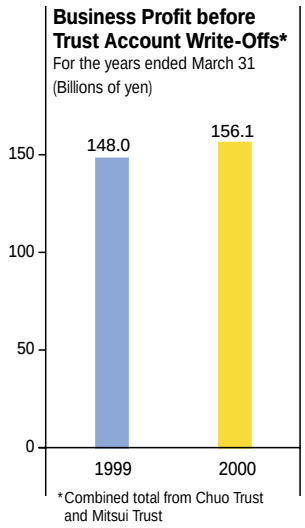
Business Status

Fiscal 1999 Summary

In banking circles, business profit (*gyomu juneki*) indicates the profitability of mainstay operations. When comparing the business profit of trust banks with that of ordinary banks, business profit before trust account write-offs is the best gauge of relative performance. In fiscal 1999, Chuo Mitsui Trust posted ¥156.1 billion in combined business profit before trust account write-offs, a comparable increase of 5.4% over fiscal 1998. The reasons for growth are several, including expansion in net domestic interest income, due to an improved margin; a decrease in expenses, thanks in part to the closure of overseas branches; and a lighter burden of reserves for possible loan losses.

Seeking a healthier asset balance for the Bank, the parent banks disposed of a combined total of ¥242.9 billion in problem assets in the banking and trust accounts. Business profit and proceeds from the sale and redemption of securities were applied to the aforementioned write-offs as well as to costs, such as those incurred in the merger process. As a result, the Bank recorded combined ordinary profit of ¥154.1 billion, a strong rebound from ¥256.8 billion in combined ordinary loss, as calculated from fiscal 1998 performances.

After adjustments to ordinary profit, such as extraordinary gains and losses and corporate taxes, combined net income settled at ¥49.6 billion, a commendable improvement over the ¥192.7 billion in combined net loss in fiscal 1998.



Merger and Transfer of Accounts

Mitsui Trust's unrealized loss, based on a given market-price evaluation of securities, premises and equipment, and other holdings, was disposed of and only the unrealized gain was transferred to Chuo Mitsui Trust. The capital account thus assumed by Chuo Mitsui Trust from Mitsui Trust carried a balance of ¥409.0 billion, and brought the capital account of the Bank to ¥763.9 billion. Consequently, Chuo Mitsui Trust's unrealized gain (loss) on securities netted ¥169.5 billion, on a nonconsolidated basis.

Unrealized Gain (Loss) of Chuo Mitsui Trust

(Billions of yen)

	Unrealized Gain	Unrealized Loss	Unrealized Gain (Loss)
Listed Securities	265.0	111.5	153.4
Unlisted Securities	28.0	11.9	16.1
Total	293.0	123.5	169.5

(Billions of yen)

	Mitsui Trust Amount at March 31, 2000	Amount Transferred to Chuo Mitsui Trust
Assets	9,751.1	9,408.1
Loans and Bills Discounted	4,913.6	4,913.6
Securities	3,511.9	3,184.7
Premises and Equipment	117.9	104.8
Other	1,207.5	1,204.7
Liabilities	8,959.8	8,999.0
Deposits	4,159.9	4,159.9
Other	4,799.9	4,839.1
Net Assets on Balance	791.3	409.0

(Billions of yen)

	Amount Transferred to Chuo Mitsui Trust	Capitalization of New Bank
Capital	409.0	763.9
Capital Stock	150.9	321.8
Capital Surplus	133.4	294.2
Legal Reserve	35.1	41.1
Land Revaluation Reserve	5.1	5.1
Earned Surplus	84.3	101.4

Capital Adequacy Ratio

Rules on capital adequacy ratios set forth under the Banking Law of Japan require that financial institutions maintain a certain level of net worth so as to improve the health and stability of the international banking system and to preserve a state of fair competition among banks. Financial institutions with sales points abroad must satisfy the unified international standard of 8% or more on risk assets, according to the designated calculation method, while financial institutions without overseas sales points must achieve the domestic standard of 4% or more.

Chuo Mitsui Trust has applied the domestic standard. Through the merger and subsequent transfer of accounts, as noted above, the nonconsolidated capital adequacy ratio stood at 10.05% and the consolidated ratio stood at 10.03%, as of April 1, 2000.

(Billions of yen)

	April 1, 2000	
	Nonconsolidated	Consolidated
Net Worth	1,376.3	1,378.9
Basic Items (Tier I)	756.9	758.3
Supplementary Items (Tier II)	621.9	623.1
Deductions	2.4	2.4
Risk Assets	13,687.7	13,748.4
Capital Adequacy Ratio (%)	10.05	10.03

Status of Problem Assets*

From a perspective of sound asset health, Chuo Mitsui Trust maintains the management priority of its parent banks in that problem assets must be disposed of as quickly as possible. The Bank is directing concerted efforts toward early resolution of the problem assets that remain.

On a nonconsolidated basis, Chuo Mitsui Trust benefits from progress made by its parent banks toward the final processing of problem assets in fiscal 1999 through such measures as bulk sales. As a matter of precaution, the parent banks allocated additional reserves, based on strict asset-assessment guidelines, and disposed of ¥242.9 billion, comprising loans worth ¥181.6 billion in the banking account and ¥61.2 billion in the trust account. The burden of processing was 53.4%, or ¥278.8 billion, less than in fiscal 1998.

Based on self-assessment criteria, the classification ratio—the percentage of assets represented by loans in categories II to IV as disclosed under the self-assessment system—after disposals and write-offs was 11.7%, down 2.8 percentage points, owing to the aforementioned processing of problem assets.

Meanwhile, disclosure of assets based on the Financial Revitalization Law—"claims under bankruptcy and virtual bankruptcy," "claims under high risk" and "claims under close observation"—reached ¥876.2 billion, a decrease of 13.0%, from fiscal 1998. According to this classification, the coverage ratio—amount of reserves and allowances, though collateral and guarantees, to amount of problem assets—reached the high level of 89.6%.

Disclosure of loans according to the rules of risk-monitored loans—"loans to borrowers in bankruptcy," "nonaccrual loans," "loans past due three months or more" and "restructured loans"—amounted to ¥868.8 billion, down 12.6%, from fiscal 1998. The coverage ratio reached 90.0%.

Not all the claims in the debt categories of disclosure by Financial Revitalization Law or risk-monitored loans are impossible to collect. Therefore, the coverage ratios inherited by the Bank from its parents should fully meet write-off requirements.

On a consolidated basis, disclosure of problem assets based on the Financial Revitalization Law was ¥891.5 billion, down 12.3%, and the coverage ratio stood at 89.7%. Risk-monitored loans totaled ¥881.0 billion, down 13.7%, and the coverage ratio reached 90.5%. The Bank thus has sufficient reserves in its consolidated categories to process problem assets.

*Figures represent combined totals from Chuo Trust and Mitsui Trust

Self-Assessment System (Nonconsolidated)

(Billions of yen)

	Category Total (Before Write-Offs and Reserves)	Write-Offs and Reserves	Category Total (After Write-Offs and Reserves)
Category IV	71.5	71.5	0
Banking Account	59.8	59.8	—
Trust Account	11.6	11.6	0
Category III	207.7	144.9	62.7
Banking Account	196.3	140.8	55.5
Trust Account	11.3	4.1	7.2
Category II	1,352.3	—	1,352.3
Banking Account	1,098.0	*—	1,098.0
Trust Account	254.3	—	254.3
No Category	10,577.8	—	10,718.5
Banking Account	7,017.1	*—	7,157.9
Trust Account	3,560.6	—	3,560.0
Total	12,210.8		12,135.1
Banking Account	8,372.2		8,312.2
Trust Account	3,838.6		3,822.9
Classification Ratio (%)			11.7
Banking Account			13.9
Trust Account			6.8

Notes: 1. * indicates allocation of reserves in general reserve for possible loan losses.
2. General reserve for possible loan losses=¥80.5 billion; Specific reserve for possible loan losses=¥35.8 billion; Reserve for losses on the sale of claims=¥1.3 billion.

Processing Problem Assets (Nonconsolidated)

(Billions of yen)

	1998	1999	Change	Consolidated 1999
Banking Account	45,724.8	18,165.7	(27,559.0)	18,392.4
Trust Account	6,452.6	6,125.8	(326.7)	6,125.8
Total	52,177.4	24,291.6	(27,885.8)	24,518.2

Disclosure of Problem Assets Based on the Financial Revitalization Law

(1) Nonconsolidated
As of March 31, 2000

(Millions of yen)

	Disclosure Amount (A)	Collectable Amount by Collateral and Guarantees (B)	Allowances and Reserves (Banking Account: General Reserve) (Trust Account: Special Reserve Funds/ Reserve for Possible Loan Losses) (C)	Reserve Ratio (%) (C/(A–B))	Coverage Ratio ((B+C)/A)
Claims under Bankruptcy and Virtual Bankruptcy	177,915	177,738	—	—	—
Banking Account	127,096	126,927	168	100.0	100.0
Trust Account	50,818	50,810	—	—	—
Claims under High Risk	450,696	249,488	—	—	—
Banking Account	395,919	199,618	140,607	71.6	85.9
Trust Account	54,776	49,869	—	—	—
Claims under Close Observation	247,641	78,197	—	—	—
Banking Account	227,349	69,087	25,821	16.3	41.7
Trust Account	20,291	9,110	—	—	—
Total	876,252	505,424	279,628	75.4	89.6
Total Banking Account	750,366	395,633	242,473	68.4	85.0
Total Trust Account	125,886	109,790	37,154	230.8	116.7
Normal Claims	11,258,928				
Banking Account	7,561,909				
Trust Account	3,697,018				

Notes: 1. After implementing partial direct write-off=¥617,779 million.
2. Coverage ratio, taking into account, for example, the excess portion of Special Reserve Funds and Reserve for Possible Loan Losses in the trust account=78.5%.

(2) Consolidated
As of March 31, 2000

(Millions of yen)

	Disclosure Amount (A)	Collectable Amount by Collateral and Guarantees (B)	Allowances and Reserves (Banking Account: General Reserve) (Trust Account: Special Reserve Funds/ Reserve for Possible Loan Losses) (C)	Reserve Ratio (%) (C/(A–B))	Coverage Ratio ((B+C)/A)
Claims under Bankruptcy and Virtual Bankruptcy	182,353	179,596	—	—	—
Banking Account	131,534	128,786	2,748	100.0	100.0
Trust Account	50,818	50,810	—	—	—
Claims under High Risk	460,405	258,076	—	—	—
Banking Account	405,628	208,206	141,552	71.7	86.2
Trust Account	54,776	49,869	—	—	—
Claims under Close Observation	248,764	78,501	—	—	—
Banking Account	228,473	69,391	25,948	16.3	41.7
Trust Account	20,291	9,110	—	—	—
Total	891,523	516,174	283,711	75.6	89.7
Total Banking Account	765,637	406,384	246,557	68.6	85.3
Total Trust Account	125,886	109,790	37,154	230.8	116.7
Normal Claims	11,337,066				
Banking Account	7,640,048				
Trust Account	3,697,018				

Notes: 1. After implementing partial direct write-off=¥627,739 million.
2. Coverage ratio, taking into account, for example, the excess portion of Special Reserve Funds and Reserve for Possible Loan Losses in the trust account=78.5%.

Risk-Monitored Loans

As of March 31, 2000

(Millions of yen, %)

	Nonconsolidated		Consolidated	
	Disclosure Amount	Percentage of Loans and Bills Discounted	Disclosure Amount	Percentage of Loans and Bills Discounted
Loans to Borrowers in Bankruptcy	71,685	0.62	72,040	0.62
Banking Account	46,618	0.60	46,973	0.61
Trust Account	25,066	0.66	25,066	0.66
Nonaccrual Loans	550,498	4.74	561,268	4.85
Banking Account	469,107	6.02	479,877	6.20
Trust Account	81,390	2.13	81,390	2.13
Loans Past Due Three Months or More	12,257	0.11	12,257	0.11
Banking Account	4,355	0.06	4,355	0.06
Trust Account	7,902	0.21	7,902	0.21
Restructured Loans	234,407	2.02	235,434	2.04
Banking Account	222,956	2.86	223,984	2.89
Trust Account	11,450	0.30	11,450	0.30
Total	868,848	7.48	881,000	7.62
Banking Account	743,038	9.54	755,190	9.76
Trust Account	125,810	3.29	125,810	3.29

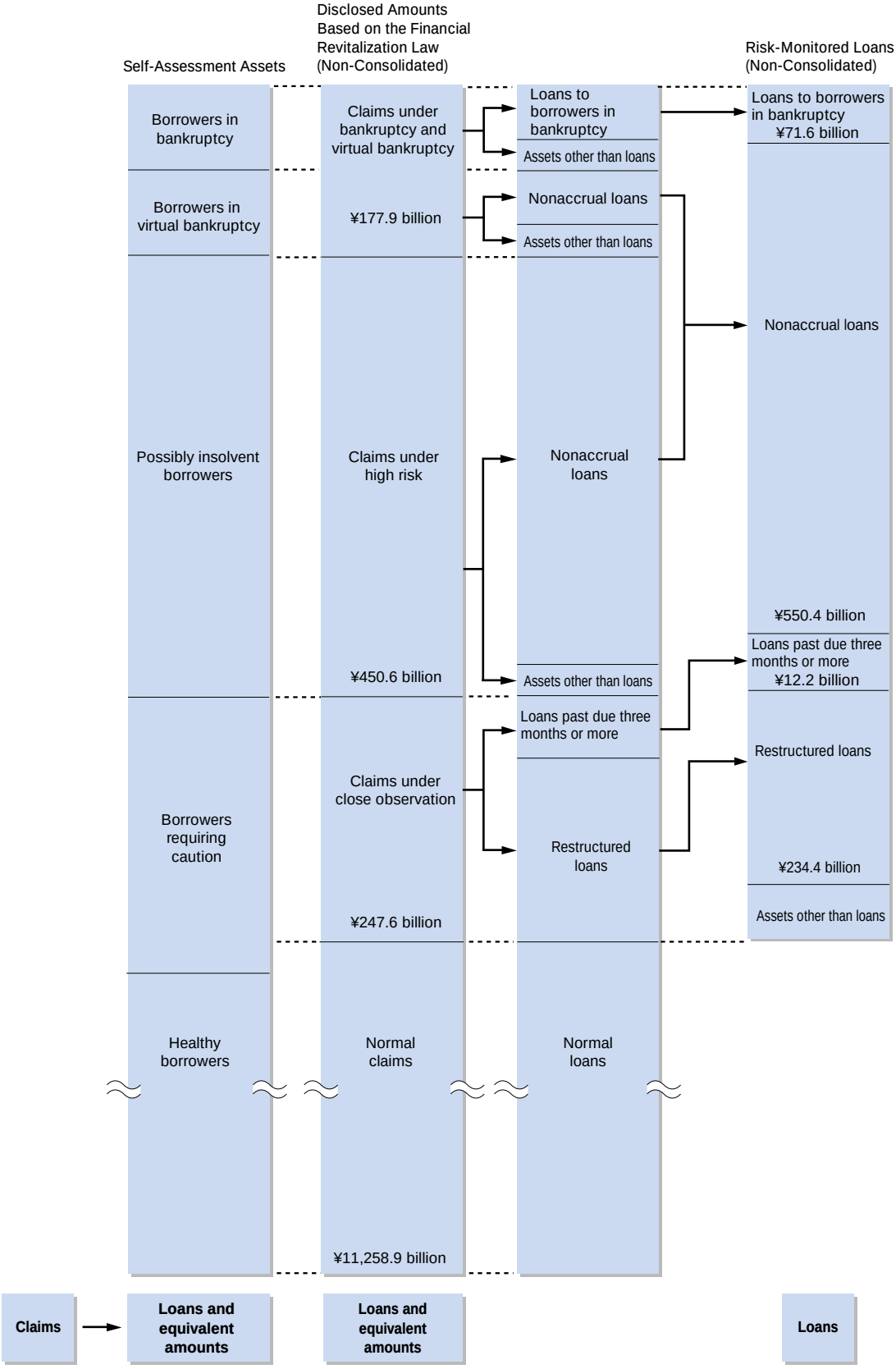
	After Direct Write-Off	Before Direct Write-Off	After Direct Write-Off	Before Direct Write-Off
Reserve Ratio	32.2	61.0	32.2	61.0
Banking Account	32.6	63.9	32.6	63.9
Trust Account	29.5	29.5	29.5	29.5
Coverage Ratio	90.0	95.1	90.5	95.4
Banking Account	85.4	93.0	86.1	93.4
Trust Account	116.8	116.8	116.8	116.8

What is partial direct write-off?

Partial direct write-off is an accounting process whereby the estimated collateral value and the amount recoverable through guarantees are subtracted from collateral- and guarantee-backed claims to bankrupt or virtually bankrupt borrowers, after which total claims are directly reduced by this difference to provide an estimate of the noncollectable portion of claims.

Example: Consider collateral-backed loans to a bankrupt borrower = 100, and the recoverable amount through the collateral = 90. In the past—prior to application of partial direct write-offs—the claim balance was booked at 100 because the estimated noncollectable amount of 10 (100-90) was recorded under the specific reserve for loan losses. However, application of partial direct write-off establishes the claim balance at 90 (100 - (100-90)) because the estimate of the noncollectable portion is directly reduced from the total claim.

Relationship among Self-Assessment Assets, Disclosed Amounts Based on the Financial Revitalization Law and Risk-Monitored Loans



Self-Assessment System

What Is the Self-Assessment System?

Self-assessment of asset quality requires a financial institution to examine the quality of its own assets and group assets, according to the degree of risk for default on loans or the potential irrecoverability of invested value.

Assets subject to self-assessment are loans and loan equivalents, such as loan receivables in securities, foreign currency, accrued interest, accounts due, provisional payments equivalent to loans, and acceptances and guarantees.

Basic Concept in Self-Assessment

In principle, the process of asset-assessment assigns credit ratings to debtors, then groups the debtors according to these rating assignments. Each debtor is viewed individually, based on such details as the application of funds, and the status of collateral and guarantees is ascertained to facilitate further classification, according to the degree of risk inherent in the recovery of the loan or the potential for the invested value to erode.

Credit Ratings

Credit ratings correspond to a client's credit risk, a status based on financial position, ratings by rating agencies, information from credit bureaus, and other sources. A credit rating must be consistent with debtor categories.

Debtor Categories

A debtor's ability to repay loans is determined by such factors as financial status, cash flow and profitability, and this ability will place a debtor into one of five categories: normal, caution, possible bankruptcy, virtual bankruptcy and legal bankruptcy.

1. Normal: Debtors whose business prospects are favorable and whose financial position exhibits no particular problems.
2. Caution: Debtors with problematic lending conditions, such as reduced or suspended interest payments, debtors with nonaccrual repayment schedules, wherein principal or interest payments are in arrears, and debtors which may require special measures in the future because business prospects are sluggish or unstable, or because financial positions are uncertain.
3. Possible bankruptcy: Debtors for whom bankruptcy is not currently imminent but for whom the eventuality of failure in the future is high because financial difficulty exists and a sufficient boost through a business improvement plan, for example, is not expected. This category includes debtors receiving support from a financial institution or other backer.
4. Virtual bankruptcy: Debtors that face severe operating difficulties and while they have not been declared legally bankrupt they are essentially insolvent because they lack any hope of restructuring.
5. Legal bankruptcy: Debtors whose legal bankruptcy is substantiated by a declaration of bankruptcy, liquidation, reorganization or composition, or for whom clearinghouse transactions have been halted.

Claim Categories

Under the self-assessment system, claims are grouped into "categories"—II, III and IV—and the respective assets are called "category assets." Claims that do not fall into categories II, III and IV are called "no category," and the assets that fall outside these classifications are deemed "no category assets."

Disclosure of Assets Based on the Financial Revitalization Law

Debtor Classification

1. Claims under bankruptcy and virtual bankruptcy: Loans and loan equivalents granted to borrowers that have succumbed to legal business failure by reason of declared bankruptcy, reorganization, composition or other officially recognized end to operations.
2. Claims under high risk: Loans to borrowers that have not yet reached a state of legal bankruptcy but are highly unlikely to repay the principal and interest according to contractual obligations because of worsening financial position and business performance.
3. Claims under close observation: Loans three months past due—i.e., loans for which payment of principal or interest has fallen more than three months behind, counting from the day following the contractual payment day—and restructured loans—i.e., loans for which the contractual conditions have been revised, for example, with a specific concession in favor of the debtor to facilitate the restructuring of a business that has been economically disadvantaged, or to support such a business, and thereby promote repayment of the outstanding loan.

4. Normal loans: Loans to borrowers with no particular problems affecting financial position or business performance, thereby excluding them from the three classifications described above.

Relationship with Debtor Classifications in the Self-Assessment System

1. Claims under bankruptcy and virtual bankruptcy: Corresponds to the sum of loans to debtors that are legally bankrupt or virtually bankrupt under self-assessment standards.
2. Claims under high risk: Equivalent to loans to debtors classified as possibly bankrupt under self-assessment standards.
3. Claims under close observation: Represents the sum of loans to debtors in the caution category of self-assessment standards that are either more than three months past due or restructured.
4. Normal loans: Identified with loans to healthy borrowers under self-assessment standards, as well as loans other than claims under the close observation category of loans to debtors requiring caution.

Risk-Monitored Loans

What are risk-monitored loans?

1. Loans to borrowers in bankruptcy: Of loans for which no accrued interest is recorded because the recovery of principal or interest is unlikely due to a prolonged delay in payment of principal or interest (excludes the portion written off; hereafter referred to as "loans for which accrued interest is not recorded"), loans to borrowers in bankruptcy are those for which the reason is found in the provisions of the Corporate Tax Law (Ordinance 97, 1965), Article 96, Paragraph 1, Sub-Paragraph 3, Points a) through e), or Article 4 of the same law.
2. Nonaccrual loans: Of loans for which accrued interest in not recorded, nonaccrual loans are loans other than those to borrowers in bankruptcy and loans for which interest has been waived to facilitate business restructuring.
3. Loans past due three months or more: This category comprises loans for which payment of principal or interest has fallen more than three months behind, counting from the day following the contractual payment day, but excludes loans to borrowers in bankruptcy and nonaccrual loans.
4. Restructured loans: This category covers loans for which payment of interest is reduced or suspended, payment of principal is extended, the claim is waived, or another measure advantageous to the borrower is granted to facilitate business restructuring. Loans to borrowers in bankruptcy, nonaccrual loans and loans past due three months or more are not included in this category.

Relationship between Self-Assessment Assets and Disclosure of Assets Based on the Financial Revitalization Law

Assets classified under self-assessment standards and disclosure of assets based on the financial revitalization law are loans and loan equivalents. These loans differ primarily from risk-monitored loans in that risk-monitored loans exclude loan equivalents.

1. Loans to borrowers in bankruptcy: These are loans to legally bankrupt borrowers.
2. Nonaccrual loans: These are loans to virtually bankrupt borrowers and borrowers for which the possibility of bankruptcy exists.
3. Loans past due three months or more: Of loans to borrowers requiring caution, loans past due three months or more are those for which the payment of principal or interest has fallen three months behind, counting from the day following the contractual payment day.
4. Restructured loans: Of loans to borrowers requiring caution, restructured loans are those for which payment of interest is reduced or suspended, payment of principal is extended, the claim is waived or another measure advantageous to the borrower is granted to facilitate business restructuring.

Status of Financial Health Improvement Plan*

Financial Health Improvement Plan

Both Chuo Trust and Mitsui Trust drafted financial health improvement plans at the time of application to the Financial Reconstruction Committee for injections of public funds.

*Figures represent combined totals from Chuo Trust and Mitsui Trust

The respective plans symbolize the cornerstone of a new business foundation that the two banks laid through their April 2000 merger. This marriage of trust banks has produced strong transaction substructures in both individual and corporate services and accorded the Bank an overwhelming advantage in the trust-banking business. Such merits underscore the ultimate goals of the merger—a stable profit base and a solid financial base.

The combined fiscal 1999 performances of the two banks marked generally favorable results, paralleling the objectives of the financial health improvement plans. Among profit and loss items, business profit before trust account write-offs totaled ¥156.1 billion, surpassing the initial projection of ¥142.3 billion. Ordinary profit reached ¥154.1 billion, compared with the earlier calculation of ¥89.3 billion. Net income settled at ¥49.6 billion, falling slightly short of the anticipated ¥52.5 billion.

The banks made better progress than expected in their bid to rationalize operations. Equipment and premises costs fell 3.4%, to ¥190.0 billion, in fiscal 1999, as the withdrawal from overseas locations reduced rental and leasing charges. In addition, personnel numbered 9,283 at the end of March 2000, compared with 9,876 a year earlier, thanks to a focus on operating efficiency.

Chuo Mitsui Trust will strive toward a leaner organization with a highly efficient branch network that maximizes the talents of a streamlined workforce.

Of particular note in personal banking services, the individual lending balance as of March 31, 2000, was 6.8% higher than the combined ¥2.2 trillion of the year before. Home loans accounted for ¥1.1 trillion, a comparable increase of 16.2%. The investment trust balance reached ¥264.4 billion, nearly three times the corresponding figure of the previous fiscal year.

The lending balance to small and medium-size business showed a net increase of ¥182.1 billion over fiscal 1998, because of the banks' efforts to facilitate loans. The total is at market basis, taking into account changes in the balance related to disposal of problem assets (excluding impact loans).

Chuo Mitsui Trust will emphasize further business improvements to realize the goals set down in the Bank's post-merger blueprint.

Profit and Loss

(Billions of yen)

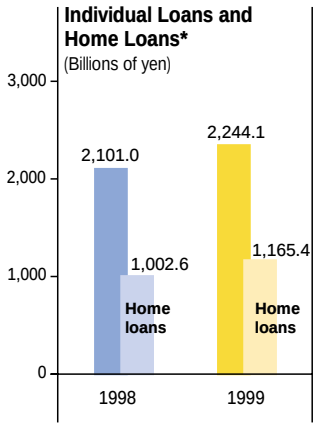
	FY 1999	Original Plan
Business Profit Before Trust Account Write-Offs	156.1	142.3
Ordinary Profit	154.1	89.3
Net Income	49.6	52.5

Business Rationalization Goals

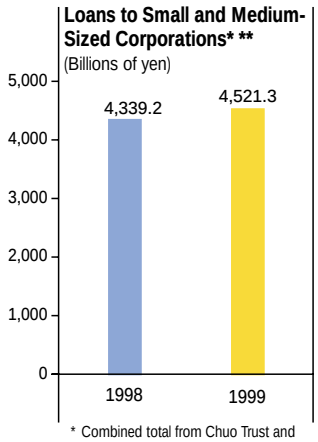
(Billions of yen, number of employees)

	FY 1998	FY 1999	Plan for FY 1999
Expenses	196.7	190.0	209.7
Number of Employees[1]	9,876	9,283	9,630
Number of Employees[2]	8,381	7,852	8,190

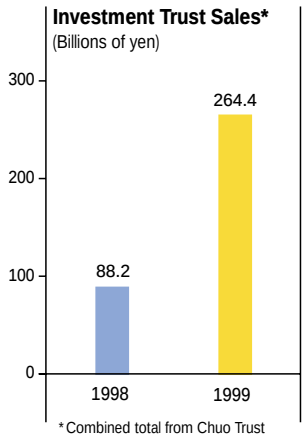
Notes: 1. The number of employees includes staff on loan, part-timers, overseas personnel and locally hired staff at overseas locations.
2. Excludes part-timers from number of employees in Note 1.



*Combined total from Chuo Trust and Mitsui Trust



* Combined total from Chuo Trust and Mitsui Trust (excluding impact loans)
**Total is at market basis, taking into account changes in the balance related to disposal of problem loans



*Combined total from Chuo Trust and Mitsui Trust