on the management of estate property until distribution. They also focus on the distribution of property in accordance with the terms of wills.

Stock Transfer Agency Services

NTB makes available to its clients support for complex stock-related transactions and procedures. Some of NTB's services include handling requests for odd lot share purchases, shareholder meeting operations, the calculation and payment of dividends, and new share issue operations.

NTB conducts regular seminars for corporate officers that address recent developments in stock administration areas. It also provides support for clerical and for complex legal activities.

Organization *(As of July 1, 2001)*



Financial Report

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

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

We expect the first ordinary general meeting of the shareholders of MTFG to be held in June of 2002 in Tokyo.

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

Forward-Looking Statements

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

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

The forward-looking statements we make are not a guarantee of future performance and involve risks and uncertainties. Actual results may differ from those in forward-looking statements as a result of various factors. We identify in this Annual Report, in "Management Discussion and Analysis" and elsewhere, some (but not necessarily all) of the important factors that could cause these differences.

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

Mitsubishi Tokyo Financial Group, Inc.
Selected Unaudited Pro Forma Combined Financial Data

Giving pro forma effect to the April 2, 2001 Business Combination creating Mitsubishi Tokyo Financial Group, Inc.

	Years ended March 31,			
	1998	1999	2000	2001
	(in millions except per share data and percentages)			
Operating results:				
Interest income	¥ 2,971,119	¥ 2,811,638	¥ 2,165,643	**¥ 2,282,974**
Interest expense	1,999,409	1,677,554	1,086,126	**1,310,618**
Net interest income	971,710	1,134,084	1,079,517	**972,356**
Provision for credit losses	1,476,027	1,239,000	372,449	**797,081**
Net interest income (expense) after provision for credit losses	(504,317)	(104,916)	707,068	**175,275**
Non-interest income	793,978	695,229	519,892	**960,059**
Non-interest expense	1,488,527	1,247,273	1,224,342	**1,127,510**
Income (loss) before income tax expense or benefit	(1,198,866)	(656,960)	2,618	**7,824**
Income tax expense (benefit)	(425,490)	(174,537)	50,160	**64,373**
Net loss	¥ (773,376)	¥ (482,423)	¥ (47,542)	**¥ (56,549)**
Amounts per share:				
Loss per common share—basic	¥(141,127.01)	¥(87,953.14)	¥ (9,663.81)	**¥(11,797.27)**
Loss per common share—assuming dilution	¥(141,127.01)	¥(87,953.14)	¥ (9,663.81)	**¥(11,797.27)**
Number of shares used to calculate loss per share (thousands of shares):				
—Loss per common share—basic	5,480	5,485	5,485	**5,500**
—Loss per common share—assuming dilution	5,480	5,485	5,485	**5,500**
Cash dividends declared during the year (historical):				
—Common shares of Bank of Tokyo-Mitsubishi	¥ 8.50	¥ 8.50	¥ 8.50	**¥ 8.50**
—Common shares of Mitsubishi Trust and Banking Corporation	8.00	8.00	7.50	**7.00**
—Preferred shares of Bank of Tokyo-Mitsubishi	—	—	57.12	**82.50**
—Preferred shares of Mitsubishi Trust and Banking Corporation	—	—	8.15	**16.20**
Balance sheet data at year-end:				
Total assets	¥101,273,096	¥86,392,525	¥84,996,000	**¥93,488,950**
Loans, net of allowance for credit losses	56,864,082	53,215,070	48,563,172	**47,953,919**
Total liabilities	97,762,900	82,923,595	80,981,592	**90,287,654**
Deposits	64,157,285	56,094,893	54,777,171	**60,105,742**
Shareholders' equity	3,510,196	3,468,930	4,014,408	**3,201,296**
Average balances:				
Interest-earning assets	¥ 94,209,422	¥90,683,194	¥83,166,023	**¥83,396,382**
Interest-bearing liabilities	86,642,633	84,033,397	74,566,168	**75,749,784**
Total assets	99,723,902	96,090,045	86,620,645	**89,341,483**
Shareholders' equity	3,848,452	3,356,754	3,599,596	**3,464,251**
Return on equity and assets:				
Net loss as a percentage of total average assets	(0.78)%	(0.50)%	(0.05)%	**(0.07)%**
Net loss as a percentage of average shareholders' equity	(20.10)%	(14.37)%	(1.32)%	**(1.63)%**
Dividends per common share as a percentage of earnings per common share—basic	nm	nm	nm	**nm**
Average shareholders' equity as a percentage of total average assets	3.86%	3.49%	4.16%	**3.88%**
Net interest income as a percentage of total average interest-earning assets	1.03%	1.25%	1.30%	**1.17%**
Credit quality data:				
Allowance for credit losses	¥ 1,281,091	¥ 1,813,680	¥ 1,486,212	**¥ 1,716,984**
Allowance for credit losses as a percentage of loans	2.20%	3.30%	2.97%	**3.46%**
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 2,282,529	¥ 3,477,768	¥ 2,844,915	**¥ 4,272,794**
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	3.93%	6.32%	5.68%	**8.60%**
Net loan charge-offs	¥ 1,765,356	¥ 663,453	¥ 679,736	**¥ 598,362**
Net loan charge-offs as a percentage of average loans	3.01%	1.15%	1.30%	**1.21%**
Average interest rate spread	0.84%	1.10%	1.14%	**1.01%**
Risk-adjusted capital ratio calculated under Japanese GAAP (historical):				
—Bank of Tokyo-Mitsubishi	8.53%	10.47%	11.46%	**9.69%**
—Mitsubishi Trust and Banking Corporation	10.35%	11.65%	11.27%	**12.06%**

nm = not meaningful

Selected financial data set forth above (except for cash dividends and risk-adjusted capital ratio information) present the unaudited pro forma combined results of The Bank of Tokyo-Mitsubishi, Ltd. and The Mitsubishi Trust and Banking Corporation as if the combination of the two companies had been in effect for all periods presented. See "Unaudited Pro Forma Combined Condensed Financial Statements."

The Bank of Tokyo-Mitsubishi, Ltd. and Subsidiaries
Selected Financial Data

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

nm = not meaningful

This financial data (except for average balance information) is derived from the audited consolidated financial statements of The Bank of Tokyo-Mitsubishi, Ltd.

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

The Mitsubishi Trust and Banking Corporation and Subsidiaries Selected Financial Data

	1998	1999	2000	2001
	Years ended March 31, (in millions except per share data and percentages)			
Operating results:				
Interest income	¥ 549,244	¥ 491,344	¥ 385,514	**¥ 401,730**
Interest expense	345,126	296,057	191,439	**225,131**
Net interest income	204,118	195,287	194,075	**176,599**
Provision for credit losses	119,798	319,621	3,793	**131,142**
Net interest income (expense) after provision for credit losses	84,320	(124,334)	190,282	**45,457**
Non-interest income	250,200	270,899	118,129	**272,405**
Non-interest expense	320,011	315,588	435,008	**231,628**
Income (loss) before income tax expense or benefit	14,509	(169,023)	(126,597)	**86,234**
Income tax expense (benefit)	12,467	(32,738)	(43,267)	**49,360**
Net income (loss)	¥ 2,042	¥ (136,285)	¥ (83,330)	**¥ 36,874**
Amounts per share:				
Earnings (loss) per common share—basic	¥ 1.57	¥ (104.65)	¥ (64.61)	**¥ 27.07**
Earnings (loss) per common share—assuming dilution	¥ 1.57	¥ (104.65)	¥ (64.61)	**¥ 23.58**
Number of shares used to calculate earnings (loss) per share (thousands of shares):				
—Earnings (loss) per common share—basic	1,302,254	1,302,256	1,302,255	**1,302,253**
—Earnings (loss) per common share—assuming dilution	1,302,254	1,302,256	1,302,255	**1,564,033**
Cash dividends declared during the year:				
—Common share	¥ 8.00	¥ 8.00	¥ 7.00	**¥ 7.00**
—Preferred share (class 1)	—	—	8.15	**16.20**
Balance sheet data at year-end:				
Total assets	¥18,126,032	¥16,848,239	¥16,589,897	**¥17,773,336**
Loans, net of allowance for credit losses	9,284,127	8,815,181	8,783,449	**9,216,647**
Total liabilities	17,197,176	15,856,972	15,622,134	**16,891,363**
Deposits	10,746,377	10,325,303	9,780,624	**11,300,606**
Shareholders' equity	928,856	991,267	967,763	**881,973**
Average balances:				
Interest-earning assets	¥17,915,919	¥18,103,297	¥16,432,870	**¥16,303,826**
Interest-bearing liabilities	16,776,474	17,068,858	15,638,967	**15,504,042**
Total assets	18,186,823	18,413,376	16,751,800	**16,720,138**
Shareholders' equity	958,822	858,465	966,331	**948,242**
Return on equity and assets:				
Net income (loss) as a percentage of total average assets	0.01%	(0.74)%	(0.50)%	**0.22%**
Net income (loss) as a percentage of average shareholders' equity	0.21%	(15.88)%	(8.62)%	**3.89%**
Dividends per common share as a percentage of earnings per common share—basic	509.55%	nm	nm	**25.86%**
Average shareholders' equity as a percentage of total average assets	5.27%	4.66 %	5.77 %	**5.67%**
Net interest income as a percentage of total average interest-earning assets	1.14%	1.08 %	1.18 %	**1.08%**
Credit quality data:				
Allowance for credit losses	¥ 520,801	¥ 523,104	¥ 349,095	**¥ 332,053**
Allowance for credit losses as a percentage of loans	5.31%	5.60 %	3.82 %	**3.48%**
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 1,053,119	¥ 1,209,205	¥ 922,270	**¥ 826,651**
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	10.74%	12.95 %	10.10 %	**8.66%**
Net loan charge-offs	¥ 94,908	¥ 314,879	¥ 172,857	**¥ 153,095**
Net loan charge-offs as a percentage of average loans	1.00%	3.28 %	1.93 %	**1.70%**
Average interest rate spread	1.01%	0.98 %	1.12 %	**1.01%**
Risk-adjusted capital ratio calculated under Japanese GAAP	10.35%	11.65 %	11.27 %	**12.06%**

nm = not meaningful

The financial data (except for (a) average balance and rate information for all periods presented, (b) the risk-adjusted capital ratio calculated under Japanese GAAP for the year ended March 31, 1998, and (c) nonaccrual and restructured loans and accruing loans contractually past due 90 days or more for the year ended March 31, 1998 and 1999) has been derived from the audited consolidated financial statements of The Mitsubishi Trust and Banking Corporation.

Effective March 31, 1998, The Mitsubishi Trust and Banking Corporation adopted Statement of Financial Accounting Standards ("SFAS") No. 128 "Earnings per Share," with respect to the computation of earnings per share. Amounts for earlier periods have been restated to reflect the retroactive effect of the free distribution of shares. Effective March 31, 2001, The Mitsubishi Trust and Banking Corporation adopted SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No.125," ("SFAS No.140"), with respect to recognition, reclassification and disclosures for collateral. Amounts for fiscal 1997, 1998 and 1999 have been restated to conform to SFAS No. 140.

The Group
History and Development

Mitsubishi Tokyo Financial Group, Inc.

Mitsubishi Tokyo Financial Group, Inc. ("MTFG") is a publicly-owned joint stock corporation incorporated in Japan. It was formed as a holding company on April 2, 2001, through which The Bank of Tokyo-Mitsubishi, Ltd. ("BTM"), The Mitsubishi Trust and Banking Corporation ("MTBC") and Nippon Trust Bank Limited have become wholly-owned subsidiaries pursuant to stock-for-stock exchanges. The shares of common stocks of BTM, MTBC and Nippon Trust Bank were exchanged on April 2, 2001 for shares of common stock of MTFG at the exchange ratios set out below.

One common share of MTFG was issued in exchange for each 1,000 common shares of BTM, 0.70 common shares of MTFG were issued in exchange for each 1,000 common shares of MTBC and 0.14 common shares of MTFG were issued in exchange for each 1,000 common shares of Nippon Trust Bank. Further, 0.126 common shares of MTFG were issued in exchange for each 1,000 Subordinated shares of Nippon Trust Bank.

In addition, one Class 1 Preferred Share of MTFG was issued in exchange for each 1,000 First Class 1 Preferred Shares of BTM and one Class 2 Preferred Share was issued for each 1,000 First Class 1 Preferred Shares of MTBC.

The registered address of MTFG is at 10-1, Yurakucho 1-Chome, Chiyoda-ku, Tokyo 100-0006, Japan.

The objectives behind the establishment of MTFG were:

- to establish a more diversified financial services group operating across traditional business sectors,
- to introduce an increased level of flexibility,
- to provide scope to develop and expand,
- to consolidate the collective expertise of BTM and MTBC,
- to achieve operational economies of scale, and
- to create a dependable financial services group with advanced risk management expertise.

MTFG is responsible for coordinating group strategy and monitors the activities of its subsidiaries to achieve the objectives of the integration. While respecting the individual corporate cultures of our various subsidiaries, we seek to make full use of their expertise to enable us to offer quick and appropriate responses to the diverse and changing needs of our customer base. By drawing upon the individual strengths of our subsidiaries, we believe that we can benefit from the synergies of the integration. We aim to fully realize the benefits of integration to create new business opportunities, to expand our client base, and to increase profit.

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

The Bank of Tokyo-Mitsubishi, Ltd.

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

The registered head office of BTM is at 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8388, Japan.

BTM was formed through the merger, on April 1, 1996, of The Mitsubishi Bank, Limited and The Bank of Tokyo, Ltd. The origins of Mitsubishi Bank can be traced to the Mitsubishi Exchange Office, a money exchange house established in 1880. The Bank of Tokyo was established in 1946 as a successor to the

Yokohama Specie Bank, Ltd., a special foreign exchange bank, established in 1880.

The Mitsubishi Trust and Banking Corporation

MTBC is one of the major trust banks in Japan, providing trust and banking services to meet the long-term financing and investment needs of retail and corporate clients. As of March 31, 2001, MTBC and its subsidiaries had total consolidated assets of ¥17.77 trillion ($141.6 billion) and total deposits of ¥11.30 trillion ($90.0 billion). Total shareholders' equity was ¥0.88 trillion ($7.0 billion) as of the same date and net income for the year ended March 31, 2001 was ¥36.9 billion ($293.7 million). MTBC is also a global trust bank, providing services to individual investors, major corporations and industrial companies in Japan and the rest of Asia, as well as in the United States and Europe. MTBC has recently expanded its asset management services into various fields, including retirement benefits trusts and assets administration services.

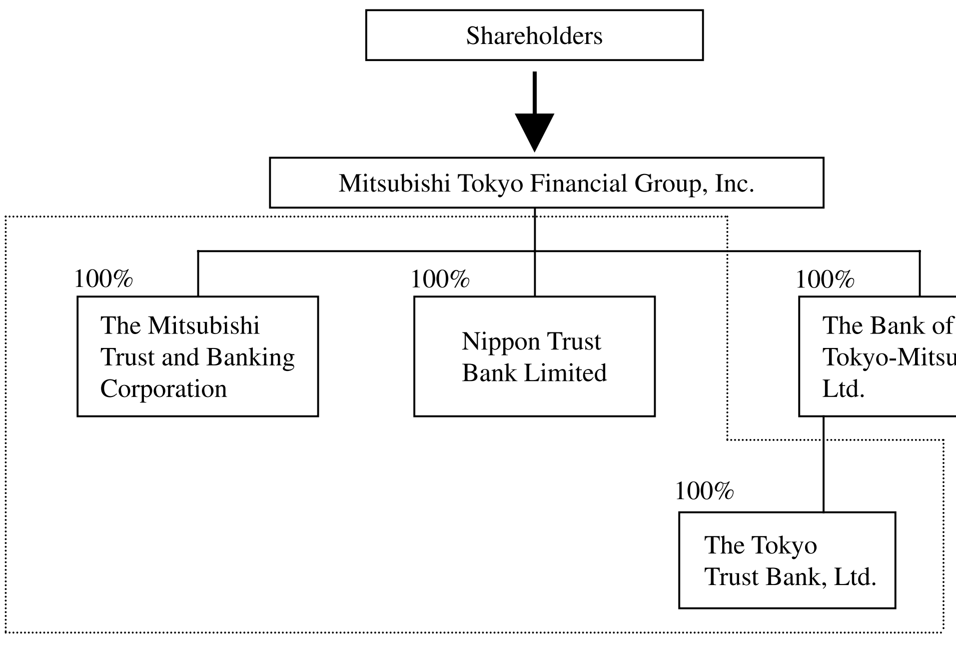
The registered head office of MTBC is at 11-1, Nagatacho 2-chome, Chiyoda-ku, Tokyo 100-8212, Japan.

MTBC traces its history to The Mitsubishi Trust Company, Limited, which was founded by the leading members of the Mitsubishi group on March 10, 1927. The Japanese banking and financial industry was reconstructed after World War II and in 1948 it was authorized to engage in the commercial banking business, in addition to its trust business, under the new name Asahi Trust & Banking Corporation. In 1952 it changed its name again, this time to The Mitsubishi Trust and Banking Corporation.

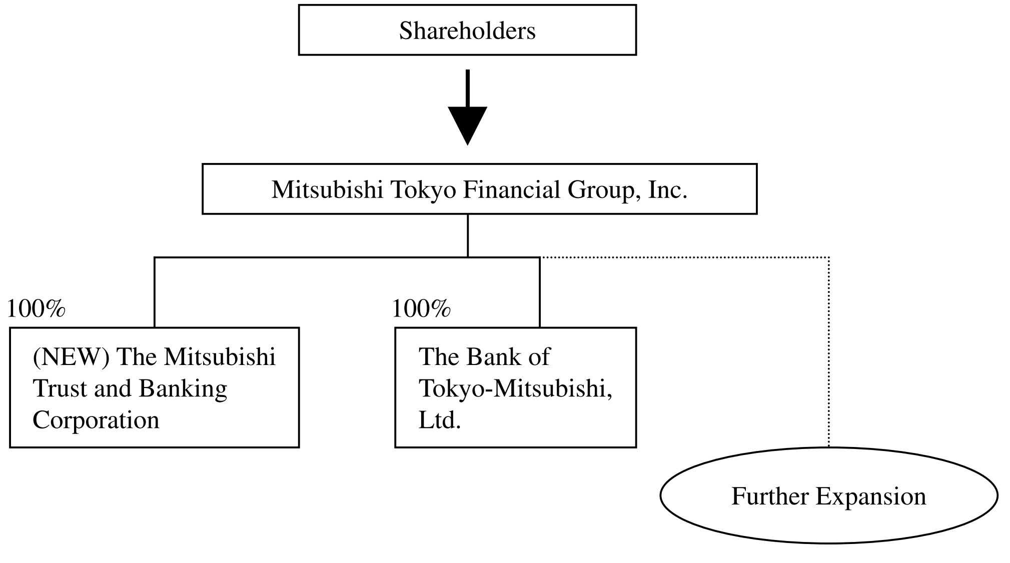
Organizational Structure

On April 19, 2000, BTM and MTBC agreed to integrate their operations by establishing a holding company. The integration also includes a scheme under which Nippon Trust Bank Limited and The Tokyo Trust Bank, Ltd. will merge with and into MTBC.

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



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



Management Discussion and Analysis

Business Environment

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

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

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

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

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

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

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

Recent Developments

Developments in the Japanese banking industry including mergers among Japan's other major banks

Integrations and mergers among several other major Japanese banks took place at almost the same time as the integration of BTM and MTBC. On September 29, 2000, three of Japan's larger banks, The Fuji Bank, Limited, The Dai-Ichi Kangyo Bank Limited and The Industrial Bank of Japan, Limited established Mizuho Holdings, Inc. by way of a stock-for-stock exchange, and each of the three banks became a wholly-owned subsidiary of the holding company.

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

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

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

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

Emergency economic measures, including acceleration of disposals of nonperforming loans

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

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

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

Overview
Mitsubishi Tokyo Financial Group, Inc.

Effects of Integration

The business combination between BTM and MTBC which resulted in the establishment of MTFG on April 2, 2001, has been accounted for as a pooling of interests. Unaudited pro forma combined financial statements present the financial condition and results of operations of BTM and MTBC, including their subsidiaries, as if this business combination had been in effect for all periods presented. See "Unaudited Pro Forma Combined Condensed Financial Statements" and "Notes to Unaudited Pro Forma Combined Condensed Financial Statements."

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

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

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

Strength of Trust Business

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

Income

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

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

Loan Portfolio and Asset Quality

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

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

	At March 31,		
	1999	2000	2001
	(in billions)		
Nonaccrual loans:			
Domestic	¥ 2,456	¥ 2,069	**¥ 2,067**
Foreign	251	209	**224**
Total	2,707	2,278	**2,291**
Restructured loans:			
Domestic	632	450	**1,856**
Foreign	23	53	**99**
Total	655	503	**1,955**
Accruing loans contractually past due 90 days or more:			
Domestic	78	62	**24**
Foreign	38	2	**3**
Total	116	64	**27**
Total	¥ 3,478	¥ 2,845	**¥ 4,273**
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of total loans	6.32%	5.68%	**8.60%**

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

Sources of Liquidity

The primary source of liquidity is from certificates of deposit and time deposits with a historically high rollover rate from corporate customers and individual depositors. BTM has also issued debentures to retail corporate and individual customers in Japan. Although MTBC, Nippon Trust Bank and Tokyo Trust Bank maintain separate accounts for their trust and banking business, trust account liabilities are available for lending purposes.

The table below sets forth the major financing sources of BTM, MTBC and unaudited pro forma combined amounts at March 31, 2001:

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

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

Capital Resources

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

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

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

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

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

Capital Adequacy

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

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

The Bank of Tokyo-Mitsubishi, Ltd.

BTM and its subsidiaries (“BTM Group”) recorded a net loss of ¥107.7 billion in fiscal 2000, a decline of ¥143.2 billion from net income of ¥35.5 billion in fiscal 1999. The fiscal 1999 net income of ¥35.5 billion compared with a net loss of ¥344.4 billion in fiscal 1998.

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

- Net interest income in fiscal 2000 was ¥796.7 billion, a decrease of ¥89.7 billion, or 10.1%, from ¥886.4 billion in fiscal 1999. The decrease in net interest income was primarily attributable to an increase in average interest-bearing liabilities, a decline in spread under a volatile interest rate environment and intensifying competition for lending customers.

- Provision for credit losses in fiscal 2000 was ¥666.0 billion, an increase of ¥297.4 billion, or 80.7%, from ¥368.6 billion in fiscal 1999. The increase in provision for credit losses was due primarily to a substantial increase in impaired loans, including nonaccrual and restructured loans, under the continuing sluggish economic environment.

- Non-interest income in fiscal 2000 was ¥665.1 billion, an increase of ¥126.0 billion, or 23.4%, from ¥539.1 billion in fiscal 1999. The increase in non-interest income was attributable primarily to an improvement in trading account net losses of ¥18.5 billion in fiscal 1999 to net profits of ¥195.2 billion in fiscal 2000 and an increase in fees and commissions of ¥85.4 billion. These increases were partially offset by a decrease in investment securities gains-net of ¥38.1 billion and the absence of foreign exchange gains-net in fiscal 2000. In fiscal 1999, foreign exchange gains-net of ¥117.3 billion were reported.

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

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

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

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

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

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

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

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

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

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

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

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

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

At March 31, 2001, loans of BTM Group decreased to ¥40.18 trillion, down ¥0.79 trillion, or 1.9%, from ¥40.97 trillion at March 31, 2000. The decrease of ¥0.79 trillion in loans reflected a decrease of ¥2.45 trillion in domestic loans due primarily to the weak domestic markets, partially offset by an increase of ¥1.66 trillion in foreign loans due primarily to the effect of the yen depreciation. At March 31, 2001, investment securities increased to ¥16.31 trillion, up ¥2.64 trillion, or 19.3%, from ¥13.67 trillion at March 31, 2000. The increase of ¥2.64 trillion in investment securities primarily reflected an increase in Japanese national government bonds resulting from the introduction of the system of real-time gross settlement, partially offset by a decrease in fair value of marketable equity securities in the declining Japanese stock markets.

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

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

The Mitsubishi Trust and Banking Corporation

MTBC and its subsidiaries (“MTBC Group”) recorded net income of ¥36.9 billion in fiscal 2000, up ¥120.2 billion from a net loss of ¥83.3 billion in fiscal 1999. The fiscal 1999 net loss of ¥83.3 billion compares with a net loss of ¥136.3 billion in fiscal 1998.

MTBC Group’s fiscal 2000 income before income tax expense was ¥86.2 billion, up ¥212.8 billion from a loss before income tax benefit of ¥126.6 billion in fiscal 1999. The fiscal 1999 loss before income tax benefit reflected a rise of ¥42.4 billion from a loss before income tax benefit of ¥169.0 billion in fiscal 1998. In the last three fiscal years, MTBC Group’s financial results have been largely affected by Japan’s severe economic conditions and significant volatility in the domestic and overseas financial markets. The highlights for MTBC Group’s fiscal 2000 were as follows:

- Net interest income in fiscal 2000 was ¥176.6 billion, a decrease of ¥17.5 billion, or 9.0%, from ¥194.1 billion in fiscal 1999. The decrease in net interest income was primarily attributable to a decline in interest margins.
- Provision for credit losses in fiscal 2000 was ¥131.1 billion, an increase of ¥127.3 billion from ¥3.8 billion in fiscal 1999. The increase in provision for credit losses was due primarily to the adoption of a stricter assessment process and more conservative provisioning for loans.
- Non-interest income in fiscal 2000 was ¥272.4 billion, an increase of ¥154.3 billion, or 130.6%, from ¥118.1 billion in fiscal 1999. The increase in non-interest income was attributable primarily to an improvement in net trading account losses of ¥124.6 billion in fiscal 1999 to net profits of ¥34.5 billion in fiscal 2000 and an increase in net investment securities gains of ¥114.3 billion in fiscal 2000 from net investment losses of ¥52.7 billion in fiscal 1999. The increase in net trading account profits was principally attributable to the increase in profit arising from MTBC Group’s interest rate derivative portfolio.
- Non-interest expenses in fiscal 2000 were ¥231.6 billion, a decrease of ¥203.4 billion, or 46.8%, from ¥435.0 billion in fiscal 1999. The decrease primarily reflected the absence of net trading account loss of ¥124.6 billion and net investment securities losses of ¥52.7 billion in fiscal 1999. The decrease in net foreign exchange losses of ¥29.9 billion also contributed to the decrease of non-interest expense in the fiscal 2000.

MTBC Group has foreign operations and a substantial portion of its businesses is in foreign markets. The following table sets forth total revenue, income (loss) before income tax expense or benefit and net income (loss) on a geographic regional basis (domestic and foreign), based principally on the domicile of activities in fiscal 1998, 1999 and 2000:

	Fiscal 1998	Fiscal 1999	Fiscal 2000
	(in billions)		
Revenue (see Note):			
Domestic	¥ 327.4	¥ 291.4	**¥434.2**
Foreign	667.9	216.5	**308.9**
Total	¥ 995.3	¥ 507.9	**¥743.1**
Income (loss) before income tax expense or benefit:			
Domestic	¥(287.6)	¥ 15.0	**¥ 28.3**
Foreign	118.6	(141.6)	**57.9**
Total	¥(169.0)	¥(126.6)	**¥ 86.2**
Net income (loss):			
Domestic	¥(238.4)	¥ 80.2	**¥(19.0)**
Foreign	102.1	(163.5)	**55.9**
Total	¥(136.3)	¥ (83.3)	**¥ 36.9**

Note—For the discussion of components of revenue, see Note 25 of the notes to the Consolidated Financial Statements of MTBC.

MTBC Group’s domestic revenue in fiscal 2000 increased to ¥434.2 billion, up ¥142.8 billion, or 49.0%, from ¥291.4 billion in fiscal 1999. The fiscal 1999 domestic revenue decreased ¥36.0 billion, or 11.0%, from ¥327.4 billion in fiscal 1998. The fiscal 2000 increase in domestic revenue was primarily attributable to an increase in non-interest income, in particular, net investment securities gains and net trading account profits. The fiscal 1999 decrease in domestic revenue was attributable primarily to a decrease in interest income reflecting lower market rates together with a decrease in non-interest income, particularly net trading account profits.

MTBC Group's foreign revenue in fiscal 2000 increased to ¥308.9 billion, up ¥92.4 billion, or 42.7%, from ¥216.5 billion in fiscal 1999. Total foreign revenue in fiscal 1999 decreased ¥451.4 billion, or 67.6%, from ¥667.9 billion in fiscal 1998. The fiscal 2000 increase primarily reflected an increase in non-interest income, in particular, net trading account profits arising from derivative transactions and an increase in interest income resulting principally from the yen depreciation against US dollars and other foreign currencies. The fiscal 1999 decrease in total foreign revenue was due primarily to a decrease in non-interest income, in particular, net trading account profits arising from derivative transactions and a decrease in interest income resulting principally from a decrease in average interest-earning assets.

MTBC Group's income before income tax expense from domestic operations in fiscal 2000 was ¥28.3 billion, an increase of ¥13.3 billion, or 88.7%, from ¥15.0 in fiscal 1999. Income before income tax expense from domestic operations in fiscal 1999 was ¥15.0 billion, an increase of ¥302.6 billion from loss before income tax benefit from domestic operations of ¥287.6 billion in fiscal 1998. The fiscal 2000 increase was due primarily to an increase in net investment securities gains partially offset by an increase in provision for credit losses for domestic borrowings with deteriorating financial conditions. The fiscal 1999 increase in income before taxes from domestic operations was due primarily to a decrease in the provision for credit losses.

MTBC Group's income before income tax expense from foreign operations in fiscal 2000 was ¥57.9 billion, an increase of ¥199.5 billion, or 140.8%, from loss before income tax benefit from foreign operations of ¥141.6 billion in fiscal 1999. Loss before income tax benefit from foreign operations in fiscal 1999 decreased ¥260.1 billion from income before income tax benefit from foreign operations of ¥118.6 billion in fiscal 1998. The fiscal 2000 increase was due primarily to an increase in non-interest income resulting from the inclusion of net investment securities gains and in net trading account profits and the absence of net investment securities losses and net trading account losses recorded in fiscal 1999. The fiscal 1999 decrease was due primarily to an increase in non-interest expenses, in particular, net trading account losses and net foreign exchange losses.

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

	At March 31,	
	2000	2001
	(in trillions)	
Domestic	¥12.88	**¥13.76**
Foreign	3.71	**4.01**
Total	¥16.59	**¥17.77**

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

As mentioned in Note 1 of the notes to Consolidated Financial Statements of MTBC, MTBC Group restated the consolidated financial statements in accordance with the collateral provisions of the Statement Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125". Also the consolidated balance sheet at March 31, 2000 was reclassified to conform to the fiscal 2000 presentation. Total assets at March 31, 2000, as restated, were ¥16.59 trillion, a decrease of ¥1.59 trillion from ¥18.18 trillion previously reported. Total liabilities at March 31, 2000, as restated, were ¥15.62 trillion, a decrease of ¥1.59 trillion from ¥17.21 trillion previously reported.

MTBC Group's total assets at March 31, 2001 were ¥17.77 trillion, representing an increase of ¥1.18 trillion, or 7.1%, from ¥16.59 trillion at March 31, 2000. Total liabilities at March 31, 2001 were ¥16.89 trillion, representing an increase of ¥1.27 trillion, or 8.1%, from ¥15.62 trillion at March 31, 2000. The fiscal 2000 increase of ¥1.18 trillion in total assets was due primarily to an increase in loans (before allowance for credit losses) of ¥0.42 trillion and an increase in securities available for sale of ¥0.95 trillion. The fiscal 2000 increase of ¥1.27 trillion in total liabilities was due primarily to an increase of ¥1.52 trillion in deposits and an increase of ¥0.28

trillion in payables under repurchase agreements, partially offset by a decrease of ¥0.59 trillion due to trust account.

At March 31, 2001, loans increased to ¥9.55 trillion, up ¥0.42 trillion, or 4.6%, from ¥9.13 trillion at March 31, 2000. The increase of ¥0.42 trillion in loans reflected an increase of ¥0.45 trillion in domestic loans due primarily to an increase in loans to Japanese national government; foreign loans decreased slightly. At March 31, 2001, investment securities increased to ¥6.01 trillion, up ¥0.98 trillion, or 19.5%, from ¥5.03 trillion at March 31, 2000. The increase of ¥0.98 trillion in investment securities primarily reflected an increase in Japanese national government bonds, partially offset by a decrease in fair value of marketable equity securities in the declining stock markets. MTBC Group increased such Japanese national government bonds for the purposes of the system of realtime gross settlement (''RTGS'') and collateral for the credit lines established with The Bank of Japan.

Total shareholders' equity decreased ¥85.8 billion from ¥967.8 billion at March 31, 2000 to ¥882.0 billion at March 31, 2001, and the ratio of total shareholders' equity to total assets also decreased by 0.87% from 5.83% at March 31, 2000 to 4.96% at March 31, 2001. The decrease in total shareholders' equity in fiscal 2000, and the resulting decrease of the ratio to total assets, were principally attributable to a ¥107.3 billion decrease in net unrealized gains on investment securities available for sale, net of taxes.

Total assets accepted in trust at MTBC as of March 31, 2001, increased to ¥36.4 trillion, up ¥2.0 trillion from ¥34.4 trillion (in accordance with accounting principles and practices prevailing in the trust banking industry in Japan). Trust assets that MTBC Group holds in an agency, fiduciary or trust capacity are not included in the audited consolidated financial statements of MTBC.

Lines of Business
The Bank of Tokyo-Mitsubishi, Ltd.

■ Business Segment Analysis

On July 1, 2000, BTM restructured its operations, based on customer and product segmentation. BTM offers its products and services through:

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

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

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

- Treasury—responsible for BTM Group's asset and liability management and liquidity
- eBusiness & IT Initiatives—responsible for developing information technology business opportunities

BTM Group measures the performance of each business unit in terms of "operating profit", which is a defined term in Japanese banks' regulatory reportings to the Financial Services Agency. Operating profit and other segment information is based on 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 measurement of "operating profit" are discussed in Note 26 of the notes to the Consolidated Financial Statements of BTM.

The following table shows the business segment information in fiscal 1999 and 2000 based on the new basis of segmentation implemented in July 2000. And also, the business units' results 1999 in the following table were restated to reflect the reorganizational changes.

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

Notes:

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

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

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

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

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

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

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

A detailed discussion of developments in BTM Group's major business units follows.

■ Retail Banking Business Unit

BTM Group's Retail Banking business unit provides a full range of banking products and services including consulting and other high value-added services, for individual and small corporate customers in Japan. With around 7,000 staff, the Retail Banking business is BTM Group's largest business unit. Recently the unit has been focusing on improving its distribution channels by reorganizing at branch level and further developing its direct distribution channels including E-net ATMs, Tokyo-Mitsubishi Direct, cash management services, mail order and credit cards. As of March 31, 2001, the domestic network included 278 branches, 31 sub-branches, two agencies, 53 loan plazas, 569 branch ATMs, and 1,391 E-net ATMs.

Products and services

Deposits and loans. BTM deposit products include a multiple purpose bank account, which incorporates ordinary deposits into overdrafts collateralized by time deposits, bank debentures and public bonds held in custody, and a 'Superpack', which automatically converts balances in ordinary deposits into higher interest-earning time deposits. BTM Group also offers housing loans, educational loans, special purpose loans, card loans and other loans to individuals.

Investment trusts. BTM Group offers 22 equity and bond funds (including Master Visions), and a program fund (M•CUBE Program), each of which has been selected from the point of view of risk diversification and its ability to meet customer needs.

Tokyo-Mitsubishi Direct. Tokyo-Mitsubishi Direct is a banking service which enables customers to obtain banking services on the telephone, over the Internet, or from a mobile phone Internet system such as NTT DoCoMo's i-mode or J-PHONE's J-Sky. These services are available 24 hours a day and, in the case of telephone banking, the service is fully staffed around the clock. The number of customers using the service has grown steadily since it was launched in September 1999, and as of March 2001 more than 700,000 of BTM Group's customers, approximately 5% of BTM Group's total individual customers, use the service.

Credit Cards. BTM Group has formed alliances with the world's two largest credit card companies, VISA and MasterCard, with the result that the Tokyo-Mitsubishi Card is available throughout the world. BTM Group issues a variety of credit cards to customers through its subsidiaries, DC Card Co., Ltd. and Tokyo Credit Service, Ltd.

Review of fiscal 2000

In January 2001, BTM launched its new 'MAIN BANK' service, which offers customers various benefits depending on their business transactions with BTM. The service is tailored to provide a comprehensive solution to the various financial requirements (wealth creation, asset management, housing loans, etc.) that arise at the different stages of customers' lives. Its benefits include advantageous interest rates and discounted commissions. The 'Super Ordinary Deposits' of customers who use this service attract higher interest rates and lower charges the more a customer does business with BTM. These accounts have proved to be popular with its customers. As of March 2001, approximately 63,000 customers had opened Super Ordinary Deposits with total balances of approximately ¥117.1 billion.

In December 2000, BTM Group introduced a new type of investment trust under the name MV (Master Vision). This fund of funds brings together a selection of funds, each of which invests in a different asset class, into a single fund, which is managed and invested by Tokyo-Mitsubishi Asset Management, Ltd. The product was designed with long-term wealth creation in mind, and is offered for minimum investments of ¥100,000. It draws on the expertise of the Frank Russell Group, which has built an outstanding track record around the world as a consultant in the field of public and corporate pension management.

In November 2000, BTM introduced a two-year foreign currency deposit for individuals, a first for Japanese banks.

In December 2000, Tokyo-Mitsubishi Direct introduced an Internet-based settlement service named ‘e-payment’. This service is unique to BTM in Japan and enables users to settle online purchases with ease 24 hour a day. Tokyo-Mitsubishi Direct customers can use this service without completing any further application forms.

Strategy

BTM Group’s strategy for the Retail Banking business unit is to:

- Provide individual customers with packaged products and services appropriate for their business volume with BTM Group.
- Increase customer convenience and become more cost effective by expanding direct channels such as Tokyo-Mitsubishi Direct and E-net ATMs.
- Deploy experienced, highly skilled private bankers, financial planners, and life planners to provide agency services for customers, offer consulting and advisory services, and provide financial products and services tailored to individual needs.
- Utilize Tokyo-Mitsubishi Direct as a key tool in BTM Group’s Information Technology strategy and expand its customer base by marketing its enhanced services, and strengthening its investment trust, foreign currency deposit, and other asset management services in anticipation of the introduction of a defined contribution retirement plan in Japan.
- Seek synergies with MTBC by:
  - — cutting costs and improving efficiency through sharing branch facilities,
  - — jointly develop and market investment products, and
  - — integrating business strategy.

■ Commercial Banking Business Unit

BTM Group’s Commercial Banking business unit provides banking products and services including sophisticated consultancy services to meet the needs of a broad range of customers, from large corporations to medium-sized and small businesses. Including the individuals associated with those businesses, the Commercial Banking business unit has approximately 160,000 customers.

The Commercial Banking business unit has approximately 1,900 relationship managers and staff deployed nationwide in approximately 180 offices. With the support of approximately 700 head office staff, including highly skilled experts in the field, the relationship managers and staff work with other business units and affiliated companies to provide customers of the Commercial Banking business unit with “total solutions”.

Review of fiscal 2000

In fiscal 2000 BTM Group established a wholly owned subsidiary administered by the Commercial Banking business unit, Tokyo Diamond Servicer Co., Ltd., to oversee BTM Group’s loan collection activities.

In addition to centralizing and improving the efficiency of BTM Group’s loan collection operations, Tokyo Diamond Servicer will also focus on building BTM Group’s expertise in loan collection operations. To this end, it will concentrate on the collection of BTM Group’s non-performing loans, primarily commercial loans, and loans sold to investors by bulk sales.

Strategy

BTM Group's strategy for the Commercial Banking business unit is to:

- Effectively manage BTM Group's assets, including by increasing good quality loans and strategically managing problem loans.
- Maximize earnings by:
  - — further refining group strategy including that of BTM's subsidiaries,
  - — establishing an organizational framework that will enable BTM Group's offices to develop their fee-based businesses, and
  - — securing a leading position in the field of B2B business through sophisticated basic infrastructure and the development of new business models.
- Collaborate with other business units including:
  - — the Retail Banking business unit in the area of banking services for corporate owners and employees,
  - — the Global Corporate Banking business unit, including BTM's overseas branches, in the area of tie-ups between the domestic and overseas branch networks, and
  - — the Investment Banking business unit and Treasury unit in the area of market-related businesses such as the promotion of derivatives and foreign exchange products.
- Undertake other businesses through Tokyo Diamond Servicer, including handling the loan servicing requirements of the Group, such as loan collections of other financial institutions, purchased loans and securitized loans.

■ Global Corporate Banking Business Unit

BTM Group's Global Corporate Banking business unit provides a full range of banking services to large Japanese corporations and their overseas subsidiaries, as well as the overseas subsidiaries of corporate clients of the Commercial Banking business unit, and non-Japanese corporations and their subsidiaries worldwide. BTM Group serves these customers through a global network of 58 overseas branches and sub-branches, 18 representative offices, and BTM Group's overseas banking subsidiaries. At March 31, 2001, the unit had approximately 5,800 staff, including around 5,000 locally employed staff working for BTM Group's overseas branches and subsidiaries.

Review of fiscal 2000

Japan's business climate started to deteriorate in the second half of fiscal 2000. While some corporations and industries have continued to perform well, the stronger their cash flow and the better their overall performance, the greater has been their tendency to write down unrealized losses and reduce interest-bearing liabilities in preparation for the introduction of 'mark to market' accounting rules under Japanese GAAP in fiscal 2001. As a result, BTM Group's loans to Japanese corporations have declined.

On the other hand, BTM Group has achieved growth in its loan/credit businesses with non-Japanese corporate customers for the first time in several years. This positive development is partly the result of BTM Group's strong marketing efforts to enhance relationships with major leading non-Japanese corporate clients. BTM Group has successfully established core bank relationships with many of those clients.

In Japan, business restructuring has led to strategic alliances and mergers and acquisitions on a much greater scale. BTM Group has responded to this trend by providing its customers with strategic business advice, and by offering appropriate solutions to the challenges brought about by these changes. BTM Group's services and solutions in this area are highly regarded by its customers.

In the information technology area, BTM Group started providing newly advanced cash management services designed to meet the increasingly sophisticated needs of its clients. Since the introduction of these new products, BTM Group has successfully strengthened its presence in this product area, particularly in Asian markets. The number of countries where the new services are available is gradually increasing, and clients in

Vietnam and parts of China will also be able to use the service from fiscal 2001.

Strategy

BTM Group's strategy for the Global Corporate Banking business unit is to:

- Identify clear business objectives and action plans for each of BTM Group's clients, and strongly pursue business in a globally consistent manner in close coordination with the product offices in charge of value-added products that BTM Group believes will appeal to those clients.
- Provide both conventional banking services and high value-added solutions tailored to the sophisticated needs of BTM Group's customers in such areas as mergers & acquisitions, cash management, asset securitization and e-banking.
- Pursue close collaboration with other business units such as the Investment Banking business unit.
- Maximize synergies with MTBC by increasing cooperation in the areas of pension trust and real estate services.
- Pursue further efficiency in the operation of BTM Group's global overseas office network particularly by upgrading overseas systems infrastructure and developing 'hub-and-spoke' approach to back-office operations.
- Further enhance systematic corporate management and risk management by utilizing advanced systems infrastructure.

■ Investment Banking Business Unit

BTM Group's Investment Banking business unit provides capital markets, derivatives, structured finance, corporate advisory and securities services to BTM Group's domestic and overseas customers. In recent years, deregulation in Japan and an increased demand for direct financing and cross-border transactions have created new business opportunities in the investment banking arena. In order to take advantage of these opportunities, during fiscal 2000 BTM Group's Investment Banking business unit implemented a new system which aligned all of BTM subsidiaries and affiliates globally by business type. For each business category, an individual has been assigned as Global Head to be responsible for BTM Group's business on a global basis across all its entities within the particular category. The Investment Banking business unit is led by seven Global Heads, under the supervision of the business unit chief executive.

BTM Group conducts some of its investment banking business directly, but for regulatory reasons, it conducts most of its securities business through subsidiaries and affiliates.

Products and Services

Derivatives. BTM Group's Investment Banking business unit structures derivatives products to suit its customers' financial challenges and enhance their business performance. The unit also conducts derivatives trading for its own account. In order to provide seamless service for the global activities of BTM Group's customers, the unit maintains four major trading desks in Tokyo, Singapore, London and New York. BTM Group's operation is highly regarded in the derivatives market in Tokyo not only as one of the major market makers but also as the leading institution in the development of credit derivatives and weather derivatives. In June 2000, BTM ranked first among Japanese banks in the foreign exchange and interest rate derivatives markets in Japan, according to the league table compiled by Asia Risk Magazine.

Securitization. In the securitization area, BTM Group's Investment Banking business unit is primarily engaged in asset-backed commercial paper programs and the development of other asset-backed securities involving the securitization of its customers' assets, as well as its own. BTM Group is also engaged in securitizing residential mortgage loans and real estate and expects significant and rapid growth in this market, BTM Group has securitization teams based in Tokyo, New York, London, Hong Kong and Singapore. BTM Group's asset-backed commercial paper outstanding balance as of March 2001 was over ¥1,780 billion (US$14 billion), which makes BTM Group one of the largest sponsors worldwide.

Syndicated Loans. Syndicated loan markets are rapidly growing in Japan and overseas. Through BTM Group's syndicated loan teams in Tokyo, Hong Kong, Singapore, London and New York, BTM Group provides first class services to its customers. BTM Group is one of the leading Japanese syndication houses, and intends to further strengthen this business on a global basis.

Structured Finance. In the structured finance area, BTM Group offers a wide range of innovative financial services for project finance, lease finance, real estate finance and other types of non-recource financings. BTM Group provides a complete financial package to its customers, including financial advisory (FA) services, debt arrangements, financings, and agency services in these highly competitive markets. BTM Group provides professional services on a global basis in conjunction with its international teams located in Tokyo, Hong Kong, Singapore, London, New York, Boston and Los Angeles. In fiscal 2000, BTM Group successfully arranged project financings with total assets of US$1.3 billion, and was ranked 18th among global lead arrangers by the Project Finance International Magazine.

Corporate Advisory Services. Mergers & acquisitions (“M&A”) activity in Japan is expanding as consolidation among both domestic and international companies becomes increasingly common. BTM Group’s M&A teams in Tokyo, New York and Singapore work together closely to render advisory services for both domestic and cross-border transactions, representing not only Japanese clients but also non-Japanese clients. In 2000, BTM ranked first among Japanese M&A advisors in the Japanese market according to the league table compiled by Thomson Financial Securities Data.

Securities Services. BTM Group provides commissioned company services for bonds issued in Japan by domestic and foreign issuers. BTM Group acts as the representative commissioned company for bondholders and also as the paying agent and recording agency. During fiscal 2000, BTM Group acted as the commissioned company or fiscal agent for a total of 448 domestic bond issues, including public offerings and private placements, totaling ¥1,837.3 billion (US$14.64 billion).

Services Offered Through Subsidiaries and Affiliates

Securities Services

In Japan, BTM Group’s wholesale securities business is conducted through Tokyo-Mitsubishi Securities Co., Ltd. Tokyo-Mitsubishi Securities derives most of its net revenue from sales, trading, underwriting and the distribution of fixed income and equity products. Since its start in 1994 as a bond house, Tokyo-Mitsubishi Securities has grown to become a major player in the Japanese fixed income market. The Company launched its equity operations in October 1999, and established a strong presence during fiscal 2000, including acting as lead manager for several public stock offerings. In July 1999, BTM and MTBC consolidated the operations of Tokyo-Mitsubishi Securities and Mitsubishi TB Securities Co., Ltd.

On December 15, 1999, BTM and KOKUSAI Securities Co., Ltd. entered into a business affiliation agreement. In November 2000, BTM Group further increased its stake in KOKUSAI Securities to 32.7%. KOKUSAI Securities has lent significant sales support to several IPOs lead managed by Tokyo-Mitsubishi Securities. In addition, Tokyo-Mitsubishi Asset Management has set up funds in cooperation with KOKUSAI Securities, which are available only through KOKUSAI Securities.

BTM Group’s domestic retail securities business is operated through Tokyo-Mitsubishi Personal Securities Co., Ltd., which has 11 branches in the Tokyo area and 7 branches in the Osaka area. Tokyo-Mitsubishi Personal Securities offers sales and dealing in public bonds, corporate bonds, equities and other securities services.

Tokyo-Mitsubishi TD Waterhouse Securities Co., Ltd., a joint venture among BTM and TD Waterhouse Group, Inc. of the U.S., was established in March 2000 and started online trading services in July 2000. Tokyo-Mitsubishi TD Waterhouse Securities offers Japanese and U.S. equities, mutual funds and covered warrants through several sales channels including the Internet, call centers with 24 hour a day, 365 days a year operator assistance, “push-phone trading” and NTT DoCoMo’s i-mode.

Tradeone Systems Co., Ltd. is a joint venture among BTM Group, KOKUSAI Securities and Japan Future Information Technology & Systems Co., Ltd. It was established in March 2001. Tradeone Systems is a securities back office firm targeting mainly online securities brokers in Japan.

Overseas, London-based Tokyo-Mitsubishi International plc heads BTM’s securities business in the Euromarkets, including bond underwriting, structured bonds and equity operations. In addition, Tokyo-Mitsubishi International acts as the European hub of the Investment Banking business unit, covering BTM Group's German, Swiss and Spanish subsidiaries. BTM Group's global financial services are also offered through investment banking subsidiaries in Hong Kong and Singapore, and a securities subsidiary in the United States.

Other Services

In the U.S., BTM Group maintains two leasing subsidiaries, BTM Capital Corporation and BTM Leasing and Finance, Inc. BTM Capital, formerly a leasing subsidiary of the Bank of New England, offers a wide range of leasing services to BTM Group's non-Japanese customers. BTM Leasing and Finance targets the U.S. subsidiaries and affiliates of Japanese corporations.

Strategy

BTM Group's strategy for the Investment Banking business unit includes:

- Coordinating activities of BTM Group's domestic securities subsidiaries, Tokyo-Mitsubishi Securities, Tokyo-Mitsubishi Personal Securities and KOKUSAI Securities to be able to provide better and more diverse securities products and services to BTM Group's institutional and individual customers.
- Strengthening BTM Group's global operations, which began in 2000, by focusing on and allocating resources to more profitable markets for each business category.
- Allocating resources to new and strategic business areas including business risk derivatives, J-Reit (real estate securitization in Japan), secondary loan trading, and the private equity and venture capital business.
- Integrating product office functions within the Group, and cross-selling investment banking products and services to all of BTM Group's customers throughout the Group.

■ Asset Management Business Unit

BTM Group's Asset Management business unit is responsible for BTM Group's asset management and trust operations, which BTM Group conducts mainly in Japan. BTM Group's asset management operations are performed by several parts of BTM Group's organization, including divisions within BTM, BTM's trust banking subsidiary, Tokyo Trust Bank, and BTM's asset management subsidiary, Tokyo-Mitsubishi Asset Management, Ltd. In addition, until its integration with MTFG on April 2, 2001, certain of BTM Group's trust and asset management operations were also performed by Nippon Trust Bank, which was then BTM's subsidiary.

In October 2001, Nippon Trust Bank and Tokyo Trust Bank will merge with MTBC. BTM and MTBC aim to expand their market share in the asset management business and the trust and fiduciary business through their extensive expertise.

Products and Services

Asset Management and Trust Operations

Tokyo-Mitsubishi Asset Management provides investment management and advisory services for institutional investors including pension funds and investment trust products. Taking advantage of industry deregulation, Tokyo-Mitsubishi Asset Management has been expanding its investment trust product line and distribution channels. In June 2000, Tokyo-Mitsubishi Asset Management launched the "Tokyo-Mitsubishi/Mellon Global Innovation fund", a fund jointly managed with Newton Investment Management Limited through KOKUSAI Securities. Also in December 2000, Tokyo-Mitsubishi Asset Management launched its first fund of funds called "MV" co-developed with Frank Russell Investments (Japan), Ltd.

As of March 2001, more than 50 Japanese financial institutions, including BTM, were marketing Tokyo-Mitsubishi Asset Management, Ltd.'s products. The net investment trust assets of Tokyo-Mitsubishi Asset Management reached ¥378.5 billion as of March 31, 2001, an increase of 73.8% from ¥217.8 billion a year ago.

Until its integration with MTFG on April 2, 2001, Nippon Trust Bank was one of BTM's subsidiaries. Nippon Trust Bank has full trust powers and offers a full range of trust-related services, including pension, securities, real estate and testamentary trusts, other specialized asset management services and proxy services. Tokyo Trust Bank specializes in securities lending and repurchase agreements. It is also increasing its trust asset business, mainly by managing securities trusts.

In March 2001, in a significant step for BTM Group's Japanese defined contribution retirement plan business, BTM Group established Defined Contribution Plan Consulting of Japan Co., Ltd. ("DCJ") in cooperation with other Mitsubishi group financial institutions. DCJ has capital of ¥3 billion, and is currently in the initial operating stage. With the introduction of defined contribution pensions in October 2001 DCJ will provide the following services in accordance with The Defined Contribution Plan Law, which was passed by the Diet in June 2001.

- Operative and administrative services (record keeping and investment related), which will be prescribed in the Defined Contribution Plan Law
- Consultation services for companies planning to introduce defined contribution plans
- Educational services for participants

Since April 2000, BTM Group has substantially expanded its mutual fund product line-up, which mainly contains products managed by Tokyo-Mitsubishi Asset Management. These include some innovative products such as "MV," a jointly produced fund of funds by Tokyo-Mitsubishi Asset Management and Frank Russell Company, and "Royal Select" which is also co-produced by Tokyo-Mitsubishi Asset Management and Schroder Investment Management (Japan), Ltd. BTM Group also continues to maintain a mutually beneficial business relationship with Mellon Bank N.A. and its asset management affiliates.

Custody

BTM Group offers custody services for securities investment in Japan by foreign investors. BTM Group also provides global custody services for Japanese investors using sub-custodians. The average balance of assets under BTM Group's custody during fiscal 2000 was approximately ¥56 trillion, which represented a 6% increase from the previous year.

In BTM Group's custody services for securities investment in Japan, BTM Group serves a range of overseas institutional investors including banks, insurance companies, major global custodians, central banks and international settlement organizations. As a global custodian, BTM Group primarily serves Japanese customers in the field of offshore securities investment. BTM Group's Japanese customers include insurance companies, trust banks and regional banks.

Custody operations increasingly demand significant information technology investments. As a result, there has been a significant consolidation among market participants within Japan and throughout the global custody industry worldwide. Despite this, BTM maintains the largest market share in custody services both for securities investment in Japan by foreign investors and for offshore securities investment by Japanese investors.

Strategy

BTM Group's strategy for the Asset Management business unit is to take advantage of greater market opportunities resulting from the deregulation of the Japanese financial services industry, including:

- Aiming to be the market leader as a "total service provider" in the asset management business,
- Investing to maintain BTM Group's market leader position and generate stable cash flow and pursue low cost operations in high cost business areas, and
- Increasing high growth and high profitability business.

In order to further strengthen and improve BTM Group's custody services, BTM Group continues to make significant investments in information technology. BTM Group's new global custody system named "CASTLE" will be released on October 2001, and enhancements will be made to the yen custody system to cope with market developments and the migration to ISO15022 messaging standards.

■ UNBC Business Unit (UnionBanCal Corporation)

UnionBanCal Corporation is a 67% owned subsidiary of BTM. A publicly traded company listed on the New York Stock Exchange, UnionBanCal is a U.S. commercial bank holding company incorporated in the State of California in 1952 and is among the oldest banks on the West Coast, having roots as far back as 1864. UnionBanCal was formed as a result of the combination of Union Bank with BanCal Tri-State Corporation on April 1, 1996. Union Bank of California, N.A., UnionBanCal's bank subsidiary, is the third largest commercial bank in California based on total assets and total deposits.

UnionBanCal provides a wide range of financial services to consumers, small businesses, middle-market companies and major corporations, primarily in California, Oregon, and Washington, but also nationally and internationally.

UnionBanCal's operations are divided into four primary groups.

The Community Banking and Investment Services Group (retail banking group) offers customers a complete spectrum of financial products under one convenient umbrella. With a full line of checking and savings, investment, loan and fee-based banking products, individual and business clients, including not-for-profit, small and institutional investors, can each have their specific needs met through its full service branches. In addition, the group offers international and settlement services, e-banking through its web site, check cashing services at Cash & Save locations and tailored loan investment products to high net worth customers. Institutional customers are offered employee benefit, 401 (k) administration, corporate trust, securities lending and custody services. The group also includes a registered investment advisor.

The Commercial Financial Services Group offers a variety of commercial financial services, including commercial and project loans, real estate financings, asset-backed and leveraged commercial financing, trade finance and letters of credit, lease financing, customized cash management services and selected capital markets products. The group's customers include middle-market companies, large corporations, real estate companies and other more specialized industry customers. In addition, specialized depository services are offered to title and escrow companies, retailers, domestic financial institutions, bankruptcy trustees and other customers with significant deposit volumes.

The International Banking Group primarily provides correspondent banking and trade finance-related products and services to financial institutions worldwide, primarily in Asia. This focus includes products and services such as letters of credit, international payments, collections and financing of mostly short-term transactions. The group also serves foreign firms and U.S. corporate clients in selected countries worldwide, particularly in Asia. This group has a long and stable history of providing correspondent and trade-related services to international financial institutions.

The Global Markets Group collaborates with UnionBanCal's other business groups to provide customers a broad range of products, including a variety of foreign exchange products and risk management products, such as interest rate swaps and caps. The group trades money market and fixed income securities in the secondary market and serves institutional investment needs.

Review of Fiscal 2000

During the year, the retail banking group was reorganized to include investment services, and BTM Group's "wealth management" services were consolidated, augmented with the acquisition of a leading provider of business trust, custody and high net worth services in the Pacific Northwest. The Commercial Financial Services Group produced strong earnings growth by providing specialized financing expertise to specific geographic markets and industry segments, such as communications, energy, entertainment and retail. Relationship managers and credit executives provided credit services and access to high quality cash management services.

The International Banking Group, affected by slower than expected economic recovery in Asia, experienced a slight decline in profit, while the Global Markets Group experienced a sharp increase in profit, due primarily to higher foreign exchange profits.

Strategy

The Community Banking and Investment Services Group will emphasize growth in the consumer asset portfolio, expanding wealth management services, extending the small business franchise and expanding the branch network. The Commercial Financial Services Group will emphasize growth in loans in core competency markets, expanding capital markets activities, increasing domestic trade financing and expanding the item processing business. Overall, UnionBanCal's business philosophy is to attract high-quality customers by developing a reputation for superior customer service and long-term relationship banking.

■ Operations Services Unit

BTM Group's Operations Services unit provides operations and settlement services to BTM Group's other business units. The unit earns fee income by providing settlement and remittance services, including correspondent banking services, to BTM

Group's customers. The unit also generates profit by offering competitive operations and settlement services to other financial institutions to meet their outsourcing needs.

Operations Services

The Operations Division of BTM Group's Operations Services unit provides operations services for the domestic commercial banking activities of the Retail Banking, Commercial Banking, and Global Corporate Banking business units. During 2000, BTM introduced a new Super Banking Terminal System throughout its domestic branches, which provides efficient operations with image processing and integrated information processing capabilities. BTM expanded centralized processing at its operations centers, which will increase the efficiency of its branch offices. As of March 31, 2001, BTM had made an alliance with nine other regional banks to cooperate with regard to logistics among domestic branches, which will result in more efficient branch network operations.

Correspondent Banking and Settlement

The Global Service Banking Division of BTM Group's Operations Services unit maintains financial institutions' accounts with correspondent arrangements. As of March 31, 2001, BTM had correspondent arrangements with 3,259 foreign banks and other financial institutions, of which 2,040 had yen settlement accounts with BTM. BTM also had correspondent arrangements with 157 Japanese financial institutions, for which BTM held 143 yen and foreign currency accounts.

The Foreign Exchange Yen Clearing System in Japan introduced an entrustment procedure for yen clearing by which banks may entrust other banks to conduct yen clearing for them. BTM Group has the largest share of this business in the market. As of March 31, 2001, 52 regional and foreign banks in Japan outsourced their yen clearing operations to BTM Group. 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. BTM Group handled approximately 25% of these transactions by volume and is a market leader in the yen settlement business.

In January 2001, The Bank of Japan introduced Real Time Gross Settlement (the real time settlement of funds or securities transfers individually on an order-by-order basis without netting) for the Bank of Japan Financial Network System. In addition to providing Real Time Gross Settlement operations for BTM Group operations, BTM Group provides these services to other financial institutions. BTM Group's Settlement Strategy Office is also taking the initiative in global implementation of the Continuous Linked Settlement operation, which is intended to eliminate the settlement risk which can occur when foreign exchange deals are settled.

Settlement is a high volume business, in which only highly efficient, high quality, and low cost service providers can offer the most competitive service. BTM Group expects the trend for the outsourcing of settlements to continue, as Japanese banks continue to restructure their business.

The Global Services Banking Division also offers a foreign remittance service for Japanese financial institutions, under BTM Group's brand name "Global Operation Automatic Link (GOAL)". As of March 31, 2001, 73 Japanese banks utilized this service. Also, the Economic Cooperation Office of the Division provides services related to Japan's official development assistance.

Strategy

BTM Group's strategy for its Operations Services unit is to:

- Enhance the efficiency of BTM Group's operations with advanced information technology, centralization of operations including through the use of hub and spoke systems, and alliances with regional banks with regard to branch network logistics and ATM network operations.
- Expand BTM Group's settlement business and increase its outsourcing business from other financial institutions.
- Seek efficient and innovative operation by utilizing electronic data tools such as Bolero.

■ Treasury Unit

The Treasury unit is in charge of managing BTM's overall funding requirements. The unit is responsible for BTM's asset liability management functions, and manages BTM's debt securities portfolio, foreign exchange and derivatives transactions, including trading, for BTM's own account. It also works with BTM Group's other business units to provide foreign currency futures, currency options, interest rate transactions, commercial paper underwriting, market forecasts and hedging arrangements for BTM Group's customers.

The Treasury unit is active in the world's main financial markets and has global treasury offices in New York, London, Singapore and Hong Kong that operate in unison with the Tokyo head office.

The unit credits BTM Group's Retail Banking, Commercial Banking, Global Corporate Banking business units for funds generated from deposit activities and charges the units for funds provided for lending activities based on an internal transfer pricing system, reflecting current market rates.

Operations

The Treasury unit is responsible for asset liability management for BTM Group's entire organization. It shares the resources of the Corporate Risk Management Office with the Investment Banking business unit. The Treasury unit uses asset liability management in an effort both to control the interest rate and liquidity risks that result from the mix of BTM Group's assets and liabilities and to make it possible for BTM Group to conduct BTM Group's 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, BTM Group currently accounts for approximately 10% of total interbank transactions by volume. BTM Group currently has approximately a 4% share of the total Japanese domestic CD market by volume.

In the international money market, the Treasury unit raises foreign currency funds through interbank transactions, client deposits and certificates of deposit.

BTM Group actively deals in short-term yen-denominated instruments, such as interest rate swaps, futures and futures options. BTM Group is a major market-maker of short-term yen interest rate swaps.

At March 31, 2001, BTM Group had a portfolio of debt securities (including trading account assets and investment securities) with a carrying value of ¥13.77 trillion (US$109.7 billion) (under US GAAP). In securities investments, the Treasury unit holds primarily Japanese and overseas government bonds and corporate bonds. BTM Group is one of the core syndicators in the Japanese government bonds underwriting business. In fiscal 2000, BTM Group underwrote ¥255.7 billion of Japanese government bonds.

In addition, BTM Group is a leading market-maker in the Tokyo over-the-counter currency option market and in the Tokyo foreign exchange market. BTM Group has a large market share of transactions in the dollar-yen sector and in major cross-currencies and currency options trading.

BTM Group actively trades in the secondary market for Japanese government bonds, local government bonds and government-guaranteed bonds. During fiscal 2000, BTM traded an aggregate of ¥60.29 trillion of bonds for BTM's own account.

Strategy

BTM Group's strategy for the Treasury unit is to:

- Be one of the leading banks in world financial markets by increasing the sophistication of BTM Group's Treasury operation, including upgrading BTM Group's market systems.

- Maximize earnings by more effective management of assets and liabilities, including securities portfolios. Stabilize earnings by increasing profit from trading operations and from BTM Group's customer services.

- Upgrade management techniques with regard to interest rate risk and liquidity risk. BTM seeks to introduce more efficient risk management systems in cooperation with the Corporate Risk Management Office and other business units.

■ Recent Developments

Under the reorganization that was implemented on July 1, 2000, BTM has proceeded with the development of operations based on customer and product segmentation. In particular, to further develop our investment banking business, BTM increased by

19.8% its ownership interest in KOKUSAI Securities Co., Ltd., one of the major securities firms in Japan, to 32.7% in November 2000. As a result, BTM now accounts for its investment in KOKUSAI Securities by the equity method.

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

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

The Mitsubishi Trust and Banking Corporation

Business Segment Analysis

MTBC adopted a corporate structure based on "Business Groups"—the Banking Business Group, Trust Assets Business Group, and Global Markets Business Group on April 1, 2000:

- The Banking Business Group comprises retail services, corporate services, treasury operations, stock transfer agency services, and real estate operations. This Business Group employs the largest number of people and functions as the first line of contact with clients.
- The Trust Assets Business Group covers fiduciary asset management and administration services. These are the core functions of a trust bank.
- The Global Markets Business Group is active in both the Japanese and international capital markets.

The financial performance of MTBC's business groups, derived from the internal management reporting system, is summarized below. Business segment information for the prior periods has been restated to reflect organizational changes that have subsequently occurred.

The following table shows the business segment information in fiscal 1999 and 2000 based on the organizational changes implemented in April 2000:

	Banking	Trust Assets	Global Markets	Administration and Adjustments	Segments' Total
			(in billions)		
Fiscal 1999:					
Net Revenue	¥ 121.7	¥ 49.9	¥ 120.6	¥ 29.1	¥ 321.6
Operating expenses	74.9	28.8	16.7	23.3	143.8
Operating Profit	¥ 46.8	¥ 21.1	¥ 103.9	¥ 5.8	¥ 177.7
Fiscal 2000:					
Net Revenue	**¥126.6**	**¥49.9**	**¥101.0**	**¥30.0**	**¥307.6**
Operating expenses	**73.9**	**26.7**	**16.5**	**27.2**	**144.5**
Operating Profit	**¥ 52.6**	**¥23.1**	**¥ 84.5**	**¥ 2.8**	**¥163.0**

Note: A reconciliation of segments' total operating profit with income (loss) before income tax expense or benefit is included in Note 24 of the notes to the Consolidated Financial Statements of MTBC.
All amounts are rounded down to the nearest ¥0.1 billion.

Management measures the performance of each business group by "operating profit" which excludes profits or losses of subsidiaries. "Operating profit" is a defined term in MTBC's regulatory reporting to the Financial Services Agency of Japan. Operating profit and other segment information, derived from the internal management reporting system, is based on Japanese GAAP and is not consistent with the consolidated financial statements prepared on the basis of US GAAP.

"Net revenue" above includes net interest income, net fees (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.

"Operating expenses" includes salaries and employee benefits, occupancy, and certain other non-interest expenses. In determining operating profit, MTBC does not assign to each business group certain income and expense items such as provision for loan loss reserves, 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.

Total net revenue in fiscal 2000 was ¥307.6 billion, a decrease of ¥13.9 billion, or 4.3%, from ¥321.6 billion in fiscal 1999. The decrease in net revenue was primarily attributable to a ¥19.5 billion decline in the

Global Markets Business Group's net revenue, which offset the Banking Business Group's ¥4.8 billion increase.

Total operating profit in fiscal 2000 was ¥163.0 billion, a decrease of ¥14.6 billion, or 8.3%, from ¥177.7 billion in fiscal 1999.

The growth of net revenue for the Banking Business Group was due primarily to increased fee and commission income from real estate and stock transfer agency services. The decline in net revenue for the Global Markets Business Group was due primarily to a decrease in investment debt securities gains.

■ Banking Business Group

The Banking Business Group provides a full range of commercial banking products and services to corporations, institutional investors, public organizations, and individual customers. This group also offers expertise in additional areas such as stock transfer agency services and real estate services. MTBC's stock transfer agency service includes an advisory capability to support the stock title transfer systems and administrative needs of customers. In real estate operations, MTBC services range from acting as a broker of real estate transactions through to advising clients on how to make optimal strategic use of real estate assets.

The Banking Business Group is a central pillar of MTBC's overall business activities. As well as employing the largest proportion of staff and being the biggest source of revenue, it is this group that bears the main responsibility for building and maintaining the relationships with individual and corporate clients that are critical to the ongoing success of our company.

Retail banking and trust services

Products and services

The Banking Business Group provides banking and trust services designed to meet the asset management and custody requirements of individual clients. In addition to offering facilities such as current accounts, ordinary accounts, time deposits, and notice accounts, the group also provides investment products, such as investment trusts and foreign currency deposits, and trust products such as money trusts and loan trusts. (Loan trusts are a type of jointly operated money trust in which funds are invested primarily in long-term commercial loans.)

By working with customers to carefully relate this range of savings and investment products to their specific financial situations, MTBC is able to offer consultation services to create portfolios that meet a wide range of individual needs. The group also provides a range of advisory services, including real estate brokerage, property development and management consulting services, and testamentary trusts. MTBC's domestic retail banking network as of March 31, 2001, included 49 branches and four sub-branches.

Review of fiscal 2000

Excellent Club

The Excellent Club was established in November 1999 as a way of deepening our relationship with core customers. This membership-based club is available to customers who have been with MTBC for at least two years and who, when viewed as a household unit, have business worth upwards of ¥10 million with MTBC. In fiscal year 2000 MTBC continued its efforts to build membership in the club. Through highlighting both the direct financial benefits of membership—such as favorable interest rates and reduced ATM charges—and other associated benefits that include medical and nursing care consultation services, membership at June 1, 2001, had grown to approximately 200,000 households.

Expanding channels

In September 2000, MTBC joined with Nippon Trust Bank and BTM to make the three banks' entire ATM and CD (cash dispenser) networks mutually accessible to each of their customer bases. Customers of MTBC now have greatly improved, free-of-charge access to an extensive network that as of June 1, 2001 included 3,592 machines in 932 locations.

MTBC customer convenience will be further enhanced as E-net continues to expand its network. E-net is a company jointly established by BTM and other financial institutions to manage a convenience store-based ATM network, which already has machines in nearly 1,600 convenience stores in 18 prefectures. Current E-net plans call for this network to expand more than threefold, which will provide dense nationwide access to customers of member companies such as MTBC.

Defined Contribution Plan Consulting of Japan Co., Ltd.

In response to the planned October 2001 introduction in Japan of regulations permitting defined-contribution pension schemes, MTBC, in a joint venture with BTM, Meiji Life Insurance Company, and The Tokio Marine and Fire Insurance Co., Ltd, established in March 2001 a company called Defined Contribution Plan Consulting of Japan.

In addition to selecting, marketing, and administering defined-contribution pension schemes, this company will also offer consulting services and have an educative role for scheme participants.

Strategy

MTBC will make the best use of its considerable customer base and its strengths in the trust and banking sectors to establish itself as a provider of leading brand retail business services. MTBC will actively develop testamentary trust and other inheritance-related services in response to the rapid aging of Japanese society.

MTBC will seek to increase the overall value of its assets under management through the provision of investment products. These will include investment trusts and foreign currency deposit accounts along with medium- and long-term deposit accounts, designed to cater to the growing demand amongst individual customers for asset management services.

MTBC will apply itself to the development of new business opportunities following the introduction of defined-contribution pension plans in October 2001.

Corporate finance and trust-related businesses

Products and services

MTBC offers a comprehensive range of banking and trust services to meet the diverse balance sheet-related financial needs of its more than 7,000 corporate clients. In addition to providing traditional commercial banking services such as lending or establishing syndicated loans and commitment lines, MTBC also provides a range of financial services. These are tailored to meet the strategic financial requirements of individual corporate customers, an example of which would be arranging the sale or securitization of assets such as real estate or receivables, using a trust or SPC structure.

MTBC also seeks to meet the growing corporate demand for solutions to new issues such as changes to pension and accounting regulations. MTBC offers a problem-solving approach, based on its expertise in areas such as M&A and the pension and real estate trust businesses.

Review of fiscal 2000

Retirement benefit trusts

As one of its corporate business solution services, MTBC has been actively developing its retirement benefits trusts business, to the point where it has become a leading trustee in this business. These trusts allow a company to effectively deal with reserve shortfalls in pension funds and retirement allowances through the strategic use of various assets such as marketable securities, real estate or other monies.

Strategy

MTBC will devote resources to the development of off-balance-sheet financing and structured financing that meets the advanced financial requirements of its corporate customers. While seeking to lift fee income, MTBC will also aim to increase risk-adjusted return by raising the quality of its loan assets.

MTBC will endeavor to boost revenue from its core customers, by focusing on delivering the diverse trust and banking services that these clients require.

Stock transfer agency business

Products and services

The stock transfer agency business involves MTBC working as agent for stock-issuing companies, handling the administrative procedure of stock title transfer.

As well as providing accurate and efficient services in the increasingly complex share transfer business, MTBC offers additional value-added services. These include corporate investor relations consulting and expert advice on setting up internal management systems and stock services for companies planning to go public.

At the end of March 2001, MTBC was performing stock transfer agency services for 588 companies in Japan and overseas.

Review of fiscal 2000

Initiation of foreign shareholder-related consultation services

As foreign shareholding ratios in Japanese companies rise, MTBC has identified a growing need among Japanese listed companies for services relating to foreign shareholders' voting rights. MTBC has initiated a range of consultation services to address this need, including investor relations and corporate governance-related advice.

Strategy

MTBC will seek to leverage its management integration with BTM, and work to secure additional transfer agency business from other trust institutions while optimizing its own systems-related infrastructure.

Real estate business

Products and services

MTBC conducts its real estate business in accordance with Japan's legal and regulatory requirements. In addition to its real estate purchase, sale, and lease brokerage business, MTBC also provides a range of consulting services and real estate trust products, such as management trusts, disposal trusts, and land trusts.

These consulting services focus on areas such as residential property development, appraisal, and the development, utilization, and disposal of real estate to meet the various real estate-related requirements of MTBC's individual and corporate clients.

MTBC employs highly qualified experts from a number of property-related fields to execute its real estate business, ranging from real estate agents and licensed real estate appraisers through to architects and real estate financing transaction specialists.

Review of fiscal 2000

Real estate investment trusts

In response to a change in regulations to allow the marketing of real estate investment trusts (REITs) in Japan, in September 2000 MTBC acquired a stake in Mori Trust Daiwa Real Estate Investments Co., Ltd., a company formed in February 2000 as a joint venture between Mori Trust and Daiwa SB Capital Markets. This company was formed to structure and manage REITs in the Japanese market.

Strategy

MTBC will seek to leverage the expanded client base made accessible through its management integration with BTM, growing its brokerage business while also looking to actively participate in the developing and potentially high growth REIT market in Japan.

To reflect MTBC's commitment to further increasing its involvement in the real estate business, MTBC in April 2001 upgraded its real estate business to the status of Real Estate Business Group.

■ Trust Assets Business Group

The Trust Assets Business Group covers fiduciary asset management and administration services, which are seen as key growth areas. Assets under management and administration by MTBC totaled approximately ¥32 trillion as of March 31, 2001. By making full use of the management resources and knowing how developed in the trust banking arena, this group is expected to grow both in scale and as a source of revenue.

Trust assets management business

Products and services

MTBC's fiduciary asset management service manages funds including corporate pensions, public pensions, public sector funds, individual and certain other funds. MTBC invests in and manages such funds on behalf of its customers and in accordance with their respective needs. It also provides actuarial and other pension-related consulting services.

MTBC provides a variety of investment products, including actively managed products for investors looking to outperform the market, and products designed to meet the recent growth in demand for passive fund management.

MTBC also offers transition management and overlay control management formats to increase efficiency and reduce the costs of fund management.

Review of fiscal 2000

Currency overlay services

Through its relationship with Pareto Partners of the UK, a company with a strong global record in the field of currency overlay services, MTBC offers sophisticated foreign exchange management services as part of its trust asset management business. Currency overlay is a service that allows fund managers to consign management of their individual currency hedging requirements to a central, full time hedging specialist. This is a cost-effective process that can allow the impact of exchange rate movements on asset management to be minimized, while also increasing asset management efficiency.

Strategy

MTBC will seek to become a multi-product manager with the capacity to meet its customers' various investment needs.

MTBC will seek to enhance both its quantitative and qualitative investment strength by continuously optimizing its investment processes and systems.

Through its subsidiaries, MTBC will seek to further expand its business in the growth area of asset management for investment trusts.

Asset administrative and custodial services

Products and services

In asset administration, MTBC provides a broad range of custodial services to customers including corporations and institutional investors. As investment targets become increasingly globally diversified, these clients are starting to look not only at investment returns but also at the administrative capabilities and quality of custodial service providers. Meanwhile, the need for specialist local knowledge in areas such as accounting practice, taxation, and law, along with the need to invest in multiple systems, means that administrative and custodial services are tending to concentrate internationally in the hands of fewer, larger trust companies.

Review of fiscal 2000

Master Trust Bank of Japan and the integration of asset administrative services

In June 2000, the Master Trust Bank of Japan ("MTBJ") launched an internet-facilitated integrated online information service. MTBJ was set up in May 2000 as a joint venture with Nippon Life Insurance Company, The Toyo Trust and Banking Company, Ltd, Meiji Life Insurance Company, and Deutsche Bank.

In February 2001, MTBC agreed with Toyo Trust and Banking Company, Ltd. to transfer the asset administration businesses of the two banks to the management of MTBJ. Pending regulatory approval, the new bank is planning to begin asset administration services in fiscal 2002. The aggregate value of the assets subject to the transfer as of March 2001 was approximately ¥60 trillion.

Strategy

As asset administration has come to be dominated by an increasingly small number of trust companies, MTBC is looking to establish itself as one of the leading players in the asset administration and custodial service of Japanese assets. To this end MTBC is introducing a strategy to differentiate its activities from competitors and to raise the overall standard of its asset administration business, based on the Four Qs:

Quick:	Responding rapidly to customer needs
Quality:	Providing accurate, high quality, value-added services
Quotation:	Offering a competitive pricing structure
Quantity:	Reinforcing MTBC's ability to handle large-scale business

■ Global Markets Business Group

Products and Services

The Global Markets Business Group is active in various financial operations, including banking, money and capital markets operations, securities investments, and custody operations. In the field of international finance, MTBC offers proprietary services such as syndicated loans and guarantees to multinational and local business entities and to the overseas affiliates of Japanese corporations. MTBC has achieved particularly noteworthy results in the field of aircraft finance, through the arrangement of leveraged leases and related financial techniques.

MTBC's treasury and investments operation also trades in securities on its own account, under an appropriate risk management framework.

With an international network linking the markets of North America, Europe, and Asia, MTBC's global market operations are efficiently managed, profitable, and have become a core element of MTBC's business.

MTBC maintains a presence in the world's major financial markets via a network of five branch offices (New York, London, Hong Kong, Singapore, and the Cayman Islands), three representative offices (Frankfurt, Beijing, and Shanghai), and overseas subsidiaries and affiliates.

To further enhance customer service, MTBC has also formed agreements in five key Asian economies with six major financial institutions: China (Industrial and Commercial Bank of China, China International Trust and Investment Corp. (CITIC)); Thailand (Bangkok Bank Public Company Ltd.); India (State Bank of India); Indonesia (PT Bank Negara Indonesia (Persero) Tbk); and the Philippines (Philippine National Bank).

Review of fiscal 2000

In March 2001, MTBC launched a new comprehensive internet-based foreign exchange service WFTS (Website for Fund Forex Trading Total Support Service). The WFTS trading system offers specialized forex services for specified money trust and investment trust funds. WFTS provides customers, such as investment advisors, with online information on subjects such as cash flow and coupon schedules for foreign currency-denominated assets, and also provides automatic trade execution for their online forex orders. Applications for a business model patent for this system are pending.

Strategy

MTBC will use its specialized skills in international finance and asset management to offer high-caliber global fund raising and treasury services, and to support customers' global investment needs.

MTBC will target stable revenue streams and comprehensive risk management of its investment exposure in its treasury and investments operations.

■ Recent Developments

In its revised Seventh Medium-Term Business Plan, which was initiated in April 2001, MTBC reorganized its business segmentation into four groups as described below. MTBC also improved its supervisory and decision-making capabilities by introducing non-board member directors to its management structure, and devolved more responsibility for human resources management to the business group level.

Trust-Banking Business Group renamed

The present Banking Business Group has been renamed the Trust-Banking Business Group to more clearly reflect the emphasis it places on the development of banking businesses enhanced by the synergies it derives from in its close association with the trust business.

New Real Estate Business Group established

The Real Estate Business Group was newly established to handle the real estate business which was previously part of the Banking Business Group, in the expectation that this business will expand rapidly on the back of increased management and customer resources made available through the creation of MTFG.

—Effective April 2001, MTBC's four business groups are:

1. Trust-Banking Business Group
2. Trust Assets Business Group
3. Real Estate Business Group
4. Global Markets Business Group

Operating and Financial Review and Prospects

The Bank of Tokyo-Mitsubishi, Ltd.

Net Interest Income

Net interest income is a function of the amount of interest-earning assets, the "spread" or the difference between the rate of interest earned on average interest-earning assets and the rate of interest paid on average interest-bearing liabilities, the general level of interest rates and the proportion of interest-earning assets financed by non-interest-bearing liabilities and equity. Interest-earning assets are generally less sensitive to interest rate changes than interest-bearing liabilities. As a result, net interest income tends to increase when interest rates decline and decrease when interest rates rise.

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

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

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

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

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

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

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

See "Unaudited Average Balance Sheets, Interest and Average Rates."

Provision for Credit Losses

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

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

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

Non-Interest Income

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

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

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

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

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

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

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

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

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

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

Non-Interest Expense

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

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

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

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

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

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

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

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

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

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

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

- Increase of ¥15.3 billion resulting from the new local corporate tax in fiscal 2000 as discussed in "Income Tax Expense (Benefit)" below

- Decrease in restructuring charges of ¥11.8 billion of UnionBanCal Corporation, including the effect of restructuring credit of ¥2.1 billion in fiscal 2000.

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

Income Tax Expense (Benefit)

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

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

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

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

Geographic Information

The following information presents geographic data of BTM on a US GAAP basis for the three years ended March 31, 2001. Total revenue includes interest income and non-interest income.

	Domestic		Foreign									
	Japan		United States of America		Europe		Asia/Oceania excluding Japan		Other Areas		Total	
	(in billions except percentages)											
Year ended March 31, 1999:												
Total revenue	¥ 1,154	40%	¥ 776	27%	¥ 479	17%	¥ 273	10%	¥ 175	6%	¥ 2,857	100%
Net income (loss)	(414)	120	59	(17)	25	(7)	(28)	8	14	(4)	(344)	100
Total assets	50,413	73	8,601	12	5,746	8	3,146	4	2,243	3	70,149	100
Year ended March 31, 2000:												
Total revenue	¥ 1,240	54%	¥ 545	23%	¥ 195	8%	¥ 205	9%	¥ 141	6%	¥ 2,326	100%
Net income (loss)	(114)	(327)	50	143	10	29	45	129	44	126	35	100
Total assets	53,125	78	7,779	11	3,491	5	2,865	4	1,558	2	68,818	100
Year ended March 31, 2001:												
Total revenue	**¥1,206**	**47%**	**¥ 629**	**25%**	**¥ 307**	**12%**	**¥ 250**	**10%**	**¥ 170**	**6%**	**¥2,562**	**100%**
Net income (loss)	**(352)**	**326**	**16**	**(15)**	**91**	**(84)**	**84**	**(78)**	**54**	**(49)**	**(107)**	**100**
Total assets	**54,869**	**72**	**10,226**	**13**	**6,214**	**8**	**3,074**	**4**	**1,994**	**3**	**76,377**	**100**

The Mitsubishi Trust and Banking Corporation

Net Interest Income

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

	Fiscal 1998		Fiscal 1999		Fiscal 2000	
	Average balance	Average Rate	Average balance	Average Rate	Average balance	Average Rate
	(in billions except percentages)					
Interest-earning assets:						
Domestic	¥12,372.8	1.64%	¥12,395.4	1.43%	**¥12,492.3**	**1.43%**
Foreign	5,730.5	5.03	4,037.5	5.14	**3,811.5**	**5.84**
Total	¥18,103.3	2.71%	¥16,432.9	2.34%	**¥16,303.8**	**2.46%**
Financed by:						
Interest-bearing funds;						
Domestic	¥12,691.5	1.09%	¥12,733.8	0.76%	**¥12,988.1**	**0.81%**
Foreign	4,377.3	3.60	2,905.2	3.27	**2,515.9**	**4.79**
Total	17,068.8	1.73	15,639.0	1.22	**15,504.0**	**1.45**
Non-interest-bearing funds	486.1		146.5		**267.9**	
Shareholder's equity	858.5		966.3		**948.2**	
Total	¥18,413.4		¥16,751.8		**¥16,720.1**	
Net interest income and average interest rate spread		0.98%		1.12%		**1.01%**
Net interest income as a percentage at average total interest-earning assets		1.08%		1.18%		**1.08%**

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.

MTBC Group's net interest income in fiscal 2000 was ¥176.6 billion, a decrease of ¥17.5 billion, or 9.0%, from ¥194.1 billion in fiscal 1999. The fiscal 2000 decrease was due primarily to the lower interest margins in fiscal 2000 compared with fiscal 1999. Net interest income as a percentage of average total interest-earning assets decreased 10 basis points to 1.08% in fiscal 2000 from 1.18% in fiscal 1999. The average interest rate spread on interest-bearing funds decreased 11 basis points to 1.01% in fiscal 2000 from 1.12% in fiscal 1999.

Provision for Credit Losses

MTBC Group's provision for credit losses in fiscal 2000 was ¥131.1 billion, representing an increase of ¥127.3 billion from ¥3.8 billion in fiscal 1999. The provision for credit losses in fiscal 1999 reflected a decrease of ¥315.8 billion from ¥319.6 billion in fiscal 1998. The fiscal 2000 increase of ¥127.3 billion primarily reflected the adoption of a stricter assessment process and more conservative provisioning for loans. The fiscal 1999 decrease in the provision for credit losses of ¥315.8 billion primarily reflected a decrease in impaired loans of ¥283.5 billion from ¥1,204.0 billion at March 31, 1999 to ¥920.5 billion at March 31, 2000.

Non-Interest Income

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

	Fiscal 1998	Fiscal 1999	Fiscal 2000
	(in billions)		
Fees and commissions:			
Trust fees	¥ 84.8	¥ 68.8	**¥ 78.2**
Fees on funds transfer and service charges for collections	10.6	8.1	**3.9**
Bond underwriting fees	10.3	11.5	**13.9**
Real estate agent commissions	6.3	8.0	**11.0**
Other fees and commissions	17.6	16.5	**12.1**
Total	129.6	112.9	**119.1**
Trading account profits—net	120.2	—	**34.4**
Investment securities gains—net	11.1	—	**114.3**
Other non-interest income	10.0	5.2	**4.6**
Total non-interest income	¥270.9	¥118.1	**¥272.4**

MTBC Group's non-interest income in fiscal 2000 was ¥272.4 billion, an increase of ¥154.3 billion, or 130.7%, from ¥118.1 billion in fiscal 1999. The fiscal 2000 increase of ¥154.3 billion was primarily attributable to trading account profits-net of ¥34.4 billion (trading account losses-net of ¥124.6 billion were reported and included in the non-interest expense category in fiscal 1999) and an increase in investment securities gains-net of ¥114.3 billion (investment securities losses-net of ¥52.7 billion were reported and included in the non-interest expense category in fiscal 1999). The fiscal 1999 decrease of ¥152.8 billion was due primarily to the absence of trading account profit and investment securities gains in fiscal 1999 while trading account profits—net of ¥120.2 billion and investment securities gains-net of ¥11.1 billion were reported in fiscal 1998.

Non-Interest Expense

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

	Fiscal 1998	Fiscal 1999	Fiscal 2000
	(in billions)		
Salaries and employee benefits	¥ 82.4	¥ 84.4	**¥ 76.3**
Occupancy expenses—net	29.3	28.9	**32.0**
Trading account losses—net	—	124.6	**—**
Foreign exchange losses—net	123.6	84.8	**54.9**
Investment securities losses—net	—	52.7	**—**
Other non-interest expenses	80.3	59.6	**68.4**
Total non-interest expense	¥315.6	¥435.0	**¥231.6**

MTBC Group's non-interest expense in fiscal 2000 was ¥231.6 billion, a decrease of ¥203.4 billion, or 46.8%, from ¥435.0 billion in fiscal 1999. The fiscal 2000 decrease of ¥203.4 billion primary reflected the absence of trading account losses—net and investment securities losses—net in fiscal 2000, compared with trading account losses—net of ¥124.6 billion and investment securities losses—net of ¥52.7 billion in fiscal 1999. The fiscal 2000 decrease of ¥203.4 billion was partly due to a decrease in salaries and employee benefits and foreign exchange losses—net. The fiscal 1999 increase of ¥119.4 billion, or 37.8%, from fiscal 1998 was due primarily to an increase of ¥124.6 billion in trading account losses—net (no trading account losses—net were reported in fiscal 1998) and an increase of ¥52.7 billion in investment securities losses —net (no investment securities losses—net were reported in fiscal 1998). These increases were partially offset by a decrease of ¥38.8 billion in foreign exchange losses—net and a decrease of ¥20.7 billion in other non-interest expenses, including losses on sales of premises used for operations.

Income Tax Expense (Benefit)

	Fiscal 1998	Fiscal 1999	Fiscal 2000
	(in billions except percentages)		
Income (loss) before income taxes	¥(169.0)	¥(126.6)	**¥86.2**
Income tax expense (benefit)	¥ (32.7)	¥ (43.3)	**¥49.4**
Effective tax rate	(19.4)%	(34.2)%	**57.2%**
Normal effective statutory tax rate	47.6%	41.7%	**39.2%**

Effective April 1, 2000, the normal effective statutory tax rate decreased 2.5% to 39.2% as a result of the change in the local taxation. The Tokyo Metropolitan Assembly passed a new tax rule on March 30, 2000 that changed the basis on which large banks (including MTBC) doing business in Tokyo are taxed. Also, effective April 1, 2001, the normal effective statutory tax rate decreased 0.6% to 38.6% as a result of the change in local taxation as the Osaka Prefecture Assembly passed a new tax rule that is substantially the same as the rule approved by the Tokyo Metropolitan Assembly. These changes in taxation caused an increase of ¥4.3 billion in income tax expense in fiscal 2000 through an adjustment of net deferred tax assets. Although the changes in local taxation decreased the normal effective statutory rate, the overall level of tax payable by MTBC over the next five years will increase. The new local taxes have been accounted for as non-interest expense.

Geographic Information

The following information presents geographic data of MTBC on a US GAAP basis for the three years ended March 31, 2001.

	Domestic		Foreign									
	Japan		United States of America		Europe		Asia/Oceania excluding Japan		Other		Total	
	(in billions except percentage)											
Year ended March 31, 1999:												
Revenue (see Note)	¥ 327	33%	¥ 142	14%	¥ 422	42%	¥ 68	7%	¥ 36	4%	¥ 995	100%
Net income (loss)	(238)	175	(168)	123	296	(217)	(29)	21	3	(2)	(136)	100
Total assets	12,337	73	2,108	13	1,064	6	944	6	395	2	16,848	100
Year ended March 31, 2000:												
Revenue (see Note)	¥ 291	57%	¥ 98	19%	¥ 49	10%	¥ 47	9%	¥ 23	5%	¥ 508	100%
Net income (loss)	80	(96)	(58)	70	(125)	150	9	(11)	11	(13)	(83)	100
Total assets	12,884	78	1,566	9	1,004	6	657	4	479	3	16,590	100
Year ended March 31, 2001:												
Revenue (see Note)	**¥ 434**	**58%**	**¥ 133**	**18%**	**¥ 110**	**15%**	**¥ 25**	**3%**	**¥ 41**	**6%**	**¥ 743**	**100%**
Net income (loss)	**(19)**	**(51)**	**40**	**108**	**21**	**57**	**(12)**	**(33)**	**7**	**19**	**37**	**100**
Total assets	**13,761**	**77**	**1,788**	**10**	**1,219**	**7**	**393**	**2**	**612**	**4**	**17,773**	**100**

Note—For the discussion of components of revenue, see Note 25 of the notes to the Consolidated Financial Statements of MTBC.

Financial Condition

The Bank of Tokyo-Mitsubishi, Ltd.

Loan Portfolio

The following table shows BTM Group's loans outstanding, before deduction of allowance for credit losses, by domicile and type of industry of borrower at March 31, 2000 and 2001. Classification of loans by industry is based on the industry segment loan classification as defined by The Bank of Japan for regulatory reporting purposes and is not necessarily based on use of proceeds.

	At March 31,	
	2000	2001
	(in billions)	
Domestic:		
Manufacturing	¥ 5,597.3	**¥ 5,232.1**
Construction	1,460.7	**1,400.4**
Real estate	3,698.8	**3,974.6**
Services	3,813.9	**3,729.5**
Wholesale and retail	5,956.8	**5,705.2**
Banks and other financial institutions	2,193.6	**2,012.3**
Other industries	3,155.3	**1,589.6**
Consumer	6,873.5	**6,661.3**
Total domestic	32,749.9	**30,305.1**
Foreign:		
Governments and official institutions	223.2	**296.0**
Banks and other financial institutions	482.2	**581.4**
Commercial and industrial	6,993.9	**8,218.5**
Other	548.4	**804.4**
Total foreign	8,247.8	**9,900.3**
Total	40,997.7	**40,205.4**
Less unearned income and deferred loan fees	30.2	**30.2**
Total	¥40,967.5	**¥40,175.2**

Notes—Loans to the so-called nonbanks are generally included in the "Banks and other financial institutions" category. Nonbanks include finance companies which are primarily engaged in consumer lending, factoring, mortgage lending and credit card businesses.

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

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

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

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

Allowance for Credit Losses, Nonperforming and Past due Loans

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

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

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

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

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

Allowance Policy

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

Allocated Allowance for Specifically Identified Problem Loans

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

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

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

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

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

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

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

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

Allocated Allowance for Large Groups of smaller-balance Homogeneous Loans

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

Allocated Allowance for Country Risk Exposure

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

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

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

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

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

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

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

Formula Allowance for Substandard, Special Mention and Unclassified Loans

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

¥394.3 billion at March 31, 2000, and ¥296.4 billion at March 31, 2001. The decrease in the allowance primarily reflected a decline in classified loans as a result of the increase in restructured loans subject to the specific allowance. The increase at March 31, 2000 reflected a higher annual charge-off rate.

Unallocated Allowance

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

- General economic and business conditions affecting BTM Group's key lending areas,
- Credit quality trends (including trends in nonperforming loans expected to result from existing conditions),
- Value of collateral,
- Loan volumes and concentrations,
- Seasoning of the loan portfolio,
- Specific industry conditions within portfolio segments,
- Recent loss experience in particular segments of the portfolio,
- Duration of the current business cycle,
- Bank regulatory examination results, and
- Findings of internal credit examiners.

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

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

Allowance for Off-Balance-Sheet Credit Instruments

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

Investment Portfolio

	At March 31, 1999			At March 31, 2000			At March 31, 2001		
	Amortized cost	Estimated fair value	Net unrealized gains (losses)	Amortized cost	Estimated fair value	Net unrealized gains (losses)	Amortized cost	Estimated fair value	Net unrealized gains (losses)
					(in billions)				
Securities available for sale:									
Domestic:									
Japanese national government and Japanese government agency bonds	¥2,393	¥ 2,441	¥ 48	¥ 3,944	¥ 3,958	¥ 14	**¥ 6,335**	**¥ 6,368**	**¥ 33**
Corporate bonds	598	608	10	706	897	191	**874**	**886**	**12**
Equity securities	3,429	5,161	1,732	3,167	5,825	2,658	**2,908**	**4,740**	**1,832**
Other securities	143	153	10	407	418	11	**261**	**267**	**6**
Total domestic	6,563	8,363	1,800	8,224	11,098	2,874	**10,378**	**12,261**	**1,883**
Foreign:									
U.S. Treasury and other agencies bonds	322	325	3	223	219	(4)	**590**	**596**	**6**
Other governments and official institutions bonds	653	659	6	455	454	(1)	**641**	**646**	**5**
Mortgage-backed securities	1,236	1,249	13	1,042	1,027	(15)	**1,735**	**1,744**	**9**
Other securities	285	306	21	341	355	14	**934**	**954**	**20**
Total foreign	2,496	2,539	43	2,061	2,055	(6)	**3,900**	**3,940**	**40**
Total	¥9,059	¥10,902	¥1,843	¥10,285	¥13,153	¥2,868	**¥14,278**	**¥16,201**	**¥1,923**
Securities being held to maturity:									
Domestic:									
Corporate bonds	¥ 265	¥ 267	¥ 2	¥ 207	¥ 211	¥ 4	**¥ —**	**¥ —**	**¥ —**
Total domestic	265	267	2	207	211	4	**—**	**—**	**—**
Foreign:									
U.S. Treasury and other agencies bonds	39	41	2	8	8	—	**—**	**—**	**—**
Other governments and official institutions bonds	108	109	1	85	86	1	**—**	**—**	**—**
Other securities	115	116	1	109	110	1	**—**	**—**	**—**
Total foreign	262	266	4	202	204	2	**—**	**—**	**—**
Total	¥ 527	¥ 533	¥ 6	¥ 409	¥ 415	¥ 6	**¥ —**	**¥ —**	**¥ —**

Investment securities other than available for sale or being held to maturity (including nonmarketable equity securities, i.e., other investment securities) were carried at cost of ¥127 billion, ¥109 billion and ¥112 billion, at March 31, 1999, 2000 and 2001, respectively. The corresponding estimated fair values at those dates were not readily determinable.

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

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

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

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

Deposits in Other Banks

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

Liabilities

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

For fiscal 2000, unrecognized net actuarial loss for contributory pension plans of BTM and certain domestic subsidiaries increased ¥99.4 billion from ¥37.1 billion at March 31, 2000 to ¥136.5 billion at March 31, 2001. The increase mainly resulted from an actual loss on plan assets and the effect of a change in assumptions, including the discount rate. The actuarial loss primarily reflected stagnant stock markets in Japan and resulted in the increase of ¥62.6 billion in the unrecognized net actuarial loss. The change in the actuarial assumption contributed to the increase of ¥36.8 billion in the unrecognized net actuarial loss. An increase of ¥67.3 billion in the minimum pension liability adjustment (net of taxes) was mainly due to these increases in the unrecognized net actuarial loss.

Funding and Liquidity

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

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

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

The average amount of deposit balances for fiscal 2000 increased ¥0.23 trillion, or 0.5%, to ¥46.39 trillion as compared to ¥46.16 trillion for fiscal 1999. The average amount of deposit balances for fiscal 1999 represented a decrease of ¥3.45 trillion, or 7.0%, as compared to ¥49.61 trillion for fiscal 1998. The fiscal 2000 increase primarily resulted from an increase of ¥0.81 trillion in foreign deposits, partially offset by a decrease in domestic deposits. The fiscal 1999 decrease was due mainly to a decrease of ¥3.96 trillion in foreign deposits, principally time deposits and certificates of deposits.

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

At March 31, 2000 and 2001, BTM Group had unused lines of credit amounting to ¥1,202.0 billion and ¥2,777.5 billion, respectively. BTM Group believes that working capital is sufficient for BTM Group's current requirements.

Capital Resources

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

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

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

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

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

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

During fiscal 2000, BTM Group raised an aggregate of ¥262.8 billion through the issuances of subordinated long-term debt. See Note 14 of the notes to Consolidated Financial Statements of BTM Group's long-term debt.

Capital Adequacy

The capital adequacy guidelines adopted by the Financial Services Agency of Japan applicable to Japanese banks with international operations closely follow the risk-weighted approach proposed by the Basel Committee on Banking and Supervisory Practices of the Bank for International Settlements, and are intended to further strengthen the soundness and stability of Japanese banks. The Financial Services Agency guidelines are similar to the final guidelines issued in 1989 by the Board of Governors of the Federal Reserve System in the United States. Differences between the two primarily reflect implementation of the Bank for International Settlements approach in a manner designed to suit the respective banking environments in Japan and the United States.

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

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

For the purpose of calculating the combined Tier I and Tier II capital requirements, the amount of Tier II capital used in the computation cannot exceed the amount of Tier I capital. As of March 31, 2001, the Tier I and combined Tier I and Tier II capital exceeded minimum requirements. BTM Group expects to continue to meet the capital adequacy requirements. BTM Group's operations are managed with regard to the requirements.

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

The Mitsubishi Trust and Banking Corporation

Loan Portfolio

At March 31, 2001, total loans were ¥9.55 trillion, representing an increase of ¥0.42 trillion, or 4.6%, from ¥9.13 trillion at March 31, 2000. The March 31, 2001 loan balance consisted of ¥8.36 trillion of domestic loans and ¥1.19 trillion of foreign loans.

The following table shows MTBC Group's loans outstanding, before deduction of allowance for credit losses, by domicile and type of industry of borrower at March 31, 2000 and 2001. Classification of loans by industry is based on the industry segment loan classification as defined by The Bank of Japan for regulatory reporting purposes and is not necessarily based on use of proceeds.

	At March 31,	
	2000	2001
	(in billions)	
Domestic:		
Manufacturing	¥1,280.4	**¥1,219.5**
Construction	355.7	**325.9**
Real estate	1,346.5	**1,298.2**
Services	1,236.1	**1,076.1**
Wholesale and retail	969.4	**887.4**
Banks and other financial institutions	1,765.5	**2,068.8**
Other industries	682.5	**1,207.8**
Consumer	268.2	**273.2**
Total domestic	7,904.3	**8,356.9**
Foreign:		
Governments and official institutions	21.0	**19.3**
Banks and other financial institutions	210.0	**202.1**
Commercial and industrial	658.8	**601.6**
Other	339.1	**368.8**
Total foreign	1,228.9	**1,191.8**
Total	9,133.2	**9,548.7**
Less unearned income and deferred loan fees	0.7	**0.0**
Total	¥9,132.5	**¥9,548.7**

Note—Loans to the so-called nonbanks are generally included in the "Banks and other financial institutions" category. Nonbanks include finance companies which are primarily engaged in consumer lending, factoring, mortgage lending and credit card businesses.

Allowance for Credit Losses, Nonperforming and Past due Loans

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

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

	Fiscal 1998	Fiscal 1999	Fiscal 2000
	(in billions)		
Balance at beginning of year	¥520.8	¥523.1	**¥349.1**
Additions to allowance charged to operations	319.6	3.8	**131.1**
Charge-off	315.2	176.2	164.4
Less—recoveries	0.3	3.3	**11.3**
Net charge-offs	314.9	172.9	**153.1**
Other, principally foreign exchange translation adjustments	(2.4)	(4.9)	**5.0**
Balance at end of year	¥523.1	¥349.1	**¥332.1**

Allowance Policy

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. MTBC Group employs a comprehensive credit rating system as part of its credit management framework. The credit rating system is similar to the risk grading standards of regulatory authorities for asset classification under the prompt corrective action measures and is used as a base for establishing the allowance for credit losses. The categorization is based on conditions that may affect the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends surrounding the borrower. Under the credit rating system, credit ratings have been divided into 14 ranks, in which the lowest 5 ranks are defined to conform to the risk grading standards of regulatory authorities for classified loans. The ranking is based on financial and other conditions of borrowers indicating the probability of collection. Loans to borrowers ranked 1 through 7 are generally performing loans where little loss is anticipated. Loans to borrowers with the next 3 ranks have weakness in their ability to meet existing obligations and deserve management's close attention. Loans to borrowers with the lowest 4 ranks are loans where weakness in the financial condition of borrowers may cause a greater likelihood of default and loss. In determining the appropriate level of the allowance, MTBC Group evaluates the probable loss by category of loan based on type and characteristics.

Allocated Allowance for Specifically Identified Problem Loans

The specific credit loss allowance for individual borrowers represents the impairment allowance determined in accordance with SFAS No.114, "Accounting by Creditors for Impairment of a Loan."

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

	At March 31,		
	1999	**2000**	**2001**
		(in billions)	
Nonaccrual loans:			
Domestic:			
Manufacturing	¥ 3.6	¥ 16.0	**¥ 9.2**
Construction	23.4	119.8	**36.5**
Real estate	453.4	331.8	**321.1**
Services	173.0	100.1	**59.1**
Wholesale and retail	9.7	35.1	**15.3**
Banks and other financial institutions	114.6	84.0	**37.9**
Other industries	3.6	2.6	**9.6**
Consumer	2.2	1.0	**1.4**
Total domestic	783.5	690.4	**490.1**
Foreign:			
Banks and other financial institutions	2.2	1.9	**0.6**
Commercial and industrial	28.9	26.8	**24.3**
Loans to refinancing countries	27.6	19.5	**13.0**
Other	3.4	0.8	**3.5**
Total foreign	62.1	49.0	**41.4**
Total nonaccrual loans	845.6	739.4	**531.5**
Restructured loans:			
Domestic	353.4	172.7	**281.1**
Foreign	1.5	8.4	**11.9**
Total restructured loans	354.9	181.1	**293.0**
Accruing loans contractually past due 90 days or more:			
Domestic	1.7	1.3	**0.8**
Foreign	7.0	0.5	**1.4**
Total accruing loans contractually past due 90 days or more	8.7	1.8	**2.2**
Total	¥1,209.2	¥922.3	**¥826.7**
Total loans	¥9,338.3	¥9,132.5	**¥9,548.7**
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of total loans	12.95%	10.10%	**8.66%**

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

	At March 31,					
	1999		**2000**		**2001**	
	Recorded loan balance	**Impairment allowance**	**Recorded loan balance**	**Impairment allowance**	**Recorded loan balance**	**Impairment allowance**
Requiring an impairment allowance	¥1,049.8	¥433.4	¥836.0	¥282.7	**¥762.7**	**¥253.2**
Not requiring an impairment allowance	154.2		84.5		**59.3**	
Total	¥1,204.0	¥433.4	¥920.5	¥282.7	**¥822.0**	**¥253.2**
Percentage of the allocated allowance to total impaired loans	36.0%		30.7%		**30.8%**	

MTBC Group's impaired loans decreased ¥98.5 billion, or 10.7%, from ¥920.5 billion at March 31, 2000 to ¥822.0 billion at March 31, 2001. The decrease in impaired loans of ¥98.5 billion in fiscal 2000 primarily reflected a significant decrease in nonaccrual loans of ¥209.3 billion, partially offset an increase in restructured loans of ¥110.8 billion. Within type of industry of borrower, specifically, nonaccrual loans to borrowers in the construction industry decreased ¥83.3 billion and nonaccrual loans to banks and other financial institutions decreased ¥46.1 billion. Restructured loans to borrowers in the construction industry increased ¥61.0 billion in fiscal 2000.

MTBC Group's impaired loans decreased ¥283.5 billion, or 23.5%, in fiscal 1999 from ¥1,204.0 billion at March 31, 1999 to ¥920.5 billion at March 31, 2000. The decrease in impaired loans was due primarily to a decrease in nonaccrual and restructured loans of ¥106.1 billion and ¥173.8 billion, respectively. The decrease in impaired loans primarily reflected charge-offs, including waivers of loan principal and interest in connection with the restructuring of loans to large-sized corporations in financial difficulties, and sales of nonperforming loans made in fiscal 1999.

The percentages of the allocated allowance to total impaired loans were 36.0% at March 31, 1999, 30.7% at March 31, 2000 and 30.8% at March 31, 2001.

Allocated Allowance for Large Groups of Smaller-balance Homogeneous Loans

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

Allocated Allowance for Country Risk Exposure

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

Formula Allowance for Substandard, Special Mention and Unclassified Loans

The formula allowance is calculated by applying loss factors to outstanding substandard, special mention and unclassified loans. The evaluation of inherent loss for these loans involves a high degree of uncertainty, subjectivity and judgement because probable credit losses are not easily identified. In determining the formula allowance, MTBC Group relies on a mathematical calculation that incorporates a percentage of total loans based on historical experience. The average annual charge-offs rate over a designated time period by category of substandard, special mention and unclassified loans is used as a basis for historical loss experience, adjusted for recent changes in trends and economic conditions.

Allowance for Off-Balance-Sheet Credit Instruments

In addition to the allowance for credit losses on the loan portfolio, MTBC Group maintains an allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, various types of guarantees, standby letters of credit and other financial instruments. The allowance is recorded as a liability and includes the allowance for specifically identified exposures to losses and the allocated formula allowance, to a level which, in management's opinion, is appropriate to absorb probable losses in the portfolio. The allowance for off-balance-sheet credit instruments was ¥13.2 billion at March 31, 1999, ¥7.3 billion at March 31, 2000, and ¥8.8 billion at March 31, 2001.

Investment Portfolio

At March 31, 2001, investment securities were ¥6.01 trillion, an increase of ¥0.98 trillion, or 19.5%, from ¥5.03 trillion at March 31, 2000.

MTBC Group's securities available for sale at March 31, 2001 were ¥5.62 trillion, representing an increase of ¥0.94 trillion, or 20.1%, from ¥4.68 trillion at March 31, 2000. The fiscal 2000 increase of ¥0.94 trillion was primarily attributable to an increase of ¥0.37 trillion in Japanese national government bonds mainly resulting from the introduction of the system of RTGS.

MTBC Group's securities being held to maturity at March 31, 2001 were ¥0.31 trillion, representing an increase of ¥0.04 trillion, or 14.8%, from ¥0.27 trillion at March 31, 2000. Securities being held to maturity primarily comprise Japanese government agency bonds, Japanese prefectural and municipal bonds. The increase in fiscal 2000 was mainly due to an increase in Japanese prefectural and municipal bonds.

MTBC Group's net unrealized gains included in the investment portfolio were ¥0.80 trillion at March 31, 2000 and ¥0.63 trillion at March 31, 2001. These net unrealized gains related principally to marketable equity securities.

The decrease in accumulated net unrealized gains on marketable equity securities at March 31, 2001 resulted from the significant decline in the Japanese stock markets. MTBC Group does 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 MTBC Group's domestic securities portfolio continues to be substantial. In addition, MTBC Group does not believe that its operations will be significantly impaired by declines in equity prices because MTBC Group is not dependent on sales of equity securities as a source of liquidity.

Liabilities

At March 31, 2001, total liabilities were ¥16.89 trillion, an increase of ¥1.27 trillion, or 8.12%, from ¥15.62 trillion at March 31, 2000. The fiscal 2000 increase of ¥1.27 trillion was primarily attributable to an increase of ¥1.52 trillion, or 15.5%, in total deposits, an increase of ¥0.2 trillion, or 21.4%, 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 an increase of ¥0.08 trillion, or 128.33%, in trading account liabilities. These increases were partially offset by a decrease of ¥0.59 trillion in due to trust account.

Funding and Liquidity

For fiscal 2000, MTBC Group's cash and cash equivalents decreased ¥0.08 trillion from ¥0.26 trillion at March 31, 2000 to ¥0.18 trillion at March 31, 2001. The decrease primarily resulted from a decrease of ¥1.10 trillion in investing activities, substantially offset by an increase of ¥0.13 trillion in operating activities and an increase of ¥0.89 trillion in financing activities. The decrease in investing activities was primarily due to an increase in purchases of investment securities available for sale.

For fiscal 1999, MTBC Group's cash and cash equivalents increased ¥0.10 trillion from ¥0.16 trillion at March 31, 1999 to ¥0.26 trillion at March 31, 2000. The increase primarily resulted from an increase of ¥0.24 trillion in operating activities and ¥0.16 trillion in financing activities, substantially offset by a decrease of ¥0.30 trillion in investing activities. The increase in operating activities was primarily due to a decrease in trading account assets. The decrease in investing activities was primarily attributable to a decrease in the purchase of investment securities being held to maturity and increase in interest-earning deposits in other banks, partially offset by decrease in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions. See "Consolidated Financial Statements—Consolidated Statements of Cash Flows of MTBC."

Capital Resources

	At March 31,		
	1999	**2000**	**2001**
	(in billions)		
Preferred stock and surplus	¥199.6	¥199.6	**¥199.6**
Common stock and surplus	339.2	339.2	**339.2**
Retained earnings	136.0	42.7	**68.9**
Accumulated other changes in equity from nonowner sources	316.5	386.3	**274.3**
Total shareholders' equity	¥991.3	¥967.8	**¥882.0**
Ratio of total shareholders' equity to year-end assets	5.88%	5.83%	**4.96%**

Total shareholders' equity decreased ¥85.8 billion from ¥967.8 billion at March 31, 2000 to ¥882.0 billion at March 31, 2001, and the ratio of total shareholders' equity to total assets also decreased of 0.87% from 5.83% at March 31, 2000 to 4.96% at March 31, 2001. The decrease in total shareholders' equity in fiscal 2000, and the resulting decrease of the ratio to total assets, were principally attributable to a ¥107.3 billion decrease in net unrealized gains on investment securities available for sale, net of taxes.

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

	At March 31,		
	1999	2000	2001
	(in billions)		
Accumulated net unrealized gains (in billions)	¥617	¥780	**¥508**
Accumulated net unrealized gains to total assets	3.66%	4.70%	**2.86%**

Capital Adequacy

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

	At March 31,		Minimum capital ratios required
	2000	2001	
	(in billions except percentages)		
Capital components:			
Tier I capital	¥ 846.8	**¥ 841.0**	
Total risk-based capital	1,382.2	**1,471.1**	
Risk-weighted assets	12,254.6	**12,196.8**	
Capital ratios:			
Tier I capital	6.90%	**6.89%**	4.00%
Total risk-based capital	11.27	**12.06**	8.00

For the purpose of calculating the combined Tier I and Tier II capital requirements, the amount of Tier II capital used in the computation cannot exceed the amount of Tier I capital. As of March 31, 2001, MTBC Group exceeded both the Tier I and combined Tier I and Tier II minimum capital requirements. MTBC Group believes that it will continue to meet the capital adequacy requirements. MTBC Group is managing its operations with regard to the requirements.

MTBC Group's total risk-based capital ratio increased 0.79% from 11.27% at March 31, 2000 to 12.06% at March 31, 2001. The increase was due primarily to an increase in Tier II capital.

Risk management

Mitsubishi Tokyo Financial Group, Inc.

Our goal is to provide high quality financial services that our customers can trust and rely on over the long term. To achieve this goal we must maintain a consistently high standard of financial integrity in our business operations while constantly adapting to a rapidly shifting domestic and global environment.

Changes in the domestic environment such as economic reform, financial globalization and the growth of e-commerce are creating intense competition between domestic and overseas financial institutions extending. These local and international trends are transforming our business into an ever more complex and diverse operation. Information technology is further facilitating the development of innovative financial techniques and expanded service models highly tailored to our customers' needs. In these circumstances, sophisticated risk management must be an integral part of all our activities. We are committed to carrying out our business in a manner that measures and maintains risk within defined and controllable limits to ensure that revenues are commensurate to the underlying risk.

■ Risk management policy

Our subsidiaries confront various risks such as credit, market, liquidity, operations and information security risks in carrying out their business. We have instituted an integrated risk management policy throughout the Group, with the aim of identifying and managing risk using consistent standards and techniques across each of our businesses.

The goal of integrated risk management is to identify, measure, control, and monitor all risks so that the Group can allocate management resources in line with the risk involved and ensure the steady enhancement of business revenues.

Holding company functions

As holding company for the Group, we seek to further Group-wide risk awareness, integrate and improve the Group's risk management structures and techniques, allocate risk capital appropriately, and eliminate specific concentrations of risk. We determine Group risk management policy, and Group companies implement it accordingly.

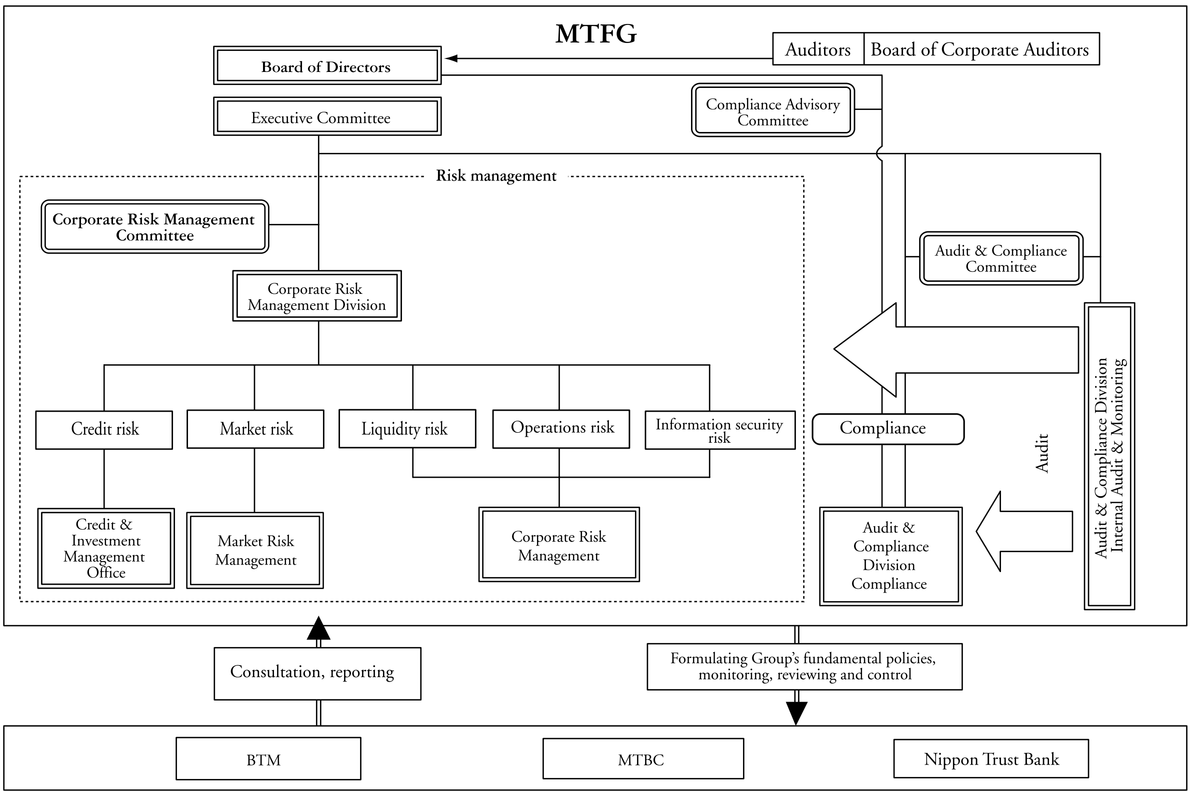
The Group's overall risk management policy is set out in both general and specific bylaws. The general bylaws cover the risk management rules applicable to the Group's overall business, while specific bylaws provide rules pertaining to the management of each of the main categories of risk listed above.

MTFG's risk management structure

We have established within the Corporate Risk Management Division a Corporate Risk Management office to function as the focal point for integrated control of the risks faced by Group companies. We have also set up Credit & Investment Management and Market Risk Management offices to oversee the management of credit and market risk.

Our Corporate Risk Management Committee meets once every three months. The committee discusses the content and implementation of risk management policy, and handles matters relating to credit risk management, market risk management, and asset and liability management. The committee's deliberations on these and other matters provide a basis for the formulation of Group risk management policy by the Board of Directors and the Executive Committee.

MTFG's risk management, compliance, and internal auditing systems and entities



Capital allocation system

To ensure that the Group's profit targets and business strategies are consistent with high quality risk management, we employ a capital allocation system. This system enables us to evaluate risk and allocate economic capital to subsidiaries by segment such as risk category and business activity on the basis of a standardized calculation of the risks involved.

We have the role of formulating the Group's fundamental policy for the management of overall Group capital allocation, and of providing, maintaining, and improving its management structures. We also prepare and monitor the implementation of Group capital allocation plans. In accordance with this Group policy, Group companies are then able to develop detailed programs for the allocation of economic capital within their individual operational spheres.

■ Credit risk management

Credit risk arises when a borrower's financial performance deteriorates to the extent that a credit instrument previously extended to the borrower loses part or all of its value. This in turn exposes the lender to financial loss.

For the safety and soundness of the Group, we closely supervise Group member company portfolios, seeking to identify problem credits at an early stage by ensuring that all Group companies use the same credit rating and self-assessment systems. Minimizing problem loans is an essential management task, and the holding company and every Group subsidiary is actively engaged in this process.

Credit rating

The credit rating system is a critical component of credit risk management, which allows a complex variety of credit risks to be defined and compared in a standardized manner by means of a simple set of symbols. We have for this reason introduced a Group-wide system to ensure that Group companies measure risk in a consistent manner. We are looking to further strengthen the objectivity of this system by bringing the Group's methodology into line with that of external credit rating agencies, a transition that we aim to complete by the end of fiscal 2001.

Under the Group-wide credit rating system, Group member companies will implement a newly established uniform self-assessment policy, as provided for under the system of Prompt Corrective Action. This policy provides for the setting aside of proper allowances for credit losses, and writing off non-performing assets. Under the new credit rating system, probabilities of default fitting each rating level are used as benchmarks to conform with the new Basel Capital Accord.

In order to validate and ensure the objectivity of the system, we have developed a quantitative financial evaluation model for different business types that estimates their probability of default by analyzing the correlation between financial and default data for our borrowers.

Quantification of credit risk

Quantifying credit risk is essential to the analysis and management of Group loan portfolios. To measure credit risk effectively, we need accurate data on credit exposure, probability of default, and recovery ratios. To this end, we collate and analyze historical data from Group companies.

In addition to this data gathering, simulation techniques are also required to take account of factors such as individual borrower ratings, industry correlation ratios and loan-specific recovery ratios. With this in mind we have teamed up with Numerical Technologies Inc., a Tokyo-based company with an outstanding track record in this field, to develop the highly sophisticated financial model we now use for the quantification of credit risk.

■ Stock portfolio (strategic investment in equity for relationship management)

Strategic equity investment, which is undertaken in the context of long-term relationships between Group subsidiaries and their clients, has shown the potential both to increase business revenues and to benefit from the appreciation in equity holdings.

We recognize that price fluctuation is an inherent risk in equity investment, and see the management of this risk as essential. Consequently, the Group commenced selling down strategic equity investments worth approximately ¥1,200 billion over the three-year period from April 2001. As part of this plan, in fiscal 2001 the Group plans to sell ¥200 billion of stock held by BTM and ¥100 billion of stock held by MTBC.

We used regression analysis of fluctuations in TOPIX (1,277.27 points at March 30, 2001) and the market value of our stock portfolio for the past fiscal year in this simulation. Our simulations indicate that every point change in TOPIX correlates to a change in portfolio value of approximately ¥3.3 billion. This breaks down into approximately ¥2.3 billion for BTM, ¥900 million for MTBC, and ¥100 million for Nippon Trust Bank.

By running simulations of this kind on the impact of market movements on our strategic stock portfolio, we are able to more accurately assess and control the risk of holding a given stock portfolio against the capital employed and revenues generated.

■ Market risk management

Market risk is the risk that the value of the Group's assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices, or foreign exchange rates.

In managing its market risk, the Group will continue to use and to improve on the sound market risk management structures developed and used to date by Group companies in their respective businesses. At the holding company level, we also have systems in place to manage day-to-day and overall Group market risk.

Risk management methods

Group risk management is intended to control market risks of both trading and non-trading activities and is based on sophisticated methods already used by Group companies. In addition to measuring and managing market risk using the general market risk ("VaR") technique, we also use stress testing and employ backtesting to ensure that our operations conform to the Bank for International Settlements market risk regulations. We also use the VaR technique to measure the Group's overall risk.

Group member companies have systems in place for the advance specification and daily monitoring of risk limits and loss limits. We also monitor our subsidiaries to ensure that they remain within these limits.

Risk management systems

To strengthen Group risk management, we have developed our own market risk management system called "HOMER". This system collects data from Group companies, which is used to monitor individual company market risk as well as overall Group market risk.

Market risk as at March 31, 2001

(1) Trading activities

Group VaR for Trading Activities (March 31, 2001) (Yen in billions)

Risk category	Risk (VaR)
Interest rates	1.78
Incl.yen	0.84
Incl. dollar	0.75
Foreign exchange	0.43
Equities	0.96
Commodities	0.33
(diversification effect)	(0.35)
Total	3.15

Note: VaR: Amount at risk on a one-day holding period with a confidence interval of 99% based on three years of historical data.

(2) Non-trading activities

Measured in the same way as the trading activities risk, the VaR of the Group's non-trading activities at March 31, 2001 stood at ¥28.5 billion (excluding market risk associated with strategic equity investment).

Terminology

VaR

Market risk is categorized into general market risk, or VaR, which is the risk of incurring losses due to overall market fluctuations, and specific risk, which is the risk of the price of a specific security or stock differing from the movement of the market overall. A VaR approach statistically analyzes past market movements to measure general market risk and estimate how much the market value of a portfolio is likely to rise or fall over a specific period. A typical VaR analysis would deliver a proposition such as "For this portfolio, the amount at risk in a day with a confidence interval of 99% is ¥100 million".

Stress testing

Some market situations are extremely difficult to predict, and some events are statistically very infrequent. Stress testing use scenarios that estimate the amount of loss likely to be incurred by a portfolio in this kind of situation.

Backtesting

Backtesting is a method that verifies the reliability of risk-calculation models by retrospectively comparing estimates of risk with the profits and losses produced by actual market movements.

BIS market risk regulations

BIS market risk regulations were introduced in March 1998 in order to add the effect of market risk to calculations of capital adequacy. Both BTM and MTBC use an internal model approach to calculate general market risk, and a standardized approach to calculate specific risk. In applying the internal model approach, our subsidiary banks are required to meet qualitative and quantitative criteria. Internal and external examinations have demonstrated that both banks' systems have been able to meet these strict requirements.

■ Liquidity risk management

Liquidity risk covers two elements. It firstly relates to funding risk, which is the risk of incurring losses if a poor financial position hampers Group companies' ability to cover funding requirements or if Group companies are unexpectedly obliged to secure capital at significantly higher cost. The second element is market liquidity risk, which is the risk of incurring losses due to either being unable to execute transactions or having to execute transactions at unexpectedly disadvantageous prices, as could occur in a situation such as severe market instability.

MTFG formulates policy relating to liquidity risk management for the whole Group, and puts into place liquidity risk management systems. In addition, it monitors the state of liquidity risk management at each of the Group companies, making adjustments where necessary in the event of problems.

While adhering to this policy, individual Group companies also formulate and implement their own liquidity risk management rules. Practical aspects of this include specifying funding management departments and methods of categorizing stages of risk according to stringency levels, setting up management systems that can meet the requirements of each stage, and establishing any necessary funding limits.

■ Asset and liability management

Asset and liability management (ALM) is a comprehensive approach to managing the balance sheet to maintain interest rate risk and liquidity requirements at appropriate levels, while at the same time targeting stable and sustainable returns.

ALM is becoming increasingly important because of factors such as the reduced demand for finance due to the weak economy, greater complexity of financial products and the introduction of mark-to-market accounting have combined to produce substantial changes in company balance sheets.

Within the Group, ALM management of balance sheet structures is undertaken by MTFG, which also monitors the ALM activities of individual companies and deals with ALM issues as they occur.

■ Operations risk management

Operations risk is the risk that MTFG will incur losses because management or employees have failed to perform their jobs properly, have caused accidents, or have engaged in improprieties. MTFG sets out the fundamental policies for the whole Group regarding management of operations risk, monitors the state of management of each company, and works to raise the level of operations risk management throughout the Group.

■ Information security risk management

Information security risk management refers to systems designed to protect the Group from losses that could result from the alteration, wrongful use, loss or unauthorized disclosure of information and from the destruction, malfunction or wrongful use of information systems.

MTFG determines security policy for the Group regarding information security. We also monitor the state of management of each company, and work with them as they expand and upgrade their information security management structures.

Information is clearly a vital asset in the business of a financial institution, and protecting the integrity and reliability of that information is a critical aspect of risk management. The Group's commitment to information security and IT systems management was evidenced by its coordinated and effective response to Y2K, and MTFG is resolved to meeting new demands—such as those brought about by privacy and networking issues—with the same thorough planning and execution.

■ Operational risk management

Operational risk is the risk of direct or indirect loss resulting from external events or from inadequate or failed internal processes, human resources, or systems.

MTFG is reviewing developments in the new Basel Capital Accord, which is in the discussion phase, and is currently working to establish and improve the standard of methods used to manage and quantify operational risk throughout the Group.

New Basel Capital Accord

The Basel Committee on Banking Supervision announced a new capital adequacy framework in January 2001. This framework provides two options for calculating the capital requirement for credit risk: a standardized approach, and an internal rating approach utilizing a bank's internal risk rating systems. The framework also takes into account capital requirements for operational risk.

■ Compliance

MTFG places the highest priority on ensuring that its operations comply with legal requirements and internal regulations.

This conviction lies behind our efforts to put effective systems in place and to ensure that they are propagated throughout the Group. MTFG has both an internal Audit & Compliance Committee and a Compliance Advisory Committee with external members such as lawyers and CPAs to monitor compliance. The goal is to implement and enhance Group-wide compliance systems, and add transparency to the Group's compliance operations.

The Audit & Compliance Division of MTFG includes a Compliance Group. This group oversees MTFG and its subsidiaries, makes proposals and provides instruction. Compliance managers appointed in every department or section facilitate the internal compliance system. The Compliance Group has developed a Code of Ethics that specifies corporate ethics, and has also produced a compliance manual that clearly summarizes rules and regulations that need to be followed. An additional role of the group is to hold study groups and training sessions to help ensure that all employees fully understand what is required of them with regard to compliance.

■ Internal auditing

MTFG has established an its Internal Audit & Monitoring Group within the Audit & Compliance Division to oversee all internal audit divisions. The purpose of internal audit is to verify the effective functioning of internal management systems for the purpose of pursuing business objectives, and to propose improvements where issues are found. The Audit & Compliance Division fulfills this role through its monitoring of the individual companies in the Group.

In order to establish the type of process check auditing described in the COSO report—which is based on operational effectiveness and efficiency, reliability of financial information, and legal compliance— the Audit & Compliance Division also proposes internal audit plans for the whole Group.

The state of internal audit systems and legal compliance is reviewed quarterly by the Audit and Compliance Committee, which is composed of directors, including directors of each Group company. This committee discusses significant issues regarding audit policy and the implementation of internal audit and compliance systems Group wide.

COSO report

The COSO report, "Internal Control — Integrated Framework," was issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. This report has strongly influenced subsequent papers from the Basel Committee on Banking Supervision, and also influenced methods used since then by financial supervisory authorities around the world.

The Bank of Tokyo-Mitsubishi, Ltd.

■ Risk management

Fundamental policy

The Board of Directors of BTM has established its fundamental policy on risk management as Risk Management Bylaws in accordance with the risk management policy of MTFG, and determines risk management issues after discussions with its Risk Management Committee.

Risk identification

BTM aims to control and manage all the risks arising from its various business activities. In addition to credit, market, liquidity, operations and information security risk defined in the MTFG Risk Management Bylaw, BTM manages legal risk separately as a major risk.

Risk management structure

The Corporate Risk Management Office of BTM has overall responsibility for managing and controlling risks on a firm-wide basis.

Specific divisions are responsible for individual risks:

- the Credit Policy Office is responsible for credit risk,
- the Corporate Risk Management Office is responsible for market risk and liquidity risk,
- the Operations Services Planning Office is responsible for operations risk,
- the Information Security Management Office is responsible for information security risk, and
- the Legal Office is responsible for legal risk.

These divisions all work together to manage individual risks.

Committees

BTM has a number of committees comprising BTM executives who discuss and decide policy regarding risk management.

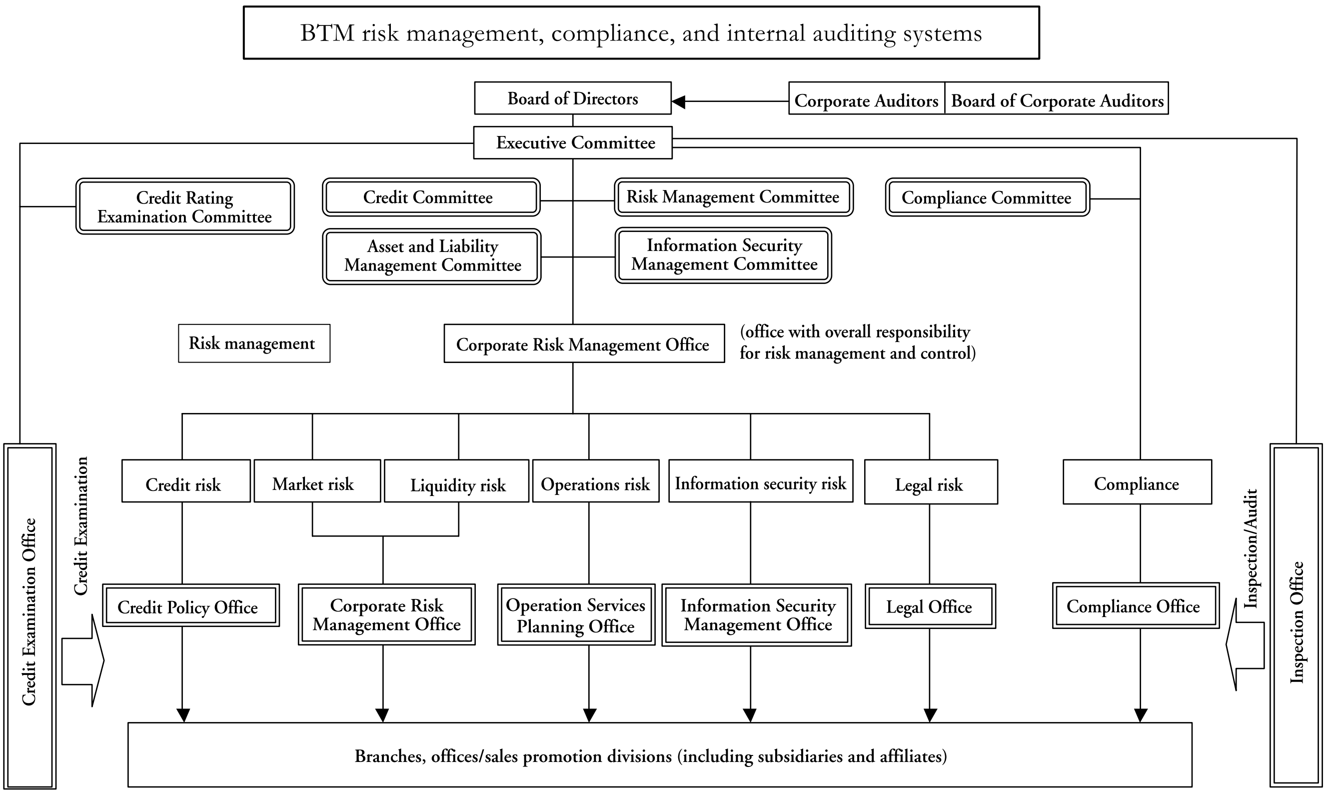
The Risk Management Committee meets semi-annually to identify and control BTM's risks. It formulates action plans and monitors their implementation in line with risk management policies.

The Asset and Liability Management Committee meets monthly and has responsibility for market risk, liquidity risk, portfolio management policies, and the optimum asset-liability structure.

Credit risk is covered by the Credit Committee, which meets semi-annually. This committee manages the overall credit portfolio, sets credit policies, administers country risk, and discusses significant issues from a credit risk management perspective.

Information security risk is covered by the Information Security Management Committee, which meets semi-annually to discuss the management of information security risk.

The Board of Directors and Executive Committee formulate risk management policy based on the conclusions of these committees.



■ Credit risk management

Framework of credit risk management

Within BTM's business unit system, BTM decentralizes business judgment as much as possible to each business unit so that each unit can conduct its business in an appropriate way. Credit judgment in each unit is controlled by the unit's credit division. Each business unit separates business promotion and credit judgment functions in order to ensure proper checks and balances between the two.

Corporate Management, supported by BTM's Corporate Center, has responsibility for credit policy, credit risk management, and any major credit issues that affect BTM's 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 periodically reviews the credit rating system, and performs quantification and other functions that contribute to overall credit risk management.

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

The Credit Committee meets semi-annually to:

- manage the overall credit portfolio,
- set credit policies,
- administer country risk,
- set direction on credit exposures to individual borrowers in Japan and overseas, and
- discuss other important group-wide credit risk management issues.

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

Credit rating system

BTM introduced its previous credit rating system in April 1996 and subsequently included a system for the self-assessment of assets and the establishment of allowances for credit losses.

In response to the new Basel capital adequacy framework, BTM has devised a completely new credit rating system, which it plans to release and implement in full during fiscal 2001. BTM's expectation is not only to bring its system into line with the proposed framework of the Bank for International Settlements but also to make it more objective by standardizing the approach to credit rating processes among various divisions in BTM and validating its internal ratings with those of outside credit rating agencies.

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

Quantification of credit risk

BTM quantitatively measures credit risk based on internal data on probability of default, migration of credit ratings, and recovery ratios of collateral.

BTM has also teamed up with Numerical Technologies Inc., a company with an outstanding track record in this field, to develop a model for the quantification of credit risk based on highly sophisticated financial technologies, and utilizes this model forms part of BTM credit risk management process.

Applying credit risk management to pricing management

The results of credit risk quantification are reflected in BTM's credit portfolio management.

In order to construct a profitable system that will produce returns commensurate with credit risk, BTM has been pricing loans on the basis of expected loss since January 1998. In fiscal 2000 BTM introduced the concept of capital cost, reflecting this in loan-spreads.

■ Market risk management

Risk management structure

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

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

* Beginning in fiscal 2000 a capital allocation system was introduced. The market risk limit is directly linked to the capital allocated.

In order to control losses within an accountable and predetermined level, BTM has established a loss-cut rule that sets limits for the maximum amounts of losses arising from each market activity.

Risk management methods

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

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

BTM's VaR measurement uses a variance-covariance matrix of approximately 650 risk factors with statistical data for a three-year observation period. It considers the correlation among risk factors, while nonlinear option risks are estimated on a scenario approach methodology.

Risk management systems

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

Market risks in fiscal 2000

(1) Trading Activities

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

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

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

VaR for Trading Activities (1 day - 97.7%)
(April 2000 to March 2001)

(Yen in billions)

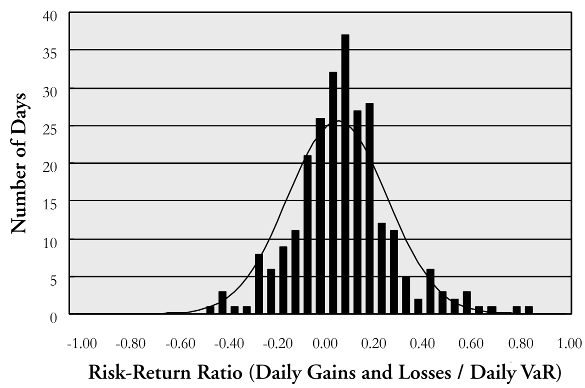
Risk Category	Daily average	High	Low	end-March 2001	end-March 2000
Interest	**1.80**	**2.95**	**0.96**	**1.50**	**0.91**
Incl. yen	**1.11**	**2.02**	**0.51**	**0.68**	**0.52**
Incl. dollar	**0.71**	**1.60**	**0.26**	**0.64**	**0.30**
Foreign exchange	**0.41**	**0.84**	**0.13**	**0.30**	**0.66**
Equities	**0.96**	**2.13**	**0.47**	**0.82**	**0.49**
Commodities	**0.24**	**0.54**	**0.07**	**0.29**	**0.27**
(diversification effect)	**(0.42)**	-	-	**(0.24)**	**(0.44)**
Total	**2.99**	**4.11**	**1.92**	**2.67**	**1.89**

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

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

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

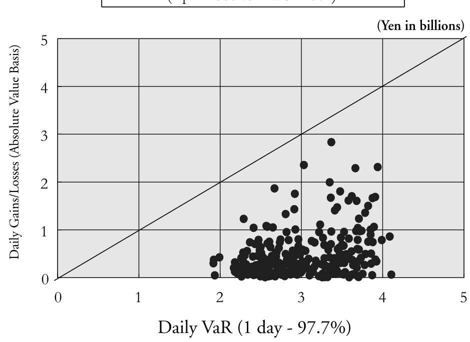
Histogram of Risk-Return Ratio for Trading Activities (April 2000 to March 2001)



Backtesting

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

Backtesting for Trading Activities
(April 2000 to March 2001)



(2) Non-trading activities

In non-trading activities, 99% of the market risk stems from interest rate risk (BTM does not include its strategic investments in equity in its non-trading activities).

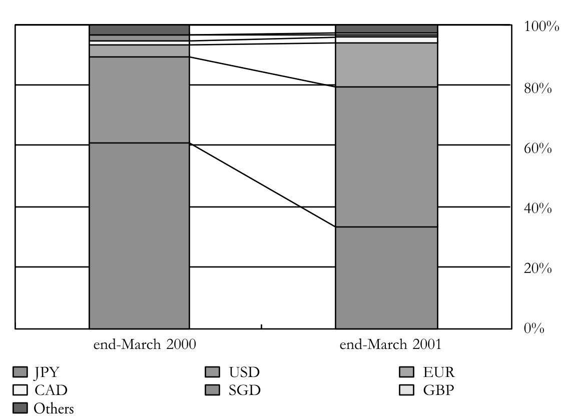
In fiscal 2000, the daily average interest rate VaR for non-trading activities was ¥17.3 billion, which was ¥1.9 billion increase on the fiscal 1999 average of ¥15.4 billion. The main cause of the increase was that BTM increased its US dollar and euro interest rate positions since the interest rates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

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

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

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

Interest Rate VaR for Non-Trading Activities by Currencies



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

Stress testing

Market risk measures, including VaR and VaI, denote the maximum possible potential risk of loss on normal market movements, based on empirical market fluctuations. Market movements, however, can of course deviate from historically 'normal' patterns. To be prepared for any atypical market movements, BTM uses its Market Risk Information System to perform stress testing under various market scenarios. In this way BTM is able to more thoroughly understand where risk lies in its business, and what effect extreme market movements could have on its earnings.

The Corporate Risk Management Office conducts stress testing by incorporating individual scenarios based on the actual market conditions. In addition, beginning in fiscal 2000 it became possible to analyze BTM's overall position by incorporating scenarios set by the front offices into the Market Risk Information System. Adoption of this process has further strengthened communication between front offices and the Corporate Risk Management Office.

Scenarios

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

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

• Corporate Risk Management Office—Scenario 1:

The US dollar interest rate rises (impact over one week at a probability of approximately 0.003%)

• Corporate Risk Management Office—Scenario 2:

The euro interest rate rises (impact over one week at a probability of approximately 0.003%)

• Front office—Scenario 1:

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

• Front office—Scenario 2:

Financial turmoil revival leads to an increased spread between Japanese bond rates and swap rates of approximately 0.2% in the short-term and approximately 0.3% in the long-term.

Stress Test Results (extract)

(Yen in billions)

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

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

■ Liquidity risk management

BTM's financing capabilities are supported by a funding network based on its domestic and overseas branches network and customers base. BTM benefits from having one of the highest credit ratings among major Japanese banks. BTM has established strong liquidity, and in addition maintains 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, BTM manages all aspects of the daily funding mechanism. BTM also manages its funding sources using liquidity risk indices, such as liquidity gap, liquidity supplying products such as commitment lines and buffer assets. Furthermore, BTM attempts to protect its 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 economic environments. To maintain proper checks and balances, risk management divisions also monitor liquidity risk and report it independently to senior management along with market liquidity.

■ Asset and liability management

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,
- forecasted global interest rate movements based on analysis of economic fundamentals, and
- optimization of BTM's overall asset-liability structure.

■ Operations risk management

In order to mitigate operations risk and to enhance the reliability of client services BTM uses quantification and other approaches to provide more accurate assessments of operations risk. BTM endeavors to ensure strict application of procedures and rules, to use automation and systems to eliminate manual work, and to enhance systems for the management of cash and other articles requiring physical handling. BTM also provides operational counseling, and has implemented cross-checking functions through measures such as internal inspections. These efforts help to ensure the appropriateness of operational procedures.

■ Information security risk management

The increased efficiency and convenience brought about by progress in information technology has also created new security concerns. BTM's Information Security Management Committee meets semi-annually to discuss the overall management of information security risk, and to oversee BTM's strategy to ensure the reliable operation of systems and to prevent failures before they occur.

Through precautionary measures such as installing anti-disaster systems, duplicating systems infrastructure, and holding disaster drills, BTM ensures that in the unlikely event of a failure actually occurring, the effect is minimized and fast recovery is possible.

In addition to measures to prevent illicit entry to its systems, BTM also enforces strict information management procedures to reduce information security risk.

■ Legal/Regulatory risk management

To control legal risks, BTM's internal procedures require that laws and regulations be observed in all operations. The Legal Office supports BTM's legal risk management, studying and researching legal issues, formulating internal guidance, handling lawsuits, and controlling and managing external lawyers. BTM also obtains the opinions of other legal specialists as needed.

■ Settlement risk management

Settlement risk is the risk of being involved in settlement operations. By its very nature, settlement risk is identical with credit risk, liquidity risk and operation risk, a transversal control of these risks is necessary.

In January 2001, the Bank of Japan successfully introduced Real Time Gross Settlement (the real time settlement of funds or securities transfers individually on an order-by-order basis without netting) for the Bank of Japan Financial Network System, reducing the credit and systemic risk elements of settlement risk.

Foreign exchange settlement risk arises primarily from the difference in time zones that both parts of the exchange are settled in. The ongoing globalization and liberalization of the world's financial markets has resulted in an increase in the volume of foreign exchange, and BTM is strengthening its management of foreign exchange settlement risk by establishing a framework that encompasses such risks as credit. At the same time, BTM has adopted a policy designed to reduce settlement volume by moving ahead with netting and other techniques.

In addition, some large global banks are planning the operational launch at the end of October 2001 of a special purpose bank, the CLS Bank, which will reduce foreign exchange settlement risk. BTM is actively participating in this CLS (Continuous Linked Settlement) project to achieve simultaneous settlements between different currencies.

■ Operational risk management

BTM has a self-assessment system to enable each business unit to measure its own operational risk. Under this system, BTM defines several dozen operational risk categories and explores scenarios that would seriously affect its operations, evaluating the likely size and frequency of losses and the efficiency of its risk management. The system provides a framework for each business unit to carry out its own assessments and to plan and implement its own risk management. The divisions that have overall responsibility for risk check the results of each business unit's self-assessment, and establish programs for the overall management of operational risk. Under the system, the Inspection Office and examination offices inspect and examine the results of each division's self-assessment and BTM's risk management overall. The Corporate Risk Management Office formulates policy and self-assessment standards. BTM's overall operational risk is quantified by multiplying the risk scores generated by each business unit's self-assessment results by a risk per item.

■ Compliance

(1) BTM's overall compliance system

BTM considers compliance to be one of its most important business issues, and has worked hard to establish an effective compliance system that works within the policy of MTFG as a whole.

Firstly, the Compliance Committee meets every three months to consider important issues related to the compliance system within BTM. In addition to hearing reports and deliberating on the compliance system and status both in Japan and overseas, it also carries out revisions and recommendations as necessary.

BTM has also established a Compliance Office that serves as the executive office of the Compliance Committee and oversees compliance within BTM. Detailed compliance manuals bring together the ethical principles underpinning BTM corporate ethics, and delineate the in-house rules and external laws and regulations that must be observed. BTM also tries to reach all its employees through a variety of joint training sessions and study groups in divisions and branches.

Furthermore, BTM receives independent evaluation and advice from external experts in law and accounting on issues such as the adequacy of its compliance system and the observance of laws and regulations by executives. Following the changeover to the business unit system in July 2000, the Compliance Office continues to oversee the compliance system for BTM as a whole, but BTM has adopted a system in which each business unit also plans and monitors compliance for its own business area to ensure even greater effectiveness.

(2) The compliance system for headquarters and branches

A compliance manager or officer is appointed for each division and branch both in Japan and overseas to oversee the compliance system in each division and branch. In addition to conducting educational activities such as study groups within the division or branch, this person carries out a defined compliance check every three months and reports to the Compliance Office. This report is followed up on through an internal audit and credit examination process.

The role of the compliance manager also includes formulating the compliance program, planning study groups and strategies to prevent the recurrence of infringements, and submitting these plans to the Compliance Office. Individual compliance cases are handled by this manager in consultation with the Compliance Office.

BTM's headquarters has an ongoing role in ensuring that company documents reflect any changes to laws and regulations concerning work carried out by business units, and also reviews business activities from the perspective of BTM's community and social responsibilities. Departments are encouraged to consult with the Compliance Office on important business matters and on any other matters that may arise.

A compliance system for each business area has been established for domestic affiliated companies, while overseas compliance activities are conducted within BTM's main compliance system.

■ Internal auditing

Internal auditing is a process of examining the propriety and effectiveness of internal control, including risk management and compliance, of the business unit being audited. At BTM, independent from business units, the Inspection Office examines and evaluates the propriety and effectiveness of daily operations and internal control at the business unit being audited, giving guidance and proposals on the improvement of issues in accordance with MTFG's policy.

In addition, the Credit Examination Office, which is also independent from business units, examines the decisions made on credit ratings and asset quality self-assessments by the department in charge of credit approval in each business unit, and evaluates the overall credit control process within each business unit.

The Mitsubishi Trust and Banking Corporation

■ Risk management

Fundamental policy

The Board of Directors of MTBC has established its fundamental policy on risk management (named the Rules of Risk Management) in accordance with the risk management policy of MTFG, and has also incorporated policies for continued risk management into its medium-term business plans.

Risk identification

MTBC manages the various risks that arise in the course of its business. In addition to credit, market, liquidity, operations, and information security risk as defined in the MTFG Risk Management Bylaw, MTBC has identified legal risk and business management risk as major risks and manages these categories separately.

Risk management structure

To control risks, the Board of Directors of MTBC determines the policy for MTBC's risk management structure as well as rules of MTBC for each major risk, in line with MTBC's Rules of Risk Management and the management plan. The Board of Directors grants authority to the Credit and Investment Council for matters related to credit risk management and to the Asset and Liability Management (ALM) Council for matters related to market risk and liquidity risk management.

At MTBC, the Corporate Risk Management Division is responsible for overall risk management, planning and coordination.

Individual major risks are assigned to particular supervisory divisions that manage individual risks:

- the Credit Risk Management Division is responsible for credit risk,
- the Corporate Risk Management Division (Market Risk Evaluation Section) is responsible for market risk and liquidity risk,
- the Operations Administration Division deals with operations risk,
- the Corporate Risk Management Division (Management Planning Group) handles information security risk and business management risk,
- the Corporate Risk Management Division (Legal Office) is responsible for legal risk.

Each supervisory division establishes rules and regulations as well as policy for managing the assigned risk, according to the Rules of Risk Management and the Medium-Term Management Plan.

Policy in Medium-Term Management Plan

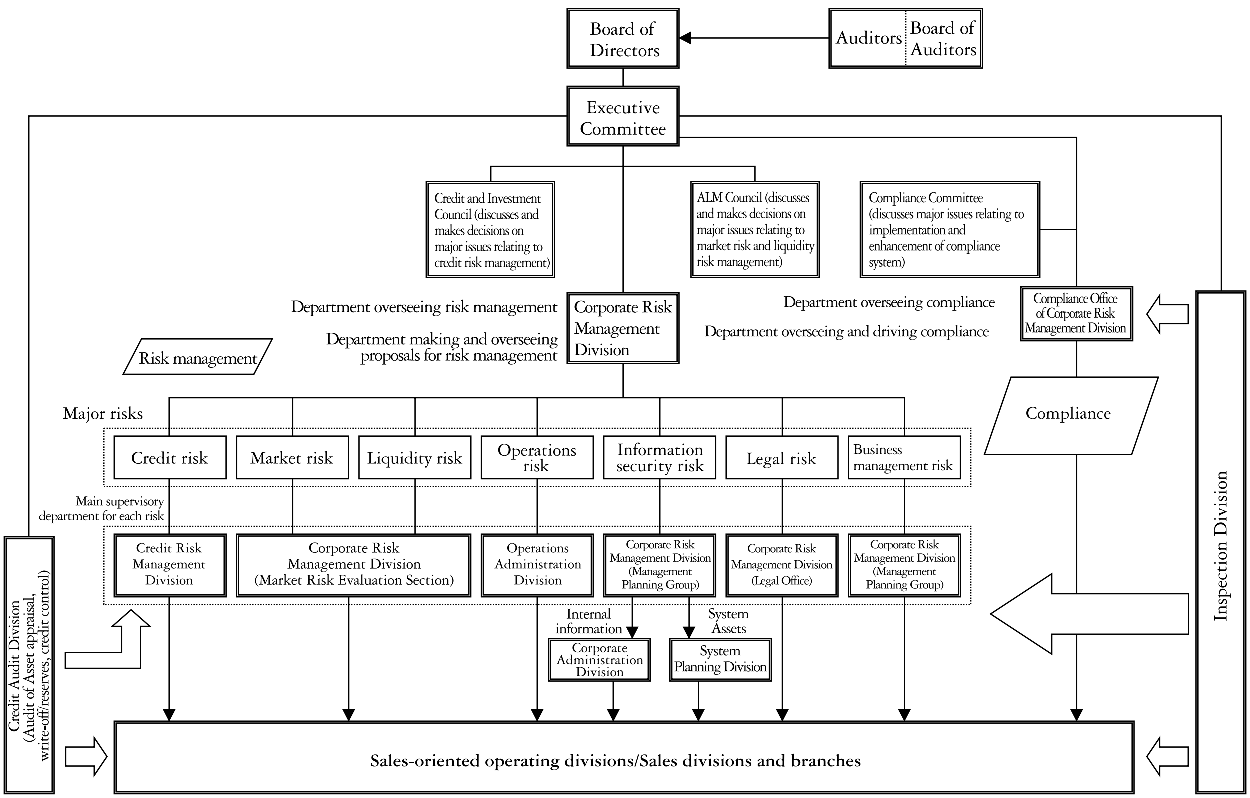
MTBC's Seventh Medium-Term Management Plan, which took effect in April 2000, places priority on strengthening the MTBC's risk management. The plan aims to ensure the solidity of the system and to implement even more thorough risk management.

The Seventh Medium-Term Management Plan was revised to become the Revised Medium-Term Management Plan in April 2001. This revised plan continues to place emphasis on thorough risk management, and specifies planned enhancements to risk management and internal audit functions.

The Plan include:

- bolstering check systems and ensuring business systems are robust enough to cope with after-the-fact verification,
- continually reviewing risk management processes through regular risk appraisals and augmenting business audit and share risk information to increase efficiency,
- ensuring that MTBC is run in accordance with the policies of MTFG concerning risk management.

MTBC risk management, compliance, and internal auditing systems



■ Credit risk management

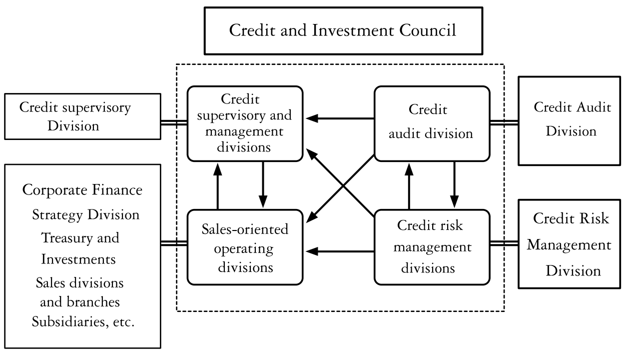
Risk management structure

In order to construct a credit supervisory and management structure not influenced by sales-oriented operating divisions, MTBC has created an organizational structure that separates the sales-oriented operating divisions, on the one hand, and the credit supervisory and management divisions, on the other.

To ensure appropriate exertion of authority by credit risk management and to make credit risk management more effective, the Credit Audit Division checks appropriateness of self-assessment, write-off/reserves, internal credit rating, etc. In addition to this, the Credit Risk Management Division regularly monitors the appropriateness of the overall portfolio including holdings of consolidated subsidiaries and affiliates accounted for by the equity method. MTBC has constructed this system to ensure that mutual checks can function adequately.

The Credit and Investment Council, headed by MTBC's President, is the body established for the purpose of discussing and making decisions concerning credit risk. It meets regularly to make decisions on significant individual transactions, to determine strategic investments, to set upper level ratings, to set credit limits per country, and to review periodically MTBC's portfolio, including examination of the status of credit by industry and internal credit rating categories.

MTBC manages its credit policy, which sets out the decision-making structure and the credit risk management systems, to accommodate changes in the circumstances which financial institutions face.



Portfolio management

In addition to engaging in risk management for individual transactions, it is also important for proper credit risk management to assess the total portfolio of credit assets on a firm-wide basis in a consistent manner, and diversifying credit risk by preventing over-representation of risk in any particular sector, credit rating, or country category.

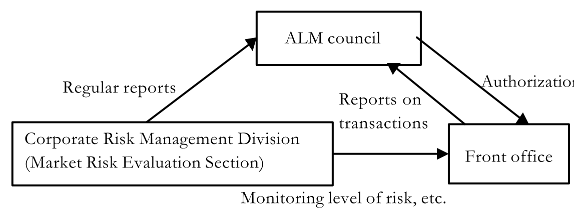
In addition to the Group's common assessment, MTBC utilizes a model for measuring the credit risk of its portfolio that was researched in conjunction with its subsidiary, MTB Investment Technology Institute, and has developed and placed in operation together with Numerical Technologies Inc., which has a solid record in the field of risk measurement. It uses simulation of asset holdings provided by this model to measure to what extent the measured credit risk is likely to change by changes in the creditworthiness of borrowers and guarantors affected by macroeconomics, industrial, corporate groupings and other factors, changes in the value of items held as collateral, and by other factors such as portfolio concentration of particular large borrowers or industry. In addition to reporting to the Credit and Investment Council, the levels of credit risk and the state of large borrowers are reported half-yearly by the Credit Risk Management Division to the Executive Committee and the Board of Directors.

In managing credit risk, skillful assessment of the corporations that make up MTBC's client base is the most important element. MTBC has worked with MTB Investment Technologies Institute in this area, and also on the research and development for a financial analysis model based on statistical analysis of clients' historical financial data. This robust model has the ability to distinguish potential defaults and incorporates auditing capabilities. It enables substantial appraisal to be incorporated into assessments of corporations.

Bearing in mind the future implementation of the new Basel Capital Accord, MTBC is striving for a higher level of credit risk management, and plans to further extend its scope to manage portfolios appropriately and to seek returns commensurate with the level of risk.

■ Market risk management

Risk management structure



To facilitate rapid decision making by top management with regard to the management of funds in the market, MTBC holds ALM council meetings each month. The council considers the level of market risk from a firm-wide perspective, and makes business decisions concerning market risk management, including setting an upper limit for permissible market risk according to the level of loss or profit.

The Market Risk Evaluation Section of the Corporate Risk Management Division is totally independent of the front office and back office. In fact, it acts as a middle office, performing checks such as the following:

(1) Monitoring the front office

Monitors front office risk levels and profit/loss status, and reports daily to executives on compliance with limits.*

* Limits: For risk levels, market risk limits allocated to market risk are set on the basis of MTBC's capital. For losses, loss limits are set. These limits ensure that risks and losses from operations in the markets are kept within certain bounds.

(2) Maintaining accuracy of information

If the information received by executives lacks accuracy, there is a danger of failing to see risks and becoming overly exposed to losses. For this reason, the Market Risk Evaluation Section performs regular checks on the integrity of the data passed between the systems used by the front office and back office. It also conducts verification of the risk measurement model used in the front office system.

Risk management methods

MTBC regards constant efforts to enhance measurement methods as essential for making its risk management structure more comprehensive. One example of this is the multi-factor equity risk model introduced by MTBC in October 2000. This model reflects the price volatility of specific stocks, and also uses Tokyo Stock Exchange sector indices etc. to review correlations between individual stocks. Increasing the accuracy of risk level calculations enables more precise risk management.

Risk management systems

A risk management structure has a direct effect on earning ability, because it defines the process that assesses whether returns are appropriate for the level of risk (risk/return analysis). VaR is calculated using the "CORE", a firm-wide market risk management structure developed by MTBC.

MTBC has also developed the "NOVA" market operation earnings management structure, and in April 2001 started using this to provide uniform management of earnings data relating to market management operations firm-wide, including overseas operations.

The data is used in analyzing changes over time and comparing the competitiveness of different entities, contributing to MTBC's objective of efficient management of assets.

Market risks in fiscal 2000

(1) Trading activities

The following table shows VaR for fiscal 2000 trading activities according to risk category.

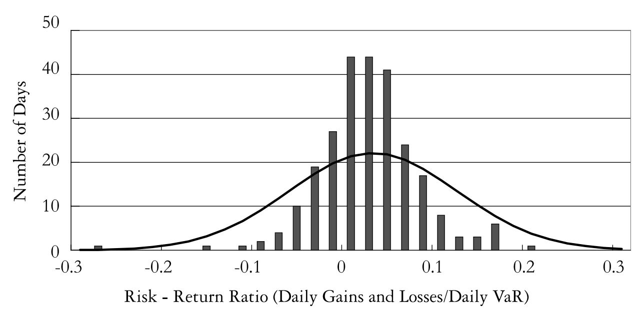
VaR for Trading Activities (1 day - 99%)
(April 2000 - March 2001)

(Yen in billions)

Risk category	Daily av.	High	Low	end-March 2001	end-March 2000
Interest rates	0.27	0.73	0.08	0.10	0.10
Foreign exchange	0.27	1.06	0.02	0.09	0.04
Equities	0.00	0.00	0.00	0.00	0.00
Total	0.54	1.23	0.14	0.19	0.14

The following histogram shows an analysis of return obtained at various levels of risk. The distribution of risk-return ratio is shifted to the right, and the central peak is higher than would be expected with a normal distribution. This pattern demonstrates that profitable trading methods have been steadily maintained.

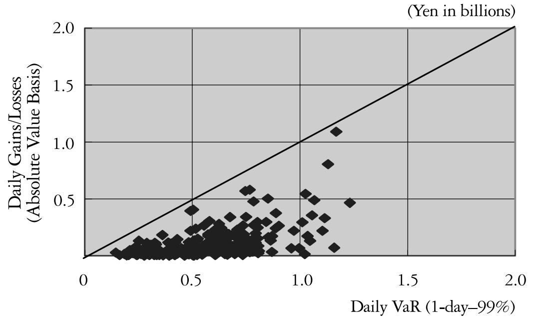
Histogram of Risk-Return Ratio for Trading Activities
(April 2000 to March 2001)



Backtesting

Backtesting, conducted by comparing VaR calculated with a confidence interval of 99% against actual gain and loss figures for 250 business days, shows that the absolute value of gains/losses did not exceed the VaR calculation of any of those days. This demonstrates that the VaR model used by MTBC is capable of predicting market risk with sufficient precision.

Backtesting for Trading Activities
(April 2000 to March 2001)



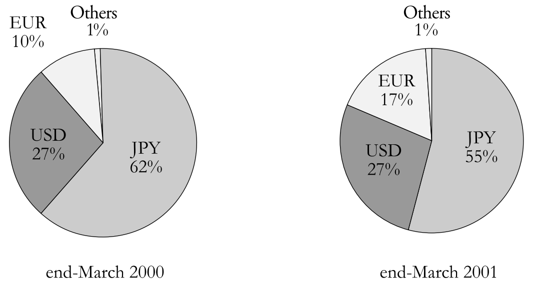
(2) Non-trading activities

VaR for non-trading activities over the period from April 2000 to March 2001 (amount at risk in a day with a confidence interval of 99%) averaged ¥16.8 billion, with a maximum value of ¥20.5 billion and a minimum of ¥13.4 billion. (Price fluctuation risk for strategic shareholdings is excluded from this calculation.)

Interest rate risk accounted for approximately 70% of the market risk. The charts below show the 1% interest sensitivity** for each currency. Year on year comparison indicates a drop in the proportion of yen assets.

** Interest sensitivity: The change in the value of the holdings in a position if interest rates were to rise 1% for the full term.

Shift in 1% Interest Sensitivity for Non-Trading Activities



Stress testing

The table below shows the results of simulations with the conservative scenario of a reoccurrence of the largest actual change to occur in each of the different markets over the last five years, recurring so as to be detrimental to MTBC's position. Conducting stress testing like this enables portfolios to be managed so as to take into account the sort of rapid market movements that cannot be predicted from normal market fluctuations.

Shift in Stress Values
(trading)

(Yen in billions)

Risk category	end-Mar 2000	end-June 2000	end-Sep 2000	end-Dec 2000	end-Mar 2001
Interest rates	0.7	0.8	0.9	3.3	1.2
Foreign exchange	1.3	0.2	2.4	2.9	0.6
Equities	0.0	0.0	0.0	0.0	0.0
Total	2.0	1.0	3.3	6.2	1.9

■ Liquidity risk management

MTBC manages cash flow on a firm-wide basis, including its overseas operations. Cash flow is managed according to three categories—Normal, Caution, and Crisis—according to the situation for procurement of financing and the market environment.

Management of liquidity risk is normally performed by the Money Market Activities, a unit within the Global Markets Business Group, with the decision to apply a Caution or Crisis category made by the ALM Council so that measures can be taken to avoid a fall in asset values and related problems. These management structures are determined by liquidity risk management regulations, and the Market Risk Evaluation Section of the Corporate Risk Management Division monitors their implementation.

MTBC's funding situation and the market environment are evaluated by multifaceted analysis of financial gaps, ratings, stock price movements, the Japan premium that has sometimes been charged to Japanese banks by international lenders and other factors, with the conclusions reported regularly to executives and to the ALM Council. The system is set up so that if a sudden change occurs in the environment for cash flow, MTBC can take action based in its crisis management manual and liquidity risk management regulations.

■ Asset and liability management

In addition to managing risks such as market risk and liquidity risk, asset and liability management (ALM) is essential to ensure that MTBC maintains a sound balance sheet and is able to generate returns. In addition to the risk management conducted by all MTBC divisions involved in lending/deposits or market activities, the Corporate Planning Division monitors firm-wide structural changes in assets and liabilities as a result of the activities by these divisions, and reports to the ALM Council. The ALM Council decides the steps necessary to manage the composition of assets and liabilities from a mid- to long-term perspective and to ensure that the structure of the balance sheet generates stable returns.

■ Operations risk management

As a trust bank, MTBC is active in a wide range of areas. In addition to banking activities such as taking deposits, lending, and foreign exchange, MTBC's business involves loan trusts, money trusts, pensions, securities, government bonds, real estate, transfer agent work and loan liquidation.

These operations and the related back office work have become increasingly specialized and complex, so to deal with the complexity and variety of the associated operations risk, responsibility for operations risk management in each of these fields is allocated to a specific department, which acts to discern the risk, manage it and prevent errors. The Operations Administration Division then deals with overall operations risk management from a firm-wide perspective. It continually provides and upgrades manuals, ensures compliance with authorization and other rules in clerical work, and provides regular training and instruction to raise the standard of back office work and prevent work being conducted in an inappropriate manner. This work is increasingly handled by computers or concentrated at a clerical work center, which enables it to be performed efficiently with a minimum error rate.

■ Information security risk management

Information security risk includes risks involved in the management of proprietary information held by MTBC, such as details of transactions with customers, and also risks involved in the security of system assets such as the hardware, software and networks that make up computer systems. Under the overall control of the Corporate Risk Management Division, the management of information security risk is handled by the Corporate Administration Division for internal information, and by the Systems Planning Division for system assets.

MTBC's management of proprietary information includes incorporating a confidentially obligation in its corporate regulations for employees, and appointing the head of each department, section or branch as being responsible for managing proprietary information. Information is handled in accordance with its level of secrecy, and documents containing proprietary information are handled so that the information is not readily available to people other than those for whom it is intended.

Planning for the security of system assets includes matters such as duplicating important computer and network equipment so as to be able to cope with disaster or failure. The online systems used by branches are configured to provide real time backup between two computer centers located in the west and east of Japan (Osaka and Tochigi). MTBC seeks to reduce the risks involved in using open networks such as the Internet through the use of technology such as firewalls, encryption and electronic verification.

Each division, section and branch appoints a system security manager to ensure proper security management for system assets.

■ Legal risk management

Legal risk is the risk of incurring losses or of losing the opportunity to profit due to inappropriate action from a legal standpoint, or the risk of incurring losses through incomplete legal compliance.

MTBC handles legal issues by having the divisions with responsibility for particular operations perform proper primary checks. The Legal Office of the Corporate Risk Management Division, which has overall responsibility for legal issues, then conducts secondary checks. Where necessary, MTBC brings in external legal experts on a consulting basis. Ensuring the thorough implementation of this scheme reduces legal risk to a minimum.

■ Business management risk

Business management risk is the risk of incurring losses through carrying out business in an inappropriate manner. Excluding areas handled separately such as operations risk and information security risk, MTBC aims to put in place a business management structure to ensure that the appropriate authority is properly requested and obtained for each operation.

Operational risk

Under the new Basel Capital Accord, operational risk is one of the factors affecting capital adequacy calculations, so in the future MTBC will have to take appropriate action in this area. MTBC started retaining electronic records of accidents and other problems in April 2000, and in accordance with how requirements develop, will work on the system to achieve more sophisticated provision, use and management of data relating to operational risk.

Compliance

Based on the Group policy, MTBC regards compliance as one of its top business priorities, and has constructed and firmly established compliance systems throughout its business.

MTBC's fundamental concept of compliance is outlined in Standards of Corporate Ethics. MTBC also provides compliance manuals as practical guidelines to implementing compliance, and these are used to ensure that all staff understand the issues involved. These manuals include a general part that explains compliance with the Banking Law, the Commercial Code, and the Trust Law, and operation-specific parts that cover areas such as deposits, credit, pensions, securities, and real estate. The manuals are constantly reviewed and revised as the legal environment changes.

In addition to this approach, MTBC has put Compliance Rules in place defining the roles and responsibilities of staff with regard to compliance, and clarifying the system of reporting. MTBC appoints managers responsible for compliance in all divisions, sections and branches, including those overseas. The Corporate Risk Management Division also constructs and oversees practical compliance systems and monitoring systems and a Compliance Committee headed by MTBC's Deputy President oversees proper compliance with legal requirements and discusses major policies relating to compliance.

Practical approaches for achieving compliance

MTBC implements semiannual compliance programs to ensure that variable aspects of compliance are properly achieved and maintained. The progress of these programs and level of success is checked every three months. The program for the first half of fiscal 2001 included revisions to compliance manuals, self-testing for legal compliance, training sessions and study groups. For key issues, the timing of implementation and the department responsible are mapped out to ensure that the plan is properly arranged. Each individual division, section and branch conducts an action program on a semiannual basis to ensure that compliance is properly implemented. The Inspection Division verifies the state of implementation, as a further step in ensuring that compliance in the organization is both thoroughly understood and consistently applied.

The self-testing for legal compliance is carried out monthly in domestic divisions, sections, and branches, with different checklists according to the type of operation involved. Overseas units make regular reports to head office regarding the status of compliance based on applicable laws and regulations. Training includes six-monthly compliance training for managers, group training for staff categorized by level and operations, and internal training within each division, section, and group. These sessions are designed to increase understanding and knowledge of relevant compliance issues.

Domestic subsidiaries and overseas units and companies have each put similar compliance systems into place, drafting action plans to ensure compliance and using self-testing to achieve their objectives.

In order to prevent legal problems, the Legal Office of the Corporate Risk Management Division, in addition to regular roles such as checking contracts, provides legal advice and verification, with the assistance of outside lawyers as necessary.

Internal auditing

An internal audit system is essential for ensuring MTBC's profits and proper management of risk. Based on MTFG policy and its own internal audit rules, MTBC has established an Inspection Division as an independent internal audit function. The objectives of internal audit are:

- to assess and evaluate the adequacy and effectiveness of each operating division's internal control processes (including risk management divisions),
- to report any issues to management, and
- to make recommendations for improvement or changes.

Upon conducting an internal audit, the Inspection Division analyses the department's risk management systems, and evaluates the type and level of risk in each department or each business involved. It then creates audit plans taking into account methodology, frequency, and scope, in order to conduct efficient and effective internal audits. It emphasizes enhancing operational audits to make sure that the proper rules and regulations required to carry out a particular operation are in place, and to verify that operational management is appropriate and effective.

In order to respond to environmental changes affecting the financial industry, MTBC will continue to work on improving its internal audit function, based on clear risk recognition and a sense of self-responsibility.

INDEX TO FINANCIAL INFORMATION OF
MITSUBISHI TOKYO FINANCIAL GROUP, INC.

Unaudited Pro Forma Combined Condensed Financial Statements

The following Unaudited Pro Forma Combined Condensed Balance Sheet as of March 31, 2001 and the Unaudited Pro Forma Condensed Statements of Operations for each of the three years in the period ended March 31, 2001 combine the historical consolidated balance sheets and consolidated statements of operations of The Bank of Tokyo-Mitsubishi, Ltd. and its subsidiaries ("BTM Group") and The Mitsubishi Trust and Banking Corporation and its subsidiaries ("Mitsubishi Trust Group"), giving effect of the business combination, which has been accounted for as a pooling of interests, after reflecting the pro forma adjustments described in the Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

The Unaudited Pro Forma Combined Condensed Balance Sheet gives effect to the business combination as if it had been effective on March 31, 2001. The Unaudited Pro Forma Combined Condensed Statements of Operations give effect to the business combination as if it had been effective as of the beginning of the three years in the period ended March 31, 2001. This information should be read in conjunction with the historical consolidated financial statements of BTM Group and Mitsubishi Trust Group, including their respective notes thereto, which have been prepared in accordance with US GAAP.

The unaudited pro forma financial information is not necessarily indicative of the financial position or results of operations that would have occurred had the business combination been made at the beginning of the periods presented or the future results of the combined operations.

Unaudited Pro Forma Combined Condensed Balance Sheet

	At March 31, 2001			
	BTM Historical	Mitsubishi Trust Historical	Pro Forma Adjustments	Pro Forma Combined
	(in millions)			
ASSETS				
Cash and due from banks	¥ 1,545,714	¥ 184,321	¥ (367)(1)	**¥ 1,729,668**
Interest-earning deposits in other banks	5,621,870	723,612	(333,521)(1) 2,944(4)	**6,014,905**
Call loans and funds sold	1,740,392	108,357	(20,000)(1)	**1,828,749**
Receivables under resale agreements	1,129,850	304,863	(6,225)(1)	**1,428,488**
Receivables under securities borrowing transactions	2,008,830	26,401	(96,731)(1)	**1,938,500**
Trading account assets	6,591,713	577,345	(25,749)(1)	**7,143,309**
Investment securities:				
Securities available for sale	16,201,297	5,624,181	(89,333)(1)(2) (5,230)(4)	**21,730,915**
Securities being held to maturity	—	306,207		**306,207**
Other investment securities	111,584	77,075	(20,112)(4)	**168,547**
Total investment securities	16,312,881	6,007,463	(114,675)	**22,205,669**
Loans, net of unearned income and deferred loan fees	40,175,155	9,548,700	(52,952)(1)	**49,670,903**
Allowance for credit losses	(1,385,010)	(332,053)	79(1)	**(1,716,984)**
Net loans	38,790,145	9,216,647	(52,873)	**47,953,919**
Premises and equipment—net	518,865	170,798		**689,663**
Accrued interest	261,244	59,311	(3,614)(1)	**316,941**
Customers' acceptance liability	43,552	—		**43,552**
Other assets	1,811,847	394,218	(13,699)(1) (4,810)(3) 8,031(4)	**2,195,587**
Total	¥76,376,903	¥17,773,336	¥(661,289)	**¥93,488,950**

(continued)

See Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

	At March 31, 2001			
	BTM Historical	Mitsubishi Trust Historical	Pro Forma Adjustments	Pro Forma Combined
	(in millions)			
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Domestic offices:				
Non-interest-bearing	¥ 2,739,489	¥ 144,880	¥ (338)(1)	**¥ 2,884,031**
Interest-bearing	33,550,848	9,519,667	(5,588)(1)	**43,064,927**
Overseas offices:				
Non-interest-bearing	1,674,409	1,131	(29)(1)	**1,675,511**
Interest-bearing	11,174,278	1,634,928	(327,933)(1)	**12,481,273**
Total deposits	49,139,024	11,300,606	(333,888)	**60,105,742**
Debentures	3,410,789	—	(6,378)(1)	**3,404,411**
Call money and funds purchased	2,319,624	58,412	(20,000)(1)	**2,358,036**
Payables under repurchase agreements	2,512,776	540,067	(6,225)(1)	**3,046,618**
Payables under securities lending transactions	3,208,837	210,598	(96,731)(1)	**3,322,704**
Due to trust account and other short-term borrowings	2,015,360	3,804,149	(16,800)(1)	**5,802,709**
Trading account liabilities	3,951,577	144,164	(22,934)(1)	**4,072,807**
Obligations to return securities received as collateral	295,694	—		**295,694**
Bank acceptances outstanding	43,552	—		**43,552**
Accrued interest	293,094	99,821	(3,614)(1)	**389,301**
Long-term debt	4,431,173	572,159	(39,877)(1)	**4,963,455**
Other liabilities	2,345,287	161,387	(13,642)(1) 5,347(3) (15,754)(4)	**2,482,625**
Total liabilities	73,966,787	16,891,363	(570,496)	**90,287,654**
Shareholders' equity:				
Capital stock:				
Preferred stock	122,100	100,000		**222,100**
Common stock	663,870	192,794		**856,664**
Capital surplus	592,051	245,952	(6,898)(5)	**831,105**
Retained earnings:				
Appropriated for legal reserve	179,099	42,590		**221,689**
Unappropriated	232,677	26,296	19,336(1)(2)(5) (6,027)(3) 1,559(4)	**273,871**
Accumulated other changes in equity from nonowner sources, net of taxes	620,701	274,363	9,241(1)(2) 628(3) (134)(4)	**904,799**
Total	2,410,498	881,995	17,735	**3,310,228**
Less treasury stock—at cost	382	22	108,528(2)	**108,932**
Shareholders' equity—net	2,410,116	881,973	(90,793)	**3,201,296**
Total	¥76,376,903	¥17,773,336	¥(661,289)	**¥93,488,950**

See Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

Unaudited Pro Forma Combined Condensed Statement of Operations

	For the Year Ended March 31, 1999			
	BTM Historical	Mitsubishi Trust Historical	Pro Forma Adjustments	Pro Forma Combined
	(in millions)			
Interest income:				
Loans, including fees	¥1,598,366	¥ 251,395	¥ (267)(1)	¥1,849,494
Deposits in other banks	223,915	51,287	(19,331)(1)	255,871
Investment securities:				
Interest	270,001	134,880	(159)(1)	404,722
Dividends	47,107	20,635	(954)(1)	66,788
Trading account assets	29,789	3,403	(122)(1)	33,070
Call loans and funds sold	55,717	11,021	(181)(1)	66,557
Receivables under resale agreements and securities borrowing transactions	117,405	18,723	(992)(1)	135,136
Total	2,342,300	491,344	(22,006)	2,811,638
Interest expense:				
Deposits	861,480	205,900	(19,453)(1)	1,047,927
Debentures	66,818	—	(159)(1)	66,659
Call money and funds purchased	36,484	4,637	(181)(1)	40,940
Payables under repurchase agreements and securities lending transactions	152,791	28,832	(992)(1)	180,631
Due to trust account, other short-term borrowings and trading account liabilities	103,255	44,555	(81)(1)	147,729
Long-term debt	181,721	12,133	(186)(1)	193,668
Total	1,402,549	296,057	(21,052)	1,677,554
Net interest income	939,751	195,287	(954)	1,134,084
Provision for credit losses	919,427	319,621	(48)(1)	1,239,000
Net interest income (loss) after provision for credit losses	20,324	(124,334)	(906)	(104,916)
Non-interest income:				
Fees and commissions	256,281	129,633		385,914
Foreign exchange gains—net	80,059	—	(80,059)	—
Trading account profits—net	112,987	120,245		233,232
Investment securities gains—net	—	11,056	(11,056)	—
Gain from sales of equity investments in a subsidiary	26,105	—		26,105
Other non-interest income	38,989	9,965	1,024 (4)	49,978
Total	514,421	270,899	(90,091)	695,229
Non-interest expense:				
Salaries and employee benefits	400,570	82,446		483,016
Occupancy expenses—net	107,291	29,259		136,550
Foreign exchange losses—net	—	123,598	(80,059)	43,539
Investment securities losses—net	50,437	—	(11,056)	39,381
Losses on other real estate owned	56,090	1,228		57,318
Goodwill amortization and impairment	62,648	1,841	(56)(4)	64,433
Other non-interest expenses	345,463	77,216	357 (4)	423,036
Total	1,022,499	315,588	(90,814)	1,247,273
Loss before income tax benefit	(487,754)	(169,023)	(183)	(656,960)
Income tax benefit	(143,331)	(32,738)	24 (1) 1,005 (3) 503 (4)	(174,537)
Net loss	¥ (344,423)	¥(136,285)	¥ (1,715)	¥ (482,423)
	(in yen)			
Earnings per share(6):				
Loss per common share—basic	(73.67)	(104.65)		(87,953.14)
Loss per common share—assuming dilution	(73.67)	(104.65)		(87,953.14)
Number of shares used to calculate loss per share (thousands of shares):				
Loss per common share—basic	4,675,446	1,302,256		5,485
Loss per common share—assuming dilution	4,675,446	1,302,256		5,485

See Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

Unaudited Pro Forma Combined Condensed Statement of Operations

	For the Year Ended March 31, 2000			
	BTM Historical	Mitsubishi Trust Historical	Pro Forma Adjustments	Pro Forma Combined
	(in millions)			
Interest income:				
Loans, including fees	¥1,293,344	¥ 201,019	¥ (292)[1]	¥1,494,071
Deposits in other banks	105,911	35,242	(4,823)[1]	136,330
Investment securities:				
Interest	224,394	102,660	(134)[1]	326,920
Dividends	54,553	19,618	(925)[1]	73,246
Trading account assets	13,112	2,594		15,706
Call loans and funds sold	17,788	4,051	(132)[1]	21,707
Receivables under resale agreements and securities borrowing transactions	77,926	20,330	(593)[1]	97,663
Total	1,787,028	385,514	(6,899)	2,165,643
Interest expense:				
Deposits	491,133	113,797	(4,823)[1]	600,107
Debentures	51,852	—	(134)[1]	51,718
Call money and funds purchased	15,187	1,013	(132)[1]	16,068
Payables under repurchase agreements and securities lending transactions	82,988	26,994	(593)[1]	109,389
Due to trust account, other short-term borrowings and trading account liabilities	82,574	34,377	(189)[1]	116,762
Long-term debt	176,927	15,258	(103)[1]	192,082
Total	900,661	191,439	(5,974)	1,086,126
Net interest income	886,367	194,075	(925)	1,079,517
Provision for credit losses	368,639	3,793	17 [1]	372,449
Net-interest income after provision for credit losses	517,728	190,282	(942)	707,068
Non-interest income:				
Fees and commissions	256,219	112,937		369,156
Foreign exchange gains—net	117,330	—	(84,752)	32,578
Investment securities gains—net	132,518	—	(52,673)	79,845
Other non-interest income	33,042	5,192	79 [4]	38,313
Total	539,109	118,129	(137,346)	519,892
Non-interest expense:				
Salaries and employee benefits	344,970	84,433		429,403
Occupancy expenses—net	101,181	28,930		130,111
Foreign exchange losses—net	—	84,752	(84,752)	—
Trading account losses—net	18,475	124,590		143,065
Investment securities losses—net	—	52,673	(52,673)	—
Losses on other real estate owned	68,438	1,762		70,200
Goodwill amortization and impairment	3,486	—	(624)[4]	2,862
Other non-interest expenses	391,177	57,868	(344)[4]	448,701
Total	927,727	435,008	(138,393)	1,224,342
Income (loss) before income tax expense or benefit	129,110	(126,597)	105	2,618
Income tax expense (benefit)	93,635	(43,267)	(8)[1] (228)[3] 28 [4]	50,160
Net income (loss)	¥ 35,475	¥ (83,330)	¥ 313	¥ (47,542)
Net income attributable to preferred shareholders	¥ 4,649	¥ 815		¥ 5,464
Net income (loss) attributable to common shareholders	¥ 30,826	¥ (84,145)	¥ 313	¥ (53,006)
	(in yen)			
Earnings per share[6]:				
Earnings (loss) per common share—basic	6.59	(64.61)		(9,663.81)
Earnings (loss) per common share—assuming dilution	3.73	(64.61)		(9,663.81)
Number of shares used to calculate earnings (loss) per share (thousands of shares):				
Earnings (loss) per common share—basic	4,675,442	1,302,255		5,485
Earnings (loss) per common share—assuming dilution	4,822,435	1,302,255		5,485

See Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

Unaudited Pro Forma Combined Condensed Statement of Operations

	For the Year Ended March 31, 2001			
	BTM Historical	Mitsubishi Trust Historical	Pro Forma Adjustments	Pro Forma Combined
	(in millions)			
Interest income:				
Loans, including fees	¥1,275,666	¥ 201,343	¥ (800)(1)	**¥1,476,209**
Deposits in other banks	207,263	42,476	(13,113)(1)	**236,626**
Investment securities:				
Interest	201,217	104,651	(36)(1)	**305,832**
Dividends	43,519	20,227	(897)(1)	**62,849**
Trading account assets	14,998	1,964	(8)(1)	**16,954**
Call loans and funds sold	25,726	3,003	(230)(1)	**28,499**
Receivables under resale agreements and securities borrowing transactions	128,320	28,066	(381)(1)	**156,005**
Total	1,896,709	401,730	(15,465)	**2,282,974**
Interest expense:				
Deposits	637,732	149,893	(13,113)(1)	**774,512**
Debentures	32,296	—	(11)(1)	**32,285**
Call money and funds purchased	22,366	316	(230)(1)	**22,452**
Payables under repurchase agreements and securities lending transactions	205,302	33,312	(381)(1)	**238,233**
Due to trust account, other short-term borrowings and trading account liabilities	37,128	28,220	(293)(1)	**65,055**
Long-term debt	165,231	13,390	(540)(1)	**178,081**
Total	1,100,055	225,131	(14,568)	**1,310,618**
Net interest income	796,654	176,599	(897)	**972,356**
Provision for credit losses	665,954	131,142	(15)(1)	**797,081**
Net interest income after provision for credit losses	130,700	45,457	(882)	**175,275**
Non-interest income:				
Fees and commissions	341,649	119,051	(1,297)(1)	**459,403**
Trading account profits—net	195,171	34,452	(115)(1)	**229,508**
Investment securities gains—net	94,360	114,290	23,827 (2)(5) 25 (4)	**232,502**
Other non-interest income	33,953	4,612	(307)(1) 388 (4)	**38,646**
Total	665,133	272,405	22,521	**960,059**
Non-interest expense:				
Salaries and employee benefits	327,443	76,290	6 (4)	**403,739**
Occupancy expenses—net	105,307	32,066		**137,373**
Foreign exchange losses—net	49,730	54,887		**104,617**
Losses on other real estate owned	15,828	606		**16,434**
Goodwill amortization and impairment	4,444	—		**4,444**
Other non-interest expenses	394,793	67,779	(1,518)(1) (151)(4)	**460,903**
Total	897,545	231,628	(1,663)	**1,127,510**
Income (loss) before income tax expense	(101,712)	86,234	23,302	**7,824**
Income tax expense	5,972	49,360	4,273 (1)(5) 4,641 (3) 127 (4)	**64,373**
Net income (loss)	¥ (107,684)	¥ 36,874	¥ 14,261	**¥ (56,549)**
Net income attributable to preferred shareholders	¥ 6,716	¥ 1,620		**¥ 8,336**
Net income (loss) attributable to common shareholders	¥ (114,400)	¥ 35,254	¥ 14,261	**¥ (64,885)**
	(in yen)			
Earnings per share(6):				
Earnings (loss) per common share—basic	(24.47)	27.07		**(11,797.27)**
Earnings (loss) per common share—assuming dilution	(24.47)	23.58		**(11,797.27)**
Number of shares used to calculate earnings (loss) per share (thousands of shares):				
Earnings (loss) per common share—basic	4,675,251	1,302,253		**5,500**
Earnings (loss) per common share—assuming dilution	4,675,251	1,564,033		**5,500**

See Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

Notes to Unaudited Pro Forma Combined Condensed Financial Statements

(1) Adjustments to eliminate balances and transactions between BTM Group and Mitsubishi Trust Group included in the historical consolidated financial statements for the periods set forth therein.

(2) Adjustments to eliminate the cross-holding common shares of BTM and Mitsubishi Trust, aggregating ¥81,801 million included in investment securities available for sale in each bank's consolidated balance sheet, together with the related net unrealized losses on BTM's shares of ¥9,312 million included in accumulated other changes in equity from nonower sources (net of taxes) in the Mitsubishi Trust's consolidated balance sheet and the impairment losses on Mitsubishi Trust's shares of ¥12,657 million recognized in the BTM's statement of operations for the year ended March 31, 2001, and to record these cross-holding shares as treasury stock at cost.

(3) Adjustments to eliminate the income tax effect on the unrealized losses included in and the impairment loss recognized on the cross-shareholdings of common stock by BTM and Mitsubishi Trust eliminated by the adjustments described in Note (2).

(4) Adjustments to reflect the combined interests in consolidated subsidiaries and equity method investees, including amortization of goodwill and changes in minority interest, together with related income tax effect.

(5) Adjustments to eliminate losses on sales of the cross-shareholding common shares of ¥11,170 million and the related current income tax benefit of ¥4,272 million, and to record the losses on such sales, net of taxes, as capital transactions.

(6) Loss per common share are calculated based on pro forma combined income or loss attributable to common shareholders. For the years ended March 31, 1999, 2000 and 2001, the number of outstanding common shares and potential common shares with dilutive effect were calculated as if the business combination had taken place at the beginning of each period, giving effect to the stock-for-stock exchange of 1,000 BTM common shares and 1,000 Mitsubishi Trust common shares, in each case, for 1 common share and 0.70 common shares of Mitsubishi Tokyo Financial Group, Inc., effected under the Commercial Code of Japan, and treasury shares resulting from the cross-shareholdings by BTM and Mitsubishi Trust.

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

REPORT OF INDEPENDENT AUDITORS

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

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

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

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

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

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

DELOITTE TOUCHE TOHMATSU
Tokyo, Japan

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

CONSOLIDATED BALANCE SHEETS, MARCH 31, 2000 AND 2001

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

* Restated to conform to SFAS No. 140

See the accompanying notes to Consolidated Financial Statements.

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

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

See the accompanying notes to Consolidated Financial Statements.

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

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

See the accompanying notes to Consolidated Financial Statements.

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

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

See the accompanying notes to Consolidated Financial Statements.

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

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

See the accompanying notes to Consolidated Financial Statements.

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

Basis of Financial Statements

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

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

Description of Business

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

Use of Estimates

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

Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

New Accounting Pronouncements

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

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

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

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

2. TRADING ACCOUNT ASSETS AND LIABILITIES

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

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

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

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

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

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

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

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

3. INVESTMENT SECURITIES

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

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

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

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

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

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

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

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

4. LOANS

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

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

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

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

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

Impaired Loans

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

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

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

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

Lease Receivable

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

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

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

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

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

5. LOAN SECURITIZATION

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

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

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

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

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

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

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

6. GOVERNMENT-LED LOAN RESTRUCTURING PROGRAM

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

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

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

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

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

7. ALLOWANCE FOR CREDIT LOSSES

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

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

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

8. PREMISES AND EQUIPMENT

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

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

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

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

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

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

9. INCOME TAXES

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

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

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

On March 30, 2000, the Tokyo Metropolitan Assembly passed a new tax rule that changed the basis on which it taxes large banks doing business in Tokyo. The Bank and its subsidiary, Nippon Trust Bank Limited, are subject to the new regulation. The new rule requires large banks to pay a 3% local tax on their gross operating income derived from their Tokyo operations for a period of five years commencing April 1, 2000. Prior to April 1, 2000, the banking institutions paid a local tax based on their net income. The new 3% tax has been accounted for as non-interest expenses from the year ended March 31, 2001. With respect to effective income tax rate, the new taxation decreased the normal statutory rate by 3.4% to 38.6%.

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

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

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

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

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

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

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

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

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

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

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

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

10. PLEDGED ASSETS AND COLLATERAL

Pledged Assets

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

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

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

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

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

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

Collateral

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

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

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

11. DEPOSITS

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

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

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

12. DEBENTURES

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

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

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

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

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

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

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

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

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

14. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

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

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

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

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

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

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

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

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

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

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

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

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

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

The mandatorily redeemable preferred securities represent UnionBanCal Finance Trust I US$350 million preferred securities sold to the public. The proceeds of such issuances, along with proceeds from issuance of US$10,824,750 common securities to UnionBanCal Corporation ("UNBC"), were invested by UnionBanCal Finance Trust I in US$360,824,750 aggregate principal amount of UNBC's 7⅜ percent debt securities due May 15, 2029 (the

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

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

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

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

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

15. SEVERANCE INDEMNITIES AND PENSION PLANS

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign Offices and Subsidiaries

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

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

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

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

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

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

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

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

16. OTHER ASSETS AND LIABILITIES

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

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

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

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

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

17. SALES OF EQUITY INVESTMENTS IN SUBSIDIARY

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

18. PREFERRED STOCK

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

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

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

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

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

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

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

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

19. COMMON STOCK AND CAPITAL SURPLUS

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

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

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

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

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

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

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

20. RETAINED EARNINGS AND DIVIDENDS

Retained Earnings Appropriated for Legal Reserve

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

Unappropriated Retained Earnings and Dividends

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

In addition to the provision that requires an appropriation for legal reserve as described above, the Code and the Banking Law impose certain limitations on the amount of retained earnings available for dividends. None of the retained earnings shown by the Bank's general books of account, prepared in accordance with accounting principles generally accepted in Japan, as of March 31, 2001 (¥933,300 million, exclusive of the amount to be appropriated for legal reserve and unrealized gains on trading account asset (as defined), if any) is restricted by such limitations under the Code or by the Banking Law as described above.

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

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

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

21. REGULATORY CAPITAL REQUIREMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22. EARNINGS PER COMMON SHARE

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

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

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

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

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

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

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

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

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

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

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

Classes of Derivative Financial Instruments

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

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

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

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

Trading Activities

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

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

Asset and Liability Management Activities

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

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

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

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

Credit-Related Off-Balance-Sheet Financial Instruments

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

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

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

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

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

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

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

Resale and Repurchase Agreements and Secutity Lending Transactions

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

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

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

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

Concentration of Credit Risk

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

24. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

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

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

25. FEES AND COMMISSION INCOME

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

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

26. BUSINESS SEGMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

27. FOREIGN ACTIVITIES

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

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

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

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

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

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

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

28. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

29. UNBC MANAGEMENT STOCK PLAN

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

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

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

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

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

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

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

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

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

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

30. BUSINESS INTEGRATION WITH THE MITSUBISHI TRUST AND BANKING CORPORATION

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

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

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

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

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

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

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

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

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

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

INDEX TO FINANCIAL INFORMATION OF THE MITSUBISHI TRUST AND BANKING CORPORATION AND REPORT OF INDEPENDENT AUDITORS

REPORT OF INDEPENDENT AUDITORS

The Mitsubishi Trust and Banking Corporation
(Mitsubishi Shintaku Ginko Kabushiki Kaisha):

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

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

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

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

As discussed in Note 27 to the consolidated financial statements, on April 2, 2001, Mitsubishi Trust, The Bank of Tokyo-Mitsubishi, Ltd. (''BTM'') and Nippon Trust Bank Limited (''Nippon Trust Bank''), a former subsidiary of BTM, established a holding company known as Mitsubishi Tokyo Financial Group, Inc. (''MTFG'') through stock-for-stock exchanges. Mitsubishi Trust, BTM and Nippon Trust Bank each became a wholly-owned subsidiary of MTFG, and the common and preferred shareholders of these three banks received shares of MTFG as a result of the stock-for-stock exchanges.

DELOITTE TOUCHE TOHMATSU
Tokyo, Japan

June 15, 2001
(June 27, 2001 as to the last paragraph of Note 27)

CONSOLIDATED BALANCE SHEETS, MARCH 31, 2000 AND 2001

	2000*	2001
ASSETS	(in millions)	
Cash and due from banks (Note 9)	¥ 260,515	**¥ 184,321**
Interest-earning deposits in other banks	995,251	**723,612**
Call loans and funds sold (Note 11)	350,289	**108,357**
Receivables under resale agreements	52,543	**304,863**
Receivables under securities borrowing transactions	—	**26,401**
Trading account assets (including ¥112,493 million pledged as collateral that the secured party is permitted to sell or repledge in 2000 and ¥55,995 million in 2001) (Notes 2 and 9)	589,070	**577,345**
Investment securities (Notes 3 and 9):		
Securities available for sale—at estimated fair value (including ¥257,099 million pledged as collateral that the secured party is permitted to sell or repledge in 2000 and ¥380,142 million in 2001)	4,677,400	**5,624,181**
Securities being held to maturity—at amortized cost (estimated fair value of ¥270,595 million in 2000 and ¥320,927 million in 2001)	270,397	**306,207**
Other investment securities	81,486	**77,075**
Total investment securities	5,029,283	**6,007,463**
Loans, net of unearned income and deferred loan fees (including ¥268,112 million pledged as collateral that the secured party is permitted to sell or repledge in 2001) (Notes 4, 5 and 9)	9,132,544	**9,548,700**
Allowance for credit losses (Notes 4 and 6)	(349,095)	**(332,053)**
Net loans	8,783,449	**9,216,647**
Premises and equipment—net (Note 7)	186,636	**170,798**
Accrued interest	51,424	**59,311**
Other assets (Notes 5, 7, 8 and 15)	291,437	**394,218**
Total	¥16,589,897	**¥17,773,336**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (Note 10):		
Domestic offices:		
Non-interest-bearing	¥ 148,284	**¥ 144,880**
Interest-bearing	7,844,931	**9,519,667**
Overseas offices:		
Non-interest-bearing	23,772	**1,131**
Interest-bearing	1,763,637	**1,634,928**
Total deposits	9,780,624	**11,300,606**
Call money and funds purchased (Note 11)	13,513	**58,412**
Payables under repurchase agreements (Note 9)	260,740	**540,067**
Payables under securities lending transactions (Note 9)	221,651	**210,598**
Due to trust account (Note 12)	3,841,587	**3,249,981**
Other short-term borrowings (Notes 9 and 13)	627,169	**554,168**
Trading account liabilities (Note 2)	63,139	**144,164**
Accrued interest	85,530	**99,821**
Long-term debt (Notes 9 and 13)	589,459	**572,159**
Other liabilities (Notes 8, 14 and 15)	138,722	**161,387**
Total liabilities	15,622,134	**16,891,363**
Commitments and contingent liabilities (Notes 21 and 22)		
Shareholders' equity:		
Capital stock (Notes 16 and 17):		
Preferred stock:		
Class 1—authorized: 150,000,000 shares; issued and outstanding: 100,000,000 shares in 2000 and 2001, with no stated value (aggregate liquidation preference of ¥200,000 million)	100,000	**100,000**
Class 2—authorized: 50,000,000 shares; no shares issued or outstanding	—	**—**
Common stock, ¥50 par—authorized: 3,000,000,000 shares; issued 1,302,303,109 shares in 2000 and 2001	192,794	**192,794**
Capital surplus (Note 17)	245,953	**245,952**
Retained earnings (Notes 18 and 27):		
Appropriated for legal reserve	40,442	**42,590**
Unappropriated	2,306	**26,296**
Accumulated other changes in equity from nonowner sources, net of taxes	386,280	**274,363**
Total	967,775	**881,995**
Less treasury stock—at cost: 45,663 common shares in 2000 and 61,530 common shares in 2001	12	**22**
Shareholders' equity—net	967,763	**881,973**
Total	¥16,589,897	**¥17,773,336**

* Restated to conform to SFAS No. 140.

See the accompanying notes to Consolidated Financial Statements.

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

	1999	2000	2001
		(in millions)	
Interest income:			
Loans, including fees (Note 4)	¥ 251,395	¥ 201,019	**¥201,343**
Deposits in other banks	51,287	35,242	**42,476**
Investment securities:			
Interest	134,880	102,660	**104,651**
Dividends	20,635	19,618	**20,227**
Trading account assets	3,403	2,594	**1,964**
Call loans and funds sold	11,021	4,051	**3,003**
Receivables under resale agreements and securities borrowing transactions	18,723	20,330	**28,066**
Total	491,344	385,514	**401,730**
Interest expense:			
Deposits	205,900	113,797	**149,893**
Call money and funds purchased	4,637	1,013	**316**
Payables under repurchase agreements and securities lending transactions	28,832	26,994	**33,312**
Due to trust account	37,830	29,650	**24,750**
Other short-term borrowings and trading account liabilities	6,725	4,727	**3,470**
Long-term debt	12,133	15,258	**13,390**
Total	296,057	191,439	**225,131**
Net interest income	195,287	194,075	**176,599**
Provision for credit losses (Notes 5 and 6)	319,621	3,793	**131,142**
Net interest income (loss) after provision for credit losses	(124,334)	190,282	**45,457**
Non-interest income:			
Fees and commissions (Note 23)	129,633	112,937	**119,051**
Trading account profits—net (Note 2)	120,245	—	**34,452**
Investment securities gains—net (Note 3)	11,056	—	**114,290**
Other non-interest income	9,965	5,192	**4,612**
Total	270,899	118,129	**272,405**
Non-interest expense:			
Salaries and employee benefits (Note 14)	82,446	84,433	**76,290**
Occupancy expenses—net (Notes 7 and 22)	29,259	28,930	**32,066**
Foreign exchange losses—net (Note 2)	123,598	84,752	**54,887**
Trading account losses—net (Note 2)	—	124,590	**—**
Investment securities losses—net (Note 3)	—	52,673	**—**
Other non-interest expenses	80,285	59,630	**68,385**
Total	315,588	435,008	**231,628**
Income (loss) before income tax expense or benefit	(169,023)	(126,597)	**86,234**
Income tax expense (benefit) (Note 8)	(32,738)	(43,267)	**49,360**
Net income (loss)	¥(136,285)	¥ (83,330)	**¥ 36,874**
Net income attributable to preferred shareholders	¥ —	¥ 815	**¥ 1,620**
Net income (loss) attributable to common shareholders	¥(136,285)	¥ (84,145)	**¥ 35,254**
		(in yen)	
Amounts per share (Notes 18 and 20):			
Earnings (loss) per common share—basic	¥ (104.65)	¥ (64.61)	**¥ 27.07**
Earnings (loss) per common share—assuming dilution	(104.65)	(64.61)	**23.58**
Cash dividends declared during the year—common share	8.00	7.00	**7.00**
Cash dividends declared during the year—preferred share (Class 1)	—	8.15	**16.20**

See the accompanying notes to Consolidated Financial Statements.

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

	Gains (Losses) before Income Taxes	Income Tax (Expense) Benefit	Gains (Losses) net of Income Taxes
		(in millions)	
Year ended March 31, 1999:			
Net loss			¥(136,285)
Other changes in equity from nonowner sources:			
Net unrealized holding gains on investment securities available for sale	¥ 44,251	¥(21,458)	22,793
Reclassification adjustment for gains included in net loss	(15,447)	7,126	(8,321)
Total	28,804	(14,332)	14,472
Minimum pension liability adjustments	(2,159)	1,028	(1,131)
Foreign currency translation adjustments	(7,018)	3,213	(3,805)
Total changes in equity from nonowner sources			¥(126,749)
Year ended March 31, 2000:			
Net loss			¥ (83,330)
Other changes in equity from nonowner sources:			
Net unrealized holding gains on investment securities available for sale	63,433	(27,137)	36,296
Reclassification adjustment for losses included in net loss	53,456	(22,085)	31,371
Total	116,889	(49,222)	67,667
Minimum pension liability adjustments	2,159	(1,028)	1,131
Foreign currency translation adjustments	(6,111)	2,827	(3,284)
Reclassification adjustment for losses included in net loss	5,887	(1,646)	4,241
Total	(224)	1,181	957
Total changes in equity from nonowner sources			¥ (13,575)
Year ended March 31, 2001:			
Net income			**¥ 36,874**
Other changes in equity from nonowner sources:			
Net unrealized holding losses on investment securities available for sale	**(63,095)**	**25,671**	**(37,424)**
Reclassification adjustment for gains included in net income	**(114,804)**	**44,949**	**(69,855)**
Total	**(177,899)**	**70,620**	**(107,279)**
Minimum pension liability adjustments	**(16,079)**	**6,303**	**(9,776)**
Foreign currency translation adjustments	**2,977**	**(2,382)**	**595**
Reclassification adjustment for losses included in net income	**5,981**	**(1,438)**	**4,543**
Total	**8,958**	**(3,820)**	**5,138**
Total changes in equity from nonowner sources			**¥(75,043)**

See the accompanying notes to Consolidated Financial Statements.

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

	1999	2000	2001
		(in millions)	
Preferred stock (Class 1) (Note 16):			
Balance at beginning of year		¥100,000	**¥ 100,000**
Shares issued	¥ 100,000	—	**—**
Balance at end of year	¥ 100,000	¥100,000	**¥ 100,000**
Common stock (Note 17):			
Balance at beginning of year	¥ 192,793	¥192,794	**¥ 192,794**
Shares issued for conversion of bonds (Note 13)	1	—	**—**
Balance at end of year	¥ 192,794	¥192,794	**¥ 192,794**
Capital surplus (Note 17):			
Balance at beginning of year	¥ 146,367	¥245,955	**¥ 245,953**
Excess of proceeds from issuance of preferred stock over the amount assigned to the preferred stock account (Note 16)	99,589	—	**—**
Losses on sales of treasury stock, net of taxes	(1)	(2)	**(1)**
Balance at end of year	¥ 245,955	¥245,953	**¥ 245,952**
Retained earnings appropriated for legal reserve (Note 18):			
Balance at beginning of year	¥ 36,371	¥ 38,455	**¥ 40,442**
Transfer from unappropriated retained earnings	2,084	1,987	**2,148**
Balance at end of year (Note 27)	¥ 38,455	¥ 40,442	**¥ 42,590**
Unappropriated retained earnings (Note 18):			
Balance at beginning of year	¥ 246,341	¥ 97,554	**¥ 2,306**
Net income (loss)	(136,285)	(83,330)	**36,874**
Total	110,056	14,224	**39,180**
Deduct:			
Cash dividends paid:			
Common share—¥8.00 per share in fiscal 1998, and ¥7.00 per share in fiscal 1999 and 2000	(10,418)	(9,116)	**(9,116)**
Preferred share (Class 1)—¥8.15 per share in fiscal 1999 and ¥16.20 per share in fiscal 2000	—	(815)	**(1,620)**
Transfer to retained earnings appropriated for legal reserve	(2,084)	(1,987)	**(2,148)**
Total	(12,502)	(11,918)	**(12,884)**
Balance at end of year (Note 27)	¥ 97,554	¥ 2,306	**¥ 26,296**
Accumulated other changes in equity from nonowner sources, net of taxes:			
Net unrealized gains on investment securities available for sale (Note 3):			
Balance at beginning of year	¥ 317,721	¥332,193	**¥ 399,860**
Net change during the year	14,472	67,667	**(107,279)**
Balance at end of year	¥ 332,193	¥399,860	**¥ 292,581**
Minimum pension liability adjustments (Note 14):			
Balance at beginning of year	¥ —	¥ (1,131)	**¥ —**
Net change during the year	(1,131)	1,131	**(9,776)**
Balance at end of year	¥ (1,131)	¥ —	**¥ (9,776)**
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (10,732)	¥(14,537)	**¥ (13,580)**
Net change during the year	(3,805)	957	**5,138**
Balance at end of year	¥ (14,537)	¥(13,580)	**¥ (8,442)**
Balance at end of year	¥ 316,525	¥386,280	**¥ 274,363**

See the accompanying notes to Consolidated Financial Statements.

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

	1999	2000	2001
		(in millions)	
Cash flows from operating activities:			
Net income (loss)	¥ (136,285)	¥ (83,330)	**¥ 36,874**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization on premises and equipment	9,378	10,005	**8,737**
Provision for credit losses	319,621	3,793	**131,142**
Investment securities losses (gains)—net	(11,056)	52,673	**(114,290)**
Foreign exchange losses (gains)—net	14,878	(12,820)	**(23,315)**
Provision for deferred income tax expense (benefit)	(62,567)	(53,399)	**45,415**
Decrease (increase) in trading account assets, excluding foreign exchange contracts	(129,398)	295,438	**59,449**
Increase (decrease) in trading account liabilities, excluding foreign exchange contracts	8,414	54,776	**(51,317)**
Increase in accrued interest receivable and other receivables	(6,799)	(14,472)	**(3,375)**
Increase in accrued interest payable and other payables	15,160	15,767	**9,380**
Other—net	(206)	(25,243)	**34,809**
Net cash provided by operating activities	21,140	243,188	**133,509**
Cash flows from investing activities:			
Proceeds from sales of investment securities available for sale	1,955,961	3,062,194	**3,161,438**
Proceeds from maturities of investment securities available for sale	695,950	1,142,745	**1,118,549**
Purchases of investment securities available for sale	(1,883,936)	(4,254,593)	**(5,166,664)**
Proceeds from maturities of investment securities being held to maturity	3,245	3,785	**22,120**
Purchases of investment securities being held to maturity	(6,233)	(160,200)	**(56,242)**
Proceeds from sales of other investment securities	9,235	46,985	**7,020**
Purchases of other investment securities	(24,122)	(66,912)	**(8,068)**
Net decrease (increase) in loans	165,647	(70,202)	**(394,319)**
Net decrease (increase) in interest-earning deposits in other banks	170,073	(158,634)	**286,519**
Net decrease (increase) in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions	16,651	155,284	**(28,776)**
Capital expenditures for premises and equipment	(9,382)	(11,435)	**(7,746)**
Other—net	25,215	12,498	**(33,899)**
Net cash provided by (used in) investing activities	1,118,304	(298,485)	**(1,100,068)**
Cash flows from financing activities:			
Net increase (decrease) in deposits	(169,591)	(203,885)	**1,256,184**
Net increase (decrease) in call money, funds purchased, and payables under repurchase agreements and securities lending transactions	(558,284)	(186,182)	**299,930**
Net increase (decrease) in due to trust account	(665,028)	513,746	**(591,606)**
Net increase (decrease) in other short-term borrowings	32,111	44,136	**(49,904)**
Proceeds from issuance of preferred stock	199,295	—	**—**
Proceeds from issuance of long-term debt	99,712	55,021	**205,066**
Repayment of long-term debt	(1,552)	(35,441)	**(222,438)**
Dividends paid	(10,418)	(9,931)	**(10,736)**
Other—net	(37,192)	(20,094)	**258**
Net cash provided by (used in) financing activities	(1,110,947)	157,370	**886,754**
Effect of exchange rate changes on cash and cash equivalents	(937)	(2,279)	**3,611**
Net increase (decrease) in cash and cash equivalents	27,560	99,794	**(76,194)**
Cash and cash equivalents at beginning of year	133,161	160,721	**260,515**
Cash and cash equivalents at end of year	¥ 160,721	¥ 260,515	**¥ 184,321**
Supplemental Disclosure of Cash Flow Information:			
Cash paid (received) during the year for:			
Interest paid	¥ 280,440	¥ 175,641	**¥ 216,568**
Income taxes paid (refunded), net	31,273	21,377	**(8,292)**
Non-cash financing activities:			
Conversion of long-term debt into common stock	1	—	**—**

See the accompanying notes to Consolidated Financial Statements.

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

Basis of Financial Statements

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

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

Description of Business

Mitsubishi Trust and its subsidiaries (together, the “Mitsubishi Trust Group”) conduct their banking and trust businesses with a wide range of corporate and individual customers through domestic and overseas network of branches and subsidiaries in Japan, the Americas, Europe and Asia. The banking business provides deposit, lending, treasury and other commercial banking services to retail and corporate customers. The trust business provides asset management and administration services. The Mitsubishi Trust Group provides other fiduciary and agency services including stock-transfer-agency services and real estate-related services. See Note 24 for more information by business segment.

As a trust bank, Mitsubishi Trust has been a provider of longer-term funds to customers. Such funds are primarily used in customers’ capital investments, including, but not limited to, construction, plant and real estate acquisition and development. In addition to traditional lending activities conducted in the course of its banking business, Mitsubishi Trust uses loan trusts as a vehicle to extend loans to satisfy customers’ funding needs.

Summary of Significant Accounting Policies

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

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

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

Assets that the Mitsubishi Trust Group holds in an agency, fiduciary or trust capacity are not assets of the Mitsubishi Trust Group and, accordingly, are not included in the accompanying consolidated balance sheets.

Cash Flows—For the purposes of reporting cash flows, cash and cash equivalents include cash and balance due from banks, substantially all of which have maturities of three months or less and are presented in the consolidated balance sheets under the caption Cash and Due from Banks. Cash flows from hedging activities are classified in the same category as the item being hedged.

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

Foreign currency translation gains and losses related to the financial statements of overseas entities of the Mitsubishi Trust Group, net of related income tax effects, are credited or charged directly to Foreign Currency Translation Adjustments, a component of accumulated other changes in equity from nonowner sources. Tax effects of gains and losses on foreign currency translation of financial statements of overseas entities are not recognized unless it is apparent that the temporary difference will reverse in the foreseeable future.

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

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

The Mitsubishi Trust Group generally obtains collateral from counterparties for repurchase agreements and securities lending transactions, including cash, securities with similar fair value and letters of credit. The Mitsubishi Trust Group maintains strict levels of collateralization governed by daily mark-to-market analyses for most securities lending transactions.

Collateral—For secured lending transactions, including resale agreements, securities borrowing transactions, commercial lending and derivative transactions, the Mitsubishi Trust Group, as a secured party, receives collateral, including letters of credit, and cash, securities and other financial assets. Such financial assets are generally permitted to be sold or repledged by secured parties. If the Mitsubishi Trust Group sells these financial assets, it recognizes the proceeds from the sale and its obligation to return the collateral. For secured borrowing transactions, principally repurchase agreements and securities lending transactions and derivative transactions, where the secured party has the right to sell or repledge financial assets pledged as collateral, the Mitsubishi Trust Group separately reports those financial assets pledged as collateral in the consolidated balance sheets.

Trading Account Securities—Trading account securities (principally, securities and money market instruments held in anticipation of short-term market movements and for resale to customers) included in Trading Account Assets, as well as any short trading positions of instruments which are classified as Trading Account Liabilities, are carried at fair value. Related gains and losses, both realized and unrealized, are recognized in Trading Account Profits—Net or Trading Account Losses—Net, as appropriate. Gains and losses on disposition of trading securities are recognized on the trade date.

Investment Securities—Debt securities for which the Mitsubishi Trust Group has both the positive intent and ability to hold to maturity are classified as Securities Being Held to Maturity and carried at amortized cost. Debt securities that the Mitsubishi Trust Group may not hold to maturity and marketable equity securities, other than those classified as trading securities, are classified as Securities Available for Sale, and are carried at their fair values, with unrealized gains and losses reported on a net-of-tax basis within accumulated other changes in equity from nonowner sources, which is a component of shareholders' equity. Nonmarketable equity securities are stated at cost, unless written down, as Other Investment Securities. Individual debt and equity securities are written down when, in the opinion of management, a decline in estimated fair value below the cost of such securities is other than temporary. Interest and dividends on investment securities are reported in Interest Income on an accrual basis. Dividends on equity securities are recognized when the shareholder's right to receive the dividend is established. Gains and losses on disposition of investment securities are computed using the average cost method and are recognized on the trade date.

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

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

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

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

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

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

A key element relating to policies and discipline used in determining the allowance for credit losses is the credit classification and the related borrower categorization process. The Mitsubishi Trust Group employs a comprehensive credit rating system as part of its credit management framework. The credit rating system is similar to the risk grading standards of regulatory authorities for asset classification under the prompt corrective action measures and is used as a base for establishing the allowance for credit losses. The categorization is based on conditions that may affect the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends surrounding the borrower. Under the credit rating system, credit ratings have been divided into 14 ranks, in which the lowest 5 ranks are defined to conform to the risk grading standards of regulatory authorities for classified loans. The ranking is based on financial and other conditions of borrowers indicating the probability of collection. Loans to borrowers ranked 1 through 7 are generally performing loans where little loss is anticipated. Loans to borrowers with the next 3 ranks have weakness in their ability to meet existing obligations and deserve management's close attention. Loans to borrowers with the lowest 4 ranks are loans where weakness in the financial condition of borrowers may cause a greater likelihood of default and loss. In determining the appropriate level of the allowance, the Mitsubishi Trust Group evaluates the probable loss by category of loan based on type and characteristics.

The credit loss allowance for individual borrowers represents the impairment allowance determined in accordance with SFAS No.114, "Accounting by Creditors for Impairment of a Loan." Loans are considered impaired when, based on currently available information, it is probable that the Mitsubishi Trust Group will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. The impairment of a loan is measured, based on the present value of expected future cash flows discounted at the loan's effective interest rate, on the loan's observable market price, or based on the fair value of the collateral if the loan is collateral dependent. Some impaired loans are aggregated for the purpose of measuring impairment using historical loss factors as a mean of measurement. Excluded from the measurement of impairment are large groups of smaller-balance homogenous loans such as consumer and residential mortgage loans. Generally, the Mitsubishi Trust Group's impaired loans include nonaccrual loans and restructured loans, though other loans may be specifically recognized for impairment.

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

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

The formula allowance is calculated by applying loss factors to outstanding substandard, special mention and unclassified loans. The evaluation of inherent loss for these loans involves a high degree of uncertainty, subjectivity and judgement because probable credit losses are not easily identified. In determining the formula allowance, the Mitsubishi Trust Group relies on a mathematical calculation that incorporates a percentage of total loans based on historical experience. The average annual charge-offs rate over a designated time period by category of substandard, special mention and unclassified loans is used as a basis for historical loss experience, adjusted for recent changes in trends and economic conditions.

Allowance for Off-Balance-Sheet Credit Instruments—In addition to the allowance for credit losses on the loan portfolio, the Mitsubishi Trust Group maintains an allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, various types of guarantees, standby letters of credit and other financial instruments. The allowance is recorded as a liability and includes the allowance for specifically identified exposures to losses and the allocated formula allowance, to a level which, in management's opinion, is appropriate to absorb probable losses in the portfolio.

Mitsubishi Trust periodically assesses the credit exposures related to individual investment assets within trust accounts in order to determine the level of allowance required for guarantees for repayment of certain trust principal. Provisions for credit losses are recognized in Mitsubishi Trust's consolidated financial statements when, in the opinion of management, aggregate credit losses are judged to exceed the statutory reserve set aside within the trust account and profits earned during the accounting period of each trust account, and the trust principal is deemed to be impaired.

With regard to the specific allowance for specifically identified credit exposure and the allocated formula allowance, the Mitsubishi Trust Group follows the same methodology used in determining the allowance for loan credit losses.

Net changes in the allowance for off-balance-sheet credit instruments are accounted for as Other Non-interest Expense.

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

	Years
Buildings	15 to 50
Equipment and furniture	5 to 10
Leasehold improvements	2 to 18

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

Long-lived assets that are held or that are to be disposed of and certain intangibles are evaluated periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment is calculated as the difference between the present value of expected future cash flows of a long-lived asset, if lower, and its carrying value. The impairment loss is reflected in Non-interest Expenses.

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

Software—Effective April 1, 1999, in compliance with Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Development or Obtained for Internal Use," the Mitsubishi Trust Group capitalizes certain costs associated with the acquisition or development of internal-use software. Previously, the Mitsubishi Trust Group generally expensed the costs as incurred. The adoption of the SOP resulted in an increase of ¥11,798 million in the capitalization of software development costs as of March 31, 2000. Once the software is ready for its intended use, the Mitsubishi Trust Group begins to amortize capitalized costs on a straight-line basis over a period not greater than 5 years.

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

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

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

Fees and commissions—Trust fees are recorded on the accrual basis, generally based on the volume of trust assets entrusted by customers and/or the results of the management of such trust assets for the account period of each trust account. With respect to trust accounts with guarantee of trust principal, trust fees are determined based on the profits earned by individual trust account during the trust accounting period, less provision for statutory reserve, impairment for individual investments and dividends paid to beneficiary certificate holders. Management accrues the trust fees for these trust accounts based on the trust fees expected to be earned during the accounting period of each trust account.

Commissions and fees on international business primarily consist of fees from trade financing and foreign exchange service including funds transfer and collection service. Fees from trade financing are recognized over the period of financing. Fees on funds transfer and service charges for collections and commissions and foreign exchange service are generally recognized when the related services are performed.

Other fees and commissions, principally fees from underwriting and agent businesses, are generally recognized over the period that the services are provided.

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

Free Distributions of Common Shares—As permitted by the Commercial Code of Japan, Japanese companies, upon approval by the Board of Directors, may make a free distribution of shares, in the form of a "stock split" as defined, to shareholders to the extent that the aggregate par value of the shares to be distributed does not exceed the excess of the capital stock amount over the par value of shares issued and outstanding. In accordance with accepted accounting practice in Japan, such distribution does not give rise to any change in capital stock or capital surplus account. Common shares distributed are recorded as shares issued on the distribution date. See Note 17.

Amounts per Common Share—Basic earnings per share ("EPS") excludes dilutive effects of potential common shares and is computed by dividing income available to common stock shareholders by the weighted average number of common shares outstanding for the period, while diluted EPS gives effect to all dilutive potential common shares that were outstanding during the period. See Note 20 for the computation of basic and diluted EPSs.

Cash dividends per share shown for each year represent the cash dividends declared for common stock during the respective years (see Note 18). Appropriate retroactive adjustments have been made to give effect to the increases in the number of shares resulting from the free distribution of shares mentioned above.

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

New Accounting Pronouncements

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

Transfer of Assets and Collateral—In September 2000, FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement 125," which revises the standards for accounting for the securitization and other transfers of financial assets and collateral, and requires certain disclosures, but carries over most of SFAS No. 125's provisions. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 while it is effective for fiscal year ended March 31, 2001 for certain disclosures regarding securitizations of financial assets accounted for as sales and disclosures of collateral pledged. As of March 31, 2001, the Mitsubishi Trust Group adopted the provision of SFAS No. 140 relating to the recognition, reclassification and disclosures of collateral. As a result of the adoption of SFAS No. 140, the total assets and liabilities decreased approximately ¥1,589 billion as of March 31, 2001, while no impact was recognized in the results of operations. The financial statements for the previous period have been restated for the purpose of comparative presentation. With respect to the provisions of SFAS No. 140 other than those relating to the recognition, reclassification and disclosures of collateral, the Mitsubishi Trust Group is in the process of assessing the impact of the adoption of the related provisions of SFAS No. 140 and management believes that the impact on the financial position and results of operations will not be material.

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

Reclassifications

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

2. TRADING ACCOUNT ASSETS AND LIABILITIES

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

	2000	2001
	(in millions)	
Trading account assets:		
Trading securities, principally Japanese government obligations	¥ 82,116	**¥ 82,065**
Commercial paper, certificate of deposits and other money market instruments	273,058	**276,603**
Trading derivative assets:		
Interest rate contracts:		
Forwards and futures	1,621	**1,629**
Swap and swap-related products	342,250	**583,413**
Options purchased	11,648	**1,650**
Total	355,519	**586,692**
Foreign exchange contracts:		
Forwards and futures	42,755	**105,552**
Swaps	30,157	**10,762**
Options purchased	493	**2,957**
Total	73,405	**119,271**
Bilateral netting of derivatives under master netting agreements	(195,028)	**(487,286)**
Total	¥ 589,070	**¥ 577,345**
Trading account liabilities:		
Trading derivative liabilities:		
Interest rate contracts:		
Forwards and futures	¥ 3,057	**¥ 6,012**
Swap and swap-related products	188,088	**425,045**
Options written	9,756	**10,785**
Total	200,901	**441,842**
Foreign exchange contracts:		
Forwards and futures	36,100	**83,853**
Swaps	20,412	**102,987**
Options written	754	**2,768**
Total	57,266	**189,608**
Bilateral netting of derivatives under master netting agreements	(195,028)	**(487,286)**
Total	¥ 63,139	**¥ 144,164**

See Note 26 for the methodologies and assumptions used to estimate the fair values.

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

	For the year ended March 31,	
	2000	2001
	(in billions)	
Trading derivative assets:		
Interest rate contracts:		
Forwards and futures	¥ 1	**¥ 1**
Swap and swap-related products	433	**409**
Options purchased	19	**6**
Total interest rate contracts	453	**416**
Foreign exchange contracts:		
Forwards and futures	62	**60**
Swaps	66	**18**
Options purchased	1	**—**
Total foreign exchange contracts	129	**78**
Bilateral netting of derivatives under master netting agreements	(244)	**(298)**
Total	¥ 338	**¥ 196**
Trading derivative liabilities:		
Interest rate contracts:		
Forwards and futures	¥ 2	**¥ 1**
Swap and swap-related products	226	**281**
Options written	9	**10**
Total interest rate contracts	237	**292**
Foreign exchange contracts:		
Forwards and futures	42	**49**
Swaps	48	**47**
Options written	1	**1**
Total foreign exchange contracts	91	**97**
Bilateral netting of derivatives under master netting agreements	(244)	**(298)**
Total	¥ 84	**¥ 91**

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

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

	1999	2000	2001
		(in billions)	
Interest rate contracts	¥123.5	¥(130.0)	**¥ 40.5**
Foreign exchange contracts	(46.6)	6.0	**(164.7)**
Trading account assets, excluding derivatives	(3.3)	5.4	**(6.0)**
Net trading gains (losses)	¥ 73.6	¥(118.6)	**¥(130.2)**

A substantial portion of derivative transactions are to manage interest rate and foreign exchange risks arising from mismatches of recorded asset and liability positions. Management expects such derivative activities to achieve certain risk management objectives, however, such instruments are treated as trading positions for accounting purposes if they fail to meet conditions to qualify for hedge accounting.

3. INVESTMENT SECURITIES

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

	2000				2001			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(in millions)							
Securities available for sale:								
Debt securities:								
Japanese national government and Japanese government agency bonds	¥1,267,160	¥ 19,149	¥ 2,579	¥1,283,730	**¥1,605,913**	**¥ 46,147**	**¥ 1,094**	**¥1,650,966**
Japanese prefectural and municipal bonds	72,169	2,219	56	74,332	**77,843**	**4,334**	**—**	**82,177**
Foreign governments and official institutions bonds	598,837	9,731	13,156	595,412	**624,698**	**26,364**	**707**	**650,355**
Corporate bonds	512,021	5,691	3,143	514,569	**834,119**	**19,743**	**3,088**	**850,774**
Mortgage-backed securities	29,080	—	33	29,047	**375,293**	**16,494**	**92**	**391,695**
Other debt securities	150,271	2,710	1,088	151,893	**126,663**	**382**	**79**	**126,966**
Marketable equity securities	1,248,271	864,813	84,667	2,028,417	**1,362,603**	**556,986**	**48,341**	**1,871,248**
Total securities available for sale	¥3,877,809	¥904,313	¥104,722	¥4,677,400	**¥5,007,132**	**¥670,450**	**¥53,401**	**¥5,624,181**
Securities being held to maturity—debt securities:								
Japanese government agency bonds	¥ 120,536	¥ 81	¥ —	¥ 120,617	**¥ 114,489**	**¥ 5,629**	**¥ —**	**¥ 120,118**
Japanese prefectural and municipal bonds	87,062	—	—	87,062	**116,773**	**5,711**	**2**	**122,482**
Foreign governments and official institutions bonds	57,494	198	68	57,624	**72,469**	**3,306**	**14**	**75,761**
Corporate bonds	5,287	—	13	5,274	**2,476**	**90**	**—**	**2,566**
Other debt securities	18	—	—	18	**—**	**—**	**—**	**—**
Total securities being held to maturity	¥ 270,397	¥ 279	¥ 81	¥ 270,595	**¥ 306,207**	**¥ 14,736**	**¥ 16**	**¥ 320,927**

Investment securities other than available for sale or being held to maturity (including nonmarketable equity securities, i.e., Other investment securities) were carried at cost of ¥81,486 million and ¥77,075 million, at March 31, 2000 and 2001, respectively. The corresponding estimated fair values at those dates were not readily determinable.

See Note 26 for the methodologies and assumptions used to estimate the fair values.

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

	Held-to-maturity		Available-for-sale	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in millions)			
Due in one year or less	¥ 27,670	¥ 28,323	¥ 323,151	¥ 327,474
Due from one year to five years	169,979	178,646	1,825,622	1,877,169
Due from five years to ten years	108,558	113,958	1,456,370	1,508,733
Due after ten years	—	—	39,386	39,557
Total	¥306,207	¥320,927	¥3,644,529	¥3,752,933

For the years ended March 31, 1999, 2000 and 2001, proceeds from sales of securities available for sale were ¥1,955,961 million, ¥3,062,194 million and ¥3,161,438 million, respectively. For the years ended March 31, 1999, 2000 and 2001, gross realized gains on those sales were ¥70,600 million, ¥31,449 million and ¥207,313 million, respectively, and gross realized losses on those sales were ¥20,745 million, ¥34,712 million and ¥46,235 million, respectively. There were no sales or transfers of securities being held to maturity during the years ended March 31, 1999, 2000 and 2001.

For the years ended March 31, 1999, 2000 and 2001, losses resulting from write-downs of investment securities to reflect declines in value considered to be other than temporary were ¥41,179 million, ¥50,764 million and ¥47,961 million, respectively.

4. LOANS

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

	2000	2001
	(in millions)	
Domestic:		
Manufacturing	¥1,280,416	**¥1,219,553**
Construction	355,685	**325,877**
Real estate	1,346,476	**1,298,190**
Services	1,236,143	**1,076,056**
Wholesale and retail	969,385	**887,481**
Banks and other financial institutions	1,765,452	**2,068,807**
Other industries (see Note)	682,515	**1,207,771**
Consumer	268,189	**273,189**
Total domestic	7,904,261	**8,356,924**
Foreign:		
Governments and official institutions	20,953	**19,318**
Banks and other financial institutions	210,087	**202,068**
Commercial and industrial	658,822	**601,673**
Other	339,084	**368,789**
Total foreign	1,228,946	**1,191,848**
Less unearned income and deferred loan fees	663	**72**
Total	¥9,132,544	**¥9,548,700**

Note—Loans to Japanese national, prefectural and municipal governments are included in the "Other Industries" category.

Substantially all domestic loans are made under agreements which, as is customary in Japan, provide that Mitsubishi Trust may, under certain conditions, require the borrower to provide collateral (or additional collateral) or guaranties with respect to the loans, and that Mitsubishi Trust may treat any collateral, whether furnished as security for loans or otherwise, as collateral for all indebtedness to Mitsubishi Trust in accordance with the agreements. At March 31, 2000 and 2001, such loans, which were principally collateralized by real estate, marketable securities and accounts receivable, amounted to ¥3,312,419 million and ¥2,974,075 million, respectively, which represented 42% and 36%, respectively, of the total domestic outstanding loans at March 31, 2000 and 2001.

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

The following table shows the distribution of nonaccrual and restructured loans, and accruing loans which are contractually past due 90 days or more as to principal or interest payments at March 31, 2000 and 2001, based on the domicile and type of industry of the borrowers.

	At March 31,	
	2000	**2001**
	(in millions)	
Nonaccrual loans:		
Domestic:		
Manufacturing	¥ 16,018	**¥ 9,209**
Construction	119,804	**36,515**
Real estate	331,802	**321,121**
Services	100,121	**59,099**
Wholesale and retail	35,105	**15,274**
Banks and other financial institutions	83,983	**37,946**
Other industries	2,568	**9,540**
Consumer	1,047	**1,411**
Total domestic	690,448	**490,115**
Foreign:		
Banks and other financial institutions	1,894	**574**
Commercial and industrial	26,801	**24,272**
Loans to refinancing countries(*)	19,498	**13,027**
Other	785	**3,519**
Total foreign	48,978	**41,392**
Total	739,426	**531,507**
Restructured loans:		
Domestic	172,670	**281,113**
Foreign	8,432	**11,896**
Total	181,102	**293,009**
Accruing loans contractually past due 90 days or more:		
Domestic	1,264	**751**
Foreign	478	**1,384**
Total	1,742	**2,135**
Total	¥922,270	**¥826,651**

(*) Refinancing countries are countries rescheduling their external debt (both sovereign and non-sovereign).

Had interest on these loans been accrued at the original terms of agreement, gross interest income on such loans for the years ended March 31, 2000 and 2001 would have been approximately ¥22.0 billion and ¥14.7 billion, respectively, of which approximately ¥10.6 billion and ¥11.1 billion, respectively, was included in interest income on loans in the accompanying consolidated statements of operations.

Loan Concentration

At March 31, 2001, there was no concentration of loans to a single industry group of borrowers, as defined by The Bank of Japan for industry segment loan classification, which exceeded 10% of the consolidated total loans, except for the banking and financial, and the real estate industries.

Impaired Loans

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

	2000		2001	
	Recorded loan balance	Impairment allowance	Recorded loan balance	Impairment allowance
	(in millions)			
Requiring an impairment allowance	¥835,966	¥282,718	**¥762,685**	**¥253,215**
Not requiring an impairment allowance	84,552	—	**59,265**	**—**
Total	¥920,518	¥282,718	**¥821,950**	**¥253,215**

The average recorded investments in impaired loans were approximately ¥1,221.4 billion, ¥1,080.3 billion and ¥796.6 billion, respectively, for the years ended March 31, 1999, 2000 and 2001.

For the years ended March 31, 1999, 2000 and 2001, the Mitsubishi Trust Group recognized interest income of approximately ¥13.0 billion, ¥10.6 billion and ¥11.1 billion, respectively, on impaired loans. Interest income on nonaccrual loans was recognized on a cash basis. Interest income on accruing impaired loans, including restructured loans and other loans specifically recognized for impairment, was recognized on an accrual basis to the extent that the collectibility of interest income was reasonably certain based on management's evaluation.

5. GOVERNMENT-LED LOAN RESTRUCTURING PROGRAM

Under the legislation enacted by the Japanese Diet in June 1996, which incorporates the restructuring program for the loans of seven failed housing-loan companies (the "Jusen"), the Deposit Insurance Corporation (the "DIC") established a Housing Loan Corporation (the "HLAC") to collect and dispose of the loans of the liquidated Jusen. In 1999, the HLAC merged with the Resolution and Collection Bank Limited to create the Resolution and Collection Corporation ("RCC"). The RCC is wholly owned by the DIC.

Financial institutions, including the Mitsubishi Trust Group, waived the repayment of substantial amounts of the loans to Jusen and transferred the remaining balances to the HLAC. Financial institutions were requested to make loans to the HLAC to finance its collection activities, and in fiscal 1996 the Mitsubishi Trust Group made loans of ¥222,881 million which were included in the loan portfolio as of March 31, 2000 and 2001. The 15-year term loans to the HLAC, which are guaranteed by the DIC under the legislation and the loan agreements, mature in 2011 and earn interest at TIBOR (Tokyo Interbank Offered Rate) plus 0.125%. The terms and conditions on the loans of other financial institutions to the HLAC are the same except for agricultural financial institutions.

Under this restructuring program, a Financial Stabilization Fund (the "Special Fund") was established within the DIC, and The Bank of Japan and other financial institutions established another fund (the "New Fund"). These funds are principally invested in Japanese government bonds. The Mitsubishi Trust Group made non-interest-earning deposits of ¥64,965 million with the Special Fund and the New Fund in fiscal 1996. The deposit balances as of March 31, 2000 and 2001, which are included in Other Assets, were ¥47,948 million and ¥49,243 million, respectively, reflecting a present value discount and subsequent amortization of the discount during the period until the expected maturity date. The non-interest-earning deposits with these funds are expected to mature in 15 years from the deposit dates, which coincides with the planned operational lifespan of the HLAC.

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

At this time, management believes all loans and deposits will be collectible according to their respective terms.

6. ALLOWANCE FOR CREDIT LOSSES

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

	1999	2000	2001
		(in millions)	
Balance at beginning of year	¥520,801	¥523,104	**¥349,095**
Additions to allowance charged to operations	319,621	3,793	**131,142**
Charge-offs	315,194	176,149	**164,392**
Less—Recoveries	315	3,292	**11,297**
Net charge-offs	314,879	172,857	**153,095**
Other, principally foreign exchange translation adjustments	(2,439)	(4,945)	**4,911**
Balance at end of year	¥523,104	¥349,095	**¥332,053**

7. PREMISES AND EQUIPMENT

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

	2000	2001
	(in millions)	
Land	¥ 96,395	**¥ 89,722**
Buildings	122,362	**118,123**
Equipment and furniture	54,417	**52,873**
Leasehold improvements	21,717	**21,174**
Construction in progress	1,299	**210**
Total	296,190	**282,102**
Less accumulated depreciation	109,554	**111,304**
Premises and equipment—net	¥186,636	**¥170,798**

Premises and equipment include capitalized leases, principally related to data processing equipment, of which acquisition cost amounted to ¥3,933 million and ¥3,714 million at March 31, 2000 and 2001, respectively. Accumulated depreciation on such capitalized leases at March 31, 2000 and 2001 amounted to ¥2,820 million and ¥3,095 million, respectively.

Depreciation and amortization expense of premises and equipment for the years ended March 31, 1999, 2000 and 2001 was ¥9,378 million, ¥10,005 million and ¥8,737 million, respectively.

8. INCOME TAXES

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

	1999	2000	2001
		(in millions)	
Current:			
Domestic	¥ 11,991	¥ 916	**¥ 1,285**
Foreign	17,838	9,216	**2,660**
	29,829	10,132	**3,945**
Deferred:			
Domestic	(44,173)	(31,702)	**34,540**
Foreign	(18,394)	(21,697)	**10,875**
	(62,567)	(53,399)	**45,415**
Income tax expense (benefit)	(32,738)	(43,267)	**49,360**
Income tax expense (benefit) reported in shareholders' equity related to:			
Investment securities available for sale	14,332	49,222	**(70,620)**
Minimum pension liability adjustments	(1,028)	1,028	**(6,303)**
Foreign currency translation adjustments	(3,213)	(1,181)	**3,820**
	10,091	49,069	**(73,103)**
Total	¥(22,647)	¥ 5,802	**¥(23,743)**

Income taxes in Japan applicable to the Mitsubishi Trust Group are imposed by the national, prefectural and municipal governments, and in the aggregate resulted in a normal effective statutory rate of 47.6%, 41.7% and 39.2%, respectively, for the years ended March 31, 1999, 2000 and 2001. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

On March 30, 2000, a local enterprise tax regulation to change the basis on which large banks doing business in Tokyo are taxed was enacted. Mitsubishi Trust is subject to the new regulation. Under the new regulation, banking institutions pay a 3% enterprise tax on their gross operating profits, as defined, derived from Tokyo operations for a period of five years commencing April 1, 2000. Prior to March 31, 2000, the banking institutions paid a local corporate tax based on their net income. The change in local taxation decreased the normal effective tax rate by 2.5% to 39.2%. The tax rate change resulted in a increase of ¥8,246 million in income tax expense for the year ended March 31, 2000. The 3% tax has been accounted for as non-interest expense.

On May 30, 2000, a new enterprise tax regulation concerning the banking business in Osaka Prefecture was enacted. The new tax regulation has changed the basis on which certain eligible large banks doing business in the prefecture are taxed and is applicable to Mitsubishi Trust's business for the fiscal years beginning after April 1, 2001. The taxation decreased the normal statutory rate 0.6% to 38.6%, resulting in a ¥4,333 million income tax expense for the year ended March 31, 2001.

Revisions of Japanese national tax regulations, which were enacted on March 24, 1999, decreased the Mitsubishi Trust Group's normal effective statutory tax rate by 5.9%. For the year ended March 31, 1999, income tax benefit included a ¥17,379 million income tax expense, resulting from the tax rate changes.

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

	1999	2000	2001
Combined normal effective statutory tax rate	(47.6)%	(41.7)%	**39.2%**
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	0.5	0.3	**6.8**
Dividends from foreign subsidiaries	—	2.6	**2.2**
Foreign income exempted for income tax purposes	1.1	2.7	**(1.2)**
Nondeductible foreign taxes paid	0.3	8.4	**0.7**
Foreign tax refund	—	(8.5)	**—**
Foreign currency translation adjustments	2.4	0.0	**(1.5)**
Lower tax rates applicable to income of foreign subsidiaries	0.6	(0.1)	**0.5**
Change in valuation allowance	12.6	0.3	**7.7**
Enacted change in tax rates	10.3	6.5	**5.0**
Other—net	0.4	(4.7)	**(2.2)**
Effective income tax rate	(19.4)%	(34.2)%	**57.2%**

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

	2000	2001
	(in millions)	
Deferred tax assets:		
Allowance for credit losses	¥185,447	**¥160,538**
Net operating loss carryforwards	14,430	**41,968**
Accrued severance indemnities and pension liabilities	8,843	**11,753**
Other real estate owned	10,908	**7,881**
Accrued liabilities and other	12,138	**4,870**
Depreciation	10,919	**13,142**
Derivative financial instruments	5,383	**—**
Valuation allowance	(1,080)	**(7,762)**
Total deferred tax assets	246,988	**232,390**
Deferred tax liabilities:		
Investment securities	117,468	**63,211**
Deferred profit on property for income tax purposes	3,556	**3,408**
Derivative financial instruments	—	**9,567**
Other	147	**209**
Total deferred tax liabilities	121,171	**76,395**
Net deferred tax assets	¥125,817	**¥155,995**

A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. The valuation allowance increased by ¥21,182 million during the year ended March 31, 1999, decreased by ¥22,667 million during the year ended March 31, 2000 and increased by ¥6,682 million during the year ended March 31, 2001.

At March 31, 2001 certain subsidiaries had operating loss carryforwards of ¥66 million. Such carryforwards expire through March 31, 2005.

Income taxes are not provided on undistributed earnings of foreign subsidiaries which are considered to be indefinitely reinvested in the operations of such subsidiaries. At March 31, 2001, such undistributed earnings of foreign subsidiaries amounted to approximately ¥15 billion. Determination of the amount of unrecognized deferred income tax liabilities with respect to these undistributed earnings is not practicable because of the complexity associated with its hypothetical calculation including foreign withholding taxes and foreign tax credits.

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

	1999	2000	2001
		(in millions)	
Domestic income (loss)	¥(151,060)	¥ (54,069)	**¥36,398**
Foreign income (loss)	(17,963)	(72,528)	**49,836**
Total	¥(169,023)	¥(126,597)	**¥86,234**

9. PLEDGED ASSETS AND COLLATERAL

Pledged assets

At March 31, 2001, assets pledged as collateral for the purpose of short-term funding and long-term debt of the Mitsubishi Trust Group were as follows:

	(in millions)
Trading account assets	¥ 55,995
Investment securities	789,202
Loans	696,692
Other	619
Total	¥1,542,508

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

	(in millions)
Payables under repurchase agreements and securities lending transactions	¥ 753,640
Other short-term borrowings	788,249
Long-term debt	619
Total	¥1,542,508

Additionally, at March 31, 2001, the Mitsubishi Trust Group pledged ¥79,330 million of investment securities available for sale as collateral for potential obligations related to derivative transactions.

At March 31, 2001, certain investment securities, principally Japanese national government and marketable equity securities, aggregating ¥793,475 million were pledged as collateral for acting as a collection agent of public funds, for settlements of exchanges at The Bank of Japan and Tokyo Bankers Association and for certain other purposes.

Under Japanese law, Japanese banks are required to maintain certain minimum reserves on deposit with The Bank of Japan based on the amount of deposit balances and certain other factors. There are similar reserve deposit requirements for foreign offices engaged in the banking business in foreign countries. At March 31, 2000 and 2001, the reserve funds maintained by the Mitsubishi Trust Group, which are principally included in Cash and Due from Banks, were ¥170,358 million and ¥130,806 million, respectively. Average reserves during the years ended March 31, 2000 and 2001 were ¥79,748 million and ¥77,058 million, respectively.

Collateral

The Mitsubishi Trust Group accepts and provides financial assets as collateral for transactions, principally commercial loans, repurchase agreements and securities lending transactions, call moneys, and derivatives. Financial assets eligible for such collateral may include marketable equity securities, trade and note receivables and CDs.

Secured parties, including creditors and counterparties to certain transactions with the Mitsubishi Trust Group, may sell or repledge financial assets provided as collateral. If a secured party is permitted to sell or repledge financial assets provided as collateral by contract or custom, the Mitsubishi Trust Group reports such pledged financial assets separately on the face of the consolidated balance sheets. A secured party, however, may be prohibited to sell or repledge collateral by contract or custom. Certain contracts may not be specific about the secured party's right to sell or repledge collateral and whether or not the secured party is permitted to sell or repledge a collateral would differ depending on the interpretations of specific provisions of the contract or certain market practices. If the Mitsubishi Trust Group determines, based on available information, that a financial asset provided as collateral is not permitted to be sold or repledged by the secured parties, such collateral is not separately reported in the consolidated balance sheets.

At March 31, 2001, Investment Securities Available for Sale and Loans included approximately ¥1,710 billion pledged as collateral that the secured parties are not permitted to sell or repledge and that are not separately reported in the Mitsubishi Trust Group's consolidated balance sheet.

Mitsubishi Trust accepts collateral for commercial loans and certain banking transactions under a standardized agreement with non-bank customers. Financial assets pledged as collateral are generally negotiable and transferable instruments. In principle, Japanese legislation permits a bank to repledge financial assets accepted as collateral unless otherwise prohibited by contract or relevant regulations; however, it is not customary for a bank to dispose of collateral before a debtor's default. Certain derivative agreements used in the marketplace do not prohibit a secured party's disposition of financial assets received as collateral. Mitsubishi Trust does not sell or repledge such collateral accepted in connection with commercial loans and certain transactions before a debtor's default or other events specified in the respective agreements. In connection with resale agreements and securities borrowing transactions, the Mitsubishi Trust Group receives securities as collateral, which may be sold or repledged by contract or custom.

At March 31, 2001, the fair value of the collateral accepted by the Mitsubishi Trust Group that is permitted to be sold or repledged was approximately ¥361 billion.

10. DEPOSITS

The balances of time deposits, including CDs, issued in amounts of ¥10 million (approximately US$80 thousand at the Noon Buying Rate on March 30, 2001) or more with respect to domestic deposits and issued in amounts of US$100,000 or more with respect to foreign deposits were ¥4,306,574 million and ¥1,718,094 million, respectively, at March 31, 2000, and ¥5,691,965 million and ¥1,546,098 million, respectively, at March 31, 2001.

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

	(in millions)
Due after one year through two years	¥1,362,975
Due after two years through three years	1,064,377
Due after three years through four years	700,837
Due after four years through five years	1,035,735
Total	¥4,163,924

Foreign time deposits, including CDs, with a remaining term of more than one year were not significant.

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

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

	1999	2000	2001
		(in millions)	
Average balance during the year:			
Call money and funds purchased	¥ 194,109	¥ 35,721	**¥ 12,878**
Call loans and funds sold	431,674	455,183	**144,037**
Net funds sold position	¥ (237,565)	¥ (419,462)	**¥ (131,159)**
Call money and funds purchased:			
Outstanding at end of year:			
Amount	¥ 46,573	¥ 13,513	**¥ 58,412**
Principal range of maturities	One day to 30 days	One day to 30 days	**One day to 30 days**
Weighted average interest rate	4.54%	6.04%	**4.92%**
Maximum balance at any month-end during the year	¥ 328,535	¥ 107,574	**¥ 80,203**
Weighted average interest rate during the year	2.39%	2.84%	**2.45%**

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

12. DUE TO TRUST ACCOUNT

Mitsubishi Trust holds assets in an agent, fiduciary or trust capacity. Such trust account assets are not the Mitsubishi Trust Group's proprietary assets and are managed and accounted for separately. However, excess cash funds of individual trust accounts are often deposited with Mitsubishi Trust. Due to trust account reflects a temporary placement of excess funds from individual trust accounts managed by Mitsubishi Trust in its fiduciary and trust capacity. In view of the Mitsubishi Trust Group's fundings, due to trust account bears a nature of short-term funding, including demand deposits and other overnight funds purchased, in that the balance changes in response to the day-to-day changes in excess funds placed by the trust accounts.

A summary of due to trust account transactions for the years ended March 31, 1999, 2000 and 2001 is as follows:

	1999	2000	2001
		(in millions)	
Average balance outstanding during the year	¥3,634,457	¥3,775,239	**¥3,461,754**
Maximum balance at any month-end during the year	3,918,480	3,939,917	**3,812,904**
Weighted average interest rate during the year	1.04%	0.79%	**0.71%**

13. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2000 and 2001, the Mitsubishi Trust Group had unused lines of credit amounting to ¥66,207 million and ¥317,578 million, respectively. The March 31, 2001 amount principally consists of the line of intraday overdraft granted by The Bank of Japan for the purpose of the real-time gross settlements of Japanese national government bonds. Mitsubishi Trust may, at any time, withdraw funds from The Bank of Japan up to the amount of collateral. No fees are charged on the line of intraday overdraft.

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

	2000	2001
	(in millions)	
Domestic offices:		
Borrowings from financial institutions	¥456,675	**¥429,448**
Commercial paper	20,000	**—**
Other	76,257	**96,600**
Total domestic offices	552,932	**526,048**
Foreign offices:		
Due to foreign banks	30,208	**26,741**
Other	44,096	**2,263**
Total foreign offices	74,304	**29,004**
Total	627,236	**555,052**
Less unamortized discount	67	**884**
Other short-term borrowings—net	¥627,169	**¥554,168**
Weighted average interest rate on outstanding balance at end of year	0.95%	**0.70%**

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

	1999	2000	2001
		(in millions)	
Average balance outstanding during the year	¥303,964	¥420,733	**¥ 481,088**
Maximum balance at any month-end during the year	537,033	807,045	**1,000,778**
Weighted average interest rate during the year	2.19%	1.12%	**0.72%**

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

	2000	2001
	(in millions)	
Mitsubishi Trust:		
Obligations under capital leases	¥ 1,680	**¥ 1,096**
Unsubordinated debt:		
Insurance companies and other institutions, due 2001-2007, principally 0.50%-4.75%	51,758	**48,951**
Convertible Bonds, payable in United States dollars, due 2001, 2.50%	24	**—**
Convertible Bonds, payable in United States dollars, due 2002, 1.75%	383	**—**
Convertible Bonds, payable in United States dollars, due 2003, 3.25%	791	**—**
Subordinated debt:		
First Floating-Rate Perpetual Bonds, payable in Japanese yen, 1.30%	50,000	**—**
Second Floating-Rate Perpetual Bonds, payable in Japanese yen, 1.95%	100,000	**—**
Perpetual Bonds, payable in Japanese yen, principally 1.61%-2.25%	—	**29,700**
Fixed rate borrowings, payable in Japanese yen, due 2004-2011, principally 2.33%-4.92%	20,000	**35,000**
Fixed rate bonds, payable in Japanese yen, due 2010, 2.70%	—	**30,000**
Adjustable rate borrowing, payable in Japanese yen, due 2006-2010, principally 0.92-3.25%	5,000	**33,000**
Adjustable rate bonds, payable in Japanese yen, due 2010-2016, principally 0.90%-2.45%	—	**42,500**
Floating rate borrowings, payable in Japanese yen, due 2002-2003, principally 1.90%-3.60%	105,000	**65,000**
Total	334,636	**285,247**
Subsidiaries:		
Obligations under capital leases	3	**19**
Unsubordinated debt:		
Insurance companies and other institutions, due 2002, principally 3.00%-7.71%	30,120	**27,993**
Subordinated debt:		
Perpetual Bonds, payable in Japanese yen, principally 1.59%-3.15%	—	**20,300**
Fixed rate bonds and notes, payable in Japanese yen, due 2004-2011, principally 2.50%-4.60%	61,300	**46,100**
Adjustable rate bonds and notes, payable in Japanese yen, due 2003-2014, principally 0.70%-3.88%	153,400	**182,500**
Floating rate bonds and notes, payable in Japanese yen, due 2005, principally 0.26%-0.34%	10,000	**10,000**
Total	254,823	**286,912**
Total	¥589,459	**¥572,159**

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

Subordinated bonds (aggregating ¥258,900 million at March 31, 2001) issued by a subsidiary are guaranteed, on a subordinated basis, by Mitsubishi Trust as to payment of principal and interest.

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

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

Under the Law Concerning Emergency Measures for Revitalization of Financial Function enacted in October 1998 to enhance capital ratios of financial institutions, the Japanese government set up special accounts within the DIC to provide public funds to certain eligible financial institutions through purchase of preferred shares and subordinated bonds. In March 1998, Mitsubishi Trust applied to the Japanese government for public funds and issued callable First Floating-Rate Perpetual Bonds of ¥50,000 million to the DIC. Further, the Law Concerning Emergency Measures for Early Strengthening of Financial Function (the "Financial Function Early Strengthening Law") was enacted in October 1998, to increase capital ratios of financial institutions and strengthen their function as financial intermediaries. Under the Law, the DIC may purchase subordinated bonds and preferred shares from certain eligible banks, which are required to submit a management plan to improve their financial strength to the Financial Reconstruction Commission of Japan. Management decided to apply for an additional purchase of its subordinated bonds and preferred shares and issued callable Second Floating-Rate Perpetual Bonds of ¥100,000 million and preferred shares of ¥200,000 million to the DIC in March 1999 (also, see Note 16). At the application for capital injection, Mitsubishi Trust submitted its improvement plan and, thereafter, periodically reported the progress of the plan to the Financial Reconstruction Commission.

The First and Second Floating-Rate Perpetual Bonds are callable at the option of the issuer. On December 22, 2000, Mitsubishi Trust exercised the call option, and reacquired and retired the First Floating-Rate Perpetual Bonds at ¥100.004 per face value of ¥100 and the Second Floating-Rate Perpetual Bonds at ¥101.807 per face value of ¥100. Mitsubishi Trust recognized a loss of ¥1,809 million, as non-interest expense, on reacquisition and retirement of these Perpetual Bonds for the year ended March 31, 2001.

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

	Mitsubishi Trust	**Subsidiaries**	**Total**
		(in millions)	
Year ending March 31:			
2002	¥ 618	¥ 1,177	¥ 1,795
2003	14,979	26,825	41,804
2004	56,418	6,503	62,921
2005	20,371	3	20,374
2006	29,618	12,003	41,621
2007 and thereafter	163,243	240,401	403,644
Total	¥285,247	¥286,912	¥572,159

14. SEVERANCE INDEMNITIES AND PENSION PLANS

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

Mitsubishi Trust also has contributory defined benefit pension plans (private plans) which cover substantially all of their employees in Japan and, at the option of eligible employees, provide for either lifetime annuity payments commencing at age 60 or lump-sum payments commencing at the month following the retirement, based on eligible compensation at the time of severance, years of service and other factors. Mitsubishi Trust participates in a contributory defined benefit Japanese government welfare pension program for their employees under which Mitsubishi Trust has the administrative and trustee responsibility, through employer/employee owned special judicial foundations, for premiums collected and invested and payment of benefits. This government program is combined with the private pension plans through special judicial foundations. Pension benefits and plan assets applicable to the government program are included with the contributory pension plans of Mitsubishi Trust in the determination of net periodic costs and funding status.

Mitsubishi Trust also has a funded non-contributory defined benefit pension plan which covers certain retired employees, excluding directors, in Japan whose service period with Mitsubishi Trust was 20 years or more, and provides for 10-year period annuity payments commencing at the month following the retirement or, at the option of each eligible employee at age 60 based on eligible compensation at the time of severance, years of service and other factors.

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

	1999	2000	2001
	(in millions)		
Service cost—benefits earned during the year	¥ 4,990	¥ 5,258	**¥ 5,045**
Interest costs on projected benefit obligation	5,045	5,084	**5,295**
Expected return on plan assets	(718)	(283)	**(4,266)**
Amortization of unrecognized net obligation at transition	1,919	1,919	**1,919**
Amortization of prior service cost	—	—	**(90)**
Amortization of net actuarial loss	—	239	**13**
Net periodic benefit cost	¥11,236	¥12,217	**¥ 7,916**

	1999	2000	2001
Weighted-average assumptions at March 31:			
Discount rates	3.30%	3.10%	**2.90%**
Rates of increase in future compensation	4.05%	4.05%	**4.74%**
Expected rates of return on plan assets	0.87%	0.32%	**3.50%**

The following table sets forth the funded status and amounts recognized in Mitsubishi Trust's balance sheets at March 31, 2000 and 2001 for the plans of Mitsubishi Trust:

	2000		2001	
	Severance Indemnities plan and non-contributory pension plan	Contributory pension plan	Severance Indemnities plan and non-contributory pension plan	Contributory pension plan
	(in millions)			
Change in benefit obligation:				
Benefit obligation at April 1, 1999 and 2000	¥ 28,657	¥ 135,335	**¥ 28,644**	**¥ 136,833**
Service cost	1,444	3,814	**1,462**	**3,583**
Interest cost	889	4,195	**917**	**4,379**
Plan participants' contributions	—	488	**—**	**492**
Actuarial (gain) loss	277	(3,828)	**753**	**9,840**
Benefits paid	(2,623)	(3,171)	**(2,485)**	**(3,417)**
Benefit obligation at March 31, 2000 and 2001	28,644	136,833	**29,291**	**151,710**
Change in plan assets:				
Fair value of plan assets at April 1, 1999 and 2000	7,216	80,194	**9,113**	**112,764**
Actual return on plan assets	368	10,976	**(300)**	**(12,918)**
Employer contribution	1,865	24,277	**1,362**	**15,220**
Plan participants' contributions	—	488	**—**	**492**
Benefits paid	(336)	(3,171)	**(401)**	**(3,417)**
Fair value of plan assets at March 31, 2000 and 2001	9,113	112,764	**9,774**	**112,141**
Projected benefit obligation in excess of plan assets at March 31, 2000 and 2001	(19,531)	(24,069)	**(19,517)**	**(39,569)**
Unrecognized net actuarial loss	2,798	3,427	**4,157**	**30,132**
Unrecognized prior service cost from amendment	—	(1,360)	**—**	**(1,269)**
Unrecognized net obligation at transition	561	11,910	**475**	**10,078**
Net amount recognized	¥ (16,172)	¥ (10,092)	**¥ (14,885)**	**¥ (628)**
Amounts recognized in the balance sheets:				
Accrued benefit liability	¥ (16,583)	¥ (11,223)	**¥ (15,917)**	**¥ (26,208)**
Intangible assets	411	1,131	**455**	**10,078**
Accumulated other changes in equity from nonowner sources	—	—	**577**	**15,502**
Net amount recognized	¥ (16,172)	¥ (10,092)	**¥ (14,885)**	**¥ (628)**

Note:—The aggregated accumulated benefit obligations of these plans were ¥148,771 million and ¥162,672 million, respectively, at March 31, 2000 and 2001.

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

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

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

In accordance with Mitsubishi Trust's and certain domestic subsidiaries' employment practices, certain employees are granted special early termination of employment, and receive special lump-sum termination benefits. The amounts charged to operations for such early termination benefits for the years ended March 31, 1999, 2000 and 2001 were ¥446 million, ¥1,701 million and ¥1,946 million, respectively. Foreign offices and subsidiaries also have defined contribution plans and/or defined benefit plans which in the aggregate are not considered significant.

Mitsubishi Trust management concluded that it is not feasible to obtain the actuarial information necessary to implement SFAS No. 87 as of the effective date specified in the standard, which was the fiscal year ended March 31, 1990 for Mitsubishi Trust. Accordingly, Mitsubishi Trust assumed that it adopted SFAS No. 87 as of April 1, 1995 for the purpose of the consolidated financial statements. The net obligation at transition was ¥33,577 million and the estimated remaining service period is 17.5 years at the date of adoption. Six years have passed between the effective date and the assumed adoption date. Mitsubishi Trust recorded ¥11,512 million of the net transition obligation directly to equity and is amortizing the remaining portion of the obligation over the 11.5 years.

15. OTHER ASSETS AND LIABILITIES

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

	2000	2001
	(in millions)	
Other assets:		
Other real estate owned	¥ 3,262	**¥ 849**
Deferred charges	12,453	**36,376**
Deferred income tax assets	127,803	**158,588**
Other	147,919	**198,405**
Total	¥291,437	**¥394,218**
Other liabilities:		
Accounts payable:		
Payables to brokers, dealers and customers for securities transactions	¥ 70,030	**¥ 76,577**
Other	7,257	**9,812**
Deferred income tax liabilities	1,986	**2,593**
Allowance for off-balance-sheet credit instruments	10,178	**8,754**
Accrued pension liability	28,725	**43,059**
Accrued and other liabilities	20,546	**20,592**
Total	¥138,722	**¥161,387**

At March 31, 2000 and 2001, the valuation allowance provided for the carrying amounts of other real estate owned to their estimated fair value less the estimated cost to sell was ¥7,878 million and ¥3,453 million, respectively. The valuation allowance increased by ¥122 million, decreased by ¥7,805 million and decreased by ¥4,425 million, respectively, during the years ended March 31, 1999, 2000 and 2001.

16. PREFERRED STOCK

Mitsubishi Trust is authorized to issue 150 million shares of Class 1 Preferred Stock and 50 million shares of Class 2 Preferred Stock, without par value.

All classes of preferred stock to be issued are non-voting and have equal preference over Mitsubishi Trust's common stock for the payment of dividends and the distribution of assets in the event of a liquidation or dissolution of Mitsubishi Trust. They are all non-cumulative and non-participating for dividend payments. Preferred shareholders receive a liquidation distribution at ¥2,000 per share and do not have the right to participate in any further liquidation distributions.

Class 1 Preferred Stock

Class 1 Preferred Stock has non-voting and non-cumulative features and is convertible into common stock at the option of the shareholders during a conversion period. The conversion is mandatorily required on the date immediately following the closing date of the conversion period. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥150 per share), and conversion terms, including a conversion period.

On March 31, 1999, Mitsubishi Trust issued 100,000 thousand shares of Class 1 Preferred Stock at ¥2,000 per share (¥200,000 million in the aggregate) (see Note 13). All the shares of Class 1 Preferred Stock were issued to and purchased by the DIC, through the RCC, based on the Mitsubishi Trust's application for public fund injection as permitted by the Financial Function Early Strengthening Law. The Law requires the RCC's early collection of the public fund investments through transfer of investments and other means of disposition. In accordance with the provisions of the Commercial Code of Japan (the "Code") (see Note 1), the issuance was accounted for by crediting equal amounts of the issue price to capital stock account and to the capital surplus account.

At the option of the shareholders, Class 1 Preferred Stock is convertible into common stock during the period from July 31, 2003 to July 31, 2008 at the conversion price of ¥974 per share. The conversion price will be revised annually on August 1 of each year from 2003 through 2007 to reflect, with certain adjustments as defined, the average market closing price of the common stock traded on the Tokyo Stock Exchange for the 30 business days starting from the 45th business day prior to the date of revision of the conversion price. The conversion price will not exceed the initial conversion price of ¥974 nor be below ¥500 unless certain events or circumstance as defined arise after the issuance of the preferred stocks.

Preferred Stocks which are not converted at the option of the shareholders will be mandatorily converted into the common stock on August 1, 2008, at the conversion price determined based on the average market closing price of the common stock traded on the Tokyo Stock Exchange for the 30 business days starting from the 45th business day prior to the date of mandatory conversion. In case that the average market closing price is below the par value of the common stock or ¥500, whichever is higher, the conversion price will be the higher price.

Dividends declared and paid during the year ended March 31, 2000 and 2001 were ¥815 million, or ¥8.15 per share, and ¥1,620 million, or ¥16.20 per share, respectively.

In January 2001, the DIC sold their investment in shares of Class 1 Preferred Stock to third party investors, which had no impact on Mitsubishi Trust's shareholders' equity.

Class 2 Preferred Stock

Class 2 Preferred Stock is redeemable at the option of Mitsubishi Trust. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥200 per share), and redemption terms, including a redemption price. No shares of the Class 2 Preferred Stock are issued and outstanding at March 31, 2000 and 2001.

Mitsubishi Trust may, at any time, purchase and retire, at fair value, either or both of Classes 1 and 2 Preferred Stock out of earnings available for distribution to the shareholders. Also, see Note 17.

On April 2, 2001, all common and preferred shares issued by Mitsubishi Trust was exchanged for the common and preferred shares of Mitsubishi Tokyo Financial Group, Inc. through a stock-for-stock exchange. Also, see Note 27.

17. COMMON STOCK AND CAPITAL SURPLUS

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

	1999	2000	2001
	(in thousands of shares)		
Balance at beginning of year	1,302,302	1,302,303	**1,302,303**
Issued for conversion of bonds	1	—	**—**
Balance at end of year	1,302,303	1,302,303	**1,302,303**

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

Mitsubishi Trust from time to time made a free distribution by way of a "stock split," as defined in the Code, and also, as permitted by the Code prior to April 1, 1991, free share distributions, recording no changes in the capital accounts. These free distributions usually are from 5 to 10 percent of outstanding common stock and publicly-owned corporations in the United States issuing shares in similar transactions would be required to account for them as stock dividends as of the shareholders' record date by reducing retained earnings and increasing the appropriate capital accounts by an amount equal to the fair value of the shares issued. The application of such United States accounting practice to the cumulative free distributions made by Mitsubishi Trust through March 31, 2001, would have increased capital accounts by ¥162,026 million with a corresponding decrease in unappropriated retained earnings (see Note 1).

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

As permitted by the Code, pursuant to a resolution of an annual general meeting of the shareholders, Mitsubishi Trust may purchase its own issued shares for their retirement. In addition, pursuant to a resolution of the Board of Directors, Mitsubishi Trust may purchase its own shares for their retirement, not exceeding 130 million shares, in accordance with its articles of incorporation. Any shares of common stock or preferred stock, in whole or in part, are subject to such purchases made for purposes of retirement.

Under the Code, a company is generally prohibited from acquiring its outstanding common stock. The Code, however, permits a company to acquire and hold its treasury shares to achieve certain objectives subject to restrictive conditions and the treasury shares should be disposed of as early as possible. Dividends are not permitted on treasury shares.

18. RETAINED EARNINGS AND DIVIDENDS

Retained Earnings Appropriated for Legal Reserve

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

Unappropriated Retained Earnings and Dividends

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

In addition to the provision that requires an appropriation for legal reserve as described above, the Code and the Bank Law impose certain limitations on the amount of retained earnings available for dividends. The retained earnings shown by Mitsubishi Trust's general books of account, prepared in accordance with accounting principles generally accepted in Japan, as of March 31, 2001 (¥201,714 million, exclusive of the amount to be appropriated for legal reserve and unrealized gains on trading account asset (as defined), if any) is not restricted by such limitations under the Code or by the Banking Law as described above.

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

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

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

19. REGULATORY CAPITAL REQUIREMENTS

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

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

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

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

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

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

	Actual Amount	Ratio	Minimum Capital Ratios Required
	(in millions except percentages)		
At March 31, 2000:			
Total capital (to risk-weighted assets)	¥ 1,382,205	11.27%	8.00%
Tier I capital (to risk-weighted assets)	846,792	6.90	4.00
At March 31, 2001:			
Total capital (to risk-weighted assets)	**¥1,471,132**	**12.06%**	**8.00%**
Tier I capital (to risk-weighted assets)	**841,038**	**6.89**	**4.00**

Mitsubishi Trust has international operations conducted by foreign offices as defined and is subject to the 8.0% capital adequacy requirement. For the purpose of market risk measure, Mitsubishi Trust has adopted the internal risk measurement model approach for general market risk calculations.

20. EARNINGS PER COMMON SHARE

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

	1999	2000	2001
		(in millions)	
Net income (loss)	¥ (136,285)	¥ (83,330)	**¥ 36,874**
Cash dividends to preferred shareholders	—	(815)	**(1,620)**
Income (loss) available to common shareholders	(136,285)	(84,145)	**35,254**
Income (loss) adjusted for diluted computation	¥ (136,285)	¥ (84,145)	**¥ 36,874**
		(thousands of shares)	
Weighted average common shares outstanding	1,302,256	1,302,255	**1,302,253**
Convertible Preferred Stock (Class 1)	—	—	**261,780**
Adjusted for diluted computation	1,302,256	1,302,255	**1,564,033**
		(in yen)	
Earnings (loss) per common share—basic	¥ (104.65)	¥ (64.61)	**¥ 27.07**
Earnings (loss) per common share—assuming dilution	¥ (104.65)	¥ (64.61)	**¥ 23.58**

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

2½% Convertible Bonds due 2001, 1¾% Convertible Bonds due 2002, 3¼% Convertible Bonds due 2003, and Class 1 Preferred Stock could potentially dilute earnings per common share in the future. For the year ended March 31, 2001, 2½% Convertible Bonds due 2001, 1¾% Convertible Bonds due 2002 and 3¼% Convertible Bonds due 2003 were not dilutive instruments.

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

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

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

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

	2000			2001		
	Trading	Asset/Liability management	Total	Trading	Asset/Liability management	Total
			(in billions)			
Interest rate contracts:						
Forwards and futures	¥ 5,101	¥—	¥ 5,101	**¥ 1,637**	**¥—**	**¥ 1,637**
Swap and swap-related products	29,980	5	29,985	**33,998**	**4**	**34,002**
Options written	621	—	621	**652**	**—**	**652**
Options purchased	1,562	—	1,562	**728**	**—**	**728**
Total	¥37,264	¥ 5	¥37,269	**¥37,015**	**¥ 4**	**¥37,019**
Foreign exchange contracts:						
Forwards and futures						
Purchase	¥ 2,501	¥—	¥ 2,501	**¥ 2,291**	**¥—**	**¥ 2,291**
Sell	1,446	—	1,446	**2,253**	**—**	**2,253**
Swaps	2,055	—	2,055	**1,673**	**—**	**1,673**
Options written	66	—	66	**80**	**—**	**80**
Options purchased	65	—	65	**81**	**—**	**81**
Total	¥ 6,133	¥—	¥ 6,133	**¥ 6,378**	**¥—**	**¥ 6,378**

The Mitsubishi Trust Group holds other types of derivative financial instruments, including equity and credit-related contracts for trading purposes. Notional amounts of such instruments for its trading account were ¥9 billion at March 31, 2000. The Mitsubishi Trust Group held no such derivative financial instruments at March 31, 2001.

The timing of cash receipts and payments relating to these financial instruments is determined by the related contract. Interest rate and foreign exchange contracts, other than swap contracts, outstanding at March 31, 2001 principally expire within two years. Approximately 35% of swap contracts outstanding at March 31, 2001 will expire within one year, 62% from one year to five years and 3% after five years.

Classes of Derivative Financial Instruments

The Mitsubishi Trust Group uses the following classes of derivative financial instruments both for trading purposes and for purposes other than trading.

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

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

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

Trading Activities

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

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

As part of risk management activities, the Mitsubishi Trust Group uses certain derivative transactions to manage its interest rate and currency exposures. The Mitsubishi Trust Group enters into interest rate swaps and other contracts as part of its interest rate risk management strategy primarily to alter the interest rate sensitivity of its loans, investment securities and deposit liabilities. The Mitsubishi Trust Group enters into forward exchange contracts, currency swaps and other contracts in response to currency exposures resulting from on-balance-sheet assets and liabilities denominated in foreign currencies in order to limit the net foreign exchange position by currency to an appropriate level. The risk management activities reduces the Mitsubishi Trust Group's risk exposures economically, however, derivatives used for the risk management activities often fail to meet certain conditions to qualify for hedge accounting and the Mitsubishi Trust Group accounts for such derivatives as trading positions.

Asset and Liability Management Activities

The Mitsubishi Trust Group's principal objective in using derivative financial instruments for purposes other than trading is asset and liability management. Asset and liability management is viewed as a method for the Mitsubishi Trust Group to manage its interest rate exposures on interest-bearing assets and liabilities.

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

Credit-Related Off-Balance-Sheet Financial Instruments

The Mitsubishi Trust Group issues certain credit-related off-balance-sheet financial instruments for purposes other than trading. Such credit-related financial instruments include commitments to extend credit, standby letters of credit, guarantees, and commercial letters of credit to meet the financing needs of its customers. For these financial instruments, the contract amount represents the credit risk associated with failure of the counterparty to perform in accordance with the terms and conditions of the contract, and the decline in value of the underlying collateral. The credit risk associated with these financial instruments varies depending on the counterparty's creditworthiness and the value of any collateral held. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At March 31, 2001, approximately 76% of these commitments will expire within one year, 11% from one year to five years and 13% after five years.

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

	2000	2001
	(in billions)	
Commitments to extend credit	¥1,758	**¥1,948**
Guarantee for repayment of trust principal	5,170	**4,576**
Standby letters of credit and other guarantees	430	**593**

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

Standby letters of credit and guarantees are conditional commitments issued by the Mitsubishi Trust Group to guarantee the performance of a customer to a third party. The Mitsubishi Trust Group is obliged to pay the third party upon presentation of a claim that meets the conditions of the commitment; however, based on its past experience, the Mitsubishi Trust Group does not expect such third parties to draw funds under such commitments. These guarantees at March 31, 2000 and 2001 included guarantees of securities of other issuers, principally domestic corporate customers, aggregating ¥38 billion and ¥30 billion, respectively, for the payment of bond and note principal and related interest.

Guarantee for Repayment of Trust Principal

Trust banks, offering a variety of trust arrangements, manage trust funds including various portfolios of assets and properties. Some trust arrangements are in the form of money in trusts. Money in trust is a trust arrangement in which money is entrusted to form a trust fund and may be operated jointly to collect funds from individual investors through issuance of beneficiary certificates, which are pooled to achieve greater diversification of investments, stability of income, or other investment objectives. Loan trust is a type of jointly operated trust through which funds are invested principally in commercial lending. In view of the trust bank's investment discretion, money trusts are categorized as specified money trust and designated money trust. As to specified money trust, investors specifically instruct investments of trust assets. A trust bank does not exercise investment decisions, but invests each trust asset in accordance with the specific instructions from the investors. As to designated money trusts, however, a trust bank is allowed to exercise certain investment discretion, subject to the investors' designation of the investment classes of assets.

Mitsubishi Trust manages and administers trust assets in a capacity of agent or fiduciary on behalf of customers and, in principle, will not assume risks associated with the trust assets. However, as permitted by applicable laws, Mitsubishi Trust may provide guarantees for repayment of principal of certain jointly operated money trusts, such as loan trusts, and is contingently liable to the guarantee for principal of individual trust assets.

The accounting principles and practices used for the Mitsubishi Trust Group's consolidated financial statements do not apply to the trust accounts. Generally, the application of trust accounting does not affect the recorded assets and liabilities of the Mitsubishi Trust Group. However, for the purpose of identifying an impairment of a loan within the trust account, Mitsubishi Trust follows substantially the same methodology used in determining the specific allowance for loan credit losses, with variations in treatment peculiar to trust fund accounting. Under Mitsubishi Trust's trust accounting, amounts of loans deemed to be impaired are written off directly and are charged to the profit earned by the trust account during the trust accounting period. Marketable equity securities are recorded at the lower of cost or market, and debt securities, principally Japanese government bonds and corporate debentures, are stated at amortized cost. Related write-downs of these securities are also directly charged to the trust account profits. In addition, a statutory reserve is set aside to absorb losses in the trust asset portfolios within each trust account. An allowance for losses on such guarantees is required in the financial statements when aggregate losses on trust assets are judged to exceed the statutory reserve and the profit earned in the trust account, and the principal is deemed to be impaired.

At March 31, 2000 and 2001, Mitsubishi Trust management believes that the statutory reserve is sufficient to absorb probable losses inherent in the trust portfolio and has not recorded an allowance for credit losses on guarantee for repayment of trust principal on the consolidated balance sheets.

Resale and Repurchase Agreements and Security Lending Transactions

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

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

When conditions for the surrender of control over transferred securities specified in SFAS No. 125 are met, the Mitsubishi Trust Group accounts for resale agreements as a purchase of financial instruments with related off-balance-sheet forward resale commitments and repurchase agreements as sale of financial instruments with related off-balance-sheet forward repurchase agreements. The Mitsubishi Trust Group bears the off-balance-sheet risk related to the forward repurchase commitments, including credit risk and market risk. At March 31, 2000 and 2001, contract amounts of such forward repurchase commitments were ¥13 billion and ¥13 billion, respectively.

Concentration of Credit Risk

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

22. COMMITMENTS AND CONTINGENT LIABILITIES

The Mitsubishi Trust Group leases certain office space and equipment under noncancelable agreements expiring through the year 2007.

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

	Capitalized leases	Operating leases
	(in millions)	
Year ending March 31:		
2002	¥ 580	¥ 659
2003	372	545
2004	250	290
2005	56	290
2006	15	290
2007 and thereafter	—	314
Total minimum lease payments	1,273	¥2,388
Amount representing interest	(159)	
Present value of minimum lease payments	¥1,114	

Total rental expense for the years ended March 31, 1999, 2000 and 2001 was ¥14,821 million, ¥13,644 million and ¥12,025 million, respectively.

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

23. FEES AND COMMISSION INCOME

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

	1999	2000	2001
		(in millions)	
Trust fees	¥ 84,799	¥ 68,805	**¥ 78,242**
Fees on funds transfer and service charges for collections	10,562	8,088	**3,891**
Bond underwriting fees	10,302	11,548	**13,866**
Real estate agent commissions	6,347	8,023	**10,995**
Other fees and commissions	17,623	16,473	**12,057**
Total	¥129,633	¥112,937	**¥119,051**

24. BUSINESS SEGMENTS

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

See Note 25 for financial information relating to the Mitsubishi Trust Group's operations by geographic area. This information is consistent with the basis of the accompanying consolidated financial statements.

Effective April 1, 2000, Mitsubishi Trust reorganized its business groups structure and redefined functions and activities performed by each of its operating groups; Banking, Trust Assets and Global Markets.

The *Banking* business group provides a full range of commercial banking products and services to corporations, institutional investors, public organizations and individual customers in Japan and overseas. It serves the corporate customers by providing financial products to meet the customers' short- and long-term asset management and fund-raising objective. It also provides retail customers with investment and other products for the creation of wealth. The *Banking* business group also manages loan portfolios associated with certain jointly operated designated money trusts such as loan trusts. A jointly operated designated money trust manages pooled funds collected from individual investors for investment returns. A loan trust is a type of jointly operated money trust primarily investing in long-term commercial loans. Other services provided by the *Banking* business group include stock-transfer-agency services and real estate-related services. Mitsubishi Trust offers agency services for the transfer of the title of stocks and related advisory services and acts as a broker of real estate transactions and advisor for optimal utilization of real estate.

The *Trust Assets* business group covers fiduciary asset management and administration services. In line with fiduciary asset management services, Mitsubishi Trust takes charge of corporate pensions, public pensions, public sector funds, individual funds and certain other funds, based on the customers' needs. Actuarial and other pension-related consulting services are also provided. In the asset administration service, a broad range of custodial services is provided to corporations, institutional investors and other customers.

The *Global Markets* business group is active in various financial operations, including banking, money and capital markets operations, securities investments and custody operations and asset management, through the network of foreign branches and subsidiaries in the Americas, Europe and Asia. The *Global Markets* business group also manages investment securities portfolios and placements of excess funds associated with certain jointly operated designated money trusts.

The financial performance of the Mitsubishi Trust Group's business groups, derived from the internal management reporting system, are summarized below. Business segment information for the prior periods has been restated to reflect reorganizational changes that have occurred. Management does not use information on segments' total assets to allocate resources and assess performance, and has not prepared information on segment assets. Accordingly, business segments' information on total assets is not available.

	Banking	Trust Assets	Global Markets	Administration and Adjustments	Segments' Total
			(in millions)		
Year ended March 31, 1999:					
Net revenue:					
Net interest income	¥ 49,053	¥ —	¥106,355	¥ 10,793	¥ 166,201
Fees on jointly operated designated money trusts	33,351	—	80,960	12,377	126,688
Other fees	22,734	47,696	(989)	—	69,441
Other	621	—	76,615	(209)	77,027
Total	105,759	47,696	262,941	22,961	439,357
Operating expenses:	77,193	32,047	20,086	26,774	156,100
Operating profit	¥ 28,566	¥ 15,649	¥242,855	¥ (3,813)	¥ 283,257
Year ended March 31, 2000:					
Net revenue:					
Net interest income	¥ 69,429	¥ —	¥ 65,243	¥ 8,243	¥ 142,915
Fees on jointly operated designated money trusts	25,668	—	33,513	21,160	80,341
Other fees	26,355	49,996	(129)	—	76,222
Other	312	—	22,044	(210)	22,146
Total	121,764	49,996	120,671	29,193	321,624
Operating expenses:	74,918	28,872	16,725	23,336	143,851
Operating profit	¥ 46,846	¥ 21,124	¥103,946	¥ 5,857	¥ 177,773
Year ended March 31, 2001:					
Net revenue:					
Net interest income	**¥75,848**	**¥ —**	**¥59,255**	**¥15,069**	**¥150,172**
Fees on jointly operated designated money trusts	**19,163**	**—**	**32,415**	**14,612**	**66,190**
Other fees	**31,384**	**49,904**	**287**	**—**	**81,575**
Other	**213**	**—**	**9,140**	**350**	**9,703**
Total	**126,608**	**49,904**	**101,097**	**30,031**	**307,640**
Operating expenses:	**73,970**	**26,796**	**16,587**	**27,212**	**144,565**
Operating profit	**¥52,638**	**¥23,108**	**¥84,510**	**¥ 2,819**	**¥163,075**

Management measures performance of each business group by "operating profit" which excludes profits or losses of subsidiaries. "Operating profit" is a defined term in Mitsubishi Trust's regulatory reporting to the Financial Services Agency of Japan.

"Net revenue" above includes net interest income, net fees (that is, fees and commissions received, net of fees paid and other related expenses), and other gains, such as net trading gains, net foreign exchange gains, and net gains from sales of investment debt securities measured under Japanese GAAP. "Operating expenses" include salaries and employee benefits, occupancy and certain other non-interest expenses. In determining operating profit, the Mitsubishi Trust Group does not assign to each business group certain income and expense items such as provision for loan loss reserve, equity investment securities gains or losses, minority interest in earnings or losses of subsidiaries, equity in earnings or losses of affiliated companies, goodwill amortization and impairment, net gains or losses from disposition of premises and equipment, and other certain non-interest income and expense items.

"Fees on jointly operated designated money trusts" include trust fees, accounted for on a cash basis, which are associated with loan trusts and other types of jointly operated designated money in trusts, including certain money trusts with guarantee for repayment of principal. The amounts assigned to the *Banking* business group are such fees associated with the return on lending activities and the amounts assigned to the *Global Markets* business group are fees resulting from the management of investment securities included in the trust accounts. Amounts of write-downs recorded within each trust account, which eventually reduce the trust fees to be recognized in Mitsubishi Trust's financial statements, are excluded from the business group's performance measure on jointly operated money trusts, and the fee amounts are before provision for write-downs of individual investments. Such write-downs recognized within each trust are shown in the reconciliations of the business segments' total operating profit to the income (loss) before income tax expense or benefit. Fees on such trusts are determined at the end of respective accounting periods of individual trust accounts and Mitsubishi Trust recognizes such fees, on a cash basis, in its Japanese GAAP financial statements. For measuring the performance of the *Banking* and *Global Markets* business groups, Mitsubishi Trust focuses on the results of performance during the term corresponding to the fiscal period. Since the trust accounting periods do not necessarily correspond with Mitsubishi Trust's fiscal period, fee amounts shown in the Japanese GAAP financial statements do not meet the objective of management reporting without certain adjustments. Accordingly, Mitsubishi Trust allocates amounts to the business group to show the fee amounts that would have been earned, on an accrual basis, if each trust accounting period have corresponded with Mitsubishi Trust's fiscal period.

"Other fees" include trust fees other than fees on certain jointly operated money trusts, such as pension trusts and fiduciary and custodial services related to asset management and administration.

"Net revenue" included in the "Administration and Adjustments" column includes interest and dividends on certain investment securities held for relationship management. "Fees on jointly operated money trusts" under "Administration and Adjustments" include the amounts representing the recoveries of trust assets previously written off and reversal of the statutory reserve, both of which are accounted for as a reduction of the trust fees. Also, included in the amounts under "Administration and Adjustments" are the adjustments for the amounts of the *Banking* business group based on Mitsubishi Trust's fiscal period to the segments' total amounts, which are determined, based on the accounting periods of the trust accounts.

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

Reconciliations of the segments' operating profit under the internal management reporting system for the years ended March 31, 1999, 2000 and 2001 above to income (loss) before income tax expense or benefit shown on the consolidated statements of operations are as follows:

	1999	2000	2001
	(in billions)		
Operating profit shown on the above table	¥ 283	¥ 178	**¥ 163**
Write-downs recorded within trust accounts	(81)	(60)	**(37)**
Provision for credit losses	(320)	(4)	**(131)**
Trading account profit (losses)—net	33	(181)	**(9)**
Equity investment securities gains (losses)—net	(39)	(47)	**104**
Foreign exchange gains (losses)—net	(14)	14	**(7)**
Other—net	(31)	(27)	**3**
Income (loss) before income tax expense or benefit	¥(169)	¥(127)	**¥ 86**

25. FOREIGN ACTIVITIES

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

Generally, interest rates with respect to funds borrowed and loaned between domestic and foreign operations are based on prevailing money market rates appropriate for the transactions. In general, the Mitsubishi Trust Group has allocated all direct expenses and a proportionate share of general and administrative expenses to income derived from foreign loans and other transactions by the Mitsubishi Trust Group's foreign operations. The following table sets forth estimated total assets at March 31, 1999, 2000 and 2001, and estimated gross revenue, total expenses, income or loss before income tax expense on benefit and net income or loss for the respective years then ended. Gains and losses on investment securities, trading account activities and foreign exchange transactions are included in either "Revenue" or "Expenses" on a net basis by geographic area. If the net results of trading accounts and foreign exchange transactions attributable to operations conducted in a geographic area is a gain, such gain is included in "Revenue" of the related geographic area. If the results is a loss, such loss is included in the related "Expenses" of the related geographic area.

	Domestic	Foreign				
	Japan	United States of America	Europe	Asia/Oceania excluding Japan	Other Areas*	Total
			(in millions)			
Year ended March 31, 1999:						
Revenue	¥ 327,376	¥ 141,838	¥ 421,583	¥ 68,551	¥ 35,908	¥ 995,256
Expenses	614,964	298,043	119,295	99,020	32,957	1,164,279
Income (loss) before income tax expense or benefit	(287,588)	(156,205)	302,288	(30,469)	2,951	(169,023)
Net income (loss)	(238,410)	(168,308)	296,336	(28,852)	2,949	(136,285)
Total assets at end of year	12,336,663	2,108,044	1,064,247	944,507	394,778	16,848,239
Year ended March 31, 2000:						
Revenue	291,363	97,524	48,541	47,068	23,407	507,903
Expenses	276,410	140,550	167,961	37,129	12,450	634,500
Income (loss) before income tax expense or benefit	14,953	(43,026)	(119,420)	9,939	10,957	(126,597)
Net income (loss)	80,153	(58,280)	(125,086)	8,928	10,955	(83,330)
Total assets at end of year	12,883,522	1,566,457	1,004,197	656,902	478,819	16,589,897
Year ended March 31, 2001:						
Revenue	**434,249**	**133,363**	**109,443**	**24,606**	**41,421**	**743,082**
Expenses	**405,958**	**92,795**	**88,619**	**35,281**	**34,195**	**656,848**
Income (loss) before income tax expense or benefit	**28,291**	**40,568**	**20,824**	**(10,675)**	**7,226**	**86,234**
Net income (loss)	**(19,019)**	**39,981**	**20,950**	**(12,264)**	**7,226**	**36,874**
Total assets at end of year	**13,760,719**	**1,788,073**	**1,219,119**	**393,247**	**612,178**	**17,773,336**

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

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

	2000	2001
	(in millions)	
Cash and due from banks	¥ 21,733	**¥ 7,096**
Interest-earning deposits in other banks	974,967	**620,699**
Total	¥ 996,700	**¥ 627,795**
Trading account assets	¥ 226,095	**¥ 182,371**
Investment securities	¥ 965,403	**¥1,616,899**
Loans—net of unearned income and deferred loan fees	¥1,227,117	**¥1,192,035**
Deposits, principally time deposits and certificates of deposit by foreign banks	¥1,787,409	**¥1,636,059**
Funds borrowed:		
Call money, funds purchased, and receivables under repurchase agreements and securities lending transactions	¥ 148,246	**¥ 484,075**
Other short-term borrowings	74,304	**29,006**
Long-term debt	229,385	**262,510**
Total	¥ 451,935	**¥ 775,591**
Trading account liabilities	¥ 24,308	**¥ 68,881**

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

26. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	2000		2001	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(in billions)			
Financial assets:				
Cash, due from banks, interest-earning deposits, call loans and funds sold, and receivables under resale agreements and securities borrowing transactions	¥1,659	¥1,659	**¥ 1,348**	**¥ 1,348**
Trading account securities	355	355	**359**	**359**
Investment securities	4,948	4,948	**5,930**	**5,945**
Loans, net of allowance for credit losses	8,783	8,864	**9,217**	**9,332**
Other financial assets	217	217	**257**	**257**
Derivative financial instruments, principally held for trading activities	234	234	**219**	**219**
Financial liabilities:				
Non-interest-bearing deposits, call money and funds purchased, and payables under repurchase agreements and securities lending transactions	668	668	**955**	**955**
Interest-bearing deposits	9,609	9,619	**11,155**	**11,178**
Due to trust account	3,842	3,842	**3,250**	**3,250**
Other short-term borrowings	627	627	**554**	**554**
Long-term debt	589	631	**572**	**626**
Other financial liabilities	161	161	**194**	**194**
Derivative financial instruments, principally held for trading activities	63	63	**144**	**144**

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

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

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

Investment securities—The fair values of investment securities, where quoted market prices or secondary market prices are available, are equal to such market prices. For investment securities, when quoted market prices or secondary market prices are not available, the fair values are estimated using quoted market prices for similar securities or based on appraised value as deemed appropriate by management. The fair values of investment securities other than available for sale or being held to maturity (including nonmarketable equity securities) at March 31, 2000 and 2001 were not readily determinable. Therefore, the above summary does not include such other investment securities which are carried at cost of ¥81.5 billion and ¥77.1 billion at March 31, 2000 and 2001, respectively.

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

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

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

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

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

Due to trust account—For due to trust account, which reflects a temporary placement of excess fund from individual trust accounts managed by Mitsubishi Trust in its fiduciary and trust capacity, the carrying amount is a reasonable estimate of its fair value due to its nature of short-term funding, including demand deposits and other overnight funds purchased, in that the balance changes in response to the day-to-day changes in excess funds placed by the trust accounts.

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

Long-term debt—The fair values of long-term debt are estimated based on quoted market prices, if available, otherwise estimated using a discounted cash flow model based on rates available to the Mitsubishi Trust Group for debt with similar terms and remaining maturities.

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

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

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

27. EVENTS SINCE MARCH 31, 2001

On April 2, 2001, Mitsubishi Trust, The Bank of Tokyo-Mitsubishi, Ltd. ("BTM") and Nippon Trust Bank Limited, a BTM subsidiary, established a holding company known as Mitsubishi Tokyo Financial Group, Inc. ("MTFG") through stock-for-stock exchanges. One share of Class 1 Preferred Stock of MTFG was exchanged for each 1,000 shares of Class 1 Preferred Stock of BTM, and one share of Class 2 Preferred Stock of MTFG was exchanged for each 1,000 shares of Class 1 Preferred Stock of Mitsubishi Trust. One common share of MTFG was exchanged for each 1,000 common shares of BTM, and 0.70 common shares of MTFG was exchanged for each 1,000 common shares of Mitsubishi Trust. Also, 1,000 shares of common and subordinated shares of Nippon Trust Bank Limited were exchanged for 0.14 shares and 0.126 shares, respectively, of MTFG's common stock. Mitsubishi Trust, BTM and Nippon Trust Bank Limited each became a wholly-owned subsidiary of MTFG and the common, preferred and subordinated shareholders of these three bank received shares of MTFG as a result of the stock-for-stock exchanges.

The business combination involving Mitsubishi Trust and BTM has been accounted for under the "pooling of interests" method and, accordingly, the historical consolidated financial statements of Mitsubishi Trust and BTM will be restated in future reports to include the accounts and results of MTFG.

The following table sets forth an unaudited pro forma combined summary of operations of BTM and Mitsubishi Trust for each of the three years in the period ended March 31, 1999, 2000 and 2001, giving effect to the business combination as if it had been effective for all periods presented (all financial data are derived from the US GAAP financial statements):

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

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

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

On June 27, 2001, in accordance with the resolution at the extraordinary meeting of shareholders in December 2000, MTFG, the sole shareholder of Mitsubishi Trust, approved (1) payment of cash dividends to shareholders of record on March 31, 2001, of ¥8.10 per share of preferred stock, totaling ¥810 million, and of ¥3.50 per share of common stock, totaling ¥4,558 million, and (2) a transfer from unappropriated retained earnings to retained earnings appropriated for legal reserve of ¥1,074 million.

* * * * *

Unaudited Average Balance Sheets, Interest and Average Rates

The Bank of Tokyo-Mitsubishi, Ltd.

The following table shows BTM Group's 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 BTM Group's operations.

	Year ended March 31,								
	1999			2000			2001		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
				(in millions except percentages)					
Assets:									
Interest-earning assets:									
Interest-earning deposits in other banks	¥ 6,211,840	¥ 223,915	3.60%	¥ 3,466,698	¥ 105,911	3.06%	**¥ 4,987,556**	**¥ 207,263**	**4.16%**
Call loans, funds sold, receivables under resale agreements and securities borrowing transactions	4,579,663	173,122	3.78	3,012,335	95,714	3.18	**4,493,732**	**154,046**	**3.43**
Trading account assets	1,926,734	29,789	1.55	2,415,231	13,112	0.54	**2,932,950**	**14,998**	**0.51**
Investment securities	12,272,396	317,108	2.58	14,803,118	278,947	1.88	**14,597,435**	**244,736**	**1.68**
Loans	48,306,935	1,598,366	3.31	43,406,532	1,293,344	2.98	**40,599,692**	**1,275,666**	**3.14**
Total interest-earning assets:	73,297,568	2,342,300	3.20	67,103,914	1,787,028	2.66	**67,611,365**	**1,896,709**	**2.81**
Non-interest-earning assets:									
Cash and due from banks	1,169,5			1,233,412			**1,148,614**		
Other non-interest-earning assets	4,855,128			3,310,086			**5,563,017**		
Allowance for credit losses	(889,885)			(1,382,781)			**(1,159,936)**		
Total non-interest-earning assets	5,134,774			3,160,717			**5,551,695**		
Total average assets	¥78,432,342			¥70,264,631			**¥73,163,060**		
Liabilities and shareholders' equity:									
Interest-bearing liabilities:									
Deposits	¥46,357,917	¥ 861,480	1.86%	¥42,580,822	¥ 491,133	1.15%	**¥42,894,502**	**¥ 637,732**	**1.49%**
Debentures	5,375,976	66,818	1.24	4,940,270	51,852	1.05	**3,922,112**	**32,296**	**0.82**
Call money, funds purchased, payables under repurchase agreements and securities lending transactions	7,017,136	189,275	2.70	4,266,841	98,175	2.30	**6,399,685**	**227,668**	**3.56**
Other short-term borrowings and trading account liabilities	5,209,454	103,255	1.98	3,592,498	82,574	2.30	**3,113,193**	**37,128**	**1.19**
Long-term debt	3,547,860	181,721	5.12	3,740,206	176,927	4.73	**4,297,811**	**165,231**	**3.84**
Total interest-bearing liabilities	67,508,343	1,402,549	2.08	59,120,637	900,661	1.52	**60,627,303**	**1,100,055**	**1.81**
Non-interest-bearing liabilities	8,262,982			8,355,119			**9,904,587**		
Shareholders's equity	2,661,017			2,788,875			**2,631,170**		
Total average liabilities and shareholders' equity	¥78,432,342			¥70,264,631			**¥73,163,060**		
Net interest income and average interest rate spread		¥939,751	1.12%		¥886,367	1.14%		**¥796,654**	**1.00%**
Net interest income as a percentage of average total interest-earning assets			1.28%			1.32%			**1.18%**

Notes:

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

The Mitsubishi Trust and Banking Corporation

The following table shows MTBC Group's 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 MTBC Group's operations.

	Year ended March 31,								
	1999			2000			2001		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
				(in millions except percentages)					
Assets:									
Interest-earning assets:									
Interest-earning deposits	¥ 1,772,342	¥ 51,287	2.89%	¥ 932,540	¥ 35,242	3.78%	**¥ 953,238**	**¥ 42,476**	**4.46%**
Call loans, funds sold, receivables under resale agreements and securities borrowing transactions	899,243	29,744	3.31	1,019,253	24,381	2.39	**643,933**	**31,069**	**4.82**
Trading account assets	440,807	3,403	0.77	367,931	2,594	0.71	**352,251**	**1,964**	**0.56**
Investment securities	5,391,046	155,515	2.88	5,171,949	122,278	2.36	**5,323,065**	**124,878**	**2.35**
Loans	9,599,859	251,395	2.62	8,941,197	201,019	2.25	**9,031,339**	**201,343**	**2.23**
Total interest-earning assets	18,103,297	491,344	2.71	16,432,870	385,514	2.34	**16,303,826**	**401,730**	**2.46**
Non-interest-earning assets:									
Cash and due from banks	112,917			129,110			**124,689**		
Other non-interest-earning assets	720,174			626,402			**611,616**		
Allowance for credit losses	(523,012)			(436,582)			**(319,993)**		
Total non-interest-earning assets	310,079			318,930			**416,312**		
Total average assets	¥18,413,376			¥16,751,800			**¥16,720,138**		
Liabilities and shareholders' equity:									
Interest-bearing liabilities:									
Deposits	¥11,308,082	¥205,900	1.82%	¥ 9,941,191	¥113,797	1.14%	**¥10,100,570**	**¥149,893**	**1.48%**
Call money, funds purchased, and repo payables under repurchase agreements and securities lending transactions	1,376,678	33,469	2.43	902,449	28,007	3.10	**846,017**	**33,628**	**3.97**
Due to trust account	3,634,457	37,830	1.04	3,775,239	29,650	0.79	**3,461,754**	**24,750**	**0.71**
Other short-term borrowings	306,828	6,725	2.19	421,500	4,727	1.12	**481,088**	**3,470**	**0.72**
Long-term debt	442,813	12,133	2.74	598,588	15,258	2.55	**614,613**	**13,390**	**2.18**
Total interest-bearing liabilities	17,068,858	296,057	1.73	15,638,967	191,439	1.22	**15,504,042**	**225,131**	**1.45**
Non-interest-bearing liabilities	486,053			146,502			**267,854**		
Shareholders' equity	858,465			966,331			**948,242**		
Total average liabilities and shareholders' equity	¥18,413,376			¥16,751,800			**¥16,720,138**		
Net interest income and average interest rate spread		¥195,287	0.98%		¥194,075	1.12%		**¥176,599**	**1.01%**
Net interest income as a percentage of average total interest-earning assets			1.08%			1.18%			**1.08%**

Notes:

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

Unaudited Combined Statements of Trust Assets and Liabilities

Following Unaudited Combined Statements of Trust Assets and Liabilities at March 31, 2001 and 2000, and related notes have been derived from the record of Trust Accounts maintained by MTBC, Nippon Trust Bank and Tokyo Trust Bank (which plan to merge by October 2001).

Unaudited Combined Statements of Trust Assets and Liabilities

	At March 31, 2000 Combined Total	At March 31, 2001 Combined Total
	(in billions)	
ASSETS		
Loans and Bills Discounted (Note 2)	¥ 2,244	**¥ 1,498**
Securities (Note 3)	21,490	**24,495**
Securities Held for Investment Trusts	5,157	**5,377**
Foreign Investments Held for Investment Trusts	597	**794**
Beneficiary Rights	704	**111**
Securities Held in Custody Accounts	1,024	**2,346**
Securities Lent	2,117	**1,430**
Money Claims	3,286	**4,168**
Premises and Equipment	632	**678**
Surface Rights	—	**0**
Lease Rights	9	**9**
Other Claims	1,114	**1,258**
Bills Bought	0	**—**
Call Loans	2,183	**2,340**
Due from Banking Account (Note 4)	4,308	**3,672**
Cash and Due from Banks	2,216	**1,065**
Total Assets	¥47,089	**¥49,247**

	At March 31, 2000 Combined Total	At March 31, 2001 Combined Total
	(in billions)	
LIABILITIES		
Money Trusts (Note 5)	¥18,144	**¥19,405**
Pension Trusts	6,862	**7,400**
Property Formation Benefit Trusts	14	**14**
Loan Trusts (Note 6)	4,141	**3,009**
Securities Investment Trusts	7,893	**8,010**
Money Entrusted Other than Money Trusts	3,235	**2,883**
Securities Trusts	5,594	**5,399**
Money Claim Trusts	469	**881**
Equipment Trusts	1	**0**
Land and Fixtures Trusts	98	**161**
Other Trusts (Note 8)	634	**2,082**
Total Liabilities	¥47,089	**¥49,247**

Note—Inter-trust account transactions within each trust bank have been eliminated.

All amounts are rounded down to the nearest billion.

Note 1

Legal foundation and Accounting Principles

The concurrent conduct of two separate types of business, the trust business and the banking business, regulated by two separate sets of laws namely (i) the Trust Law, the Trust Business Law and the Concurrent Operations Law and (ii) the Banking Law, has certain legal and accounting consequences which are unique to trust banks in Japan:

—Under the Trust Law of Japan, assets accepted in trust by a trust bank in Japan must be segregated in the accounts of the trust bank from its other assets. Accordingly, trust banks maintain two separate sets of records, the "Banking Account" and the "Trust Account", which give details of their respective banking and trust businesses.

—A trust bank's published audited financial statements reflect solely its Banking Account. The Trust Account is unaudited.

The amounts presented in the Statements of Trust assets and Liabilities as of March 31, 2001, and 2000, and related notes have been calculated in accordance with accounting principles and practices prevailing in the trust banking industry in Japan. The Trust Account is segregated from the Banking Account in accordance with the Trust Law, which requires trustees to administer trust accounts separately from other accounts.

In accordance with the Loan Trust Law and the Trust Business Law in Japan, the trust bank guarantees the principal of certain money trusts (Jointly Operated Designated Money in Trust: "JODMT") and loan trusts (collectively, "Trust Account (indemnified)").

Note 2

Loans and Bills Discounted

As of March 31, 2001 and 2000, loans and bills discounted consisted of:

	At March 31, 2000 Combined Total	At March 31, 2001 Combined Total
	(in billions)	
Loans on Deeds	¥2,158	**¥1,469**
Loans on Bills	85	**28**
Commercial Bills	0	**—**
Total	¥2,244	**¥1,498**

Note 3

Securities

As of March 31, 2001 and 2000, securities consisted of:

	At March 31, 2000 Combined Total	At March 31, 2001 Combined Total
	(in billions)	
Government Bonds	¥ 4,697	**¥ 4,551**
Local Government Bonds	436	**422**
Corporate Bonds	2,510	**2,264**
Corporate Shares	7,454	**9,846**
Foreign Securities	6,146	**7,092**
Other	243	**317**
Total	¥21,490	**¥24,495**

Note 4

Due from Banking Account

"Due from Banking Account" consists of excess funds from the Trust Account placed temporarily for management in the Banking Account.

Likewise, in the Banking Account, this balance is presented as "Due to Trust Account."

Note 5

Trust Account (indemnified) - JODMT

Jointly operated designated money in trust ("JODMT") is included in money trusts. For jointly operated designated money in trust, the principal is guaranteed and, as the accompanying table indicates, a reserve for possible loan losses is also provided. As of March 31, 2001 and 2000, the assets and liabilities of the money trusts consisted of:

	At March 31, 2000 Combined Total	At March 31, 2001 Combined Total
	(in billions)	
ASSETS		
Loans and Bills Discounted	¥ 379	**¥ 312**
Securities	89	**176**
Other	821	**650**
Total	¥1,290	**¥1,138**
LIABILITIES		
Principal	¥1,218	**¥1,137**
Allowance for credit losses	1	**0**
Other	70	**0**
Total	¥1,290	**¥1,138**

Note 6

Trust Account (indemnified) - Loan Trusts

For loan trusts, the principal is guaranteed and, as the accompanying table indicates, special reserve funds are also provided. The amounts include funds reinvested from other trusts managed by MTBC, Nippon Trust Bank and Tokyo Trust Bank (which plan to merge by October 2001). As of March 31, 2001 and 2000, the assets and liabilities of the loan trusts consisted of:

	At March 31, 2000 Combined Total	At March 31, 2001 Combined Total
	(in billions)	
ASSETS		
Loans and Bills Discounted	¥1,503	**¥ 941**
Securities	493	**379**
Other	2,595	**2,472**
Total	¥4,592	**¥3,792**
LIABILITIES		
Principal	¥4,435	**¥3,740**
Special Reserve	21	**17**
Other	135	**34**
Total	¥4,592	**¥3,792**

Note 7

Trust Account (indemnified) - Problem Loans

The following table shows as analysis of problem loans in relation to its indemnified Trust Account at March 31, 2001 and 2000.

Risk-Managed Assets

	At March 31, 2000 Combined Total	At March 31, 2001 Combined Total
	(in billions)	
Loan to borrowers in legal bankruptcy	¥ 18	**¥ 10**
Delinquent loans	79	**22**
Loans past-due three months or more	3	**1**
Restructured loans	35	**39**
Total	¥ 136	**¥ 75**
Total loans and bills discounted	¥1,882	**¥1,253**
Ratio of risk-managed assets to total loans and bills discounted	7.2%	**5.9%**

"Risk-Managed Assets" is the definition of problem loans prescribed by Financial Services Agency of Japan.

Under trust accounting, a specific allowance for loans is not explicitly recorded while amounts deemed to be impaired are written off directly and are charged to the profit earned by the trust account during the trust accounting period.

Reserves

	At March 31, 2000 Combined Total	At March 31, 2001 Combined Total
	(in billions)	
Special reserve in loan trust	¥ 21	**¥ 17**
Allowance for credit losses in JODMTs	1	**0**
Total reserves for possible loan losses	¥ 22	**¥ 18**
Loans and bills discounted	¥1,882	**¥1,253**
Ratio of total reserves for possible loan losses to loans and bills discounted	1.2%	**1.5%**

Pursuant to the Loan Trust law, MTBC, Nippon Trust Bank and Tokyo Trust Bank (which plan to merge by October 2001) maintain a special reserve for impairment of the principal of loan trusts. The provision rate for the reserve is from 2.5% to 4.0% of the trust fees for each period and the accumulated balance limit is 0.5% of the principal of the Loan Trust Accounts outstanding. As at 31 March 2001, MTBC, Nippon Trust Bank and Tokyo Trust Bank maintain a reserve equal to 1.5% of the amount of loans made on the account of JODMTs and loan trusts that are indemnified by, and this is accounted for as a reserve for possible losses. If the relevant reserve and the profit earned in the Trust Account is insufficient to meet the deficiency in principal, MTBC, Nippon Trust Bank and Tokyo Trust Bank would be responsible for making payments from its Banking Account. In those trusts where MTBC, Nippon Trust Bank and Tokyo Trust Bank are not liable to make good any deficiency in the principal, any loan losses would be for the account of the investor.

Note 8

Other Trusts

Other trusts include land lease trusts, which are trusts set up to manage certain rights under land leases, and general trusts, in which two or more different kinds of trust assets (such as money, securities and monetary claims) are entrusted under one trust contract.

The assets under management in general trust accounts as of March 31, 2001, increased to ¥2,082 billion, from ¥634 billion in the previous year.

Principal Shareholders

Common Shares

The 10 largest holders of the common shares of MTFG appearing on the register of shareholders as of April 2, 2001, and the number and the percentage of such shares held by them, were as follows:

Name	Number of shares held	Percentage of total shares in issue*
Meiji Life Insurance Company	233,531	4.06%
Japan Trustee Services Bank, Ltd. (1)	190,994	3.32%
Nippon Life Insurance Company	163,770	2.85%
The Bank of Tokyo-Mitsubishi, Ltd.	153,112	2.66%
The Tokio Marine and Fire Insurance Co., Ltd.	124,330	2.16%
Mitsubishi Heavy Industries, Ltd. (2)	118,740	2.06%
The Dai-ichi Mutual Life Insurance Company	113,356	1.97%
The Mitsubishi Trust and Banking Corporation (1)	89,219	1.55%
The Taiyo Mutual Life Insurance Company	63,751	1.11%
Mitsubishi Electric Corporation	62,543	1.08%
Total	1,313,349	22.87%

Notes:

* Amounts total less than indicated actual total due to rounding.

(1) The shares held in trust accounts.

(2) The shares held in a pension trust account with The Mitsubishi Trust and Banking Corporation, for the benefit of retirement plans with retained voting right by Mitsubishi Heavy Industries, Ltd.

Preferred Shares

The 10 largest holders of the Class 1 Preferred Shares of MTFG appearing on the register of shareholders as of April 2, 2001, and the number and the percentage of such shares held by them, were as follows:

Name	Number of shares held	Percentage of total shares in issue*
The Tokio Marine & Fire Insurance Co., Ltd.	16,700	20.51%
Mitsubishi Corporation	16,700	20.51%
Meiji Life Insurance Company	16,700	20.51%
Kirin Brewery Co., Ltd.	10,000	12.28%
Asahi Glass Co., Ltd.	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	2,000	2.45%
Mitsubishi Electric Corporation	1,700	2.08%
Total	77,400	95.08%

Principal Shareholders

The holders of the Class 2 Preferred Shares of MTFG appearing on the register of shareholders as of April 2, 2001, and the number and the percentage of such shares held by them, were as follows:

Name	Number of shares held	Percentage of total shares in issue
Meiji Life Insurance Company	35,000	35.00%
The Tokio Marine & Fire Insurance Company, Limited	25,000	25.00%
Mitsubishi Corporation	25,000	25.00%
Mitsubishi Estate Company, Limited	5,000	5.00%
Asahi Glass Co., Ltd.	2,500	2.50%
Kirin Brewery Co., Ltd.	2,500	2.50%
Kinki Nippon Railway Co., Ltd.	2,500	2.50%
Tokyu Corporation	2,500	2.50%
Total	100,000	100.00%

Exchange Rates

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

The tables below set forth, for the periods and dates indicated, information concerning the noon buying rates of the Federal Reserve Bank, which are expressed in yen per one US dollar.

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

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

Corporate Directory *(As of June 1, 2001)*

Overseas Operations

In the following list, BTM operations appear in black and MTBC operations appear in green.

North America	Location	Main Business
New York Branch	New York, U.S.A.	Commercial banking
New York Branch	New York, U.S.A.	Commercial banking
Atlanta Agency	Atlanta, U.S.A.	Commercial banking
Chicago Branch	Chicago, U.S.A.	Commercial banking
(Minnesota Corporate Banking Office)	Minnetonka, U.S.A	Loan production
Portland Branch	Portland, U.S.A.	Commercial banking
Seattle Branch	Seattle, 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
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
Mitsubishi Trust & Banking Corporation (U.S.A.)	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
Spectrum Capital, Ltd.	Greenwich, U.S.A.	Commercial aircraft business
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
Bank of Tokyo-Mitsubishi (Canada)	Toronto, Canada	Commercial banking

Latin America	Location	Main Business
Cayman Branch	Cayman Islands	Commercial banking
Cayman Branch	Cayman Islands	Commercial banking
Panama Branch	Panama	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	

Latin America *(cont.)*	Location	Main Business
Rio de Janeiro Representative Office	Rio de Janeiro, Brazil	
BTM (Curaçao) Holdings N.V.	Curaçao, Netherlands Antilles	Holding and finance services
BTM Finance (Curaçao) N.V.	Curaçao, Netherlands Antilles	Financing
MTBC Finance (Aruba) A.E.C.	Oranjestad, Aruba	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
BTM Leasing do Brasil S/A Arrendamento Mercantil	São Paulo, Brazil	Leasing
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
London Branch	London, U.K.	Commercial banking
Paris Branch	Paris, France	Commercial banking
Brussels Branch	Brussels, Belgium	Commercial banking
Düsseldorf Branch	Düsseldorf, Germany	Commercial banking
(Munich Sub-Branch)	Munich, Germany	Commercial banking
Frankfurt Branch	Frankfurt, Germany	Commercial banking
Frankfurt Representative Office	Frankfurt, Germany	
Hamburg Branch	Hamburg, Germany	Commercial banking
Berlin Representative Office	Berlin, Germany	
Milan Branch	Milan, Italy	Commercial banking
Madrid Branch	Madrid, Spain	Commercial banking
(Barcelona Sub-Branch)	Barcelona, Spain	Commercial banking
Lisbon Office	Lisbon, Portugal	Loan production
Moscow Representative Office	Moscow, Russia	
Tokyo-Mitsubishi International plc	London, U.K.	Capital markets and derivative products
Mitsubishi Trust International Limited	London, U.K.	Securities and investment advisory
Tokyo-Mitsubishi Asset Management (UK) Ltd.	London, U.K.	Investment advisory services
Mitsubishi Trust Finance (Ireland) plc	Dublin, Ireland	Financing
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
MTBC Bank Deutschland GmbH	Frankfurt, Germany	Commercial banking and securities

Europe *(cont.)*	Location	Main Business
BTM Lease (Deutschland) GmbH	Düsseldorf, Germany	Leasing
BTM Finanziaria (Italia) S.p.A.	Milan, 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
Dhaka Representative Office	Dhaka, Bangladesh	
Yangon Representative Office	Yangon, Myanmar	
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
Labuan Branch	Labuan, Malaysia	Offshore lending
(Kuala Lumpur Marketing Office)	Kuala Lumpur, Malaysia	Offshore lending
Singapore Branch	Singapore	Commercial banking
(Jurong Sub-Branch)	Singapore	Deposit taking
Singapore Branch	Singapore	Commercial banking
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

Corporate Directory

Asia and Oceania *(cont.)*	Location	Main Business
Manila Branch	Manila, Philippines	Commercial banking
Ho Chi Minh City Branch	Ho Chi Minh City, Vietnam	Commercial banking
Hanoi Branch	Hanoi, Vietnam	Commercial banking
Beijing Branch	Beijing, PRC	Commercial banking
Beijing Representative Office	Beijing, PRC	
Tianjin Branch	Tianjin, PRC	Commercial banking
Shanghai Branch	Shanghai, PRC	Commercial banking
Shanghai Representative Office	Shanghai, PRC	
Dalian Branch	Dalian, PRC	Commercial banking
Shenzhen Branch	Shenzhen, PRC	Commercial banking
Guangzhou Representative Office	Guangzhou, PRC	
Chengdu Representative Office	Chengdu, PRC	
Wuxi Representative Office	Wuxi, PRC	
Hong Kong Branch	Hong Kong, PRC	Commercial banking
Hong Kong Branch	Hong Kong, PRC	Commercial banking
Kowloon Branch	Hong Kong, PRC	Commercial banking
(East Tsim Sha Tsui Sub-Branch)	Hong Kong, PRC	Deposit taking
Taipei Branch	Taipei, Taiwan	Commercial banking
Seoul Branch	Seoul, Korea	Commercial banking
Busan Branch	Busan, Korea	Commercial banking
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
Tokyo-Mitsubishi International (HK) Ltd.	Hong Kong, PRC	Investment banking
Kincheng-Tokyo Finance Company Limited	Hong Kong, PRC	Financing
BTM Nominees (HK) Ltd.	Hong Kong, PRC	Nominee services
Nanjing International Leasing Co., Ltd.	Nanjing, PRC	Leasing
Bank of Tokyo-Mitsubishi (Australia) Ltd.	Sydney, Australia	Commercial banking

MTFG’s global network also includes 382 branches, offices, and agencies in Japan.

Shareholders' Information *(As of April 11, 2001)*

Mitsubishi Tokyo Financial Group, Inc.

Head Office

10-1, Yurakucho 1-chome
Chiyoda-ku, Tokyo 100-0006, Japan
Tel: 81-3-3240-8111
Fax: 81-3-3240-8203
http://www.mtfg.co.jp

Date of Establishment

April 2, 2001

Shares Outstanding

5,742,467.72 ordinary shares
81,400 Class 1 preferred shares
100,000 Class 2 preferred shares

Stock Exchange Listings

Tokyo
Osaka
New York (ticker MTF)
London

General Meeting of Shareholders

Ordinary general meetings of MTFG shareholders are held in Tokyo within three months of the end of MTFG's fiscal year.

The Bank of Tokyo-Mitsubishi, Ltd.

7-1, Marunouchi 2-chome
Chiyoda-ku, Tokyo 100-8388, Japan
Tel: 81-3-3240-1111
http://www.btm.co.jp

The Mitsubishi Trust and Banking Corporation

11-1, Nagatacho 2-chome
Chiyoda-ku, Tokyo 100-8212, Japan
Tel: 81-3-3212-1211
http://www.mitsubishi-trust.co.jp

Nippon Trust Bank Limited

1-8, Nihombashi 3-chome
Chuo-ku, Tokyo 103-8266, Japan
Tel: 81-3-3245-8111
http://www.nippon-trust.co.jp

MTFG

Bank of Tokyo-Mitsubishi

THE MITSUBISHI TRUST
AND BANKING CORPORATION

NTB NIPPON TRUST BANK