As filed with the Securities and Exchange Commission on August 30, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended March 31, 2002

OR

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

For the transition period to

Commission file number 333-11072

KABUSHIKI KAISHA TOKYO MITSUBISHI GINKO
(Exact name of Registrant as specified in its charter)

THE BANK OF TOKYO-MITSUBISHI, LTD.
(Translation of Registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

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

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

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

At March 31, 2002, (1) 4,675,455,546 shares of common stock, and (2) 81,400,000 shares of preferred stock were outstanding.

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

Yes ☒ No ☐

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

Item 17 ☐ Item 18 ☒

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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 some other specifically identified 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 our financial statements are expressed in Japanese yen.

Unless the context otherwise requires, when we refer in this Annual Report to “we,” “us,” “our” and the “Group,” we mean The Bank of Tokyo-Mitsubishi, Ltd. (“Bank of Tokyo-Mitsubishi”) 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 of each year. We refer to the fiscal year ended March 31, 2002 throughout this Annual Report as fiscal 2001 or the 2001 fiscal year. We refer to other fiscal years in a corresponding manner. References to years not specified as being fiscal years are to calendar years.

We usually hold the ordinary general meeting of the shareholders of Bank of Tokyo-Mitsubishi in June of each year in Chiyoda-ku, Tokyo.

Forward-Looking Statements

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

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.

Our forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ from those in the forward-looking statements as a result of various factors. We identify in this Annual Report, in “Item 3.D. Key Information—Risk Factors,” “Item 4.B. Information on the Company—Business Overview,” “Item 5. Operating and Financial Review and Prospects” and elsewhere some, but not necessarily all, of the important factors that could cause these differences.

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

PART I

Item 1. Identity of Directors, Senior Management and Advisors.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

Selected operating results data and selected balance sheet data set forth below, except for average balance information, have been derived from our audited consolidated financial statements. Nippon Trust Bank, our former subsidiary, has been deconsolidated effective April 2, 2001, when we, Mitsubishi Trust Bank and Nippon Trust Bank jointly established a bank holding company.

You should read the selected financial data set forth below in conjunction with "Item 5. Operating and Financial Review and Prospects" and our audited consolidated financial statements included elsewhere in this Annual Report. These data are qualified in their entirety by reference to all of that information.

Except for risk-adjusted capital ratios calculated under Japanese GAAP, the selected financial data set forth below are presented in accordance with US GAAP.

	Year ended March 31				
	1998	1999	2000	2001	2002
	(in millions, except per share data, number of shares and percentages)				
Operating results data:					
Interest income	¥ 2,467,177	¥2,342,300	¥1,787,028	¥1,896,709	¥1,671,184
Interest expense	1,698,602	1,402,549	900,661	1,100,055	783,105
Net interest income	768,575	939,751	886,367	796,654	888,079
Provision for credit losses	1,356,231	919,427	368,639	665,954	470,224
Net interest income (loss) after provision for credit losses	(587,656)	20,324	517,728	130,700	417,855
Non-interest income	543,778	514,421	539,109	665,133	503,646
Non-interest expense	1,168,424	1,022,499	927,727	897,545	1,139,547
Income (loss) before income tax expense or benefit and cumulative effect of a change in accounting principle	(1,212,302)	(487,754)	129,110	(101,712)	(218,046)
Income tax expense (benefit)	(438,565)	(143,331)	93,635	5,972	(79,508)
Income (loss) before cumulative effect of a change in accounting principle	(773,737)	(344,423)	35,475	(107,684)	(138,538)
Cumulative effect of a change in accounting principle, net of tax(1)	—	—	—	—	5,867
Net income (loss)	¥ (773,737)	¥ (344,423)	¥ 35,475	¥ (107,684)	¥ (132,671)
Net income (loss) attributable to a common shareholder	¥ (773,737)	¥ (344,423)	¥ 30,826	¥ (114,400)	¥ (139,387)
Amounts per share:					
Earnings (loss) per common share—income (loss) before cumulative effect of a change in accounting principle—basic	¥ (165.67)	¥ (73.67)	¥ 6.59	¥ (24.47)	¥ (31.07)
Earnings (loss) per common share—net income (loss)—basic	¥ (165.67)	¥ (73.67)	¥ 6.59	¥ (24.47)	¥ (29.82)
Earnings (loss) per common share—income (loss) before cumulative effect of a change in accounting principle—assuming dilution	¥ (165.67)	¥ (73.67)	¥ 3.73	¥ (24.47)	¥ (31.07)
Earnings (loss) per common share—net income (loss)—assuming dilution	¥ (165.67)	¥ (73.67)	¥ 3.73	¥ (24.47)	¥ (29.82)
Number of shares used to calculate basic and diluted earnings (loss) per common share (thousands):					
—Earnings (loss) per common share—basic	4,670,457	4,675,446	4,675,442	4,675,251	4,675,454
—Earnings (loss) per common share—assuming dilution	4,670,457	4,675,446	4,822,435	4,675,251	4,675,454
Cash dividends declared during the year(2):					
—Common shares	¥ 8.50	¥ 8.50	¥ 8.50	¥ 8.50	¥ 14.96
	$ 0.06	$ 0.06	$ 0.06	$ 0.06	$ 0.11
—Preferred shares (Class1)	—	—	¥ 57.12	¥ 82.50	¥ 82.50
			$ 0.43	$ 0.62	$ 0.62

	Year ended March 31,				
	1998	1999	2000	2001	2002
	(in millions, except per share data and percentages)				
Balance sheet data at year-end:					
Total assets	¥84,162,940	¥70,148,842	¥68,817,234	¥76,376,903	¥76,631,154
Loans, net of allowance for credit losses	47,593,504	44,429,461	39,830,324	38,790,145	39,670,553
Total liabilities	81,419,261	67,507,155	65,623,074	73,966,787	74,724,150
Deposits	54,143,458	46,102,053	45,159,956	49,139,024	51,828,564
Long-term debt	3,508,352	3,581,717	3,973,690	4,431,173	4,893,142
Shareholder's equity	2,743,679	2,641,687	3,194,160	2,410,116	1,907,004
Common stock	663,870	663,870	663,870	663,870	663,870
Average balances:	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**
Interest-earning assets	¥77,462,243	¥73,297,568	¥67,103,914	¥67,611,365	¥67,957,820
Interest-bearing liabilities	70,854,896	67,508,343	59,120,637	60,627,303	62,229,681
Total assets	82,753,087	78,432,342	70,264,631	73,163,060	74,462,895
Shareholder's equity	3,055,910	2,661,017	2,788,875	2,631,170	2,250,176
Return on equity and assets:	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**
Net income (loss) as a percentage of total average assets	(0.93)%	(0.44)%	0.05%	(0.15)%	(0.18)%
Net income (loss) as a percentage of average shareholder's equity	(25.32)%	(12.94)%	1.27%	(4.09)%	(5.90)%
Dividends per common share as a percentage of earnings per common share—basic	nm	nm	128.98%	nm	nm
Average shareholder's equity as a percentage of total average assets	3.69%	3.39%	3.97%	3.60%	3.02%
Net interest income as a percentage of total average interest-earning assets	0.99%	1.28%	1.32%	1.18%	1.31%
Average interest rate spread	0.79%	1.12%	1.14%	1.00%	1.20%
Credit quality data:					
Allowance for credit losses	¥ 760,323	¥ 1,290,657	¥ 1,137,181	¥ 1,385,010	¥ 1,341,608
Allowance for credit losses as a percentage of loans	1.57%	2.82%	2.78%	3.45%	3.27%
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 1,229,410	¥ 2,268,563	¥ 1,922,645	¥ 3,446,143	¥ 3,244,281
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	2.54%	4.96%	4.69%	8.58%	7.91%
Net loan charge-offs	¥ 1,670,448	¥ 348,574	¥ 506,879	¥ 445,267	¥ 465,180
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**
Net loan charge-offs as a percentage of average loans	3.40%	0.72%	1.17%	1.10%	1.18%
Risk-adjusted capital ratio calculated under Japanese GAAP:	8.53%	10.47%	11.46%	9.69%	10.29%

(1) Effective April 1, 2001, we adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivatives Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138.
(2) For the convenience of readers, US dollar amounts are presented as translations of Japanese yen amounts at the rate of ¥132.70 = US$ 1.00, the noon buying rate on March 29, 2002 in New York City for cable transfers in Japanese yen as certified for customs purposes by the Federal Reserve Bank of New York.
(3) nm = not meaningful

Exchange Rate Information

The tables below set forth, for each period indicated, the noon buying rate in New York City for cable transfers in Japanese yen as certified for customs purposes by the Federal Reserve Bank of New York, expressed in Japanese yen per $1.00. On August 27, 2002, the noon buying rate was $1.00 equals ¥118.3100 and the inverse noon buying rate was ¥100 equals $0.84523.

	Year 2002					
	March	April	May	June	July	August (1)
High	¥133.46	¥133.40	¥128.66	¥125.64	¥120.19	¥121.14
Low	127.07	128.13	123.08	119.38	115.71	116.53

(1) Period from August 1 to August 27.

	Fiscal year ended March 31,				
	1998	1999	2000	2001	2002
Average (of month-end rates)	¥123.56	¥128.10	¥110.02	¥111.65	¥125.64

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Investing in our securities involves a high degree of risk. You should carefully consider the risks described below as well as all the other information in this Annual Report, including our consolidated financial statements and related notes, "Item 11. Quantitative and Qualitative Disclosures about Market Risk" and "Selected Statistical Data."

Our business, operating results and financial condition could be materially adversely affected by any of the factors discussed below. The trading price of our securities could decline due to any of these factors. This Annual Report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks faced by us described below and elsewhere in this Annual Report. See "Forward-Looking Statements."

Risks Related to Our Business

We may suffer additional losses in the future due to problem loans.

We have a substantial volume of problem loans and have suffered from worsening asset quality problems since the early 1990s. Our problem loans and credit-related expenses could increase if:

- economic conditions in Japan do not improve;
- real estate prices or stock prices in Japan continue to decline;
- our large borrowers become insolvent, or the level of corporate bankruptcies in Japan continues to rise;
- additional economic problems arise elsewhere in Asia or in the Americas; or
- the global economic environment deteriorates generally.

This would adversely affect our results of operations, weaken our financial condition and erode our capital base. For a detailed discussion of our historical problem loans, see "Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Allowance for Credit Losses, Nonperforming and Past Due Loans" and "Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Selected Statistical Data—Loan Portfolio."

Our allowance for credit losses may be insufficient to cover future loan losses.

We base the allowance for credit losses in our loan portfolio on assumptions and estimates about our customers, the value of collateral we hold and the economy as a whole. Our actual loan losses could prove to be materially different from our estimates and could materially exceed our allowance. If our actual loan losses are higher than we currently expect, our current allowance for credit losses could be insufficient. If we change some of our assumptions and estimates as general economic conditions deteriorate or the value of collateral declines, we may have to provide for additional allowance for credit losses. For a detailed discussion of our allowance policy and historical trend of increasing allowances for credit losses, see "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Critical Accounting Policies—Allowance for Credit Losses" and "Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Allowance for Credit Losses, Nonperforming and Past Due Loans."

The credit quality of our loan portfolio may be adversely affected by the continuing financial difficulties of the Japanese real estate and construction sectors.

As of March 31, 2002, approximately 16.0% of our domestic loans were made to real estate and construction companies. The Japanese real estate and construction industries have been severely and adversely affected by the sharp decline in Japanese real estate values and construction projects. Japanese real estate prices have declined for 11 straight years, and may still be falling. This has materially adversely affected the credit quality of our loan portfolio in the last decade. We expect these problems to continue for the foreseeable future, especially if the Japanese economy is slow to recover. For a detailed discussion of our exposure to Japanese real estate and construction sectors and our historical problem loans in those sectors, see "Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Allowance for Credit Losses, Nonperforming and Past Due Loans" and "Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Selected Statistical Data—Loan Portfolio."

The credit quality of our loan portfolio may be adversely affected by the continuing financial difficulties of the Japanese wholesale and retail sectors.

As of March 31, 2002, approximately 17.0% of our domestic loans were made to wholesale and retail borrowers. Many Japanese wholesalers and retailers have been restructured or are undergoing restructurings through legal proceedings or through out-of-court agreements, including concessions by lenders. If consumer spending continues shrinking in the extended economic downturn, or if restructuring efforts of distressed wholesalers and retailers are not successful, there may be additional significant failures of wholesalers and retailers. A further or extended deterioration within these industries would expose us to substantial additional credit losses. For a detailed discussion of our exposure to Japanese wholesale and retail sectors and our historical problem loans in those sectors, see "Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Allowance for Credit Losses, Nonperforming and Past Due Loans" and "Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Selected Statistical Data—Loan Portfolio."

Our exposure to troubled borrowers may increase, and our recoveries from them may be lower than expected.

We may provide additional loans to troubled borrowers. We may forbear from exercising all of our rights as a creditor against them, and we may forgive loans to them in conjunction with their debt restructuring. We may take these steps even when our legal rights might permit us to take stronger action against the borrower and even when others might take stronger action against the borrower to maximize recovery or to reduce exposure in the short term. We may provide support to troubled borrowers for any of the following reasons or for other reasons:

- political or regulatory considerations;
- reluctance to push a major client into default or bankruptcy or to disrupt a restructuring plan supported by other lenders; and
- a perceived responsibility for the obligations of our affiliated and associated companies.

These practices may substantially increase our exposure to troubled borrowers.

We may experience losses because our remedies for credit defaults by our borrowers are limited.

We may not be able to realize the value of collateral held or enforce our rights against defaulting customers because of:

- the difficulty of foreclosing on collateral in Japan,
- the illiquidity of and depressed values in the Japanese real estate market, and
- depressed values of pledged securities held as collateral.

Recent corporate credibility issues may increase our problem loans or otherwise negatively affect our results of operations.

In recent months, several high-profile bankruptcy filings and reports of past accounting irregularities, including fraud, in the United States, such as those relating to Enron Corporation, have raised corporate credibility issues, particularly with respect to public companies. In response to these developments and U.S. regulatory responses to these developments, auditors and corporate managers generally have begun to review financial statements more thoroughly and conservatively. As a result, additional accounting irregularities may be uncovered and additional bankruptcy filings may be made in the United States and elsewhere. Such developments could increase our credit costs if they directly involve our borrowers or indirectly affect our borrowers' credit.

Any adverse changes in UNBC's business could significantly affect our results of operations.

During the fiscal year ended March 31, 2002, approximately 21.8% of our operating profit, as calculated under Japanese GAAP, was generated from the operations of our subsidiaries in California, UnionBanCal Corporation and Union Bank of California, N.A. Any adverse change in the business or operations of those subsidiaries, which we refer to as "UNBC," could significantly affect our results of operations. Factors that could negatively affect UNBC's results include adverse economic conditions in California, such as energy sector-related problems and falling export levels, U.S. legislative and regulatory reactions following the terrorist attacks in September 2001, and large corporate bankruptcy filings, such as that of Enron Corporation. UNBC could also be adversely affected by a downturn in real estate prices in California. In addition, appreciation of the Japanese yen against the U.S. dollar would reduce UNBC's reported profits in our operating results. For a detailed segment discussion relating to UNBC, see "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Business Segment Analysis."

We may not be able to maintain our capital ratios above minimum required levels, which could result in the suspension of some or all of our operations.

We are required to maintain risk-weighted capital ratios above the levels specified in the capital adequacy guidelines of the Japanese Financial Services Agency. UNBC is subject to similar U.S. capital adequacy guidelines. We may be unable to continue to satisfy the capital adequacy requirements, because of:

- credit costs we may incur as we dispose of problem loans and remove impaired assets from our balance sheet;
- credit costs we may incur due to losses from a future deterioration in asset quality;
- adverse changes in foreign currency exchange rates;
- declines in the value of our securities portfolio; and
- changes in accounting rules or in the guidelines regarding the calculation of banks' or bank holding companies' capital ratios, resulting from recently adopted guidelines of the Basel Committee on Banking Supervision or otherwise.

If our capital ratios fall below required levels, the Japanese Financial Services Agency could require us to take a variety of corrective actions, including the withdrawal from all international operations or the suspension of all or part of our business operations. For a detailed discussion of our capital ratios and the related regulatory guidelines, see "Item 4.B. Information on the Company—Business Overview—Supervision and Regulation," and "Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Adequacy."

Our capital ratios may be negatively affected if we reduce our deferred tax assets.

We determine the amount of our net deferred tax assets and our regulatory capital pursuant to Japanese GAAP and the Japanese banking regulations, which differ from U.S. GAAP and the respective U.S. regulations. Under the Japanese banking regulations, all deferred tax assets established pursuant to Japanese GAAP are included in regulatory capital. Japanese GAAP permits the establishment of deferred tax assets for the tax benefits that are expected to be utilized in the subsequent five fiscal years. The calculation of deferred tax assets is based upon various assumptions, including assumptions with respect to future taxable income. Actual results may differ from these assumptions. At March 31, 2002, our deferred tax assets amounted to ¥763 billion under Japanese GAAP. From time to time, we reassess whether we are able to realize our deferred tax assets based on our taxable income projections, and make necessary increases or reductions. If we conclude that we are unable to realize a portion of the deferred tax assets, our deferred tax assets may be reduced and as a result, our capital ratios may decline. See "Item 4.B. Information on the Company—Business Overview—Supervision and Regulation."

If the Japanese stock market declines, we may incur losses on our securities portfolio and our capital ratios may be adversely affected.

We hold large amounts of marketable equity securities. The market values of these securities are inherently volatile and have generally been declining in recent years. We will incur losses on our securities portfolio if the Japanese stock market continues to decline. Material declines in the Japanese stock market would also materially adversely affect our capital ratios. For a detailed discussion of our holdings of marketable equity securities and its effect on our capital adequacy ratios, see "Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Adequacy" and "Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Selected Statistical Data—Investment Portfolio."

The value of our equity portfolio could decline due to expected sales of shares in the market by us and others.

Many Japanese financial institutions have traditionally held large amounts of equity securities of their customers, business counterparts and related companies. In November 2001, the Japanese government enacted a law forbidding banks, including Bank of Tokyo-Mitsubishi, from holding stocks in excess of their Tier I capital after September 30, 2004. Partly in response to this legislation and partly to reduce risk-weighted assets, we and many other financial institutions have been selling and will continue to sell off large amounts of equity securities. The sale of equity securities by Japanese financial institutions may depress the value of Japanese equity securities, including those in our securities portfolio. In order to comply with the new legislation, we may be forced to sell some of our equity securities at depressed prices. For a detailed discussion of our equity securities portfolio, see "Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Selected Statistical Data—Investment Portfolio."

Our business may be adversely affected by competitive pressures, which have increased significantly due to regulatory changes.

In recent years, the Japanese financial system has been increasingly deregulated and barriers to competition have been reduced. In addition, the Japanese financial industry has been undergoing significant consolidation, as a result of which larger, more integrated financial institutions have emerged as our competitors. If we are unable to compete effectively in this more competitive and deregulated business environment, our business, results of operations and financial condition will be adversely affected. For a more detailed discussion of our competition, see "Item 4.B. Information on the Company—Business Overview—Competition."

Our trading and investment activities expose us to exchange rate, interest rate and other risks.

We undertake extensive trading and investment activities involving a variety of financial instruments, including derivatives. Our income from these activities is subject to volatility, caused by, among other things, changes in interest rates, foreign currency exchange rates and equity prices. For example:

- Increases in interest rates have an adverse effect on the value of our fixed income securities portfolio.
- Strengthening of the yen against the US dollar and other foreign currencies reduces the value, in our financial statements, of our substantial portfolio of foreign-currency denominated investments.

Our results of operations and financial condition in future periods will be exposed to risks of loss associated with these activities. For a detailed discussion of our investment portfolio, our management of the related risks, see "Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Selected Statistical Data—Investment Portfolio" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

A significant downgrade of our credit ratings could have a negative effect on our treasury operations.

A significant downgrade of our credit ratings by one or more of the credit rating agencies could have a negative effect on our treasury operations. In the event of a downgrade of our credit ratings, our treasury unit may have to accept less favorable terms in its transactions with counterparties or may be unable to enter into certain transactions. This could have a negative impact on the profitability of our treasury operations and adversely affect our results of operations and financial condition.

We will be exposed to increased risks as we expand the range of our products and services.

As we expand the range of our products and services beyond our traditional banking business and as the sophistication of financial products and management systems grows, we will be exposed to new and increasingly complex risks. In many cases, we will have no experience or only limited experience with these risks. Some of the activities in which we engage, such as derivatives and foreign currency trading, present volatile and substantial risks. Our risk management systems may prove to be inadequate, and may not work in all cases or to the degree required. As a result, we are subject to substantial market, credit and other risks in relation to these expanding products and services and trading activities, which could result in our incurring substantial losses. In addition, our efforts to offer new services and products may not succeed if product or market opportunities develop more slowly than expected, or if the profitability of opportunities is undermined by competitive pressures. For a detailed discussion of our risk management systems, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

Our income and expenses relating to our international operations and our foreign assets and liabilities are all exposed to foreign currency fluctuations.

Our international operations are subject to fluctuations in foreign currency exchange rates against the Japanese yen. When the yen appreciates, yen amounts for transactions denominated in foreign currencies, including a substantial portion of UNBC's transactions, decline. In addition, a portion of our assets and liabilities are denominated in foreign currencies. To the extent that our foreign-currency-denominated assets and liabilities are not matched in the same currency or appropriately hedged, fluctuations in foreign currency exchange rates against the Japanese yen may adversely affect our financial condition, including our capital adequacy ratios. In addition, fluctuations in foreign exchange rates will create foreign currency translation gains or losses. For a historical discussion of the effect of changes in foreign currency exchange rates, see "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Effect of Change in Exchange Rate on Foreign Currency Translation."

We may not be able to achieve the expected benefits of integrating into a single financial services group.

We depend on our ability to integrate the operations of our subsidiaries and affiliates with those of Mitsubishi Trust Bank, achieve expected cost savings and foster cooperation between the institutions in customer and product cross-selling. We may not be able to accomplish these goals as expected. For example:

- We may have difficulty in implementing our strategies as part of an integrated financial group.
- We may not be able to integrate our operations as quickly as planned due to legal restrictions, internal resistance or market resistance. As a result, we may not achieve cost reductions as fully or as quickly as we expect.
- The costs of integration may be higher than we expect.
- We may encounter problems with system integration and incompatibility, market resistance to new technologies or distribution channels, or technical difficulties. As a result, our efforts to increase our operational efficiency and broaden the distribution channels for our financial products and services through investments in information technology may not succeed as we expect.
- We may lose customers and business as we consolidate and, in some cases, rebrand some of our affiliates' operations, such as in the case of the planned merger of several securities subsidiaries and affiliates to create Mitsubishi Securities Co., Ltd.

Losses relating to our pension plans and a decline in returns on our plan assets may negatively affect our results of operations and our financial condition.

We may incur losses if the fair value of our pension plans' assets decline, if the rate of return on our pension assets declines, or if there is a change in the actuarial assumptions on which the calculations of the projected benefit obligation are based. In addition, we may have unrecognized prior service costs resulting from amendments to our pension plans. Changes in the interest rate environment and other factors may also adversely affect the amount of unfunded pension obligations and the resulting annual amortization expense.

We may not be able to refinance our subordinated debt obligations with equally subordinated debt, and as a result our capital ratios may be adversely affected.

Under Japanese GAAP, at March 31, 2002, subordinated debt accounted for approximately 36% of our total capital. We may not be able to refinance our subordinated debt obligations with equally subordinated debt. The failure to refinance these subordinated debt obligations with equally subordinated debt may reduce our total capital and as a result negatively affect our risk-weighted capital ratios.

We are exposed to substantial credit and market risks in Asian countries.

We are active in the Asian region through a network of branches and subsidiaries, and are thus exposed to a variety of credit and market risks associated with these countries. If a decline in the value of Asian currencies occurs, it could adversely affect the creditworthiness of some of our borrowers in the region. The loans we make to Asian borrowers and banks are often denominated in yen, US dollars or other foreign currencies. The borrowers often do not hedge the loans to protect against fluctuations in the values of local currencies. A devaluation of the local currency would make it more difficult for a borrower earning income in that currency to pay its debts to us and others. In addition, some Asian countries may attempt to support the value of their currencies by raising domestic interest rates. If this happens, the borrowers in these countries would have to devote more of their resources to repaying their domestic obligations, which may adversely affect their ability to repay their debts to us and other foreign lenders. The restriction of credit resulting from these and related conditions may adversely affect economic conditions in some countries. This could cause a further deterioration of the credit quality of borrowers and banks in those countries, and further losses to us. For a more detailed discussion of our credit exposure to Asian countries, see "Item 5.B. Operating and Financial Review and

Prospects—Liquidity and Capital Resources—Allowance for Credit Losses, Nonperforming and Past Due Loans."

Our efforts to reduce our holdings of equity securities may adversely affect our relationships with customers.

Japanese law prohibits banks from holding stocks in excess of their Tier I capital after September 30, 2004. In order to comply with this requirement and to reduce our risk exposure to fluctuations in equity security prices, we intend to sell a substantial portion of our equity securities. Most of these securities are held under cross-shareholding arrangements where we acquire the customer's securities for business relation purposes. The planned sale of securities will reduce our cross-shareholdings, which may have an adverse affect on our relationships with our customers.

It may not be possible for investors to effect service of process within the United States upon us or our directors, executive officers or corporate auditors, or to enforce against us or those persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the Federal securities laws of the United States.

We are a joint stock company incorporated under the laws of Japan. Most of our directors, executive officers and corporate auditors reside outside of the United States. Many of our and their assets are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for U.S. investors to effect service of process within the United States upon us or these persons or to enforce against us or these persons judgments obtained in the United States courts predicated upon the civil liability provisions of the Federal securities laws of the United States. We believe that there is doubt as to the enforceability in Japan, in original actions or in actions to enforce judgments of U.S. courts, of liabilities predicated solely upon the Federal securities laws of the United States.

Risks Related To The Japanese Banking Industry

Recent efforts by the Japanese government to encourage the disposal of problem loans in two to three years could exacerbate our credit losses.

The Japanese government's emergency economic package, released in April 2001, strongly urges major banks, including Bank of Tokyo-Mitsubishi, to remove non-performing loans from their balance sheets within two to three years. These guidelines for the disposal of non-performing loans could increase our credit losses if we sell our problem loans at a larger discount than we had expected. For a more detailed discussion of recent government initiatives, see "Item 4.B. Information on the Company—Business Overview—Supervision and Regulation," and "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Recent Developments."

Any significant adverse regulatory developments or changes in government policies or economic controls could have a negative impact on our results of operations.

We conduct our business subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in Japan and the other markets we operate in. Future changes in regulation, fiscal or other policies are unpredictable and beyond our control.

Our business may be adversely affected by negative developments with respect to other Japanese financial institutions, both directly and by the effect they may have on the overall Japanese banking environment.

Many Japanese financial institutions, including banks, non-bank lending and credit institutions, financial affiliates of securities companies and insurance companies, continue to experience severe asset quality and other financial problems, in part as a result of Japan's protracted recession. This may lead to severe liquidity and solvency problems, which have resulted in the liquidation or restructuring of affected institutions. The continued financial difficulties of financial institutions could adversely affect us because:

- as of March 31, 2002, approximately 7.3% of our domestic loans were made to banks and other financial institutions, and of those loans 3.9% were classified as nonaccrual and restructured loans;
- we are a shareholder of some other banks and financial institutions;
- we may be requested to participate in providing assistance to support distressed financial institutions;
- deposit insurance premiums could rise if deposit insurance funds prove to be inadequate; and
- repeated bankruptcies could undermine depositor confidence generally or adversely affect the overall banking environment.

For a more detailed discussion of our loans to Japanese financial institutions, see "Item 8.A. Financial Information— Consolidated Statements and Other Financial Information—Selected Statistical Data—Loan Portfolio."

We might have to pay risk premiums on borrowings from international financial institutions, or be subject to credit limitations by them.

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

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

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

We may be adversely affected if the current economic conditions in Japan continue or worsen.

Since the early 1990s, the Japanese economy has performed poorly due to a number of factors, including weak consumer spending and lower capital investment by Japanese companies, causing a large number of corporate bankruptcies and the failure of several major financial institutions. The outlook for the economy as a whole remains uncertain because:

- recent economic data show that the Japanese economy is not recovering;
- unemployment rates are at an historic high;
- real estate prices have declined for the past 11 years, and may still be declining; and
- Japanese stock prices have declined to their lowest levels in 18 years.

These factors may continue or worsen. If they do, our earnings and credit quality may be adversely affected. For a detailed discussion of Japan's current economic environment, see "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Business Environment—Economic Environment in Japan."

We may have to pay more regional or national bank taxes.

In April 2000, the Tokyo Metropolitan Government began imposing a tax of 3% on the gross operating profits of banks operating within its jurisdiction. In May 2000, Osaka Prefecture introduced a similar tax on operating profits of banks operating within its jurisdiction. In March 2002, the Tokyo District Court overturned the Tokyo local tax, but the decision is under appeal. Banks are also challenging in court the legality of the Osaka local tax. Other prefectures may implement similar local bank taxes, and the Japanese government may introduce a similar bank tax nationwide. Depending on the outcome of these court cases and the decisions of other prefectures and the Japanese government, we may have to pay more regional or national bank taxes. See "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Recent Developments" and "Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings."

A change to current interest rate policy could adversely affect our results of operations.

The Bank of Japan now maintains interest rates at near zero percent. If interest rate policies change, we could be adversely affected through lower spreads or declines in the value of our investments in Japanese government bonds. In addition, an increase in interest rates may increase our problem loans as some of our borrowers may not be able to meet the increased interest payment requirements. This would adversely affect our results of operations.

Risks Related To Owning Our Subordinated Debt Securities

The indenture will not limit our ability to incur additional debt, including senior debt.

The indenture relating to our 8.40% global senior subordinated notes due 2010 does not limit or restrict the amount of other indebtedness, including senior indebtedness, that we or our subsidiaries may incur in the future.

The subordination provisions in the subordinated debt securities could hinder your ability to receive payment.

Under some circumstances, your right to receive payment on the 8.40% global senior subordinated notes due 2010 will be subordinated and subject in right of payment in full to the prior payment of all our senior indebtedness. We expect from time to time to incur additional indebtedness and other obligations that will constitute senior indebtedness, and the indenture relating to our 8.40% global senior subordinated notes due 2010 does not contain any provisions restricting our ability to incur senior indebtedness.

Item 4. Information on the Company.

A. History and Development of the Company.

Bank of Tokyo-Mitsubishi is a major commercial banking organization in Japan and provides a broad range of domestic and international banking services from its offices in Japan and around the world. Bank of Tokyo-Mitsubishi is a "city" bank, as opposed to a regional bank. Bank of Tokyo-Mitsubishi's registered head office is located at 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8388, Japan, and its telephone number is 81-3-3240-1111. Bank of Tokyo-Mitsubishi is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Japanese Commercial Code.

Bank of Tokyo-Mitsubishi was formed through the merger, on April 1, 1996, of The Mitsubishi Bank, Limited and The Bank of Tokyo, Ltd. The origins of Mitsubishi Bank can be traced to the Mitsubishi Exchange Office, a money exchange house established in 1880 by Yataro Iwasaki, a key figure in the Japanese industrial revolution and the founder of the Mitsubishi industrial, commercial and financial group. In 1895, the Mitsubishi Exchange Office was succeeded by the Banking Division of the Mitsubishi Goshi Kaisha, the holding company of the "Mitsubishi group" of companies, that began in the late 19th century with interests in shipping and trading. Mitsubishi Bank had been a principal banker to many of the Mitsubishi group companies, but broadened its relationships to cover a wide selection of Japanese industries, small and medium-sized companies and individuals.

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

Bank of Tokyo-Mitsubishi is a member of the "Mitsubishi group" of companies. The expression "Mitsubishi group" is used to describe 28 companies with historical links to a prewar group of companies that were under common control. Although there are numerous, generally small, cross-shareholdings among these companies even today and frequent organized gatherings of their chairmen and presidents, since the end of World War II, the Mitsubishi group companies have been managed and operated independently. The shares of 23 of the Mitsubishi group companies are publicly listed in Japan, and these companies are engaged in a broad range of activities including manufacturing, trading, natural resources, transportation, real estate, banking and insurance.

On April 2, 2001, Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Nippon Trust Bank established Mitsubishi Tokyo Financial Group to be a holding company for the three of them. Before that, each of the banks had been a publicly held company. On April 2, 2001, through a stock-for-stock exchange, they became wholly-owned subsidiaries of Mitsubishi Tokyo Financial Group, and the former shareholders of the three banks became shareholders of Mitsubishi Tokyo Financial Group. Nippon Trust Bank was later merged into Mitsubishi Trust Bank. As a result, Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank are now both directly held subsidiary banks of Mitsubishi Tokyo Financial Group, although each of these two banks also has other subsidiaries of its own.

B. Business Overview.

Bank of Tokyo-Mitsubishi is a major Japanese commercial banking organization. It provides a broad range of domestic and international banking services in Japan and around the world. As of March 31, 2002, Bank of Tokyo-Mitsubishi's network in Japan included 270 branches, 24 sub-branches, two agencies, 57 loan plazas, 494 branch ATMs, and 5,999 convenience store-based, non-exclusive ATMs. Bank of Tokyo-Mitsubishi organizes its operations based on customer and product segmentation, as follows:

- retail banking;
- commercial banking;
- global corporate banking;
- investment banking;
- asset management;
- UnionBanCal Corporation (UNBC);
- operations services;
- treasury; and
- other, including systems services and eBusiness and IT Initiatives.

Our holding company, Mitsubishi Tokyo Financial Group, works with Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank to agree on business goals, strategies and implementation, including whether and how to achieve benefits that can be realized by consolidating or integrating operations of the two banks and their subsidiaries, based on the following shared objectives:

- establish a more diversified financial services group operating across business sectors;

- leverage the flexibility afforded by our organizational structure to expand our business;
- benefit from the collective expertise of Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank; and
- enhance the sophistication and comprehensiveness of the group's risk management expertise.

While maintaining the corporate cultures and core competencies of Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank, Mitsubishi Tokyo Financial Group seeks to work with them to find ways to make fuller use of their expertise to enable them to meet more effectively and cost-efficiently the diverse and changing needs of their customers. By finding ways to build on and consolidate their individual strengths, Mitsubishi Tokyo Financial Group seeks to create new business opportunities, to expand its client base and to enhance profitability. In addition, Mitsubishi Tokyo Financial Group oversees and monitors the operations of its subsidiaries, including risk management, compliance and internal auditing systems.

For a detailed analysis of financial results by business segment, see "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Business Segment Analysis." For a detailed analysis of financial results by geographic segment, see "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Geographic Segment Analysis."

Retail Banking Business Unit

Our retail banking business unit offers a full range of banking products and services, including financial consulting services, to small corporate and individual customers in Japan. In addition to its branch offices and other direct distribution channels, the retail banking business unit offers products and services through e-net ATMs (a convenience store-based ATM network utilized by a number of different banks), telephone and Internet banking services and mail order. Two of the unit's branches are joint branches with Mitsubishi Trust Bank, and one more joint branch with Mitsubishi Trust Bank is planned in the near future.

As part of the effort to realize synergies between us and Mitsubishi Trust Bank, the unit is marketing to its customers mass retail targeted trust-related products of Mitsubishi Trust Bank.

Deposits and loans. The unit offers a full range of bank deposit products. One of these is a multiple purpose bank account that includes ordinary deposits but also has overdraft privileges collateralized by time deposits, bank debentures and public bonds held in custody. The unit also offers housing loans, educational loans, special purpose loans, card loans and other loans to individuals.

Investment trusts. The unit offers 24 equity and bond funds, and a program fund (M-CUBE program), exclusively organized for us by Frank Russell Company, which combines four specific funds. We offer these as a menu of funds that allows our customers to choose among them in order to achieve their desired balance of risk diversification and return.

Tokyo-Mitsubishi Direct. The unit offers a telephone and Internet banking service called Tokyo-Mitsubishi Direct. Since the service was launched in 1999, the number of customers using it has risen steadily, reaching 1.2 million (8% of the unit's total) individual customers in March 2002.

Credit Cards. The unit offers Master Card and VISA credit cards through several channels. Through Bank of Tokyo-Mitsubishi, it offers them as the Tokyo-Mitsubishi Card. It also offers them through our subsidiaries, DC Card Co., Ltd. and Tokyo Credit Service, Ltd.

Consumer Loans—Tokyo-Mitsubishi Cash One. Since March 2002, the unit has offered loans to its customers through Tokyo-Mitsubishi Cash One, Ltd., a consumer credit company we jointly established with Mitsubishi Trust Bank and three leading Japanese consumer credit companies (Acom, DC Card and JACCS).

Life-Planning Consultation Desk. The unit recently launched a personal financial planning service called "The Life-Planning Consultation Desk." This non-fee based service uses cash-flow analysis to help customers plan for significant financial events in their lives, such as the purchase of a house, college education for children and retirement.

Commercial Banking Business Unit

Our commercial banking business unit mainly provides banking products and services to a wide range of business customers, from large corporations to medium-sized and small businesses, and is responsible for customer relationships. The unit provides traditional commercial banking services, such as deposits, settlement, foreign exchange, loans, and trust products of Mitsubishi Trust Bank as well as electronic banking and highly sophisticated consultancy services. It works closely with the investment banking unit.

Financing and fund management. The unit advises on financing methods for its customers' various financing needs, including loans with derivatives, corporate bonds, commercial paper, asset backed securities, securitization programs and syndicated loans. The unit also offers a wide range of products to meet customers' fund management needs, such as deposits with derivatives, government bonds, debenture notes and investment funds.

Advice on expansion overseas. The unit provides advisory services to its clients launching businesses overseas, particularly Japanese companies expanding into Asian countries.

Settlement services. The unit provides electronic banking services that allow customers to make domestic and overseas remittances electronically. Its other settlement and cash management services include global settlement services, Global Cash Management Services (global pooling/netting service) and Treasury Station (a fund management system for group companies). These are particularly useful to customers who do business worldwide.

Risk management. The unit offers swap, option, and other risk-hedge programs to customers seeking to control foreign exchange, interest rate and other business risks.

Corporate management/Financial strategies. The unit provides advisory services to its customers in the areas of mergers and acquisitions, inheritance related business transfers and stock listings. The unit also helps customers develop financial strategies for restructuring their balance sheets. These strategies include the use of credit lines, factoring services and securitization of real estate.

Corporate welfare facilities. The unit offers products and administrative services to help its customers with employee benefits plans. As a service to these customers, it often provides housing loans to their employees. It also provides company-sponsored employee savings plans and defined contribution plans.

Global Corporate Banking Business Unit

Our global corporate banking business unit provides banking services to large Japanese corporations and their overseas operations, as well as non-Japanese corporations who do business on a global basis. The unit serves these customers through corporate banking divisions in Tokyo, a global network of 58 overseas branches and sub-branches, 17 representative offices, and overseas banking subsidiaries.

Overseas Business Support. The unit provides a full range of services to support customers' overseas activities, including loans, deposits, assistance with mergers and acquisitions and cash management services. The unit provides financial services to customers in cooperation with other business units, such as the treasury unit and investment banking business unit, and also through subsidiaries that are part of these units, such as Tokyo-Mitsubishi Securities Co., Ltd., Tokyo-Mitsubishi International plc and BTM Capital Corporation.

Global Cash Management Services (GCMS). In May 2001, we started offering our BTM-Global Cash Management Service through our foreign branches. The service previously available only in Japan, allows customers to check their foreign accounts and make remittances through personal computers. The service was made available in Shanghai, Ho Chi Minh City, Hanoi and Beijing during the year ended March 31, 2002, and the total number of foreign branches which allow customers to use GCMS increased to 14 at the end of that period.

During the year ended March 31, 2002, the unit provided advisory services to help customers develop financial strategies, such as arranging the issuance of asset-backed commercial paper, providing credit commitments and securitizing real estate in Japan. The unit also developed its investment banking business to increase non-interest income with the investment banking business unit.

Establishment of Polish Subsidiary. In order to support the growing number of Japanese companies pursuing business opportunities in Poland, during the fiscal year ended March 31, 2002, we established Bank of Tokyo-Mitsubishi (Poland) S.A., which began operations in April 2002. The new entity obtained a full banking license from the Polish authorities in order to provide a wide range of financial services to its clients.

Investment Banking Business Unit

Our investment banking business unit provides capital markets, derivatives, structured finance, corporate advisory and other securities services. Our other business units work with the investment banking business unit in offering services to our customers. The unit provides some of its investment banking services, such as syndicated loans and structured finance, through Bank of Tokyo-Mitsubishi itself, but for regulatory reasons most of the securities business is conducted through subsidiaries and affiliates.

We plan to consolidate most of the securities business conducted by the investment banking unit in September 2002. We intend to merge our subsidiaries and affiliates, KOKUSAI Securities Co., Ltd., Tokyo-Mitsubishi Securities Co., Ltd., Tokyo-Mitsubishi Personal Securities Co., Ltd. and Issei Securities Co., Ltd. (an affiliate of Mitsubishi Trust Bank). The new subsidiary will be named Mitsubishi Securities Co., Ltd. We also plan to transfer a part of this unit’s derivatives, corporate advisory and securitization operations to Mitsubishi Securities following the completion of the merger.

Securities Services. In Japan, our wholesale securities business is conducted through Tokyo-Mitsubishi Securities. Tokyo-Mitsubishi Securities derives most of its net revenue from sales, trading, underwriting and the distribution of fixed income and equity products. Tokyo-Mitsubishi Securities is one of the major players in the Japanese fixed income market.

The unit also provides commissioned company services, similar to bond trustee services, for bonds issued in Japan. These services include acting as the fiscal agent for bondholders and as the paying agent and recording agent.

Derivatives. The unit develops and offers derivatives products for risk management and other financial needs. The unit also conducts derivatives trading for its proprietary account. The unit has trading desks in Tokyo, Singapore, Hong Kong, London and New York.

Securitization. In the securitization area, the unit is primarily engaged in asset-backed commercial paper programs and other asset-backed securities involving the securitization of customers' assets, as well as its own. The unit is also engaged in securitizing residential mortgage loans and real estate. It has securitization teams based in Tokyo, New York, London, Hong Kong and Singapore.

Syndicated Loans. The unit structures and syndicates many types of loan transactions including term loans, revolving credit and structured transactions. It has loan syndication operations in Tokyo, New York, London, Hong Kong and Singapore.

Structured Finance. The unit engages in project finance, lease finance, real estate finance and other types of non-recourse financings. It provides customers with financial advisory services, loan arrangements, and agency services. It has teams located in Tokyo, Hong Kong, Singapore, London, New York and Boston.

Corporate Advisory Services. The unit renders advisory services for both domestic and cross-border mergers and acquisitions, representing Japanese as well as non-Japanese clients. It has mergers and acquisitions teams in Tokyo, New York and Singapore, and works with other strategic partners in the U.S. and the U.K.

Other Services. In the U.S., the unit offers leasing services through two 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 non-Japanese customers, while BTM Leasing and Finance focuses on providing services to the U.S. subsidiaries and affiliates of Japanese corporations.

Asset Management Business Unit

Our asset management business unit provides asset management and trust products and services mainly to wealthy individuals, branch customers and corporate clients in Japan. Generally, these products and services are provided to our customers through the retail banking business unit and commercial banking business unit, and are sourced from our subsidiary, Tokyo-Mitsubishi Asset Management, Ltd., and from Mitsubishi Trust Bank.

Asset Management. Tokyo-Mitsubishi Asset Management, a licensed discretionary investment advisor and investment trust management company, provides investment management and advisory services for institutional investors, including pension funds. It also offers mutual fund products. As of March 2002, almost 60 Japanese financial institutions, including Bank of Tokyo-Mitsubishi, were marketing Tokyo-Mitsubishi Asset Management products.

Since April 2000, the unit has substantially expanded its investment trust line-up, which mainly consists of products managed by Tokyo-Mitsubishi Asset Management. Other products include KOKUSAI Money Managed Fund and investment products of Mellon Financial Corporation, Frank Russell Company and Schroder Investment Management.

Defined Contribution Plan. Responding to a change in Japanese pension law, the unit has recently launched a defined contribution pension plan business. It offers administration services through Defined Contribution Plan Consulting of Japan Co., Ltd., which we formed in March 2001 together with Mitsubishi Trust Bank, Meiji Life Insurance Company and Tokio Marine & Fire Insurance, Ltd.

Wealth Management. The unit offers private banking services to wealthy individuals, which generally means individuals with financial assets of ¥1 billion or more. In March 2002, it established Mitsubishi Tokyo Wealth Management Securities, Ltd. in cooperation with Mitsubishi Trust Bank and KOKUSAI Securities. Mitsubishi Tokyo Wealth Management offers more sophisticated and customized asset management services and administration solutions to wealthy Japanese customers.

Custody. The unit offers domestic custody services to foreign investors who invest in Japanese securities in Japan, and also offers global custody services to Japanese investors using sub-custodians. The unit provides custody services to a wide range of institutional investors, both domestic and international, including commercial banks, insurance companies, major global custodians, central banks and international settlement organizations.

UNBC Business Unit (UnionBanCal Corporation)

We own 65.4% of UnionBanCal Corporation (UNBC), a publicly traded company listed on the New York Stock Exchange. UNBC is a U.S. commercial bank holding company and is among the oldest banks on the West Coast, having roots as far back as 1864. Union Bank of California, N.A., UNBC's bank subsidiary, is the third largest commercial bank in California based on total assets and total deposits.

UNBC provides a wide range of financial services to consumers, small businesses, middle-market companies and major corporations, primarily in California, Oregon and Washington, but also nationally and internationally. UNBC's operations are divided into four primary groups.

The Community Banking and Investment Services Group offers a complete spectrum of financial products to retail and corporate customers. With a full line of checking and savings, investment, loan and fee-based banking products, individual and business clients, including not-for-profit and small and institutional investors, can each have its specific needs met through UNBC's full service branches. In addition, UNBC 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. UNBC also has a registered investment advisor subsidiary.

The Commercial Financial Services Group offers a variety of commercial financial services, including commercial and project loans, real estate financing, asset-backed financing, trade finance and letters of credit, lease financing, customized cash management services and selected capital markets products. UNBC'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. UNBC offers products and services such as letters of credit, international payments, collections and financing of mostly short-term transactions. UNBC also serves non-U.S. firms and U.S. corporate clients in selected countries worldwide, particularly in Asia. UNBC has a long history of providing correspondent and trade-related services to international financial institutions.

The Global Markets Group collaborates with the other UNBC 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 swap and options. UNBC trades money market and fixed income securities in the secondary market and serves institutional investment needs.

In 2001, UNBC extended its retail product line to include insurance services. With the acquisition in November 2001 of Armstrong/Robitaille Business and Insurance Services, a California-based regional insurance broker, UNBC now offers an extensive array of cost-effective risk management services and insurance products to business and retail customers. In May 2002, UNBC acquired First Western Bank, which operates 7 branches in southern California.

Operations Services Unit

The operations services unit provides operations and settlement services to our business units and customers. In addition, the unit offers operations and settlement services to other financial institutions to meet their outsourcing needs. The unit also provides services related to Japan's official development assistance through its Economic Cooperation Office.

Operations Services. The unit provides operations services for the domestic commercial banking activities of the retail banking, commercial banking, and global corporate banking business units.

The unit offers outsourcing services in foreign remittance, export, and import operations for Japanese financial institutions. As of March 31, 2002, 74 Japanese banks utilized Bank of Tokyo-Mitsubishi's foreign remittance service offered under the "Global Operation Automatic Link (GOAL)" brand name, and a number of major Japanese banks outsourced their export and import operations to us.

Correspondent Banking and Settlement. Through the unit, we act as a correspondent bank for other financial institutions. As of March 31, 2002, we had correspondent arrangements with 3,151 foreign banks and other financial institutions, of which 1,872 had yen settlement accounts. We also had correspondent arrangements with 156 Japanese financial institutions, for which we held 142 yen and foreign currency accounts.

The unit also conducts yen clearing for other banks. As of March 31, 2002, we had the largest market share of this business with 50 regional and foreign banks in Japan outsourcing their yen clearing operations to us. We handled approximately 25% of these transactions by volume and are a market leader in the yen settlement business.

The unit provides real time settlement of funds and securities transfers individually on an order-by-order basis without netting, both for us and for other financial institutions.

Treasury Unit

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

The treasury unit is active in the world's main financial markets and has global treasury offices in Tokyo, New York, London, Singapore and Hong Kong. The unit credits the retail banking, commercial banking, and 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.

The treasury unit is responsible for our asset liability management. The treasury unit seeks to control our interest rate and liquidity risks and to make it possible to conduct our investment and fund-raising activities within an appropriate range of risk.

In the international money markets, the treasury unit raises foreign currency funds through interbank transactions, deposits and certificates of deposit. It actively deals in short-term yen-denominated instruments, such as interest rate swaps, futures and futures options. We are a major market-maker of short-term yen interest rate swaps.

We are a leading market-maker in the Tokyo over-the-counter currency option market and in the Tokyo foreign exchange market. We have a large market share of transactions in the dollar-yen sector and in major cross-currency and currency options trading.

The unit actively trades in the secondary market for Japanese government bonds, local government bonds and government-guaranteed bonds.

Competition

We face strong competition in all of our principal areas of operation. The deregulation relating to the Japanese financial market and Japanese financial institutions which is sometimes referred to as Japan's "Big Bang" and structural reforms in the regulation of the financial industry have resulted in dramatic changes to the Japanese financial system and we are increasingly exposed to more severe competition, not only with other financial institutions but also in some areas with other types of businesses.

Japan

In recent years, competition has intensified not only among commercial banks in Japan but also with foreign banks, domestic and foreign securities firms, insurance companies and other non-bank financial institutions. A number of factors have led to stronger competition in the financial industry. For example, deregulation has broken down barriers between different types of Japanese financial institutions, which are now able to compete directly against each other. Deregulation and market factors have facilitated the entry of various large foreign financial institutions into the Japanese domestic market. Japanese corporations have increasingly raised funds through the capital markets, both within Japan and overseas. In addition, demand for loan financing has been weak.

The Law amending the Relevant Laws for the Reform of the Financial System, or the Financial System Reform Act, which was promulgated in June 1998, provided a framework for reform of the Japanese financial system, including the relaxation of barriers between the banking, securities and insurance businesses. Article 65 of the Securities and Exchange Law of Japan separates the banking and securities businesses. However, banks in Japan (including us), like their counterparts in the United States, have been seeking authorization to combine traditional commercial and investment banking activities in order to offer customers a wider range of services. Conversely, securities firms are seeking the authority to engage in activities that have been considered banking activities and that have been previously forbidden to them. The present policy of the Japanese government is to reduce the barriers between the banking and securities businesses in Japan and banks expect increased competition among financial institutions in new areas of permissible activities. The Financial System Reform Law (Law No. 87 of 1992) and the subsequent amendment to the Banking Law now permit banks to establish or otherwise own domestic and overseas subsidiary securities companies (with the approval of the FSA) and to engage in the securities business.

In the corporate banking sector, the principal effect of this reform has been the gradual and ongoing erosion of two structural features of Japan's highly specialized and segmented financial system: the separation of banking and securities businesses in Japan, and distinctions among the permissible activities of Japan's three principal types of private banking institutions. For discussion of the three principal types of private banking institutions, see "Item 4.B. Information on the Company—Business Overview—The Japanese Banking System."

Within the Japanese consumer banking sector, the deregulation of interest rates on yen deposits has enabled banks to offer customers an increasingly attractive and diversified range of products. In addition, banks have been allowed to sell insurance products to a limited extent from April 2001. Banks are now allowed to sell long-term fire insurance relating to housing loans, insurance for repayment of liabilities, credit life insurance and overseas travel accident insurance. We face competition in this sector from the other private financial institutions as well as from the Postal Savings Agency, a government entity that is the world's largest holder of deposits. The Postal Services Agency is scheduled to be reorganized into a public services corporation in 2003. Recently Japanese banks have started competing with one another by developing innovative proprietary computer technologies that allow them to deliver basic banking services in a more efficient manner and to create sophisticated new products in response to customer demand.

The trust assets business is a promising growth area that is competitive and becoming more so because of changes in the industry. There is growing corporate demand for change in the trust regulatory environment, such as pension reform and changes in accounting regulations under Japanese GAAP. We face increasing competition in our trust asset business.

Integration among major banks was achieved recently. In September 2000, The Dai-Ichi Kangyo Bank, Limited, The Fuji Bank, Limited, and The Industrial Bank of Japan, Limited, jointly established a holding company, Mizuho Holdings, Inc., to own the three banks. Subsequently, in April 2002, the three banks were reorganized into two banks—Mizuho Bank, Ltd. and Mizuho Corporate Bank, Ltd. In April 2001, The Sumitomo Bank, Limited, and The Sakura Bank, Limited, were merged into Sumitomo Mitsui Banking Corporation. In April 2001, The Sanwa Bank, Limited, The Tokai Bank, Limited, and The Toyo Trust and Banking Company, Limited jointly established a holding company, UFJ Holdings, Inc., to own the three banks. Subsequently, in January 2002, the three banks were reorganized into two banks, UFJ Bank Limited and UFJ Trust Bank Limited.

In recent years, various large foreign financial institutions have significantly expanded their presence in the Japanese domestic market. Citigroup, for example, has both expanded its banking activities and moved aggressively to increase its activities in providing investment banking and other financial services. In March 2000, The Long-Term Credit Bank of Japan, Ltd., which was temporarily nationalized after its failure, was taken over by a foreign investor group and subsequently relaunched as Shinsei Bank Limited. In addition, other financial institutions, such as Orix Corporation, and non-financial companies, such as Sony Corporation and Ito-Yokado Co., Ltd., have also begun to offer various banking services, often through non-traditional distribution channels.

For additional discussion of the competition we face, see "Item 4.B. Information on the Company—Business Overview—The Japanese Banking System."

Foreign

In the United States, we face substantial competition in all aspects of our business. We face competition from the other large U.S. and foreign-owned money-center banks, as well as from similar institutions that provide financial services. Through Union Bank of California, we compete principally with U.S. and foreign-owned money-center and regional banks, thrift institutions, insurance companies, money market funds, consumer finance companies, credit unions and other financial institutions.

In other international markets, the Group faces competition from commercial banks and similar financial institutions, particularly major international banks and the leading domestic banks in those financial markets outside Japan in which we conduct business.

The Japanese Banking System

Private banking institutions in Japan are normally classified into three categories:

- ordinary banks—as of July 8, 2002, there were 127 ordinary banks in Japan, and 72 foreign commercial banks with banking operations in Japan;
- trust banks—as of July 8, 2002, there were 29 trust banks in Japan, including nine Japanese subsidiaries of foreign financial institutions; and
- long-term credit banks—as of July 8, 2002, there were two long-term credit banks in Japan.

Ordinary banks in turn are classified as city banks, of which there are seven, including Bank of Tokyo-Mitsubishi, and regional banks, of which there are 120. In general, the operations of ordinary banks correspond to commercial banking operations in the United States. City banks and regional banks are distinguished based on head office location as well as the size and scope of their operations.

The city banks are generally considered to be the largest and most influential group of banks in Japan. Generally, these banks are based in large cities, such as Tokyo and Osaka, and operate nationally through networks of branch offices. City banks have traditionally emphasized their business with large corporate clients, including the major industrial companies in Japan. However, in light of deregulation and other competitive factors, many of these banks (including Bank of Tokyo-Mitsubishi) in recent years have increased their emphasis on other markets. In recent years, almost all of the city banks have consolidated with other city banks and, in some cases, also with long-term credit banks or trust banks.

Both trust banks and long-term credit banks are engaged primarily in providing long-term loans to Japanese industry, principally with funds obtained from beneficiary certificates, in the case of the trust banks, and the issue of debentures, in the case of the long-term credit banks. As discussed elsewhere, the recent changes in the financial markets have adversely affected the traditional function of long-term credit banks, which were temporarily nationalized in 1998 following their financial failure. These changes have also affected the trust banks, which have also effected certain mergers or business tie-ups with other trust banks or, in some cases, with city banks.

Integration among city banks, trust banks and long-term credit banks took place, in most cases, through the use of a bank holding company, the establishment of which became possible after amendments to the Banking Law in 1998. For additional discussion of bank holding companies, see “Item 4.B. Information on the Company—Business Overview—Competition” and “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—Japan.”

With some exceptions, the regional banks tend to be much smaller in terms of total assets than the city banks. Each of the regional banks is based in one of the Japanese prefectures and extends its operations into neighboring prefectures. Their clients are mostly regional enterprises and local public utilities, although the regional banks also lend to large corporations. In line with the recent trend among financial institutions toward mergers or business tie-ups, certain regional banks have announced or are currently negotiating or pursuing integration transactions, in many cases in order to be able to undertake the huge investments required in information technology.

In addition to ordinary banks, trust banks and long-term credit banks, other private financial institutions in Japan, including credit associations and credit cooperatives, are engaged primarily in making loans to small businesses and individuals.

Since World War II, a number of government financial institutions have been organized in order to supplement, rather than compete with, the activities of the private banking institutions. These corporations are wholly owned by the government and operate under its supervision. Their funds are provided mainly from government sources. Among them are:

- The Development Bank of Japan, whose purpose is to contribute to the economic development of Japan by extending long-term loans, primarily to primary and secondary sector industries;
- Japan Bank for International Cooperation, whose purpose is to supplement and encourage the private financing of exports, imports, overseas investments and overseas economic cooperation;
- Japan Finance Corporation for Small Business, The Government Housing Loan Corporation and The Agriculture, Forestry and Fisheries Finance Corporation, the purpose of each of which is to supplement private financing in its respective field of activity; and
- The Postal Savings Agency, a government entity that is the world’s largest holder of deposits. The Postal Services Agency is scheduled to be reorganized into a public services corporation in 2003.

Supervision and Regulation

Japan

Supervision and Japan’s Big Bang

As a result of the deregulation and structural reforms in the Japanese financial industry, Japanese financial institutions gained the opportunity to provide a wide range of financial products and options to their clients, while at the same time becoming subject to more strict regulations and oversight.

After several reorganizations of Japanese governmental agencies, the Financial Services Agency which is an agency of the Cabinet Office has the supervisory and inspection functions with respect to financial institutions, the policy-making functions for the overall Japanese financial system and functions concerning insolvency proceedings of the financial institutions.

Examination and Reporting

By evaluating banks' systems of self-assessment, auditing their accounts and reviewing their compliance with laws and regulations, the Financial Services Agency monitors the financial soundness of banks, including the status and performance of their control systems for business activities. The inspection of banks is performed pursuant to a Financial Examination Manual published by the Financial Services Agency with a view to emphasizing (i) each bank's self-assessment rather than the advice of the governmental authority and (ii) risk management conducted by each bank instead of a simple assessment of its assets.

The Financial Services Agency, if necessary in order to secure the sound and appropriate operation of business of a bank, may request the reports or submission of materials from, or inspect the bank and/or the bank holding company which holds such bank.

The amendments to the Banking Law which include rules concerning the entry into the banking business became effective since April 1, 2002. Under these amendments, a person who desires to hold 20% (in certain exceptional cases, 15%) or more of the voting rights of a bank is required to obtain approval of the Commissioner of the Financial Services Agency in advance of this holding of shares. In addition, the Financial Services Agency may request the reports or submission of materials from, or inspect the person who holds 20% (in certain exceptional cases, 15%) or more of the voting rights of a bank if necessary in order to secure the source and appropriate operation of business of such bank.

Furthermore, any person who becomes a holder of more than 5% of the voting rights of a bank holding company or bank must report its ownership of voting rights to the Director of a relevant local finance bureau within 5 business days. In addition, a similar report must be made in respect of any subsequent change of 1% or more in any previously reported holding or any change in material matters set out in reports previously filed, with some exceptions.

The Bank of Japan also conducts examinations of banks similar to those of banks undertaken by the Financial Services Agency. The amended Bank of Japan Law provides that The Bank of Japan and financial institutions may agree as to the form of examination to be conducted by The Bank of Japan. We expect that the examinations of banks by The Bank of Japan will be conducted in coordination with the examinations by the Financial Services Agency.

Capital Adequacy

The capital adequacy guidelines adopted by the Financial Services Agency applicable to Japanese bank holding companies and 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.

In addition to credit risk, the guidelines regulate market risk. Market risk is defined as the risk of losses in on- and off-balance-sheet positions arising from movements in market prices. The risks subject to these requirements are (1) the risks pertaining to interest rate related instruments and equities in the trading book; and (2) foreign exchange risk and commodities risk throughout the bank.

Under the risk-based capital framework for credit risk purposes of the capital adequacy guidelines, balance sheet assets and off-balance-sheet exposures are assessed according to broad categories of relative risk, based primarily on the credit risk of the counterparty and country transfer risk. Five categories of risk weights (0%, 10%, 20%, 50%, 100%) are applied to the different types of balance sheet assets. Off-balance-sheet exposures are taken into account by applying different categories of "credit conversion factors" to arrive at credit-equivalent amounts, which are then weighted in the same manner as balance sheet assets involving similar counterparties, except that the maximum risk weight is 50% for exposures relating to foreign exchange and interest rate contracts.

With regard to capital, the capital adequacy guidelines are in accordance with the standards of the Bank for International Settlement for a target minimum standard ratio of capital to modified risk-weighted assets of 8.0%. Modified risk-weighted assets is the sum of risk-weighted assets compiled for credit risk purposes and market risks multiplied by 12.5. The capital adequacy guidelines place considerable emphasis on tangible common stockholders' equity as the core element of the capital base, with appropriate recognition of other components of capital.

Capital is classified into three tiers, referred to as Tier I, Tier II, and Tier III. Tier I capital generally consists of stockholders' equity less any recorded goodwill. Tier II capital generally consists of:

- reserves for credit losses, subject to a limit of 1.25% of modified risk-weighted assets;
- 45% of the valuation differences of marketable securities available for sale;
- 45% of the land revaluation excess; and
- the balance of subordinated term debt with original maturity of over five years up to 50% of Tier I capital.

Tier III capital generally consists of short-term subordinated debt with an original maturity of at least two years and which is subject to a "lock-in" provision. Such a provision stipulates that neither interest nor principal may be paid if such payment would cause the bank's overall capital amount to be less than its minimum capital requirement. At least 50% of the minimum capital requirements must be maintained in the form of Tier I capital.

Deposit Insurance System and Government Investment in Financial Institutions

The Deposit Insurance Law is intended to protect depositors if a financial institution fails to meet its obligations. The Deposit Insurance Corporation was established in accordance with that law.

City banks (including us), regional banks, long-term credit banks, trust banks, and certain other credit institutions participate in the deposit insurance system on a compulsory basis.

Under the Deposit Insurance Law, the maximum amount of protection is ¥10 million per customer within one bank. However, the deposits in such accounts as current accounts and ordinary accounts are fully protected without maximum amount limitation until the end of March 2003. Currently, the Deposit Insurance Corporation charges insurance premiums equal to 0.094% on the deposits in current accounts, ordinary accounts and certain other similar accounts which are fully protected as mentioned above and premiums equal to 0.080% on the deposits in other accounts.

Since 1998, the failures of large scale financial institutions have led to various measures, including financial support from the national budget, taken with a view to stabilizing Japan's financial systems.

The "Law Concerning Emergency Measures for Revitalization of Financial Function," or the Financial Revitalization Law, enacted in October 1998, provides for (i) temporary state control of a failed financial institution, (ii) dispatch of a financial resolution administrator to the failed financial institution, and (iii) the establishment of a bridge bank which takes over the business of the failed financial institution on a temporary basis.

The "Law Concerning Emergency Measures for Early Strengthening of Financial Function," or the Financial Function Early Strengthening Law, also enacted in October 1998, provided for government funds to be made available to financial institutions “prior to failure” as well as to financial institutions with “sound” management, for the purpose of increasing the ratio of capital of such financial institutions and to strengthen their function as financial market intermediaries. The availability of new funds for this purpose ended on March 31, 2001.

Capital injections made under the Financial Function Early Strengthening Law amounted to approximately ¥10 trillion. Starting in April 2001, amendments to the Deposit Insurance Law established a new framework which enables the Deposit Insurance Corporation of Japan to inject capital in a bank if the Prime Minister believes it must do so to guard against financial systemic risk.

The Securities and Exchange Law

Article 65 of the Japanese Securities and Exchange Law generally prohibits the conduct of securities business by banks. Under this law, banks, including us, may not engage in securities business except for limited activities such as dealing in, underwriting and brokerage of Japanese governmental bonds, Japanese local government bonds and Japanese government guaranteed bonds, and offering investment trusts.

In general, the restrictions of the Securities and Exchange Law do not extend directly to the subsidiaries of banks outside Japan, which engage in the securities business mainly in connection with overseas fund-raising by Japanese companies.

In addition, the Financial System Reform Law allows banks, securities companies and trust companies to engage in the business of other financial sectors through their subsidiaries in Japan. Furthermore, banks’ securities subsidiaries in Japan are now permitted to engage in the underwriting and brokerage not only of bonds but also of equity securities. This has enabled banks’ securities subsidiaries to offer a full line of securities-related services to their customers.

We are required to file with the Director of the Kanto Local Finance Bureau of the Ministry of Finance a securities report for each fiscal period, supplemented by semi-annual and extraordinary reports, pursuant to the Securities and Exchange Law.

Anti-Monopoly Law

In December 1997, the Anti-Monopoly Law was amended to generally permit holding companies, except in circumstances where the holding company would result in an excessive concentration of economic power. Additional legislative measures relating to holding companies of certain types of financial institutions, such as banks, securities companies and trust banks became effective in March 1998. In connection with those legislative measures and amendments, in December 1997, the Fair Trade Commission promulgated amendments to the guidelines under the Anti-Monopoly Law which relaxed the standards for approval of a financial institution’s stockholdings of more than 5% in another company to permit a financial institution to acquire interests in other financial institutions.

Bank Holding Company Regulations

The provisions of the Anti-Monopoly Law that prohibit a bank from holding more than 5% of another company’s voting rights do not apply to a bank holding company. However, the Banking Law prohibits a bank holding company and its subsidiaries, on an aggregated basis, from holding more than 15% of the voting rights of companies other than those which may become subsidiaries of bank holding companies.

United States

As a result of our operations in the United States, we are subject to extensive U.S. federal and state supervision and regulation.

Overall Supervision and Regulation

We are subject to supervision, regulation and examination with respect to our U.S. operations by the Board of Governors of the Federal Reserve System, or Federal Reserve Board or Board, because we are a bank holding company under the U.S. Bank Holding Company Act of 1956, as amended, or the BHCA, and a qualifying foreign banking organization, or QFBO, under the International Banking Act of 1978, as amended, or the IBA. We own and control two U.S. banks: Bank of Tokyo-Mitsubishi Trust Company, New York, New York and Union Bank of California, N.A. (through UnionBanCal Corporation, a registered bank holding company). In addition, under the authority of the IBA, we operate seven branches, two agencies, and four representative offices in the United States. We operate branches in Los Angeles and San Francisco, California; Chicago, Illinois; New York, New York; Portland, Oregon; and Seattle, Washington; agencies in Atlanta, Georgia and Houston, Texas; and representative offices in Washington, D.C; Minneapolis, Minnesota; Dallas, Texas; and Jersey City, New Jersey.

The Federal Reserve Board also functions as our "umbrella" regulator under amendments to the BHCA effected by the Gramm-Leach-Bliley Act of 1999, or the GLBA. Among other things, the GLBA prohibited further expansion of activities in which bank holding companies, acting directly or through non-bank subsidiaries, may be permitted to engage; it authorized qualifying bank holding companies to opt to become "financial holding companies," and thereby acquire the authority to engage in an expanded list of activities, including merchant banking, insurance underwriting and a full range of securities activities; and it defined a new role for the Federal Reserve Board as the "umbrella" or overall regulator, specifying new special relationships between the Federal Reserve Board and the functional regulators of subsidiaries of both bank holding companies and financial holding companies. We have not elected to become a financial holding company.

The Federal Reserve Board uses a number of tools as the regulator of bank holding companies, including those that have opted to become financial holding companies. It requires periodic reports, conducts examinations, supervises their operations and promulgates regulations governing their activities.

The BHCA generally prohibits a foreign banking organization that maintains branches or agencies in the United States from, directly or indirectly, acquiring more than 5% of the voting shares of any company engaged in non-banking activities in the United States unless the foreign bank has elected to become a financial holding company, as discussed above, or the Federal Reserve Board has determined, by order or regulation, that such activities are so closely related to banking as to be a proper incident thereto. In addition, the BHCA requires any entity to obtain the prior approval of an appropriate federal banking authority before acquiring, directly or indirectly, the ownership of more than 5% of the voting shares or control of any U.S. bank or bank holding company. Subject to deposit concentration and other limitations, and with the prior approval of appropriate Federal and state regulators, a bank holding company may acquire an out-of-state bank or merge with its holding company. Also, a bank may establish a new out-of-state branch if such branching is expressly permitted by the other state. In addition, under the BHCA, a bank and a branch or agency of a foreign bank is prohibited from engaging in certain tying arrangements involving it or its affiliates in connection with any extension of credit or sale or lease of any property or provision of any services.

U.S. Branches and Agencies of Subsidiary Japanese Banks

We have branches, agencies or representative offices in nine states and the District of Columbia. U.S. branches and agencies of foreign banks must be licensed, supervised and regulated by a state or by the Office of the Comptroller of the Currency, or the OCC, the federal regulator of national banks, and are subject to additional supervision and regulation by the Board. All of our branches in the United States are state-licensed. U.S. federal banking laws subject state-licensed branches and agencies to the same single-borrower lending limits that apply to federal branches and agencies, which generally are the same as the lending limits applicable to national banks, but are based on the capital ratio of the entire foreign bank. For example, our branch in New York is licensed by the New York State Superintendent of Banks pursuant to the New York Banking Law. Under the New York

Banking Law and the Superintendent's regulations, Bank of Tokyo-Mitsubishi must maintain with banks in the State of New York eligible assets (which consist of specified types of governmental obligations, U.S. dollar deposits, investment-grade commercial paper, obligations of certain international financial institutions and other specified obligations) in an amount equal to the greatest of (1) 5% of the total liabilities of the applicable New York branch, excluding liabilities to other offices and affiliates and liabilities of the applicable branch that are booked in such branch's international banking facility, (2) 1% of the total liabilities of the applicable branch, excluding liabilities to other offices and affiliates, or (3) $1,000,000, as security for the protection of depositors and certain other creditors. These New York branches must also submit written reports concerning their assets and liabilities and other matters, to the extent required by the Superintendent, and are examined at periodic intervals by the New York State Banking Department. In addition, the Superintendent is authorized to take possession of the business and property of Bank of Tokyo-Mitsubishi located in New York whenever events specified in the New York Banking Law occur.

The IBA provides, among other things, that the Federal Reserve Board may examine U.S. branches and agencies of foreign banks, and that each such branch and agency shall be subject to on-site examination by the appropriate Federal or state bank supervisor as frequently as would a U.S. bank. The IBA also provides that if the Federal Reserve Board determines that a foreign bank is not subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country, or if there is reasonable cause to believe that the foreign bank or its affiliate has committed a violation of law or engaged in an unsafe or unsound banking practice in the United States, the Federal Reserve Board may order the foreign bank to terminate activities conducted at a branch or agency in the United States. The foreign bank receiving the order must comply with the requirements of applicable Federal and state law with respect to procedures for the closure or dissolution of the branch or agency.

U.S. Subsidiary Banks

One of our U.S. subsidiary banks, Bank of Tokyo-Mitsubishi Trust Company, is chartered by the State of New York, and is subject to the supervision, examination and regulatory authority of the Superintendent of Banks pursuant to the New York Banking Law. The other, Union Bank of California, N.A., is a national bank subject to the supervision, examination and regulatory authority of the OCC. The GLBA amended the National Bank Act to permit the OCC to allow a national bank to establish a financial subsidiary that may engage in many of the activities in which a financial holding company may engage. The GLBA and implementing regulations changed many of the rules governing the operations of national and state chartered banks, including, for example, by providing for rules pursuant to which they may sell insurance, and by providing for the financial privacy of consumers.

The Federal Deposit Insurance Corporation, or the FDIC, is the primary federal agency responsible for the supervision, examination and regulation of the two New York-chartered banks referred to above, and insures the deposits of all three U.S. subsidiary banks. In the event of the failure of an FDIC-insured bank, the FDIC is virtually certain to be appointed as receiver, and would resolve the failure under provisions of the Federal Deposit Insurance Act.

An FDIC-insured institution that is affiliated with a failed or failing FDIC-insured institution can be required to indemnify the FDIC for losses resulting from the insolvency of the failed institution, even if this causes the affiliated institution also to become insolvent. Any obligation or liability owed by an insured depository institution subsidiary to its parent company is subordinate to the subsidiary's cross-guarantee liability with respect to commonly controlled insured depository institutions and to the rights of depositors. In the liquidation or other resolution of a failed FDIC-insured depository institution, deposits in its U.S. offices and other claims for administrative expenses and employee compensation are afforded a priority over other general unsecured claims, including deposits in offices outside the United States, nondeposit claims in all offices, and claims of a parent company. Such priority creditors would include the FDIC, which succeeds to the position of insured depositors. Moreover, under long-standing Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength for its subsidiary banks and to commit resources to support such banks.

Bank Capital Requirements and Capital Distributions

Our U.S. bank and bank holding company subsidiaries are subject to applicable risk-based and leverage capital guidelines issued by U.S. regulators for banks and bank holding companies. All of our U.S bank and bank holding company subsidiaries are adequately capitalized under those guidelines. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, provides, among other things, for expanded regulation of insured depository institutions, including banks, and their parent holding companies. As required by FDICIA, the Federal banking agencies have established five capital tiers ranging from "well capitalized" (the highest) to "critically undercapitalized" for insured depository institutions. In addition, FDICIA generally prohibits an insured depository institution from making capital distributions (including the payment of dividends) or the payment of any management fee to its holding company, if the insured depository institution would subsequently become undercapitalized. If an insured depository institution is undercapitalized, its activities may be limited and it must submit an acceptable capital restoration plan to its regulators, which must be guaranteed by each company that controls it. As an institution's capital position deteriorates, the Federal banking regulators may take progressively stronger actions, such as further restricting affiliate transactions, activities, asset growth or interest payments. These actions could culminate in the appointment of a receiver for a "critically undercapitalized" insured depository institution, one that has tangible equity in an amount that is less than 2% of total assets. The availability of dividends from insured depository institutions in the United States is limited by various other statutes and regulations. The National Bank Act and other Federal laws prohibit the payment of dividends by a national bank under certain circumstances, and limit the amount a national bank can pay without the prior approval of the OCC. In addition, state chartered banking institutions are subject to dividend limitations imposed by applicable Federal and state laws.

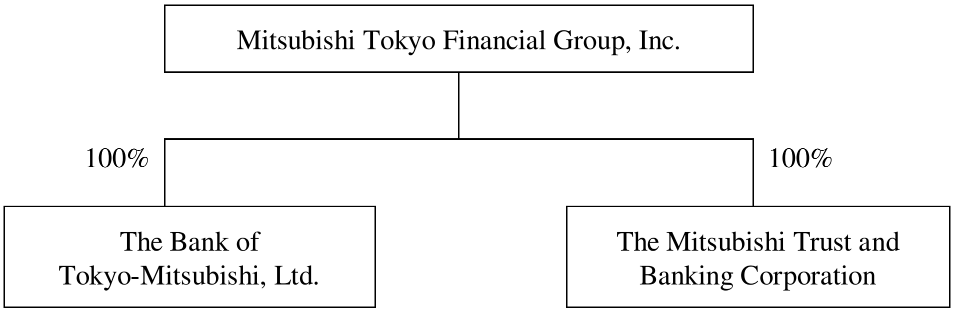
Other Regulated U.S. Subsidiaries

In addition, our non-bank subsidiaries engaged in securities or futures-related activities in the United States are regulated by appropriate functional regulators, such as the Securities and Exchange Commission and the Commodities Futures Trading Commission, any self-regulatory organizations of which they are members, and the appropriate state regulatory agencies. These non-bank subsidiaries are required to meet separate minimum capital standards as imposed by those regulatory authorities.

The GLBA removed almost all of the pre-existing statutory barriers to affiliations between commercial banks and securities firms by repealing Sections 20 and 32 of the Glass-Steagall Act. At the same time, however, the so-called "push-out" provisions of the GLBA narrowed the exclusion of banks (including our U.S. branches) from the definitions of "broker" and "dealer" under the Securities Exchange Act of 1934, potentially requiring all such banks to transfer some activities to affiliated broker/dealers. In May 2001, the Securities and Exchange Commission issued interim rules defining certain terms in the "push-out" provisions and granting banks additional exemptions from broker-dealer registration. In May 2002, the Securities and Exchange Commission extended the date by which banks must bring their activities into compliance with certain of the "push-out" provisions related to broker-dealer activities by exempting banks from the definition of "dealer" until November 2002 and from the definition of "broker" until May 2003.

C. Organizational Structure

The following chart presents the basic corporate structure of Mitsubishi Tokyo Financial Group and the subsidiary banks:



Set forth below is a list of our significant subsidiaries at March 31, 2002.

Name	Country of incorporation	Proportion of ownership interest (%)
Tokyo-Mitsubishi Securities Co., Ltd.	Japan	90.71
The Diamond Home Credit Company Limited	Japan	99.99
Tokyo-Mitsubishi Personal Securities Co., Ltd.	Japan	34.32
DC Card Co., Ltd.	Japan	41.30
The Diamond Mortgage Co., Ltd.	Japan	100.00
Tokyo-Mitsubishi Asset Management, Ltd.	Japan	47.51
The Diamond Factors Limited	Japan	56.50
BOT Lease Co., Ltd.	Japan	13.00
UnionBanCal Corporation*	United States	67.52
Union Bank of California, N.A.*	United States	67.52
Bank of Tokyo-Mitsubishi Trust Company	United States	100.00
Tokyo-Mitsubishi International plc	United Kingdom	100.00

* On August 28, 2002 UnionBanCal Corporation purchased $300 million of its common stock from Bank of Tokyo-Mitsubishi and, as a result of the repurchase, the ownership percentage of Bank of Tokyo-Mitsubishi has declined to 65.37%.

D. Property, Plants and Equipment

The following table presents our premises and equipment at cost as of March 31, 2001 and 2002:

	At March 31, 2001	At March 31, 2002
	(in millions yen)	
Land	¥ 125,368	¥ 119,361
Buildings	333,687	327,647
Equipment and furniture	426,786	468,054
Leasehold improvements	267,127	214,373
Construction in progress	3,119	3,243
Total	1,156,087	1,132,678
Less accumulated depreciation	637,222	611,570
Premises and equipment-net	¥ 518,865	¥ 521,108

Our head office is located in a modern 24-story building at 7-1, Marunouchi 2-Chome, Chiyoda-ku, Tokyo, comprising approximately 1,326,000 square feet of office space. We utilize the entire building and its site. At March 31, 2002, we conducted our banking operations either in our owned premises or in leased properties.

The following table presents the areas and book values of our material office property and other material properties at March 31, 2002:

	Area (in thousands of square feet)	Book value (in millions yen)
Owned land	8,863	119,361
Leased land	1,268	—
Owned buildings	14,783	144,181
Leased buildings	9,438	—

Our owned land and buildings are primarily used by our branches. Most of the buildings and land owned by us are free from material encumbrances, except as described below.

In March 1999, Bank of Tokyo-Mitsubishi sold a 50% undivided interest in each of its head office land and building and of its main office land and building, and at the same time, Bank of Tokyo-Mitsubishi entered into an agreement to lease back from the buyer the 50% undivided interests of the buildings sold for a period of 7 years. We accounted for these transactions as financing arrangements.

During the fiscal year ended March 31, 2002, Bank of Tokyo-Mitsubishi invested approximately ¥78.1 billion primarily to increase the number of automated banking machines and to further automate back office support services.

Item 5. Operating and Financial Review and Prospects.

A. Operating Results

The following discussion and analysis should be read in conjunction with "Selected Financial Data" and our consolidated financial statements and related notes included elsewhere in this Annual Report.

Introduction

The Bank of Tokyo-Mitsubishi, Ltd. ("Bank of Tokyo-Mitsubishi") is a wholly owned subsidiary of Mitsubishi Tokyo Financial Group, Inc. ("Mitsubishi Tokyo Financial Group"). Bank of Tokyo-Mitsubishi provides a broad range of financial services, including commercial banking, investment banking and other services, to individual and corporate customers.

Formation of Mitsubishi Tokyo Financial Group

Mitsubishi Tokyo Financial Group was formed, as a bank holding company, through a stock-for-stock exchange on April 2, 2001, when Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Nippon Trust Bank, formerly a majority owned subsidiary of Bank of Tokyo-Mitsubishi, jointly established Mitsubishi Tokyo Financial Group. As a result, the three banks became Mitsubishi Tokyo Financial Group's wholly owned subsidiaries. Nippon Trust Bank has since been deconsolidated, effective April 2, 2001.

On October 1, 2001, as part of the integration of our businesses, Nippon Trust Bank and The Tokyo Trust Bank, Ltd., which was another one of our trust subsidiaries, merged with and into Mitsubishi Trust Bank.

Planned Merger of Securities Companies

On April 8, 2002, KOKUSAI Securities Co., Ltd. (our equity method investee), Tokyo-Mitsubishi Securities Co., Ltd. (our subsidiary), Tokyo-Mitsubishi Personal Securities Co., Ltd. (our subsidiary) and Issei Securities Co., Ltd. (an equity method investee of Mitsubishi Trust Bank), entered into a merger agreement. Pursuant to the merger agreement, the four securities companies will be merged on September 1, 2002, with KOKUSAI

Securities continuing as the surviving corporation under the new name of Mitsubishi Securities Co., Ltd. Following the merger, we will have a 53.05% equity interest in the new securities company. By merging the four securities companies, we aim to create a full-service securities company that will be the core of our securities business.

Recent Developments

Legal Proceedings for Local Taxes

The Tokyo Metropolitan Assembly enacted a new tax rule in March 2000. The new rule changed the basis on which the Tokyo Metropolitan Government taxes large banks doing business in Tokyo, including Bank of Tokyo-Mitsubishi. The 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 starting April 1, 2000. In May 2000, the Osaka Prefectural Assembly passed a similar new tax rule, which requires large banks to pay a 3% local tax on their gross operating income derived from their Osaka operations for a period of five years starting April 1, 2001.

Banks subject to the newly imposed Tokyo local tax, including us, filed a complaint in October 2000 with the Tokyo District Court calling for nullification of the new tax, which they claimed unfairly targets large banks. On March 26, 2002, the Tokyo District Court rejected the new tax enacted by the Tokyo Metropolitan Assembly. The court ordered the Tokyo Metropolitan Government to refund ¥72.4 billion in tax payments to 18 major banks (including ¥7.3 billion to us) and to pay an additional ¥1.8 billion in compensation (including ¥0.1 billion to us). On March 29, 2002, the Tokyo Metropolitan Government lodged an appeal at the Tokyo High Court.

After the decision of the Tokyo District Court, 16 major banks filed a lawsuit on April 4, 2002 with the Osaka District Court against the Osaka Prefectural Government, seeking to nullify the new Osaka tax rule. In response to the lawsuit, on May 30, 2002, the Osaka Prefectural Government revised its tax rule for the fiscal year ended March 31, 2002 and the fiscal years subject to the rule. Under the revised tax rule, large banks are supposed to pay the lower of the 3% local tax on their gross operating income or the local tax computed based on their net income. As a result of the revisions, we are not required to pay any local taxes to the Osaka Prefectural Government for the fiscal year ended March 31, 2002. Under the tax rule as revised by the Osaka Prefectural Government, the new local tax is applied for a period of five years starting April 1, 2002.

Under the new local tax rules, we incurred and paid to the Tokyo Metropolitan Government ¥14.7 billion in local taxes applicable to the fiscal year ended March 31, 2001, and ¥14.6 billion in local taxes applicable to the fiscal year ended March 31, 2002. If we were charged local taxes based on net income under the former rule, our tax expense to the Tokyo Metropolitan Government would have been ¥6.6 billion for the fiscal year ended March 31, 2001 and zero for the fiscal year ended March 31, 2002. While we accrued ¥2.4 billion in local taxes imposed by Osaka Prefectural Government in the fiscal year ended March 31, 2002, we have not paid the local taxes because of the revision of the new tax rule and we will reserve such accrual in the fiscal year ending March 31, 2003.

To date, there have been no decisions made by the Tokyo High Court and the Osaka District Court. As the legal process has not been completed, we have not recorded any gain in our consolidated financial statements. If we ultimately win the lawsuits, we expect to receive from the Tokyo Metropolitan Government the amount of the difference between the new local taxes we paid and the amount computed based on net income under the former rule, and some additional compensation. In addition, we would adjust our net deferred tax assets based on the revised effective tax rate from the current 38.0% to 42.0% as computed based on the former local tax rules. If we had made such an adjustment, the net deferred tax assets on that date would have increased by ¥90.5 billion.

Change in National Taxation System

On June 26, 2002, the Japanese Diet passed amendments to national corporate income tax laws, including the introduction of a consolidated corporate-tax system, which became effective on August 1, 2002. The consolidated corporate-tax system is to be applied to fiscal years beginning on or after April 1, 2002. The new system allows companies to base tax payments on the combined profits or losses of a parent company and its wholly owned domestic subsidiaries. A parent company may elect to pay national income taxes based on the consolidated corporate-tax system or based on the previously existing corporate-tax system, which did not permit consolidated tax reporting. Once the company elects the consolidated corporate-tax system, it is required to apply the system consistently in subsequent years. Also, if the company elects to pay national income taxes based on the consolidated corporate-tax system, it is required to pay a surcharge tax of 2% of taxable income in addition to the national corporate income tax rate based on the previously existing individual corporate-tax system of 30% until the fiscal year ending March 31, 2004. Companies that elect to pay national income taxes based on the consolidated corporate-tax system must submit their applications by September 30, 2002.

Mitsubishi Tokyo Financial Group has not decided whether it will elect to pay national income taxes based on the consolidated corporate-tax system for the fiscal year ending March 31, 2003. Mitsubishi Tokyo Financial Group will make the decision after the amended laws take effect and detailed guidelines for the computation of taxable income are released.

Limitations on Cross-shareholdings and Establishment of the Banks' Shareholdings Purchase Corporation

On November 21, 2001, the Japanese government enacted a law forbidding banks, including us, from holding stocks with aggregate market values less unrealized gains in excess of their Tier I capital after September 30, 2004. Like other Japanese financial institutions, we hold shares in some of our clients in order to maintain long-term relationships with these clients. In order to comply with the law, we began the process of reducing our holdings of strategic equity investments. We are also evaluating and implementing alternative strategies that facilitate the sale of our equity holdings, such as the transfer of certain holdings to an existing pooled investment fund whose securities are traded on a securities exchange (or exchange traded funds) or sales to the special-purpose corporation discussed below.

In order to moderate the impact on the stock market of sales of cross-held shares, the Banks' Shareholdings Purchase Corporation, referred to as the Purchase Corporation, was established in January 2002 and began purchasing stocks from banks on February 15, 2002. The Purchase Corporation was funded by financial institutions, including us, with initial contributions of ¥10.7 billion, referred to as "preferred contributions." We made an aggregate amount of ¥1.4 billion of preferred contributions to the Purchase Corporation. The Purchase Corporation will purchase marketable equity securities from contributing institutions through September 2006, and will be dissolved when the Purchase Corporation sells all shares that it purchased from such financial institutions, or by January 2012 at the latest.

There are two accounts in the Purchase Corporation—the General Account and the Special Account. In the General Account, the Purchase Corporation purchases stocks from the selling financial institution with funds provided by that selling financial institution without guarantees by the Japanese government, and sells the stocks to exchange traded funds or otherwise into the market or sells the stocks back to the issuers. Gains or losses, if any, when the Purchase Corporation sells the stocks, are transferred to the selling financial institution, and the Purchase Corporation does not retain any gains or losses related to the stock transactions in the General Account. In the Special Account, when a financial institution sells stocks to the Purchase Corporation, it must contribute to the Purchase Corporation 8% of the selling price, referred to as "subordinated contributions". The purchase amount is funded by borrowings from various financial institutions guaranteed by the Japanese government with an aggregate limit of ¥2.0 trillion. A cumulative net loss resulting from the sale of stocks in the Special Account, if any, which is determined and finalized upon the liquidation of the Purchase Corporation, is covered first by the subordinated contributions, and then by the preferred contributions. If there is a remaining loss, the government, as a guarantor, will compensate the loss. On the other hand, if there are net assets at the time of the liquidation, the assets will be used to repay the preferred contributions first and to repay the subordinated contributions next, with any remaining assets being paid out as dividends subject to specified upper limits, on the preferred and subordinated contributions. If there are any remaining assets, the Japanese government will receive the assets.

During the fiscal year ended March 31, 2002, we sold marketable equity securities with an aggregate market value of ¥14.5 billion to the Special Account, but we have not sold any stocks to the General Account. At March 31, 2002, we had preferred contributions of ¥1.4 billion in the General Account, subordinated contributions of ¥1.2 billion in the Special Account, and loans receivable of ¥35.6 billion guaranteed by the Japanese government from the Special Account, which we have extended to the Purchase Corporation on market terms. For a detailed discussion of the accounting treatment of our transactions with the Purchase Corporation, see "—Transfer of Marketable Equity Securities."

Development in Measures to Accelerate Disposal of Problem Loans

The Japanese government enacted a Revised Financial Rehabilitation Law in December 2001, which became effective January 11, 2002. This law substantially strengthened the function of the Resolution and Collection Corporation (the "RCC"), which is wholly owned by the Deposit Insurance Corporation, and enables the RCC to raise the prices at which it buys problem loans to their estimated fair values. In 1996, when the predecessor to the RCC was established, we made 15-year term loans in an aggregate principal amount of ¥184.2 billion to the predecessor of the RCC, which have been assumed by the RCC. We also have non-interest bearing deposits of ¥77.0 billion at the RCC as of March 31, 2002. Previously, the RCC purchased loans at an average of approximately 60% of the value of collateral as estimated by realty appraisers. This resulted in such low prices for the problem loans that it discouraged financial institutions, including us, from selling problem loans to the RCC. After the revision was implemented in January 2002, the purchase prices rose from an average 3.7% of loan principal amounts in the three-month period ended March 31, 2001 to 6.7% of loan principal amounts in the three-month period ended March 31, 2002. Although the revision is designed to accelerate the purchase of problem loans by the RCC, actual purchases for the three months ended March 31, 2002 amounted to ¥226.7 billion on a principal basis, approximately 40% less than the year-earlier level. The RCC set up a new section in its organization in March 2002 specializing in purchasing problem loans from healthy financial institutions and is considering raising the prices further in order to increase the amount of problem loan purchases by the RCC.

During the three-month period ended March 31, 2002, we sold problem loans with an aggregate net carrying value of ¥3.8 billion for ¥3.5 billion to the RCC, resulting in losses of ¥0.3 billion. During the three-month period ended June 30, 2002, we sold additional problem loans with an aggregate net carrying value of ¥15.9 billion for ¥16.5 billion to the RCC, resulting in gains of ¥0.6 billion.

Special Inspections by the Financial Services Agency

On April 12, 2002, the Financial Services Agency (the "FSA") announced the results of special inspections of the 13 major Japanese banks, including us, which had been performed from October 29, 2001 to April 11, 2002. The special inspections mainly focused on 149 financially-troubled borrowers about which the FSA had particular concerns. The aim of the special inspections was to ensure that loans to such borrowers were appropriately classified and that sufficient levels of write-offs and provisioning were recorded on a timely basis, reflecting the borrowers' business and market conditions. We recognized no significant change to our risk classifications as a result of the FSA's special inspections. Accordingly, the FSA's special inspections did not have a significant effect on our allowance calculation and the amounts of loans evaluated for impairment.

Termination of Government Protection of Bank Deposits

Exceptional governmental measures that had protected all deposit amounts through the deposit insurance system for financial institutions since 1996, expired on March 31, 2002. Under the current insurance system, each depositor in a financial institution is insured for claims of up to a maximum principal amount of ¥10 million plus interest against each financial institution in case of failure of such financial institution. However, liquid deposits, such as current accounts and ordinary deposits, continue to be fully insured until March 31, 2003.

The termination of government protection has led many depositors seeking financial stability to transfer deposits among deposit-taking institutions, such as commercial banks. In addition, within the same bank, depositors have transferred deposits from accounts that do not qualify for full protection, such as time deposits, to accounts that qualify for full protection, such as ordinary deposits. Effective April 1, 2003, all deposits (principal and interest) exceeding ¥10 million will be outside the protection. As a result, we expect further movements in deposits among banks or to other financial institutions.

From April 1, 2002, deposit insurance premiums on ordinary deposits were raised 12% from 0.084% to 0.094%, while those on time deposits were reduced 5% from 0.084% to 0.080%. In connection with the increase in deposit insurance premiums, we reduced the interest rates offered to depositors on our ordinary deposits from 0.02% to 0.001% in April 2002.

Business Environment

Economic Environment in Japan

Over the last several years, the Japanese economy has faced a number of volatile and challenging economic trends and conditions, including:

- stagnant economic activity, as the Japanese gross domestic product grew 1.4% in the fiscal year ended March 31, 2000 and 1.7% in the fiscal year ended March 31, 2001, and decreased 1.3% in the fiscal year ended March 31, 2002;
- high levels of corporate bankruptcy filings, with over 20,000 cases in the fiscal year ended March 31, 2002, making it the second worst period in 17 years in terms of the number of filings, and involving ¥16,141 billion of total liabilities, marking the second worst year in the postwar period;
- a very low interest rate environment, with the Bank of Japan maintaining a policy of near zero interest rates before August 2000 and again after March 2001;
- declining real estate values, with government-appraised land prices declining an average of 5.2% for residential areas and 8.3% for commercial areas in calendar 2001, which represents the eleventh straight year of decline;
- declining but volatile equity markets, with the Nikkei Stock Average, which is an average of 225 stocks listed on the Tokyo Stock Exchange, declining 15.2% from 12,999.70 at March 30, 2001 to 11,024.94 at March 29, 2002 after having dropped to 9,420.85 on February 6, 2002. This followed the Nikkei Stock Average's 36.1% decline from 20,337.32 at March 31, 2000 to the March 30, 2001 level. Subsequent to March 31, 2002, the Nikkei Stock Average has further declined and finished at 9,877.94 on July 31, 2002; and
- significant exchange rate movements, as the value of the yen against the US dollar fluctuated from a high of ¥115.89 to a low of ¥134.77 in the fiscal year ended March 31, 2002, from a high of ¥104.19 to a low of ¥125.54 in the fiscal year ended March 31, 2001, and from a high of ¥101.53 to a low of ¥124.45 in the fiscal year ended March 31, 2000.

Our results of operations and financial condition were also materially affected over the last three years by high levels of credit losses and a substantial increase in impaired loans as a result of the continuing weak economy, unprecedented levels of corporate bankruptcy filings, and impaired collateral values resulting from a continuing decline in real estate and equity values.

International Financial Markets

The weakness in international financial markets worsened during the fiscal year ended March 31, 2002, reflecting a global economic downturn, particularly in the United States. The terrorist attack on September 11, 2001, corporate financial scandals that occurred in the United States and several large bankruptcies in the United States have severely affected the world economy. We have also been affected by the severe economic turmoil in Argentina.

In the financial markets immediately after the terrorist attack on September 11, 2001, stock prices declined significantly around the world. In Japan, the Nikkei Stock Average at one point dropped below ¥10,000 for the first time in 17 years, and the value of the yen against the US dollar rose to around ¥115 in the face of intensifying dollar-selling pressures. Although there has been a slight recovery, the international financial markets remain volatile. Japan, the United States and Europe eased their monetary policies, while the Japanese government and the Bank of Japan intermittently intervened in the foreign currency market to support the US dollar. As a result, the Nikkei Stock Average recovered to above 10,000, while the value of the yen against the US dollar depreciated to around ¥120. Although the financial markets were affected by the September 11 terrorist attack, our operations and revenue were not significantly affected.

During the fiscal year ended March 31, 2002, the U.S. Federal Reserve cut interest rates 8 times for a total of 325 basis points on the federal funds and the discount rate, bringing the federal fund rate to 1.75% and the discount rate to 1.25% at March 31, 2002. Despite the U.S. Federal Reserve's interest rate cuts, U.S. equity indices continued to be affected by the slowdown in the U.S. economy and reduced corporate earnings although the Nasdaq Composite Index and the Dow Jones Industrial Average increased slightly in the fiscal year ended March 31, 2002. Subsequent to March 31, 2002, the U.S. equity indices have declined significantly primarily because of recent accounting scandals, including one of the largest accounting frauds in history at U.S. telecom giant WorldCom Inc. The Nasdaq Composite Index declined 28.0% from 1,845.35 on March 29, 2002 to 1,328.26 on July 31, 2002, and the Dow Jones Industrial Average declined 16.0% from 10,403.94 on March 29, 2002 to 8,736.59 on July 31, 2002.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States, referred to as "U.S. GAAP." Many of the accounting policies require management to make difficult, complex or subjective judgments regarding the valuation of assets and liabilities. The accounting policies are fundamental to understanding our operating and financial review and prospects. The notes to our consolidated financial statements provide a summary of our significant accounting policies. The following is a summary of the critical accounting policies.

Impairment of Marketable Equity Securities

Under U.S. GAAP, we are required to recognize an impairment loss for a decline in fair value of available-for-sale marketable equity securities that is other than temporary. Determinations of whether the decline is other than temporary often involve estimating the outcome of future events. Management judgment is required in determining whether factors exist that indicate that an impairment loss should be recognized at any balance sheet date. These judgments are based on subjective as well as objective factors.

The Japanese stock market has experienced a significant downturn and volatility during recent years. In view of the diversity and volume of our shareholdings, the declining but volatile equity markets make it difficult to determine whether the declines are other than temporary.

In addition to a significant decline in fair value below cost, we determine whether or not the decline is attributable to adverse conditions, and conditions specifically related to an industry or deterioration of the issuers. In particular, we consider the financial condition of issuers in industries severely and adversely affected by the current economic slump in Japan, such as real estate, construction and retail industries. We also consider whether issuers are borrowers to whom loans are classified under our risk gradings.

As mentioned in "—Recent Developments" above, we are required to sell down our strategic equity investments in the next few years under new legislation. Accordingly, in determining whether a decline in fair value is other than temporary, we also carefully consider the period for which we will hold the securities in view of any anticipated recovery.

After considering the factors mentioned above, we write down individual equity securities to fair value when we determine that a decline in fair value below the cost of securities is other than temporary.

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of probable losses in the portfolio. The evaluation process involves a number of estimates and judgments. The allowance is based on two principles of accounting: (1) Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies," which requires that losses be accrued when they are probable of occurring and quantitatively estimable; and (2) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" and SFAS No. 118, "Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures," which require that losses be accrued based on the difference between the loan balance and the present value of future cash flows or values that are observable in the secondary market.

Our allowance for credit losses consists of the allocated allowance and the unallocated allowance. The allocated allowance comprises (1) the allowance for specifically identified problem loans, (2) the allowance for large groups of smaller-balance homogeneous loans, (3) the allowance for loans exposed to specific country risk, and (4) the formula allowance. Each of these components is determined based upon estimates that can change at any time and do change before or when the actual events occur. The allowance for specifically identified problem loans, which represents large-balance, non-homogeneous loans that have been individually determined to be impaired, employs various techniques to arrive at an estimate of loss. We use historical loss information, discounted cash flows, fair value of collateral and secondary market information to estimate probable losses. We evaluate large groups of smaller-balance homogeneous loans collectively for impairment, and establish the allowance for such loans through a process that begins with estimates of probable losses inherent in the portfolio, based upon various analyses, including historical delinquency and credit loss experience. The allowance for loans exposed to specific country risk is based on an estimate of probable losses relating to our exposure to countries that we identify as having a high degree of transfer risk. We use a country risk grading system that assigns risk ratings to individual countries. To determine the risk rating, we consider the instability of foreign currency and difficulties regarding our borrowers' ability to service their debt. The formula allowance employs a modelling technique adopting historical losses as an indicator of future losses and as a result could differ from the loss incurred in the future. However, since this history is updated with the most recent loss information, the differences that might otherwise occur are mitigated to some extent. The use of these values, particularly estimated future cash flows and collateral values for illiquid assets, is inherently subjective and our actual losses could be greater or less than the estimates. The unallocated allowance captures losses that are attributable to various economic events, industry or geographic sectors whose impact on the portfolio have occurred but have yet to be recognized in the allocated allowance. For further information regarding our allowance for credit losses, see "—Financial Condition—Allowance for Credit Losses, Nonperforming and Past Due Loans."

Valuation Allowance for Deferred Tax Assets

A valuation allowance for deferred tax assets is provided if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. All available evidence, both positive and negative, must be considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Future realization of the tax benefit of an existing deductible temporary difference or carryforward ultimately depends on the existence of sufficient taxable income within the loss carryforward period of 5 years under the Japanese tax law.

In determining a valuation allowance, we perform a review of future taxable income, exclusive of reversing temporary differences and carryforwards, and future reversals of existing taxable temporary differences. Due to losses in recent years and continuing weak economic conditions, the determination of the valuation allowance involves difficult judgment to estimate future taxable income.

Establishment of the valuation allowance is an inherently uncertain process involving estimates. As a result, our currently established allowance may not be sufficient. If our estimated allowance is not sufficient, we will incur additional deferred tax expense, which could be material to our operating results in future periods.

Valuation of Financial Instruments with No Available Market Prices

Certain assets and liabilities, including available-for-sale securities, trading accounts and derivatives, are reflected at their estimated fair values in the financial statements. For financial instruments with no available market prices, we determine fair values for the substantial majority of our portfolios based upon externally verifiable model inputs and quoted prices, such as exchange-traded prices and broker-dealer quotations of other comparable instruments, and use market interest rates in determining discount factors. All financial models, which are used for independent risk monitoring in addition to pricing each financial instrument, must be validated and periodically reviewed by qualified personnel independent of the division that created the model. The fair value of derivatives is determined based upon liquid market prices evidenced by exchange-traded prices, broker-dealer quotations or prices of other transactions with similarly rated counterparties. If available, quoted market prices provide the best indication of fair value. If quoted market prices are not available for fixed maturity securities and derivatives, we discount expected cash flows using market interest rates commensurate with the credit quality and maturity of the investment. Alternatively, we may use matrix or model pricing to determine an appropriate fair value (for example, option pricing models). In determining fair values, we consider various factors, including time value, volatility factors, and the values of underlying options, warrants and derivatives.

Recently Issued Accounting Pronouncements

On April 1, 2002, we adopted SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, as amended by SFAS No. 137 and SFAS No. 138, which changed the accounting treatment of derivative contracts which are used for hedging purposes, and certain derivative instruments embedded in other contracts. This statement requires all derivatives to be recorded on the balance sheet at their fair value. The accounting for changes in the fair value of derivatives depends on the character of the transaction, including whether it has been designated and qualifies as part of hedging relationship. The cumulative effect of adopting SFAS No. 133 at April 1, 2001 was an after-tax gain of ¥5.9 billion included in net loss and an increase of ¥1.3 billion included in other changes in shareholder’s equity from nonowner sources.

Effective July 1, 2001, we adopted the provisions of SFAS No. 141, “Business Combination,” and certain provisions of SFAS No. 142, “Goodwill and Other Intangible Assets” as required for goodwill and intangible assets resulting from business combinations consummated after June 30, 2001. These statements require that all business combinations initiated after June 30, 2001 be accounted for under the purchase method. The nonamortization provisions of the new rules affecting goodwill and intangible assets deemed to have indefinite lives are effective for all purchase business combinations completed after June 30, 2001. Based on the amortization expense recorded in the year ended March 31, 2002, we estimate that the elimination of goodwill amortization expense will increase net income by approximately ¥4.6 billion per annum subject to the impairment test. SFAS No. 142 became effective for us on April 1, 2002 and primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. SFAS No. 142 requires that goodwill be recorded at the reporting unit level for the impairment test. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. At March 31, 2002, we had unamortized goodwill of ¥11.7 billion. We have not completed the study of assessment of goodwill and cannot reasonably estimate the impact of the impairment loss, if any, as a result of the adoption of SFAS No. 142.

In August 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets by establishing additional criteria as compared to existing U.S. GAAP to determine when a long-lived asset is held for sale. It also broadens the definition of discontinued operations. We do not expect the adoption of SFAS No. 144 to have a material impact on our results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 are effective for fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB Opinion 30 for classification as an extraordinary item shall be reclassified. The provisions of SFAS 145 related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of SFAS No. 145 are effective for financial statements issued on or after May 15, 2002. We do not expect the adoption of SFAS No. 145 to have a material impact on our results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. This Statement improves financial reporting by requiring that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. We have not completed the assessment and cannot reasonably estimate the impact, if any, as a result of the adoption of SFAS No. 146.

Results of Operations

The following table sets forth a summary of our results of operations for the fiscal years ended March 31, 2000, 2001 and 2002:

	Year ended March 31,		
	2000	2001	2002
		(in billions)	
Interest income	¥1,787.0	¥1,896.7	¥1,671.2
Interest expense	900.6	1,100.0	783.1
Net interest income	886.4	796.7	888.1
Provision for credit losses	368.6	666.0	470.2
Non-interest income	539.1	665.1	503.6
Non-interest expense	927.7	897.5	1,139.5
Income (loss) before income tax expense or benefit and cumulative effect of a change in accounting principle	129.1	(101.7)	(218.0)
Income tax expense (benefit)	93.6	6.0	(79.5)
Loss before cumulative effect of a change in accounting principle	35.5	(107.7)	(138.5)
Cumulative effect of a change in accounting principle, net of tax	—	—	5.9
Net income (loss)	¥ 35.5	¥ (107.7)	¥ (132.7)

We recorded a ¥132.7 billion net loss, or ¥29.82 per share, for the fiscal year ended March 31, 2002, compared to a ¥107.7 billion net loss, or ¥24.47 per share, in the fiscal year ended March 31, 2001. Over the last three fiscal years, our results of operations have been materially affected by high levels of credit losses and a substantial increase in impaired loans as a result of the continuing weak economy, unprecedented levels of corporate bankruptcy filings, impaired collateral values resulting from the protracted decline in real estate values, and, as a result of the continuing declines in prices of marketable equity securities, significant write-downs of the securities.

As mentioned in "Introduction—Formation of Mitsubishi Tokyo Financial Group" above, Nippon Trust Bank has been deconsolidated effective April 2, 2001. For the fiscal year ended March 31, 2000, we reported ¥35.5 billion net income while Nippon Trust Bank recorded a net loss. Had the Nippon Trust Bank's net loss in the fiscal year ended March 31, 2000 not been reflected in our consolidated statement of operations for that period, our net income for that period would have been approximately ¥90 billion. The Nippon Trust Bank's net loss for the fiscal year ended March 31, 2000 primarily resulted from a provision for credit losses, investment securities losses and income tax expenses that resulted mainly from the change in effective tax rate. For the fiscal year ended March 31, 2001, we reported a ¥107.7 billion net loss while Nippon Trust Bank recorded net income. Had the Nippon Trust Bank's net income in the fiscal year ended March 31, 2001 not been reflected in our consolidated statement of operations for that period, our net loss for that period would have been approximately ¥130 billion. The Nippon Trust Bank's net income for the fiscal year ended March 31, 2001 primarily reflected investment securities gains. For the fiscal years ended March 31, 2000 and 2001, there were no individual income and expense line items that exceeded 5% of our corresponding consolidated income and expense line items except fee and commission income, investment securities gains (losses) and income tax expense (benefit). In addition, Nippon Trust Bank was engaged in fiduciary activities on behalf of others. Under some trust agreements, Nippon Trust Bank guaranteed the repayment of the principal of the customers' trust assets, and such guaranteed principal amount as of March 31, 2001 was ¥302 billion, which might expose Nippon Trust Bank to the credit and market risks in connection with the guarantees.

Net Interest Income

Net interest income is a function of:

- the amount of interest-earning assets and interest-bearing liabilities;
- the so-called "spread," or the difference between the rate of interest earned on interest-earning assets and the rate of interest paid on 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, primarily due to the difference in the average maturities of our domestic interest-bearing liabilities and our domestic interest-earning assets. The domestic interest-bearing liabilities have a shorter average maturity than the domestic interest-earning assets, and therefore such liabilities mature and are replaced more rapidly than such assets. As a result, in the absence of contrary hedging transactions, in general net interest income tends to increase when interest rates are declining and decrease when interest rates are rising. A stable but extremely low interest rate environment, such as the current environment in Japan, makes it difficult for us to obtain a sufficient spread to improve profitability and risk-return profile. If interest rates increase, in the short term net interest income is likely to decrease. However, if interest rates stabilize at a higher rate, we may be able to improve our spread and thereby increase net interest income.

The Bank of Japan has maintained a near zero interest rate policy since March 2001 and cut 15 basis points from the official discount rate, to 0.10%, in September 2001. As a consequence of the policy of near zero interest rates, interest rates on ordinary deposits stayed at 0.02% per annum and the short-term prime lending rate, which serves as the benchmark for loans of less than one year, remained at 1.375% per annum during the fiscal year ended March 31, 2002. In connection with the end of full government protection on bank deposits, we lowered our interest rates on ordinary deposits from 0.02% to 0.001%, a record low, effective April 2002.

The following is a summary of the interest rate spread in the fiscal years ended March 31, 2000, 2001 and 2002:

	Year ended March 31,					
	2000		2001		2002	
	Average balance	Average Rate	Average balance	Average Rate	Average balance	Average Rate
	(in billions, except percentages)					
Interest-earning assets:						
Domestic	¥50,185.7	1.58%	¥ 48,912.9	1.51%	¥46,635.7	1.42%
Foreign	16,918.2	5.89	18,698.5	6.20	21,322.1	4.72
Total	¥67,103.9	2.66%	¥ 67,611.4	2.81%	¥67,957.8	2.46%
Financed by:						
Interest-bearing funds:						
Domestic	¥44,979.0	0.72%	¥ 45,152.5	0.84%	¥47,040.2	0.52%
Foreign	14,141.6	4.09	15,474.8	4.67	15,189.5	3.53
Total	59,120.6	1.52	60,627.3	1.81	62,229.7	1.26
Non-interest-bearing funds	7,983.3	—	6,984.1	—	5,728.1	—
Total	¥67,103.9	1.34%	¥ 67,611.4	1.63%	¥67,957.8	1.15%
Spread on:						
Interest-bearing funds		1.14%		1.00%		1.20%
Total funds		1.32%		1.18%		1.31%

Fiscal Year Ended March 31, 2002 Compared to Fiscal Year Ended March 31, 2001

Net interest income in the fiscal year ended March 31, 2002 was ¥888.1 billion, an increase of ¥91.4 billion, or 11.5%, from ¥796.7 billion in the fiscal year ended March 31, 2001. Although interest income and interest expenses both decreased during the fiscal year ended March 31, 2002 due to the declining interest rate environment in Japan and overseas, an increase in average foreign interest-earning assets (not matched by an increase in average foreign interest-bearing funds) contributed to the increase in net interest income. Average foreign interest-earning assets increased ¥2,623.6 billion, or 14.0%, to ¥21,322.1 billion in the fiscal year ended March 31, 2002 while average domestic interest-earning assets decreased ¥2,277.2 billion, or 4.7%, to ¥46,635.7 billion in the fiscal year ended March 31, 2002. The increase in average foreign interest-earning assets in the fiscal year ended March 31, 2002 primarily reflected an increase in average foreign investment securities of ¥1,031.4 billion and an increase in average foreign loans of ¥1,543.9 billion, which were primarily funded by an increase in domestic deposits. We often use foreign currency swaps in order to effectively hedge foreign currency exposures associated with foreign currency investments funded by yen-denominated liabilities. The average domestic deposits increased ¥1,753.0 billion to ¥34,541.0 billion in the fiscal year ended March 31, 2002. The increase in interest income due to the increase in average interest-earning assets was more than the decrease in interest expense due to the increase in average interest-bearing liabilities.

Net interest income as a percentage of average total interest-earning assets increased 13 basis points from 1.18% in the fiscal year ended March 31, 2001 to 1.31% in the fiscal year ended March 31, 2002. The average interest rate spread on interest-bearing funds increased 20 basis points from 1.00% in the fiscal year ended March 31, 2001 to 1.20% in the fiscal year ended March 31, 2002. Although the total interest rate spread increased in the fiscal year ended March 31, 2002, this increase did not materially contribute to the increase in total net interest income. The average interest rate spread between foreign interest-earning assets and foreign interest-bearing liabilities in the fiscal year ended March 31, 2002 decreased 34 basis points while the average interest rate spread between domestic interest- earning assets and domestic interest-bearing liabilities increased 23 basis points. The decrease in average foreign interest rate spread is primarily due to a decline in average interest rates on foreign currency denominated assets, principally investment securities and loans, under the declining interest environment in the United States and other foreign countries. The increase in average domestic interest rate spread is primarily due to the decrease in average interest rates on deposits, resulting from customers shifting funds from time deposits to demand deposits bearing record low interest in anticipation of the upcoming termination of protection of deposit in Japan. The decrease in net interest income due to the decreased average interest rate spread on foreign activities, more than offset the increase in net interest income due to the increased spread on domestic activities.

Net interest income in the fiscal year ended March 31, 2002 included a net gain of approximately ¥7.6 billion resulting from derivative financial instruments used for hedging purposes while net interest income in the fiscal year ended March 31, 2001 included such gain of ¥1.6 billion. These net gains increased our net interest margin 0.3 basis points in the fiscal year ended March 31, 2001 and 1.1 basis points in the fiscal year ended March 31, 2002.

Fiscal Year Ended March 31, 2001 Compared to Fiscal Year Ended March 31, 2000

Net interest income in the fiscal year ended March 31, 2001 was ¥796.7 billion, a decrease of ¥89.7 billion, or 10.1%, from ¥886.4 billion in the fiscal year ended March 31, 2000. The decrease in net interest income was primarily attributable to a decline in spread. Net interest income as a percentage of average total interest-earning assets decreased 14 basis points from 1.32% in the fiscal year ended March 31, 2000 to 1.18% in the fiscal year ended March 31, 2001. The decline in spread in the fiscal year ended March 31, 2001 reflected the rising interest rate environment in Japan in the second half of the fiscal year ended March 31, 2001 and the intensifying competition among lenders for retail customers under the weak economic conditions in Japan. In addition, reflecting the rising interest rate environment in the first half of the fiscal year ended March 31, 2001 in the United States and elsewhere, the average interest rate on foreign interest-earning assets increased to 6.20% and foreign interest-bearing funds increased to 4.67%, while the spread declined 14 basis points in the fiscal year ended March 31, 2001 compared to the previous year.

See "—Selected Statistical Data—I—Distribution of Assets, Liabilities and Shareholder's Equity; Interest Rates and Interest Differential—Average Balance Sheets, Interest and Average Rates" for more detailed analysis of interest rate spread.

Provision for Credit Losses

Provision for credit losses is 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" and "—Risk Management" for a description of the approach and methodology used to establish the allowance for credit losses.

Fiscal Year Ended March 31, 2002 Compared to Fiscal Year Ended March 31, 2001

The provision for credit losses in the fiscal year ended March 31, 2002 was ¥470.2 billion, representing a decrease of ¥195.8 billion, or 29.4%, from ¥666.0 billion in the fiscal year ended March 31, 2001. The decrease in provision for credit losses in the fiscal year ended March 31, 2002 was primarily attributable to a decrease of ¥250.2 billion in impaired loans. The provision for credit losses, while high in the fiscal year ended March 31, 2002, declined from the prior year's level. In the fiscal year ended March 31, 2001, provisions for credit losses were high primarily because of a significant increase in impaired loans, in particular restructured loans, as compared with the previous year.

Fiscal Year Ended March 31, 2001 Compared to Fiscal Year Ended March 31, 2000

The provision for credit losses in the fiscal year ended March 31, 2001 was ¥666.0 billion, representing an increase of ¥297.4 billion, or 80.7%, from ¥368.6 billion in the fiscal year ended March 31, 2000. The increase in provision for credit losses in the fiscal year ended March 31, 2001 was primarily attributable to an increase of

¥1,524.2 billion in impaired loans, which was partially offset by a decrease in the formula allowance for substandard, special mention and unclassified loans. In addition, during the fiscal year ended March 31, 2001, we refined our methodology for estimating credit losses. Under the revised methodology, credit exposures, default and recovery ratios are three essential factors considered in establishing the formula allowance. The revision to our methodology resulted in an increase of ¥17.6 billion in provision for credit losses for the fiscal year ended March 31, 2001, accounting for 5.9% of total increase in provision for credit losses.

Non-Interest Income

The following table is a summary of our non-interest income in the fiscal years ended March 31, 2000, 2001 and 2002:

	Year ended March 31,		
	2000	2001	2002
		(in billions)	
Fees and commissions:			
Trust fees	¥ 37.4	¥ 36.4	¥ 22.4
Fees on funds transfer service charges for collection	52.6	56.1	56.2
Commission and fees on international business	36.1	50.5	52.5
Fees and commissions on credit card business	—	47.8	50.9
Service charges on deposits	19.6	22.7	29.8
Other fees and commissions	110.5	128.1	130.0
Total fees and commissions	256.2	341.6	341.8
Trading account profits—net	—	195.2	111.1
Foreign exchange gains—net	117.3	—	—
Investment securities gains—net	132.5	94.4	11.7
Other	33.1	33.9	39.1
Total non-interest income	¥539.1	¥665.1	¥503.6

Non-interest income includes, in addition to fees and commissions and other non-interest income, net trading account profits, net foreign exchange gains and net investment securities gains. If we have net losses in any of those categories for a particular period, those net losses would not be reflected in non-interest income but would be included in the non-interest expense category.

Net trading account profits or losses primarily include net gains or losses on trading securities and interest rate derivative instruments held for trading purposes. Derivative instruments for trading purposes also include those used as economic hedges of net exposures rather than specifically identified assets or liabilities, which do not meet the specific criteria for hedge accounting. Trading account assets and liabilities are carried at fair value, and changes in the value of trading account assets and liabilities, except foreign exchange derivatives, are recorded in net trading account profits or losses.

Net foreign exchange gains or losses include net gains or losses on foreign exchange derivative instruments held for trading purpose, and transaction gains or losses on the translation into Japanese yen of foreign denominated assets and liabilities, including long-term debts denominated in foreign currencies.

Net investment securities gains or losses include net gains or losses on sales of marketable securities, particularly marketable equity securities. In addition, impairment losses are recognized as part of net investment securities gains or losses when our management concludes that declines in fair value for certain marketable securities are other than temporary. We have recognized high levels of impairment losses in recent years as fair values continued to decline in weak equity markets in Japan.

Fiscal Year Ended March 31, 2002 Compared to Fiscal Year Ended March 31, 2001

Non-interest income in the fiscal year ended March 31, 2002 was ¥503.6 billion, a decrease of ¥161.5 billion, or 24.3%, from ¥665.1 billion in the fiscal year ended March 31, 2001. The decrease in non-interest income was primarily attributable to a decrease in net trading account profits of ¥84.1 billion and a decrease in net investment securities gains of ¥82.7 billion. These decreases were partially offset by an increase in other non-interest income of ¥5.2 billion.

Fees and commissions in the fiscal year ended March 31, 2002 were ¥341.8 billion, an increase of ¥0.2 billion or 0.05%, from ¥341.6 billion in the fiscal year ended March 31, 2001. The increase in fees and commissions was due primarily to an increase of ¥2.0 billion in commission and fees on international business, an increase of ¥3.1 billion in fees and commission on credit card business, an increase of ¥7.1 billion in service charges on deposits and an increase of ¥1.9 billion in other fees and commissions. These increases were partially offset by a decrease of ¥14 billion in trust fees. Other fees and commissions primarily include fees on issuing guaranties, fees on underwriting business, and commissions on custodial services. These fees and commissions have increased in recent years partially because of strengthened investment banking and asset management businesses. Also, the yen depreciation against US dollar and other foreign currencies increased the level of fees and commissions received by overseas subsidiaries and branches. In terms of the average exchange rate, the yen depreciated approximately 13% against US dollar for the fiscal year ended March 31, 2002 and for calendar 2001 compared with the previous corresponding year.

Trading account profits-net decreased ¥84.1 billion, or 43.1%, to ¥111.1 billion in the fiscal year ended March 31, 2002. The net trading account profits for the fiscal years ended March 31, 2001 and 2002 consisted of the following:

	Year ended March 31,	
	2001	**2002**
	(in billions)	
Net profits on derivative instruments, primarily interest rate futures, swaps and options	¥159.0	¥120.9
Net profits (losses) on trading securities	36.2	(9.8)
Total net profits	¥195.2	¥111.1

The decrease in net profits on derivative instruments was due primarily to a decrease in gains on foreign currency interest rate swaps principally used for risk management purposes, partially offset by an increase in gains on foreign currency interest rate futures. As our foreign currency-denominated interest rate swap portfolio was in a net receive-variable and pay-fix position, our portfolio lost value under the declining interest rates for debt denominated in US dollar and other foreign currencies in the fiscal year ended March 31, 2002. The loss was partially offset by a gain from long positions of foreign currency-denominated interest rate futures in our trading activities. As these derivatives used to manage interest rate exposures do not meet the specified criteria for hedge accounting, we accounted for such derivatives as trading instruments. The net losses on trading securities for the fiscal year ended March 31, 2002 as compared with the net profits for the previous fiscal year were due primarily to unfavorable financial markets in which interest rates were stable but low.

Net investment securities gains in the fiscal year ended March 31, 2002 were ¥11.7 billion, representing a decrease of ¥82.7 billion, or 87.6%, from net gains of ¥94.4 billion in the fiscal year ended March 31, 2001. Major components of net investment securities gains in the fiscal year ended March 31, 2001 and 2002 are summarized below:

	Year ended March 31,	
	2001	2002
	(in billions)	
Net gains on sales of marketable equity securities	¥ 270.1	¥ 186.6
Impairment losses on marketable equity securities	(228.6)	(199.4)
Other—net	52.9	24.5
Net investment securities gains	¥ 94.4	¥ 11.7

The Japanese stock markets have experienced a significant downturn in recent years. The Nikkei Stock Average declined 15.2% from 12,999.70 at March 30, 2001 to 11,024.94 at March 29, 2002, and the Tokyo Stock Price Index, or TOPIX, which is a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, declined 17.0% from 1,277.27 at March 30, 2001 to 1,060.19 at March 29, 2002.

The decrease in net gains on sale of marketable equity securities in the fiscal year ended March 31, 2002 was due primarily to declining market prices and an increase in losses on sales of equity securities with relatively high cost bases. Net investment securities gains included gross realized gains on sales of available-for-sale securities of ¥398.5 billion in the fiscal year ended March 31, 2001 and ¥305.9 billion in the fiscal year ended March 31, 2002. In the fiscal year ended March 31, 2001, we selectively sold equity securities with relatively low cost bases. In the fiscal year ended March 31, 2002, new legislation was enacted that requires banks, including us, to reduce their stock holdings to levels not exceeding their Tier I capital by September 30, 2004. To comply with this new law, we have to reduce our strategic shareholdings and may have to sell shares even where losses would be realized on the sales or under conditions that are unfavorable to us.

The decrease in impairment losses on marketable equity securities in the fiscal year ended March 31, 2002 is mainly due to the absence of the impairment losses of Nippon Trust Bank, due to the deconsolidation of Nippon Trust Bank.

Other net gains for the fiscal years ended March 31, 2001 and 2002 primarily reflected net gains on our sales of bonds, principally Japanese government bonds and bonds issued by foreign governments. The net gains on sales of domestic bonds in the fiscal year ended March 31, 2002 decreased under a stable but low interest rate environment, while the net gains on sales of foreign bonds in the fiscal year ended March 31, 2002 increased under a declining interest rate environment.

Other non-interest income includes lease income under operating lease agreements, income on interbank refinancing and other sundry income. Other non-interest income in the fiscal year ended March 31, 2002 increased ¥5.2 billion, or 15.1%, to ¥39.1 billion in the fiscal year ended March 31, 2002. The increase primarily reflected an increase in sundry income of overseas operations such as lease income due primarily to the yen depreciation against US dollars and other foreign currencies, and sundry income of domestic subsidiaries.

Fiscal Year Ended March 31, 2001 Compared to Fiscal Year Ended March 31, 2000

Non-interest income in the fiscal year ended March 31, 2001 was ¥665.1 billion, an increase of ¥126.0 billion, or 23.4%, from ¥539.1 billion in the fiscal year ended March 31, 2000. The increase in non-interest income was attributable primarily to a net trading account profit of ¥195.2 billion in the fiscal year ended March 31, 2001 compared to a net trading account loss of ¥18.5 billion in the fiscal year ended March 31, 2000, and an increase in fees and commissions of ¥85.4 billion. These increases were partially offset by net foreign exchange losses of

¥49.7 billion being reported in non-interest expense compared to foreign exchange net gains of ¥117.3 billion for the fiscal year ended March 31, 2000 and a decrease in net investment securities gains of ¥38.1 billion.

The increase in fees and commissions in the fiscal year ended March 31, 2001 was due primarily to inclusion of the results of DC Card Co., Ltd., which was newly consolidated at the end of the fiscal year ended March 31, 2000, contributing significantly to the ¥47.8 billion increase in fees and commissions generated by our credit card business, fees on issuing guarantees, fees on underwriting business, service charges on deposits of overseas offices, and commissions on custodial services.

Trading activities improved from net trading account losses of ¥18.5 billion in the fiscal year ended March 31, 2000 to net trading account profits of ¥195.2 billion in the fiscal year ended March 31, 2001.

Net trading account profits (losses) for the fiscal years ended March 31, 2000 and 2001 consisted of the following:

	Year ended March 31,	
	2000	**2001**
	(in billions)	
Net profits on derivative instruments, primarily interest rate futures, swaps and options	¥ 4.3	¥159.0
Net profits (losses) on trading securities	(22.8)	36.2
Total net profits (losses)	¥(18.5)	¥195.2

The net trading account profits for the fiscal year ended March 31, 2001 included ¥159.0 billion net profits on interest rate and other derivatives, primarily reflecting market conditions favorable to our interest rate derivative positions in a declining interest rate environment principally in Japan and the United States, and trading securities net profits of ¥36.2 billion.

Net investment securities gains in the fiscal year ended March 31, 2001 decreased ¥38.1 billion from ¥132.5 billion in the fiscal year ended March 31, 2000 to ¥94.4 billion. Major components of net investment securities gains in the fiscal years ended March 31, 2000 and 2001 are summarized below:

	Year ended March 31,	
	2000	**2001**
	(in billions)	
Net gains on sales of marketable equity securities	¥ 299.7	¥ 270.1
Impairment losses on marketable equity securities	(133.8)	(228.6)
Other—net	(33.4)	52.9
Net investment securities gains	¥ 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 the fiscal years ended March 31, 2000 and 2001 reflected continued declines in fair value under sluggish equity markets as well as an overall worsening of investees' financial conditions in Japan. In particular, the Japanese stock markets experienced a significant downturn throughout the fiscal year ended March 31, 2001, which resulted in an increase in impairment losses of ¥94.8 billion, or 70.9%, from the fiscal year ended March 31, 2000. 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 earnings 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.

Non-Interest Expense

The following table shows a summary of non-interest expense in the fiscal years ended March 31, 2000, 2001 and 2002:

	Year ended March 31,		
	2000	2001	2002
	(in billions)		
Salaries and employee benefits	¥344.9	¥327.4	¥ 364.0
Occupancy expenses—net	101.2	105.3	102.4
Trading accounts losses—net	18.5	—	—
Foreign exchange losses—net	—	49.7	184.5
Losses on other real estate owned	68.4	15.8	5.0
Goodwill amortization	3.5	4.5	4.6
Other	391.2	394.8	479.0
Total non-interest expense	¥927.7	¥897.5	¥1,139.5

Fiscal Year Ended March 31, 2002 Compared to Fiscal Year Ended March 31, 2001

Non-interest expense in the fiscal year ended March 31, 2002 was ¥1,139.5 billion, an increase of ¥242 billion, or 27.0%, from ¥897.5 billion in the fiscal year ended March 31, 2001. The increase primarily reflected an increase in salaries and employee benefits of ¥36.6 billion, an increase in net foreign exchange losses of ¥134.8 billion, and an increase in other non-interest expenses of ¥84.2 billion.

Salaries and employee benefits in the fiscal year ended March 31, 2002 were ¥364.0 billion, an increase of ¥36.6 billion, or 11.2%, from ¥327.4 billion in the fiscal year ended March 31, 2001. The increase in salaries and employee benefits primarily reflected an increase in net periodic pension costs, as well as an increase in amounts paid to employees outside Japan, whose salaries and other benefits denominated in currencies other than yen increased due to the depreciation of the yen against the US dollar and other foreign currencies. These increases were partially offset by a decrease in salary expense resulting from a reduction in the number of employees.

The increase in net periodic pension costs was due primarily to an increase in amortization of net actuarial loss and a decrease in expected return on plan assets. In accordance with SFAS No. 87, "Employers' Accounting for Pensions," the minimum amortization of actuarial loss was included as a component of net periodic pension cost in the fiscal year ended March 31, 2002 as the unrecognized net actuarial loss exceeded 10% of the projected benefit obligation. The decrease in expected return on plan assets for our domestic plans resulted from a decrease in expected rate of return on plan assets from 5.17% in the fiscal year ended March 31, 2001 to 4.91% in the fiscal year ended March 31, 2002. Plan assets, which include pension trust funds managed by certain life insurance companies, investment advisory companies and trust banks, consisted of interest-earning deposits at banks, Japanese government bonds, other debt securities and marketable equity securities issued by domestic and foreign entities. Pension assets managed by insurance companies are included in pooled investment portfolios. Expected rates of return on plan assets are reviewed annually and computed primarily based on the historical average of long-term returns on such assets to avoid a significant fluctuation caused by short-term market volatility. The continuously depressed Japanese economy has an influence on domestic equity and debt securities markets. As a result, with respect to the domestic plans, the actual return on the plan assets was negative by ¥39.8 billion in the fiscal year ended March 31, 2001 and negative by ¥39.9 billion in the fiscal year ended March 31, 2002.

Net occupancy expenses in the fiscal year ended March 31, 2002 were ¥102.4 billion, a decrease of ¥2.9 billion, or 2.7%, from ¥105.3 billion in the fiscal year ended March 31, 2001. The decrease was due primarily to the closing and consolidation of offices, which was partially offset by an increase in overseas occupancy expenses resulting from the depreciation of the yen against the US dollar and other foreign currencies.

Net foreign exchange losses in the fiscal year ended March 31, 2002 were ¥184.5 billion, an increase of ¥134.8 billion from ¥49.7 billion in the fiscal year ended March 31, 2001. Major components of net foreign exchange gains or losses in the fiscal years ended March 31, 2001 and 2002 are summarized below:

	Year ended March 31,	
	2001	**2002**
	(in billions)	
Transaction losses on translation of foreign currency long-term debt	¥(35.5)	¥ (18.7)
Net losses on foreign exchange contracts entered into for trading purposes	8.6	(45.0)
Other—net	(22.8)	(120.8)
Total foreign exchange losses—net	¥(49.7)	¥(184.5)

Losses on translation of foreign currency long-term debt in the fiscal year ended March 31, 2002 reflected the depreciation of the yen against the US dollar and other foreign currencies. We had net losses on foreign exchange contracts entered into for trading purposes in the fiscal years ended March 31, 2002 under the unfavorable foreign exchange markets. Other foreign exchange net losses, included in "Other—net," in the fiscal year ended March 31, 2002 partially reflected the fact that foreign-currency-denominated liabilities used to hedge the foreign currency exposure of available-for-sale debt securities no longer qualified as hedging instruments under SFAS No. 133 since April 1, 2001 and, therefore, the transaction losses on such liabilities were recognized in earnings in the fiscal year ended March 31, 2002.

Losses on other real estate owned in the fiscal year ended March 31, 2002 were ¥5.0 billion, a decrease of ¥10.8 billion, or 68.4%, from ¥15.8 billion in the fiscal year ended March 31, 2001. Losses on other real estate owned include valuation losses, operating expenses and net losses on sales of real estate. Losses on other real estate owned in recent years resulted mainly from the continuing decline in real estate values in Japan, evidenced by average declines in government-appraised land prices of 5.2% for residential areas and 8.3% for commercial areas in calendar 2001. However, losses on other real estate owned decreased in the fiscal year ended March 31, 2002 as we reduced our other real estate owned from ¥33.0 billion at March 31, 2001 to ¥11.5 billion at March 31, 2002 through asset sales to third parties.

Goodwill amortization in the fiscal year ended March 31, 2002 was ¥4.6 billion, an increase of ¥0.2 billion, or 2.5%, from ¥4.4 billion in the fiscal year ended March 31, 2001.

Other non-interest expenses in the fiscal year ended March 31, 2002 were ¥479.0 billion, an increase of ¥84.2 billion, or 21.3%, from ¥394.8 billion in the fiscal year ended March 31, 2001. The increase in other non-interest expenses was primarily due to an increase of ¥33.8 billion in provision for credit losses on off-balance sheet instruments, an increase of ¥13.6 billion in overseas operating expenses, and an increase in fees paid to outside servicers. The increase in overseas operating expenses primarily reflected the depreciation of the yen against the US dollar and other foreign currencies and an increase in advertising and other operating expenses of UnionBanCal Corporation.

Fiscal Year Ended March 31, 2001 Compared to Fiscal Year Ended March 31, 2000

Non-interest expense in the fiscal year ended March 31, 2001 was ¥897.5 billion, a decrease of ¥30.2 billion, or 3.3%, from ¥927.7 billion in the fiscal year ended March 31, 2000. The decrease primarily reflected a decrease in losses on other real estate owned of ¥52.6 billion, and net trading account profits being recorded as non-interest income in the fiscal year ended March 31, 2001 compared to net trading account losses of ¥18.5 billion being reported in the fiscal year ended March 31, 2000. These decreases were partially offset by net foreign exchange losses of ¥49.7 billion in the fiscal year ended March 31, 2001 compared to net foreign exchange gains of ¥117.3 billion being reported in the fiscal year ended March 31, 2000.

Net foreign exchange losses in the fiscal year ended March 31, 2001 were ¥49.7 billion, compared to net foreign exchange gains of ¥117.3 billion in the fiscal year ended March 31, 2000. Major components of net foreign exchange gains or losses, as the case may be, in the fiscal years ended March 31, 2000 and 2001 are summarized below:

	Year ended March 31,	
	2000	2001
	(in billions)	
Transaction gains (losses) on translation of foreign currency long-term debt	¥ 28.8	¥(35.5)
Net gains (losses) on foreign exchange contracts entered into for trading purposes	76.3	8.6
Other—net	12.2	(22.8)
Total foreign exchange gains (losses)—net	¥117.3	¥(49.7)

The change to net foreign exchange losses of ¥49.7 billion in the fiscal year ended March 31, 2001 from net foreign exchange gains of ¥117.3 billion in the fiscal year ended March 31, 2000 was due primarily to translation losses on foreign currency long-term debts resulting from the depreciation of the yen against the US dollar and other foreign currencies and net losses on foreign exchange contracts entered into for trading purposes in the fiscal year ended March 31, 2001.

The decrease in losses on other real estate owned in the fiscal year ended March 31, 2001 was due primarily to a decrease in valuation losses on other real estate owned as we reduced our other real estate owned from ¥62.7 billion at March 31, 2000 to ¥33.0 billion at March 31, 2001 through asset sales to third parties.

Income Tax Expense (Benefit)

The following table presents a summary of our income tax expense or benefit:

	Year ended March 31,		
	2000	2001	2002
	(in billions)		
Income (loss) before income tax expense or benefit	¥129.1	¥(101.7)	¥(218.0)
Income tax expense (benefit)	¥ 93.6	¥ 6.0	¥ (79.5)
Effective tax rate	72.5%	5.9%	36.5%
Normal effective statutory tax rate	42.0%	38.6%	38.0%

Effective April 1, 2000, the normal effective statutory income tax rate decreased to 38.6% as a result of a change in the local taxation. The Tokyo Metropolitan Assembly enacted a new tax law on March 30, 2000 that changed the basis on which it taxes large banks doing business in Tokyo, including us, from a tax based on regional income to a tax based on gross operating income attributable to the operations in Tokyo. Effective April 1, 2001, the normal effective statutory income tax rate further decreased to 38.0% as a result of the change in the local taxation as the Osaka Prefectural Assembly passed a new tax law that is substantially the same as the law approved by the Tokyo Metropolitan Assembly. The effect of the decreases in income tax rates on our net deferred tax assets was an increase of ¥1.3 billion in income tax expense in the fiscal year ended March 31, 2000 and an increase of ¥8.5 billion in income tax expense in the fiscal year ended March 31, 2001. The new local taxes have been accounted for as non-interest expenses.

As discussed in "—Recent Developments—Legal Proceedings for Local Taxes" above, the Tokyo District Court rejected the new tax enacted by the Tokyo Metropolitan Assembly on March 26, 2002. The court ordered the Tokyo Metropolitan Government to refund ¥72.4 billion in tax payments to 18 major banks and to pay an additional ¥1.8 billion in compensation. On March 29, 2002, the Tokyo Metropolitan Government appealed to the Tokyo High Court. We incurred and paid ¥14.7 billion for the new taxes during the fiscal year ended

March 31, 2001. Following the decision of the Tokyo District Court, 16 major banks filed a lawsuit on April 4, 2002 with the Osaka District Court against the Osaka Prefectural Government, seeking to nullify the new Osaka tax rule. We incurred and paid ¥14.6 billion in local taxes applicable to the fiscal year ended March 31, 2002 to the Tokyo Metropolitan Government. We also accrued ¥2.4 billion in local taxes imposed by Osaka Prefectural Government, but we have not paid the local taxes because the revision of the local tax rule subsequently made such accrual unnecessary. To date, there have been no decisions made by the Tokyo High Court and the Osaka District Court. As it is not certain how these cases are finalized until the legal process is complete, we have not recorded any gain in our consolidated financial statements.

In June 2002, the Japanese Diet enacted amendments to national corporate income tax laws, which include the introduction of a consolidated corporate-tax system. The consolidated corporate-tax system is to be applied to fiscal years beginning on and after April 1, 2002. The new system allows companies to base tax payments on the combined profits or losses of a parent company and its wholly owned domestic subsidiaries. A parent company may elect to pay national income taxes based on the consolidated corporate-tax system or the previously existing corporate-tax system which did not permit consolidated tax reporting. A company that elects to pay national income taxes based on the consolidated corporate-tax system, is required to pay a surcharge tax of 2% of taxable income in addition to the national income tax rate based on the previously existing individual corporate-tax system of 30% until the fiscal year ending March 31, 2004.

Mitsubishi Tokyo Financial Group has not decided whether it will elect to pay national income taxes based on the consolidated corporate-tax system for the fiscal year ending March 31, 2003. We cannot reasonably estimate what the impact of the adoption of consolidated corporate-tax system would be on our financial condition and results of operations compared with the existing individual corporate-tax system, because interpretations and detail guidelines for the computation of taxable income have not been released.

Reconciling items between combined normal effective statutory tax rates and effective income tax rates for the fiscal years ended March 31, 2000, 2001 and 2002 are summarized as follows:

	Year ended March 31,		
	2000	**2001**	**2002**
Combined normal effective statutory tax rate	42.0%	(38.6)%	(38.0)%
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	6.8	2.1	0.3
Goodwill amortization	0.5	1.3	0.8
Nontaxable dividends received	5.9	8.5	3.8
Foreign tax credit	(5.5)	(3.2)	(2.4)
Lower tax rates applicable to income of foreign subsidiaries	(5.1)	(3.7)	(4.3)
Foreign income exempted for income tax purpose	(2.2)	(2.1)	(0.7)
Foreign tax assessment (refund)	(4.7)	1.1	(1.0)
Minority interest	6.0	6.4	4.0
Change in valuation allowance	9.7	3.5	17.2
Expiration of loss carryforwards of subsidiaries	17.9	25.9	—
Enacted change in tax rates	1.0	8.4	—
Realization of previously unrecognized tax benefits of subsidiaries	—	—	(16.6)
Other—net	0.2	(3.7)	0.4
Effective income tax rate	72.5%	5.9%	(36.5)%

The effective income tax rate of 36.5% in the fiscal year ended March 31, 2002 was 1.5 points lower than the combined normal effective statutory tax rate of 38.0%. The lower effective income tax rate in the fiscal year ended March 31, 2002 was attributable primarily to a change in valuation allowance. Valuation allowance is provided against the portion of deferred tax assets where it is more likely than not that such assets will not be realized. The valuation allowance provided against deferred tax assets decreased ¥70.2 billion from ¥205.4

billion at March 31, 2001 to ¥135.2 billion at March 31, 2002. The decrease was mainly due to the absence of valuation allowance for net operating loss carryforward of Nippon Trust Bank, amounting to ¥80.3 billion, resulting from the exclusion of Nippon Trust Bank from consolidation in the fiscal year ended March 31, 2002. This decrease did not have an impact on the effective tax rate because Nippon Trust Bank's operations were excluded since the beginning of the fiscal year and, accordingly, the impact was not reflected in the reconciling items above. Excluding the impact of Nippon Trust Bank, the valuation allowance increased ¥10.1 billion principally due to an increase in operating loss carry forwards of certain subsidiaries. The effect of the increase in valuation allowance was partially offset by the realization of previously unrecognized tax benefits of subsidiaries.

Total valuation allowance against deferred tax assets 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 the fiscal year ended March 31, 2001 comprised an increase of ¥38.3 billion in valuation allowance of non-bank subsidiaries, mainly Diamond Mortgage Co., Ltd., one of our subsidiaries, and a net decrease of ¥30.5 billion in valuation allowance, resulting primarily from the expiration of operating loss carry forwards of Nippon Trust Bank. As deferred tax assets for such operating loss carry forwards were fully reduced by the valuation allowance at March 31, 2000, the decrease in valuation allowance in the fiscal year ended March 31, 2001 had no impact on the income tax expense.

Business Segment Analysis

We measure the performance of each business segment in terms of "operating profit" in accordance with the Japanese banks' regulatory reporting requirements to the Financial Services Agency. Operating profit and other segment information are based on Japanese GAAP and is not consistent with our financial statements prepared on the basis of U.S. GAAP. For example, operating profit under Japanese GAAP does not reflect items such as general provisions for loan loss reserve, foreign exchange gains (losses) and equity investment securities gains (losses). Net revenue and operating expenses excluded from the measurement of "operating profit" are discussed in note 25 of the notes to our consolidated financial statements included elsewhere in this Annual Report.

As mentioned above, Nippon Trust Bank and Tokyo Trust Bank were merged with and into Mitsubishi Trust Bank on October 1, 2001. Our segment information for the fiscal years ended March 31, 2000 and 2001 was restated to exclude the operating results of Nippon Trust Bank and Tokyo Trust Bank.

We maintain our business unit system based on customer and product segmentation. Our major business units are:

- **retail banking,** which provides banking products and services to individuals and some small and medium-sized companies;
- **commercial banking,** which provides banking products and services to large corporations and some small and medium-sized companies;
- **global corporate banking,** which provides banking products and services to large corporations and some small and medium-sized companies, particularly those with banking needs outside of Japan, and overseas customers except for UNBC's customers;
- **investment banking,** which provides advisory and other services related to mergers and acquisitions, private and public securities offerings, project financing, derivatives and securitization and other investment banking activities;
- **asset management,** which is responsible for planning and supporting asset management products and services, and risk management of the trust and asset management subsidiaries;
- **UNBC,** which includes our subsidiaries in California, UnionBanCal Corporation and Union Bank of California, N.A.;

- **operations services,** which provides operations and settlement services to our other business units, including settlement and foreign exchange;
- **treasury,** which conducts our asset and liability management and liquidity management; and
- **other,** which consists of:
  - system services, which is responsible for our computer systems;
  - e-Business and IT Initiatives, which is responsible for developing information technology business opportunities;
  - the corporate center, which retains functions such as strategic planning, overall risk management, internal auditing and compliance within us; and
  - the elimination of duplicated amounts of net revenue among our other business segments.

Please refer to “Business—Bank of Tokyo-Mitsubishi” for further explanation of these business segments.

The following table shows the business segment information prepared in accordance with Japanese GAAP in the fiscal years ended March 31, 2000, 2001 and 2002:

	Retail Banking	Commercial Banking	Global Corporate Banking	Investment Banking	Asset Management	UNBC	Operations Services	Treasury	Other	Total
					(in billions)					
Fiscal year ended March 31, 2000:										
Net revenue	¥244.7	¥284.6	¥255.0	¥ 76.3	¥ 8.8	¥205.1	¥19.9	¥140.4	¥ (52.9)	¥1,181.9
Operating expenses	186.3	132.3	108.5	49.4	5.6	122.6	16.6	22.0	37.1	680.4
Operating profit	¥ 58.4	¥152.3	¥146.5	¥ 26.9	¥ 3.2	¥ 82.5	¥ 3.3	¥118.4	¥ (90.0)	¥ 501.5
Fiscal year ended March 31, 2001:										
Net revenue	¥301.5	¥286.7	¥270.6	¥ 94.3	¥ 8.8	¥256.2	¥22.4	¥105.1	¥ (27.2)	¥1,318.4
Operating expenses	231.3	130.5	124.5	72.1	12.7	131.9	18.1	23.2	146.8	891.1
Operating profit	¥ 70.2	¥156.2	¥146.1	¥ 22.2	¥(3.9)	¥124.3	¥ 4.3	¥ 81.9	¥(174.0)	¥ 427.3
Fiscal year ended March 31, 2002:										
Net revenue	¥283.1	¥297.7	¥282.1	¥114.5	¥ 8.9	¥295.9	¥21.5	¥207.1	¥ (58.3)	¥1,452.5
Operating expenses	230.6	126.8	134.6	72.6	13.9	163.6	17.6	28.4	57.0	845.1
Operating profit	¥ 52.5	¥170.9	¥147.5	¥ 41.9	¥(5.0)	¥132.3	¥ 3.9	¥178.7	¥(115.3)	¥ 607.4

Note—The segment information for the fiscal years ended March 31, 2000 and 2001 was restated to conform to the presentation for the fiscal year ended March 31, 2002 and to reflect deconsolidation of Nippon Trust Bank and Tokyo Trust Bank.

When our business units work together to provide services to customers, we assign the total amount of net revenue derived from those services to each participating business unit without dividing the net revenue. As a result, some items of net revenue are duplicated among the participating segments. The duplicated amounts are eliminated in the "Other" column. The following is a summary of the duplicated amounts between those segments shown in columns and those shown in the rows. The total of such duplicated amounts is included in "Other" in the table above.

	Commercial Banking	Global Corporate Banking	Asset Management	Total Amount Eliminated
		(in billions)		
Fiscal year ended March 31, 2000:				
Investment banking	¥3.8	¥21.8	¥0.6	¥26.2
Fiscal year ended March 31, 2001:				
Investment banking	¥5.6	¥28.0	¥0.5	¥34.1
Fiscal year ended March 31, 2002:				
Investment banking	¥7.8	¥30.2	¥ —	¥38.0

Fiscal Year Ended March 31, 2002 Compared to Fiscal Year Ended March 31, 2001

Total net revenue increased ¥134.1 billion, or 10.2%, from ¥1,318.4 billion in the fiscal year ended March 31, 2001 to ¥1,452.5 billion in the fiscal year ended March 31, 2002. The increase in total net revenue was due mainly to an increase of ¥102.0 billion in the treasury unit and an increase of ¥39.7 billion in the UNBC business unit. These increases were partially offset by a decrease of ¥18.4 billion in the retail banking business unit.

Total operating expenses decreased ¥46.0 billion, or 5.2%, from ¥891.1 billion in the fiscal year ended March 31, 2001 to ¥845.1 billion in the fiscal year ended March 31, 2002. The decrease in total operating expenses was due mainly to a decrease of ¥89.8 billion in operating expenses included in the "Other" column. The decrease was partially offset by an increase of ¥31.7 billion in the UNBC business unit due mainly to an increase in advertising and other operating expenses.

Net revenue of the retail banking business unit decreased ¥18.4 billion, or 6.1%, from ¥301.5 billion in the fiscal year ended March 31, 2001 to ¥283.1 billion in the fiscal year ended March 31, 2002. The decrease was mainly due to a decrease in net interest income of ¥21.3 billion, reflecting a decline in interest margins between interest rates offered to the depositors and interest rates applied for funds sold. The decline in interest margins was mainly due to a decrease in interest rates applied for funds sold, which was larger than a decrease in interest rates offered to the depositors.

Net revenue of the commercial banking business unit increased ¥11.0 billion, or 3.9%, from ¥286.7 billion in the fiscal year ended March 31, 2001 to ¥297.7 billion in the fiscal year ended March 31, 2002. The increase was mainly due to an increase of ¥4.0 billion in net fee income (mainly increases in commitment line fees and safe deposit box rental income), an increase of ¥3.9 billion in other income (mainly gains on derivative transactions), and an increase of ¥2.3 billion in revenues from a newly consolidated subsidiary.

Net revenue of the global corporate banking business unit increased ¥11.5 billion, or 4.2%, ¥270.6 billion in the fiscal year ended March 31, 2001 to ¥282.1 billion in the fiscal year ended March 31, 2002. The increase was mainly due to an increase of ¥7.9 billion in net fee income such as commitment line fees and fees on investment banking business. These increases were partially offset by an increase in foreign exchange losses relating to the economic crisis in Argentina.

Net revenue of the investment banking business unit increased ¥20.2 billion, or 21.5%, from ¥94.3 billion in the fiscal year ended March 31, 2001 to ¥114.5 billion in the fiscal year ended March 31, 2002. The increase was largely attributable to an increase of ¥5.9 billion in net interest income relating mainly to structured finance, an increase of ¥3.7 billion in net fee income relating mainly to securitization of loans and syndication of loans, and an increase of ¥4.5 billion in other income relating mainly to gains on derivative transactions. The revenues of subsidiaries also contributed to the increase.

Net revenue of the asset management business unit increased ¥0.1 billion, or 1.7%, from ¥8.8 billion in the fiscal year ended March 31, 2001 to ¥8.9 billion in the fiscal year ended March 31, 2002. The increase reflected an increase of ¥4.1 billion in net interest income, which primarily resulted from a decrease in funding costs. The increase was partially offset by a decrease in trust fees.

Net revenue of the UNBC business unit increased ¥39.7 billion, or 15.5%, from ¥256.2 billion in the fiscal year ended March 31, 2001 to ¥295.9 billion in the fiscal year ended March 31, 2002. The increase was largely due to the depreciation of the yen against the US dollar.

Net revenue of the operation services unit decreased ¥0.9 billion, or 4.1%, from ¥22.4 billion in the fiscal year ended March 31, 2001 to ¥21.5 billion in the fiscal year ended March 31, 2002, mainly due to a decrease in the volume of domestic operation and settlement services.

Net revenue of the treasury unit increased ¥102.0 billion, or 97.0%, from ¥105.1 billion in the fiscal year ended March 31, 2001 to ¥207.1 billion in the fiscal year ended March 31, 2002. The increase was mainly due to an increase in net interest income, which primarily reflected an increase in interest income on foreign currency treasury business, resulting from a decline in foreign currency interest rates and an increase in gains on investment in foreign bonds.

The decrease in operating expenses of "Other" column primarily reflected a significant decrease in the general provision for credit losses. Credit losses are reflected in the corporate center rather than being allocated to each business segment.

Fiscal Year Ended March 31, 2001 Compared to Fiscal Year Ended March 31, 2000

Total net revenue increased ¥136.5 billion, or 11.6%, from ¥1,181.9 billion in the fiscal year ended March 31, 2000 to ¥1,318.4 billion in the fiscal year ended March 31, 2001. An increase of ¥56.8 billion in the retail banking business unit and an increase of ¥51.1 billion in the UNBC business unit were primary contributors to the increase in net revenue, while a decline in the treasury business unit partially offset these increases.

The increase in net revenue of the retail banking business unit was primarily attributable to the addition of revenues of DC Card Co., Ltd., which was newly consolidated at the end of the fiscal year ended March 31, 2000. The increase in net revenue of the UNBC business unit was primarily attributable to the depreciation of the yen against the US dollar, an increase in net interest income, which resulted from an increase in average interest earning assets and improved net interest margin, and an increase in non-interest income, particularly growth in trust and investment management fees and merchant banking fees. The decrease in net revenue of the treasury business unit was principally due to the decrease in net revenue in yen-denominated treasury activities and losses on securities investment activities.

Total operating profit decreased ¥74.2 billion, or 14.8%, from ¥501.5 billion in the fiscal year ended March 31, 2000 to ¥427.3 billion in the fiscal year ended March 31, 2001. The decrease in total operating profit primarily resulted from an increase in operating expenses of the corporate center included in the "Other" column. 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.

Geographic Segment Analysis

The following table sets forth total revenue, income or loss before income taxes and net income or loss on a geographic basis based principally on the domicile of activities in the fiscal years ended March 31, 2000, 2001 and 2002:

	Year ended March 31,		
	2000	2001	2002
		(in billions)	
Total revenue (interest income and non-interest income):			
Domestic	¥1,239.4	¥1,205.2	¥ 948.2
Foreign:			
United States	545.4	628.6	609.9
Europe	194.8	307.3	268.1
Asia/Oceania excluding Japan	205.2	250.5	242.5
Other Areas*	141.3	170.2	106.1
Total foreign	1,086.7	1,356.6	1,226.6
Total	¥2,326.1	¥2,561.8	¥2,174.8
Income (loss) before income tax expense or benefit:			
Domestic	¥ (60.2)	¥ (389.6)	¥ (395.9)
Foreign:			
United States	76.6	45.4	35.9
Europe	10.3	92.7	42.6
Asia/Oceania excluding Japan	55.6	94.8	54.0
Other Areas*	46.8	55.0	45.4
Total foreign	189.3	287.9	177.9
Total	¥ 129.1	¥ (101.7)	¥ (218.0)
Net income (loss):			
Domestic	¥ (113.8)	¥ (352.3)	¥ (282.6)
Foreign:			
United States	50.0	15.6	11.4
Europe	10.3	91.0	46.1
Asia/Oceania excluding Japan	45.1	84.3	50.0
Other Areas*	43.9	53.7	42.4
Total foreign	149.3	244.6	149.9
Total	¥ 35.5	¥ (107.7)	¥ (132.7)

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

Fiscal Year Ended March 31, 2002 Compared to Fiscal Year Ended March 31, 2001

Domestic total revenue decreased ¥257.0 billion, or 21.3 %, from ¥1,205.2 billion in the fiscal year ended March 31, 2001 to ¥948.2 billion in the fiscal year ended March 31, 2002. The decrease in domestic total revenue primarily reflected decreases in interest income, net trading account profits and net investment securities gains.

Foreign total revenue decreased ¥130.0 billion, or 9.6 %, from ¥1,356.6 billion in the fiscal year ended March 31, 2001 to ¥1,226.6 billion in the fiscal year ended March 31, 2002. The decrease in foreign total revenue primarily reflected trading account losses in Europe in the latter period and a decrease in interest income in the United

States and other areas due to declining interest rates, partially offset by the effect of the depreciation against the US dollar and other foreign currencies.

Domestic loss before income tax increased ¥ 6.3 billion, or 1.6 %, from ¥ 389.6 billion in the fiscal year ended March 31, 2001 to ¥ 395.9 billion in the fiscal year ended March 31, 2002. The increase in domestic loss before income tax was due primarily to decreases in net interest income, net trading account profits and net investment securities gains.

Foreign income before income taxes decreased ¥110.0 billion, or 38.2 %, from ¥ 287.9 billion in the fiscal year ended March 31, 2001 to ¥ 177.9 billion in the fiscal year ended March 31, 2002. The decrease in foreign income before income taxes primarily reflected foreign exchange losses in United States and Europe due to the depreciation of the yen against other foreign currencies, an increase in credit losses in the United States, particularly those relating to the bankruptcy of Enron Corporation, and a net trading loss in Europe.

Fiscal Year Ended March 31, 2001 Compared to Fiscal Year Ended March 31, 2000

The decrease of ¥ 34.2 billion in domestic total revenue from ¥ 1,239.4 billion in the fiscal year ended March 31, 2000 to ¥ 1,205.2 billion in the fiscal year ended March 31, 2001 was primarily attributable to a decrease in non-interest income, in particular foreign exchange net gains offset by an increase in net trading account profits.

Foreign total revenue in the fiscal year ended March 31, 2001 increased ¥269.9 billion, or 24.8 %, to ¥1,356.6 billion from ¥ 1,086.7 billion in the fiscal year ended March 31, 2000. The increase in foreign total revenue was due primarily to an increase in interest income, resulting mainly from an increase in interest-earning assets, and to an increase in net trading account profits.

Loss before income taxes from domestic operations in the fiscal year ended March 31, 2001 was ¥ 389.6 billion, an increase of ¥ 329.4 billion from ¥ 60.2 billion in the fiscal year ended March 31, 2000. The increase in loss from domestic operations was due primarily to an increase in provision for credit losses on domestic non-performing loans and a decrease in net interest income.

Income before income taxes from foreign operations in the fiscal year ended March 31, 2001 was ¥ 287.9 billion, an increase of ¥ 98.6 billion from ¥ 189.3 billion in the fiscal year ended March 31, 2000. The increase in income was due primarily to an increase in net interest income resulting from an increase in interest-earning assets and improved interest margin.

Effect of Change in Exchange Rate on Foreign Currency Translation

The average exchange rate for the fiscal year ended March 31, 2002 was ¥125.13 per $1.00, compared with the average exchange rate for the fiscal year ended March 31, 2001 of ¥110.58 per $1.00. The average exchange rate for the conversion of US dollar financial statements for the year ended December 31, 2001 for some of our foreign subsidiaries was ¥121.54 per $1.00, compared with the average exchange rate for the year ended December 31, 2000 of ¥107.83 per $1.00.

As a result of the yen depreciation, yen amounts for transactions denominated in US dollars increased. In terms of the average exchange rate, the depreciation of the yen against the US dollar and other foreign currencies had the effect of increasing total revenue by approximately ¥115 billion, net interest income by ¥37 billion and reducing loss before income taxes by ¥18 billion for the fiscal year ended March 31, 2002, as compared with the corresponding amounts in the fiscal year ended March 31, 2001.

B. Liquidity and Capital Resources

Financial Condition

Total Assets

Our total assets at March 31, 2002 were ¥76.63 trillion, representing an increase of ¥0.25 trillion, or 0.3 %, from ¥76.38 trillion at March 31, 2001. The increase was due primarily to an increase in securities available for sale of ¥0.99 trillion, an increase in net loans of ¥0.88 trillion, and an increase in other assets of ¥0.55 trillion. The increase in other assets consisted primarily of an increase in deferred tax assets. These increases were partially offset by a decrease in interest-earning deposits in other banks of ¥1.33 trillion.

We have a substantial portion of our assets allocated to international activities and, as a result, reported amounts are affected by changes in the value of the yen against the US dollar and other foreign currencies. Foreign assets are denominated primarily in US dollars. The following table shows our total assets at March 31, 2001 and 2002 by geographic region based principally on the domicile of the obligors:

	At March 31,	
	2001	2002
	(in trillions)	
Japan	¥54.87	¥55.38
Foreign		
United States	10.23	10.49
Europe	6.21	5.39
Asia/Oceania excluding Japan	3.08	3.03
Other Areas*	1.99	2.34
Total foreign	21.51	21.25
Total assets	¥76.38	¥76.63

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

At March 29, 2002, the noon buying rate was ¥132.70 per $1.00, as compared with ¥125.54 per $1.00 at March 31, 2001. 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. The depreciation of the yen against the US dollar and other foreign currencies during the fiscal year ended March 31, 2002 increased the yen value of our assets by approximately ¥2.27 trillion. See "Exchange Rate Information."

Loan Portfolio

Loans are our primary use of funds. The average loan balance accounted for 58.1% of our total average interest-earning assets in the fiscal year ended March 31, 2001 and 60.0% in the fiscal year ended March 31, 2002. At March 31, 2002, our total loans were ¥41.01 trillion, representing an increase of ¥0.83 trillion, or 2.1%, from ¥40.18 trillion at March 31, 2001. The loan balance at March 31, 2002 consisted of ¥30.34 trillion of domestic loans and ¥10.67 trillion of foreign loans. The loan balance at March 31, 2001 consisted of ¥30.30 trillion of domestic loans and ¥9.88 trillion of foreign loans.

Domestic loans increased ¥0.04 trillion to ¥30.34 trillion at March 31, 2002 from ¥30.30 trillion at March 31, 2001. We made loans to the Japanese government amounting to ¥1.53 trillion through a competitive bid in December 2001. This new type of loan increases our loan balance in spite of the decrease in domestic loans resulting from charge-offs and depressed loan demand in a variety of industries in the continued weak economy in Japan.

Foreign loans increased ¥0.79 trillion to ¥10.67 trillion at March 31, 2002 from ¥9.88 trillion at March 31, 2001. The increase was primarily attributable to the depreciation of the yen against the US dollar and other foreign currencies. In terms of fiscal year-end exchange rates, the yen depreciated approximately 5.7% against the US dollar in the fiscal year ended March 31, 2002. However, in terms of local currencies in overseas subsidiaries and offices, loans denominated in foreign currencies generally decreased in the fiscal year ended March 31, 2002, primarily due to the slowdown in the economy of the United States.

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 the fiscal years ended March 31, 2000, 2001 and 2002:

	Year ended March 31,		
	2000	2001	2002
		(in billions)	
Balance at beginning of year	¥1,290.7	¥1,137.2	¥1,385.0
Provision for credit losses	368.6	666.0	470.2
Charge-offs:			
Domestic	(445.1)	(403.0)	(406.7)
Foreign	(102.7)	(77.1)	(107.3)
Total	(547.8)	(480.1)	(514.0)
Recoveries	41.0	34.8	48.8
Net charge-offs	(506.8)	(445.3)	(465.2)
Other, principally foreign exchange translation adjustments	(15.3)	27.1	9.1
The deconsolidation of Nippon Trust Bank	—	—	(57.5)
Balance at end of year	¥1,137.2	¥1,385.0	¥1,341.6

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

	At March 31,		
	2000	2001	2002
		(in billions)	
Allocated allowance:			
Specific—specifically identified problem loans	¥ 688.4	¥ 992.3	¥ 983.8
Large groups of smaller balance homogeneous loans	26.0	26.2	37.9
Loans exposed to specific country risk	11.9	12.0	27.1
Formula—substandard, special mention and other loans	394.3	296.4	270.2
Unallocated allowance	16.6	58.1	22.6
Total allowance	¥1,137.2	¥1,385.0	¥1,341.6

Allowance Policy— Our credit rating system is closely linked to the risk grading standards set by the Japanese regulatory authorities for asset classification, 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. For a discussion of our credit rating system, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Credit Risk Management."

Change in Total Allowance and Provision for Credit Losses—At March 31, 2002, total allowance for credit losses was ¥1,341.6 billion, or 3.27% of our total loan portfolio and 41.35% of total nonaccrual and restructured loans and accruing loans contractually past due 90 days or more. At March 31, 2001, total allowance for credit losses was ¥1,385.0 billion, or 3.45% of our total loan portfolio and 40.19% of total nonaccrual and restructured loans and accruing loans contractually past due 90 days or more. The decrease was primarily attributable to the deconsolidation of Nippon Trust Bank. The decrease was partially offset by an increase of ¥14.1 billion in the allowance for credit losses, which mainly resulted from the continuing weak economy in Japan.

The provision for credit losses in the fiscal year ended March 31, 2002 was ¥470.2 billion, a decrease of ¥195.8 billion from ¥666.0 billion in the year ended March 31, 2001. The decrease in provision for credit losses in the fiscal year ended March 31, 2002 was primarily attributable to a decrease of ¥250.2 billion in impaired loans. The provision for credit losses, while high in the fiscal year ended March 31, 2002, declined from the prior year's level, which was high primarily because of a significant increase in impaired loans, in particular restructured loans, as compared with the previous year.

During the fiscal years ended March 31, 2000, 2001 and 2002, there were no significant additions to the allowance for credit losses resulting from directives, advice or counsel from governmental or regulatory bodies.

Allocated Allowance for Specifically Identified Problem Loans—The specific allocated credit loss allowance for specifically identified problem loans represents the impairment allowance against impaired loans called for in SFAS No. 114 "Accounting by Creditors for Impairment of a Loan." Impaired loans include nonaccrual loans, restructured loans and certain other loans. Loans are classified as nonaccrual loans when substantial doubt exists as to the full and timely collection of either principal or interest, or when principal or interest is contractually past due, except when the loans are in the process of collection based upon the judgment of management. Loans are classified as restructured loans when we grant a concession to the borrowers for economic or legal reasons related to the borrowers' financial difficulties. Other loans identified as impaired loans principally include loans which are contractually past due 90 days or more and where there is a significant doubt about collectibility. Detailed reviews of impaired loans is commenced twice a year, at the end of June and December, shortly after semiannual financial statements for most Japanese companies first become available. During the intervening periods from June and December to the balance sheet dates, management reassesses borrowers' ratings in response to events occurring during such intervening periods, including bankruptcy, past due principal or interest, downgrading of external credit rating and/or lower stock price, business restructuring and other events. Our credit officers constantly monitor changes in all customer creditworthiness during the periods between the detailed reviews. These detailed reviews form an integral part of our overall control progress by providing a check for completeness to ensure that all loans have been properly evaluated as part of the ongoing review process. An impaired loan is 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 at balance sheet date.

The following table summarizes nonaccrual and restructured loans, and accruing loans that are contractually past due 90 days or more as to principal or interest payments, at March 31, 2000, 2001 and 2002:

	At March 31,		
	2000	2001	2002
	(billions, except percentages)		
Nonaccrual loans:			
Domestic:			
Manufacturing	¥ 96.2	¥ 109.7	¥ 115.4
Construction	106.4	166.0	142.9
Real estate	497.8	618.1	511.4
Services	190.2	188.6	149.5
Wholesale and retail	354.2	214.7	223.8
Banks and other financial institutions	56.9	87.7	46.1
Other industries	21.3	30.4	27.3
Consumer	55.2	161.7	157.2
Total domestic	1,378.2	1,576.9	1,373.6
Foreign	160.4	182.5	233.8
Total nonaccrual loans	1,538.6	1,759.4	1,607.4
Restructured loans			
Domestic:			
Manufacturing	14.2	225.3	249.5
Construction	12.5	79.8	94.7
Real estate	123.5	385.2	369.8
Services	45.0	195.0	187.0
Wholesale and retail	41.0	456.5	415.1
Banks and other financial institutions	18.1	82.0	40.7
Other industries	11.4	60.7	61.3
Consumer	11.3	90.0	103.9
Total domestic	277.0	1,574.5	1,522.0
Foreign	44.8	87.0	97.1
Total restructured loans	321.8	1,661.5	1,619.1
Accruing loans contractually past due 90 days or more			
Domestic	61.0	23.2	15.0
Foreign	1.2	2.0	2.8
Total accruing loans contractually past due 90 days or more	62.2	25.2	17.8
Total	¥ 1,922.6	¥ 3,446.1	¥ 3,244.3
Total loans	¥40,967.5	¥40,175.2	¥41,012.2
Nonaccrual loans, restructured loans and accruing loans contractually past due 90 days or more as a percentage of total loans	4.69%	8.58%	7.91%

The following table summarizes the balance of impaired loans and related impairment allowance at March 31, 2000, 2001 and 2002, excluding smaller-balance homogeneous loans:

	March 31,					
	2000		2001		2002	
	Loan balance	Impairment allowance	Loan balance	Impairment allowance	Loan balance	Impairment allowance
	(in billions)					
Requiring an impairment allowance	¥1,532.1	¥688.4	¥2,888.2	¥990.6	¥2,757.5	¥978.5
Not requiring an impairment allowance	324.1	—	492.2	—	372.7	—
Total	¥1,856.2	¥688.4	¥3,380.4	¥990.6	¥3,130.2	¥978.5
Percentage of the allocated allowance to total impaired loans	37.1%		29.3%		31.3%	

Impaired loans decreased ¥250.2 billion, or 7.4%, from ¥3,380.4 billion at March 31, 2001 to ¥3,130.2 billion at March 31, 2002. The decrease primarily reflected a decrease in nonaccrual loans of ¥152.0 billion and restructured loans of ¥42.4 billion. The decrease in nonaccrual loans was due primarily to charge-offs made during the fiscal year ended March 31, 2002 and exclusion of Nippon Trust Bank from our consolidation on April 2, 2001. Although the impaired loans slightly decreased in the fiscal year ended March 31, 2002, the balance remained at a high level under the continuing weak economy in Japan.

The percentage of the allocated allowance to total impaired loans at March 31, 2002 was 31.3%, an increase of 2.0% from 29.3% at March 31, 2001. The percentage of allocated allowance to nonaccrual loans at March 31, 2002 was 46.7%, an increase of 0.7% from 46.0% at March 31, 2001. The percentage of allocated allowance to restructured loans at March 31, 2002 was 15.2%, an increase of 4.0% from 11.2% at March 31, 2001. These increases were due primarily to increases in the allowance for impaired loans because of a decline in the fair market value of collateral as a result of real estate and the stock market downturn in Japan, which overrode the effect of the decrease in the recorded investment in impaired loans of ¥250.2 billion noted above.

The following is a summary of changes in domestic nonaccrual loans and restructured loans by industry segment in the fiscal year ended March 31, 2002:

- *Increase of ¥29.9 billion (including a decrease of ¥7.1 billion in Nippon Trust Bank) in the manufacturing industry segment and decrease of ¥47.1 billion (including a decrease of ¥28.8 billion in Nippon Trust Bank) in the services industry segment*. During the fiscal year ended March 31, 2002, business failures in the manufacturing industry in Japan increased by 13.6% from the prior fiscal year to 3,605 cases. In the services industry, a number of corporate bankruptcies occured in the fiscal year ended March 31, 2002 resulted in significant write-offs, which more than offset an increase in nonaccrual and restructured loans.
- *Decrease of ¥8.2 billion (including a decrease of ¥24.0 billion in Nippon Trust Bank) in the construction industry segment and decrease of ¥122.1 billion (including a decrease of ¥40.8 billion in Nippon Trust Bank) in the real estate industry segment.* The Japanese real estate and construction industries have been severely and adversely affected by the sharp decline in Japanese real estate values and construction projects and lack of liquidity in the real estate market. The recession in the construction and real estate industry has resulted from a number of factors, including decreasing public-sector and private sector orders of construction, low demand in office rentals and sluggish real estate sales. Although the real estate industry has not improved, nonaccrual loans and restructured loans in this segment decreased mainly due to repayments by certain consumers and sales of loans to certain customers.
- *Increase of ¥9.4 billion (including a decrease of ¥14.6 billion in Nippon Trust Bank) in consumer loans.* Due to the continuing weak economy and rising unemployment, problem consumer loans have increased.

- *Decrease of ¥32.3 billion (including a decrease of ¥10.7 billion in Nippon Trust Bank) in the wholesale and retail industry segment.* As a consequence of the protracted recession in the Japanese economy, consumer spending continued to shrink during the fiscal year ended March 31, 2002. Although many retailers are attempting to restructure their operations through cost reductions or otherwise, they face continued declines in sales and lower gross margins. No positive factors are evident that would be expected to stimulate a recovery. Although the wholesale and retail industries have not improved, our restructured loans to this sector decreased due to repayments by some of our customers in wholesale industry.

- *Decrease of ¥82.9 billion (including a decrease of ¥8.9 billion in Nippon Trust Bank) in the banks and other financial institutions industry segment.* Japanese banks and other financial institutions, including non-banks such as finance, leasing and credit companies, are currently experiencing severe asset quality problems. Such problems also affect insurance and securities companies, as evidenced by a number of failures. This has led to severe liquidity and solvency problems. Although the financial industry has not improved, nonaccrual loans to this sector decreased as a substantial amount of those loans were upgraded to normal status and restructured loans decreased due to repayments by some of our customers.

The continuing deterioration in the Japanese economy was evidenced by the significant increase in bankruptcy filings. The 20,052 bankruptcy filings in Japan during the year ended March 31, 2002 represents a 5.9% increase over the 18,926 cases filed in the previous year. The number of filings in the years ended March 31, 2002 is the second worst record in the postwar period, and is only surpassed by the 20,363 cases in the fiscal year ended March 31, 1985.

Based upon a review of the borrowers' financial situations, from time to time we grant various concessions to troubled borrowers at the borrower's request, including reductions in the stated interest rates or the principal amounts of loans, and extensions of the maturity dates at stated interest rates lower than the current market rates for loans with similar risks, when it is difficult for the borrower to make payments in accordance with the original loan payment terms. According to our policy, such modifications are made to mitigate the near-term burden of the loan provided to the borrower and better match the payment terms with the borrower's expected future cash flows, thereby improving the likelihood that the loan will be repaid on the revised terms. The nature and amount of the concessions depend on the particulars of the financial condition of the borrower. In principle, however, we do not modify the terms of loans to borrowers that are considered "Likely to Become Bankrupt", or "Virtually Bankrupt", or "Bankrupt" because in these cases there is little likelihood that the modification of loan terms would enhance recovery on the loan.

Our exposure to Enron Corporation and its subsidiaries and affiliates at the time it declared bankruptcy was approximately ¥30.6 billion. At March 31, 2002, after giving effect to net charge-offs, our Enron-related exposure was ¥5.7 billion with a specific allowance of ¥0.9 billion provided for the unsecured portion of our exposure. At March 31, 2002, we did not have a significant on-balance-sheet exposure to WorldCom, Inc. though we had extended an off-balance-sheet loan commitment of ¥19.6 billion. We fully provided the allowance for credit losses on the off-balance-sheet commitment at March 31, 2002.

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 primarily reflected an increase in restructured loans of ¥1,339.7 billion, partially offset by a decrease in other problem loans. The significant increase of ¥1,339.7 billion in restructured loans in the fiscal year ended March 31, 2001 reflected the deepening economic downturn in Japan and the resulting increase in the number of borrowers facing financial difficulties. The following is a summary of the increase in restructured loans by industry segments in Japan in the fiscal year ended March 31, 2001.

- *Increase of ¥329.0 billion in construction and real estate industry segment.* The Japanese real estate and construction industries have been severely and adversely affected by the sharp decline in Japanese real estate values and construction projects and a lack of liquidity in the real estate market. In the fiscal year ended March 31, 2001, several Japanese real estate and construction companies requested debt restructurings through out-of-court agreements that involve debt forgiveness, interest rate reductions, extension of maturities, and other concessions.

- *Increase of ¥415.5 billion in the wholesale and retail industry segment*. As a consequence of the protracted recession in the Japanese economy, consumer spending continued to shrink during the fiscal year ended March 31, 2001. As a result, large retailers, including Sogo Co., Ltd. and Mycal Corporation, requested debt restructurings through out-of-court agreements. In addition, a considerable number of wholesalers and retailers, including large trading companies, requested debt restructurings through out-of-court agreements.
- *Increase of ¥63.9 billion in the banks and other financial institutions industry segment.* Japanese banks and other financial institutions, including non-banks such as finance, leasing and credit companies, are currently experiencing severe asset quality problems. Such problems also affected insurance and securities companies, as evidenced by a number of failures. This led to severe liquidity and solvency problems, which have in many cases resulted in the liquidation or restructuring of affected institutions in the fiscal year ended March 31, 2001.
- *Increase of ¥361.1 billion in the manufacturing and services industry segment.* During the fiscal year ended March 31, 2001, the number of borrowers facing financial difficulties, including small and medium-sized companies particularly in the manufacturing and services industries, rapidly increased under the fragile economic recovery. With respect to the services industry, the number of corporate bankruptcies in the fiscal year ended March 31, 2001 reached the highest level since the collapse of the bubble economy.

Under these circumstances, corporate failures and bankruptcies of Japanese companies continued to increase. In terms of the size of liabilities, corporate bankruptcies in the fiscal year ended March 31, 2001 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. In the fiscal year ended March 31, 2001, a large number of our borrowers, especially small and medium-sized companies with weak or unstable business performance, requested us to modify their initial loan provisions. Based upon a review of their financial situation, we granted various concessions to borrowers in this category, including reductions in the stated interest rates or the principal amounts of loans, and extensions of the maturity date at stated interest rates lower than the current market rates for loans with similar risks. A rise in credit risk premiums we charged to low-rated borrowers, as a result of increasing past credit defaults, also partially contributed to the increase in restructured loans. In addition, restructured loans increased as we extended the maturity of many of our short-term loans to borrowers facing financial difficulties. Some loans to large-sized corporations, primarily in the wholesale and retail industries, returned to accrual status in the fiscal year ended March 31, 2001 but were reclassified into restructured loans under renegotiated terms. There were no significant changes in the regulatory climate that contributed to the increase in restructured loans during the years ended March 31, 2001 and March 31, 2002.

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 first mortgage housing loans to individuals. The allowance for groups of performing loans is based on historical loss over a period. In determining the level of allowance for delinquent groups of loans, we classify groups of homogeneous loans based on the risk rating and/or the number of delinquencies. We determine the credit loss allowance for delinquent groups of loans based on the probability of insolvency by the number of actual delinquencies and actual loss experience. The loss experience is usually determined by reviewing the historical loss rate. The allocated credit loss allowance for large groups of smaller-balance homogeneous loans increased ¥11.7 billion from ¥26.2 billion at March 31, 2001 to ¥37.9 billion at March 31, 2002. The increase was mainly due to the downgrading of individual borrowers' credit ratings.

Allocated Allowance for Country Risk Exposure—The allocated credit loss allowance for country risk exposure is based on an estimate of probable losses relating to the exposure to countries that we identify as having a high degree of transfer risk. We use a country risk grading system that assigns risk ratings to individual countries. To determine the risk rating, we consider the instability of foreign currency and difficulties regarding debt servicing.

Major countries with substantial loans outstanding that were in the high-risk rating and subject to this allowance at March 31, 2002 were Argentina, Indonesia and Pakistan. The allowance is determined based on the assessment of individual country risks, taking into consideration various factors such as political and macroeconomic situations, debt repayment capability, the secondary market price, if available, of debt obligations of the concerned countries. It is generally based on a function of default probability and expected recovery ratios, taking external credit ratings into account.

Since the Asian economic crisis that began in Thailand in 1997, East Asian countries have generally rebounded from the severe economic downturn. The recent slowdown in the U.S. economy, however, is affecting economies in all of Asia. With the exception of China and Vietnam, which have been faring relatively better, the economies of other East Asian countries were generally slow in their economic recovery due primarily to the information technology slump in developed countries and the terrorist attacks in the United States.

The following is a summary of cross-border outstandings to counterparties in major Asian countries at March 31, 2001 and 2002:

	At March 31,	
	2001	2002
	(in billions)	
South Korea	¥144.0	¥145.0
Indonesia	103.0	62.0
Thailand	203.6	197.3
Malaysia	104.2	105.9
Philippines	63.2	69.2
Hong Kong	392.0	347.9
People’s Republic of China	158.6	200.1

The extent of credit risk exposure from operations in East Asian countries will vary from country to country and from borrower to borrower. When we make a loan to a foreign affiliate of a Japanese corporation, we often obtain a letter or some other form of commitment of support from the related Japanese corporation in the event the foreign affiliate becomes insolvent. These types of commitments may not be legally binding agreements. We do not consider non-legally binding commitments as equivalent to guarantees and do not take them into account in the determination of the allowance for credit losses. The amount of legally binding support agreements from Japanese corporations which have been taken into consideration in the determination of the allowance for credit losses pertaining to East Asian countries was ¥219.2 billion at March 31, 2001 and ¥249.6 billion at March 31, 2002.

The following is a summary of cross-border outstandings to counterparties in major South American countries at March 31, 2001 and 2002:

	At March 31,	
	2001	2002
	(in billions)	
Argentina	¥116.7	¥ 74.4
Brazil	137.9	143.9
Mexico	73.5	108.2

Argentina—In late 2001, Argentina began to experience significant economic turmoil and deterioration, including the suspension of foreign debt payments. The Argentine government implemented substantial economic changes, abandoning the fixed US dollar-to-peso exchange rate and shifting to a floating exchange rate. The adoption of the floating rate occurred in parallel with increased restrictions on deposits and liquidity. The Argentine government has defaulted on its debt, and the outcome of talks between the Argentine government and the International Monetary Fund on receiving financial assistance remains uncertain. The Argentine government and other parties are working on a debt-restructuring program. At March 31, 2002, we had cross-border outstandings of approximately ¥74.4 billion to borrowers in Argentina and provided an allocated credit loss allowance for country risk exposure of ¥18.1 billion. We continue to assess our credit exposure to Argentina.

Formula Allowance for Substandard, Special Mention and Unclassified Loans. The formula allowance is calculated by applying loss factors to outstanding substandard, special mention and unclassified loans. The evaluation of inherent loss for these loans involves a high degree of uncertainty, subjectivity and judgment because probable credit losses are not identified with specific credits. In determining the formula allowance, we rely on a mathematical calculation that incorporates a percentage of total loans based on historical loss experience. The formula allowance declined from ¥296.4 billion as of March 31, 2001 to ¥270.2 billion as of March 31, 2002, due principally to a decline in the default ratio used to establish the formula allowance.

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

- general economic and business conditions affecting our key lending areas;
- credit quality trends, including trends in nonperforming loans expected to result from existing conditions;
- 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 our internal credit examiners.

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

The unallocated allowance decreased ¥35.5 billion from ¥58.1 billion at March 31, 2001 to ¥22.6 billion at March 31, 2002. The decrease in the fiscal year ended March 31, 2002 primarily reflected a decrease in uncertainty in evaluation of collateral values primarily associated with specifically identified problem loans. At March 31, 2002, the effect of uncertainty in collateral valuation expected to bring potential variability in probable losses is incorporated in the measurement of allowance for specifically identified problem loans.

Allowance for Off-Balance-Sheet Credit Instruments

In addition to the allowance for credit losses on the loan portfolio, we maintain an allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, guarantees and standby letters of credit. Such allowance is included in other liabilities. The allowance includes the specific allocated allowance for specifically identified credit exposure, the allocated formula allowance and the specific allowance for probable losses on guarantees by our trust banking subsidiaries. With regard to the specific allocated allowance for specifically identified credit exposure and the allocated formula allowance, we apply the same methodology that we use in determining the allowance for loan credit losses. The allowance for off-balance-sheet credit instruments increased ¥42.6 billion from ¥47.5 billion at March 31, 2001 to ¥90.1 billion at March 31, 2002. The increase is due primarily to an increase in historical losses on our portfolio and further downgrading of customers' credits reflecting the current stagnant economic conditions. The increase also includes an additional provision of ¥19.6 billion against loan commitments extended to WorldCom, Inc. that were drawn down in May 2002 shortly before WorldCom's bankruptcy filing.

Investment Portfolio

Our investment securities primarily consist of marketable equity securities, Japanese national government and Japanese government agency bonds which are classified into available-for-sale securities. We have held marketable equity securities in order to create long-term relationships with issuer companies that are our customers. However, we announced our intention to seek to reduce our shareholdings in accordance with the law forbidding banks from holding stocks in excess of their primary capital after September 30, 2004.

Investment securities increased ¥0.97 trillion, or 6.0%, from ¥16.31 trillion at March 31, 2001 to ¥17.28 trillion at March 31, 2002, due to an increase in available-for-sale securities of ¥0.99 trillion.

Available-for-sale securities increased ¥0.99 trillion from ¥16.20 trillion at March 31, 2001 to ¥17.19 trillion at March 31, 2002. The increase in available-for-sale securities was primarily attributable to an increase of ¥1.68 trillion in Japanese national government and Japanese government agency bonds and an increase of ¥0.48 trillion in foreign governments and official institutions bonds. Under the rising interest rate environment on Japanese government bonds during the fourth quarter of the fiscal year ended March 31, 2002, we increased short-term and medium-term government bonds partially funded by increased deposits. As the spread between short- and long-term interest rates in foreign markets widened, we increased our holdings of medium- and long-term foreign governments and official institutions bonds by using funds that were raised with short-term borrowings. These increases were partly offset by a decrease in marketable equity securities of ¥1.02 trillion. The decrease in marketable equity securities reflected sales of certain marketable equity securities, declines in fair value of equity securities, and transfer of certain equity securities to employee retirement benefits trusts at the fair value of ¥0.12 trillion.

Net unrealized gains included in the investment portfolio were ¥1.92 trillion at March 31, 2001 and ¥1.42 trillion at March 31, 2002. These net unrealized gains related principally to Japanese marketable equity securities.

Interest-earning Deposits in Other Banks

Interest-earning deposits in other banks significantly fluctuate from day to day depending upon the volatility of financial markets. Interest-earning deposits in other banks at March 31, 2002 were ¥4.29 trillion, a decrease of ¥1.33 trillion, or 23.7%, from ¥5.62 trillion at March 31, 2001. The decrease in interest-earning deposits in other banks primarily reflected the low interest rate environment in interbank markets.

Trading Account Assets

Trading account assets at March 31, 2002 were ¥6.92 trillion, an increase of ¥0.33 trillion, or 5.1%, from ¥6.59 trillion at March 31, 2001. The increase was primarily attributable to an increase of ¥1.62 trillion in commercial paper, which was partially offset by a decrease in Japanese government, prefectural and municipal bonds.

Total Liabilities

At March 31, 2002, total liabilities were ¥74.72 trillion, an increase of ¥0.75 trillion, or 1.0%, from ¥73.97 trillion at March 31, 2001. This increase reflected increases of ¥2.69 trillion in total deposits and ¥0.30 trillion in short-term borrowings. The increase in total deposits was partially offset by a decrease of ¥1.14 trillion in debentures, and a decrease of ¥1.66 trillion in trading account liabilities (principally consisting of a ¥1.27 trillion decrease in short positions of trading securities).

The depreciation of the yen against the US dollar and other foreign currencies during the fiscal year ended March 31, 2002 increased the yen values for liabilities denominated in foreign currencies by approximately ¥2.06 trillion.

Deposits

Deposits are our primary source of funds. Total average deposits increased ¥2.03 trillion to ¥48.42 trillion in the fiscal year ended March 31, 2002, reflecting a ¥1.75 trillion increase in average domestic interest-bearing deposits and a ¥0.43 trillion increase in average domestic non-interest-bearing deposits, partially offset by a ¥0.39 trillion decrease in average foreign interest-bearing deposits. At March 31, 2002, domestic deposits increased ¥4.89 trillion to ¥41.18 trillion from ¥36.29 trillion at March 31, 2001, while foreign deposits decreased ¥2.20 trillion to ¥10.64 trillion. The increases in average domestic deposits in the fiscal year ended March 31, 2002 and in domestic deposits at March 31, 2002 resulted partly from the removal of the blanket deposit insurance, which led some depositors to transfer their deposits to more financially stable banks. Within the same bank, depositors have transferred deposits from accounts that do not qualify for full protection, such as time deposits, to accounts that qualify for full protection, such as ordinary deposits. Effective April 1, 2003, all deposits (principal and interest) exceeding ¥10 million will be outside the protection. As a result, we expect further movements in deposits among banks.

Short-term borrowings

We use short-term borrowings as a funding source and in our management of interest rate risk. Short-term borrowings include call money and funds purchased, payables under repurchase agreements, payables under lending transactions, due to trust account and other short-term borrowings. Total average short-term borrowings increased ¥0.99 trillion from ¥8.37 trillion in the fiscal year ended March 31, 2001 to ¥9.36 trillion in the fiscal year ended March 31, 2002. Total average domestic short-term borrowings increased ¥1.00 trillion and total average foreign short-term borrowings decreased ¥0.01 trillion in the fiscal year ended March 31, 2002. These increases were principally due to increases in payables under repurchase agreements and lending transactions.

Long-term debt

Long-term debt increased ¥0.46 trillion from ¥4.43 trillion at March 31, 2001 to ¥4.89 trillion at March 31, 2002. During the fiscal year ended March 31, 2002, we raised an aggregate of ¥1.04 trillion and repaid ¥0.68 trillion of long-term debt, resulting in a net increase of ¥0.36 trillion. The other increase primarily reflected foreign exchange differences. We raised an aggregate of ¥0.15 trillion through issuance of subordinated debt and an aggregate of ¥0.89 trillion of long-term debt through unsubordinated debt.

Shareholder's Equity

At March 31, 2002, shareholder's equity was ¥1.91 trillion, a decrease of ¥0.50 trillion, or 20.9%, from ¥2.41 trillion at March 31, 2001. The decrease was due primarily to the ¥0.14 trillion net loss and other changes in equity from nonowner sources (other comprehensive loss) of ¥0.28 trillion, which primarily resulted from net unrealized holding losses on available-for-sale securities.

Funding and Liquidity

Our primary source of liquidity is from a large balance of deposits, mainly ordinary deposits, certificates of deposit and time deposits. Time deposits have shown a historically high rollover rate among our corporate customers and individual depositors. These fundings provide us with a sizable source of stable and low-cost funds. While more than 60% of certificates of deposits and time deposits mature within three months, we continuously monitor relevant interest rate characteristics of these funds and utilize asset and liability management procedures to manage the possible impact of the rollovers on our net interest margin. Our average deposits, combined with average shareholder's equity, funded 62.5% of our average total assets of ¥74.5 trillion during the year ended March 31, 2002.

In addition we issued debentures to corporate and individual customers in Japan until March 31, 2002, which was the last date such debentures were permitted to be issued. Most of the remaining funding was provided by short-term borrowings and long-term senior and subordinated debt. Short-term borrowings consist of call money and funds purchased, payables under repurchase agreements, payables under securities lending transactions, and other short-term borrowings. From time to time, we have issued long-term instruments such as straight bonds with mainly three to five years' maturity. See "Selected Statistical Data—I. Distribution of Assets, Liabilities and Shareholder's Equity; Interest Rates and Interest Differential."

Liquidity may also be provided by the sale of financial assets, including securities available for sale, trading account securities, and certain loans. Additional liquidity may be provided by maturity of loans.

In connection with our plan to sell down our strategic equity investments, we have commenced the process of reducing our holdings of strategic equity investments, primarily through sales in the market. To implement that plan, we are also evaluating and implementing alternative strategies that facilitate the sale of our equity holdings, such as the transfers of certain holdings to an existing exchange traded fund and the Bank's Shareholding Purchase Corporation. Our access to liquidity from sales of strategic equity investments and other equity securities is dependent on market conditions at the time of each sale. We do not, however, anticipate that we will be dependent on sales of equity securities for liquidity.

Contractual Cash Obligations

The following table shows a summary of our contractual cash obligations at March 31, 2002:

	Payments due by period				
	Less than 1 year	1-3 years	4-5 years	Over 5 years	Total
	(in billions)				
Contractual cash obligations:					
Long-term debt	¥775	¥1,049	¥901	¥2,141	¥4,866
Capital lease obligations	6	10	8	4	28
Operating leases	23	41	29	48	141
Total	¥804	¥1,100	¥938	¥2,193	¥5,035

Other Commitments, Including Off-balance Sheet Credit-related Commitments

We have issued certain credit-related off-balance-sheet financial instruments. These instruments include commitments to extend credit, standby letters of credit, a variety of guarantees and commercial letters of credit to meet the financing needs of our customers. The following table summarizes off-balance sheet credit-related commitments and other commitments at March 31, 2002:

	Amount of commitment expiration per period				
	Less than 1 year	1-3 years	4-5 years	Over 5 years	Total
			(in billions)		
Credit-related commitments:					
Commitments to extend credits	¥22,024	¥2,476	¥1,328	¥ 765	¥26,593
Standby letters of credit and other guarantees	2,410	1,302	697	401	4,810
Commercial letters of credit	378	—	—	—	378
Total credit-related commitments	24,812	3,778	2,025	1,166	31,781
Other commitments	1,002	—	—	—	1,002
Total	¥25,814	¥3,778	¥2,025	¥1,166	¥32,783

Since many of these commitments expire without being drawn upon, the total credit-related commitment amounts do not necessarily represent future cash requirements.

Transfer of Marketable Equity Securities

In addition to the sales in the stock markets, we sold marketable equity securities to the Special Account of the Banks' Shareholdings Purchase Corporation and to the Exchange Traded Funds (ETFs) in the fiscal year ended March 31, 2002.

Transfers to the Banks' Shareholdings Purchase Corporation

As discussed in "Recent Developments—Limitations on Cross-shareholdings and Establishment of the Banks' Shareholdings Purchase Corporation," we sold marketable equity securities with an aggregate market value of ¥14.5 billion to the Special Account, but we have not transferred any stocks to the General Account in the fiscal year ended March 31, 2002. At March 31, 2002, our net aggregate preferred contributions to the General Account amounted to ¥1.4 billion, our net aggregate subordinated contributions to the Special Account amounted to ¥1.2 billion, and we had loans receivable of ¥35.6 billion from the Special Account which were originated at market terms.

Transfers of marketable equity securities to the General Account, if any, are accounted for as secured borrowings, since the control over the securities is not surrendered to the Purchase Corporation. Transfers of securities to the Special Account are accounted for as sales to the extent that consideration other than retained interests in the transferred assets is received in exchange. The subordinated contributions represent retained interests in the securities sold to the Special Account. However, because the subordinated contributions will share in the gains and losses from all securities sales by the Special Account over the life of the Purchase Corporation, a portion of the subordinated interests represent interests in new assets. At the time that we sell securities to the Special Account, we will determine the proportion of the fair value of the securities sold to the fair value of all securities held by the Special Account. If the proportion is greater than 10% of the fair value of all securities held by the Special Account, then we will account for the subordinated interest as a partial sale and a partial retained interest. If the proportion is less than 10% of the fair value of all securities held by the Special Account, we will account for the subordinated interest as a part of the sales proceeds. The fair value of securities sold to the Special Account did not reach the 10% threshold, and we therefore accounted for the related subordinated contributions as sales proceeds in the fiscal year ended March 31, 2002.

Transfers to Exchange Traded Fund

In addition to the transfers to the Purchase Corporation, we transferred marketable equity securities to an exchange traded fund in the fiscal year ended March 31, 2002. We concurrently entered into sales agreements for marketable equity securities and purchase agreements for the fund units of the exchange traded fund with a securities company. As the exchange traded funds are linked to TOPIX, we sold to the exchange traded funds units that are listed on the First Section of the Tokyo Stock Exchange. The exchange traded fund established by the securities company's affiliate holds the stocks that we sold. In the fiscal year ended March 31, 2002, we sold to the securities company marketable equity securities with an aggregate acquisition cost of ¥326 billion for ¥392 billion, and concurrently purchased from the securities company the fund units at the market price of ¥528 billion. During the fiscal year ended March 31, 2002, most of the fund units that we purchased were subsequently sold in to the market. Since the stocks that we sold accounted for a majority in the stocks of the exchange traded fund at the time of sale and purchase, we accounted for our remaining holdings of exchange traded fund units with a market value of ¥91 billion at March 31, 2002 as retained interests.

Off-Balance Sheet Arrangements

In the normal course of business, we are engaged in several types of off-balance-sheet financial arrangements, some of which call for and rely on activities of special purpose entities in the performance of the arrangements. These arrangements involving special purpose entities include, but are not limited to, disposals of non-performing assets to remove such assets from our balance sheet, repackaging of existing financial instruments to create other investments for customers that otherwise would not be readily available in the market, and securitizations of our customers' assets for their off-balance sheet treatments.

Disposals of Non-Performing Assets

We conduct several types of sales transactions to liquidate our non-performing assets from our consolidated balance sheet. Although the transactions are structured as "loan assignments" to third party investors, some utilize special purpose entities as their purchasing entities. These special purpose entities are fully owned and controlled by third parties, and are generally organized as limited liability companies or corporations. In some cases, we continue to have certain post-sales involvements with these special purpose entities, where we may provide back-up lending to the special purpose entities on a limited-recourse basis, or act as a servicer for the special purpose entities with servicing fees determined on an arms-length basis.

The limited-recourse lending to these special purpose entities is generally structured with recourse to the assets sold to the special purpose entities, as well as to the collateralized cash reserve. Additionally, in certain cases, the investors are required to infuse additional equity into the special purpose entities in order to repay our loans. As part of our credit assessment process, we regularly monitor the collectibility of these non-recourse loans to the special purpose entities, based on an assessment of the underlying assets.

In the fiscal year ended March 31, 2002, we sold non-performing loans with an aggregate net book value of ¥2.3 billion to the special purpose entities for ¥0.8 billion, recognizing ¥1.5 billion of losses on the sales. At March 31, 2002, the total assets of such special purpose entities were ¥4.7 billion, and the total liabilities of the special purpose entities were ¥3.5 billion.

In addition, we have participated in a corporate recovery fund through a *tokumei kumiai* agreement, which is similar to a limited partnership agreement in the United States, in the fiscal year ended March 31, 2002. The principal business purpose of the corporate recovery fund is corporate restructurings. The corporate recovery fund purchases non-performing loans from others or us and in some cases acquires majority ownership in the borrower companies by a means of debt-for-equity swaps. The corporate recovery fund maintains the investment in a borrower until it completes the restructuring of the borrowers' business. The corporate recovery fund is organized as a limited partnership, and a wholly-owned subsidiary of an independent fund management company acts as a general partner who administers and manages the corporate recovery fund. We have participated in the corporate recovery fund through the *tokumei kumiai* without voting rights and made contributions of ¥0.3 billion, or 34.9% of total contributions to the corporate recovery fund.

At March 31, 2002, the total assets of the corporate recovery fund were approximately ¥0.9 billion. During the fiscal year ended March 31, 2002, we sold non-performing loans with net book value of ¥0.3 billion to the corporate recovery fund for ¥0.3 billion. At March 31, 2002, in accordance with the *tokumei kumiai* agreement, we have committed to make additional contributions of up to ¥6.9 billion when required by the corporate recovery fund. Our possible loss from our investment in the corporate recovery fund is limited to the amount of our contributions.

Repackaging and Creation of Marketable Financial Instruments for Customers' Needs

We have repackaged certain financial instruments through special purpose entities to create new financial instruments with different features, using derivative instruments, which match our customers' needs and preferences.

One of our European subsidiaries is active in repackaging debt instruments through special purpose entities. We purchase bonds, loans or other financial assets which we believe are under-valued in the market due to their irregular cash flows and/or any other irregular features. We transfer those assets to the special purpose entities that repackage the assets to create debt instruments with Euro-market-standard features, including standard cash flows. We enter into interest rate or currency swaps with the special purpose entities to change the irregular cash flows into standard cash flows. We then underwrite and market the new debt instruments to our customers.

We have written put options to a few special purpose entities which give them options to put any bonds back to us in case of default of the bonds included in their assets and receive predetermined cash flows from us. The majority of risks derived from these options, including our exposure to default of the bonds, are effectively hedged with third parties in the market and, therefore, a default on any of the bonds would not have a significant impact on us, except for the impact arising from our exposure on the unhedged portion.

We have accounted for the transfers of bonds to the special purpose entities as sales, with the special purpose entities' put options being recorded at fair value.

In the fiscal year ended March 31, 2002, we transferred debt instruments with a fair value of ¥54.0 billion to the special purpose entities. At March 31, 2002, the total assets and liabilities of the special purpose entities were each ¥233.8 billion. At March 31, 2002, we had an aggregate exposure of ¥134.9 billion with respect to the special purpose entities' put options exercisable upon default of the bonds included in the assets of the special purpose entities. Related interest rate or currency swaps with the special purpose entities, which were hedged by transactions with third parties, were accounted for as trading account assets. Related gains or losses are reflected in our consolidated financial statements as net trading account profit or loss.

Securitization of Customers' Financial Assets

In the normal course of business, we provide our customers with opportunities for asset-backed financing and support our customers through facilitating their access to the asset-backed securities market, including the commercial paper market.

Typically, we encourage our customers to sell their trade receivables to special purpose entities, which in turn issue commercial paper. Because the only assets of a special purpose entity are trade receivables that provide the cash flows for the commercial paper, the commercial paper is called asset-backed CP. The asset-backed CP typically carries a maturity of one to six months, which approximates the terms of the underlying trade receivables that will provide funds for repayment.

At present, we financially support the special purpose entities with the provision of liquidity facilities in amounts equal to the outstanding balances of asset-backed CP to assure redemption of asset-backed CP. The liquidity facilities are to be used in the event of any disruption in the commercial paper market and/or to manage mismatches in cash flows existing between the redemption of asset-backed CP and the collection of the trade receivables. In addition, the liquidity facilities may be used for the purpose of credit enhancement to protect any future loss arising from credit deterioration in the portfolio in the special purpose entities.

Our credit enhancement of liquidity facility arrangements exposes us to the risk of losses on any default of receivables held by the special purpose entities. This risk is managed and monitored through our internal credit approval process.

We also act as a dealer for the asset-backed CP programs to distribute asset-backed CP in the capital markets. We underwrite the asset-backed CP and sell primarily to the institutional investors. We often hold asset-backed CP in our trading account portfolio before we market them to third party investors.

At March 31, 2002, the total assets of the special purpose entities were ¥2,595.4 billion and the total liabilities of the special purpose entities were ¥2,594.3 billion. Our fees and commissions for arrangements and commitment fees were ¥7.7 billion for the fiscal year ended March 31, 2002. At March 31, 2002, we provided liquidity and credit enhancement of ¥1,817.8 billion which is available for the redemption of outstanding asset-backed CP. At March 31, 2002, we held asset-backed CP amounting to ¥1,249.2 billion in our portfolio of trading securities.

Non-exchange Traded Contracts Accounted for at Fair Value

The use of non-exchange traded or over-the-counter contracts provides us with the ability to adapt to the varied requirements of a wide customer base while efficiently mitigating market risks. Non-exchange traded contracts are accounted for at fair value, which is generally based on pricing models or quoted market prices for instruments with similar characteristics. These contracts are primarily crude oil commodity contracts or weather derivatives. The following table summarizes the changes in fair value of non-exchange traded contracts for the fiscal year ended March 31, 2002:

	Change in net fair value—unrealized gains (losses)
	(in millions)
Net fair value of contract outstandings at March 31, 2001	¥ (606)
Change attributable to contracts realized or otherwise settled during the fiscal year	2,530
Fair value of new contracts entered into during the fiscal year	(9)
Other changes in fair value, principally revaluation at March 31, 2002	(2,483)
Net fair value of contract outstandings at March 31, 2002	¥ (568)

The following table summarizes the maturities of non-exchange traded contracts at March 31, 2002:

	Net fair value of contracts—unrealized gains (losses)	
	Prices actively quoted	Prices based on models and other valuation methods
	(in millions)	
Maturity less than 1 year	¥(1,082)	¥113
Maturity less than 3 years	(4)	237
Maturity less than 5 years	16	163
Maturity 5 years or more	(11)	—
Net fair values—net	¥(1,081)	¥513

Capital Resources

The following table presents a summary of our shareholder's equity:

	At March 31,		
	2000	2001	2002
		(in billions)	
Preferred stock	¥ 122.1	¥ 122.1	¥ 122.1
Common stock	663.9	663.9	663.9
Capital surplus	592.1	592.1	600.3
Retained earnings	565.9	411.8	202.6
Accumulated other changes in equity from nonowner sources	1,250.2	620.7	344.8
Less treasury stock, at cost	—	(0.4)	(26.7)
Total shareholder's equity	¥3,194.2	¥2,410.1	¥1,907.0
Ratio of total shareholder's equity to total assets	4.64%	3.16%	2.49%

Total shareholder's equity decreased ¥503.1 billion from ¥2,410.1 billion at March 31, 2001 to ¥1,907.0 billion at March 31, 2002, and the ratio of total shareholder's equity to total assets also showed a decrease of 0.67 points from 3.16% at March 31, 2001 to 2.49% at March 31, 2002. The decrease in total shareholder's equity in the fiscal year ended March 31, 2002, and the resulting decrease of the ratio to total assets, were principally attributable to a ¥291.2 billion decrease in net unrealized gains on investment securities available for sale, net of taxes recorded as part of accumulated other changes in equity from nonowner sources, and a ¥209.2 billion decrease in retained earnings.

Due to our holding a large amount of marketable Japanese equity securities and the volatility of the equity markets in Japan, changes in the fair value of marketable equity securities have significantly affected our shareholder's equity. The following table presents information relating to the accumulated net unrealized gains before tax effect in respect of marketable equity securities at March 31, 2000, 2001 and 2002:

	March 31,		
	2000	2001	2002
		(in billions)	
Accumulated net unrealized gains (in billions)	¥2,673	¥1,850	¥1,276
Accumulated net unrealized gains to total assets	3.88%	2.42%	1.66%

As discussed in "—Business Environment," the decrease in accumulated net unrealized gains on marketable equity securities at March 31, 2002 and losses from write-downs of investment securities for the year then ended was mainly due to declines in Japan's stock markets, which resulted in an increase in net unrealized holding losses in our available-for-sale portfolio.

Capital Adequacy

We are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which we operate. Failure to meet minimum capital requirements can initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on our operating results and financial condition.

We are subject to regulatory capital requirements administered by the Financial Services Agency in accordance with the provisions of the Banking Law. A banking institution is subject to minimum capital adequacy requirements both on a consolidated basis and on a stand-alone basis, and is required to maintain the minimum capital irrespective of whether it operates independently or as a subsidiary under the control of another company. The capital adequacy guidelines adopted by the Financial Services Agency applicable to Japanese banks with international operations generally follow the risk-weighted approach proposed by the Basel Committee on Banking and Supervisory Practices of the Bank for International Settlements. The guidelines involve quantitative credit measures of the assets and certain off-balance-sheet items as calculated under Japanese GAAP. In addition, a banking institution engaged in certain qualified trading activities is required to calculate an additional capital charge for market risk using either the institution's own internal risk measurement model or a standardized process proposed and defined by the Bank for International Settlements. Under Financial Services Agency guidelines, capital is classified into three tiers, referred to as Tier I, Tier II and Tier III. Our Tier I capital generally consists of shareholder's equity items, including common stock, non-cumulative preferred stocks, capital surplus and retained earnings, but recorded goodwill is deducted from the Tier I capital. Tier II generally consists of general reserves for credit losses, 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.

In the United States, UnionBancal Corporation and its banking subsidiary, Union Bank of California, N.A., our 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, they must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under U.S. regulatory accounting practices. Their capital amounts and prompt corrective action classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

We continually monitor our risk-adjusted capital ratio closely and manage our operations in consideration of the capital ratio requirements. These ratios are affected not only by fluctuations in the value of our assets, including our marketable securities, real estate assets and deferred tax assets, but also by fluctuations in the value of the yen against the US dollar and other currencies and general price levels of Japanese equity securities. Moreover, additional credit costs under Japanese GAAP negatively affect our capital ratios. Recent declines in stock prices and real estate values, and increased credit costs have negatively affected our capital ratios.

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

The table below presents our consolidated risk-based capital, risk-adjusted assets, and risk-based capital ratios at March 31, 2001 and 2002 (underlying figures are calculated in accordance with Japanese GAAP as required by the Financial Services Agency):

	March 31, 2001	March 31, 2002	Minimum capital ratios required
	(in billions, except percentages)		
Capital components:			
Tier I capital	¥ 2,498.2	¥ 2,556.6	
Tier II capital	2,498.2	2,556.6	
Total risk-based capital	4,896.6	5,010.2	
Risk-weighted assets	50,519.0	48,657.8	
Capital ratios:			
Tier I capital	4.94%	5.25%	4.00%
Total risk-based capital	9.69	10.29	8.00

Our total risk-based capital ratio, calculated under Japanese GAAP, increased 0.60% from 9.69% at March 31, 2001 to 10.29% at March 31, 2002. The increase in capital ratio was primarily due to a reduction in risk-weighted assets, which was partially offset by net loss in the fiscal year ended March 31, 2002.

Subsidiary Banks in the United States

The table below presents the risk-based capital ratios of UnionBanCal and Union Bank of California at December 31, 2000 and 2001:

	December 31, 2000	December 31, 2001	Minimum capital ratios required	Ratios OCC requires to Be "Well Capitalized"
UnionBanCal:				
Tier I capital (to risk-weighted assets)	10.24%	11.47%	4.00%	—
Tier I capital (to quarterly average assets)	10.19	10.53	4.00	—
Total capital (to risk-weighted assets)	12.07	13.35	8.00	—
Union Bank of California:				
Tier I capital (to risk-weighted assets)	9.47%	10.63%	4.00%	6.00%
Tier I capital (to quarterly average assets)	9.24	9.69	4.00	5.00
Total capital (to risk-weighted assets)	11.01	12.19	8.00	10.00

Management believes that, as of December 31, 2001, Union BanCal and Union Bank of California met all capital adequacy requirements to which they are subject.

As of December 31, 2000 and 2001, Union Bank of California was categorized as "well capitalized" under the regulatory framework for prompt corrective action in accordance with the notification from the U.S. Office of the Comptroller of the Currency. To be categorized as "well capitalized," Union Bank of California 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 Union Bank of California's category.

Euro

On January 1, 2002, the final conversion of 12 European currencies into actual euro notes and coins was completed, and from March 1, 2002, old currencies are no longer accepted. Our operational systems and procedures are now Euro compliant. The process of achieving this compliance has not resulted in significant costs to us.

Item 6. Directors, Senior Management and Employees.

A. Directors and Senior Management

Set forth below is a list of the Board of Directors and Corporate Auditors of Bank of Tokyo-Mitsubishi at June 27, 2002.

Mr. Satoru Kishi and Mr. Kenji Yoshizawa resigned from their respective positions, Chairman and Deputy Chairman, on June 26, 2002. The decision to resign was made in the context of initiatives to streamline our top management structure and is part of efforts to accelerate our decision-making process. We do not plan to appoint successors to these positions.

Name	Date of birth	Business activities performed inside and outside BTM
‡Shigemitsu Miki	April 4, 1935	Mr. Miki has served as President of Bank of Tokyo-Mitsubishi since June 2000. He served as a Deputy President of Bank of Tokyo-Mitsubishi from May 1997 to June 2000. He has served as President and Chief Executive Officer of Mitsubishi Tokyo Financial Group Inc. since April 2001. He has served as a Corporate Auditor of Millea Holdings, Inc. since April 2002, and as a Corporate Auditor of Mitsubishi Motors Corporation since June 2001. He also served as a Corporate Auditor of the Tokio Marine and Fire Insurance Co., Ltd. from June 2000 to April 2002.
‡Tetsuo Shimura	December 3, 1938	Mr. Shimura has served as a Deputy President of Bank of Tokyo-Mitsubishi since June 2001. He served as a Senior Managing Director of Bank of Tokyo-Mitsubishi from June 1998 to June 2001, and as a Managing Director of Bank of Tokyo-Mitsubishi from June 1996 to June 1998. He has served as a director of Japan Telecom Co., Ltd. since June 2001.
‡Nobuo Kuroyanagi	December 18, 1941	Mr. Kuroyanagi has served as a Deputy President of Bank of Tokyo-Mitsubishi since June 2002. He served as a Non-board member Managing Director of Bank of Tokyo-Mitsubishi from June 2001 to June 2002, and as a Managing Director of Bank of Tokyo-Mitsubishi from June 1996 to May 2001. He has served as a director of Clearing House Interbank Payment Company since June 2000.
†Yasumasa Gomi	February 8, 1943	Mr. Gomi has served as a Senior Managing Director of Bank of Tokyo-Mitsubishi since June 2002 and as Chief Executive, Commercial Banking Business Unit of Bank of Tokyo-Mitsubishi since May 2001. He served as a Managing Director of Bank of Tokyo-Mitsubishi from May 1997 to June 2002.
†Tatsunori Imagawa	October 15, 1943	Mr. Imagawa has served as a Senior Managing Director, Chief Executive, Investment Banking Business Unit and Chief Executive, Asset Management Business Unit of Bank of Tokyo-Mitsubishi since June 2002. He served as a Managing Director of Bank of Tokyo-Mitsubishi from May 1997 to June 2002, and as a Director of Bank of Tokyo-Mitsubishi since April 1996. He has served as a Director of Mitsubishi Tokyo Financial Group, Inc. since April 2001. He has also served as a director of the Japan Securities Depositary Center, Inc. since June 2002.
‡Asataro Miyake	July 10, 1944	Mr. Miyake has served as a Managing Director of Bank of Tokyo-Mitsubishi since June 2002. He served as a Non-board member Managing Director of Bank of Tokyo-Mitsubishi from June 2001 to June 2002 and has served as Chief Executive, eBusiness & IT Initiatives Unit and in charge of Corporate Center of Bank of Tokyo-Mitsubishi since May 2002. He served as a Managing Director of Bank of Tokyo-Mitsubishi from June 1998 to June 2001, and as a Director of Bank of Tokyo-Mitsubishi since April 1996.

Name	Date of Birth	Business activities performed inside and outside BTM
‡Takahiro Moriguchi . .	May 22, 1944	Mr. Moriguchi has served as a Managing Director of Bank of Tokyo-Mitsubishi since June 2000 and as Chief Executive, Global Corporate Banking Business Unit since May 2002. He served as a Director of Bank of Tokyo-Mitsubishi and President and Chief Executive Officer of UnionBanCal Corporation from May 1997 to June 2000, and as a Director of Bank of Tokyo-Mitsubishi since 1996. He served as a Director of Bank of Tokyo-Mitsubishi from April 1996 to June 2000.
†Masayuki Tanaka	April 5, 1944	Mr. Tanaka has served as a Managing Director of Bank of Tokyo-Mitsubishi since May 1999 and as Chief Executive, Operation Service Business Unit and System Service Business Unit of Bank of Tokyo-Mitsubishi since May 2002. He has served as a Director of Bank of Tokyo-Mitsubishi since June 1995.
‡Ichiro Terato	May 1, 1946	Mr. Terato has served as Managing Director of Bank of Tokyo-Mitsubishi since June 2000 and as Chief Executive, Retail Banking Business Unit of Bank of Tokyo-Mitsubishi since May 2002. He has served as a Director of Bank of Tokyo-Mitsubishi since June 1996.
†Norimichi Kanari	December 4, 1946	Mr. Kanari has served as a Managing Director of Bank of Tokyo-Mitsubishi since June 2001 and as Chief Executive, UNBC Business Unit of Bank of Tokyo-Mitsubishi and President and Chief Executive Officer of UnionBanCal Corporation and Union Bank of California, N.A. since July 2001. He served as a Director of Bank of Tokyo-Mitsubishi from June 1997 to June 2001. He has also served as a Director of Shimano American Corporation since February 2002.
‡Katsunori Nagayasu . .	April 6, 1947	Mr. Nagayasu has served as a Managing Director of Bank of Tokyo-Mitsubishi in charge of Corporate Center since June 2002. He served as a Managing Director of The Mitsubishi Trust and Banking Corporation from October 2001 to June 2002, as a Managing Director of Nippon Trust Bank Limited from April 2001 to September 2001. He has served as a Director of Bank of Tokyo-Mitsubishi since June 1997. He has served as a director of Mitsubishi Tokyo Financial Group since April 2001. He served as Managing Director of Mitsubishi Trust Bank from October 2001 to June 2002.
‡Yoshinobu Onishi	June 9, 1947	Mr. Onishi has served as a Managing Director and Chief Executive, Treasury Unit of Bank of Tokyo-Mitsubishi since June 2002. He served as a Non-board member Managing Director of Bank of Tokyo-Mitsubishi from May 2002 to June 2002, as a Non-board member Director of Bank of Tokyo-Mitsubishi from June 2001 to May 2002. He has served as a Director of Bank of Tokyo-Mitsubishi since June 1998.
μYutaka Hasegawa	October 8, 1939	Mr. Hasegawa has served as a full-time Corporate Auditor of Bank of Tokyo-Mitsubishi since June 2001. He served as President of The Diamond Business Consulting Co., Ltd. from June 1998 to June 2001, and as a Managing Director of Bank of Tokyo-Mitsubishi from April 1996 to June 1998.

Name	Date of birth	Business activities performed inside and outside BTM
μTakuo Oi	May 15, 1942	Mr. Oi has served as a full-time Corporate Auditor of Bank of Tokyo-Mitsubishi since June 2002. He served as a Non-board member Managing Director of Bank of Tokyo-Mitsubishi from June 2001 to June 2002, as a Managing Director of Bank of Tokyo-Mitsubishi from May 1997 to June 2001.
‡Takashi Uno	November 1, 1941	Mr. Uno has served as a full-time Corporate Auditor of Bank of Tokyo-Mitsubishi since June 1998. He served as a Director of Bank of Tokyo-Mitsubishi from April 1996 to June 1998. He has served as a Corporate Auditor of Mitsubishi Tokyo Financial Group, Inc. since April 2001.
†Takao Wada	January 1, 1947	Mr. Wada has served as a full-time Corporate Auditor of Bank of Tokyo-Mitsubishi since June 2000. He served as a Director of Bank of Tokyo-Mitsubishi from June 1997 to June 2000.
†Yoshikazu Takagaki	July 2, 1942	Mr. Takagaki has served as a Corporate Auditor of Bank of Tokyo-Mitsubishi since April 2001. He served as a full-time Corporate Auditor of Bank of Tokyo-Mitsubishi from June 1997 to April 2001, and as a Director of Bank of Tokyo-Mitsubishi from April 1996 to June 1997. Mr. Takagaki has served as a full-time Corporate Auditor of Mitsubishi Tokyo Financial Group, Inc. since April 2001.
μMitsuo Minami	November 5, 1933	Mr. Minami has served as a Corporate Auditor of Bank of Tokyo-Mitsubishi since June 2001. He has served as a Corporate Auditor of Mitsubishi Tokyo Financial Group, Inc. since April 2001 and as a Professor, Department of Business Administration, Bunkyo Gakuin University since April 1999. He has also served as a Corporate Auditor of Eizai Co., Ltd. since June 2001, The Nisshin Oil Mills, Ltd. since June 2001, and Kikuchi Co., Ltd. since December 1999.
μIchiro Nagaishi	January 30, 1943	Mr. Nagaishi has served as a Corporate Auditor of Bank of Tokyo-Mitsubishi since June 2001. He has also served as a Corporate Auditor of Nakagawa Seikodo Co., Ltd. since July 2001. He has practised as an attorney-at-law since April 1972.

† Term expires 2003.
‡ Term expires 2004.
μ Term expires 2005.

B. Compensation

An aggregate of ¥604 million was paid by Bank of Tokyo-Mitsubishi as remuneration, including bonuses but excluding retirement allowances, during the year ended March 31, 2002 to our directors and corporate auditors.

In accordance with customary Japanese business practice, when a director or corporate auditor retires, a proposal to pay a retirement allowance is submitted at the annual general meeting of shareholders for approval. After the shareholders' approval is obtained, the retirement allowance for a director or corporate auditor is fixed by the board of directors or by consultation among the corporate auditors, respectively, in accordance with our internal regulations and practice and generally reflects the position of the director or corporate auditor at the time of retirement, the length of his service as a director or corporate auditor and his contribution to our performance.

We do not set aside reserves for any such retirement payments to the directors and corporate auditors. During the fiscal year ended March 31, 2002, we paid ¥1,459 million in allowances to retiring directors and corporate auditors.

We have not implemented a stock option plan. We have a pension foundation for our employees pursuant to the Welfare Pension Insurance Law of Japan. Under this scheme, our employees (and in certain cases, relatives of employees) are entitled to receive pensions and/or lump-sum payments from the pension foundation of Bank of Tokyo-Mitsubishi under the conditions set forth in its rules. Pensions paid by the pension foundation comprise the portion which basically corresponds to pensions that would be payable by the Japanese government to our employees if there were not a pension foundation, and the portion which is paid in addition to the government portion. Although our directors and corporate auditors are eligible for the government portion, they are not entitled to receive the additional portion in respect of their tenure as our directors and corporate auditors.

C. Board Practices

Our Articles of Incorporation were amended on June 27, 2001 to provide that the number of directors shall not exceed 20 and that the number of corporate auditors shall not exceed eight. Our shareholders elect directors usually at an annual general meeting of shareholders of Bank of Tokyo-Mitsubishi for staggered two-year terms. Our shareholders also elect corporate auditors usually at the annual general meeting of shareholders of Bank of Tokyo-Mitsubishi for four-year terms (the term of office of a corporate auditor beginning before the close of the ordinary general meeting of shareholders to be held in June 2003 is three years).

The board of directors has ultimate responsibility for the administration of our affairs. The board of directors is empowered to appoint by resolution representative directors from among their members who may represent us severally. The board of directors may also appoint from their members by resolution a chairman, a deputy chairman, a president, deputy presidents, senior managing directors and managing directors. Deputy presidents assist the president. Senior managing directors and the managing directors assist the president and deputy presidents in the management of our day-to-day business.

Under the Commercial Code of Japan, directors must refrain from engaging in any business competing with us unless approved by a board resolution, and no director may vote on a proposal, arrangement or contract in which that director is deemed to be materially interested.

Neither the Commercial Code nor our articles of incorporation contain special provisions as to the borrowing power exercisable by a director, to the retirement age of our directors and corporate auditors, or to a requirement of our directors and corporate auditors to hold any shares of our capital stock.

The Commercial Code requires a resolution of the board of directors for a company to acquire or dispose of material assets, to borrow substantial amounts of money, to employ or discharge important employees such as executive officers, and to establish, change or abolish material corporate organizations such as a branch office.

We currently have seven corporate auditors, including two external corporate auditors. The corporate auditors, who are not required to be and are not certified public accountants, have various statutory duties, including principally:

- the examination of the financial statements, the business reports, proposals and other documents which the board of directors prepares and submits to the general meeting of shareholders;
- the examination of the administration of the affairs by the directors; and
- the preparation and submission of a report on their examination to the general meeting of shareholders.

Corporate auditors are obliged to attend and make statements at meetings of the board of directors if they deem necessary, although they are not entitled to vote at the meetings. The Commercial Code provides that there may not be less than three corporate auditors. One or more corporate auditors, who are required to serve on a full-time basis, must be designated by the corporate auditors from among their members. At least one of the corporate auditors must be a person who has not been an employee or a director of us or any of our subsidiaries within the previous five years. After the close of the annual general meeting of shareholders to be held in June 2006, at least half of the corporate auditors must be an "external corporate auditor" who has not been an employee or a director of us or any of our subsidiaries.

For additional information on board practices, see "Item 6.A. Directors, Senior Management and Employees—Directors and Senior Management."

D. Employees

As of March 31, 2002, we had 34,609 employees. The following tables show the percentages of our employees in our different business units and geographically, as of March 31, 2002. Most of our employees are members of the employee's union of either Bank of Tokyo-Mitsubishi or its subsidiaries, which negotiate on behalf of employees in relation to remuneration and working conditions.

Business unit	
Retail Banking and Commercial Banking	33%
Global Corporate Banking	17%
Investment Banking	7%
UnionBanCal Corporation	27%
Operation Services	5%
Treasury	2%
Other units	9%

Location	
Japan	58%
United States	30%
Europe	3%
Asia/Oceania excluding Japan	8%
Other areas	1%

E. Share Ownership

None.

Item 7. Major Shareholders and Related Party Transactions.

A. Major Shareholders

All of our outstanding shares of common stock and preferred stock are owned by Mitsubishi Tokyo Financial Group.

B. Related Party Transactions

We had, and expect to have in the future, banking transactions and other transactions in the ordinary course of business with our related parties. Although for the fiscal year ended March 31, 2002, such transactions included, but were not limited to call money, loans, electronic data processing, leases and management of properties, those transactions were immaterial and were made at prevailing market rates, terms, and conditions and do not involve more than the normal risk of collectibility or present other unfavorable features. Certain other transactions with our related parties are described elsewhere in this Annual Report.

None of our directors or corporate auditors, and none of the close members of their respective families, has had any transactions or has any presently proposed transactions which are material or any transactions that are unusual in their nature or conditions, involving goods, services, or tangible or intangible assets, to which we were a party.

No loans have been made to our directors or corporate auditors other than in the normal course of business, on normal commercial terms and conditions.

No family relationship exists among any of our directors or corporate auditors. No arrangement or understanding exists between any of our directors or corporate auditors and any other person pursuant to which any director or corporate auditor was elected to their position at Bank of Tokyo-Mitsubishi.

C. Interests of Experts and Counsel.

Not applicable.

Item 8. Financial Information.

A. Consolidated Statements and Other Financial Information

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this Annual Report and in "Selected Statistical Data" starting on page A-1 of this Annual Report.

Legal Proceedings

We are involved in legal proceedings with the Tokyo Metropolitan Government and the Osaka Prefectural Government regarding recent local taxes enacted by those governments. For a more detailed discussion of these legal proceedings, see "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Recent Developments—Legal Proceedings for Local Taxes" and the notes to our consolidated financial statements.

Distributions

The board of directors recommends an annual dividend for shareholders' approval at the ordinary general meeting of shareholders customarily held in June of each year. The annual dividend is usually distributed immediately following shareholders' approval to holders of record on the preceding March 31. In addition to annual dividends, we may make cash distributions by way of interim dividends from retained earnings as of the end of the preceding fiscal year to shareholders of record as of September 30 in each year by resolution of our board of directors.

B. Significant Changes

No significant changes have occurred since the date of our consolidated financial statements included in this Annual Report.

Item 9. The Offer and Listing.

A. Offer and Listing Details

Market Price Information

All our outstanding shares of common stock are owned by Mitsubishi Tokyo Financial Group.

B. Plan of Distribution

Not applicable.

C. Markets

Not applicable.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information.

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Our Corporate Purpose

Article 2 of our articles of incorporation provides that our corporate purposes are to carry on the following businesses:

(1) To accept deposits and installment savings, to extend loans, to discount bills and notes and to engage in exchange transactions;

(2) To guarantee obligations of others, to accept bills and to engage in any other business incidental to the banking purposes listed in the preceding clause 1;

(3) To underwrite, to conduct offerings for subscription and sale of, to buy and sell, and engage in any other business with respect to, government bonds, municipal bonds, government-guaranteed bonds and any other securities;

(4) To engage in, in addition to the business enumerated in any of the preceding clauses, all business that a bank is permitted to engage in under the Banking Law, the Secured Bonds Trust Law, the Law on Recording of Bonds or any other applicable law; and

(5) To engage in any other business incidental to or relating to any of the business enumerated in any of the preceding clauses.

Board of Directors

For discussion of the provisions of our articles of incorporation as they apply to directors, see "Item. 6.C. Directors, Senior Management and Employees—Board Practices."

Common Stock

We summarize below the material provisions of our articles of incorporation and our share handling regulations and the Commercial Code of Japan (Law No. 48 of 1899) as they relate to joint stock companies, also known as *kabushiki kaisha*. Because it is a summary, this discussion should be read together with our articles of incorporation and the share handling regulations which have been filed as exhibits to this Annual Report.

General

A joint stock company is a legal entity incorporated under the Commercial Code. The investment and rights of the shareholders of a joint stock company are represented by shares of stock in the company, and shareholders' liability is limited to the amount of the subscription for the shares.

Our authorized common share capital is 8,000,000,000 shares of common stock with no par value. As of March 31, 2002, a total of 4,675,455,546 shares of common stock were issued. Each of the shares issued and outstanding is fully paid and non-assessable. We are also authorized to issue 100,000,000 shares of preferred stock. As of March 31, 2002, we had 81,400,000 preferred shares, issued and outstanding.

We may issue shares from our authorized but unissued share capital following a resolution to that effect by our board of directors. An increase in our authorized share capital is only possible by amendment of our articles of incorporation which generally requires shareholders' approval.

Under the Commercial Code, shares must be registered and are transferable by delivery of share certificates. In order to assert shareholders' rights against us, a shareholder must have its name and address registered on our register of shareholders, in accordance with our share handling regulations.

Dividends

Dividends are distributed in proportion to the number of shares owned by each shareholder on the record date for the dividend, subject to the customary Japanese practice that in case of a newly issued share, a dividend is paid on a pro rata basis for the portion of a dividend period during which such share has been owned. Dividends for each financial period may be distributed following shareholders' approval at an ordinary general meeting.

Payment of dividends on common stock is subject to the preferential dividend rights of holders of preferred stock.

Under our articles of incorporation, our financial accounts will be closed on March 31 of each year, and dividends, if any, will be paid to shareholders of record at March 31 following shareholders' approval at an ordinary general meeting of shareholders. In addition to year-end dividends, our board of directors may by resolution declare an interim cash dividend to shareholders of record as of September 30 of each year. Under the Commercial Code and Banking Law, we may not make any distribution of profits by way of annual or interim dividend unless we have set aside in our legal reserve an amount equal to at least one-fifth of the cash dividend and other amount paid by us as an appropriation of retained earnings or of any interim dividend, as the case may be, until the aggregate amount of our legal reserve and additional paid-in capital is at least equal to our stated capital. We may distribute annual or interim dividends out of the excess of our net assets, on a non-consolidated basis, over the aggregate of:

(1) our stated capital,

(2) our additional paid-in capital,

(3) our accumulated legal reserve,

(4) the legal reserve to be set aside in respect of the dividend concerned and any other proposed payment by way of appropriation of retained earnings,

(5) the excess, if any, of unamortized expenses incurred in preparation for the commencement of business and in connection with certain research and development over the aggregate of the amounts referred to in (2), (3) and (4) above, and

(6) if assets are stated at market value on our balance sheet, the excess, if any, of the aggregate market value over the aggregate acquisition cost of those assets.

In the case of interim dividends, net assets are calculated by reference to the balance sheet as of the end of the preceding fiscal year, adjusted to reflect:

(a) any subsequent payment by way of appropriation of retained earnings and transfer to legal reserve in respect of such payment;

(b) any subsequent transfer of retained earnings to stated capital; and

(c) if we have been authorized, pursuant to a resolution of an ordinary general meeting of shareholders or the board of directors, to repurchase our own shares, the total amount of the repurchase price for those shares that may be paid by us.

Interim dividends may not be paid if there is a risk that at the end of the fiscal year, there might not be any excess of net assets over the aggregate of the amounts referred to in (1) through (6) above.

In Japan, the "ex-dividend" date and the record date for any dividends precede the date of determination of the amount of the dividend to be paid. The market price of shares generally becomes ex-dividend on the third business day prior to the record date.

New Unit Share System

The new unit share system (*tan-gen kabu*) was introduced by amendments to the Commercial Code which became effective on October 1, 2001. Our Articles of Incorporation provide that 1,000 shares constitute one unit of shares regardless of whether shares of common stock or shares of preferred stock. The board of directors is permitted to reduce the number of shares constituting a unit or to abolish the unit system with respect to the shares in its entirety by amending the Articles of Incorporation without approval by shareholders. The number of shares constituting a unit is not permitted to exceed 1,000 shares or one two-hundredth (1/200) of the number of all issued shares, whichever is smaller. Our Articles of Incorporation provide that no share certificates shall be issued with respect to any shares constituting less than one unit. Consequently, no certificates for shares other than a full unit or an integral multiple thereof will be issued unless we determine that it is necessary to issue such certificates for protection of the holders of shares constituting less than one unit. As the transfer of shares normally requires delivery of the relevant share certificates, any fraction of a unit for which no share certificates are issued will not be transferable. A holder of shares constituting less than one unit may require us to purchase such shares at the price mutually agreed. Under this system, a shareholder will have one vote for each unit of shares held by it. Shares not constituting a full unit will carry no voting rights. For calculation of the quorum for various voting purposes, we will exclude the aggregate number of shares representing less than one unit from the number of voting rights. A holder of shares representing one or more whole units will have one vote for each one unit of shares, except as stated in "Voting Rights". Except as otherwise described above, holders of shares constituting less than one unit will have all the rights granted to shareholders under the Commercial Code.

General Meeting of Shareholders

The ordinary general meeting of our shareholders is usually held in June of each year in Chiyoda-ku, Tokyo. In addition, we may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' advance notice to shareholders.

Voting Rights

A shareholder has one voting right for each unit of shares. However, a corporate shareholder may not exercise its voting rights if we hold more than one quarter of the total voting rights with respect to that shareholder. Under our articles of incorporation, except as otherwise provided by law or by other provisions of our articles of incorporation, a resolution can be adopted at a shareholders' meeting by the holders of a majority of the voting rights represented at the meeting. The Commercial Code and our articles of incorporation require a quorum of not less than one third of the total number of voting rights for election of our directors and corporate auditors.

The Commercial Code provides that a quorum of a majority of outstanding voting rights, excluding those owned by our subsidiaries and affiliates of which we own, directly or indirectly, more than 25 percent, must be present at a shareholders' meeting to approve specified corporate actions, such as:

- amendment of the articles of incorporation, except in some limited cases;
- the removal of a director or corporate auditor;
- a dissolution, merger or consolidation, except for certain types of mergers;
- a stock-for-stock exchange or stock-for-stock transfer, except in some limited circumstances;
- the transfer of the whole or an important part of our business;
- a reduction of stated capital;
- a corporate split, except in some limited circumstances;
- the acquisition of the whole business of another company, except in some limited circumstances;
- the offering to persons other than shareholders of stock at a specially favorable price, or of stock acquisition rights or bonds or notes with stock acquisition rights with specially favorable conditions; and
- the repurchase of our own stock from a specific party.

At least two-thirds of the voting rights represented at the meeting must approve these actions.

There is no cumulative voting for the election of directors or corporate auditors.

Subscription Rights

Holders of shares have no preemptive rights under our articles of incorporation. Under the Commercial Code, however, our board of directors may determine that shareholders be given subscription rights in connection with a particular issue of new shares. In this case, these subscription rights must be given on uniform terms to all shareholders as of a specified record date by public notice at least two weeks prior to the record date. A notification to each individual shareholder must also be given at least two weeks prior to the date of expiration of the subscription rights.

Rights to subscribe for new shares may be transferable or non-transferable, as determined by the board of directors. If subscription rights are not transferable, a purported transfer by a shareholder will not be enforceable against us.

Stock Acquisition Rights

We may issue stock acquisition rights (*shinkabu yoyakuken*), which in the U.S. are often in the form of warrants, or bonds with stock acquisition rights that cannot be detached (*shinkabu yoyakuken-tsuki shasai*), which in the U.S. are often in the form of convertible bonds or bonds with non-detachable warrants. Except where the issuance would be on "specially favorable" terms, the issuance of stock acquisition rights or bonds with stock acquisition rights may be authorized by a resolution of the board of directors. Upon exercise of the stock acquisition rights, the holder of such rights may either acquire shares by paying the applicable exercise price or, if so determined by a resolution of the board of directors, by making a substitute payment, such as having the convertible bonds redeemed for no cash in lieu of the exercise price.

Liquidation Rights

Upon our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and preferred distributions to holders of shares of preferred stock will be distributed among the holders of our common stock in proportion to the number of shares they own.

Transfer Agent

Mitsubishi Trust Bank is the transfer agent for our common stock. The office of Mitsubishi Trust Bank for this purpose is located at 11-1, Nagatacho 2-chome, Chiyoda-ku, Tokyo, 100-8212, Japan. Mitsubishi Trust Bank maintains our register of shareholders and records transfers of ownership upon presentation of share certificates.

Reports to Shareholders

We furnish to our shareholders notices, in Japanese, of shareholders' meetings, annual business reports, including our financial statements, and notices of resolutions adopted at our shareholders' meetings.

Record Dates and Closing of Shareholders' Register

As stated above, March 31 is the record date for the payment of annual dividends if any, and September 30 is the record date for the payment of interim dividends, if any. In addition, by a resolution of the board of directors and after giving at least two weeks' prior public notice, we may at any time set a record date or close the shareholders' register temporarily, for a period not in excess of three months, in order to determine the shareholders who are entitled to the rights pertaining to the shares. The trading of shares and the delivery of certificates may continue even while the shareholders' register is closed.

Repurchase of Our Shares of Common Stock

We may repurchase our own shares:

- from a specific party, if authorized by a special resolution of an ordinary general meeting of shareholders, or
- from subsidiaries, if authorized by a resolution of the board of directors.

When the repurchase is made by us from a specific party, as authorized by a special resolution of an ordinary meeting of shareholders, any shareholder may make a demand to a director, five days or more prior to the relevant shareholders' meeting, that we also repurchase the shares held by that shareholder.

Any repurchase of our own shares from persons other than our subsidiaries must satisfy certain requirements, including that the total amount of the repurchase price may not exceed the amount of the retained earnings available for annual dividend payments after taking into account any reduction, if any, of the stated capital, additional paid-in capital or legal reserve (if such reduction of the stated capital, additional paid-in capital or legal reserve has been authorized pursuant to a resolution of the relevant ordinary general meeting of shareholders), minus the amount to be paid by way of appropriation of retained earnings for the relevant fiscal year and the amount to be transferred to stated capital. If we repurchase shares from subsidiaries, the total amount of the repurchase price may not exceed the amount of the retained earnings available for interim dividend payment minus the amount of interim dividend, if paid. If it is anticipated that the net assets on the balance sheet as at the end of the relevant fiscal year will be less than the aggregate amount of the stated capital, additional paid-in capital and other items as described in (1) through (6) in the second paragraph under "—Dividends" above, we may not repurchase our own shares.

We may hold our own shares so repurchased without restrictions. In addition, we may cancel or dispose of our own shares that we hold by a resolution of the board of directors. As of March 31, 2002, Bank of Tokyo-Mitsubishi (excluding its subsidiaries) did not own any treasury shares.

Preferred Stock

The following is a summary of information concerning the shares of our preferred stock, including brief summaries of certain provisions of our articles of incorporation and share handling regulations and of the Commercial Code as currently in effect. The detailed rights of the preferred shares are set out in the articles of incorporation and the resolutions of the board of directors relating to the issuance of the relevant stock.

General

Under our articles of incorporation, we are authorized to issue one class of preferred shares. The preferred shares have equal preference over shares of common stock in respect of dividend entitlements and distribution upon our liquidation, but holders of the preferred shares are not entitled to vote at general meetings of shareholders, subject to the exceptions provided under the Commercial Code. Currently, 81,400,000 preferred shares are outstanding. We may, at any time, purchase and redeem, at fair value, any shares of preferred stock outstanding out of earnings available for distribution to shareholders.

Preferred shares are not convertible into our common stock but are redeemable at our option. The redemption terms are determined by the board of directors at the time of issuance.

Preferred Dividends

The amount of preferred dividends are set by resolution of the board of directors at the time of issuance. The amount of preferred dividends may not exceed ¥360 per share. In the event that the board of directors determines to pay an interim dividend to holders of common stock, we will, in priority to the payment of that interim dividend, pay a preferred interim dividend (not exceeding ¥180 per share) to holders of the preferred shares and the amount of that preferred interim dividend will be deducted from the preferred dividend payable on preferred shares in respect of that same fiscal year.

No payment of dividends on the preferred shares or any other shares can be made unless we have sufficient retained earnings and, in the case of annual preferred dividends, the shareholders at the relevant ordinary general meeting of shareholders or, in the case of preferred interim dividends, the board of directors, resolves to distribute the retained earnings.

Dividends on the preferred shares are non-cumulative. If the full amount of any dividend is not declared on the preferred shares in respect of any fiscal year, holders of the preferred shares do not have any right to receive dividends in respect of the deficiency in any subsequent fiscal year, and we will have no obligation to pay the deficiency or to pay any interest whether or not dividends are paid in respect of any subsequent fiscal year. The holders of the preferred shares are not entitled to any further dividends or other participation in or distribution of our profits.

Liquidation Rights

In the event of our voluntary or involuntary liquidation, holders of the preferred shares will be entitled to receive out of the residual assets upon liquidation a distribution of ¥3,000 per share before any distribution of assets is made to holders of common stock. The holders of preferred shares are not entitled to any further dividends or other participation in or distribution of our residual assets upon our liquidation.

Voting Rights

No holder of preferred shares has the right to receive notice of, or to vote at, a general meeting of shareholders, except as otherwise specifically provided under the Commercial Code or other applicable law. Under the Commercial Code, holders of the unit of preferred shares will be entitled to receive notice of, and have one voting right per unit of preferred shares at, general meetings of shareholders (1) from the commencement of our ordinary general meeting of shareholders if an agenda for approval to declare a preferred dividend is not submitted to such meeting or (2) from the close of our ordinary general meeting of shareholders if a proposed resolution to declare a preferred dividend is not approved at such meeting until such time as a resolution of an ordinary general meeting of shareholders declaring a preferred dividend is passed.

C. Material Contracts

Other than as described in this Annual Report, all contracts entered into by us in the past two years were entered into in the ordinary course of business.

D. Exchange Controls

There are no material exchange controls applicable to payments on the debt securities.

E. Taxation

Japanese Taxation

The following sets forth the material Japanese tax consequences to owners of debt securities who are non-resident individuals or non-Japanese corporations without a permanent establishment in Japan to which the relevant income is attributable, which we refer to as "non-resident holders" in this section. The statements regarding Japanese tax laws below are based on the laws in force and as interpreted by the Japanese taxation authorities as at the date of this Annual Report and are subject to changes in the applicable Japanese laws or double taxation treaties, conventions or agreements, or interpretations occurring after the date. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of debt securities, including specifically the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

Payment of interest of debt securities issued from April 1, 1998 to March 31, 2004 outside Japan by us or our paying agents to non-resident holders of debt securities will be exempt from Japanese withholding tax. In order to be exempt from Japanese withholding tax, each non-resident holder must comply with procedures for establishing its status in accordance with the requirements of Japanese law.

Under current Japanese practice, we and our paying agents may determine our withholding obligations in respect of debt securities held through a qualified clearing organization in reliance on certifications we received from the qualified clearing organization. In these cases, we do not need to obtain certifications directly from the ultimate beneficial owners of the debt securities. As part of the procedures under which these certifications are given, a beneficial owner may be required to establish that it is a non-resident holder to the person or entity through which it holds the debt securities. If a non-resident holder will be required to deliver to our paying agents a claim for exemption from Japanese withholding tax and documentation concerning its identity and residence in order to receive interest payments on the debt securities free of Japanese withholding tax. We or our paying agents may adopt modified or supplemental certification procedures to the extent necessary to comply with changes in Japanese law or administrative practice.

Gains derived from the sale of debt securities within or outside Japan by a non-resident holder are, in general, not subject to Japanese income or corporation taxes.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual, regardless of his or her place or residence, who has acquired debt securities as a legatee, heir or donee, even if neither the individual nor the decent nor the donor is a Japanese resident. No stamp, issue, registration or similar taxes or duties, will, under present Japanese law, be payable by holders of debt securities in connection with the issue of the debt securities.

There are no Japanese taxes payable on the conversion of convertible debt securities.

U.S. Taxation

The following sets forth the material United States federal income tax consequences of the ownership of debt securities by a U.S. holder, as defined below. This summary is based on United States federal income tax laws, including the United States Internal Revenue Code of 1986, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, and on the Tax Convention, all of which are subject to change, possibly with retroactive effect.

The following summary is not a complete analysis or description of all potential United States federal income tax consequences to a particular U.S. holder. It does not address all United States federal income tax considerations that may be relevant to all categories of potential purchasers, certain of which (such as banks, insurance companies, dealers, tax-exempt entities, non-U.S. persons, person holding a debt security as part of a straddle, hedging, conversion or integrated transaction, holders whose "functional currency" is not the U.S. dollar, holders liable for alternative minimum tax and holders of 10% or more of our voting shares) are subject to special tax treatment. It does not address any state or local tax consequences of an investments in debt securities.

This summary addresses only debt securities held as capital assets.

The following discussion addresses only original investors who purchase debt securities at their original offering price, which will be the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the debt securities in a particular issue is sold for money, and it assumes that debt securities are not offered at a discount. Rules under the Code relating to original issue discount, amortizable bond premium or market discount may, under specific circumstances, apply to investors who purchase debt securities at a time other than their initial offering or at a price other than the initial offering price. These investors should consult their own tax advisors as to the possible applicability of such rules.

Interest. Interest paid on debt securities (including any additional amounts) will be taxable as ordinary income at the time it is received or accrued, depending on the U.S. holder's regular method of accounting for tax purposes. For foreign tax credit limitation purposes, interest paid on debt securities will be income from sources outside the United States. However, this generally will be treated separately, together with other items of "passive income" or, in the case of certain U.S. holders, "financial services income."

Sales or other dispositions. A U.S. holder will recognize capital gain or loss on the sale, retirement or other disposition of debt securities in an amount equal to the difference between the amount realized (other than amounts attributable to accrued but unpaid interest, which will be taxed in the a manner discussed under "- Interest" above) and the U.S. holder's tax basis in the debt securities. Such gain or loss will be long-term capital gain or loss if the holding period for the debt securities exceeds one year at the time of disposition. The ability to deduct capital losses may be limited. Gain generally will be income form sources within the United States for foreign tax credit limitation purposes.

Information Reporting and Backup Withholding. Proceeds from the sale, retirement of other disposition of debt securities, or payments of principal and interest on debt securities, may be subject to information reporting requirements. Those proceeds or interest may also be subject to backup withholding unless the U.S. holder:

- is a corporation or comes within certain other categories of exempt recipients, and, when required, demonstrates this fact, or
- provides a correct taxpayer identification number on a properly completed IRS Form W-9 or substitute form, certifies that the U.S. holder is not subject to backup withholding, and otherwise complies with applicable requirements of the backup withholding rules.

Any amount withheld under these rules will be creditable against the U.S. Holder's United States federal income tax liability or refundable to the extent that it exceeds such liability if the U.S. holder provides the required information to the IRS. If a U.S. holder is required to and does not provide a correct taxpayer identification number, the U.S. holder may be subject to penalties imposed by the IRS.

We urge U.S. holders to consult their own tax advisors concerning the United States federal, state and local and other tax consequences to them of the purchase, ownership and disposition of debt securities.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We file periodic reports and other information with the SEC. You may read and copy any document that we file with the SEC at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549 or at the SEC's regional office at 500 West Madison Street, Suite 1400, Chicago, Illinois 8066. Please call the SEC at 1-800-732-0330 for further information on the operation of its public reference room. You may also inspect our SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. Some of this information may also be found on our website at http://www.btm.co.jp.

I. Subsidiary Information

Please refer to discussion under "Item 4.C. Information on the Company—Organizational Structure."

Item 11. Quantitative and Qualitative Disclosures about Market Risk.

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

Firm-Wide Risk Management

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

The Corporate Risk Management Office controls and manages the risks arising from various activities across product, operational and organizational lines. The Risk Management Committee has overall responsibility for identifying and controlling our risks. This committee meets semi-annually. It formulates action plans and monitors implementation in line with basic risk management policies.

Capital Allocation System

We introduced a capital allocation system in fiscal 2000. The capital allocation system sets the amount of capital allowed to be placed at risk by each of our business units. The level of risk is then controlled and managed within that allocation. The capital allocated by this system is expected to cover all risks, including credit risk, market risk, stock portfolio risk and operational risk. We provide for appropriate risk management by ensuring that the levels of risk taken by our business units are within our regulatory capital requirements. By optimizing capital allocation, we aim to maximize our returns after deducting cost of capital and enhance our risk-adjusted performance measurement.

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

Credit Risk Management

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

We perform a detailed assessment of all borrowers that is commenced at the end of June and December of each year. In addition, credit officers constantly monitor changes in all our customers' credit worthiness. These detailed reviews form an integral part of our overall control process to ensure that all loans are properly evaluated as part of the ongoing review process. Our credit officers are required to assess all borrowers' ratings semiannually during the three month periods from June and December each year to the balance sheet dates in response to events occurring during the intervening periods including bankruptcy, past due principal or interest, downgrading of external credit rating and/or lower stock price, business restructuring and other events as specified in the subsidiary banks' manuals. During the periods from June and December to the balance sheet dates, our credit officers are also required to regularly report changes in (1) all borrowers' ratings, (2) the value of collateral or guarantees of all borrowers classified under the Financial Service Agency's classification as "Needs Attention," "Special Attention," "In Danger of Bankruptcy", "De Facto Bankruptcy", and "Bankrupt", and (3) outstanding balance of credit of all borrowers other than borrowers classified as "Normal," as specified in the subsidiary bank's manuals.

Revising our credit rating system

Since late 1990's, the Basel Committee on Banking Supervision of the Bank for International Settlements (BIS) has been in the process of reviewing the current regulatory capital framework and the new Basel Capital Accord is expected to be finalized in late 2003, which is then to be implemented at the end of 2006. Under the new framework, banks' assets are to be weighted based on the ratings of the obligors so that regulatory capital is calculated in a more risk-sensitive way. In addition, banks will be allowed to use their own internal ratings when they meet certain validation criteria.

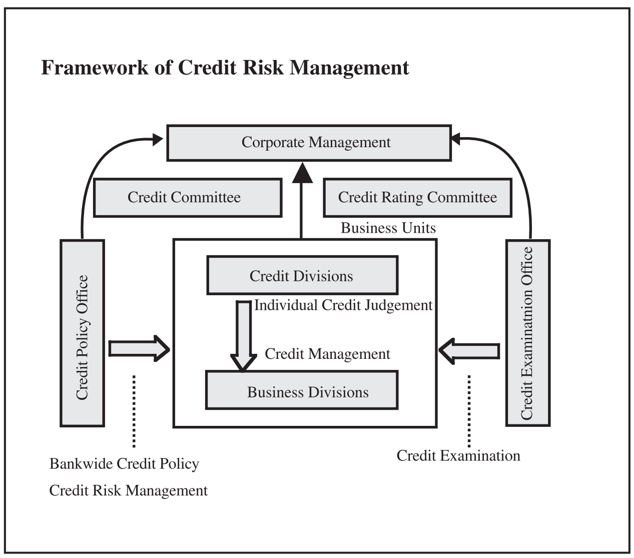
In response to this new framework, we revised our previous credit rating system and introduced completely new "Procedures for Credit Ratings" in July 2001. The new procedure is designed not only to bring our system into line with the new framework proposed by the Basel Committee but also to make it more objective by standardizing the approaches to the credit rating process among our various divisions and validating our ratings with those of outside credit rating agencies. Under the new procedure, borrower ratings are divided into 15 ranks, increased from 12 previously, and ranks 10 through 15 are designed to conform to the regulatory authorities risk grading standards for classified loans.

Our new system incorporates the concept of probabilities of default, in the same manner as the proposed framework of the Basel Committee, as central to the internal rating-based approach, and uses them as benchmarks at each stage of the credit rating process. To ensure objectivity, we have developed a quantitative financial evaluation model for different business types that analyzes the correlation between financial and default data for our borrowers and estimates their probability of default. We have also developed and introduced a rating alert system that provides our branches, our credit divisions, and our Credit Examination Office with third party information pertaining to borrowers, such as credit agency ratings.

Reduction of Problem Loans

The reduction of problem loans is one of our top priorities. We are disposing of problem loans by, among other measures, selling them to the Resolution and Collection Corporation (RCC) established by the Japanese Government to purchase problem loans. The Japanese Government has urged major banks to write-off problem loans carried over from the past within two years and any newly identified problem loans within three years. For new non-performing loans, banks are urged to remove 50% of those loans within a year, 80% within two years and the entire loans within three years. For more discussion of the purchase of problem loans by the Resolution and Collection Corporation, please see "Item 5.A. Operating and Financial Review and Prospects—Operating Results."

Framework of Credit Risk Management



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

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

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

The Credit Committee meets semi-annually and:

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

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

Market Risk Management

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

Market Risk Management System

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

Market Risk Management Process

On a semi-annual basis, the Executive Committee decides our overall market risk limit and sets the limits for our foreign exchange, derivatives and other businesses, considering various factors including our capital, earnings capacity and trading capability. Authority for market risk limit is given to each business unit chief executive, who in turn delegate the authority to the general managers in charge of business lines. In order to keep losses within a predetermined limit, we have established a loss-cut rule which sets limits for the maximum amounts of losses arising from market activities.

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

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

Market Risk Measurement

Our market risk measurement consists of general market risk and specific risk. General market risk ("VaR") is the risk arising from changes in overall market price movement, while specific risk refers to the risk of changes in the prices of individual bond or stock owing to factors other than the general market risk. Specific risk is further divided into Idiosyncratic Risk (VaI: the risk that the price of a particular stock moves idiosyncratically from the overall market movement due to supply and demand or liquidity factors when there is no particular event or default) and Event-default Risk (VaE: the risk of price movement when some shock events or default occur). VaR and VaI are used in delegating authority. Also in addition to calculating VaE on a regular basis, the system allocates it to each business unit as capital allocation.

For example, the methodologies for specific risk measurement of bonds is:

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

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

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

The Market Risk Information System uses a variance-covariance matrix of approximately 680 risk factors with statistical data for a three-year observation period. It considers the correlation among risk factors, while nonlinear option risks are estimated on a scenario approach methodology. We use it to analyze our market risk profile from various perspectives. We also use it to conduct back testing, stress tests, and profit/loss simulations based on hypothetical portfolios. This allows us to supplement our VaR based risk measurements.

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

Development of advanced Market Risk Information System

We recognize the limitations of our methodology using a variance-covariance matrix. Because no single methodology we use can reflect all aspects of the market risks we take, we use back testing, stress tests, and profit/loss simulation based on hypothetical portfolios. We are also undertaking a theoretical and statistical study to develop an advanced methodology for measurement of market risks, which includes using historical simulation.

Capital Charges for Market Risk

The market risk regulations stipulated by The Basel Committee on Banking Supervision, which were implemented in Japan by guidelines adopted by the Financial Services Agency in 2000, require us to include the effects of market risk in calculating capital adequacy ratios. We apply the "Internal Model Approach" for our general market risk calculations and the "Standardized Approach" for specific risk calculations. In applying the Internal Model Approach, we are required to meet certain qualitative and quantitative criteria. With our Market Risk Information System, we have been able to meet these strict requirements, as demonstrated by both internal and external examinations.

Market risk, defined in the Market Risk Regulation, is composed of interest rate and equity price risks held in trading activities, foreign exchange risk and commodity price risk.

Illustrations of Market Risks in the Fiscal Year Ended March 31, 2002

Trading Activities

The table below shows average daily VaR of trading activities by risk factor. In the fiscal year ended March 31, 2002, the average daily VaR (holding period: one day; confidence level: 99%) for trading activities on a consolidated basis was ¥2.83 billion, down from ¥3.43 billion in the fiscal year ended March 31, 2001. VaR decreased as a result of ordinary operations according to market fluctuation. The overall VaR of ¥2.83 billion was dominated by an interest rate risk of ¥1.79 billion followed by equity risk of ¥0.78 billion and a foreign exchange rate risk of ¥0.56 billion. Simple summation of VaR by risk factor does not equate with the overall VaR, due to the diversification effect within the portfolio. VaR by each risk category at the close of the fiscal year ended March 31, 2002 was lower than that a year earlier. During the fiscal year ended March 31, 2002, the maximum VaR was ¥4.35 billion and the minimum was ¥2.01 billion. Average daily VaI (holding period: one day, confidence level: 99%) on a consolidated basis was ¥0.82 billion with a maximum of ¥1.28 billion and minimum of ¥0.57 billion.

Value-at-Risk for Trading Activities (1 day—99%)
(April 2001-March 2002)

(Yen in billions)

Risk Category	Daily average	High	Low	March 29, 2002	March 31, 2001
Interest Rate	1.79	3.10	1.07	1.18	1.70
Japanese Yen	0.94	1.63	0.45	0.78	0.78
US Dollar	0.80	1.76	0.27	0.45	0.73
Foreign Exchange Rate	0.56	1.42	0.23	0.33	0.34
Equity	0.78	1.52	0.45	0.75	0.96
Commodity	0.17	0.39	0.08	0.18	0.33
Less Diversification	(0.46)	—	—	(0.32)	(0.28)
Overall Portfolio	2.83	4.35	2.01	2.12	3.04

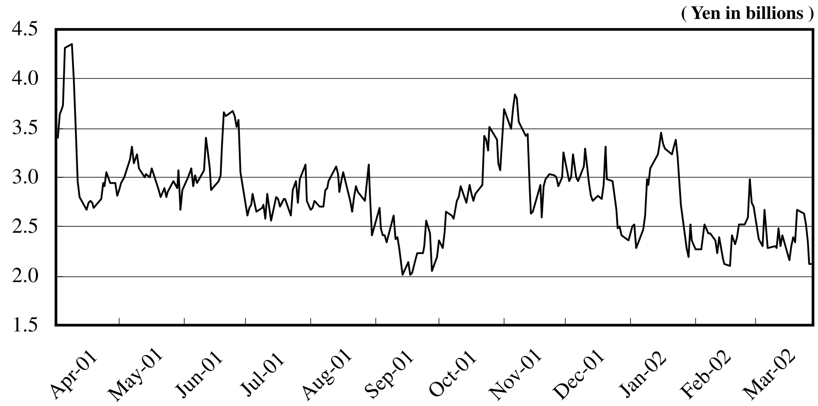
Note: The high and low for each risk category occurred on different days.

The average daily VaR by quarter in the fiscal year ended March 31, 2002 was as follows:

Quarter	Daily average VaR
April—June 2001	¥3.13 billion
July—September 2001	¥2.65 billion
October—December 2001	¥2.97 billion
January—March 2002	¥2.57 billion

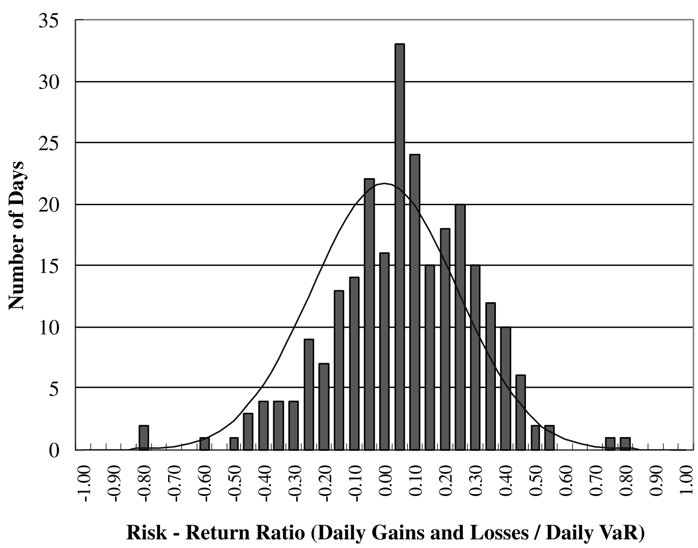
The following graph shows daily VaR changes for trading activities in the fiscal year ended March 31, 2002.

Daily VaR for Trading Activities
(April 2001 - March 2002)



In our market risk management, we evaluate whether our trading activities generate sufficient returns in relation to our risk profile. The following histogram illustrates our risk-return ratio for trading activities for the fiscal year ended March 31, 2002. The shape of the frequency was relatively concentrated in the positive side of the ratio, compared to a normal-distribution curve. This indicates that our daily earnings were relatively stable during the period.

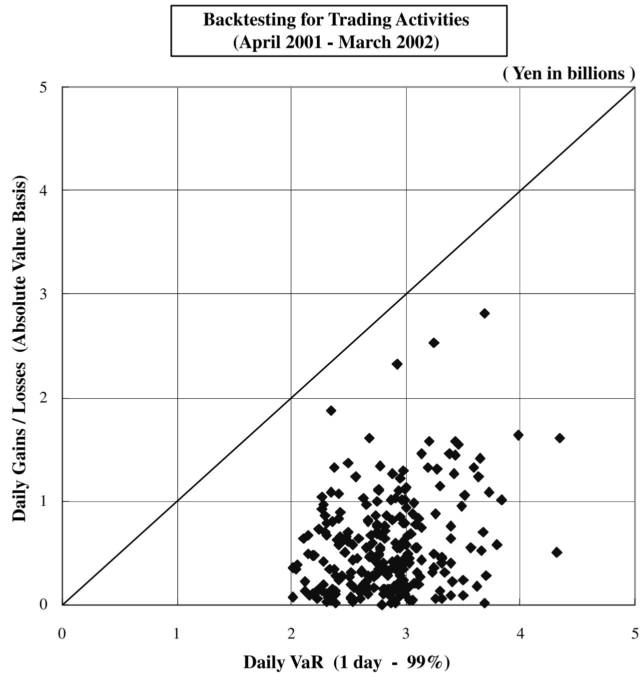
Histogram of Risk-Return Ratio for Trading Activities
(April 2001 - March 2002)



Backtesting

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

As shown in the following diagram, in the fiscal year ended March 31, 2002, absolute gains/losses did not exceed VaR on any trading days. This suggests that our VaR model is reasonably accurate in calculating market risk.



Non-Trading Activities

VaR for our total non-trading activities as of March 31, 2002, excluding market risks related to strategic equity investment and measured using the same standard as used for trading activities, was ¥19.3 billion. After converting foreign currency-denominated assets in Argentina to pesos, as required by Argentinean regulation, foreign exchange related market risks of ¥4.9 billion are included in the market risks of non-trading activities. As a result of the increase of the market risks related to the Argentinean regulation and the decrease mainly of market risks in US dollars and euro interest rate risks, the VaR was ¥1.7 billion higher than that as of the fiscal year ended March 31, 2001.

During the fiscal year ended March 31, 2002, the maximum VaR was ¥22.5 billion and the minimum VaR was ¥12.5 billion for non-trading activities. Daily average VaI on a consolidated basis was ¥1.3 billion with a maximum of ¥2.0 billion and a minimum of ¥1.0 billion.

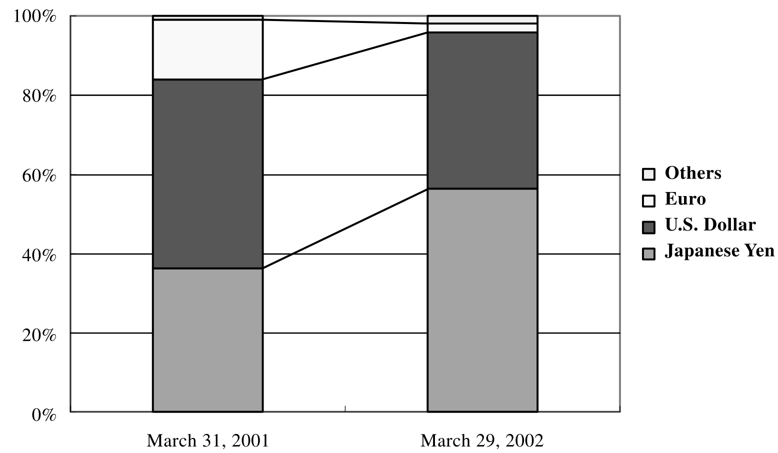
In non-trading activities, 94% of the market risk stems from interest rate risk. (We do not include our strategic investments in equity in our non-trading activities. Risks related to these strategic investments are discussed in the following section.)

In the fiscal year ended March 31, 2002, the interest rate daily average VaR for non-trading activities was ¥14.9 billion, which was a ¥4.1 billion decrease on the fiscal year ended March 31, 2001 average of ¥19.0 billion. The main cause of the decrease is that we decreased our US dollar and the euro interest rate positions. Interest rate daily average VaR by quarter in the fiscal year ended March 31, 2002 was as follows:

Quarter	Daily average VaR
April—June 2001	¥15.5 billion
July—September 2001	¥13.3 billion
October—December 2001	¥15.4 billion
January—March 2002	¥15.7 billion

The following chart shows the distribution of risk by currency. Compared to the fiscal year ended March 31, 2001, the percentages of interest rate risk for US dollars and the euro decreased according to the decrease of the positions. On the other hand the percentage for yen increased in the fiscal year ended March 31, 2002 as a result of an increase in the yen position. Consequently, interest rate risk at the end of the fiscal year ended March 31, 2002 was primarily for yen followed by US dollars. By operation type, the share of securities investments was approximately 65% at the end of the fiscal year ended March 31, 2002. The risk exposure in our asset and liability management activities was around 35%, about 5% down compared with that for the fiscal year ended March 31, 2001.

Interest Rate VaR for Non-Trading Activities by Currencies



Note: Composition of interest rate VaR (1 day - 99%) by currency

Stress Testing

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

The Corporate Risk Management Office conducts stress testing by incorporating individual scenarios based on market conditions. In addition, beginning in the fiscal year ended March 31, 2001, it became possible to analyse our overall position from a variety of angles by incorporating scenarios for the front offices that actually conduct transactions into the Market Risk Information System. The adoption of this system has further strengthened communication between front offices and the Corporate Risk Management Office.

Scenarios

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

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

- Corporate Risk Management Office—Scenario 1:

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

- Corporate Risk Management Office—Scenario 2:

  Credit spread on Japanese name bond expands at 3 month 99.7% confidential levels, that is equivalent to downgrading by three notches (for example, from A1 to Baa1)

- Front office—Scenario 1:

  The United States economy enters a satisfactory recovery phase. Markets assume the U.S. Federal Reserve Board's tight monetary policy. US yield curve flattens as a result of interest rates' rise of approximate 0.65% in the medium term.

- Front office—Scenario 2:

  Japanese underlying economy changes favorably and overnight call rate is 0.25% on average. Markets assume The Bank of Japan will move to tighten monetary policy in six months time.

Stress Tests Results (extract)

Stress Scenario	(Yen in billions) Total Gains/(Losses)
Corporate Risk Management Office—Scenario 1	(37.2)
Corporate Risk Management Office—Scenario 2	(9.7)
Front Office—Scenario 1	(33.1)
Front Office—Scenario 2	(13.5)

Notes:

(1) Both trading and non-trading activities on a consolidated basis included.

(2) Figures for all scenarios are as of June 10, 2002 with the exception of some overseas branches and subsidiaries, which are as of June 9, 2002.

Risk Management of Strategic Equity Portfolio

We hold shares in some of our clients for strategic purposes, in particular to maintain long-term relationships with these clients. These investments have the potential to increase business revenues and to appreciate in value.

At the same time, there is a risk that we will suffer losses on shares held for strategic purposes. Price fluctuation is an inherent risk in equity investment. We regard the management of this risk as essential. We are seeking to lower our exposure to this risk by reducing the number of shares we hold for strategic purposes. In some cases, we have to sell shares in order to comply with Japanese legal limitations on the number of shares of a company that may be held by a bank.

Reducing the number of shares held for strategic purposes and thereby minimizing price decline risk has become a pressing issue for banks in Japan. Reductions have become necessary to manage risks effectively, and to comply with the Law to Limit the Shareholdings of Banks. The law requires us to reduce the balance of shares to a level below the level of our Tier I capital by September 2004. We have implemented an action plan to reduce our balance of shares by ¥1.75 trillion by this date.

In addition to the disposition of shares undertaken to satisfy legal requirements, we carry out quantitative analysis of risks related to our strategically held shares from a risk management viewpoint.

One simulation that we use explores the relationship between book value and market value of the stock portfolio, based on changes in the Tokyo Stock Price Index, or TOPIX based on the stock holdings as of March 29, 2002. TOPIX was introduced by the Tokyo Stock Exchange on July 1, 1969. It is a composite index of all the common stocks listed on the 1st Section of the Exchange, to provide a comprehensive measure of market trends for investors who may be interested in general market price movements.

We simulated the change of our stock portfolio market value in relation to fluctuations in TOPIX and the market value of our stock portfolio in this simulation. Our simulations indicate that for each one point change in TOPIX, the market value of our stock portfolio can be expected to change by approximately ¥3.3 billion.

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

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

Other Risk Management

Liquidity Risk Management

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

Settlement Risk Management

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

In January 2001, The Bank of Japan successfully introduced Real Time Gross Settlement (the real time settlement of funds or securities transfers individually on an order-by-order basis without netting) for the Bank of Japan Financial Network System, reducing the credit and systemic risk elements of settlement risk. Foreign exchange settlement risk arises primarily from the difference of the time zones that each part of the exchange is settled in. The ongoing globalization and liberalization of the world's financial markets have resulted in a dramatic increase in the volume of foreign exchange, and an urgent solution is necessary to reduce the foreign exchange settlement risk. We are strengthening the management of foreign exchange settlement risk by establishing a framework that encompasses such risks as credit risk. At the same time, we have adopted a policy designed to reduce settlement volume by moving ahead with netting and other techniques. In addition, some large global banks are planning the operational launch at the end of August 2002 of a special purpose bank, the Continuous Linked Settlement ("CLS") Bank, which will reduce foreign exchange settlement risk. We are participating in this CLS project to achieve simultaneous settlements between different currencies.

Legal/Regulatory Risk Management

To control legal risks, our internal procedures explicitly state important laws and regulations to be observed in our operations. We also have a system to obtain the opinions of legal specialists as needed. The Legal & Compliance Office studies and researches legal issues, formulates internal guidance, deals with intellectual property-related issues, handles lawsuits, and controls and manages external lawyers. The Legal and Compliance Office supports our legal risk management.

Operations Risk Management

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

Information Security Risk Management

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

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

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

Operational Risk Management

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

In response to the growing need for a system to cope with these operational risks, the Basel Committee on Banking Supervision is considering requiring banks to charge operational risks to capital in its proposed New Basel Capital Accord. To manage our operational risk and comply with the New Basel Capital Accord, we collect, classify, and manage data on losses incurred in the past.

Compliance

We consider compliance to be one of the most important considerations in conducting our businesses. As such, we regularly review our compliance systems and seek enhancements throughout our organization.

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

The Compliance Office, as an inner office of Legal & Compliance Office, acts as the secretariat for the Compliance Committee and coordinates compliance issues throughout Bank of Tokyo-Mitsubishi. It is responsible for maintaining and updating our compliance manual and other codes or rules determined by our corporate principles, internal regulations, and applicable laws and regulations. All bank employees are made familiar with the manual through internal training programs.

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

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

Compliance systems at divisions, offices and branches

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

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

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

Internal Audit

Our Audit Office engages in internal audit contributing to maintaining the soundness of our business operations. It provides guidance and advice on issues, by independently examining and evaluating the appropriateness and effectiveness of audited units’ internal control systems, as well as operational processing. Internal audits are performed in all business operations areas, and are conducted by domestic and foreign branches, Head Offices and subsidiaries. The Audit Office is an independent organization, and no limitation is placed upon it by the audited units.

After consideration of the types and degree of risks in the audited unit, as well as its management of such risks, the Audit Office formulates Medium-term and Fiscal-year Audit Plans, which are approved by the Board of Directors on an annual basis.

Item 12. Description of Securities Other Than Equity Securities.

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications of the Rights of Security Holders and Use of Proceeds.

None.

Item 15. [Reserved]

Item 16. [Reserved]

PART III

Item 17. Financial Statements.

In lieu of responding to this item, we have responded to Item 18 of this Annual Report.

Item 18. Financial Statements.

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this Annual Report.

Item 19. Exhibits.

Exhibit	Description
1(a)†	Articles of Incorporation of The Bank of Tokyo-Mitsubishi, Ltd. as amended on June 26, 2002(1).
1(b)†	Regulations on Corporation Meetings of The Bank of Tokyo-Mitsubishi, Ltd. as amended on May 24, 2002(1).
1(c)†	Regulations of the Board of Directors of The Bank of Tokyo-Mitsubishi, Ltd. as amended on May 24, 2002(1).
1(d)†	Regulations on Handling Shares of The Bank of Tokyo-Mitsubishi, Ltd. as amended on June 26, 2002(1).
2(a)	Indenture dated as of February 25, 2000 between Bank of Tokyo-Mitsubishi and The Chase Manhattan Bank(2).
4(a)†	Plan of Reorganization for business combination by and among Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Nippon Trust Bank(1).
4(b)†	Merger Agreement, dated as of April 8, 2002, among KOKUSAI Securities Co., Ltd., Tokyo-Mitsubishi Securities Co., Ltd., Tokyo-Mitsubishi Personal Securities Co., Ltd. and Issei Securities Co., Ltd(1).
8	Subsidiaries of the Company—see “Item 4.C. Organizational Structure”.
10(a)†	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† Filed herewith.
(1) Original Japanese with English translation.
(2) Previously filed, on Form 20-F, on August 17, 2001.

SELECTED STATISTICAL DATA

Due to close integration of foreign and domestic activities, it is difficult to make a precise determination of assets, liabilities, income and expenses of our foreign operations. The foreign operations as presented include the business conducted by overseas subsidiaries and branches, and the international business conducted by the several international banking related divisions of subsidiaries' head quarters and offices in Japan. Our management believes that the results appropriately represent our domestic and foreign activities.

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

Average Balance Sheets, Interest and Average Rates

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

	Year ended March 31,								
	2000			2001			2002		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(in millions except percentages)								
Assets:									
Interest-earning assets:									
Interest-earning deposits in other banks:									
Domestic	¥ 257,027	¥ 6,339	2.47%	¥ 384,474	¥ 13,334	3.47%	¥ 481,311	¥10,672	2.22%
Foreign	3,209,671	99,572	3.10	4,603,082	193,929	4.21	4,569,042	141,867	3.10
Total	3,466,698	105,911	3.06	4,987,556	207,263	4.16	5,050,353	152,539	3.02
Call loans, funds sold and receivables under resale agreements and securities borrowing transactions:									
Domestic	1,561,292	7,093	0.45	2,318,411	11,034	0.48	1,960,502	7,922	0.40
Foreign	1,451,043	88,621	6.11	2,175,321	143,012	6.57	2,184,697	133,014	6.09
Total	3,012,335	95,714	3.18	4,493,732	154,046	3.43	4,145,199	140,936	3.40
Trading account assets:									
Domestic	1,790,464	4,429	0.25	2,326,737	10,597	0.46	2,842,158	10,455	0.37
Foreign	624,767	8,683	1.39	606,213	4,401	0.73	679,223	2,022	0.30
Total	2,415,231	13,112	0.54	2,932,950	14,998	0.51	3,521,381	12,477	0.35
Investment securities (see Note 1):									
Domestic	12,220,979	113,436	0.93	11,738,575	74,402	0.63	11,865,636	79,922	0.67
Foreign	2,582,139	165,511	6.41	2,858,860	170,334	5.96	3,890,242	169,018	4.34
Total	14,803,118	278,947	1.88	14,597,435	244,736	1.68	15,755,878	248,940	1.58
Loans (see Note 2):									
Domestic	34,355,981	659,704	1.92	32,144,708	628,396	1.95	29,486,120	554,803	1.88
Foreign	9,050,551	633,640	7.00	8,454,984	647,270	7.66	9,998,889	561,489	5.62
Total	43,406,532	1,293,344	2.98	40,599,692	1,275,666	3.14	39,485,009	1,116,292	2.83
Total interest-earning assets:									
Domestic	50,185,743	791,001	1.58	48,912,905	737,763	1.51	46,635,727	663,774	1.42
Foreign	16,918,171	996,027	5.89	18,698,460	1,158,946	6.20	21,322,093	1,007,410	4.72
Total	67,103,914	1,787,028	2.66	67,611,365	1,896,709	2.81	67,957,820	1,671,184	2.46
Non-interest-earning assets:									
Cash and due from banks	1,233,412			1,148,614			1,330,983		
Other non-interest-earning assets	3,310,086			5,563,017			6,513,363		
Allowance for credit losses	(1,382,781)			(1,159,936)			(1,339,271)		
Total non-interest-earning assets	3,160,717			5,551,695			6,505,075		
Total average assets	¥70,264,631			¥73,163,060			¥74,462,895		

Notes:

1. Tax-exempt income of tax-exempt investment securities has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.
2. Average balances on loans outstanding include all nonaccrual and restructured loans. See "III. Loan Portfolio." The amortized portion of net loan origination fees (costs) is included in interest income on loans, representing an adjustment to the yields with insignificant impact.

	Year ended March 31,								
	2000			2001			2002		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(in millions except percentages)								
Liabilities and shareholder's equity:									
Interest-bearing liabilities:									
Deposits:									
Domestic	¥33,299,918	¥153,191	0.46%	¥32,787,961	¥ 176,342	0.54%	¥34,540,984	¥101,951	0.30%
Foreign	9,280,904	337,942	3.64	10,106,541	461,390	4.57	9,717,893	286,722	2.95
Total	42,580,822	491,133	1.15	42,894,502	637,732	1.49	44,258,877	388,673	0.88
Debentures— Domestic	4,940,270	51,852	1.05	3,922,112	32,296	0.82	2,937,467	20,596	0.70
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:									
Domestic	2,376,869	11,767	0.50	3,795,365	65,767	1.73	5,067,888	20,074	0.40
Foreign	1,889,972	86,408	4.57	2,604,320	161,901	6.22	2,738,305	145,634	5.32
Total	4,266,841	98,175	2.30	6,399,685	227,668	3.56	7,806,193	165,708	2.12
Other short-term borrowings and trading account liabilities:									
Domestic	2,800,204	42,645	1.52	2,272,490	19,165	0.84	1,589,851	15,009	0.94
Foreign	792,294	39,929	5.04	840,703	17,963	2.14	958,578	29,218	3.05
Total	3,592,498	82,574	2.30	3,113,193	37,128	1.19	2,548,429	44,227	1.74
Long-term debt:									
Domestic	1,561,769	62,151	3.98	2,374,530	83,793	3.53	2,903,993	88,580	3.05
Foreign	2,178,437	114,776	5.27	1,923,281	81,438	4.23	1,774,722	75,321	4.24
Total	3,740,206	176,927	4.73	4,297,811	165,231	3.84	4,678,715	163,901	3.50
Total interest-bearing liabilities:									
Domestic	44,979,030	321,606	0.72	45,152,458	377,363	0.84	47,040,183	246,210	0.52
Foreign	14,141,607	579,055	4.09	15,474,845	722,692	4.67	15,189,498	536,895	3.53
Total	59,120,637	900,661	1.52	60,627,303	1,100,055	1.81	62,229,681	783,105	1.26
Non-interest-bearing liabilities	8,355,119			9,904,587			9,983,038		
Shareholder's equity	2,788,875			2,631,170			2,250,176		
Total average liabilities and shareholder's equity	¥70,264,631			¥73,163,060			¥74,462,895		
Net interest income and average interest rate spread		¥886,367	1.14%		¥ 796,654	1.00%		¥888,079	1.20%
Net interest income as a percentage of average total interest-earning assets			1.32%			1.18%			1.31%

The percentage of average total assets attributable to foreign activities was 26.6%, 30.1% and 35.8%, respectively, in the fiscal years ended March 31, 2000, 2001 and 2002.

The percentage of average total liabilities attributable to foreign activities was 27.6%, 31.3% and 35.9% in the fiscal years ended March 31, 2000, 2001 and 2002.

Analysis of Net Interest Income

The following table shows changes in our net interest income between changes in volume and changes in rate for the fiscal year ended March 31, 2000 compared to the fiscal year ended March 31, 2001 and the fiscal year ended March 31, 2001 compared to the fiscal year ended March 31, 2002.

	Fiscal year ended March 31, 2000 versus fiscal year ended March 31, 2001			Fiscal year ended March 31, 2001 versus fiscal year ended March 31, 2002		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
	(in millions)					
Interest income:						
Interest-earning deposits in other banks:						
Domestic	¥ 3,845	¥ 3,150	¥ 6,995	¥ 2,147	¥ (4,809)	¥ (2,662)
Foreign	51,709	42,648	94,357	(1,065)	(50,997)	(52,062)
Total	55,554	45,798	101,352	1,082	(55,806)	(54,724)
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions:						
Domestic	3,589	352	3,941	(1,577)	(1,535)	(3,112)
Foreign	47,167	7,224	54,391	571	(10,569)	(9,998)
Total	50,756	7,576	58,332	(1,006)	(12,104)	(13,110)
Trading account assets:						
Domestic	1,620	4,548	6,168	1,896	(2,038)	(142)
Foreign	(139)	(4,143)	(4,282)	217	(2,596)	(2,379)
Total	1,481	405	1,886	2,113	(4,634)	(2,521)
Investment securities (see Note 2):						
Domestic	(3,173)	(35,861)	(39,034)	813	4,707	5,520
Foreign	16,487	(11,664)	4,823	44,810	(46,126)	(1,316)
Total	13,314	(47,525)	(34,211)	45,623	(41,419)	4,204
Loans:						
Domestic	(42,461)	11,153	(31,308)	(51,384)	(22,209)	(73,593)
Foreign	(41,696)	55,326	13,630	86,698	(172,479)	(85,781)
Total	(84,157)	66,479	(17,678)	35,314	(194,688)	(159,374)
Total interest income:						
Domestic	(36,580)	(16,658)	(53,238)	(48,105)	(25,884)	(73,989)
Foreign	73,528	89,391	162,919	131,231	(282,767)	(151,536)
Total	¥ 36,948	¥ 72,733	¥109,681	¥ 83,126	¥(308,651)	¥(225,525)

Notes:

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

	Fiscal year ended March 31, 2000 versus fiscal year ended March 31, 2001			Fiscal year ended March 31, 2001 versus fiscal year ended March 31, 2002		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
			(in millions)			
Interest expense:						
Deposits:						
Domestic	¥ (2,355)	¥ 25,506	¥ 23,151	¥ 5,174	¥ (79,565)	¥ (74,391)
Foreign	32,044	91,404	123,448	(11,894)	(162,774)	(174,668)
Total	29,689	116,910	146,599	(6,720)	(242,339)	(249,059)
Debentures—Domestic	(9,503)	(10,053)	(19,556)	(7,696)	(4,004)	(11,700)
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:						
Domestic	10,406	43,594	54,000	5,040	(50,733)	(45,693)
Foreign	38,679	36,814	75,493	7,126	(23,393)	(16,267)
Total	49,085	80,408	129,493	12,166	(74,126)	(61,960)
Other short-term borrowings and trading account liabilities:						
Domestic	(5,253)	(18,227)	(23,480)	(5,757)	1,601	(4,156)
Foreign	1,034	(23,000)	(21,966)	2,784	8,471	11,255
Total	(4,219)	(41,227)	(45,446)	(2,973)	10,072	7,099
Long-term debt:						
Domestic	28,681	(7,039)	21,642	16,150	(11,363)	4,787
Foreign	(11,733)	(21,605)	(33,338)	(6,290)	173	(6,117)
Total	16,948	(28,644)	(11,696)	9,860	(11,190)	(1,330)
Total interest expense:						
Domestic	21,976	33,781	55,757	12,911	(144,064)	(131,153)
Foreign	60,024	83,613	143,637	(8,274)	(177,523)	(185,797)
Total	¥ 82,000	117,394	199,394	4,637	(321,587)	(316,950)
Net interest income:						
Domestic	¥(58,556)	(50,439)	(108,995)	(61,016)	118,180	57,164
Foreign	13,504	5,778	19,282	139,505	(105,244)	34,261
Total	¥(45,052)	(44,661)	(89,713)	78,489	12,936	91,425

Note—Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total "net change."

II. Investment Portfolio

The following table shows information as to the value of our investment securities available for sale and being held to maturity at March 31, 2000, 2001 and 2002.

	At March 31,								
	2000			2001			2002		
	Amortized cost	Estimated market value	Net unrealized gains (losses)	Amortized cost	Estimated market value	Net unrealized gains	Amortized cost	Estimated market value	Net unrealized gains
	(in millions)								
Securities available for sale:									
Domestic:									
Japanese national government and Japanese government agency bonds	¥ 3,943,950	¥ 3,957,743	¥ 13,793	¥ 6,334,641	¥ 6,367,721	¥ 33,080	¥ 8,024,768	¥ 8,051,029	¥ 26,261
Corporate bonds	706,450	897,722	191,272	873,851	885,500	11,649	1,184,501	1,189,777	5,276
Marketable equity securities	3,166,568	5,824,314	2,657,746	2,908,108	4,740,280	1,832,172	2,438,186	3,697,430	1,259,244
Other securities	406,932	417,783	10,851	261,356	267,405	6,049	482,148	488,011	5,863
Total domestic	8,223,900	11,097,562	2,873,662	10,377,956	12,260,906	1,882,950	12,129,603	13,426,247	1,296,644
Foreign:									
U.S. Treasury and other U.S. government agencies bonds	222,595	218,786	(3,809)	590,122	596,513	6,391	696,251	707,582	11,331
Other governments and official institutions bonds	454,567	453,708	(859)	640,677	645,420	4,743	1,032,605	1,014,857	(17,748)
Mortgage-backed securities	1,042,443	1,027,696	(14,747)	1,735,528	1,744,061	8,533	1,078,113	1,115,980	37,867
Other securities	341,519	355,132	13,613	934,163	954,397	20,234	828,447	920,431	91,984
Total foreign	2,061,124	2,055,322	(5,802)	3,900,490	3,940,391	39,901	3,635,416	3,758,850	123,434
Total	¥10,285,024	¥13,152,884	¥2,867,860	¥14,278,446	¥16,201,297	¥1,922,851	¥15,765,019	¥17,185,097	¥1,420,078
Securities being held to maturity:									
Domestic:									
Corporate bonds	¥ 206,790	¥ 210,492	¥ 3,702	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Total domestic	206,790	210,492	3,702	—	—	—	—	—	—
Foreign:									
U.S. Treasury and other U.S. government agencies bonds	7,347	7,893	546	—	—	—	—	—	—
Other governments and official institutions bonds	85,414	85,994	580	—	—	—	—	—	—
Other securities	109,098	110,269	1,171						
Total foreign	201,859	204,156	2,297	—	—	—	—	—	—
Total	¥ 408,649	¥ 414,648	¥ 5,999	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

Investment securities other than available for sale or being held to maturity (i.e., nonmarketable equity securities, presented in Other investment securities in the consolidated financial statements) were carried at costs of ¥109,455million, ¥111,584million and ¥99,029million, at March 31, 2000, 2001 and 2002, respectively. The corresponding estimated fair values at those dates were not readily determinable.

The following table presents the book values, maturities and weighted average yields of investment securities available for sale, excluding equity securities, at March 31, 2002. Weighted average yields are calculated based on amortized cost. Yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such calculation would not be material.

	Maturities within one year		Maturities after one year but within five years		Maturities after five years but within ten years		Maturities after ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(in millions except percentages)									
Securities available for sale:										
Domestic:										
Japanese national government and Japanese government agency bonds	¥3,500,867	0.10%	¥4,185,152	1.07%	¥ 365,010	1.77%	¥ —	—%	¥ 8,051,029	0.68%
Corporate bonds	388,962	2.71	765,679	1.76	33,140	1.74	1,996	1.96	1,189,777	2.07
Other securities	5,203	4.64	336,130	3.54	82,227	2.08	64,451	0.61	488,011	2.92
Total domestic	3,895,032	0.37	5,286,961	1.33	480,377	1.82	66,447	0.65	9,728,817	0.96
Foreign:										
U.S. Treasury and other U.S. government Agencies	43,780	3.69	473,947	5.06	117,325	5.22	72,530	6.09	707,582	5.11
Other governments and official institutions	234,291	4.01	629,453	4.37	139,262	5.06	11,851	7.50	1,014,857	4.42
Mortgage-backed securities	123,974	6.38	173,565	4.84	289,566	5.34	528,875	5.56	1,115,980	5.48
Other securities	216,203	1.01	375,489	2.22	55,979	4.45	123,658	3.81	771,329	2.31
Total foreign	618,248	3.42	1,652,454	4.13	602,132	5.17	736,914	5.35	3,609,748	4.43
Total	¥4,513,280	0.78%	¥6,939,415	1.99%	¥1,082,509	3.68%	¥803,361	4.96%	¥13,338,565	1.90%

Excluding Japanese national government bonds, the following table sets forth the securities of individual issuers held in our investment securities portfolio which exceeded 10% of our consolidated shareholder's equity at March 31, 2002.

	Amortized cost	Fair Value
	(in millions)	
U.S. Treasury and other U.S. government agencies bonds	¥696,251	¥707,582
Mortgage-backed securities issued by U.S. Federal National Mortgage Association	228,549	225,289
French government bonds	438,377	431,130

III. Loan Portfolio

The following table shows our loans outstanding, before deduction of allowance for credit losses, by domicile and type of industry of borrower at March 31 of each of the five years in the period ended March 31, 2002. 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,				
	1998	1999	2000	2001	2002
			(in millions)		
Domestic:					
Manufacturing	¥ 6,082,231	¥ 5,956,780	¥ 5,597,318	¥ 5,232,119	¥ 5,081,824
Construction	1,639,638	1,624,933	1,460,653	1,400,401	1,225,068
Real estate	4,286,029	4,265,848	3,698,842	3,974,597	3,618,859
Services	4,468,329	4,031,474	3,813,850	3,729,534	3,597,009
Wholesale and retail	7,010,655	6,852,868	5,956,815	5,705,179	5,142,845
Banks and other financial institutions	2,565,419	2,410,410	2,193,633	2,012,321	2,201,470
Other industries	2,021,864	2,964,298	3,155,294	1,589,648	2,781,122
Consumer	6,579,240	6,670,452	6,873,500	6,661,251	6,687,523
Total domestic	34,653,405	34,777,063	32,749,905	30,305,050	30,335,720
Foreign:					
Governments and official institutions	401,041	337,101	223,219	296,003	308,574
Banks and other financial institutions	1,226,273	520,446	482,235	581,433	493,800
Commercial and industrial	10,233,599	8,789,634	6,993,928	8,218,468	9,271,565
Other	1,908,641	1,332,634	548,423	804,434	644,003
Total foreign	13,769,554	10,979,815	8,247,805	9,900,338	10,717,942
Total	48,422,959	45,756,878	40,997,710	40,205,388	41,053,662
Less unearned income and deferred loan fees	69,132	36,760	30,205	30,233	41,501
Total	¥48,353,827	¥45,720,118	¥40,967,505	¥40,175,155	¥41,012,161

Note—Loans to the so-called non-bank finance companies are generally included in the “Banks and other financial institutions” category. Non-bank finance companies are primarily engaged in consumer lending, factoring, mortgage lending and credit card businesses.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table shows the maturities of our loan portfolio at March 31, 2002:

	Maturity			
	One year or less	One to five years	Over five years	Total
	(in millions)			
Domestic:				
Manufacturing	¥ 3,764,603	¥ 1,196,150	¥ 121,071	¥ 5,081,824
Construction	958,973	206,268	59,827	1,225,068
Real estate	1,748,261	1,047,154	823,444	3,618,859
Services	2,057,194	1,096,476	443,339	3,597,009
Wholesale and retail	3,959,671	1,057,968	125,206	5,142,845
Banks and other financial institutions	1,505,444	451,484	244,542	2,201,470
Other industries	2,079,220	551,983	149,919	2,781,122
Consumer:				
Installment loans to individuals	357,585	1,390,752	4,280,714	6,029,051
Other	505,250	56,185	97,037	658,472
Total domestic	16,936,201	7,054,420	6,345,099	30,335,720
Foreign:	5,525,097	3,117,759	2,075,086	10,717,942
Total	¥22,461,298	¥10,172,179	¥8,420,185	¥41,053,662

The above loans due after one year which had predetermined interest rates and floating or adjustable interest rates at March 31, 2002 are shown below.

	Domestic	Foreign	Total
		(in millions)	
Predetermined rate	¥ 4,916,736	¥1,496,739	¥ 6,413,475
Floating or adjustable rate	8,482,783	3,696,106	12,178,889
Total	¥13,399,519	¥5,192,845	¥18,592,364

Nonaccrual, Past Due and Restructured Loans

We generally discontinue the accrual of interest income on loans when substantial doubt exists as to the full and timely collection of either principal or interest, or when principal and interest is contractually past due, except when the loans are in the process of collection based upon the judgment of management. Prior to April 1, 1998, loans by Bank of Tokyo-Mitsubishi and certain domestic subsidiaries were generally placed on nonaccrual status when they were past due more than six months, in each case as to either principal or interest. The change in nonaccrual policy resulted in an increase in nonaccrual loans of approximately ¥840 billion and decreases in accruing restructured loans and accruing loans contractually past due 90 days or more of approximately ¥560 billion and ¥280 billion, respectively, at March 31, 1999. For past due loans, we continue the accrual of interest income on loans without collecting any payment of interest or principal under terms of the related loan agreements only for a period of up to three months.

The following table shows the distribution of our nonaccrual loans, restructured loans and accruing loans which are contractually past due 90 days or more as to principal or interest payments at March 31 of each of the five years in the period ended March 31, 2002, based on the domicile and type of industry of the borrowers.

	At March 31,				
	1998	1999	2000	2001	2002
			(in millions)		
Nonaccrual loans:					
Domestic:					
Manufacturing	¥ 23,461	¥ 138,231	¥ 96,227	¥ 109,726	¥ 115,383
Construction	29,027	115,364	106,366	165,991	142,867
Real estate	132,785	528,100	497,814	618,146	511,435
Services	52,992	284,038	190,165	188,598	149,517
Wholesale and retail	53,285	370,417	354,157	214,691	223,786
Banks and other financial institutions	29,631	130,959	56,945	87,703	46,115
Other industries	3,266	23,258	21,353	30,423	27,250
Consumer	19,821	81,601	55,159	161,665	157,241
Total domestic	344,268	1,671,968	1,378,186	1,576,943	1,373,594
Foreign:					
Governments and official institutions	951	895	1,032	2,336	3,341
Banks and other financial institutions	334	16,832	12,425	7,829	8,393
Commercial and industrial	43,785	147,930	125,712	148,966	220,166
Other	116	23,407	21,218	23,321	1,871
Total foreign	45,186	189,064	160,387	182,452	233,771
Total	389,454	1,861,032	1,538,573	1,759,395	1,607,365
Restructured loans:					
Domestic	405,637	278,814	277,003	1,574,503	1,522,078
Foreign	58,167	21,635	44,774	86,983	97,052
Total	463,804	300,449	321,777	1,661,486	1,619,130
Accruing loans contractually past due 90 days or more:					
Domestic	358,775	76,357	61,022	23,254	15,023
Foreign	17,377	30,725	1,273	2,008	2,763
Total	376,152	107,082	62,295	25,262	17,786
Total	¥1,229,410	¥2,268,563	¥1,922,645	¥3,446,143	¥3,244,281

Notes:

1. The above table does not include real estate acquired in full or partial satisfaction of debt and certain assets under the management of the Cooperative Credit Purchasing Company which are recorded at estimated fair value less estimated cost to sell.

Gross interest income which would have been accrued at the original terms on foreign nonaccrual and restructured loan outstandings for the fiscal year ended March 31, 2002 was approximately ¥16.2 billion, of which ¥6.8 billion was included in the results of operations for the year. Gross interest income which would have been accrued at the original terms ondomestic nonaccrual and restructured loan outstandings during the fiscal year ended March 31, 2002 was approximately ¥69.0 billion, of which ¥54.4 billion was included in the results of operations for the year.

Foreign Loans Outstanding

We had no cross-border outstandings to borrowers in any foreign country which in total exceeded 0.75% of consolidated total assets at March 31, 2000, 2001 and 2002. Cross-border outstandings are defined, for this purpose, as including loans (including accrued interest), acceptances, interest-earning deposits with other banks, other interest-earning investments and any other monetary assets denominated in Japanese yen or other non-local currencies. Material local currency loans outstanding which are neither hedged nor funded by local currency borrowings are included in cross-border outstandings.

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

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

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

Exposure to East Asia

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

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

The following table represents our cross-border outstandings and commitments at March 31, 2001 and 2002, to certain East Asian countries significantly affected by the crisis:

	At March 31,			
	2001		2002	
	Cross-border Outstanding	Commitments	Cross-border Outstanding	Commitments
	(in billions)			
South Korea	¥144.0	¥ 0.5	¥145.0	¥ 1.1
Indonesia	103.0	18.8	62.0	10.9
Thailand	203.6	4.1	197.3	5.7
Malaysia	104.2	4.2	105.9	10.7
Philippines	63.2	7.2	69.2	13.7
Hong Kong	392.0	21.3	347.9	1.1
People's Republic of China	158.6	11.4	200.1	4.7

In addition to the exposure to the seven countries shown in the above table, we had cross-border outstandings of ¥237.5 billion to counterparties in Singapore at March 31, 2002. Our management does not expect any significant credit problems with exposure to the country. At March 31, 2002, the total cross-border outstandings to the five countries (South Korea, Indonesia, Thailand, Malaysia and the Philippines) decreased ¥38.6 billion, or 6.2%, to ¥579.4 billion in the aggregate from ¥618.0 billion of outstandings recorded a year ago, due primarily to reduction of exposure to Indonesia, through our proactive exposure management.

Exposure to South America

The following is a summary of cross-border outstandings to counterparties in major South American countries at March 31, 2001 and 2002:

	At March 31,	
	2001	2002
	(in billions)	
Argentina	116.7	74.4
Brazil	137.9	143.9
Mexico	73.5	108.2

Argentina—In late 2001, Argentina began to experience significant economic turmoil and deterioration, including the suspension of foreign debt payment. The Argentine government implemented substantial economic changes, and abandoned the fixed US dollar-to-peso exchange rate with shifting to a floating exchange rate. The adoption of the floating rate occurred in parallel with increased restrictions on deposits and liquidity. The Argentine government has defaulted on its debt, and the outcome of talks between the Argentine government and the International Monetary Fund on receiving financial assistance remains uncertain. The Argentine government and other parties are working on a debt-restructuring program. At March 31, 2002, we had cross-border outstandings of approximately ¥74.4 billion to borrowers in Argentina and provided the allocated credit loss allowance for country risk exposure of ¥18.1 billion. We continue to assess our credit exposure to Argentina.

Loan Concentrations

At March 31, 2002, there were no concentrations of loans to a single industry group of borrowers, as defined by The Bank of Japan for industry segment loan classification, which exceeded 10% of our consolidated total loans except for domestic consumer loans.

Credit Risk Management

We have a credit rating system, under which borrowers and transactions are graded based on objective standards on a worldwide basis. We calculate probability of default by statistical means and manage our credit portfolio based on this credit rating system. For a detailed description of this system and other elements of our risk management structure, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Credit Risk Management."

IV. Summary of Loan Loss Experience

The following table shows an analysis of our loan loss experience by type of borrowers' business for each of the five years in the period ended March 31, 2002.

	Year ended March 31,				
	1998	**1999**	**2000**	**2001**	**2002**
	(in millions except percentages)				
Allowance for credit losses at beginning of year	¥1,062,446	¥ 760,323	¥1,290,657	¥1,137,181	¥1,385,010
Provision for credit losses	1,356,231	919,427	368,639	665,954	470,224
Charge-offs:					
Domestic:					
Manufacturing	91,277	15,416	24,970	26,254	45,226
Construction	460,395	22,782	67,394	39,447	24,063
Real estate	88,277	59,680	15,029	96,371	112,757
Services	218,299	47,507	34,666	52,535	35,349
Wholesale and retail	206,845	17,752	188,706	134,381	80,622
Banks and other financial institutions	295,606	41,889	27,970	15,815	60,333
Other industries	8,370	6,385	47,301	4,469	5,236
Consumer	175,942	33,106	39,101	33,725	43,059
Total domestic	1,545,011	244,517	445,137	402,997	406,645
Foreign	134,225	113,864	102,746	77,050	107,344
Total	1,679,236	358,381	547,883	480,047	513,989
Recoveries:					
Domestic	445	1,337	23,137	16,341	30,865
Foreign	8,343	8,470	17,867	18,439	17,944
Total	8,788	9,807	41,004	34,780	48,809
Net charge-offs	1,670,448	348,574	506,879	445,267	465,180
Reclassification of allowance on off-balance-sheet credit instrument	—	(14,741)	—	—	—
Other—principally foreign exchange translation adjustments	12,094	(25,778)	(15,236)	27,142	9,056
The deconsolidation of Nippon Trust Bank	—	—	—	—	(57,502)
Allowance for credit losses at end of year	¥ 760,323	¥1,290,657	¥1,137,181	¥1,385,010	¥1,341,608
Allowance for credit losses applicable to foreign activities:					
Balance at beginning of year	¥ 163,826	¥ 224,465	¥ 253,619	¥ 156,576	¥ 198,820
Balance at end of year	¥ 224,465	¥ 253,619	¥ 156,576	¥ 198,820	¥ 224,830
Provision for credit losses	¥ 176,878	¥ 160,777	¥ 10,344	¥ 89,859	¥ 110,898
Ratio of net charge-offs during the year to average loans outstanding during the year	3.40%	0.72%	1.17%	1.10%	1.18%

The following table shows an allocation of our allowance for credit losses at the end of each of the five years in the period ended March 31, 2002.

	At March 31,									
	1998		1999		2000		2001		2002	
	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans
	(in millions except percentages)									
Domestic:										
Manufacturing	¥ 47,241	12.56%	¥ 81,652	13.02%	¥ 88,424	13.65%	¥ 141,871	13.01%	¥ 138,706	12.38%
Construction	26,423	3.39	74,458	3.55	63,044	3.56	93,767	3.48	106,573	2.98
Real estate	118,511	8.85	280,472	9.32	298,817	9.02	374,555	9.89	367,315	8.81
Services	63,952	9.23	147,513	8.81	123,756	9.30	132,256	9.28	124,118	8.76
Wholesale and retail	129,320	14.48	267,565	14.98	199,184	14.53	187,731	14.19	198,223	12.53
Banks and other financial institutions	56,662	5.30	76,868	5.27	34,407	5.35	55,350	5.01	36,940	5.36
Other industries	1,628	4.17	9,662	6.47	53,402	7.70	37,725	3.95	37,132	6.78
Consumer	69,769	13.59	74,016	14.58	102,966	16.77	104,775	16.56	85,141	16.29
Foreign:										
Governments and official institutions	16,480	0.83	27,860	0.74	13,668	0.54	16,868	0.74	32,925	0.75
Banks and other financial institutions	22,118	2.53	23,736	1.14	6,828	1.18	8,156	1.45	6,668	1.20
Commercial and industrial	159,568	21.13	187,470	19.21	117,340	17.06	161,628	20.44	176,265	22.58
Other	26,299	3.94	14,553	2.91	18,740	1.34	12,168	2.00	8,972	1.58
Unallocated	22,352	—	24,832	—	16,605	—	58,160	—	22,630	—
Total	¥760,323	100.00%	¥1,290,657	100.00%	¥1,137,181	100.00%	¥1,385,010	100.00%	¥1,341,608	100.00%
Allowance as a percentage of loans	1.57%		2.82%		2.78%		3.45%		3.27%	
Allowance as a percentage of nonaccrual and restructured loans and accruing loans contractually past due 90 days or more	61.84%		56.89%		59.15%		40.19%		41.35%	

While allowance for credit losses contains amounts allocated to components of specifically identified loans as well as a group on portfolio of loans, the allowance for credit losses is available for credit losses in the entire loan portfolio and the allocations shown above are not intended to be restricted to the specific loan category. Accordingly, as the evaluation of credit risks changes, allocations of the allowance will be changed to reflect current conditions and various other factors.

V. Deposits

The following table shows the average amount of, and the average rate paid on, the following deposit categories for each of the three years in the period ended March 31, 2002.

	Year ended March 31,					
	2000		2001		2002	
	Average amount	Average rate	Average amount	Average rate	Average amount	Average rate
	(in millions except percentages)					
Domestic offices:						
Non-interest-bearing demand deposits	¥ 2,154,423	—	¥ 2,087,781	—	¥ 2,514,723	—
Interest-bearing demand deposits	11,054,263	0.08%	11,248,424	0.12%	13,700,471	0.04%
Deposits at notice	1,634,204	1.27	1,400,429	1.66	1,635,102	1.12
Time deposits	18,596,360	0.64	18,292,158	0.73	17,977,211	0.42
Certificates of deposit	2,015,091	0.19	1,846,950	0.32	1,228,200	0.19
Foreign offices, principally from banks located in foreign countries:						
Non-interest-bearing demand deposits	1,426,470	—	1,409,355	—	1,649,994	—
Interest-bearing deposits, principally time deposits and certificates of deposit	9,280,904	3.64	10,106,541	4.57	9,717,893	2.96
Total	¥46,161,715		¥46,391,638		¥48,423,594	

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

The average amounts of total deposits by foreign depositors included in domestic offices for the fiscal years ended March 31, 2000, 2001 and 2002 were ¥381,608 million, ¥367,301 million and ¥479,895 million, respectively.

At March 31, 2002, the balance and remaining maturities of time deposits and certificates of deposit issued by domestic offices in amounts of ¥10 million (approximately US$75 thousand at the Federal Reserve Bank of New York's noon buying rate on March 29, 2002) or more and such deposits issued in amounts of US$100,000 or more are shown in the following table.

	Time deposits	Certificates of deposit	Total
		(in millions)	
Domestic offices:			
Three months or less	¥5,683,862	¥1,330,267	¥ 7,014,129
Over three months through six months	1,569,593	100,893	1,670,486
Over six months through twelve months	1,858,146	45,535	1,903,681
Over twelve months	831,781	160	831,941
Total	¥9,943,382	¥1,476,855	¥11,420,237
Foreign offices			¥ 5,729,811

VI. Short-Term Borrowings

The following table shows certain additional information with respect to our short-term borrowings for each of the three years in the period ended March 31, 2002.

	Year ended March 31,		
	2000	2001	2002
	(in millions except percentages)		
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:			
Average balance outstanding during the year	¥4,266,841	¥6,399,685	¥7,699,812
Maximum balance outstanding at any month-end during the year	5,112,912	9,752,632	9,622,825
Balance at end of year	3,734,017	8,041,237	8,060,987
Weighted average interest rate during the year	2.30%	3.56%	2.15%
Weighted average interest rate on balance at end of year	2.10%	2.13%	0.74%
Other short-term borrowings:			
Average balance outstanding during the year	¥1,844,189	¥1,755,139	¥1,552,570
Maximum balance outstanding at any month-end during the year	2,541,557	3,099,159	2,517,923
Balance at end of year	1,488,831	2,015,360	2,313,132
Weighted average interest rate during the year	2.70%	1.54%	2.81%
Weighted average interest rate on balance at end of year	1.70%	1.92%	1.38%

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of The Bank of Tokyo-Mitsubishi, Ltd. (Kabushiki Kaisha Tokyo Mitsubishi Ginko) (the "Bank") (a wholly owned subsidiary of Mitsubishi Tokyo Financial Group, Inc.), and subsidiaries as of March 31, 2001 and 2002, and the related consolidated statements of operations, changes in equity from nonowner sources, shareholder's equity, and cash flows for each of the three years in the period ended March 31, 2002. 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, 2001 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in the year ended March 31, 2002, the Bank changed its method of accounting for derivative financial instruments and hedging activities.

/s/ Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Tokyo, Japan
July 19, 2002

THE BANK OF TOKYO-MITSUBISHI, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2001 AND 2002

	2001	2002
	(in millions)	
ASSETS		
Cash and due from banks (Note 9)	¥ 1,545,714	¥ 1,520,514
Interest-earning deposits in other banks (Note 9)	5,621,870	4,290,587
Call loans and funds sold (Note 12)	1,740,392	1,827,607
Receivables under resale agreements	1,129,850	530,473
Receivables under securities borrowing transactions	2,008,830	1,497,161
Trading account assets (including assets pledged that secured parties are permitted to sell or repledge of ¥476,121 million in 2001 and ¥710,335 million in 2002) (Notes 3 and 9)	6,591,713	6,924,681
Investment securities (Notes 4 and 9):		
Securities available for sale—carried at estimated fair value (including assets pledged that secured parties are permitted to sell or repledge of ¥828,275 million in 2001 and ¥1,950,321 million in 2002)	16,201,297	17,185,097
Other investment securities	111,584	99,029
Total investment securities	16,312,881	17,284,126
Loans, net of unearned income and deferred loan fees (including assets pledged that secured parties are permitted to sell or repledge of ¥676,041 million in 2001 and ¥556,073 million in 2002) (Notes 5 and 9)	40,175,155	41,012,161
Allowance for credit losses (Notes 5 and 6)	(1,385,010)	(1,341,608)
Net loans	38,790,145	39,670,553
Premises and equipment—net (Note 7)	518,865	521,108
Accrued interest	261,244	162,992
Customers' acceptance liability	43,552	37,608
Other assets (Notes 5, 8 and 15)	1,811,847	2,363,744
Total	¥76,376,903	¥76,631,154
LIABILITIES AND SHAREHOLDER'S EQUITY		
Deposits (Note 10):		
Domestic offices:		
Non-interest-bearing	¥ 2,739,489	¥ 2,947,272
Interest-bearing	33,550,848	38,237,505
Overseas offices:		
Non-interest-bearing	1,674,409	2,155,211
Interest-bearing	11,174,278	8,488,576
Total deposits	49,139,024	51,828,564
Debentures (Note 11)	3,410,789	2,275,473
Call money and funds purchased (Notes 9 and 12)	2,319,624	2,521,520
Payables under repurchase agreements (Note 9)	2,512,776	2,507,582
Payables under securities lending transactions (Note 9)	3,208,837	3,031,885
Other short-term borrowings (Notes 9 and 13)	2,015,360	2,313,132
Trading account liabilities (Note 3)	3,951,577	2,290,580
Obligations to return securities received as collateral	295,694	315,538
Bank acceptances outstanding	43,552	37,608
Accrued interest	293,094	157,456
Long-term debt (Notes 9 and 13)	4,431,173	4,893,142
Other liabilities (Notes 8, 14 and 15)	2,345,287	2,551,670
Total liabilities	73,966,787	74,724,150
Commitments and contingent liabilities (Notes 21, 22 and 23)		
Shareholder's equity (Note 19):		
Capital stock (Notes 16 and 17) :		
Preferred stock (Class 1)—authorized, 100,000,000 shares; issued and outstanding, 81,400,000 shares in 2001 and 2002, with no stated value (aggregate liquidation preference of ¥244,200 million)	122,100	122,100
Common stock—authorized, 8,000,000,000 shares; issued, 4,675,455,546 shares in 2001 and 2002, with no stated value	663,870	663,870
Capital surplus (Note 17)	592,051	600,296
Retained earnings (Notes 18 and 29):		
Appropriated for legal reserve	179,099	190,045
Unappropriated	232,677	12,593
Accumulated other changes in equity from nonowner sources, net of taxes	620,701	344,784
Total	2,410,498	1,933,688
Less treasury stock and parent company's stock, at cost—433,610 common shares in 2001 and 133,674 common shares in 2002	382	26,684
Shareholder's equity—net	2,410,116	1,907,004
Total	¥76,376,903	¥76,631,154

See the accompanying notes to Consolidated Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MARCH 31, 2000, 2001 AND 2002

	2000	2001	2002
		(in millions)	
Interest income:			
Loans, including fees (Note 5)	¥1,293,344	¥1,275,666	¥1,116,292
Deposits in other banks	105,911	207,263	152,539
Investment securities:			
Interest	224,394	201,217	205,734
Dividends	54,553	43,519	43,206
Trading account assets	13,112	14,998	12,477
Call loans and funds sold	17,788	25,726	20,393
Receivables under resale agreements and securities borrowing transactions	77,926	128,320	120,543
Total	1,787,028	1,896,709	1,671,184
Interest expense:			
Deposits	491,133	637,732	388,673
Debentures	51,852	32,296	20,596
Call money and funds purchased	15,187	22,366	14,983
Payables under repurchase agreements and securities lending transactions	82,988	205,302	150,725
Other short-term borrowings and trading account liabilities	82,574	37,128	44,227
Long-term debt	176,927	165,231	163,901
Total	900,661	1,100,055	783,105
Net interest income	886,367	796,654	888,079
Provision for credit losses (Note 5 and 6)	368,639	665,954	470,224
Net interest income after provision for credit losses	517,728	130,700	417,855
Non-interest income:			
Fees and commissions (Note 24)	256,219	341,649	341,806
Foreign exchange gains—net (Note 3)	117,330	—	—
Trading account profits—net (Note 3)	—	195,171	111,075
Investment securities gains—net (Note 4)	132,518	94,360	11,669
Other non-interest income	33,042	33,953	39,096
Total	539,109	665,133	503,646
Non-interest expense:			
Salaries and employee benefits (Note 14)	344,970	327,443	363,992
Occupancy expenses—net (Notes 7 and 23)	101,181	105,307	102,453
Foreign exchange losses—net (Note 3)	—	49,730	184,523
Trading account losses—net (Note 3)	18,475	—	—
Losses on other real estate owned	68,438	15,828	4,998
Goodwill amortization	3,486	4,444	4,556
Other non-interest expenses	391,177	394,793	479,025
Total	927,727	897,545	1,139,547
Income (loss) before income tax expense or benefit and cumulative effect of a change in accounting principle	129,110	(101,712)	(218,046)
Income tax expense (benefit) (Note 8)	93,635	5,972	(79,508)
Income (loss) before cumulative effect of a change in accounting principle	35,475	(107,684)	(138,538)
Cumulative effect of a change in accounting principle, net of tax	—	—	5,867
Net income (loss)	¥ 35,475	¥ (107,684)	¥ (132,671)
Income attributable to a preferred shareholder	¥ 4,649	¥ 6,716	¥ 6,716
Net income (loss) attributable to a common shareholder	¥ 30,826	¥ (114,400)	¥ (139,387)
		(in Yen)	
Amounts per share (Notes 18 and 20):			
Earnings (loss) per common share—income(loss) before cumulative effect of a change in accounting principle—basic	¥ 6.59	¥ (24.47)	¥ (31.07)
Earnings (loss) per common share—net income (loss)—basic	6.59	(24.47)	(29.82)
Earnings (loss) per common share—income (loss) before cumulative effect of a change in accounting principle—assuming dilution	3.73	(24.47)	(31.07)
Earnings (loss) per common share—net income (loss)—assuming dilution	3.73	(24.47)	(29.82)

See the accompanying notes to Consolidated Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FROM NONOWNER SOURCES FOR THE YEARS ENDED MARCH 31, 2000, 2001 AND 2002

	Gains (Losses) before Income Taxes	Income Tax (Expense) Benefit	Gains (Losses) Net of Income Taxes
		(in millions)	
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)
Year ended March 31, 2002:			
Net loss			¥(132,671)
Other changes in equity from nonowner sources:			
Net unrealized holding losses on investment securities available for sale	(428,924)	163,588	(265,336)
Reclassification adjustment for gains included in net loss	(41,572)	15,729	(25,843)
Total	(470,496)	179,317	(291,179)
Cumulative effect of a change in accounting principle	2,065	(808)	1,257
Net unrealized gains on derivatives qualifying for cash flow hedges	7,982	(2,916)	5,066
Reclassification adjustment for gains included in net loss	(4,254)	1,627	(2,627)
Total	5,793	(2,097)	3,696
Minimum pension liability adjustments	(94,096)	35,750	(58,346)
Foreign currency translation adjustments	74,511	(4,714)	69,797
Reclassification adjustment for losses included in net loss	115	—	115
Total	74,626	(4,714)	69,912
Total changes in equity from nonowner sources			¥(408,588)

See the accompanying notes to Consolidated Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED MARCH 31, 2000, 2001 AND 2002

	2000	2001	2002
		(in millions)	
Preferred stock (Class 1) (Note 16):			
Balance at beginning of year	¥ 122,100	¥ 122,100	¥ 122,100
Balance at end of year	¥ 122,100	¥ 122,100	¥ 122,100
Common stock (Note 17):			
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 17):			
Balance at beginning of year	¥ 592,060	¥ 592,055	¥ 592,051
Gains (losses) on sales of treasury stock and parent company's stock net of taxes	(5)	(4)	8,584
Other	—	—	(339)
Balance at end of year	¥ 592,055	¥ 592,051	¥ 600,296
Retained earnings appropriated for legal reserve (Note 18):			
Balance at beginning of year	¥ 160,808	¥ 169,754	¥ 179,099
Transfer from unappropriated retained earnings	8,946	9,345	10,946
Balance at end of year (Note 29)	¥ 169,754	¥ 179,099	¥ 190,045
Unappropriated retained earnings (Note 18):			
Balance at beginning of year	¥ 414,024	¥ 396,163	¥ 232,677
Net income (loss)	35,475	(107,684)	(132,671)
Total	449,499	288,479	100,006
Deduction:			
Cash dividends declared (Note 1)			
Common stock—¥8.5 per share in 1999 and 2000 and ¥14.96 per share in 2001	(39,741)	(39,741)	(69,751)
Preferred stock (Class 1)—¥57.12 per share in 1999 and ¥82.50 in 2000 and 2001	(4,649)	(6,716)	(6,716)
Transfer to retained earnings appropriated for legal reserve	(8,946)	(9,345)	(10,946)
Total	(53,336)	(55,802)	(87,413)
Balance at end of year (Note 29)	¥ 396,163	¥ 232,677	¥ 12,593
Accumulated other changes in equity from nonowner sources, net of taxes:			
Net unrealized gains on investment securities available for sale (Note 4):			
Balance at beginning of year	¥ 905,337	¥1,499,100	¥ 899,929
Net change during the year	593,763	(599,171)	(291,179)
Balance at end of year	¥1,499,100	¥ 899,929	¥ 608,750
Net unrealized gains on derivatives qualifying for cash flow hedges (Note 21):			
Cumulative effect of a change in accounting principle	¥ —	¥ —	¥ 1,257
Net change during the year	—	—	2,439
Balance at end of year	¥ —	¥ —	¥ 3,696
Minimum pension liability adjustments (Note 14):			
Balance at beginning of year	¥ (41,772)	¥ (15,928)	¥ (83,213)
Net change during the year	25,844	(67,285)	(58,346)
Balance at end of year	¥ (15,928)	¥ (83,213)	¥ (141,559)
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (174,669)	¥ (232,941)	¥ (196,015)
Net change during the year	(58,272)	36,926	69,912
Balance at end of year	¥ (232,941)	¥ (196,015)	¥ (126,103)
Balance at end of year	¥1,250,231	¥ 620,701	¥ 344,784
Treasury stock and parent company's stock			
Balance at beginning of year	¥ (71)	¥ (13)	¥ (382)
Purchase of treasury stock and parent company's stock	(938)	(875)	—
Sale of treasury stock and parent company's stock	938	821	2,364
Net decrease (increase) resulting from changes in consolidated subsidiaries	58	(315)	—
Net increase resulting from the stock-for-stock exchanges on April 2, 2001, creating Mitsubishi Tokyo Financial Group, Inc. (Note 2)	—	—	(28,666)
Balance at end of year	¥ (13)	¥ (382)	¥ (26,684)
Total shareholder's equity	¥3,194,160	¥2,410,116	¥1,907,004

See the accompanying notes to Consolidated Financial Statements.

THE BANK OF TOKYO-MITSUBISHI, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2000, 2001 AND 2002

	2000	2001	2002
		(in millions)	
Cash flows from operating activities:			
Net income (loss)	¥ 35,475	¥ (107,684)	¥ (132,671)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	81,180	81,321	88,478
Goodwill amortization	3,486	4,444	4,556
Provision for credit losses	368,639	665,954	470,224
Investment securities gains—net	(132,518)	(94,360)	(11,669)
Foreign exchange losses (gains)—net	(55,122)	47,556	420,522
Provision for deferred income tax benefit	(109,825)	(93,218)	(103,034)
Decrease (increase) in trading account assets, excluding foreign exchange contracts	404,551	(1,845,735)	(165,387)
Increase (decrease) in trading account liabilities, excluding foreign exchange contracts	(649,629)	284,020	(1,718,349)
Decrease (increase) in accrued interest receivable and other receivables	115,815	(44,513)	120,647
Increase (decrease) in accrued interest payable and other payables	(163,309)	165,539	(146,342)
Other—net	149,606	(131,296)	52,720
Net cash provided by (used in) operating activities	48,349	(1,067,972)	(1,120,305)
Cash flows from investing activities:			
Proceeds from sales of investment securities available for sale	25,825,681	27,887,114	30,670,994
Proceeds from maturities of investment securities available for sale	4,460,319	15,036,579	7,106,522
Purchases of investment securities available for sale	(31,723,773)	(45,746,237)	(39,732,250)
Proceeds from maturities of investment securities being held to maturity	197,389	57,459	—
Purchases of investment securities being held to maturity	(139,419)	(5,195)	—
Proceeds from sales of other investment securities	47,959	26,449	11,152
Purchases of other investment securities	(9,378)	(11,180)	(15,583)
Proceeds from sales of equity investments in a subsidiary	—	—	(6,414)
Net decrease (increase) in loans	2,253,294	1,271,932	(1,095,369)
Net decrease (increase) in interest-earning deposits in other banks	(1,878,408)	(988,218)	1,533,658
Net decrease (increase) in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions	1,260,917	(2,425,617)	1,056,868
Capital expenditures for premises and equipment	(33,303)	(46,659)	(65,614)
Other—net	(27,271)	(93,399)	(84,751)
Net cash provided by (used in) investing activities	234,007	(5,036,972)	(620,787)
Cash flows from financing activities:			
Net increase in deposits	727,628	2,301,237	1,904,355
Net decrease in debentures	(477,206)	(1,135,611)	(1,136,986)
Net increase (decrease) in call money, funds purchased, and payables under repurchase agreements and securities lending transactions	(1,023,739)	4,106,646	(3,354)
Net increase (decrease) in other short-term borrowings	(162,007)	560,567	648,011
Proceeds from issuance of long-term debt	988,173	971,716	818,407
Repayment of long-term debt	(464,213)	(698,529)	(682,718)
Proceeds from sales of treasury stock and parent company’s stock	930	814	17,348
Payments to acquire treasury stock	(938)	(875)	—
Dividends paid	(44,385)	(46,449)	(76,471)
Other—net	228,265	(286,629)	163,732
Net cash provided by (used in) financing activities	(227,492)	5,772,887	1,652,324
Effect of exchange rate changes on cash and cash equivalents	(44,931)	22,575	63,568
Net increase (decrease) in cash and cash equivalents	9,933	(309,482)	(25,200)
Cash and cash equivalents at beginning of year	1,845,263	1,855,196	1,545,714
Cash and cash equivalents at end of year	¥ 1,855,196	¥ 1,545,714	¥ 1,520,514
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	¥ 1,059,727	¥ 920,478	¥ 927,734
Income taxes	131,270	236,192	90,764
Non-cash investing activities:			
Loans transferred to other real estate owned	12,361	6,432	7,605
Investment securities being held to maturity transferred to available-for-sale category (Note 4)	—	369,039	—
Marketable equity securities exchanged for parent company’s stock (Note 2)	—	—	28,666
Marketable equity securities transferred to employee retirement benefit trusts (Note 14)	—	—	122,231
Deconsolidation of Nippon Trust Bank Limited by exchange for the parent company’s stock (Note 2)			
Assets at carrying value	—	—	¥ 900,971
Liabilities at carrying value	—	—	902,665
Net	—	—	¥ (1,694)

See the accompanying notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of Financial Statements

The Bank of Tokyo-Mitsubishi, Ltd. (Kabushiki Kaisha Tokyo Mitsubishi Ginko) (the "Bank") is a wholly owned subsidiary of Mitsubishi Tokyo Financial Group, Inc. ("MTFG"). On April 2, 2001, MTFG was established, as a bank holding company, through which the Bank, The Mitsubishi Trust and Banking Corporation ("Mitsubishi Trust"), and Nippon Trust Bank Limited ("NTB"), a former subsidiary of the Bank, became wholly owned subsidiaries of MTFG pursuant to stock-for-stock exchanges. Effective April 2, 2001, NTB has been deconsolidated. See Note 2 for further information regarding the business combination.

The accompanying consolidated financial statements include the accounts of the Bank and its subsidiaries (together, the "Group") and exclude accounts of MTFG and Mitsubishi Trust. Effective April 2, 2001, NTB was deconsolidated and, accordingly, its accounts has been excluded from the consolidated financial statements for the year ended March 31, 2002. The consolidated financial statements are stated in Japanese yen, the currency of the country in which 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 some 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) derivative financial instruments, (3) allowance for credit losses, (4) income taxes, (5) foreign currency translation, (6) premises and equipment, (7) transfer of financial assets, (8) pension liability, (9) other real estate owned, and (10) lease transactions.

Fiscal periods of certain subsidiaries, which ended on or after December 31, and the Bank's fiscal year, which ended on March 31, have been treated as coterminous. For the fiscal years ended March 31, 2000, 2001 and 2002, the effect of recording intervening events for the three-month periods ended March 31 on the Bank's proportionate equity in net income of subsidiaries with fiscal periods ending on December 31, would have resulted in decreases of ¥0.52 billion, ¥4.70 billion and ¥2.12 billion, respectively. No intervening events occurred during each of the three-month periods ended March 31, 2001 and 2002 which, if recorded, would have had effects of more than 1% of total assets, loans, total liabilities, deposits or shareholder's equity as of March 31, 2001 and 2002.

Description of Business

The Group conducts domestic and international financial business through domestic and international networks of branches, offices and subsidiaries in Japan and around the world. The Bank is a major commercial banking institution, providing a broad range of financial services to consumers and corporations through commercial banking, investment banking and other activities. As one of the principal subsidiaries of MTFG, the Group's activities also encompass transactions with other subsidiaries of MTFG. These transactions are, however, conducted on an arms-length base, requiring terms and conditions commonly adopted in the marketplace. NTB had been one of the major domestic subsidiaries of the Bank before the business combination and was acting as a trust vehicle for the Bank. On April 2, 2001, NTB became a wholly owned subsidiary of MTFG and has been deconsolidated from the Bank and was merged with and into Mitsubishi Trust, the other principal subsidiary of MTFG on October 1, 2001. The merger also involved The Tokyo Trust Bank, Ltd. ("TTB"), merging with and into Mitsubishi Trust. See Note 25 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 primarily relate to the determination of the allowance for credit losses on loans and off-balance-sheet credit instruments, deferred tax assets, derivative financial instruments, other real estate owned and decline in value of marketable equity securities and impairment of loan portfolio subsequent to the balance-sheet date.

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, including, but not limited to, the possession of the power to direct or cause the direction of the management and policies of entities. In situations in which the Group has less than 100% but greater than 50% of ownership in entities, such entities are consolidated and minority interests are also recorded in Other Liabilities. Minority interests in earnings or losses of subsidiaries are reported in Other Non-interest Expense. 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 or losses realized on disposition of investments are reported in Other Non-interest Income or Expense.

Assets that the Group holds in an agency, fiduciary or trust capacity are not assets of the 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 are defined as those amounts included in the consolidated balance sheets under the caption Cash and Due from Banks, all of which mature within 90 days. Cash flows from qualified 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.

Except for overseas entities located in highly inflationary economies, foreign currency translation gains and losses related to the financial statements of overseas entities of the 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. If applicable, foreign exchange translation gains and losses pertaining to entities located in highly inflationary economies are recorded in Foreign Exchange Gains—Net or Foreign Exchange Losses—Net, 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.

Foreign currency denominated assets and liabilities are translated into Japanese yen at the respective year-end exchange rates and resulting gains or losses are included in earnings. 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 Agreements, Securities Lending and Other Secured Financing Transactions—Securities sold with agreements to repurchase ("repurchase agreements") and securities purchased with agreements to resell ("resale agreements") are generally treated as sales of securities with related off-balance-sheet forward repurchase commitments and purchases of securities with related off-balance-sheet forward resale commitments, respectively. Securities lending and borrowing transactions are generally treated as secured financing and lending. A transfer of securities is accounted for as a sale if it meets the relevant conditions for the surrender of control as provided by Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125." If the conditions are not met, the transfer is accounted for as collateralized financing and lending.

On April 1, 2001, the Group adopted 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 was effective for fiscal years ended 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 should be accounted for as a sale. The adoption of SFAS No. 140's provisions that are applicable after March 31, 2001 did not have a material impact on the Group's financial position or results of operations.

Collateral—For secured lending transactions, including resale agreements, securities borrowing transactions, commercial lending and derivative transactions, the Group, as a secured party, generally has the right to require collateral, including letters of credit, and cash, securities and other financial assets. The Group maintains strict levels of collateralization governed by daily mark-to-market analysis for most securities lending transactions. Financial assets pledged as collateral are generally negotiable financial instruments and are permitted to be sold or repledged by secured parties. If the Group sells these financial assets received as collateral, 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 Group separately reports those financial assets pledged as collateral in the consolidated balance sheets.

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 recognized currently in Trading Account Profits—Net or Trading Account 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. In the year ended March 31, 2001, the Bank changed its intent to hold securities previously classified as securities being held to maturity and transferred such securities to the available-for-sale category. Any remaining securities in the Group's held-to-maturity portfolio 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 account 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 shareholder's equity. Nonmarketable equity securities are stated at cost as Other Investment Securities. Individual debt and equity securities are written down to fair value and charged to operations 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 shareholder's right to receive 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 Group engages in derivative activities involving swaps, forwards and options, and other types of derivative contracts. Derivatives are used in trading activities to generate trading revenues and fee income for its own account and to respond to the customers' financial needs. Derivatives are also used to manage its exposures 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. Fair values are based on market or broker-dealer quotes when available. Valuation models such as present value and pricing models are applied to current market information to estimate fair values when such quotes are not available. The fair value of derivative contracts executed with the same counterparty under legally enforceable master netting agreements are presented on a net basis. Change in the fair value of such contracts are recognized currently in Foreign Exchange Gains or Losses—Net with respect to foreign exchange contracts and in Trading Account Profit or Losses—Net with respect to interest rate contracts and other types of contracts.

Embedded derivatives that are not clearly and closely related to the host contracts and meet the definition of derivatives are separated from the host contracts and measured at fair value unless the contracts embedding derivatives are measured at fair value in their entirety.

Derivatives are 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. Such derivatives may include contracts that qualify for hedge accounting. Derivatives are evaluated in order to determine if they qualify for hedge accounting. The hedging derivative instruments must be highly effective in achieving offsetting changes in fair values or variable cash flows from the hedged items attributable to the risk being hedged. Any ineffectiveness, which arises during the hedging relationship, is recognized in Non-interest Expense in the period in which it arises. All qualifying hedges are valued at fair value and included in Other Assets or Other Liabilities. For fair value hedges of interest-bearing assets or liabilities, the change in the fair value of the hedged item and the hedging instruments to the extent effective is recognized in net interest income. For all other fair value hedges, the change in the fair value of the hedged item and change in fair value of the derivative are recognized in non-interest income or expense. For cash flow hedges, the unrealized changes in fair value to the extent effective are recognized in accumulated other changes from nonowner sources. Amounts realized on cash flow hedges related to variable rate loans are recognized in net interest income in the period when the cash flow from the hedged item is realized. The fair value of cash flow hedges related to forecasted transactions, if any, is recognized in non-interest income or expense in the period when the forecasted transaction occurs. Any difference that arises from gains or losses on hedging derivatives offsetting corresponding gains or losses on the hedged items, and gains and losses on derivatives attributable to the risks excluded from the assessment of hedge effectiveness are currently recognized in non-interest income or expense. Derivatives that do not qualify for hedge accounting are considered trading positions and are accounted for as such.

Prior to the adoption of SFAS No.133, fair value of derivatives used for hedging purposes generally were not recorded on the consolidated balance sheet. Amounts payable and receivable on interest rate swap and currency swap were accrued according to the contractual terms and included in the related revenue and expense category as an element of the yield on the associated instruments.

On April 1, 2001, the Group adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137 and SFAS No. 138, which establishes accounting and reporting standards for derivative instruments, as well as certain derivative instruments embedded in other contracts, and for hedging activities. The cumulative effect of the change in accounting principle, net of tax, was a gain of ¥5,867 million and an increase of ¥1,257 million in accumulated other changes in equity from nonowner sources.

Loans—Loans are carried at the principal amount outstanding, adjusted for unearned income and deferred net nonrefundable loan fees and costs. Loans held and intended for dispostions or sales in secondary markets are carried at the lower of cost or estimated fair value generally on an individual basis. Loan origination fees, net of certain direct origination costs, are deferred and recognized over the contractual life of the loan as an adjustment of yield using the method that approximates the interest method. Interest income on loans that are not impaired are accrued and credited to interest income as it is earned. Unearned income and discount and premium of a purchased loan is deferred and recognized over the life of the loan using the method that approximates the interest method.

Loans are generally placed on nonaccrual status when substantial doubt exist as to the full and timely collection of either principal or interest, or when principal or interest is contractually past due, except when the loans are in the process of collection based upon the judgment 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. Cash receipts on nonaccrual loans, for which the ultimate collectibility of principal is uncertain, are applied as principal reductions; otherwise, such collections are credited to income. The Group does not cpaitalize any accrued interest in its principal balances of impaired loans at each balance sheet date.

Loan Securitization—The Group securitizes and services commercial and industrial loans in the normal course of business. The Group accounts for a transfer of loans in a securitization transaction as a sale if it meets relevant conditions for the surrender of control in accordance with SFAS No. 140. Otherwise, the transfer is accounted for as a collateralized borrowing transaction. Interests in loans sold through a securitization accounted for as a sale may be retained in the form of subordinated tranches or beneficial interests. These retained interests are primarily recorded in Securities Available for Sale. The previous carrying amount of the loans involved in the transfer is allocated between the loans sold and the retained interest based on their relative fair values at the date of the 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 involve 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, taking into consideration current financial information, historical payment experience, credit documentation, public information, analyses of relevant industry segments 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 allowance for credit losses for non-homogeneous loans consists of an allocated allowance for specifically identified problem loans, an allocated allowance for country risk exposure, a formula allowance and an unallocated allowance. An allocated allowance is also established for large groups of smaller-balance homogeneous loans.

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, or 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. For certain subsidiaries, some impaired loans are aggregated for the purpose of measuring impairment using historical loss factors. Generally, the Group's impaired loans include nonaccrual loans, restructured loans and other loans specifically recognized for impairment.

The credit loss allowance for country risk exposure is a country-specific allowance for substandard, special mention and unclassified loans. The allowance is established to supplement the formula allowance for these loans, 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 measure is generally based on a function of default probability and recovery ratio with reference to external credit ratings. For allowance for specifically identified cross-border problem loans, the Group incorporates transfer risk in its determination of related allowance for credit losses.

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 easily identifiable or measurable. In determining the formula allowance, the Group, therefore, relies on a mathematical calculation that incorporates loss factor percentages of total loans outstanding based on historical experience. Corresponding to the periodical impairment identification and self-assessment process, the estimation of formula allowance is back-tested comparing with the actual results subsequent to the balance sheet date. Before the fiscal year ended March 31, 2001, 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. On April 1, 1996, the Bank implemented a new credit rating system to capture default data by credit risk rating and started accumulating historical data for borrowers' default and recovery from defaulted loans. On March 31, 2001, the Bank decided that it had accumulated sufficient data and began estimating credit losses using methodology defined by the new credit rating system. Estimated losses inherent in the loan portfolio at the balance sheet date are calculated by multiplying the default ratio by the irrecoverable ratio (determined as a complement of the recovery ratio). The default ratio represents the survivability of individual borrowers by each credit risk rating over the defined observation period and is determined by credit risk rating, taking into account the historical number of defaults of borrowers within each credit risk rating divided by the total number of borrowers within such credit risk rating existing at the beginning of the observation period. The recovery ratio is determined by the historical experience of collections against loans in default. This change resulted in an increase to the provision for credit losses of ¥17,620 million, and an increase in net loss of ¥10,924 million, equivalent to ¥2.34 per basic and diluted loss per share, for the year ended March 31, 2001.

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 allowance. 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.

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

Allowance for Off-Balance-Sheet Credit Instruments—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 and the allocated formula allowance. With regard to the specific allowance for specifically identified credit exposure and allocated formula allowance, the Group adopts the same methodology used in determining the allowance for loan credit losses. As described in "Allowance for Credit Losses" above, in the year ended March 31, 2001, the Bank refined its methodology for estimating credit losses. Credit losses related to derivatives carried at fair value are considered in the fair valuation of the derivatives.

Net changes in the allowance for off-balance-sheet credit instruments are accounted for as Other Non-interest Expense.

Premises and Equipment is 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. Net gains or losses on dispositions of premises and equipment are included in Other Non-interest Income or Expense, as appropriate.

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 an asset to be held and used is measured by a comparison of the carrying amount to future undiscounted net cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less estimated 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 certain available information, in order to estimate future cash flows. When goodwill exceeds the expected future undiscounted cash flows, an impairment is calculated as the difference between the present value of expected future cash flows and its carrying value. On April 1, 2002, the Group adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which provides goodwill acquired in a purchase business combination should not be amortized and is subject to an impairment test. Goodwill is recorded at a designated reporting unit level for the purpose of assessing impairment. An impairment loss, if any, will be recognized to the extent that the carrying amount of goodwill exceeds its implied fair value.

Software—The Group capitalizes certain costs associated with the acquisition or development of internal-use software. Costs subject to capitalization are salaries and employee benefits for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of the time spent directly on the project. 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 longer than 5 years.

Accrued Severance and Pension Liabilities—The Bank and certain subsidiaries have defined benefit retirement plans, including 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.

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—Commission 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, royalty and other service charges from franchisees. Other fees and commissions primarily include fees from investment banking service, including underwriting, brokerage and advisory services, arrangement fees on securitizations, service charges on deposit accounts, fees on guarantees, and fees on other services.

Revenue recognition of major components of fees and commissions is as follows; (1) fees on funds transfer and collection services, 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 (the "Code"), 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.

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, unrealized gains and losses on derivatives qualifying for cash flow hedges, 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.

Recently Issued Accounting Pronouncements

Business Combination, Goodwill and Other Intangible Assets—Effective July 1, 2001, the Group adopted, the provisions of SFAS No. 141, "Business Combination," and certain provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" as required for goodwill and intangible assets resulting from business combinations consummated after June 31, 2001. These statements require that all business combinations initiated after June 30, 2001 be accounted for under the purchase method. The nonamortization provisions of the new rules affecting goodwill and intangible assets deemed to have indefinite lives are effective for all purchase business combinations completed after June 30, 2001. Based on amortization expense recorded in the year ended March 31, 2002, the Group estimates that the elimination of goodwill amortization expense will increase net income by approximately ¥5 billion subject to the impairment test. SFAS No. 142 became effective for the Group on April 1, 2002 and primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. SFAS No. 142 requires that goodwill be recorded at the reporting unit level for the impairment test. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

At March 31, 2002, the Group had unamortized goodwill of ¥11,701 million. The Group has not completed the assessment of goodwill and cannot reasonably estimate the impact of the impairment loss, if any, as a result of the adoption of SFAS No. 142.

Impairment or Disposal of Long-Lived Assets—In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets by establishes additional criteria as compared to existing generally accepted accounting principles to determine when a long-lived asset is held for sale. It also broadens the definition of discontinued operations. The Group does not expect the adoption of SFAS No. 144 to have a material impact on the results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The provisions of SFAS No. 145 related to the rescission of Statement No. 4 are effective for fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods that does not meet the criteria in APB Opinion 30 for classification as an extraordinary item shall be reclassified. The provisions of this Statement related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of SFAS No. 145 are effective for financial statements issued on or after May 15, 2002. The Group does not expect the adoption of SFAS No.145 to have a material impact on the results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. This statement improves financial reporting by requiring that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The Group has not completed the assessment and cannot reasonably estimate the impact, if any, as a result of the adoption of SFAS No. 146.

2. BUSINESS COMBINATION

As discussed in Note 1, on April 2, 2001, MTFG was established as a bank holding company. The Bank, Mitsubishi Trust and NTB (a former 83%-owned subsidiary of the Bank) became wholly owned subsidiaries of MTFG pursuant to the stock-for-stock exchanges. 5,742 thousand shares of MTFG's common stock were issued in exchange for all of the outstanding shares of the Bank's, Mitsubishi Trust's and NTB's common stock based on the exchange ratios of 1.00, 0.70 and 0.14 shares of MTFG's common stock for each 1,000 shares of the Bank, Mitsubishi Trust and NTB, respectively. Each 1,000 shares of the Bank's Class 1 Preferred Stock and each 1,000 shares of Mitsubishi Trust's Class 1 Preferred Stock were exchanged for a share of Class 1 and Class 2 Preferred Stock of MTFG, respectively. As a result of the stock-for-stock exchanges, the Bank's ownership interests in NTB were transferred to MTFG in exchange for MTFG's shares.

3. TRADING ACCOUNT ASSETS AND LIABILITIES

The following table shows trading account assets and liabilities, carried at estimated fair value, at March 31, 2001 and 2002. For trading derivative contracts executed under legally enforceable master netting agreements, related assets and liabilities are bilaterally offset and reported net by counterparty.

	March 31	
	2001	2002
	(in millions)	
Trading account assets:		
Trading account securities:		
Japanese government, prefectual and municipal bonds	¥ 2,205,624	¥ 1,412,209
Commercial paper	894,614	2,513,780
Foreign governments bonds and other securities	522,880	779,344
Total	3,623,118	4,705,333
Trading derivative assets:		
Interest rate contracts:		
Forward and futures	121,894	132,424
Swap and swap-related products	2,822,110	2,877,467
Options purchased	87,598	74,669
Total	3,031,602	3,084,560
Foreign exchange contracts:		
Forward and futures	1,102,616	580,145
Swaps	390,699	455,988
Options purchased	94,974	72,284
Total	1,588,289	1,108,417
Other contracts, mainly equity and credit-related contracts	133,697	178,481
Bilateral netting of derivatives under master netting agreements	(1,784,993)	(2,152,110)
Total	¥ 6,591,713	¥ 6,924,681
Trading account liabilities:		
Trading account securities sold, not yet purchased	¥ 1,451,401	¥ 176,954
Trading derivative liabilities:		
Interest rate contracts:		
Forward and futures	123,895	138,200
Swap and swap-related products	2,470,108	2,608,110
Options written	68,237	73,836
Total	2,662,240	2,820,146
Foreign exchange contracts:		
Forward and futures	1,104,583	679,857
Swaps	336,684	586,825
Options written	77,568	66,107
Total	1,518,835	1,332,789
Other contracts, mainly equity and credit-related contracts	104,094	112,801
Bilateral netting of derivatives under master netting agreements	(1,784,993)	(2,152,110)
Total	¥ 3,951,577	¥ 2,290,580

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

The Group performs trading activities through market-making, sales and arbitrage, while maintaining risk levels within appropriate limits in accordance with its risk management policy. Net trading gains or losses for the years ended March 31, 2000, 2001 and 2002 comprised the following:

	2000	2001	2002
		(in millions)	
Interest rate and other derivative contracts	¥ 4,337	¥158,981	¥120,926
Foreign exchange derivative contracts	76,255	8,565	(44,990)
Trading account securities, excluding derivatives	(22,812)	36,190	(9,851)
Net trading gains	¥ 57,780	¥203,736	¥ 66,085

4. INVESTMENT SECURITIES

The amortized costs, estimated fair values and gross unrealized gains and losses for investment securities available for sale as of and for the years ended March 31, 2001 and 2002 were as follows:

	2001				2002			
	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	¥ 6,334,641	¥ 41,205	¥ 8,125	¥ 6,367,721	¥ 8,024,768	¥ 29,655	¥ 3,394	¥ 8,051,029
Japanese prefectural and municipal bonds	235,281	6,049	—	241,330	416,729	6,620	139	423,210
Foreign governments and official institutions bonds	1,230,799	19,250	8,116	1,241,933	1,728,856	34,587	41,004	1,722,439
Corporate bonds	1,592,916	20,446	6,615	1,606,747	1,586,413	29,273	5,137	1,610,549
Mortgage-backed securities	1,735,528	11,908	3,375	1,744,061	1,078,113	49,814	11,947	1,115,980
Other debt securities	137,746	139	6	137,879	359,198	61,046	4,886	415,358
Marketable equity securities	3,011,535	1,907,931	57,840	4,861,626	2,570,942	1,615,234	339,644	3,846,532
Total	¥14,278,446	¥2,006,928	¥84,077	¥16,201,297	¥15,765,019	¥1,826,229	¥406,151	¥17,185,097

Investment securities other than available for sale (i.e., nonmarketable equity securities presented in Other Investment Securities) were carried at cost of ¥111,584 million and ¥99,029 million, at March 31, 2001 and 2002, respectively. The corresponding estimated fair values at those dates were not readily determinable.

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

The estimated fair values of debt securities available for sale at March 31, 2002 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 penalties. Securities not due at a single maturity date and securities embedded with call or prepayment options, such as mortgage-backed securities, are included in the table below based on their original final maturities.

	Estimated Fair Value
	(in millions)
Due in one year or less	¥ 4,513,280
Due from one year to five years	6,939,415
Due from five years to ten years	1,082,509
Due after ten years	803,361
Total	¥13,338,565

For the years ended March 31, 2000, 2001 and 2002, proceeds from sales of securities available for sale were ¥25,825,681 million, ¥27,887,114 million and ¥30,670,994 million, respectively. For the years ended March 31, 2000, 2001 and 2002, gross realized gains on those sales were ¥363,414 million, ¥398,467 million and ¥305,884 million, respectively, and gross realized losses on those sales were ¥97,079 million, ¥73,341 million and ¥75,317 million, respectively. In September 2000, the Bank changed its intent to hold securities originally classified as held-to-maturity and transferred ¥369 billion (carrying value) of such securities 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, 2000, 2001 and 2002, losses resulting from write-downs of investment securities to reflect the decline in value considered to be other than temporary were ¥133,817 million, ¥229,504 million and ¥205,677 million, respectively.

Exchange Traded Fund

During the year ended March 31, 2002, the Bank transferred marketable equity securities to an exchange-traded fund ("ETF") sponsored by an independent securities firm. The Bank concurrently entered into the two separate agreements with the independent securities firm and the Bank sold marketable equity securities of ¥325,749 million at acquisition cost to an independent securities firm at the fair value of ¥391,698 million in accordance with these agreements. The securities firm contributed these marketable equity securities and additional securities purchased from the market to the ETF in order to link the ETF performance to TOPIX. Certificates issued by the ETF (the "ETF certificates") are linked to TOPIX (a composite index of all stocks listed on the first section of the Tokyo Stock Exchange ("TSE")) and have been listed on TSE. The Bank purchased the ETF certificates at the fair value of ¥527,967 million with an intention to sell them in the market or to the securities firm in the near future.

The Group accounted for the ETF certificates purchased from the securities firm as retained interests in the marketable equity securities transferred to the securities firm. The Group accounted for the transfer of marketable equity securities as a sale when the Group received as proceeds cash or financial instruments other than the ETF certificates. During the year ended March 31, 2002, the Group recognized a gain of ¥35,442 million on the sales of the marketable equity securities. At March 31, 2002, the Group held ETF certificates of ¥91,252 million at fair value in Securities Available for Sale. The ETF certificates are carried at fair value based on market prices observed in TSE and the fair value change is closely linked with the movement of TOPIX (1,060.19 points at March 29, 2002).

Banks' Shareholdings Purchase Corporation

Under a law forbidding banks from holding stocks in excess of their primary (Tier 1) capital after September 30, 2004, which was enacted in November 2001, the Banks' Shareholdings Purchase Corporation ("BSPC") was established in late January 2002 in order to moderate the impact on the stock market of sales of cross-shareholdings. BSPC began accepting share offers from financial institutions on February 15, 2002. It has been funded by financial institutions, including the Bank, which made initial contributions of ¥1,400 million ("preferred contributions"). BSPC started to purchase marketable equity securities beginning in February 2002 for a period through September 2006. BSPC will be dissolved when it sells all shares that it purchased from financial institutions, or by January 2012 at the latest.

BSPC has set up two accounts to facilitate selling of cross-shareholdings; the General Account and the Special Account. In the General Account, each selling financial institution funds the amounts purchased by BSPC without guarantees by the Japanese government, and the financial institution assumes any gains or losses on sales by BSPC of the stocks. In the Special Account, each selling financial institution has to make a contribution of 8% of the selling prices ("subordinated contributions") to BSPC to fund any future losses. The purchase amount in the Special Account is funded by borrowings guaranteed by the Japanese government with a limit of ¥2.0 trillion. The cumulative net loss on sales of stocks in the Special Account, which will be determined and finalized upon the liquidation of BSPC, will be compensated first by the subordinated contributions and then by the preferred contributions. If there is a remaining loss, the government, as a guarantor, will be liable for the loss. On the other hand, if there are net assets at the time of the liquidation, the assets are used to repay the preferred contributions first and to repay the subordinated contributions next, and any remaining assets will be paid out as dividends on the contributions, subject to specified upper limits. The remaining assets, if any, will belong to the Japanese government.

Upon BSPC's establishment, the Bank paid ¥1,400 million in total to BSPC as initial contributions (preferred contributions). In March 2002, the Bank sold marketable equity securities with a fair value of ¥14,548 million to the Special Account, and contributed ¥1,164 million, an amount equivalent to 8% of the sale price (subordinated contributions). Also, the Bank made loans of ¥35,600 million to fund BSPC's purchases of marketable equity securities, which are guaranteed by the government.

Transfers of marketable equity securities to the General Account, if any, are accounted for as secured borrowings, since the control over the securities is not surrendered to BSPC. Transfers of securities to the Special Account are accounted for as sales to the extent that consideration other than retained interests in the transferred assets is received in exchange. The subordinated contributions represent retained interests in the securities sold to the Special Account. However, because the subordinated contributions will share in the gains and losses from all securities sales by the Special Account over the life of BSPC, a portion of the subordinated interests represent interests in new assets. At the time that the Bank sells securities to the Special Account, the Bank will determine the proportion of the fair value of the securities sold to the fair value of all securities held by the Special Account. If the proportion is greater than 10% of the fair value of all securities held by the Special Account, then we will account for the subordinated interest as a partial sale and a partial retained interest. If the proportion is less than 10% of the fair value of all securities held by the Special Account, the Bank will account for the subordinated interest as a part of the sales proceeds. The fair value of securities sold to the Special Account did not reach the 10% threshold, and we therefore accounted for the related subordinated contributions as sales proceeds in the fiscal year ended March 31, 2002. For the year ended March 31, 2002, the Bank recognized a gain of ¥3,511 million on the sale of marketable equity securities to the Special Account. Preferred and subordinated contributions are recorded at cost less any impairment in Other Assets.

5. LOANS

Loans at March 31, 2001 and 2002 by domicile and type of industry of borrower are summarized below:

	2001	2002
	(in millions)	
Domestic:		
Manufacturing	¥ 5,232,119	¥ 5,081,824
Construction	1,400,401	1,225,068
Real estate	3,974,597	3,618,859
Services	3,729,534	3,597,009
Wholesale and retail	5,705,179	5,142,845
Banks and other financial institutions	2,012,321	2,201,470
Other industries	1,589,648	2,781,122
Consumer	6,661,251	6,687,523
Total domestic	30,305,050	30,335,720
Foreign:		
Governments and official institutions	296,003	308,574
Banks and other financial institutions	581,433	493,800
Commercial and industrial	8,218,468	9,271,565
Other	804,434	644,003
Total foreign	9,900,338	10,717,942
Less unearned income and deferred loan fees	30,233	41,501
Total	¥40,175,155	¥41,012,161

Substantially all domestic loans are made under agreements which, as customary in Japan, provide that a bank may, under certain conditions, require the borrower to provide collateral (or additional collateral) or guarantors with respect to the loans, and that the Bank may treat any collateral, whether furnished as security for loans or otherwise, as collateral for all indebtedness to the Bank. At March 31, 2001 and 2002, such collateralized loans originated by the Group, which were principally collateralized by real estate, marketable securities and accounts receivable, amounted to ¥6,403,079 million and ¥6,088,062 million, respectively, which represented 21% and 20%, respectively, of the total domestic outstanding loans at March 31, 2001 and 2002.

Nonaccrual and restructured loans were ¥3,420,881 million and ¥3,226,495 million at March 31, 2001 and 2002, 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, 2001 and 2002 would have been approximately ¥91.0 billion and ¥85.2 billion, respectively, of which approximately ¥67.1 billion and ¥61.2 billion, respectively, was included in interest income on loans in the accompanying consolidated statements of operations. Accruing loans contractually past due 90 days or more were ¥25,262 million and ¥17,786 million at March 31, 2001 and 2002, respectively.

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, 2001 and 2002 is shown below:

	2001		2002	
	Recorded Loan Balance	Impairment Allowance	Recorded Loan Balance	Impairment Allowance
	(in millions)			
Requiring an impairment allowance	¥2,888,247	¥990,640	¥2,757,488	¥978,462
Not requiring an impairment allowance	492,146	—	372,753	—
Total	¥3,380,393	¥990,640	¥3,130,241	¥978,462

The average recorded investments in impaired loans were approximately ¥2,028 billion, ¥2,420 billion and ¥3,255 billion, respectively, for the years ended March 31, 2000, 2001 and 2002.

For the years ended March 31, 2000, 2001 and 2002, the Group recognized interest income of approximately ¥11.2 billion, ¥46.0 billion and ¥62.9 billion, respectively, on impaired loans. Interest income on nonaccrual loans was recognized on a cash basis. Unless ultimate collectibility of principal is certain, 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 enters into leasing arrangements with customers. The Group's leasing operations are performed through leasing subsidiaries and consist principally of direct financing leases involving various types of data processing equipment, office equipment and transportation equipment.

As of March 31, 2001 and 2002, the components of the investment in direct financing leases were as follows:

	2001	2002
	(in millions)	
Minimum lease payment receivable	¥409,714	¥510,180
Estimated residual values of leased property	31,999	49,225
Less—unearned income	(27,110)	(47,251)
Net investment in direct financing leases	¥414,603	¥512,154

Future minimum lease payment receivables under noncancelable leasing agreements as of March 31, 2002 are as follows:

	Direct Financing Leases
	(in millions)
Year ending March 31:	
2003	¥135,617
2004	112,570
2005	96,343
2006	63,807
2007	34,717
2008 and thereafter	67,126
Total minimum lease payment receivables	¥510,180

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 ("DIC") established a Housing Loan Corporation ("HLAC") to collect and dispose of the loans of the liquidated Jusen. In 1999, HLAC merged with the Resolution and Collection Bank Limited to create the Resolution and Collection Corporation ("RCC"). RCC is wholly owned by DIC.

Financial institutions, including the Group, waived the repayment of substantial amounts of the loans to Jusen and transferred the remaining balances to HLAC. Financial institutions were requested to make loans to HLAC to finance its collection activities, and in the year ended March 31, 1997 the Group made loans of ¥184,197 million, As of March 31, 2001 and 2002, the Group had loans of ¥184,197 million and ¥171,160, respectively. The 15-year term loans to HLAC, which are guaranteed by 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 HLAC are the same except for agricultural financial institutions.

Under this restructuring program, a Financial Stabilization Fund (the "Special Fund") was established within 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 Group made non-interest-earning deposits of ¥111,124 million with the Special Fund and the New Fund in the year ended March 31, 1997. The deposit balances as of March 31, 2001 and 2002, which are included in Other Assets, were ¥79,506 million and ¥77,032 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 HLAC.

It is uncertain what losses (so-called Stage Two Loss), if any, may ultimately be incurred by RCC 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.

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.

Loan Securitization

The Group had no significant transfers of loans in securitization transactions accounted for as sales for the years ended March 31, 2001 and 2002, and did not retain any significant interests associated with loans transferred in securitizations at March 31, 2002.

6. ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses for the years ended March 31, 2000, 2001 and 2002 are shown below:

	2000	2001	2002
		(in millions)	
Balance at beginning of year	¥1,290,657	¥1,137,181	¥1,385,010
Provision for credit losses	368,639	665,954	470,224
Charge-offs	547,883	480,047	513,989
Less—Recoveries	41,004	34,780	48,809
Net charge-offs	506,879	445,267	465,180
Other, principally foreign exchange translation adjustments	(15,236)	27,142	9,056
Deconsolidation of Nippon Trust Bank	—	—	(57,502)
Balance at end of year	¥1,137,181	¥1,385,010	¥1,341,608

7. PREMISES AND EQUIPMENT

Premises and equipment at March 31, 2001 and 2002 consisted of the following:

	2001	2002
	(in millions)	
Land	¥ 125,368	¥ 119,361
Buildings	333,687	327,647
Equipment and furniture	426,786	468,054
Leasehold improvements	267,127	214,373
Construction in progress	3,119	3,243
Total	1,156,087	1,132,678
Less accumulated depreciation	637,222	611,570
Premises and equipment—net	¥ 518,865	¥ 521,108

Premises and equipment include capitalized leases, principally related to data processing equipment, which amounted to ¥59,125 million of acquisition cost at March 31, 2001 and ¥35,041 million at March 31, 2002. Accumulated depreciation on such capitalized leases at March 31, 2001 and 2002 amounted to ¥11,821 million and ¥15,490 million, respectively.

Depreciation expense of premises and equipment for the years ended March 31, 2000, 2001 and 2002 was ¥63,384 million, ¥52,745 million and ¥59,594 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 noncancelable 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, 2001 and 2002, the financing obligation was ¥101,210 million and ¥101,806 million, respectively, and total rental payments amounted to ¥6,372 million and ¥6,504 million, respectively, for the years ended March 31, 2001 and 2002.

8. INCOME TAXES

The detail of current and deferred income tax expense or benefit for the years ended March 31, 2000, 2001 and 2002 was as follows:

	2000	2001	2002
		(in millions)	
Current:			
Domestic	¥ 163,438	¥ 52,398	¥ (8,933)
Foreign	40,022	46,792	35,982
Total	203,460	99,190	27,049
Deferred:			
Domestic	(100,423)	(83,701)	(92,372)
Foreign	(9,402)	(9,517)	(14,185)
Total	(109,825)	(93,218)	(106,557)
Income tax expense (benefit)	93,635	5,972	(79,508)
Income tax expense reported in cumulative effect of a change in accounting principle	—	—	3,523
Income tax expense (benefit) reported in shareholder's equity relating to:			
Investment securities available for sale	426,228	(378,075)	(179,317)
Cumulative effect of a change in accounting principle	—	—	808
Derivatives qualifying for cash flow hedges	—	—	1,289
Minimum pension liability adjustments	15,157	(35,042)	(35,750)
Foreign currency translation adjustments	(9,869)	13,033	(4,714)
Total	431,516	(400,084)	(217,684)
Total	¥ 525,151	¥(394,112)	¥(293,669)

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 42.0%, 38.6% and 38.0%, respectively, for the years ended March 31, 2000, 2001 and 2002. 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 is 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. 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 effective 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.

Banks subject to the new tax rule, including the Bank, filed a complaint in October 2000 with the Tokyo District Court, calling for nullification of the new tax, which they claimed, unfairly targets large banks. On March 26, 2002, the Tokyo District Court rejected the new tax enacted by the Tokyo Metropolitan Assembly. The court ordered the Tokyo Metropolitan Government to refund ¥72.4 billion in tax payments to 18 major banks and to pay an additional ¥1.8 billion in compensation.

On March 29, 2002, the Metropolitan Government lodged an appeal at the Tokyo High Court. Following the decision of the Tokyo District Court, 16 major banks filed a lawsuit on April 4, 2002 with the Osaka District Court against the Osaka Prefectual Government, seeking to nullify the new tax rule. In response to the lawsuit, on May 30, 2002, the Osaka Prefectual Government enacted a revised tax rule that changed the taxation for the year ended March 31, 2002 and the fiscal years subject to the new tax rule. Under the revised tax rule, for the year ended March 31, 2002, large banks are supposed to pay the lower of the 3% local tax on their gross operating income or the local tax computed based on net income. As a result of the revisions, the Bank did not pay any local taxes to the Osaka Prefectual Government for the year ended March 31, 2002. The Bank incurred and paid to the Tokyo Metropolitan Government the new local taxes of ¥14.7 billion and ¥14.6 billion applicable to the years ended March 31, 2001 and 2002, respectively. Had the Bank paid the local taxes based on net income under the former rule, tax expense would have been ¥6.6 billion for the year ended March 31, 2001, and zero for the fiscal year ended March 31, 2002. To date, there have not been any decisions made by the Tokyo High Court and the Osaka District Court. As the outcome of these cases is uncertain, no gain has been recorded in the Group's consolidated financial statements.

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, 2000, 2001 and 2002 was as follows:

	2000	2001	2002
Combined normal effective statutory tax rate	42.0%	(38.6)%	(38.0)%
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	6.8	2.1	0.3
Goodwill amortization	0.5	1.3	0.8
Nontaxable dividends received	5.9	8.5	3.8
Foreign tax credit	(5.5)	(3.2)	(2.4)
Lower tax rates applicable to income of foreign subsidiaries	(5.1)	(3.7)	(4.3)
Foreign income exempted for income tax purpose	(2.2)	(2.1)	(0.7)
Foreign tax assessment (refund)	(4.7)	1.1	(1.0)
Minority interest	6.0	6.4	4.0
Change in valuation allowance	9.7	3.5	17.2
Expiration of loss carryforwards of subsidiaries	17.9	25.9	—
Enacted change in tax rates	1.0	8.4	—
Realization of previously unrecognized tax benefits of subsidiaries	—	—	(16.6)
Other—net	0.2	(3.7)	0.4
Effective income tax rate	72.5%	5.9%	(36.5)%

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, 2001 and 2002 were as follows:

	2001	2002
	(in millions)	
Deferred tax assets:		
Allowance for credit losses	¥ 683,621	¥ 721,505
Net operating loss carryforwards	105,371	157,491
Accrued severance indemnities and pension liabilities	73,734	97,187
Other real estate owned	19,925	15,602
Accrued liabilities and other	41,612	48,849
Sale-and-leaseback transactions	36,165	36,338
Foreign currency translation losses on foreign currency debt	17,589	24,693
Depreciation	15,808	8,891
Valuation allowance	(205,366)	(135,186)
Total deferred tax assets	788,459	975,370
Deferred tax liabilities:		
Investment securities	139,540	18,376
Deferred profit on property for income tax purposes	11,764	11,999
Equipment and auto leasing	66,557	102,671
Derivative financial instruments	27,793	12,812
Other	2,230	5,295
Total deferred tax liabilities	247,884	151,153
Net deferred tax assets	¥ 540,575	¥ 824,217

At March 31, 2002, the Group had operating loss carryforwards of ¥401,712 million,which included ¥170,521 million of the Bank, and tax credit carryforwards of ¥1,282 million for tax purposes. Such carryforwards, if not utilized, are scheduled to expire as follows:

	Operating Loss Carryforwards	Tax Credit Carryforwards
	(in millions)	
Year ending March 31:		
2003	¥ 2,126	¥ —
2004	6,459	—
2005	31,104	—
2006	73,596	—
2007 and thereafter	260,811	—
No definite expiration date	27,616	1,282
Total	¥401,712	¥1,282

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, 2002, such undistributed earnings of foreign subsidiaries amounted to approximately ¥231 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. The Bank has neither plans nor the intention of disposing of investments in foreign subsidiaries and, accordingly, does not expect to record capital gains or losses, or otherwise monetize its foreign subsidiaries' undistributed earnings. Rather, the Bank will receive a return on investments in foreign subsidiaries by way of dividends.

Income (loss) before income tax expense or benefit for the years ended March 31, 2000, 2001 and 2002 was as follows:

	2000	2001	2002
		(in millions)	
Domestic income (loss)	¥ 59,205	¥(208,707)	¥(292,445)
Foreign income	69,905	106,995	74,399
Total	¥129,110	¥(101,712)	¥(218,046)

9. PLEDGED ASSETS AND COLLATERAL

Pledged Assets

At March 31, 2002, assets mortgaged, pledged, or otherwise subject to lien were as follows:

	(in millions)
Due from banks	¥ 1,145
Trading account securities	1,252,061
Investment securities	2,446,724
Loans	599,224
Other	25,596
Total	¥4,324,750

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

	(in millions)
Deposits	¥ 177,266
Call money and funds purchased	906,938
Payables under repurchase agreements and securities lending transactions	2,043,709
Other short-term borrowings and long-term debt	1,189,384
Other	7,453
Total	¥4,324,750

In addition, at March 31, 2002, certain investment securities, principally Japanese national government and Japanese government agency bonds, aggregating ¥3,531,115 million were pledged as collateral for acting as a collection agent of public funds, for settlement of exchange at The Bank of Japan and Tokyo Bankers Association, 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 banking businesses in foreign countries. At March 31, 2001 and 2002, the reserve funds maintained by the Group, which are included in Cash and Due from Banks and Interest-earning Deposits in Other Banks, were ¥474,896 million and ¥388,838 million, respectively. Average reserves during the years ended March 31, 2001 and 2002 were ¥490,366 million and ¥565,972 million, respectively.

Collateral

The Group accepts and provides financial assets as collateral for transactions, principally commercial loans, repurchase agreements and securities lending transactions, call money, and derivatives. Financial assets eligible for such collateral include, among others, marketable equity securities, trade and note receivables and certificates of deposit.

Secured parties, including creditors and counterparties to certain transactions with the Group, may sell or repledge financial assets provided as collateral. Certain contracts, however, may not be specific about the secured party's right to sell or repledge collateral under the applicable statutes and, therefore, 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 existing statutes, contract or certain market practices. If the Group determines, based on available information that a financial asset provided as collateral might not be sold or repledged by the secured parties, such collateral is not separately reported in the consolidated balance sheets. If a secured party is permitted to sell or repledge financial assets provided as collateral by contract or custom under the existing statutes, the Group reports such pledged financial assets separately on the face of the consolidated balance sheets. At March 31, 2002, the Group had pledged ¥1,081 billion of collateral that may not be sold or repledged by the secured parties.

The Group accepts collateral for commercial loans and certain banking transactions under a standardized agreement with customers, which provides that the Group may require the customer to provide collateral or guarantors with respect to the loans and other banking transactions. Financial assets pledged as collateral are generally negotiable and transferable instruments, and such negotiability and transferability is authorized by applicable legislation. In principle, Japanese legislation permits the Group to repledge financial assets accepted as collateral unless otherwise prohibited by contract or relevant statutes. Nevertheless, the Group did not sell or repledge nor does plan to sell or repledge such collateral accepted in connection with commercial loans before a debtor's default or other credit events specified in the agreements as it is not customary within the Banking industry in Japan to dispose of collateral before a debtor's default and other specified credit events. Derivative agreements commonly used in the marketplace do not prohibit a secured party's disposition of financial assets received as collateral, and in resale agreements and securities borrowing transactions, securities accepted as collateral may be sold or repledged by the secured parties. At March 31, 2002, the fair value of the collateral accepted by the Group that is permitted to be sold or repledged was approximately ¥3,574 billion, of which approximately ¥1,996 billion was sold or repledged. The amount includes the collateral that may be repledged under the current Japanese legislation but the Group does not dispose of before counterparties' default in accordance with the customary practice within the Japanese banking industry.

10. DEPOSITS

The balances of time deposits, including certificates of deposit ("CDs"), issued in amounts of ¥10 million (approximately US$75 thousand at the Federal Reserve Bank of New York's noon buying rate on March 29, 2002) or more with respect to domestic deposits and issued in amounts of US$100,000 or more with respect to foreign deposits were ¥13,954,505 million and ¥8,561,598 million, respectively, at March 31, 2001, and ¥11,420,237 million and ¥5,792,811 million, respectively, at March 31, 2002.

The maturity information at March 31, 2002 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	¥1,713,801	¥181,705
Due after two years through three years	1,230,447	30,142
Due after three years through four years	204,110	17,342
Due after four years through five years	224,361	13,781
Due after five years	33,805	8,306
Total	¥3,406,524	¥251,276

11. DEBENTURES

In Japan, certain banks, including the Bank, issue discount and coupon debentures in the domestic market under applicable banking laws. The Bank of Tokyo, Ltd., which merged with The Mitsubishi Bank, Limited to create the Bank, was authorized to issue such debentures and, after the merger in 1996, 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, 2001 and 2002 comprised the following:

	2001	2002
	(in millions)	
One-year discount debentures, net of amortized discount of ¥1,460 million in 2001 and ¥98 million in 2002—discount at issuance of 0.01% to 0.04% (0.04% to 0.24% in 2001)	¥1,369,907	¥ 824,722
Three-year coupon debentures with interest of 0.02% to 0.80% (0.06% to 1.20% in 2001)	936,531	655,101
Five-year coupon debentures with interest of 0.80% to 2.10% (0.80% to 2.70% in 2001)	1,104,351	795,650
Total	¥3,410,789	¥2,275,473

The following is a summary of maturities of debentures subsequent to March 31, 2002:

	(in millions)
Year ending March 31:	
2003	¥1,607,038
2004	382,782
2005	285,653
Total	¥2,275,473

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

A summary of funds transactions for the years ended March 31, 2000, 2001 and 2002 is as follows:

	2000	2001	2002
		(in millions)	
Average balance during the year:			
Call money and funds purchased	¥1,620,648	¥1,792,201	¥1,872,937
Call loans and funds sold	783,084	1,073,937	1,199,028
Net funds purchased position	¥ 837,564	¥ 718,264	¥ 673,909
Call money and funds purchased:			
Outstanding at end of year:			
Amount	¥1,171,060	¥2,319,624	¥2,521,520
Principal range of maturities	1 day to 30 days	1 day to 30 days	1 day to 30 days
Weighted average interest rate	0.78%	0.79%	0.37%
Maximum balance at any month-end during the year	¥2,204,973	¥2,395,429	¥2,522,022
Weighted average interest rate paid during the year	0.94%	1.25%	0.80%

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.

13. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2001 and 2002, the Group had unused lines of credit amounting to ¥2,777,514 million and ¥3,171,254 million, respectively. The amounts principally consist of the lines of collateralized intraday overdrafts without interest charges and collateralized overnight loans on bills at the official discount rate granted by the BOJ, which are used to cover shortages in the BOJ account and to meet liquidity needs. The Group may borrow from the BOJ on demand up to the total amount of collateral eligible for credit extension.

Other short-term borrowings at March 31, 2001 and 2002 comprised the following:

	2001	2002
	(in millions)	
Domestic offices:		
Loans on notes and acceptances transferred with recourse (rediscount)	¥ 740,167	¥1,116,540
Commercial paper	150,000	136,000
Due to trust account	422,737	—
Borrowings from financial institution	198,638	418,977
Other	88,368	324,692
Total domestic offices	1,599,910	1,996,209
Foreign offices:		
Commercial paper	298,757	198,367
Other	116,843	118,651
Total foreign offices	415,600	317,018
Total	2,015,510	2,313,227
Less unamortized discount	150	95
Other short-term borrowings—net	¥2,015,360	¥2,313,132
Weighted average interest rate on outstanding balance at end of year	1.92%	1.38%

A summary of other short-term borrowing transactions for the years ended March 31, 2000, 2001 and 2002 is as follows:

	2000	2001	2002
		(in millions)	
Average balance outstanding during the year	¥1,844,189	¥1,755,139	¥1,552,570
Maximum balance at any month-end during the year	2,365,005	3,099,159	2,517,923
Weighted average interest rate during the year	2.70%	1.54%	2.81%

Long-term debt (with original maturities of more than one year) at March 31, 2001 and 2002 comprised the following:

	2001	2002
	(in millions)	
The Bank:		
Obligations under capital leases	¥ 24,273	¥ 26,122
Obligations under sale-and-leaseback transactions	101,210	101,806
Unsubordinated debt:		
Insurance companies and other institutions, maturing serially through 2022, principally 0.06%-6.37%	295,033	271,402
1¾% Convertible Bonds due 2002, payable in United States dollars—held by parent company	—	266,417
Fixed rate bonds, payable in Japanese yen, due 2002-2020, principally 0.26%-2.69%	879,400	1,340,000
Adjustable rate bonds, payable in Japanese yen, due 2005, 0.20%	16,360	36,890
Subordinated debt:		
Fixed rate notes, payable in United States dollars, due 2010-2011, 8.40%	245,979	266,311
Fixed rate bonds, payable in Japanese yen, due 2010-2011, principally 1.93%-2.25%	69,700	120,000
Fixed rate borrowings, payable in Japanese yen, due 2002-2012, principally 1.27%-6.20%	395,373	428,555
Adjustable rate bonds, payable in Japanese yen, due 2011, 1.00%	—	32,000
Adjustable rate borrowings, payable in Japanese yen, due 2007-2012, principally 0.10%-6.30%	258,600	157,600
Floating rate borrowings, payable in Japanese yen, due 2002-2010, principally 0.08%-2.30%	75,500	26,000
Total	2,361,428	3,073,103
Subsidiaries:		
Unsubordinated debt:		
Insurance companies and other institutions, due 2002-2008, principally 0.38%-5.60%	¥ 90,602	¥ 92,895
3% Exchangeable Guaranteed Notes due 2002, payable in United States dollars	247,723	266,417
Fixed rate bonds and notes, payable in United States dollars, due 2004-2013, principally 5.45%-7.00%	22,028	40,259
Fixed rate bonds and notes, payable in Japanese yen, due 2002-2017, principally 0.01%-7.20%	253,373	197,083
Adjustable rate bonds and notes, payable in United States dollars, due 2003, principally 3.03%-7.26%	37,498	16,942
Adjustable rate bonds and notes, payable in Japanese yen, due 2007-2013, principally 0.00%-6.06%	73,197	57,690
Floating rate bonds and notes, payable in United States dollars, due 2003-2021, principally 0.73%-6.75%	65,782	9,744
Floating rate bonds and notes, payable in Japanese yen, due 2002-2010, principally 0.00%-5.61%	83,061	73,648
Floating rate notes, payable in Euro, due 2001, 5.25%	29,129	—
Obligations under capital leases and other miscellaneous debt	15,871	14,530
Total unsubordinated debt	918,264	769,208

	2001	2002
	(in millions)	
Subordinated debt:		
Insurance companies and other institutions, due 2010, principally 3.21%-3.39%	21,568	1,553
Undated notes, payable primarily in Japanese yen, principally 0.39%-4.90%	60,000	60,000
Fixed rate bonds and notes, payable in United States dollars, due 2007, principally 6.20%-7.75%	36,532	26,995
Fixed rate bonds and notes, payable in Japanese yen, due 2003-2028, principally 0.40%-5.10%	82,303	76,795
Adjustable rate undated notes, payable in United States dollars, principally 2.40%-3.55%	66,555	76,531
Adjustable rate undated notes, payable in Japanese yen, principally 0.58%-3.16%	359,764	359,490
Adjustable rate bonds and notes, payable in United States dollars, due 2007-2009, principally 2.19%-7.50%	103,104	114,129
Adjustable rate bonds and notes, payable in Japanese yen, due 2002-2010, principally 0.14%-6.63%	290,386	233,058
Floating rate bonds and notes, payable in United States dollars, due 2003, 5.12%	19,971	2,645
Floating rate bonds and notes, payable in Japanese yen, due 2002-2027, principally 0.00%-5.19%	68,850	48,915
Other miscellaneous debt	2,285	2,700
Total subordinated debt	1,111,318	1,002,811
Mandatorily redeemable preferred securities of subsidiary grantor trust (see Note 21)	40,163	48,020
Total	2,069,745	1,820,039
Total	¥4,431,173	¥4,893,142

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.

Certain unsubordinated bonds and notes (aggregating ¥957,688 million at March 31, 2002) issued by subsidiaries, including the above exchangeable notes, are guaranteed, on a subordinated basis, by the Bank or a subsidiary as to payment of principal and interest.

MBL International Finance (Bermuda) Trust (the “Bermuda Trust”), a wholly-owned finance subsidiary of the Bank, issued 3% Exchangeable Guaranteed Notes due 2002 (the “Exchangeable Notes”). The Bank irrevocably and unconditionally guarantees all of the obligations of the Bermuda Trust. The Exchangeable Notes were exchangeable for shares or American Depositary Shares (“ADSs”) of the Bank at an exchange price of US$13.62 per ADS as of March 31, 2001, prior the establishment of MTFG. After MTFG was established on April 2, 2001, the Exchangeable Notes are exchangeable for shares or ADSs of MTFG through November 25, 2002 at an exchange price of US$13.62 per ADS as of March 31, 2002. The exchange price was reset annually through 2001 to the lesser of the prevailing ADS price, as defined, or the exchange price prior to such reset, but not less than US$13.62. On and after March 31, 2002, the exchange price of US$13.62 will not be reset and will be unchanged through November 25, 2002. The Exchangeable Notes were 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.

The Bank and certain 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, 2001 and 2002. Certain rates are determined by formulas and may be subject to certain minimum and maximum rates. Floating and adjustable debt agreements may provide for interest rate floors to prevent negative interest payments (i.e., receipts).

Certain debt agreements permit the Bank and some 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, 2002:

	The Bank	Other Subsidiaries	Total
		(in millions)	
Year ending March 31:			
2003	¥ 435,303	¥ 345,161	¥ 780,464
2004	268,618	171,377	439,995
2005	510,496	108,570	619,066
2006	389,339	41,563	430,902
2007	369,773	108,398	478,171
2008 and thereafter	1,099,575	1,044,969	2,144,544
Total	¥3,073,104	¥1,820,038	¥4,893,142

14. SEVERANCE INDEMNITIES AND PENSION PLANS

The Bank and Domestic Subsidiaries

The Bank 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. Under the severance indemnities plans, benefit payments in the form of lump-sum cash payment without allowing a benefit payee an option to receive annuity payments, upon mandatory retirement at normal retirement age or earlier termination of employment, are provided. When a benefit is paid in a single payment to a benefit payee under the plans, the payment represents final relief of the obligation.

The Bank and certain domestic subsidiaries also have funded 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 65 based on eligible compensation at the time of severance, years of service and other factors. These 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 these domestic subsidiaries in the determination of net periodic costs and funded status.

The Bank also has funded non-contributory defined benefit pension plans, providing benefits to certain retired employees, excluding directors, in Japan, based on eligible compensation at the time of severance, years of service and other factors. The Bank's plan covers retired employees whose service period with the Bank was 5 years or more, and provides for lifetime or certain limited period annuity payments commencing at age 60.

Net periodic cost of the severance indemnities and pension plans, net of contributions made by employees, for the years ended March 31, 2000, 2001 and 2002 included the following components:

	2000	2001	2002
		(in millions)	
Service cost—benefits earned during the year	¥ 21,773	¥ 17,063	¥ 16,283
Interest costs on projected benefit obligation	21,730	19,995	18,764
Expected return on plan assets	(18,275)	(23,005)	(19,994)
Amortization of unrecognized net obligation at transition	2,293	2,353	2,103
Amortization of prior service cost	4,088	3,611	3,320
Amortization of net actuarial loss	6,587	2,045	8,877
Loss on settlements	—	4,090	4,816
Net periodic benefit cost	¥ 38,196	¥ 26,152	¥ 34,169
Weighted-average assumptions used:			
Discount rates in determining expense	3.30%	3.10%	2.87%
Discount rates in determining benefit obligation	3.10	2.87	2.50
Rates of increase in future compensation level for determining expense	3.30	2.58	2.71
Rates of increase in future compensation level for determining benefit obligation	2.58	2.71	2.42
Expected rates of return on plan assets	5.05	5.17	4.91

The following table sets forth the combined funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2001 and 2002 for the plans of the Bank and certain domestic subsidiaries. The Bank and some of its domestic subsidiaries have measured plan assets and benefit obligations at December 31 each year for the purpose of financial statements. Accordingly, funded status and amounts recognized in the table below shows the combined amounts of those presented in the consolidated financial statements of these subsidiaries.

	2001			2002		
	Severance indemnities plans and non-contributory pension plans	Contributory pension plans	Total	Severance indemnities plans and non-contributory pension plans	Contributory pension plans	Total
	(in millions)					
Change in benefit obligation:						
Benefit obligation at beginning of year	¥ 108,173	¥ 547,881	¥ 656,054	¥111,196	¥ 596,758	¥ 707,954
Service cost	5,106	11,957	17,063	4,693	11,590	16,283
Interest cost	3,278	16,717	19,995	2,990	15,774	18,764
Plan participants' contributions	—	2,509	2,509	—	2,437	2,437
Amendments	—	(4,319)	(4,319)	—	—	—
Divestitures	—	—	—	(4,985)	(44,049)	(49,034)
Actuarial loss	7,203	36,780	43,983	5,586	47,513	53,099
Benefits paid	(898)	(14,767)	(15,665)	(2,152)	(13,888)	(16,040)
Lump-sum payment	(11,666)	—	(11,666)	(10,518)	—	(10,518)
Benefit obligation at end of year	111,196	596,758	707,954	106,810	616,135	722,945
Change in plan assets:						
Fair value of plan assets at beginning of year	11,077	419,560	430,637	10,476	403,631	414,107
Actual return (negative return) on plan assets	100	(39,948)	(39,848)	(9,169)	(30,756)	(39,925)
Divestitures	—	—	—	—	(23,788)	(23,788)
Employer contributions	197	36,277	36,474	59,629	105,500	165,129
Plan participants' contributions	—	2,509	2,509	—	2,437	2,437
Benefits paid	(898)	(14,767)	(15,665)	(1,752)	(13,889)	(15,641)
Fair value of plan assets at end of year	10,476	403,631	414,107	59,184	443,135	502,319
Projected benefit obligation in excess of plan assets at end of year	(100,720)	(193,127)	(293,847)	(47,626)	(173,000)	(220,626)
Contributions to or benefits paid from plan assets during the three month periods ended March 31, 2001 and 2002	2,313	10,094	12,407	2,698	10,716	13,414
Unrecognized net actuarial loss	35,510	136,528	172,038	41,074	217,326	258,400
Unrecognized prior service cost	1,833	27,659	29,492	1,361	22,960	24,321
Unrecognized net (asset) obligation at transition	(2,225)	11,400	9,175	(1,845)	7,093	5,248
Net amount recognized	¥ (63,289)	¥ (7,446)	¥ (70,735)	¥ (4,338)	¥ 85,095	¥ 80,757
Amounts recognized in the balance sheets:						
Prepaid pension cost	¥ 200	¥ —	¥ 200	¥ 301	¥ —	¥ 301
Accrued benefit liability	(89,130)	(161,312)	(250,442)	(35,150)	(140,149)	(175,299)
Intangible assets	1,833	39,058	40,891	1,361	30,053	31,414
Accumulated other changes in equity from nonowner sources	23,808	114,808	138,616	29,151	195,191	224,342
Net amount recognized	¥ (63,289)	¥ (7,446)	¥ (70,735)	¥ (4,337)	¥ 85,095	¥ 80,758

Note: The aggregated accumulated benefit obligations of these plans were ¥676,667 million and ¥690,638 million respectively, in fiscal year ended March 31, 2001 and 2002. 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 at banks, Japanese government bonds, other debt securities and marketable equity securities issued by domestic and foreign entities. 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 shareholder's equity, net of income taxes.

In accordance with the Bank's and certain domestic subsidiaries' employment practices, certain early-terminated employees are entitled to special lump-sum termination benefits. The amounts charged to operations for such early termination benefits for the years ended March 31, 2000, 2001 and 2002 were ¥8,586 million, ¥8,440 million and ¥7,818 million, respectively.

In accordance with an amendment to the relevant welfare pension legislation in fiscal year ended March 31, 2002, the Bank amended its contributory defined benefit pension plan to change the age of commencement of lifetime annuity payments from 60 to 65. The effect of the negative amendment was a decrease in ¥10,113 million of the projected benefit obligation and was not reflected in the consolidated financial statements for the year ended March 31, 2002 as the Bank amended its plan in January 2002 after the Bank's measurement date of December 31, 2001.

During the year ended March 31, 2002, the Bank entered into an employee retirement benefit trust agreement with a local trust bank and contributed marketable equity securities at fair value of ¥122,231 million to the trusts designated to pay benefits for the severance indemnities plan and the contributory pension plan. The transactions were accounted for as sales with an aggregate gain of ¥16,636 million recognized for the year then ended.

On April 2, 2001, NTB has become a wholly owned subsidiary of MTFG in connection with the business combination and has been excluded from the Bank's consolidation.

After the merger between Mitsubishi Trust, NTB and TTB on October 1, 2001, the pension plans of NTB and TTB were merged and integrated into Mitsubishi Trust's plans. NTB's and TTB's plans have been separately administered and managed under the Mitsubishi Trust's plans and continue to provide the same level of benefits to the eligible employees of NTB and TTB without any amendment.

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, 2000, 2001 and 2002 were ¥6,983 million, ¥5,486 million and ¥5,422 million, respectively, including ¥2,490 million, ¥2,555 million and ¥2,412 million, respectively, for defined contribution plans.

Foreign offices and subsidiaries have post employment and/or postretirement plans for eligible employees and retirees. The costs charged to operations for the years ended March 31, 2000, 2001 and 2002 were ¥1,334 million, ¥1,125 million and ¥1,357 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 post employment 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, 2001 and 2002 included the following components:

	2000	2001	2002
		(in millions)	
Service cost—benefits during the year	¥ 3,533	¥ 3,016	¥ 3,521
Interest costs on projected benefit obligation	4,587	5,163	6,317
Expected return on plan assets	(4,867)	(5,980)	(7,462)
Amortization of unrecognized net obligation at transition	479	403	233
Amortization of unrecognized prior service cost	79	(26)	(30)
Recognized actuarial loss	235	28	378
Net periodic benefit cost	4,046	2,604	2,957
Loss on curtailment	699	661	—
Loss (gain) on Settlement	132	(31)	—
Net cost after curtailment and settlement	¥ 4,877	¥ 3,234	¥ 2,957

	1999	2000	2001
Weighted-average assumptions at December 31:			
Discount rates in determining expense	6.52%	7.71%	7.53%
Discount rates in determining benefit obligation at year end	7.71	7.53	7.30
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	4.89
Expected rates of return on plan assets	8.30	8.35	8.30

The following table sets forth the funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2001 and 2002 for the employees' retirement and other benefit plans of certain subsidiaries in the United States of America:

	2000	2001
	(in millions)	
Change in benefit obligation:		
Benefit obligation at January 1, 2000 and 2001	¥59,649	¥ 80,144
Service cost	3,016	3,521
Interest cost	5,163	6,317
Plan participants' contributions	123	168
Amendments	(166)	—
Actuarial loss	7,405	8,422
Settlements	(9)	—
Benefits paid	(3,034)	(3,912)
Translation adjustments	7,997	13,256
Benefit obligation at December 31, 2000 and 2001	80,144	107,916
Change in plan assets:		
Fair value of plan assets at January 1, 2000 and 2001	70,047	80,577
Actual return (negative return) on plan assets	1,408	(3,749)
Employer contribution	3,379	9,427
Plan participants' contributions	123	168
Benefits paid	(2,955)	(3,882)
Translation adjustments	8,575	12,246
Fair value of plan assets at December 31, 2000 and 2001	80,577	94,787
Fair value of plan assets (projected benefit obligation) in excess of projected benefit obligation (fair value of plan assets) at December 31, 2000 and 2001	433	(13,129)
Unrecognized net actuarial loss (gain)	(2,946)	17,486
Unrecognized prior service cost	25	62
Unrecognized net obligation at transition	4,718	5,443
Net amount recognized	¥ 2,230	¥ 9,862
Amounts recognized in the balance sheets:		
Prepaid pension cost	¥ 5,432	¥ 13,211
Accrued benefit liability	(3,325)	(2,887)
Intangible assets	31	26
Accumulated other changes in equity from nonowner sources	92	(488)
Net amount recognized	¥ 2,230	¥ 9,862

15. OTHER ASSETS AND LIABILITIES

Major components of other assets and liabilities at March 31, 2001 and 2002 were as follows:

	2001	2002
	(in millions)	
Other assets:		
Accounts receivable:		
Receivables from brokers, dealers and customers for securities transactions	¥ 559,801	¥ 489,626
Other	106,591	330,067
Deferred income tax assets	574,598	874,588
Deferred charges	133,517	136,121
Investments in affiliated companies	102,192	82,986
Other real estate owned	33,043	11,486
Consolidation goodwill	5,888	11,701
Other	296,217	427,169
Total	¥1,811,847	¥2,363,744
Other liabilities:		
Accounts payable:		
Payables to brokers, dealers and customers for securities transactions	¥1,233,099	¥1,216,617
Other	378,143	392,406
Deferred income tax liabilities	34,023	50,371
Allowance for off-balance-sheet credit instruments	47,548	90,107
Accrued pension liability	255,697	179,765
Minority interest	184,656	216,468
Accrued and other liabilities	212,121	405,936
Total	¥2,345,287	¥2,551,670

At March 31, 2001 and 2002, the valuation allowance to write down the carrying amounts of other real estate owned to their estimated fair value less estimated cost to sell was ¥34,203 million and ¥10,045 million, respectively. The valuation allowance decreased by ¥61,396 million, ¥51,765 million and ¥24,158 million, respectively, during the years ended March 31, 2000, 2001 and 2002.

Investments in affiliated companies, which are accounted for using the equity method, include marketable equity securities carried at ¥90,958 million and ¥61,456 million, respectively, at March 31, 2001 and 2002. Corresponding aggregated market values were ¥96,486 million and ¥66,370 million, respectively.

At March 31, 2001 and 2002, capitalized costs of software for internal uses are ¥73,693 million and ¥87,999 million, which are included in "Other." Related amortization expenses are ¥28,576 million and ¥28,884 million respectively, for the years ended March 31, 2001 and 2002.

16. PREFERRED STOCK

The Bank is authorized to issue 100,000,000 shares of Class 1 Preferred Stock without par value.

Class 1 Preferred Stock is 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. This is non-cumulative and non-participating for dividend payments. Shareholder of Class 1 Preferred Stock receives a liquidation distribution at ¥3,000 per share, and does not have the right to participate in any further liquidation distributions.

Class 1 Preferred Stock

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.

17. COMMON STOCK AND CAPITAL SURPLUS

The changes in the number of issued shares of common stock during the years ended March 31, 2000, 2001 and 2002 were as follows:

	2000	2001	2002
	(in thousands of shares)		
Balance at beginning of year	4,675,456	4,675,456	4,675,456
Balance at end of year	4,675,456	4,675,456	4,675,456

Under the Code, issuances of common stock, including conversions of bonds and notes, are required to be credited to the common stock account for at least 50% of the proceeds and to the legal capital surplus account ("legal capital surplus") for the remaining amounts.

At March 31, 2002, 146,797,357 shares were reserved for the conversion of outstanding bonds and notes discussed in Note 13.

The Code permits Japanese companies, upon approval by the Board of Directors, to issue shares in the form of a "stock split," as defined in the Code (see Note 1). Also, the Code prior to April 1, 1991 permitted Japanese companies to issue free share distributions. The Bank from time to time made free share distributions. These free distributions usually were from 5% to 10% 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, 2002, 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 the legal capital surplus to the capital stock account.

The Code, as amended effective on October 1, 2001 (the "Code Amendments") permits Japanese companies to effect purchases of their own shares pursuant to a resolution by the shareholders at an annual general meeting until the conclusion of the following ordinary general meeting of shareholders, and to hold such shares as its treasury shares indefinitely regardless of any purpose. However, the Code Amendments require the amount of treasury stock purchased be within the amount of retained earnings available for dividends. Disposition of treasury stock is subject to the approval of the Board of Directors and is to follow the procedures similar to the public offering of shares for subscription. Prior to the amendment, in principle, reacquisition of treasury shares was prohibited with the exception of reacquisition for retirement and certain limited purposes, as specified by the Code. Any treasury shares were required to be disposed of shortly.

18. RETAINED EARNINGS, LEGAL RESERVE AND DIVIDENDS

In addition to the Code, Japanese banks, including the Bank, are required to comply with the Banking Law of Japan (the "Banking Law").

Legal Reserve Set Aside as Appropriation of Retained Earnings and Legal Capital Surplus

Under the Code

Effective October 1, 2001, the Code Amendments provide that an amount at least equal to 10% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated and set aside as a legal reserve until the aggregate amount of legal reserve set aside as appropriation of retained earnings and the legal capital surplus equals 25% of common stock.

Prior to the Code Amendments, the Code provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of common stock. The retained earnings so appropriated may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to capital stock by resolution of the Board of Directors.

Under the Banking Law

In line with the Code Amendments, on June 29, 2001, amendments to the Banking Law (the "Banking Law Amendments") were promulgated and became effective on October 1, 2001. The Banking Law Amendments provide that an amount at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each fiscal period shall be appropriated and set aside as a legal reserve until the aggregate amount of legal reserve set aside as appropriation of retained earnings and the legal capital surplus equals 100% of common stock.

Prior to the Banking Law Amendments, the Banking Law provided that an amount at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays 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 resolution of the shareholders or may be transferred to capital stock by resolution of the Board of Directors.

Unappropriated Retained Earnings and Dividends

Under the Code, the amount of retained earnings available for dividends 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. Under the Banking Law, the Bank have to meet the minimum capital adequacy requirements and distributions of the retained earnings of the Bank, which are otherwise distributable to shareholders, are restricted in order to maintain the minimum 4% Tier I capital for capital adequacy purpose.

None of the retained earnings recorded in the the Bank's general books of account, prepared in accordance with accounting principles generally accepted in Japan, as of March 31, 2002 (¥47,841 million, exclusive of the amounts to be appropriated for legal reserves and gross unrealized gains on fair valuation of assets, as defined, if any), is restricted by such limitations under the Code or by the Banking Law as described above.

Transfer of Legal Reserve to Retained Earnings

Under the Code Amendments

Effective October 1, 2001, under the Code Amendments, Japanese companies, including the Bank, are permitted, pursuant to a resolution by the shareholders at a general meeting, to transfer legal reserve set aside as appropriation of retained earnings and legal capital surplus to retained earnings until the aggregate amount of the legal reserve and legal capital surplus equals 25% of common stock, which were formerly permitted only to reduce deficit and to transfer to common stock.

Under the Banking Law Amendments

Effective October 1, 2001, under the Banking Law Amendments, Japanese banks, including The Bank are permitted, pursuant to a resolution by the shareholders at a general meeting, to transfer legal reserve set aside as appropriation of retained earnings and legal capital surplus to retained earnings until the aggregate amount of the legal reserve and legal capital surplus equals 100% of common stock.

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 an annual general 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 shareholder's 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

Japan

The Bank is subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which they operate. Failure to meet minimum capital requirements will initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements.

In Japan, the Bank is subject to regulatory capital requirements administered by the Financial Services Agency of Japan in accordance with the provisions of the Banking Law. A banking institution is subject to the minimum capital adequacy requirements both on a consolidated basis and a stand-alone basis, and is required to maintain the minimum capital irrespective of whether it operates independently or as a subsidiary under the control of another company. When a bank holding company manages operations of its banking subsidiaries, it is required to maintain the minimum capital adequacy ratio in the same manner as its subsidiary banks. The Financial Services Agency provides two sets of capital adequacy guidelines. One is a set of guidelines applicable to Japanese banks and bank holding companies with foreign offices conducting international operations, as defined, and the other is applicable to Japanese banks and bank holding companies that are not engaged in international operations.

Under the capital adequacy guidelines applicable to a Japanese banking institution 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 Basel Committee on Banking Supervision of 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. Also, a banking institution engaged in certain qualified trading activities, as defined, is required to calculate an additional capital charge for market risk using either the institution's own internal risk measurement model or a standardized process proposed and defined by the Bank for International Settlements. Capital is classified into three tiers, referred to as Tier I, Tier II and Tier III. Tier I generally consists of shareholders' equity (including common stock, preferred stock, capital surplus and retained earnings) less any recorded goodwill. Tier II generally consists of general reserves for credit losses, 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. Preferred stocks are includable in Tier I capital unless the preferred stocks have fixed maturity, in which case, such preferred stocks will be components of Tier II 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 banking institution 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 banking institutions 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 banks and bank holding companies, 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 banking institution is equal to or greater than the specific preestablished minimum target capital ratio, the Bank is not subject to prompt corrective action.

The Bank have international operations conducted by foreign offices, as defined, and are subject to the 8.0% capital adequacy requirement, while NTB which had no international operations and is subject to the 4.0% minimum requirement. For the purpose of calculating the additional charge for market risk, the Bank have adopted the internal risk measurement model approach for general market risk calculations.

The risk-adjusted capital amounts and ratios of the Bank and NTB, presented in the following table are based on amounts calculated in accordance with accounting principles generally accepted in Japan. These figures are calculated in accordance with Japanese GAAP as required by the Financial Services Agency.

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
	(in millions except percentages)			
Consolidated:				
At March 31, 2001:				
Total capital (to risk-weighted assets):				
The Bank	4,896,616	9.69	4,041,520	8.00
NTB	54,530	8.17	26,675	4.00
Tier I capital (to risk-weighted assets):				
The Bank	2,498,222	4.94	2,020,760	4.00
NTB	35,362	5.30	13,337	2.00
At March 31, 2002:				
Total capital (to risk-weighted assets):	5,010,273	10.29	3,892,627	8.00
Tier I capital (to risk-weighted assets):	2,556,677	5.25	1,946,313	4.00
Stand-alone:				
At March 31, 2001:				
Total capital (to risk-weighted assets):				
The Bank	4,903,619	11.28	3,476,715	8.00
NTB	54,004	8.10	26,656	4.00
Tier I capital (to risk-weighted assets):				
The Bank	2,475,698	5.70	1,738,357	4.00
NTB	34,839	5.23	13,328	2.00
At March 31, 2002:				
Total capital (to risk-weighted assets):	4,360,606	10.37	3,363,679	8.00
Tier I capital (to risk-weighted assets):	2,182,853	5.19	1,681,839	4.00

The Bank has securities subsidiaries in Japan and abroad, which are also subject to regulatory capital requirements. In Japan, the Securities and Exchange Law of Japan requires securities firms to maintain a minimum capital ratio of 120% calculated by as a percentage of capital accounts less certain fixed assets, as determined in accordance with Japan GAAP, against amounts equivalent to market, counterparty credit and operations risks. Specific guidelines are issued as a ministerial ordinance which detail the definition of essential components of the capital ratios, including capital, fixed assets deductions, risks, and related measures. Failure to maintain minimum capital ratio will trigger mandatory regulatory actions and a capital ratio of 100% or less may lead to a suspension of all or part of the business for a period of time and cancellation of a license. Overseas securities subsidiaries are subject to the relevant regulatory capital requirements of the countries or jurisdictions in which they operate.

Management believes, as of March 31, 2002, that the Bank and other regulated securities subsidiaries meet all capital adequacy requirements to which they are subject.

United States of America

In the United States of America, UnionBanCal Corporation ("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 presented as follows:

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
	(in millions except percentages)			
UNBC:				
At December 31, 2000:				
Total capital (to risk-weighted assets)	$4,091	12.07%	$2,712	8.0%
Tier I capital (to risk-weighted assets)	3,471	10.24	1,356	4.0
Tier I capital (to quarterly average assets)	3,471	10.19	1,363	4.0
At December 31, 2001:				
Total capital (to risk-weighted assets)	4,260	13.35	2,553	8.0
Tier I capital (to risk-weighted assets)	3,661	11.47	1,276	4.0
Tier I capital (to quarterly average assets)	3,661	10.53	1,390	4.0

	Actual		For Capital Adequacy Purposes		Ratios OCC requires to Be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(in millions except percentages)					
UBOC:						
At December 31, 2000:						
Total capital (to risk-weighted assets)	$3,671	11.01%	$2,667	8.0%	$3,334	10.0%
Tier I capital (to risk-weighted assets)	3,158	9.47	1,334	4.0	2,001	6.0
Tier I capital (to quarterly average assets)	3,158	9.24	1,367	4.0	1,709	5.0
At December 31, 2001:						
Total capital (to risk-weighted assets)	3,811	12.19	2,502	8.0	3,127	10.0
Tier I capital (to risk-weighted assets)	3,323	10.63	1,251	4.0	1,876	6.0
Tier I capital (to quarterly average assets)	3,323	9.69	1,371	4.0	1,714	5.0

Management believes, as of December 31, 2001, that UNBC and UBOC met all capital adequacy requirements to which they are subject.

As of December 31, 2000 and 2001, the most recent notification from the U.S. Office of the Comptroller of the Currency ("OCC") 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.

20. EARNINGS (LOSS) 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, 2000, 2001 and 2002 were as follows:

	2000	2001	2002
		(in millions)	
Net income (loss) before cumulative effect of a change in accounting principle	¥ 35,475	¥ (107,684)	¥ (138,538)
Cumulative effect of a change in accounting principle	—	—	5,867
Net income (loss)	35,475	(107,684)	(132,671)
Income attributable to preferred shareholder	(4,649)	(6,716)	(6,716)
Income (loss) available to common shareholder	¥ 30,826	¥ (114,400)	¥ (139,387)
Effect of dilutive securities	(12,840)	—	—
Income (loss) adjusted to diluted computation	¥ 17,986	¥ (114,400)	¥ (139,387)

	2000	2001	2002
		(thousands of shares)	
Weighted average common shares outstanding	4,675,442	4,675,251	4,675,454
Convertible debt	146,993	—	—
Adjusted for diluted computation	4,822,435	4,675,251	4,675,454

		(in yen)	
Earnings (loss) per common share—basic			
Earnings (loss) before cumulative effect of a change in accounting principle	¥ 6.59	¥ (24.47)	¥ (31.07)
Cumulative effect of a change in accounting principle	—	—	1.25
Net income (loss)	¥ 6.59	¥ (24.47)	¥ (29.82)
Earnings (loss) per common share—assuming dilution			
Earnings (loss) before cumulative effect of a change in accounting principle	¥ 3.73	¥ (24.47)	¥ (31.07)
Cumulative effect of a change in accounting principle	—	—	1.25
Net income (loss)	¥ 3.73	¥ (24.47)	¥ (29.82)

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 could potentially dilute earnings per common share in the future but were not included in the computation of earnings per common share—assuming dilution for the years ended March 31, 2001 due to their antidilutive effects. For the year ended March 31, 2002, 3% Exchangeable Guaranteed Note due 2002 could potentially dilute earnings per common share in the future but were not included in the computation of earnings per common share—assuming dilution due to their antidilutive effects.

21. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses various derivative financial instruments both for trading purposes and for purposes other than trading (primarily risk management purposes) in the normal course of business to meet the financial needs of its customers, as a source of revenue and to manage its exposures to a variety of risks. The Group is a party to derivatives, including swaps, forwards, options and other types of derivatives, dealing primarily with market risk associated with interest rate, foreign currency, equity and commodity prices, and credit risk associated with counterparty's nonperformance of transactions.

Market risk is the possibility that future changes in market indices make the financial instruments less valuable. 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, which may exceed the value of underlying collateral. To reduce credit risk, the Group may require collateral or guaranties based on a case-by-case assessment of creditworthiness of each customer and evaluation of the instrument. The Group also uses master netting agreements in order to mitigate overall counterparty credit risk.

Trading Activities

The Group's trading activities include dealing and other activities measured at fair value with gains and losses recognized currently in earnings. 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 and credit-related contracts, for its own account.

Risk Management Activities

As part of risk management activities, the Group uses certain derivative transactions to manage its interest rate and currency exposures. The Group maintains an overall interest rate risk management strategy that incorporates the use of interest rate contracts to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Group's goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net interest income. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities appreciate or depreciate in market value. Gains or losses on the derivative instruments that are linked to the hedged fixed-rate assets and liabilities are expected to substantially offset this unrealized appreciation or depreciation. Interest income and interest expense on hedged variable-rate assets and liabilities, respectively, increase or decrease as a result of interest rate fluctuations. Gains and losses on the derivative instruments that are linked to these hedged assets and liabilities are expected to substantially offset this variability in earnings.

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's principal objectives in risk management include asset and liability management ("ALM"). ALM is viewed as one of the methods for the Group to manage its interest rate exposures on interest-bearing assets and liabilities. Interest rate contracts, which are generally non-leveraged generic interest rate and basis swaps, options and futures, allow the Group to effectively manage its interest rate risk position. Option contracts primarily consist of caps, floors, swaptions and options on index futures. Futures contracts used for ALM activities are primarily index futures providing for cash payments based upon the movement of an underlying rate index. 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.

The risk management activities reduces the 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 Group accounts for such derivatives as trading positions.

For the years ended March 31, 2001 and 2002, except for derivative transactions conducted by certain foreign subsidiaries, the Group accounts for derivatives held for risk management purposes as trading positions and measured them at fair value.

Embedded Derivatives

Derivative features embedded in other non-derivative host contracts are separated from the host contracts measured at fair value when they are not clearly and closely related to the host contract and meet the definition of a derivative. Unless qualified as a hedge, change in the fair value of such an embedded derivative is recognized currently in earnings. The carrying amount is reported on the consolidated balance sheet with the host contract. The Group accounts for credit-linked notes as host contracts with embedded derivatives and measures the entire contracts at fair value.

UnionBanCal Corporation

UNBC adopts hedging strategies and uses some types of derivatives to achieve cash flow and fair value hedge accounting for certain transactions.

Cash Flow Hedges

UNBC engages in a few types of cash flow hedging strategies for which the hedged transactions are forecasted future loan interest payments, and the hedged risk is the variability in those payments due to changes in the designated benchmark rate, e.g., US dollar LIBOR. In these strategies, the hedging instruments are matched with groups of variable rate loans such that the tenor of the variable rate loans and that of the hedging instrument is identical. Cash flow hedging strategies include the utilization of purchased floor, caps corridors and interest rate swaps. The maximum length of time over which UNBC is hedging this exposure is 4 years.

UNBC uses purchased interest rate floors to hedge the variable cash flows associated with 1-month LIBOR or 3-month LIBOR indexed loans. Payment received under the floor contract offset the decline in loan interest income caused by the relevant LIBOR index falling below the floor's strike rate.

UNBC uses interest rate corridors to hedge the variable cash flows associated with 1-month LIBOR or 3-month LIBOR indexed loans. Net payments to be received under the floor corridor contracts offset the decline in loan interest income caused by the relevant LIBOR index falling below the corridor's upper strike rate, but only to the extent the index falls to the lower strike rate.

UNBC uses interest rate swaps to hedge the variable cash flows associated with 1-month LIBOR or 3-month LIBOR indexed loan portfolio. Payment to be received (or paid) under the swap contracts will offset the fluctuation in loan interest receipt caused by changes in the relevant LIBOR index. As such, these instruments hedge all fluctuation in the loans' interest receipt caused by change in LIBOR.

UNBC uses purchased interest rate caps to hedge the variable cash flows associated with 3-month LIBOR or 6-month LIBOR negotiable certificate of deposits ("CDs"). Net payments to be received under the cap contract offset the increase in interest payments caused by the relevant LIBOR index rising above the cap's strike rate.

Hedging transactions are structured at inception so that the notional amounts of the hedge are matched with an equal principal amount of loans or CDs, the index and repricing frequencies of the hedge matches those of the loans or CDs, and the period in which the designated hedged cash flows occur is equal to the term of the hedge. As such, most of the ineffectiveness in the hedging relationship results from the mismatch between the timing of reset date on the hedge versus those of the loans or CDs. During 2001, UNBC recognized a net loss of US$0.5 million due to ineffectiveness, which is recognized in Non-interest expense. Most of the ineffectiveness related to the portion of the options that were being excluded from the assessment of hedge effectiveness.

For cash flow hedges, based upon amounts included in accumulated other comprehensive income at March 31, 2002, the Group expects to recognize a gross increase of ¥5 billion in net interest income during 2002. This amount could differ from amounts actually realized due to changes in interest rate and the addition of other hedges subsequent to March 31, 2002.

Fair Value Hedge

UNBC engages in an interest rate hedging strategy in which an interest rate swap is associated with a specific interest bearing liability, UnionBanCal Corporation's obligated mandatorily redeemable Preferred Securities of Subsidiary Grantor Trust ("Trust Preferred Securities"), in order to essentially convert a portion of the liability from a fixed rate to a floating rate instrument. This strategy mitigates the changes in fair value of the hedged liability caused by changes in the designated benchmark interest rate, US dollar LIBOR.

Fair value hedging transactions are structured at inception so that the notional amounts of the swap match an associated principal amount of the Trust Preferred Securities. The interest payment dates, the expiration date, and the embedded call option of the swap match those of the Trust Preferred Securities.

The ineffectiveness on fair value hedges in 2001 resulted in a net gain US$0.1 million, which is recognized in Non-interest Expense.

22. OFF-BALANCE-SHEET CREDIT-RELATED FINANCIAL INSTRUMENTS

The Group issues off-balance-sheet credit-related financial instruments for purposes other than trading. Such credit-related financial instruments contain lending-related commitments, including commitments to extend credit, standby letters of credit, guaranties, and commercial letters of credit that the Group provides to meet the financing needs of its customers. For these financial instruments, the contract amount represents the possible credit risk associated with failure of the counterparty to perform in accordance with the terms and conditions of the contract, and the decline in value of the underlying collaterals. The credit risk associated with 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, 2002, approximately 78% of these commitments will expire within one year, 18% from one year to five years and 4% after five years.

Off-Balance-Sheet Lending-Related Commitments

The following is a summary of the contract amounts of these financial instruments at March 31, 2001 and 2002:

	2001	2002
	(in billions)	
Commitments to extend credit	¥24,804	¥26,593
Standby letters of credit and guarantees	4,672	4,810
Commercial letters of credit	353	378

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 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 significant amounts of funds under such commitment. These guaranties at March 31, 2001 and 2002 included guarantees of securities of other issuers, principally domestic corporate customers, aggregating ¥340 billion and ¥388 billion, respectively, for the payment of bond and note principal and related interest.

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 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 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, indemnify their customers against counterparty default. At March 31, 2001 and 2002, notional amounts of such security lending transactions with indemnification were ¥441 billion and ¥648 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. 140 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, 2001 and 2002, contract amounts of such forward repurchase commitments were ¥4,513 billion and ¥354 billion, respectively.

Concentration of Credit Risk

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

23. COMMITMENTS AND CONTINGENT LIABILITIES

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

Future minimum rental commitments for noncancelable leases at March 31, 2002 were as follows:

	Capitalized Leases	Operating Leases
	(in millions)	
Year ending March 31:		
2003	¥ 5,698	¥ 23,107
2004	5,496	20,964
2005	5,304	19,908
2006	4,826	18,500
2007	3,935	10,912
2008 and thereafter	4,089	48,240
Total minimum lease payments	29,348	¥141,631
Amount representing interest	(1,798)	
Present value of minimum lease payments	¥27,550	

Total rental expense for the years ended March 31, 2000, 2001 and 2002 was ¥38,880 million, ¥34,520 million and ¥34,692 million, respectively.

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

24. FEES AND COMMISSION INCOME

Details of fees and commission income for the years ended March 31, 2000, 2001 and 2002 were as follows:

	2000	2001	2002
		(in millions)	
Trust fees	¥ 37,378	¥ 36,362	¥ 22,363
Fees on funds transfer and service charges for collections	52,594	56,147	56,180
Commissions and fees on international business	36,080	50,472	52,537
Commissions and fees on credit card business	—	47,828	50,928
Service charges on deposits	19,681	22,672	29,791
Other fees and commissions	110,486	128,168	130,007
Total	¥256,219	¥341,649	¥341,806

25. BUSINESS SEGMENTS

The business segment information of the Group, 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 along with internal management accounting rules and practices. Accordingly, the format and information is presented primarily on the basis of Japanese GAAP and is not consistent with the consolidated financial statements prepared on the basis of US GAAP. A reconciliation is provided for segments' total operating profit with income (loss) before income tax expense or benefit under US GAAP.

See Note 26 for financial information relating to the Group's operations by geographic area. The geographic financial information is consistent with the basis of the accompanying consolidated financial statements.

The Group is organized based on a business unit system as follows:

- 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. 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 Manage-ment	UNBC	Operations Services	Treasury	Other*	Total
					(in millions)					
Year ended March 31, 2000:										
Net revenue:										
The Bank:										
Net interest income	¥199,182	¥219,264	¥127,086	¥ (8)	¥ (5,297)	¥ —	¥ 1,020	¥150,733	¥ (33,825)	¥ 658,155
Net fees	18,100	34,859	49,788	21,371	7,003	—	3,465	(2,057)	(30,797)	101,732
Other	10,721	24,319	27,808	17,908	5,440	—	1,090	(8,995)	3,172	81,463
The Bank's subsidiaries	16,653	6,141	50,286	37,053	1,633	205,065	14,361	751	8,594	340,537
Total	244,656	284,583	254,968	76,324	8,779	205,065	19,936	140,432	(52,856)	1,181,887
Operating expenses	186,280	132,336	108,478	49,407	5,564	122,570	16,563	21,982	37,223	680,403
Operating profit	¥ 58,376	¥152,247	¥146,490	¥ 26,917	¥ 3,215	¥ 82,495	¥ 3,373	¥118,450	¥ (90,079)	¥ 501,484
Year ended March 31, 2001:										
Net revenue:										
The Bank:										
Net interest income	¥197,587	¥215,171	¥133,659	¥ (1,934)	¥ (4,443)	¥ —	¥ 1,380	¥ 60,507	¥ (42,988)	¥ 558,939
Net fees	19,716	39,652	60,478	27,833	6,440	—	3,572	(2,924)	(35,577)	119,190
Other	11,872	22,803	22,612	22,253	(2,255)	—	1,380	46,047	43,014	167,726
The Bank's subsidiaries	72,276	9,047	53,850	46,141	9,046	256,225	16,040	1,500	8,432	472,557
Total	301,451	286,673	270,599	94,293	8,788	256,225	22,372	105,130	(27,119)	1,318,412
Operating expenses	231,343	130,453	124,491	72,112	12,737	131,869	18,107	23,211	146,766	891,089
Operating profit	¥ 70,108	¥156,220	¥146,108	¥ 22,181	¥ (3,949)	¥124,356	¥ 4,265	¥ 81,919	¥(173,885)	¥ 427,323
Year ended March 31, 2002:										
Net revenue:										
The Bank:										
Net interest income	¥176,297	¥216,041	¥136,872	¥ 3,941	¥ (361)	¥ —	¥ 867	¥152,008	¥ (21,416)	¥ 664,249
Net fees	23,314	43,631	68,365	31,492	5,274	—	3,988	(5,009)	(40,522)	130,533
Other	10,737	26,723	18,956	26,748	(4,915)	—	1,137	57,811	(4,960)	132,237
The Bank's subsidiaries	72,787	11,342	57,887	52,357	8,943	295,898	15,458	2,265	8,571	525,508
Total	283,135	297,737	282,080	114,538	8,941	295,898	21,450	207,075	(58,327)	1,452,527
Operating expenses	230,602	126,834	134,559	72,577	13,884	163,641	17,635	28,370	57,001	845,103
Operating profit	¥ 52,533	¥170,903	¥147,521	¥ 41,961	¥ (4,943)	¥132,257	¥ 3,815	¥178,705	¥(115,328)	¥ 607,424

* Other includes the Systems Services unit, the e-Business & Initiatives unit, and the Corporate Center and eliminates overlapping allocation.

Management measures performance of each business unit by "operating profit", which includes profits or losses of the Bank's subsidiaries. Financial information of the Bank's 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 specific provisions for loan loss reserve, equity investment securities gains or losses, minority interest in earnings or losses of the Bank's subsidiaries, equity in earnings or losses of the Bank's 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.

Frequently, 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 a 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, 2001 and 2002.

	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
Year ended March 31, 2002:					
Investment banking	—	7,837	30,157	—	37,994

On April 2, 2001, NTB became a wholly owned subsidiary of MTFG and has been deconsolidated. On October 1, 2001, NTB and TTB merged with and into Mitsubishi Trust and, accordingly, the Bank's segment internal management reports do not include the financial performance of NTB and TTB subsequent to the merger. Their post-merger financial performance is reflected in Mitsubishi Trust's segment information. The Bank's segment information for the years ended March 31, 2000 and 2001 has been restated to reflect the exclusion of NTB and TTB from its consolidation. NTB's operation principally includes pension trust services, securities operations, real estate services, property management services, and stock transfer agency services. TTB's principal business includes securities lending transactions, asset securitizations and other financial securities. The following is a summary of financial performance of NTB and TTB for the years ended March 31, 2000 and 2001 derived from the internal management systems of these banks without any adjustments.

	Year ended March 31, 2000	2001
	(in millions)	
Net revenue	¥40,891	¥37,020
Operating expenses	26,298	20,210
Operating profit	¥14,593	¥16,810

Reconciliation

As set forth above, the measurement bases and the income and expenses 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, 2000, 2001 and 2002 above to income or loss before income tax expense or benefit shown on the consolidated statements of operations are as follows:

	2000	2001	2002
	(in billions)		
Operating profit:	¥ 501	¥ 427	¥ 607
Equity investment securities gains (losses)—net	147	41	(26)
Provision for credit losses	(364)	(557)	(449)
Trading account profits (losses)	(68)	105	11
Foreign exchange gains (losses)—net	74	(66)	(172)
Losses on other real estate owned	(68)	(16)	(5)
Goodwill amortization	(3)	(4)	(5)
Minority interest	(17)	(20)	(23)
Other—net	(73)	(12)	(156)
Income (loss) before income tax expense or benefit	¥ 129	¥(102)	¥(218)

26. FOREIGN ACTIVITIES

Foreign operations include the business conducted by overseas offices, as well as international business conducted from domestic offices, principally several international banking-related divisions of the Bank's Head Office in Tokyo and involve various transactions with debtors and customers residing outside Japan. 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, 2000, 2001 and 2002, 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 31, 2000:						
Total revenue	¥ 1,239,438	¥ 545,432	¥ 194,810	¥ 205,242	¥ 141,215	¥ 2,326,137
Total expenses	1,299,603	468,790	184,464	149,656	94,514	2,197,027
Income (loss) before income tax expense or benefit	(60,165)	76,642	10,346	55,586	46,701	129,110
Net income (loss)	(113,825)	50,003	10,302	45,062	43,933	35,475
Total assets at end of year	53,124,628	7,778,835	3,490,671	2,865,499	1,557,601	68,817,234
Year ended March 31, 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
Year ended March 31, 2002:						
Total revenue	948,263	609,930	268,097	242,492	106,048	2,174,830
Total expenses	1,344,191	574,053	225,524	188,477	60,631	2,392,876
Income (loss) before income tax expense or benefit and cumulative effect of a change in accounting principles	(395,928)	35,877	42,573	54,015	45,417	(218,046)
Net income (loss)	(282,577)	11,441	46,113	49,862	42,490	(132,671)
Total assets at end of year	55,382,956	10,488,984	5,391,593	3,030,691	2,336,930	76,631,154

* 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, 2001 and 2002:

	2001	2002
	(in millions)	
Cash and due from banks	¥ 495,249	¥ 243,137
Interest-earning deposits in other banks	2,436,768	2,675,835
Total	¥ 2,932,017	¥ 2,918,972
Trading account assets	¥ 2,262,925	¥ 1,631,070
Investment securities	¥ 3,941,146	¥ 3,768,705
Loans—net of unearned income and deferred loan fees	¥ 9,870,611	¥10,671,369
Deposits, principally time deposits and certificates of deposit by foreign banks	¥12,848,687	¥10,643,787
Funds borrowed:		
Call money, funds purchased, and receivables under repurchase agreements and securities lending transactions	¥ 1,515,570	¥ 1,619,413
Other short-term borrowings	415,600	590,951
Long-term debt	1,858,836	1,639,122
Total	¥ 3,790,006	¥ 3,849,486
Trading account liabilities	¥ 2,173,197	¥ 1,313,020

The Group had no cross-border outstandings, as defined in the Securities Act Industry Guides 3, in any foreign country, which exceeded 0.75% of consolidated total assets at March 31, 2001, and 2002.

27. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices, where available, are used to estimate fair values of financial instruments. However, quoted market prices are not available for a substantial portion of financial instruments and, therefore, 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, 2001 and 2002:

	2001		2002	
	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	¥12,047	¥12,047	¥ 9,666	¥ 9,666
Trading account assets, excluding derivatives	3,623	3,623	4,705	4,705
Investment securities	16,201	16,201	17,185	17,185
Loans, net of allowance for credit losses	38,790	38,959	39,671	39,815
Other financial assets	1,177	1,177	2,376	2,376
Derivative financial instruments:				
Trading activities	2,969	2,969	2,219	2,219
Activities qualifying for hedges	5	31	13	13
Financial liabilities:				
Non-interest-bearing deposits, call money and funds purchased, and payables under repurchase agreements and securities lending transactions	12,455	12,455	13,163	13,163
Interest-bearing deposits	44,725	44,845	46,726	46,731
Debentures	3,411	3,444	2,275	2,286
Trading account liabilities, excluding derivatives	1,451	1,451	177	177
Obligations to return securities received as collateral	296	296	316	316
Other short-term borrowings	2,015	2,015	2,313	2,313
Long-term debt	4,431	4,573	4,893	4,995
Other financial liabilities	2,109	2,109	2,486	2,486
Derivative financial instruments:				
Trading activities	2,500	2,500	2,114	2,114
Activities qualifying for hedges	4	17	2	2

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 with reference to quoted market prices for similar instruments when quoted market prices are not available.

Trading account securities—Trading securities and short trading positions of securities are carried at fair value, which is principally 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 value of investment securities other than those classified neither available for sale nor being held to maturity (i.e., nonmarketable equity securities) at March 31, 2001 and 2002 were not readily determinable. Therefore, the above summary does not include the carrying amounts of such investment securities amounting to ¥112 billion and ¥99 billion at March 31, 2001 and 2002, 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 future cash flows based on the contracted maturity of the loans. The discount rates are based on the current market rates corresponding to 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 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 and option 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 are not available.

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, if available, 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 future cash flows using applicable current market interest rates or comparable 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 quoted market prices of the instruments. The fair value of other long-term debt are estimated using a discounted cash flow model based on rates applicable 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 off-balanced-sheet credit-related financial instruments held for purposes other than trading, including commitments to extend credit, guarantee for repayment of trust principal, 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 at March 31, 2001 and 2002 was not material.

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2001 and 2002. These amounts have not been comprehensively revalued since that date and, therefore, current estimates of fair values may have changed significantly from the amounts presented herein.

28. UNBC MANAGEMENT STOCK PLAN

UNBC has two management stock plans. The Year 2000 UnionBanCal Corporation Stock Plan, effective January 1, 2000 (the "2000 Stock Plan"), and the UnionBanCal Corporation Management Stock Plan, restated effective June 1, 1997 (the "1997 Stock Plan"), have 10.0 million and 6.6 million shares, respectively, of UNBC's common stock authorized to be awarded to key employees and outside directors of UNBC at the discretion of the Executive Compensation and Benefits Committee of UNBC's Board of Directors (the "Committee"). 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 in UNBC's financial statements. 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 1999, 2000 and 2001, UNBC granted options to non-employee directors and various key employees, including policy-making officers under the 1997 and 2000 Stock Plans. Under both Stock Plans, options granted to employees 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. The options vest earlier if the employee dies, is permanently disabled, or retires under certain grant, age, and service conditions. Options granted to non-employee directors are fully vested on the grant date and exercisable 33⅓ percent on each anniversary under the 1997 Stock Plan, and fully vested and exercisable on the grant date under the 2000 Stock Plan. The following is a summary of stock option transactions under the Stock Plans.

	Years Ended December 31,					
	1999		2000		2001	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Options outstanding, beginning of year	1,740,081	$21.47	3,281,273	$28.46	5,191,899	$28.47
Granted	1,747,750	34.31	2,126,506	27.99	3,448,242	30.03
Exercised	(157,007)	14.65	(98,004)	13.18	(557,597)	19.02
Forfeited	(49,551)	33.04	(117,876)	32.04	(143,273)	29.91
Options outstanding, end of year	3,281,273	$28.46	5,191,899	$28.47	7,939,271	$29.79
Options exercisable, end of year	1,266,976	$20.01	2,135,228	$25.90	3,009,555	$29.53

The weighted-average fair value of options granted was $9.77 during 1999, $10.21 during 2000, and $10.38 during 2001.

The following table summarizes information about stock options outstanding.

	Options Outstanding at December 31, 2001			Options Exercisable at December 31, 2001	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 8.92 - 12.83	189,601	2.4 years	$10.99	189,601	$10.99
18.29 - 25.00	558,381	4.7	21.55	479,191	21.26
27.56 - 37.96	7,168,289	7.9	30.88	2,325,431	32.65
44.56 - 44.56	23,000	7.9	44.56	15,332	44.56
	7,939,271			3,009,555	

In 1999, 2000, and 2001, UNBC also granted 1,050, 13,500 and 6,000 shares, respectively, of restricted stock to key officers, including policy-making 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 continuos 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.

The following is a summary of restricted stock transactions under the Stock Plan.

	Years Ended December 31,					
	1999		2000		2001	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Restricted stock awards outstanding, beginning of year	1,504,302	$14.12	1,496,106	$14.05	1,506,162	$14.11
Granted	1,050	32.88	13,500	25.00	6,000	37.10
Cancelled	(9,246)	27.60	(3,444)	31.66	(636)	37.47
Restricted stock awards outstanding, end of year	1,496,106	$14.05	1,506,162	$14.11	1,511,526	$14.19
Restricted stock awards vested, end of year	1,290,900	$11.84	1,408,696	$13.00	1,469,354	$13.66

At December 31, 1999, 2000 and 2001, 989,811, 8,969,424 and 5,659,091 shares, respectively, were available for future grants as either stock options or restricted stock under the Stock Plan.

UNBC follows the intrinsic value based method prescribed in Accounting Principle Board Opinion No. 25, “Accounting for Stock Issued to Employees” and related Interpretations in accounting for its employee stock-based compensation plan. Accordingly, no compensation cost has been recognized for its stock option grants. Had compensation cost for UNBC’s stock-based plan been determined based on the fair value at the grant dates for awards under that plan consistent with the method of SFAS No. 123, “Accounting for Stock-Based Compensation”, UNBC’s net income and net income per share would have decreased to the pro forma amounts indicated in the following table.

		Years Ended December 31,		
(Dollars in thousands, except per share data)		1999	2000	2001
Net income	As reported	$441,731	$439,900	$481,428
	Pro forma	435,766	429,730	464,750
Net income per share—basic	As reported	$ 2.65	$ 2.72	$ 3.05
	Pro forma	2.62	2.66	2.94
Net income per share—diluted	As reported	$ 2.64	$ 2.72	$ 3.04
	Pro forma	2.61	2.65	2.93

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants made in 1999, 2000 and 2001; risk-free interest rates of 5.2 percent in 1999, 6.4 percent in 2000, and 4.9 percent in 2001; expected volatility of 30 percent in 1999, 44 percent in 2000, and 45 percent in 2001; expected lives of 5 years for 1999, 2000, and 2001; and expected dividend yields of 2.2 percent in 1999, 3.5 percent in 2000, and 3.4 percent in 2001.

Effective January 1, 1997, UNBC established a Performance Share Plan. Eligible participants may earn performance share awards to be redeemed in cash three years after the date of grant. Performance shares are linked to shareholder value in two ways: (1) the market price of UNBC’s common stock, and (2) return on equity, a performance measure closely linked to value creation. Eligible participants generally receive grants of performance shares annually. The total number of performance shares granted under the plan cannot exceed 600,000. UNBC granted 22,000 shares in 1999, 31,500 shares in 2000, and 68,000 shares in 2001. No performance shares were forfeited in either 1999 or in 2000. In 2001, 9,000 performance shares were forfeited.

The value of a performance share is equal to the market price of UNBC's common stock. All cancelled or forfeited performance shares become available for future grants.

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.

29. EVENTS SINCE MARCH 31, 2002

On June 26, 2002, the shareholder approved payment of cash dividends to the shareholder of record on March 31, 2002 of ¥41.25 per share of Class 1 preferred stock, totaling ¥3,357 million, and of ¥3.00 per share of common stock, totaling ¥14,026 million.

*****

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

THE BANK OF TOKYO-MITSUBISHI, LTD.

By: /s/ SHIGEMITSU MIKI

Name: Shigemitsu Miki

Title: President

Date: August 30, 2002

CERTIFICATION

I, Shigemitsu Miki, certify that:

1. I have reviewed this annual report on Form 20-F of The Bank of Tokyo-Mitsubishi, Ltd.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

Date: August 30, 2002

/s/ SHIGEMITSU MIKI

Shigemitsu Miki
President of The Bank of Tokyo-Mitsubishi
(Principal executive officer)

CERTIFICATION

I, Katsunori Nagayasu, certify that:

1. I have reviewed this annual report on Form 20-F of The Bank of Tokyo-Mitsubishi, Ltd.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

Date: August 30, 2002

/s/ KATSUNORI NAGAYASU

Katsunori Nagayasu
Managing Director of The Bank of Tokyo-Mitsubishi
(Principal financial officer)

EXHIBIT INDEX

Exhibit	Description
1(a)†	Articles of Incorporation of The Bank of Tokyo-Mitsubishi, Ltd. as amended on June 26, 2002(1).
1(b)†	Regulations on Corporation Meetings of The Bank of Tokyo-Mitsubishi, Ltd. as amended on May 24, 2002(1).
1(c)†	Regulations of the Board of Directors of The Bank of Tokyo-Mitsubishi, Ltd. as amended on May 24, 2002(1).
1(d)†	Regulations on Handling Shares of The Bank of Tokyo-Mitsubishi, Ltd. as amended on June 26, 2002(1).
2(a)	Indenture dated as of February 25, 2000 between Bank of Tokyo-Mitsubishi and The Chase Manhattan Bank(2).
4(a)†	Plan of Reorganization for business combination by and among Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Nippon Trust Bank(1).
4(b)†	Merger Agreement, dated as of April 8, 2002, among KOKUSAI Securities Co., Ltd., Tokyo-Mitsubishi Securities Co., Ltd., Tokyo-Mitsubishi Personal Securities Co., Ltd. and Issei Securities Co., Ltd.(1).
8	Subsidiaries of the Company—see "Item 4.C. Organizational Structure".
10(a)†	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† Filed herewith.
(1) Original Japanese with English translation.
(2) Previously filed, on Form 20-F, on August 17, 2001.