Financial Section

Operating Environment

The consolidated fiscal year ended March 31, 2004—fiscal 2003—was characterized by a generally positive mood not only in Japan but also overseas.

On the international economic front, business conditions in the United States returned to recovery mode, jumpstarted by lower taxes and other government measures. The stronger U.S. economy had an encouraging effect on the European economy, which displayed signs of improvement in the second half of the fiscal year. A revitalizing atmosphere also permeated Asia, particularly the People's Republic of China, despite initial concern over the impact of severe acute respiratory syndrome (SARS) on economic growth.

At home, the rosy tones of gradual recovery that tinged business conditions in fiscal 2002 deepened in fiscal 2003. Exports were up, paralleling the positive economic environment overseas. The trend toward better corporate results became especially evident in the second half of the term, with more companies becoming able to increase capital investment. Meanwhile, household purse strings, drawn tight for so long, finally loosened, leading to a rise in consumer spending.

In the domestic finance industry, short-term interest rates remained weak, mirroring the Bank of Japan's persistent efforts to quantitatively relax financial restrictions. Long-term interest rates inched up, along with better business conditions, after tumbling into the 0.4% range in June 2003, and were back at around 1.4% by the end of March 2004. The Nikkei Stock Average marked its lowest point since the collapse of Japan's economic bubble with a level of 7,700 in April 2003, but rebounded during the term and ended above 11,700 at the end of the period. In the foreign exchange market, the yen hovered in the 110 range against the U.S. dollar in the first half of fiscal 2003 but began to appreciate in the second half, settling around 105 as of March 2004.

In this economic and financial environment, the two subsidiary trust banks under the Mitsui Trust Financial Group umbrella worked aggressively to reinforce profitability and improve business content. Chuo Mitsui focused on trust and other financial services for individuals and corporations as well as stock transfer agency services and real estate operations, while Mitsui Asset concentrated on pension and securities trust businesses.

The Group undertook measures aimed at expanding gross operating profit in a variety of fields and pursued restructuring to enhance operating efficiency. Concerted efforts were also directed toward streamlining the stock portfolio and processing non-performing assets to raise confidence in the Group from clients and the market as a whole.

Consolidated Fiscal 2003 Performance

As of March 31, 2004, the balance of deposits was ¥9,116.0 billion, up 5.1%; loans and bills discounted fell 0.1%, to ¥7,189.9 billion; and securities grew 10.9%, to ¥3,585.9 billion.

Total assets stood at ¥12.7 trillion, up 2.2%. Total shareholders' equity soared 84.1%, to ¥463.3 billion, primarily owing to net unrealized gains on available-for-sale securities instead of the large net unrealized losses of fiscal 2002.

On the profit-and-loss front, total income increased 9.3%, to ¥553.9 billion. Total expenses dropped 21.9%, to ¥426.7 billion. As a result, Mitsui Trust Holdings and its consolidated subsidiaries recorded income before income taxes and minority interests of ¥127.2 billion, compared with a loss before income taxes and minority interests of ¥39.6 billion in fiscal 2002, net income of ¥50.7 billion, compared with a net loss of ¥96.7 billion a year earlier, and net income per share of ¥55.54, compared with a net loss per share of ¥125.31.

The consolidated capital adequacy ratio, calculated according to domestic criteria, rebounded, hitting 10.14%, after falling to 7.50% a year earlier.

Segment Information

The trust banking business generated ordinary income of ¥471.7 billion and ordinary expenses of ¥369.7 billion, leading to ordinary profit of ¥102.0 billion. Other finance-related operations produced ordinary income of ¥72.4 billion and ordinary expenses of ¥60.8 billion, for ordinary profit of ¥11.6 billion.

Cash Flows

Net cash used in operating activities amounted to ¥103.7 billion, down from ¥354.0 billion in fiscal 2002, reflecting a net increase in payables under securities lending transactions.

Net cash used in investing activities was ¥253.9 billion, up from ¥27.2 billion in fiscal 2002, largely owing to an increase in purchases of securities.

Net cash used in financing activities came to ¥16.8 billion, down from ¥37.3 billion in fiscal 2002, primarily due to payment of subordinated borrowings.

Cash and cash equivalents at the end of the year thus stood at ¥457.5 billion, down from ¥832.0 billion a year earlier.

Non-Consolidated Fiscal 2003 Performance

Total assets of Mitsui Trust Holdings settled at ¥874.3 billion, after accounting for investment in the equity and corporate debentures of subsidiaries and loans to affiliates. Net assets per share came to ¥103.71, on total shareholders' equity of ¥522.9 billion.

Income before income taxes totaled ¥5.4 billion, largely due to fees and commissions received from subsidiaries and interest income on loans to subsidiaries. Net income was ¥5.3 billion, for basic net income per share of common stock of ¥0.07.

Dividends

Reflecting its public duty as a financial institution, Mitsui Trust Holdings adheres to a basic policy on dividends that is underscored by an unwavering perspective on sound management. Therefore, the Company strives to expand retained earnings while paying stable dividends to shareholders.

The Company resumed payment of dividends on common stock at ¥2.50 per share in fiscal 2003, after a break in fiscal 2002. Dividends on preferred stock were as follows: ¥40.00 per share for class I preferred; ¥14.40 for class II preferred; and ¥20.00 per share for class III preferred.

Mitsui Trust Financial Group Risk Management System

Basic Risk Management Policies

Progress in financial liberalization and internationalization, as well as advances in information technology, has accorded financial institutions greater opportunities for business expansion. These opportunities, however, have been tempered by risks that are more diverse and more complex than ever before.

Fully aware of the social responsibility and public mission that is incumbent upon a financial institution, Mitsui Trust Financial Group has established basic risk management policies that allow the Group to assume risk only within its strategic objectives and risk-hedging capabilities, based on suitable risk management, and that lead to higher profits.

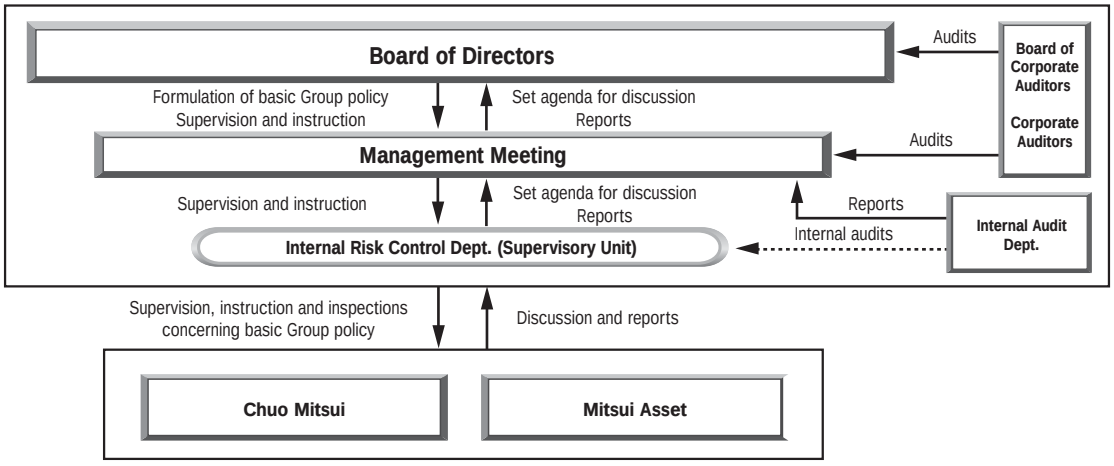
Function of Mitsui Trust Holdings

One of the most vital functions carried out by Mitsui Trust Holdings, in its capacity as a holding company, is its supervision of risk management and internal control for Mitsui Trust Financial Group. The Board of Directors at Mitsui Trust Holdings formulated Rules for Risk Management and established the basic agenda for risk management activities within the Group.

As described in the following sections, the subsidiary trust banks under the holding company umbrella each undertake appropriate risk management geared to their respective risk conditions, while Mitsui Trust Holdings monitors risk management efforts within the Group and guides subsidiary trust banks in, for example, deriving suitable returns and revising risk management systems. The Company also formulates compliance policy for the Group, establishes, revises or abolishes basic rules for each subsidiary trust bank, instructs the banks to implement necessary compliance-related changes and tracks the status of compliance management and execution.

Internal audits are executed at each subsidiary trust bank, and a system is in place for Mitsui Trust Holdings to issue essential instructions, based on reports from the banks regarding audit results, the status of improvements and other data. When necessary, the Company will act directly or in cooperation with the banks to conduct audits on matters that have an impact on the operations of the Group as a whole.

Outline of Mitsui Trust Holdings' Risk Management and Compliance Structure



Chuo Mitsui Risk Management System

Risk Management Structure

The Board of Directors at Chuo Mitsui drafted Rules for Risk Management, based on the risk management direction outlined by Mitsui Trust Holdings. These rules set out the Bank's fundamental policy on risk management, including the types of risk requiring attention, the techniques applied to hedge risk, and the structure and authority for risk control. They also detail the content of specific standards and regulations in each area.

Chuo Mitsui has identified four primary risk categories: credit risk, market risk, liquidity risk and operational risks, which include system risk and legal risk as well as procedural risk. The Corporate Risk Management Department supervises all risk management efforts, but

individual departments are assigned to each risk category for strict control of the risks specific to each area. The Bank also seeks to effectively contain other risks, such as reputational risk.

On the organizational front, the Internal Control Executive Committee, which falls under the authority of the Board of Directors, undertakes a variety of activities, including discussions about risk management policies prior to implementation and the determination of risk status. The Business Administration Executive Committee, also responsible to the Board of Directors, works toward a healthier business foundation by identifying bankwide risk and considering overall business administration.

In addition, the Corporate Risk Management Department, which monitors all risk at the Bank, supervises internal controls and risk management activities and serves as the secretariat for the Board of Directors and the Internal Control Executive Committee. This department also engages in controls and analysis related to asset–liability management (ALM).

Credit Risk Management

Credit risk is the potential for the value of assets, including off-balance-sheet assets, to shrink or disappear altogether in the event a borrower's financial conditions deteriorate and thereby burden a financial institution with losses. Chuo Mitsui strives to maintain asset quality and avert the unpredictable development of non-performing assets by strengthening its credit risk management capabilities. The Bank utilizes the following systems and processes.

Basic Policy

Chuo Mitsui drafted Rules for Credit Risk Management for blanket control of the credit risk that influences several credit-related business, including loans, market transactions and off-balance-sheet trading. The Bank also designated the Loan Planning Department as the supervisory unit for all credit risk, including that shouldered by consolidated subsidiaries. This department keeps close contact with credit-related departments and consistently works to sustain and further reinforce credit risk capabilities.

Management Techniques

Chuo Mitsui performs a review of all corporate borrowers using a 13-level credit rating system pegged to self-assessments. The credit ratings thus determined are used to quantify credit risk in internal credit-risk models and evaluations of corporate borrowers.

Based on management direction, the goal of keeping risk within net worth and other guidelines, Chuo Mitsui works within a total credit risk amount established as the upper limit of credit risk assumed by the Bank. The Corporate Risk Management Department monitors the Bank's risk status on a monthly basis. In addition, rules are applied to eliminate credit concentration, thereby removing any excess concentration of credit extended to borrowers in specific industries or corporate groups. Credit status is checked each month by the Loan Planning Department.

The Loan Planning Department also tracks credit risk amounts and credit balances by industry and credit rating, and provides upper management with regular updates on portfolio status.

From the standpoint of securing an appropriate level of return on investments, Chuo Mitsui strives to generate higher profits on its lending activities. To this end, the Bank established an index spread, which corresponds to the respective degree of risk inherent in each transaction, including the duration of credit and the level of borrower integrity, based on the credit rating assigned to each borrower.

Strict Transaction Control

Credit Supervision departments I and II, which function independently from business promotion departments, carefully monitor and control the credit risk on each transaction under respective departmental authority. A multifaceted perspective is applied, one that stresses fund application, repayment capability and cash flow, as well as collateral status and corporate client profitability. For major loan assessments, the advisability of lending arrangements is presented to the Credit Appraisal Committee, where each transaction and the primary objectives of the loan are discussed at the executive level.

Mid-Level Controls through Self-Assessment

With regard to securing quality assets, Chuo Mitsui performs a two-stage self-assessment based on Rules for Self-Assessment. In the first stage, staffed branches, for example, conduct their own evaluations, and in the second stage credit supervision departments execute inspections. Self-assessment not only forms the

foundation of accurate financial statements but also functions as a mid-level management tool to swiftly pinpoint borrower-specific problems. When a borrower's credit is in question, the Bank implements strict controls under the guidance of the Credit Management Department, based on Rules for Non-Performing Assets.

Independent Unit Facilitates Double-Check System

The Internal Audit Department is separate from business and accounting departments and independently confirms the status of credit controls, asset assessments, and write-offs and related reserves. This department checks that credit risk management is being properly executed by auditing credit risk management conditions, including the credit rating system, and by verifying the appropriateness of write-offs and reserves as well as the accuracy of credit risk management activities through, for example, an examination of the process and the results of self-assessments. The department submits reports on the results of its audits to the Board of Directors.

Improving Basic Supervisory Capabilities

The processes outlined above allow Chuo Mitsui to take credit risk management to a higher level. To raise the precision of first-stage assessments, which are undertaken on a daily basis, the Bank regularly puts loan officers from staffed branches through graded training. The Bank also organizes analytical seminars for credit-related departments to foster insight into the causes of bankruptcies and delayed payments that turn loans into non-performing assets. The results of analyses are applied to lending operations.

Market Risk Management

Market risk is the possibility that the value of assets and liabilities will fluctuate with changing interest rates, foreign exchange rates, the price of marketable securities, and other market factors, and thereby cause losses.

Market Risk Management Structure

Front offices execute market-related transactions, while back offices confirm the content of these transactions, and middle offices control market risk. Each office category is independent of the others, creating a cross-check structure. At Chuo Mitsui, the Corporate Risk Management Department functions as a bankwide middle office, monitoring all market risks and providing daily reports to management. This department is also responsible for preparing proposals and supervising market analysis operations that improve market risk management skills at the Bank.

Management Techniques

The method used by Chuo Mitsui to measure market risk utilizes Value at Risk (VaR), which assumes the maximum amount exposed to potential loss is 1% of the total. VaR is calculated using the Monte Carlo simulation technique, which is based on an analysis of major historical market data.

At Chuo Mitsui, total market risk is contained within a boundary defined by the Bank's risk-hedging capabilities. The Corporate Risk Management Department controls market risk by ensuring that overall risk levels remain within established parameters and by sending reports to the assigned director on a daily basis.

The measure of market risk is comprehensive, covering foreign exchange, interest rates and other trading business transactions as well as the market risks that impact on crossholdings, bond portfolios and other banking business investments.

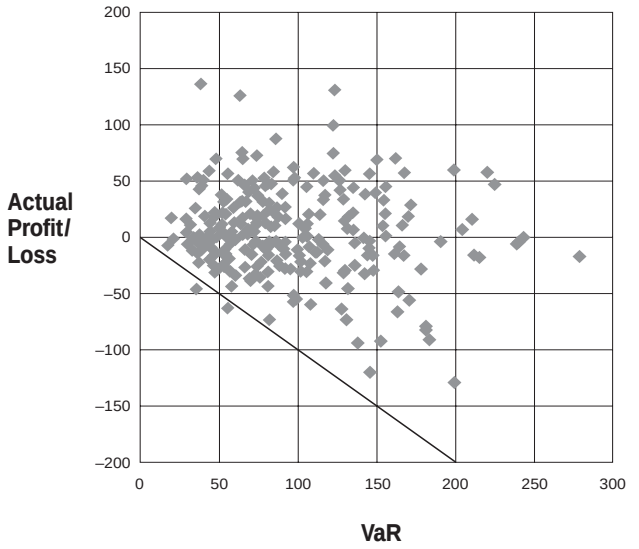
The Bank maintains a structure that averts potential risk before it becomes obvious. Alarm points and loss limits have been set to prevent the expansion of losses following a bad turn in market trading, and the Corporate Risk Management Department tracks profits and losses.

Cementing its position on strict risk-controlling practices, Chuo Mitsui also executes stress tests, which assume radical price swings that have actually occurred in the market over the past 14 years, and uses the results as a guideline for establishing risk limits. As a supplementary measure, the Bank performs back tests, which compare VaR against actual losses, to ascertain the validity of VaR-based risk measurements.

An example of back testing on trading transactions follows.

VaR trading transactions in fiscal 2003 moved within a range of roughly ¥20 million to ¥280 million, and out of 248 business days, daily losses exceeded the VaR on two occasions. The Bank's VaR assumes a loss of 1%, and the results for fiscal 2003 show that the Bank's VaR calculation model is sufficiently accurate to predict market risk.

Comparison of VaR and Actual Profit/Loss
(Millions of yen)



VaR calculation assumptions:	Duration:	1 day
	Assumed rate of loss:	1%
	Measurement technique:	Monte Carlo simulation
Time frame:	April 2003–March 2004 (248 business days)	

Liquidity Risk Management

Liquidity risk is twofold. In a cash flow sense, liquidity risk bears the potential for losses when a financial institution is unable to secure necessary funds, due to a poor financial position, or when a financial institution is forced to acquire funds at blatantly higher interest rates than usual. In a market sense, liquidity risk may precipitate losses when market turmoil impedes a financial institution's ability to complete transactions, or compels a financial institution to fulfill transactions at prices noticeably more disadvantageous than usual.

On the cash flow front, Chuo Mitsui establishes guidelines, particularly for cash gaps, and monitors adherence to these standards to control liquidity risk. The Bank also facilitates flexible, bankwide responses through the preparation of contingency plans, which orchestrate measures to be invoked in times of emergency. The Bank further ensures the accurate identification of cash flow risk conditions by allowing the Corporate Risk Management Department to handle risk management for the Treasury Department, which is responsible for controlling cash flow risk.

On the market front, trading amounts are assigned for each type of transaction, based on such factors as market scale and the Bank's strategic objectives. The Corporate Risk Management Department monitors compliance conditions to keep amounts within the assigned limits.

ALM Structure and Administration

Diversification and further sophistication of financial products, mirrored by financial liberalization and internationalization, have prompted greater complexity in the balance-sheet composition of financial institutions year after year. The introduction of current-value accounting has heightened the already complicated impact of fluctuating interest rates, foreign exchange rates, stock prices and other influences on profitability and other performance indicators. The new accounting standard underlines the vital importance of ensuring steadily higher returns while controlling risks through appropriate ALM administration.

Chuo Mitsui works to pinpoint and analyze risks through VaR, basis point value and other ALM techniques for both on-balance-sheet and off-balance-sheet transactions, including bankwide deposits, derivatives and marketable securities. This effort contributes to more efficient management of balance-sheet risks.

The Business Administration Executive Committee meets regularly to discuss risk management policy for market transactions, especially bonds, based on analytical results of the application and procurement of deposits and loans, and of risk conditions. The committee strives to promote flexible management geared to market trends.

Operational Risk Management

Operational risk is the danger of losses arising from inadequate or failed internal processes, inappropriate actions by staff, and unacceptable use or malfunction of in-house systems, as well as external incidents that adversely impact operations. This risk category includes procedural risk, system risk and legal risk, which are explained in subsections below.

Chuo Mitsui applies two methods to restrict operational risk. First, the Bank formulates suitable rules to preclude potential risks and ensures compliance of these rules. Second, the Bank clarifies ways to tackle risk—should it emerge—and maintains a system for monitoring and reporting the appearance of risk. The Corporate Risk Management Department establishes bankwide rules and ensures suitable risk management activities.

The Basel Committee on Banking Supervision, at the Bank for International Settlements, is refining rules for implementation in December 2006 that will include a capital requirement for operational risk. Focusing on a response to this anticipated requirement, Chuo Mitsui is building a framework for evaluating and analyzing the status of risk management efforts, based on operational risk conditions in each area of business, and is preparing a more effective risk management structure through such means as the collection and storage of loss data.

Procedural Risk

Procedural risk is the danger of losses arising from an accident, management error or dishonest actions by executives or staff. The scope of Chuo Mitsui's operations goes beyond regular banking operations and encompasses a range of businesses that includes real estate business and stock transfer agency services. Consequently, the Operations Administration Department and each operating department are required to ascertain, control and terminate operational risks in each business area.

Chuo Mitsui has introduced a procedural risk structure that prevents the use of the Bank's accounts for the purpose of money laundering and facilitates timely and suitable responses to any dishonest application of its accounts. The Bank also undertakes proper control measures, including periodic verification of business execution capabilities and the risk management structure.

System Risk

System risk carries the potential for losses caused by a system failure, such as a computer crash or incorrect operation of electronic equipment, by illegal access to the Bank's computers, and by the destruction or unauthorized disclosure of privileged information. Advances in information technology have made computer systems increasingly indispensable in the provision of high-level services, but this progress has heightened the importance of appropriately controlling such risk.

Chuo Mitsui has established rules and structures in various regulations, including Rules for Protecting Information Assets, which outline measures for properly handling and protecting systems and information.

The Bank maintains a backup center and has formulated various methods to safeguard its systems against breakdowns and interruptions caused by natural disasters. Efforts include storing important data at a secondary location, installing duplicate communication lines, and ensuring a constant flow of electricity to the computer center with an on-site power facility. Contingency plans and other precautionary measures are also in place to facilitate swift and accurate responses in the event of a catastrophe. Drills are run on a regular basis.

Chuo Mitsui makes some of its financial services available through the Internet and therefore utilizes firewalls and other high-level network technologies, such as encryption, to block unauthorized access to in-house systems from outside.

Legal Risk

Legal risk can precipitate losses if the legal aspects of transactions cannot be settled or if legal compliance is insufficient. Chuo Mitsui's legal risk structure hinges on the Legal Department, which is designated as the supervisory unit for managing legal risk and ensuring that laws and other mandatory controls are upheld.

Chuo Mitsui relies on the Legal Department to clarify reporting and processing rules for dealing with complaints and incidents, and utilizes the department's inspections to eliminate legal risk. The Bank also strives to foster a corporate atmosphere conducive to compliance and undertakes various measures to this end, including distribution of a compliance manual to directors and regular staff.

Other Risks

Reputational risk is the possibility that unfavorable evaluations will contribute to losses. To mitigate such risk, Chuo Mitsui is reinforcing the transparency of its operations with better investor relations activities, including information meetings and aggressive disclosure through the production and distribution of various documents that update investors with pertinent news.

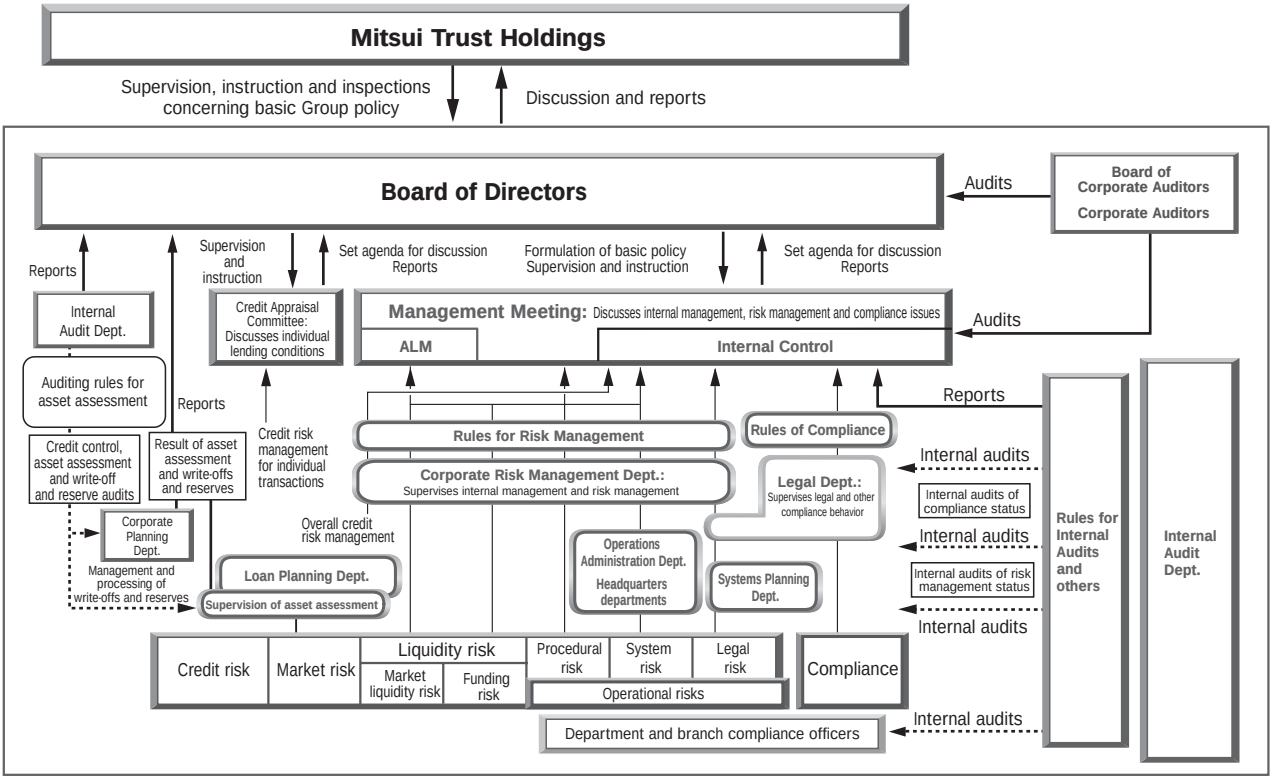
The Bank has also established conduits for two-way communication, at branch counters and through the Customer Service Office, that enable clients to voice grievances and obtain suitable responses. These efforts lead to enhanced services and greater confidence in the Bank.

Internal Auditing

The Internal Audit Department, which is independent of actual operating departments, undertakes internal audits to verify the suitability and effectiveness of risk management activities at all relevant head office departments, staffed branches and subsidiaries.

The results of internal audits are reported to the Board of Directors and the Internal Control Executive Council on a regular basis. In addition, a system is in place for instructing an operating unit to implement corrective measures, should problems appear in the internal control structure of that unit.

Outline of Chuo Mitsui's Risk Management and Compliance Structure



Mitsui Asset Risk Management System

Risk Management Structure

As a trust bank specializing in pension and securities trust businesses, Mitsui Asset follows a basic policy that emphasizes appropriate control of risk and suitable returns commensurate with inherent risk, based on the risk management direction outlined by Mitsui Trust Holdings.

Mitsui Asset's operations center on trust asset management and administration and pension and securities trust businesses. The Bank is duly aware of its obligations and responsibilities as a trustee and executes risk management reflecting the size and characteristics of each risk.

Rules for Risk Management, drafted by the Board of Directors, establishes the Bank's fundamental policy on risk management, including the types of risk requiring attention, the techniques applied to hedge risk, and control and administration structures, and details the content of specific standards and regulations in each area.

On the organizational front, the Executive Council, which falls under the authority of the Board of Directors, discusses risk management policies prior to implementation, determines the status of all risks and works toward a healthier business foundation.

The Business Administration Department supervises all risk management efforts, but individual departments are assigned to each risk category for strict control of the risks specific to each area.

Risk Management Status

Mitsui Asset is working to establish and perfect a risk management structure that conforms to the risk management structure of Chuo Mitsui while reflecting the characteristics of the Bank's own operations. This structure also highlights operational risks, including system risk, legal risk and procedural risk.

In regard to credit risk, market risk and liquidity risk,

the Bank's policy is, in principle, to refrain from lending and other related operations and thereby keep risk contained. The extent of risk management activities therefore mirrors this limited exposure.

Mitsui Asset seeks to effectively contain other risks, such as reputational risk.

The burden of credit risk, market risk and liquidity risk management for the Bank's core trust businesses essentially lies with the beneficiaries. The Bank, however, takes the view that a trustee should accept a certain degree of responsibility and therefore carries out adequate risk management.

Trust operations are divided broadly into two categories: designated trusts, which are trusts for which the Bank, in its capacity as trustee, holds discretionary rights for the management of assets, and specified trusts, for which the Bank does not hold such rights. Risk management is conducted for each category.

For designated trusts, Mitsui Asset manages entrusted funds in accordance with contract conditions, such as designated investment targets and preferred asset composition. The Bank also sets clear internal standards for exercising discretionary rights granted by clients and manages respective assets within these established parameters.

For specified trusts, the Bank conducts a trustee examination, similar to that for designated trusts, at the time a new contract is formed. The compatibility of the request to the Bank's capabilities is confirmed and procedural strategy is checked.

Auditing and Inspection

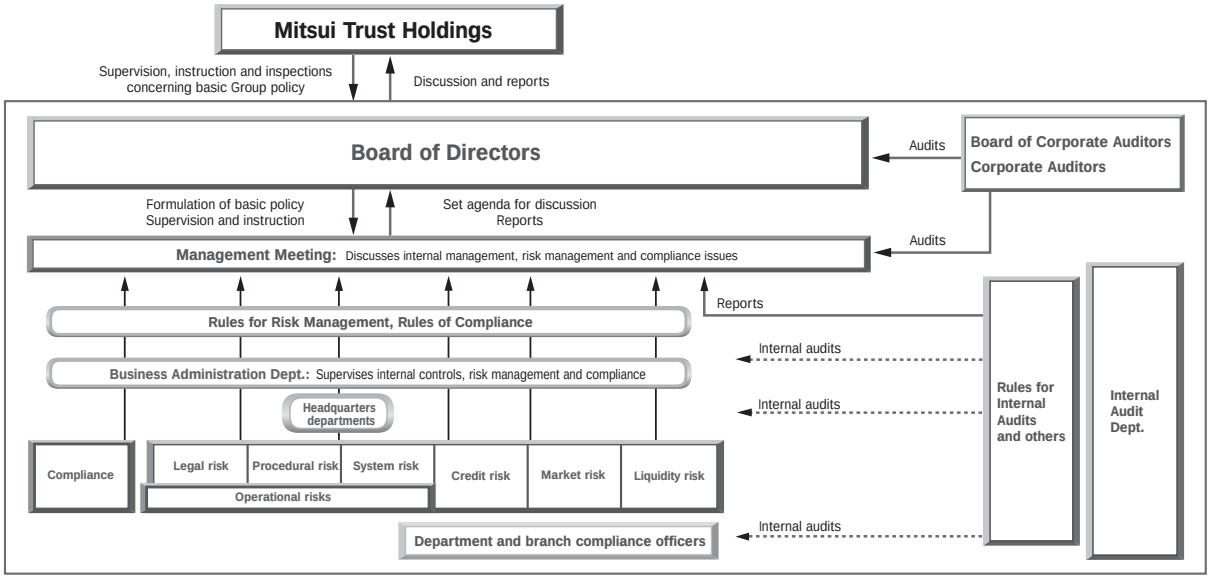
At Mitsui Asset, the Internal Audit Department, which is independent of actual operating departments, undertakes internal audits of all relevant head office and main branch departments as well as staffed branches, and verifies the suitability and effectiveness of such aspects as the internal control structure.

The results of internal audits are reported to the Board of Directors and the Executive Council. In addition, a system is in place for instructing a relevant operating unit to implement corrective measures, should problems appear in the internal control structure or other pertinent system of that unit.

Mitsui Asset executes accounting audits based on the Commercial Code through auditing corporations. The Bank also undergoes external audits to validate the effectiveness of its internal control structure, along with statement audits on pension operations according to the Japanese version of the Statement on Auditing Standards and inspections on the status of conformity to the investment performance standard of the Security Analysts Association of Japan.

These efforts substantiate the Bank's commitment to making internal controls more sophisticated and earning greater client confidence.

Outline of Mitsui Asset's Risk Management and Compliance Structure



Mitsui Trust Financial Group Perspective

Trust banks accept funds from people and organizations and in turn facilitate a steady flow of funds for various financial purposes that ultimately benefit the economy. Striving to demonstrate their trust function in satisfying the diverse needs of the people, trust banks assume a public mission and a social responsibility to contribute to the development of the national economy.

Unfolding liberalization, deregulation and other finance-related developments, however, require all financial institutions to uphold the principle of self-responsibility in conducting business. Consequently, efforts to comply with prevailing laws and ordinances and establish a structure that ensures compliance have assumed paramount importance.

Against this backdrop, financial institutions are expected to operate as private corporations, with their social obligations and public missions evolving onto a higher plane. Fulfillment of this dual designation is a vital prerequisite in securing the unwavering trust of clients and society as a whole.

Sound and appropriate management is indispensable in the effort to sustain and further elevate the level of trust accorded to us by the market. Such management status is grounded in the principle of self-responsibility, which demands rigorous self-discipline. From this perspective, compliance is one of the most important management issues at Mitsui Trust Financial Group and one that the Group will continue to uphold.

Strictly speaking, compliance means rigid observance of laws and ordinances, but a broader perspective embraces social criteria as well. For the Group, trust is its biggest asset. Therefore, achieving compliance is a foregone conclusion, and executives and employees alike must conscientiously incorporate compliance into their daily routines.

Compliance at Mitsui Trust Holdings

The Internal Risk Control Department is the supervisory unit for compliance at Mitsui Trust Holdings. The department promotes various measures to ascertain compliance status for Mitsui Trust Financial Group. These measures include the establishment of a reporting structure and the preparation of Rules of Compliance, which set forth a basic policy on business ethics and provides guidelines governing the conduct of employees, Rules for Compliance Management, which set criteria related to compliance conditions at the Bank, and the Compliance Manual, a detailed handbook.

Compliance at Chuo Mitsui

Supervision of compliance status at Chuo Mitsui is the responsibility of the Legal Department, which promotes measures to reinforce the compliance structure based on Group policy. For example, the Bank encourages employees to read and fully understand the Rules of Compliance and the Compliance Manual, which is updated as necessary.

The Bank also formulated the Compliance Program, a concrete action agenda for compliance, and promotes a variety of measures, such as the development of a compliance structure and the implementation of training courses.

In addition, the Bank checks the status of compliance at staffed branches and head office departments through self-implemented inspections in each location as well as internal audits conducted by the Internal Audit Department.

Compliance at Mitsui Asset

The Business Administration Department has been designated as the supervisory unit for compliance at Mitsui Asset. In line with Group policy, compliance methods mirror those described above for Chuo Mitsui but the measures used to improve compliance status are fine tuned to the characteristics of the Bank's own focus on pension and securities trust businesses.

Trust Account and Banking Account

Trust banks keep two types of account: the banking account, which is the institution's own; and the trust account, which is the account of beneficiaries. Trust banks have a number of trust accounts, reflecting the fact that they must separately administer the assets of each trust contract. In principle, details of individual accounts are disclosed only to trustors or beneficiaries. Nevertheless, the total balances of money and pension trusts are recorded in the trust account's aggregate balance sheet. The main assets and liabilities of the trust account with principal guarantee agreement are also disclosed.

Although trust assets nominally belong to trust banks, in fact they belong to the beneficiaries. The institutions therefore receive trust fees for managing these accounts. After deductions for fees and expenses, the profits generated with these accounts all become trust assets.

Trust fees represent one source of income in the banking account. In other words, the banking account income statement reflects both earnings from banking operations and from trust operations.

The Concept of Net Operating Profit *(Gyomu Juneki)*

To calculate core profits—excluding items outside core operations, such as stock earnings and losses and write-offs of non-performing assets—we calculate the net operating profit by selecting only those items that express the earnings from core operations from within the income statement.

Net operating profit is calculated by subtracting the general and administrative expenses and the transfer to the general reserve for possible loan losses from gross operating profit. Gross operating profit comprises:

- Net interest income (such as from deposits, loans and marketable securities);
- Net fees and commissions (trust fees, and fees and commissions);
- Net trading gains (earnings from trading purpose transactions); and
- Net other operating income (such as earnings from foreign exchange and bond trading).

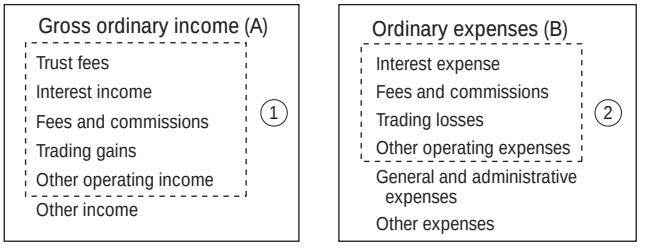
Net Operating Profit at Trust Banks

In addition to net operating profit, trust banks disclose net operating profit before trust account write-offs. With trust banks, the net operating profit calculated according to the formula mentioned above does not adequately reflect the profitability of core operations. Trust fees, which are part of business profit, are calculated after subtracting loan write-offs in the trust account. Therefore, net operating profit is smaller than a trust bank's actual profitability in core operations.

To adjust for this difference and more accurately reflect the profitability of core operations, trust banks calculate net operating profit before trust account write-offs. This allows a comparison with other banks according to net operating profit.

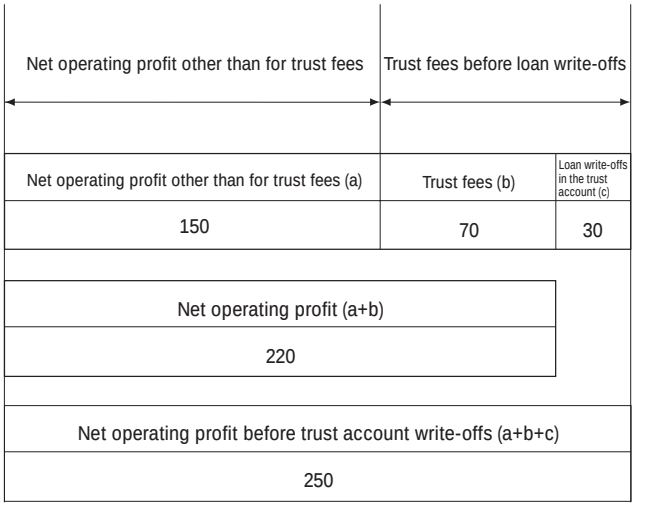
Pre-provision profit is calculated by adding back the transfer to general reserve for possible loan losses from net operating profit before trust account write-offs. The purpose of this calculation is to show the trend of a bank's earning power by eliminating all credit costs including transfers to general reserves.

• The Relationship between Ordinary Income and Net Operating Profit



Ordinary income
This is calculated by deducting ordinary expenses (B) from gross ordinary income (A).
Gross operating profit
The amount remaining after subtracting the highlighted areas in box ② from those in box ① is nearly equal to gross operating profit.
Net operating profit
This results from subtracting general and administrative expenses and the transfer to general reserve for possible loan losses from gross operating profit. The transfer to the general reserve for possible loan losses is part of other expenses.

• Sample Calculation of Net Operating Profit before Trust Account Write-Offs



Consolidated Balance Sheets

Mitsui Trust Holdings, Inc., and Consolidated Subsidiaries
As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
ASSETS			
Cash and cash equivalents	**¥ 457,518**	¥ 832,071	**$ 4,330,515**
Due from banks other than due from the Bank of Japan (Note 9)	**64,293**	58,913	**608,550**
Call loans and bills bought	**17,068**	—	**161,552**
Receivables under resale agreements	**—**	24,999	**—**
Receivables under securities borrowing transactions (Note 3)	**34,427**	10,564	**325,858**
Monetary claims bought	**54,746**	—	**518,187**
Trading assets	**21,104**	13,165	**199,756**
Securities (Notes 3 and 9)	**3,585,945**	3,232,584	**33,941,746**
Money held in trust (Note 4)	**16,952**	70,921	**160,455**
Loans and bills discounted (Notes 5 and 9)	**7,189,953**	7,200,393	**68,054,454**
Foreign exchanges (Note 6)	**6,713**	4,978	**63,545**
Other assets (Notes 7 and 9)	**512,614**	359,075	**4,852,005**
Premises and equipment (Notes 8 and 9)	**234,532**	254,250	**2,219,898**
Deferred tax assets (Note 26)	**280,662**	347,169	**2,656,526**
Customers' liabilities for acceptances and guarantees (Note 10)	**376,592**	220,208	**3,564,531**
Allowance for possible loan losses	**(99,365)**	(151,274)	**(940,512)**
Total	**¥12,753,758**	¥12,478,021	**$120,717,072**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits (Notes 9 and 11)	**¥ 9,116,071**	¥ 8,672,254	**$ 86,285,575**
Call money and bills sold (Note 9)	**318,017**	300,000	**3,010,105**
Payables under repurchase agreements (Note 9)	**—**	99,999	**—**
Payables under securities lending transactions (Note 9)	**418,182**	194,245	**3,958,188**
Trading liabilities	**4,298**	8,933	**40,683**
Borrowed money (Notes 9 and 12)	**341,996**	509,343	**3,237,070**
Foreign exchanges (Note 6)	**28**	25	**273**
Subordinated bonds (Note 13)	**138,375**	138,826	**1,309,750**
Bonds with warrants (Note 13)	**466**	3,206	**4,410**
Payables to trust account	**1,343,100**	1,864,795	**12,712,731**
Other liabilities (Note 14)	**116,543**	105,390	**1,103,110**
Reserve for bonus payment	**2,993**	3,407	**28,332**
Reserve for retirement benefits (Note 15)	**1,418**	1,727	**13,428**
Reserve for possible losses on collateralized real estate loans sold to CCPC	**—**	4,389	**—**
Reserve for expenses related to Expo 2005 Japan	**45**	—	**429**
Deferred tax liabilities (Note 26)	**3,950**	2,521	**37,393**
Acceptances and guarantees (Note 10)	**376,592**	220,208	**3,564,531**
Total liabilities	**12,182,080**	12,129,277	**115,306,015**
Minority interests	**108,367**	97,118	**1,025,718**
Commitments and contingent liabilities (Note 16)			
Shareholders' equity (Note 17)**:**			
Common stock and preferred stocks (Note 18)	**261,462**	260,092	**2,474,794**
Capital surplus	**125,802**	227,350	**1,190,748**
Retained earnings (Accumulated deficit)	**74,732**	(85,676)	**707,361**
Land revaluation difference	**(14,736)**	(3,028)	**(139,480)**
Net unrealized gains (losses) on available-for-sale securities	**17,652**	(145,337)	**167,085**
Foreign currency translation adjustments	**(796)**	(868)	**(7,537)**
Treasury stock—at cost			
2,023,167 shares in 2004 and 4,431,486 shares in 2003	**(806)**	(906)	**(7,631)**
Total shareholders' equity	**463,311**	251,626	**4,385,339**
Total	**¥12,753,758**	¥12,478,021	**$120,717,072**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operations

Mitsui Trust Holdings, Inc., and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Income:			
Interest income:			
Interest on loans and bills discounted	**¥115,044**	¥ 119,652	**$1,088,925**
Interest and dividends on securities	**42,651**	41,874	**403,707**
Interest on call loans and bills bought	**140**	295	**1,333**
Other interest income (Note 19)	**1,017**	1,243	**9,628**
Trust fees (Note 20)	**84,211**	100,627	**797,077**
Fees and commissions	**73,285**	56,325	**693,663**
Trading gains	**11,379**	738	**107,707**
Other operating income (Note 21)	**62,637**	83,902	**592,872**
Other income (Note 22)	**163,592**	101,992	**1,548,438**
Total income	**553,960**	506,651	**5,243,355**
Expenses:			
Interest expense:			
Interest on deposits	**25,765**	30,397	**243,876**
Interest on call money and bills sold	**110**	24	**1,044**
Interest on borrowings	**10,216**	11,920	**96,703**
Other interest expense (Note 23)	**16,153**	23,131	**152,895**
Fees and commissions	**11,445**	5,419	**108,330**
Trading losses	**419**	3	**3,972**
Other operating expenses (Note 24)	**18,126**	6,164	**171,574**
General and administrative expenses	**138,590**	159,520	**1,311,791**
Other expenses (Note 25)	**205,909**	309,743	**1,948,980**
Total expenses	**426,738**	546,325	**4,039,169**
Income (loss) before income taxes and minority interests	**127,222**	(39,673)	**1,204,185**
Income taxes (Note 26)**:**			
Current	**6,310**	7,872	**59,731**
Deferred	**65,006**	45,553	**615,304**
Total income taxes	**71,317**	53,425	**675,036**
Minority interests in net income	**5,118**	3,611	**48,443**
Net income (loss)	**¥ 50,786**	¥ (96,710)	**$ 480,706**

	Yen		U.S. dollars (Note 1)
	2004	2003	**2004**
Per share of common stock (Note 30)**:**			
Basic net income (loss)	**¥55.54**	¥(125.31)	**$0.52**
Diluted net income	**28.33**	—	**0.26**
Cash dividends per share applicable to the year (Note 18)**:**			
Common stock	**¥ 2.50**	—	**$0.02**
Class I preferred stock	**40.00**	¥40.00	**0.37**
Class II preferred stock	**14.40**	14.40	**0.13**
Class III preferred stock	**20.00**	20.00	**0.18**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Mitsui Trust Holdings, Inc., and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Thousands		Millions of yen						
	Issued number of shares of common stock	Issued number of shares of preferred stock	Common stock and preferred stocks	Capital surplus	Retained earnings (Accumulated deficit)	Land revaluation difference	Net unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, April 1, 2002	818,795	270,156	¥260,053	¥358,960	¥(124,455)	¥ 4,939	¥ 472	¥ (972)	¥(2,815)
Net loss					(96,710)				
Cash dividends					(7,294)				
Reversal of land revaluation difference					11,161	(7,967)			
Reduction of legal capital surplus				(131,648)	131,648				
Net unrealized losses on available-for-sale securities, less applicable tax							(145,809)		
Changes in foreign currency translation								104	
Decrease in treasury stock (7,921 thousand shares)					(24)				1,909
Exercise of warrants	69		38	38					
Balance, March 31, 2003	818,865	270,156	260,092	227,350	(85,676)	(3,028)	(145,337)	(868)	(906)
Net income					50,786				
Cash dividends					(5,278)				
Reversal of land revaluation difference					11,707	(11,707)			
Reduction of legal capital surplus				(103,192)	103,192				
Net unrealized gains on available-for-sale securities, less applicable tax							162,989		
Changes in foreign currency translation								71	
Decrease in treasury stock (2,408 thousand shares)				275					99
Exercise of warrants	5,265		1,370	1,370					
Balance, March 31, 2004	**824,131**	**270,156**	**¥261,462**	**¥125,802**	**¥ 74,732**	**¥(14,736)**	**¥ 17,652**	**¥ (796)**	**¥ (806)**

	Thousands of U.S. dollars (Note 1)						
	Common stock and preferred stocks	Capital surplus	Retained earnings (Accumulated deficit)	Land revaluation difference	Net unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2003	$2,461,826	$2,151,920	$(810,945)	$ (28,663)	$(1,375,647)	$(8,218)	$(8,576)
Net income			480,706				
Cash dividends			(49,958)				
Reversal of land revaluation difference			110,817	(110,817)			
Reduction of legal capital surplus		(976,742)	976,742				
Net unrealized gains on available-for-sale securities, less applicable tax					1,542,732		
Changes in foreign currency translation						681	
Decrease in treasury stock		2,603					944
Exercise of warrants	12,967	12,967					
Balance, March 31, 2004	**$2,474,794**	**$1,190,748**	**$ 707,361**	**$(139,480)**	**$ 167,085**	**$(7,537)**	**$(7,631)**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Mitsui Trust Holdings, Inc., and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Operating activities:			
Income (loss) before income taxes and minority interests	**¥ 127,222**	¥ (39,673)	**$ 1,204,185**
Adjustments for:			
Income taxes paid	**(12,705)**	(12,038)	**(120,257)**
Depreciation and amortization	**50,059**	56,020	**473,820**
Equity in (earnings) losses of associated companies	**(486)**	504	**(4,608)**
Decrease in allowance for possible loan losses	**(51,909)**	(23,943)	**(491,333)**
Decrease in reserve for possible losses on collateralized real estate loans sold to CCPC	**(4,389)**	(2,777)	**(41,550)**
Decrease in reserve for bonus payment	**(414)**	(672)	**(3,923)**
(Decrease) increase in reserve for retirement benefits	**(309)**	50,672	**(2,926)**
Increase in reserve for expenses related to Expo 2005 Japan	**45**	—	**429**
Net (gain) loss on securities	**(43,541)**	4,836	**(412,132)**
Gain on money held in trust	**(1,722)**	(1,274)	**(16,306)**
Foreign exchange loss—net	**10,614**	13,921	**100,467**
Net loss on disposals of premises and equipment	**1,971**	854	**18,660**
Change in assets and liabilities:			
Increase in trading assets	**(7,938)**	(979)	**(75,138)**
(Decrease) increase in trading liabilities	**(4,635)**	3,158	**(43,878)**
Decrease in loans and bills discounted	**9,568**	214,733	**90,567**
Increase in deposits	**443,816**	929,786	**4,200,818**
(Decrease) increase in borrowed money (excluding subordinated borrowings)	**(147,347)**	132,533	**(1,394,675)**
(Increase) decrease in due from banks (excluding cash equivalents)	**(5,379)**	11,428	**(50,919)**
Increase in call loans and bills bought	**(46,815)**	(19,899)	**(443,114)**
Increase in receivables under securities borrowing transactions	**(23,863)**	(4,594)	**(225,868)**
Decrease in call money and bills sold	**(81,982)**	(186,500)	**(775,978)**
Increase (decrease) in payables under securities lending transactions	**223,937**	(53,117)	**2,119,613**
Increase in foreign exchanges (assets)	**(1,735)**	(123)	**(16,422)**
Increase (decrease) in foreign exchanges (liabilities)	**3**	(2)	**36**
Decrease in payables to trust account	**(521,695)**	(1,220,496)	**(4,937,958)**
Other—net	**(14,158)**	(206,387)	**(134,008)**
Net cash used in operating activities	**(103,790)**	(354,029)	**(982,402)**
Investing activities:			
Purchases of securities	**(10,115,343)**	(9,164,642)	**(95,743,901)**
Proceeds from sales of securities	**7,381,355**	7,161,408	**69,866,118**
Proceeds from redemption of securities	**2,442,600**	1,976,997	**23,119,738**
Increase in money held in trust	**(2)**	(4,216)	**(25)**
Decrease in money held in trust	**54,157**	18,341	**512,609**
Purchases of premises and equipment	**(27,796)**	(39,546)	**(263,102)**
Proceeds from sales of premises and equipment	**11,054**	24,427	**104,631**
Net cash used in investing activities	**(253,975)**	(27,230)	**(2,403,930)**
Financing activities:			
Payment of subordinated borrowings	**(20,000)**	(58,000)	**(189,304)**
Issuance of capital stock to minority interests	**10,000**	30,000	**94,652**
Dividends paid	**(5,278)**	(7,294)	**(49,958)**
Dividends paid for minority interests	**(4,514)**	(1,769)	**(42,729)**
Payment for purchase of treasury stock	**(7,057)**	(7,386)	**(66,799)**
Proceeds from sales of treasury stock	**10,012**	7,061	**94,769**
Net cash used in financing activities	**(16,837)**	(37,389)	**(159,370)**
Foreign currency translation adjustments on cash and cash equivalents	**51**	(11)	**483**
Net decrease in cash and cash equivalents	**(374,552)**	(418,660)	**(3,545,219)**
Cash and cash equivalents, beginning of year	**832,071**	1,250,731	**7,875,735**
Cash and cash equivalents, end of year	**¥ 457,518**	¥ 832,071	**$ 4,330,515**

Additional Cash Flow Information

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Non-cash investing and financing activities:			
Capital stock increased by conversion of bonds with warrants	**¥ 1,370**	¥ 38	**$ 12,967**
Capital surplus increased by conversion of bonds with warrants	**1,370**	38	**12,967**
Bonds with warrants decreased by exercise of warrants	**¥ 2,740**	¥ 77	**$ 25,934**
Exchange of bonds with warrants for standard bonds	**—**	16,100	**—**
Decrease in capital surplus and accumulated deficit by reduction of legal capital surplus	**103,192**	131,648	**976,742**
Decrease in loans by debt equity swap	**871**	1,080	**8,250**
Decrease in allowance for possible loan losses by debt equity swap	**1**	129	**14**
Increase in securities by debt equity swap	**870**	950	**8,236**

See Notes to Consolidated Financial Statements.

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements (banking account) have been prepared from the accounts maintained by Mitsui Trust Holdings, Inc. ("Mitsui Trust Holdings"), and its consolidated subsidiaries (together, the "Mitsui Trust Financial Group") in accordance with accounting principles generally accepted in Japan, and certain accounting and disclosure rules under the Securities and Exchange Law of Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to Mitsui Trust Holdings' consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2003 consolidated financial statements to conform to classifications and presentations used in 2004.

In 2001, the Chuo Mitsui Trust and Banking Company, Limited ("Chuo Mitsui"), purchased all shares of Mitsui Asset Trust and Banking Co., Ltd. ("Mitsui Asset"), from a Japanese commercial bank, which became a wholly owned subsidiary of Chuo Mitsui. The business combination was accounted for as a purchase.

In February 2002, Chuo Mitsui established Mitsui Trust Holdings by way of stock transfers and became a wholly owned subsidiary of Mitsui Trust Holdings. The formation of Mitsui Trust Holdings was accounted for using the pooling-of-interests method in accordance with "Accounting for the Consolidation of the Holding Company Established by Stock Exchange or Stock Transfers," issued by the Japanese Institute of Certified Public Accountants (the "JICPA" Accounting Committee Research Report No. 6). Mitsui Trust Holdings then purchased all of the Mitsui Asset shares from Chuo Mitsui, thus completing a series of business reorganization activities resulting in Chuo Mitsui and Mitsui Asset becoming wholly owned subsidiaries of Mitsui Trust Holdings.

Japanese yen figures less than a million yen are rounded down to the nearest million yen, except for per share information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Mitsui Trust Holdings is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥105.65 to US$1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation

The consolidated financial statements as of March 31, 2004 include the accounts of Mitsui Trust Holdings and its significant 25 (23 in 2003) subsidiaries.

Under the control or influence concept, those companies in which the parent company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Mitsui Trust Financial Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 2 associated companies are accounted for by the equity method in 2004 and 2003.

Investments in the remaining unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investment in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary or associated company at the date of acquisition is charged to income as incurred.

All significant intercompany transactions, balances and unrealized profits have been eliminated in consolidation.

b. Cash and Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include amounts due from the Bank of Japan.

c. Mark-to-Market Accounting for Trading Purpose Transactions

Transactions for trading purposes (that is, transactions which seek to capture gains arising from short-term changes in interest rates, currency exchange rates or market prices of securities and other market-related indices or from gaps among markets) are included in trading assets and trading liabilities on a trade date basis. Trading securities and monetary claims bought for trading purposes recorded in these accounts are stated at market value and trading-related financial derivatives are at the amounts that would be settled if they were terminated at the end of the fiscal year.

Unrealized gains and losses on trading purpose transactions are recognized in the consolidated statements of operations.

d.Translation of Foreign Currency Accounts

The consolidated banking subsidiaries maintain their accounting records in Japanese yen. Assets and liabilities denominated in foreign currencies are translated into Japanese yen using the exchange rate prevailing at each balance sheet date.

In the previous fiscal year, the consolidated banking subsidiaries had adopted the transitional applications described in the Industry Audit Committee Report No. 25, "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" issued by the JICPA.

In the current fiscal year, the consolidated banking subsidiaries have adopted the main rules of JICPA Industry Audit Committee Report No. 25 and applied hedge accounting described in the Report to currency swap transactions and foreign exchange swap transactions for the purpose of funds lending or borrowing in different currencies. Consequently, these transactions, which were previously accrued, are marked-to-market from this fiscal year and net credit or debt is recorded on the consolidated balance sheet. As a result, other assets and other liabilities increased by ¥872 million ($8,261 thousand), respectively. This change had no effect on net income or shareholders' equity.

Foreign currency translation differences related to forward foreign exchange transactions, except mentioned above, which were previously stated on a net basis after offsetting, are stated on a gross basis from this fiscal year in accordance with JICPA Industry Audit Committee Report No. 25. As a result, other assets and other liabilities increased by ¥15,123 million ($143,148 thousand), respectively.

Foreign currency assets and liabilities of other consolidated subsidiaries are principally translated into yen equivalents at the exchange rates prevailing at the fiscal year-end of each company.

e. Securities

Securities other than investments in unconsolidated subsidiaries and associated companies are classified and accounted for, depending on management's intent, as follows:

i) Trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings;

ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average cost method.

For other than temporary declines in fair value, securities are reduced to net realizable value by a charge to income.

Securities in money held in trust are classified and accounted for the same as securities described above.

f. Derivative and Hedging Activities

Derivative financial instruments are classified and accounted for as follows: i) All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of operations; and ii) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, certain domestic consolidated subsidiaries use the deferral hedge method or the fair value hedge method.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

Regarding hedge accounting to control foreign exchange rate risk arising from financial assets and liabilities denominated in foreign currencies, the consolidated banking subsidiaries apply the deferral method of hedge accounting. In the previous fiscal year, the consolidated banking subsidiaries had adopted the transitional applications described in the Industry Audit Committee Report No. 25, "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" issued by the JICPA. In the current fiscal year, the consolidated banking subsidiaries have adopted the main rules of JICPA Industry Audit Committee Report No. 25 and applied hedge accounting described in the Report to currency swap transactions and foreign exchange swap transactions for the purpose of funds lending or borrowing in different currencies.

g. Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation of premises and equipment owned by the consolidated banking subsidiaries is computed by the declining-balance method, while the straight-line method is

applied to buildings acquired after April 1, 1998. The range of useful lives is from 10 to 50 years for buildings, and from 3 to 8 years for equipment, furniture and fixtures.

Depreciation of premises and equipment owned by other consolidated subsidiaries is mainly computed by the straight-line method over the estimated useful lives of the respective assets.

h. Software

Capitalized software for internal use is amortized by the straight-line method over the estimated useful lives of the software (principally 5 years).

i. Land Revaluation

Under the Law of Land Revaluation, the Mitsui Trust and Banking Company, Limited, elected the one-time revaluation for its own-use land to a value based on real estate appraisal information as of March 31, 1998.

The resulting land revaluation difference represents unrealized appreciation of land and is stated as a component of shareholders' equity. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation difference account and related deferred tax liabilities.

As of March 31, 2004 and 2003, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥6,512 million ($61,646 thousand) and ¥7,761 million, respectively.

j. Stock and Bond Issue Expenses

Stock and bond issue expenses are being amortized by the straight-line method over 3 years and the annual amortization is presented in other expenses in the consolidated statements of operations.

k. Allowance for Possible Loan Losses

Allowance for possible loan losses of major consolidated subsidiaries is maintained in accordance with internally established standards for self-assessment write-offs and reserves for loan losses.

1) For loans extended to debtors that are legally bankrupt, such as debtors under bankruptcy and special liquidation proceedings ("legally bankrupt"), and to debtors that are in substantially similarly adverse condition ("virtually bankrupt"), reserves are maintained at 100% of amounts of claims net of expected amounts recoverable from the disposal of collateral and/or the amounts recoverable under guarantees.

2) For loans extended to debtors that have not yet gone legally or formally bankrupt but that are likely to become bankrupt ("likely to become bankrupt"), reserves are maintained at amounts deemed necessary to absorb losses on the amount of claims less expected amounts recoverable from the disposal of collateral and/or the amounts recoverable under guarantees, based on the overall assessment of debtors' repayment ability.

For loans of large debtors that are likely to become bankrupt and to be closely watched for which future cash flows could be reasonably estimated, a reserve is provided for the difference between the present value of expected future cash flows discounted at the contracted interest rate and the carrying value of the claim.

3) For loans extended to other debtors judged to be legally bankrupt, virtually bankrupt and likely to become bankrupt, as mentioned above, reserves are maintained at rates derived from historical loan loss experiences, etc.

4) Allowance for possible loan losses to restructuring countries is maintained in order to cover possible losses based on the political and economic climates of the countries.

All claims are assessed by the operating sections and each Credit Supervision Department based on the internal rules for self-assessment on asset quality. Subsequently, the Internal Audit Department, which is independent from the operating sections, reviews these self-assessments, and the reserves are provided based on the results of the self-assessments.

With respect to loans with collateral and/or guarantees extended to borrowers in bankruptcy or borrowers virtually in bankruptcy, the unrecoverable amount is estimated by deducting from the loan amount the realizable value of collateral or the amount likely to be recovered based on guarantees. The outstanding amount thus determined is then directly written off from the loan amount as the unrecoverable amount. Such loans totaled ¥232,625 million ($2,201,850 thousand) and ¥407,130 million as of March 31, 2004 and 2003, respectively.

Other consolidated subsidiaries provide for "allowance for possible loan losses" based on the past experience and management's assessment of the loan portfolio.

l. Reserve for Bonus Payment

Reserve for bonus payment is provided for the payment of employees' bonuses based on estimated amounts of the future payments attributed to the current fiscal year.

m. Reserve for Retirement Benefits and Pension Plans

Mitsui Trust Holdings and its principal domestic subsidiaries have defined benefit plans (employee pension fund plans and tax qualified pension plans) and lump-sum severance indemnity plans.

The unrecognized transitional obligation of ¥57,093 million ($540,404 thousand), determined as of April 1, 2000, by adoption of a new accounting standard, is being amortized over five years, and the annual amortization is presented in other expenses in the consolidated statements of operations.

n. Reserve for Possible Losses on Collateralized Real Estate Loans Sold to CCPC

The reserve for possible losses on loans collateralized by real estate sold to the Cooperative Credit Purchasing Company ("CCPC") was provided at an amount deemed necessary to cover possible losses based on the estimated fair value of real estate. In accordance with the terms of the loans collateralized by real estate sales contracts, Chuo Mitsui was required to cover certain portions of losses incurred, as defined in the contract, when CCPC disposed of real estate in satisfaction of the related debt.

o. Reserve for Expenses Related to Expo 2005 Japan

Reserve for expenses related to Expo 2005 Japan is provided for the exhibition expenses related to "The 2005 World Exposition, Aichi, Japan" that will be held in Aichi Prefecture in 2005. This reserve includes the allowance that is stipulated in Article 57-2 of the Specific Taxation Measures Law.

p. Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

q. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

r. Leases

All leases are accounted for as operating leases. In accordance with Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee are permitted to be accounted for as operating leases if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

s. Cash Dividends

Interim dividends may be paid after the end of the semiannual period, by resolution of the Board of Directors, while year-end dividends are authorized after the close of each period to which they relate and are reflected in the consolidated statements of shareholders' equity when duly declared and paid.

t. Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding preferred stocks and full exercise of warrants at the beginning of the year (or at the time of issuance) with an applicable adjustment for related expense and dividends.

Diluted net income per share for the year ended March 31, 2003 was not computed because of the net loss position.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years, including dividends to be paid after the end of the year.

u. New Accounting Pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

Mitsui Trust Holdings is currently in the process of assessing the effect of adoption of these pronouncements.

3. Securities

Securities as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Government bonds	**¥1,903,717**	¥1,662,682	**$18,019,097**
Municipal bonds	**1,850**	19,182	**17,517**
Corporate bonds	**275,589**	261,228	**2,608,514**
Stocks	**682,576**	884,979	**6,460,737**
Other securities	**722,210**	404,510	**6,835,879**
Total	**¥3,585,945**	¥3,232,584	**$33,941,746**

The carrying amounts and aggregate fair values of securities (including securities in trading assets and monetary claims bought) as of March 31, 2004 and 2003, were as follows:

	Millions of yen			
March 31, 2004	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Trading				**¥ 4,612**
Available-for-sale:				
Equity securities	**¥ 535,419**	**¥129,250**	**¥29,194**	**635,475**
Debt securities	**2,118,038**	**1,378**	**79,722**	**2,039,693**
Other	**629,028**	**3,097**	**2,843**	**629,282**
Held-to-maturity	**61,819**	**19**	**715**	**61,123**

	Millions of yen			
March 31, 2003	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Trading				¥ 2,102
Available-for-sale:				
Equity securities	¥ 940,912	¥23,506	¥178,670	785,748
Debt securities	1,947,147	18,074	5,091	1,960,129
Other	260,097	1,557	4,185	257,470
Held-to-maturity	13,841	45	2	13,884

	Thousands of U.S. dollars			
March 31, 2004	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Trading				**$ 43,662**
Available-for-sale:				
Equity securities	**$ 5,067,864**	**$ 1,223,380**	**$276,333**	**6,014,911**
Debt securities	**20,047,692**	**13,044**	**754,594**	**19,306,142**
Other	**5,953,886**	**29,322**	**26,916**	**5,956,292**
Held-to-maturity	**585,131**	**186**	**6,773**	**578,543**

Note: Values in the balance sheets reflect fair market values calculated by using the average market prices during the final month of the fiscal period for Japanese stocks and securities investment trusts, and by using the market prices at the end of the fiscal period for securities other than Japanese stocks and securities investment trusts.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003, were mainly as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Available-for-sale:			
Unlisted stocks	**¥151,005**	¥ 99,187	**$1,429,295**
Unlisted foreign securities	**62,895**	67,232	**595,320**
Subscription certificates	**28,145**	11,979	**266,404**
Total	**¥242,046**	¥178,399	**$2,291,019**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003, were ¥7,540,428 million ($71,371,776 thousand) and ¥7,169,747 million. Gross realized gains and losses on these sales, computed on the moving-average basis, were ¥100,408 million ($950,387 thousand) and ¥51,597 million ($488,385 thousand), respectively, for the year ended March 31, 2004, and ¥100,079 million and ¥46,867 million, respectively, for the year ended March 31, 2003.

The carrying values of securities classified as available-for-sale and held-to-maturity by contractual maturities as of March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due in one year or less	**¥ 297,292**	¥ 503,605	**$ 2,813,934**
Due after one year through five years	**170,975**	150,398	**1,618,317**
Due after five years through ten years	**1,619,945**	1,238,651	**15,333,133**
Due after ten years	**508,901**	259,392	**4,816,866**
Total	**¥2,597,114**	¥2,152,047	**$24,582,252**

Corporate stocks in unconsolidated subsidiaries and associated companies totaled ¥17,219 million ($162,986 thousand) and ¥16,926 million as of March 31, 2004 and 2003, respectively.

4. Money Held in Trust

The carrying amounts and aggregate fair values of money held in trust as of March 31, 2004 and 2003, were as follows:

	Millions of yen		
March 31, 2004	Cost	Unrealized gains	Fair value
Money held in trust classified as:			
Trading			**¥11,961**
Available-for-sale	**¥3,211**	**¥1,779**	**4,990**

March 31, 2003	Millions of yen		
	Cost	Unrealized gains	Fair value
Money held in trust classified as:			
Trading			¥61,747
Available-for-sale	¥5,857	¥3,317	9,174

March 31, 2004	Thousands of U.S. dollars		
	Cost	Unrealized gains	Fair value
Money held in trust classified as:			
Trading			**$113,216**
Available-for-sale	**$30,400**	**$16,838**	**47,239**

5. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Bills discounted	**¥ 20,564**	¥ 36,405	**$ 194,648**
Loans on notes	**963,587**	1,406,361	**9,120,565**
Loans on deeds	**5,509,875**	5,041,489	**52,152,156**
Overdrafts	**695,925**	716,136	**6,587,083**
Total	**¥7,189,953**	¥7,200,393	**$68,054,454**

Nonaccrual Loans

Loans to borrowers in bankruptcy are included in loans and bills discounted, and totaled ¥35,163 million ($332,829 thousand) and ¥26,567 million as of March 31, 2004 and 2003, respectively.

Loans are generally placed on nonaccrual status when substantial doubt is judged to exist as to ultimate collectibility of either principal or interest if they are past due for a certain period or for other reasons.

Loans to borrowers in bankruptcy represent nonaccrual loans, after the partial charge-off of claims deemed uncollectible, to debtors who are legally bankrupt as defined in article 96, paragraph 1, subparagraphs 3 and 4 of Enforcement Ordinance for the Corporation Tax Law.

Past due loans are included in loans and bills discounted, and totaled ¥209,059 million ($1,978,796 thousand) and ¥230,976 million as of March 31, 2004 and 2003, respectively.

Past due loans are nonaccrual loans other than loans to borrowers in bankruptcy and loans for which interest payment is deferred in order to assist the debtor's financial recovery from financial difficulties.

Accruing Loans Contractually Past Due Three Months or More

Accruing loans contractually past due three months or more are included in loans and bills discounted, and totaled ¥723 million ($6,844 thousand) and ¥1,156 million as of March 31, 2004 and 2003, respectively. Loans classified as loans to borrowers in bankruptcy or past due loans are excluded.

Restructured Loans

Restructured loans are included in loans and bills discounted, and totaled ¥165,863 million ($1,569,930 thousand) and ¥358,457 million as of March 31, 2004 and 2003, respectively. Such restructured loans are loans on which Chuo Mitsui granted concessions (for example, reduction of the face amount or maturity amount of the debt or accrued interest) to debtors in financial difficulties to assist them in their financial recovery and eventually enable them to pay their creditors. Loans classified as loans to borrowers in bankruptcy or past due loans or accruing loans contractually past due three months or more are excluded.

Nonaccrual loans, loans accrued contractually past due three months or more and restructured loans totaled ¥410,809 million ($3,888,400 thousand) and ¥617,158 million as of March 31, 2004 and 2003, respectively.

These claims are those before deduction of the reserve for possible loan losses.

Bills discounted are accounted for as secured lending transactions in conformity with the Industry Audit Committee Report No. 24 "Treatment of Accounting and Auditing Concerning Accounting for Financial Products in the Banking Industry" issued by the JICPA on February 13, 2002. Bills discounted by Chuo Mitsui are permitted to be sold or pledged.

6. Foreign Exchanges

Foreign exchanges as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Assets:			
Due from foreign banks	**¥6,713**	¥4,978	**$63,545**
Total	**¥6,713**	¥4,978	**$63,545**
Liabilities:			
Due to foreign banks	**¥ 27**	¥ 24	**$ 263**
Other	**1**	0	**10**
Total	**¥ 28**	¥ 25	**$ 273**

7. Other Assets

Other assets as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Prepaid expenses	**¥ 1,239**	¥ 1,375	**$ 11,733**
Accrued income	**36,186**	44,065	**342,510**
Prepaid pension expenses	**97,680**	89,992	**924,562**
Receivables for securities transactions	**136,681**	—	**1,293,721**
Other	**240,826**	223,643	**2,279,478**
Total	**¥512,614**	¥359,075	**$4,852,005**

8. Premises and Equipment

Premises and equipment as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Land	**¥ 88,630**	¥ 92,913	**$ 838,902**
Buildings	**49,933**	54,926	**472,634**
Equipment	**12,213**	14,726	**115,603**
Other	**83,754**	91,683	**792,758**
Total	**¥234,532**	¥254,250	**$2,219,898**

Accumulated depreciation amounted to ¥208,231 million ($1,970,956 thousand) and ¥216,850 million as of March 31, 2004 and 2003, respectively.

9. Collateral

The carrying amounts of assets pledged as collateral and the related collateralized debt as of March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Securities	**¥ 922,966**	¥ 934,362	**$ 8,736,073**
Loans	**264,038**	361,552	**2,499,185**
Other assets	**660**	805	**6,254**
Total	**¥1,187,665**	¥1,296,720	**$11,241,512**
Deposits	**¥ 2,252**	¥ 13,412	**$ 21,318**
Call money	**150,000**	300,000	**1,419,782**
Bills sold	**97,900**	—	**926,644**
Payables under repurchase agreements	**—**	99,999	**—**
Payables under securities lending transactions	**418,182**	194,245	**3,958,188**
Borrowed money	**14,291**	15,491	**135,267**
Total	**¥ 682,625**	¥ 623,149	**$ 6,461,201**

The following assets are deposited with respect to foreign exchange settlements and derivatives as of March 31, 2004 and 2003.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Securities	**¥637,443**	¥444,802	**$6,033,544**
Due from banks	**63**	—	**600**
Other assets	**18**	16	**175**
Total	**¥637,525**	¥444,818	**$6,034,319**

In addition, the following assets were pledged or deposited as of March 31, 2004 and 2003.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Securities deposits (included in premises and equipment)	**¥15,482**	¥18,668	**$146,542**
Deposits for futures transactions (included in other assets)	**226**	202	**2,141**
Total	**¥15,708**	¥18,870	**$148,683**

10. Customers' Liabilities for Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are reflected in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are shown as assets in the consolidated balance sheets representing Mitsui Trust Holdings' right of indemnity from the applicant.

11. Deposits

Deposits as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Current deposits	**¥ 150,131**	¥ 123,898	**$ 1,421,024**
Ordinary deposits	**1,619,821**	1,491,703	**15,331,955**
Deposits at notice	**37,332**	43,208	**353,360**
Time deposits	**7,037,581**	6,712,426	**66,612,220**
Negotiable certificates of deposit	**215,530**	221,960	**2,040,037**
Other	**55,675**	79,058	**526,976**
Total	**¥9,116,071**	¥8,672,254	**$86,285,575**

12. Borrowed Money

Borrowed money as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Borrowed money	**¥ 51,996**	¥199,343	**$ 492,158**
Subordinated borrowings	**277,000**	297,000	**2,621,864**
Perpetual subordinated borrowings	**13,000**	13,000	**123,047**
Total	**¥341,996**	¥509,343	**$3,237,070**

The weighted-average rates calculated from the interest rates and the balances as of March 31, 2004 and 2003, were 2.97% and 2.20%, respectively.

Annual maturities of borrowed money as of March 31, 2004, for the next 5 years were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 37,452	$ 354,497
2006	48,403	458,150
2007	10,636	100,672
2008	1,383	13,093
2009	50,495	477,946
Total	¥148,370	$1,404,360

13. Subordinated Bonds and Bonds with Warrants

Subordinated bonds and bonds with warrants as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Issuer: Mitsui Trust Holdings,			
1.07% Japanese yen perpetual subordinated convertible bonds	**¥ —**	¥ 2,630	**$ —**
Unsecured perpetual subordinated bonds, 3.02% (1.52% in 2003)	**100,000**	100,000	**946,521**
Issuer: Chuo Mitsui,			
Unsecured perpetual subordinated bonds, 2.17% (1.51% in 2003)	**16,100**	16,100	**152,389**
Issuer: MTI Capital (Cayman) Ltd.,			
0.5% Japanese yen subordinated convertible bonds due 2007	**466**	576	**4,410**
Issuer: MTI Finance (Cayman) Ltd.,			
Subordinated bonds, 1.24% to 5.00% (1.25% to 5.00% in 2003)	**22,275**	22,726	**210,839**
Total	**¥138,841**	¥142,032	**$1,314,161**

Annual maturities of bonds as of March 31, 2004, for the next 5 years were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 2,000	$ 18,930
2007	14,500	137,245
2008	3,741	35,410
Total	¥20,241	$191,586

The aforementioned convertible bonds are convertible into common stock of Mitsui Trust Holdings at the conversion prices set forth below, subject to adjustment under certain circumstances.

The conversion price per share was as follows:

March 31, 2004	Conversion price per share
0.5% Japanese yen subordinated convertible bonds due 2007	**¥1,100**

As of March 31, 2004, the above convertible bonds were convertible into 423,636 shares of Mitsui Trust Holdings' common stock.

14. Other Liabilities

Other liabilities as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Accrued expenses	**¥ 37,474**	¥ 32,663	**$ 354,708**
Unearned income	**5,339**	6,570	**50,535**
Other	**73,729**	66,156	**697,866**
Total	**¥116,543**	¥105,390	**$1,103,110**

15. Retirement and Pension Plans

Employees whose service with Mitsui Trust Holdings and certain domestic consolidated subsidiaries is terminated are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to greater payment than in the case of voluntary termination.

Mitsui Trust Holdings and its principal domestic subsidiaries have defined benefit plans (employee pension fund plans and tax qualified pension plans) and lump-sum severance indemnity plans.

Certain domestic consolidated subsidiaries have lump-sum severance indemnity plans and integrated contributory pension plans.

The consolidated banking subsidiaries contributed certain available-for-sale securities with a fair value to the employee retirement benefit trust for their pension plans. The securities held in this trust are qualified as plan assets.

The funded status for employees' retirement benefits as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Projected benefit obligation	**¥(180,410)**	¥(248,070)	**$(1,707,627)**
Fair value of plan assets	**233,507**	214,874	**2,210,199**
Unrecognized plan assets	**(12,869)**	—	**(121,814)**
Unrecognized prior service cost	**(3,070)**	(7,720)	**(29,061)**
Unrecognized actuarial loss	**51,930**	106,344	**491,538**
Unrecognized transitional obligation	**7,173**	22,836	**67,899**
Net amount accrued on the balance sheets	**96,261**	88,264	**911,133**
Prepaid pension expenses (included in other assets)	**97,680**	89,992	**924,562**
Reserve for retirement benefits	**¥ (1,418)**	¥ (1,727)	**$ (13,428)**

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥ 5,163**	¥ 5,379	**$ 48,871**
Interest cost	**6,186**	7,023	**58,552**
Expected return on plan assets	**(6,717)**	(2,956)	**(63,581)**
Amortization of prior service cost	**(2,587)**	(2,587)	**(24,494)**
Recognized acturial loss	**12,114**	6,566	**114,667**
Amortization of transitional obligation for retirement benefits	**11,418**	11,418	**108,074**
Other	**11,439**	8,145	**108,276**
Net periodic benefit costs	**¥37,016**	¥32,988	**$350,367**

Assumptions used for the years ended March 31, 2004 and 2003, were set forth as follows:

	2004	2003
Discount rate	**1.9%**	2.5%
Expected rate of return on plan assets	**3.1%**	1.6%
Method of attributing the projected benefits to periods of services	**Straight-line basis**	Straight-line basis
Amortization period of prior service cost	**5 years**	5 years
Recognition period of actuarial loss	**9 to 10 years**	10 years
Amortization period of transitional obligation	**5 years**	5 years

In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, Mitsui Trust Holdings and its consolidated banking subsidiaries applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. Mitsui Trust Holdings and its consolidated banking subsidiaries obtained approval for exemption from the future obligation by the Ministry of Health, Labour and Welfare on March 31, 2004 and recognized a gain on exemption from the future pension obligation of the governmental program in the amount of ¥17,972 million ($170,110 thousand) for the year ended March 31, 2004. The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥44,055 million ($416,991 thousand) as of March 31, 2004.

16. Commitment and Contingent Liabilities

a. A commitment line is a contract whereby Mitsui Trust Holdings' subsidiaries are obligated to advance funds up to a predetermined amount to a customer upon request, provided that the customer has met the terms and conditions of the contract. The total balance of unused commitment lines as of March 31, 2004 and 2003, was ¥1,530,434 million ($14,485,891 thousand) and ¥1,404,672 million, respectively, of which commitment lines whose maturities are less than one year were ¥1,501,776 million ($14,214,636 thousand) and ¥1,390,793 million, respectively.

Many of these commitment lines often expire without being drawn. As such, the total balance of unused commitment lines does not necessarily impact on the subsidiaries' future cash flows. Furthermore, many commitment lines contain provisions that allow the subsidiaries to refuse to advance funds to the customers or reduce the contract amount of the commitment lines under certain conditions.

The subsidiaries may also request customers to provide collateral, if necessary, such as real estate or securities on the execution date of the contract. After the execution date, the subsidiaries periodically monitor the customers' creditworthiness over the term of the contracts in accordance with internal policies, and take measures to manage the credit exposures such as by revising the terms of the contracts, if necessary.

b. Under certain trust agreements, repayments of the principal of the customers' trust assets are guaranteed by Chuo Mitsui. Regarding guaranteed trusts, Chuo Mitsui guaranteed the principal amount of ¥1,570,268 million ($14,862,932 thousand) and ¥1,587,366 million for jointly operated money trusts as of

March 31, 2004 and 2003, respectively, and ¥1,995,167 million ($18,884,691 thousand) and ¥2,655,940 million for loan trusts as of March 31, 2004 and 2003, respectively.

17. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code"), to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated, resulting in all shares being recorded with no par value, and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of capital stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the capital stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the capital stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock, allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of capital stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The amount of retained earnings available for dividends under the Code was ¥16,587 million ($156,999 thousand) as of March 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Banking Law of Japan, the consolidated banking subsidiaries are required to appropriate an amount at least equal to 20% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period as a legal reserve until such reserve and additional paid-in capital equals 100% of capital stock. The amount of total additional paid-in capital and legal reserve that exceeds 100% of the capital stock may be available for dividends by resolution of the shareholders.

18. Common Stock and Preferred Stocks

Common stock and preferred stocks as of March 31, 2004, consisted of the following:

	Number of shares		Per share (Yen)
Class of stock	Authorized	Issued	Year-end cash dividend
Common stock	4,068,332,436	824,131,581	¥ 2.50
Class I preferred stock	20,000,000	20,000,000	40.00
Class II preferred stock	93,750,000	93,750,000	14.40
Class III preferred stock	156,406,250	156,406,250	20.00
Class IV preferred stock	12,875,000	—	—

Note: The authorization to issue 12,875,000 shares of Class IV preferred stock was rescinded at the general shareholders' meeting held on June 29, 2004.

Mitsui Trust Holdings issued non-voting, non-cumulative and non-participating preferred stocks. These preferred stocks are convertible into common stock at the specific convertible price. The preferred shareholder shall be entitled, in priority to any payment of dividends on or in respect of any other class of share, to the specific annual dividend.

Preferred shareholders receive liquidation at ¥1,600 per share and do not have the right to participate in any further liquidation distribution.

The preferred stocks are convertible for a fixed period of time at the option of the shareholder. Unless previously converted by the preferred shareholder, all outstanding preferred shares will be mandatorily exchanged for fully paid shares of common stock on a specific day, at the number of common shares calculated by the market price per share on the day following the day of each convertible due.

Issue terms of each preferred stock are as follows:

	Preferred stock		
	Class I	Class II	Class III
Annual dividend	¥40.00	¥14.40	¥20.00
Convertible due	July 31, 2018	July 31, 2009	July 31, 2009
Convertible price	¥395.40	¥450.00	¥450.00

19. Other Interest Income

Other interest income for the years ended March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Interest on due from banks	**¥ 793**	¥1,059	**$7,514**
Interest on interest rate swaps	**92**	69	**873**
Other	**130**	114	**1,239**
Total	**¥1,017**	¥1,243	**$9,628**

20. Trust Fees

Chuo Mitsui and Mitsui Asset receive fees for controlling and managing trust properties held under trust agreements between them and their clients.

21. Other Operating Income

Other operating income for the years ended March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Gains on foreign exchange	**¥ 40**	¥ 2,900	**$ 384**
Gains on sales and redemption of bonds	**46,568**	67,052	**440,785**
Gains on sales of loans	**15,777**	2,038	**149,335**
Other	**250**	11,910	**2,367**
Total	**¥62,637**	¥83,902	**$592,872**

22. Other Income

Other income for the years ended March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Gains on sales of stocks and other securities	**¥ 69,205**	¥ 44,923	**$ 655,048**
Gains on money held in trust	**935**	923	**8,850**
Lease-related income	**32,645**	31,627	**308,996**
Net reversal of allowance for possible loan losses	**6,644**	—	**62,888**
Refund of enterprise taxes from the Tokyo Metropolitan Government	**8,888**	—	**84,127**
Gains on transfer of the substitutional portion of the governmental pension program	**17,972**	—	**170,110**
Other	**27,301**	24,519	**258,417**
Total	**¥163,592**	¥101,992	**$1,548,438**

23. Other Interest Expense

Other interest expense for the years ended March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Interest on subordinated bonds	**¥ 4,218**	¥ 2,474	**$ 39,926**
Interest on bonds with warrants	**6**	117	**66**
Interest on interest rate swaps	**1,248**	7,075	**11,813**
Interest on payables under repurchase agreements and payables under securities lending transactions	**2,963**	876	**28,048**
Other	**7,716**	12,587	**73,040**
Total	**¥16,153**	¥23,131	**$152,895**

24. Other Operating Expenses

Other operating expenses for the years ended March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Losses on sales and redemption of bonds	**¥12,416**	¥ 860	**$117,521**
Losses on devaluation of bonds	**19**	197	**181**
Other	**5,691**	5,106	**53,872**
Total	**¥18,126**	¥6,164	**$171,574**

25. Other Expenses

Other expenses for the years ended March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Net provision for possible loan losses	**¥ —**	¥ 16,415	**$ —**
Write-off of loans	**27,404**	53,547	**259,386**
Losses on sales of stocks and other equity securities	**52,993**	46,510	**501,595**
Losses on devaluation of stocks and other securities	**2,570**	62,541	**24,327**
Losses on money held in trust	**253**	653	**2,399**
Lease-related expenses	**30,236**	29,249	**286,192**
Losses on disposition of premises and equipment	**3,416**	5,774	**32,333**
Amortization of transitional obligation for retirement benefits	**11,418**	11,418	**108,074**
Other	**77,617**	83,636	**734,670**
Total	**¥205,909**	¥309,743	**$1,948,980**

26. Income Taxes

Mitsui Trust Holdings and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42.05% for the years ended March 31, 2004 and 2003.

The tax effects of significant temporary differences and loss carryforwards, which resulted in deferred tax assets and liabilities as of March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Allowance for possible loan losses	**¥ 62,855**	¥ 173,008	**$ 594,945**
Tax loss carryforwards	**271,608**	175,301	**2,570,831**
Securities	**31,101**	73,907	**294,380**
Net unrealized losses on available-for-sale securities	**5,618**	64,240	**53,176**
Other	**45,027**	47,606	**426,196**
Valuation allowance	**(119,056)**	(163,286)	**(1,126,896)**
Total deferred tax assets	**297,154**	370,778	**2,812,634**
Deferred tax liabilities	**(20,443)**	(26,130)	**(193,501)**
Net deferred tax assets	**¥ 276,711**	¥ 344,647	**$ 2,619,133**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2004 and 2003, was as follows:

	2004	2003
Normal effective statutory tax rate	**42.05%**	42.05%
Valuation allowance	**7.34**	(192.50)
Effect of tax rate reduction	**—**	19.48
Elimination of unrealized gain on intercompany transactions	**8.68**	(2.19)
Difference in statutory tax rate between Mitsui Trust Holdings and consolidated banking subsidiaries	**(2.53)**	—
Other—net	**0.50**	(1.49)
Actual effective tax rate	**56.05%**	(134.66)%

As of March 31, 2004, certain subsidiaries have tax loss carryforwards aggregating approximately ¥668,927 million ($6,331,540 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 57,616	$ 545,356
2007	223,819	2,118,496
2008	144,636	1,369,019
2009	242,854	2,298,668
Total	¥668,927	$6,331,540

27. Leases

Lessee

Total lease payments under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥12 million ($113 thousand) and ¥33 million for the years ended March 31, 2004 and 2003, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance leases, depreciation expense, and interest expense of finance leases on an "as if capitalized" basis for the years ended March 31, 2004 and 2003, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
	Equipment	Equipment	Equipment
Acquisition cost	**¥24**	¥149	**$235**
Accumulated depreciation	**22**	122	**212**
Net leased property	**¥ 2**	¥ 27	**$ 23**

Obligations under financial leases as of March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥2**	¥22	**$20**
Due after one year	**0**	3	**3**
Total	**¥2**	¥26	**$24**

Depreciation expense and interest expense under finance leases for the years ended March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Depreciation expense	**¥9**	¥28	**$92**
Interest expense	**0**	1	**2**
Total	**¥9**	¥30	**$94**

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of operations, were computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancellable operating leases as of March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥ 5**	¥12	**$ 49**
Due after one year	**13**	19	**132**
Total	**¥19**	¥31	**$181**

Lessor

Total leases receipts under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥30,780 million ($291,340 thousand) and ¥28,094 million for the years ended March 31, 2004 and 2003, respectively.

Information of leased property that does not transfer ownership of the leased property to the lessee for the years ended March 31, 2004 and 2003, was as follows:

	Millions of yen		
	2004		
	Equipment	Other assets	Total
Acquisition cost	**¥195,234**	**¥2,027**	**¥197,261**
Accumulated depreciation	**125,134**	**1,072**	**126,206**
Net leased property	**¥ 70,100**	**¥ 954**	**¥ 71,055**

	Millions of yen		
	2003		
	Equipment	Other assets	Total
Acquisition cost	¥189,540	¥1,887	¥191,428
Accumulated depreciation	115,351	958	116,309
Net leased property	¥ 74,189	¥ 929	¥ 75,118

	Thousands of U.S. dollars		
	2004		
	Equipment	Other assets	Total
Acquisition cost	**$1,847,936**	**$19,190**	**$1,867,126**
Accumulated depreciation	**1,184,420**	**10,154**	**1,194,575**
Net leased property	**$ 663,515**	**$ 9,035**	**$ 672,551**

Receivables under financial leases as of March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥26,215**	¥27,061	**$248,131**
Due after one year	**49,002**	52,721	**463,818**
Total	**¥75,217**	¥79,782	**$711,950**

Depreciation expense and interest income under finance leases for the years ended March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Depreciation expense	**¥28,215**	¥25,486	**$267,067**
Interest income	**1,138**	1,228	**10,777**
Total	**¥29,354**	¥26,714	**$277,844**

Interest income, which is not reflected in the accompanying consolidated statements of operations, was computed by the interest method.

The minimum rental commitments under noncancellable operating leases as of March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥1,041**	¥194	**$ 9,860**
Due after one year	**1,968**	364	**18,632**
Total	**¥3,010**	¥558	**$28,493**

28. Derivatives Information

Derivative Transactions

a. Instruments

The primary derivative transactions undertaken by Mitsui Trust Financial Group are listed below.

Interest rate derivatives: interest futures, interest rate future options, interest rate swaps, caps, floors and swaptions

Bond derivatives: bond futures, bond future options, over-the-counter bond options

Currency derivatives: foreign exchange contracts, currency swaps and currency options

Stock derivatives: equity swaps, stock forward transactions

Other: credit derivatives

b. Purposes and Policies for Derivative Transactions

Mitsui Trust Financial Group employs derivative transactions as a vital tool to meet the increasingly sophisticated and diversified financial needs of clients and to keep the market risk exposure on its own assets and liabilities to a level commensurate with its risk management capacity. Derivative transactions involve various risks, including market risk, which arises through changing interest rates and price fluctuations. Mitsui Trust Financial Group must be aware of the characteristics and volume of such risk and enforce strict risk management processes to hedge the risks inherent in derivative transactions. Mitsui Trust Financial Group does not engage in leveraged derivative transactions, for which transaction values fluctuate significantly compared with the price movement of the underlying products.

c. Transaction Purposes

(1) Banking Account

In the banking account, Mitsui Trust Financial Group uses derivative transactions to hedge asset and liability risks, such as interest rate risk and foreign exchange rate risk.

In principle, Mitsui Trust Financial Group applies fair-value accounting to derivative transactions in the banking account. In addition, of derivatives used for hedging purposes, those transactions recognized for being highly effective in hedging risk are accounted for by hedge accounting.

(2) Trading Account

In the trading account, Mitsui Trust Financial Group uses derivative transactions to secure profit, primarily through short-term price fluctuations. Mitsui Trust Financial Group also provides a wide assortment of derivative-embedded, high-value-added financial products and financial risk management measures to assist clients in their financing requirements. When providing these products and measures, Mitsui Trust Financial Group strives to ensure that clients fully understand the inherent risks and the content of transactions into which derivatives have been integrated.

d. Contents of Risks for Derivative Transactions

(1) Market Risk

Market risk is the potential for loss caused by fluctuations in the fair value of financial products or portfolios, owing to changes in market volatility on the market prices of traded products, such as interest rates, foreign exchange rates and marketable securities. Mitsui Trust Financial Group measures risk volume through such means as basis point value ("BPV")* and value at risk ("VaR")**.

VaR for the fiscal years ended March 31, 2004 and 2003***, in the trading account, on a consolidated basis, is presented below.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Maximum	**¥279**	¥373	**$2,643**
Minimum	**18**	31	**166**
Average	**95**	100	**901**
End of year	**62**	75	**591**

* BPV shows the change in fair value of transactions when interest rates change by one basis point (0.01%).

** VaR is a method to statistically gauge the maximum portfolio loss at a certain probability during a given holding period, thereby facilitating standardized measurement of risk across different products, including interest rates, foreign exchange rates and bonds.

*** Measurement assumes a confidence level of 99% and a holding period of 10 days.

(2) Credit Risk

Credit risk is the possibility of reduction or complete elimination of fair value on transactions, owing to such adverse developments as the worsening financial position of a borrower. In the case of derivative transactions, credit risk is not the loss of the assumed principal but the cost, or reconstruction cost, extended to conclude an agreement with a third party having cash flow equivalent to the amount at the time the original counterparty defaulted.

Mitsui Trust Financial Group's credit equivalent—determined on a consolidated basis according to Bank for International Settlements (BIS) capital adequacy standards—comprises latent credit exposure plus reconstruction costs. The amounts for the years ended March 31, 2004 and 2003, comprise the following components:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Interest rate swaps	**¥117,009**	¥ 137,835	**$1,107,517**
Currency swaps	**3,265**	4,512	**30,913**
Foreign exchange contracts	**18,184**	17,214	**172,116**
Interest options (Buy)	**3,312**	328	**31,356**
Currency options (Buy)	**333**	457	**3,154**
Stock derivative transactions	**1,510**	271	**14,292**
Effect of close-out netting agreements that reduce Mitsui Trust Financial Group's credit risk exposure	**(90,933)**	(121,360)	**(860,706)**
Total	**¥ 52,681**	¥ 39,259	**$ 498,645**

e. Risk Management System for Derivative Transactions

Mitsui Trust Financial Group is fully aware of the social responsibility and public mission that is incumbent upon financial institutions. Members of Mitsui Trust Financial Group therefore assume risk only within strategic objectives and risk-hedging capabilities, based on suitable risk management, and adhere to a basic risk management policy to secure appropriate returns on investment.

As the holding company for Mitsui Trust Financial Group, Mitsui Trust Holdings monitors risk management for the entire Mitsui Trust Financial Group, oversees the system for securing appropriate profits and for managing risk at the consolidated banking subsidiaries, and provides guidance for enhancing the system when and where necessary.

The consolidated banking subsidiaries have established their own Rules for Risk Management geared to respective operating scale and business characteristics, in accordance with the risk management direction of Mitsui Trust Financial Group that Mitsui Trust Holdings has set forth in its Rules for Risk Management, and utilize these rules to undertake appropriate risk management.

With regard to market risk, specially, Chuo Mitsui maintains a basic policy through its Rules for Market Risk Management and follows Regulations for Market Risk Management to reinforce and control accurate hedging techniques and risk limits as well as to underpin, for example, a split office structure. A cross-check structure has been established whereby the divisions that execute transactions are clearly separate from the divisions that process the transactions, and

overall management of market risk is consolidated under the Corporate Risk Management Department, which is independent of both the front and back offices and pinpoints the status of activities undertaken by both office categories.

This department identifies and analyzes groupwide risk, tracks compliance of risk limits and reports to the director in charge on a daily basis and to the Executive Committee on a monthly basis.

With regard to hedge transactions, Chuo Mitsui has prepared Rules for Hedge Transactions to maintain suitable control of hedge transactions.

For credit risk, Chuo Mitsui follows Rules for Credit Risk Management, which provide direction for regulating credit risk on loans, fund transactions, derivative transactions and other credit-related risks, and works to forge a stronger credit risk management structure.

Credit lines for derivative and other transactions are established through strict procedures, in accordance with trading standards provided separately. The compliance status of such credit lines and other conditions are appropriately monitored.

Fair Value of Transactions

The following transactions are stated at fair value and unrealized gains (losses) are reflected in the consolidated statements of operations. Transactions which qualify for hedge accounting were excluded from the following table.

Interest rate transactions

	Millions of yen			
	2004			
	Contract or notional amount			
	Total	Over one year	Fair value	Unrealized gains (losses)
Listed:				
Interest rate futures contracts:				
Selling	**¥ 47,919**	**¥ —**	**¥ (24)**	**¥ (24)**
Buying	**61,224**	**—**	**(43)**	**(43)**
Over-the-counter:				
Interest rate swaps:				
Fixed rate receipt, floating rate payment	**3,093,386**	**2,290,954**	**79,177**	**79,177**
Floating rate receipt, fixed rate payment	**2,925,631**	**2,206,157**	**(66,109)**	**(66,109)**
Floating rate receipt, floating rate payment	**32,200**	**32,200**	**3,910**	**3,910**
Caps:				
Selling	**13,600**	**13,600**	**(33)**	**10**
Buying	**5,600**	**5,600**	**1**	**(13)**
Others:				
Selling	**93,500**	**74,500**	**(1,428)**	**(156)**
Buying	**44,000**	**24,000**	**420**	**46**
Total			**¥ 15,869**	**¥ 16,796**

	Millions of yen			
	2003			
	Contract or notional amount			
	Total	Over one year	Fair value	Unrealized gains (losses)
Listed:				
Interest rate futures contracts:				
Selling	¥ 3,171	¥ —	¥ 0	¥ 0
Buying	6,234	—	(2)	(2)
Over-the-counter:				
Interest rate swaps:				
Fixed rate receipt, floating rate payment	2,820,798	984,355	112,756	112,756
Floating rate receipt, fixed rate payment	2,557,311	926,511	(105,673)	(105,673)
Floating rate receipt, floating rate payment	32,200	32,200	4,382	4,382
Caps:				
Selling	38,542	5,000	(10)	87
Buying	62,742	—	0	(64)
Others:				
Selling	120,400	63,000	(2,339)	(901)
Buying	50,400	38,000	267	23
Total			¥ 9,381	¥ 10,609

	Thousands of U.S. dollars			
	2004			
	Contract or notional amount			
	Total	Over one year	Fair value	Unrealized gains (losses)
Listed:				
Interest rate futures contracts:				
Selling	$ 453,572	$ —	$ (229)	$ (229)
Buying	579,501	—	(410)	(410)
Over-the-counter:				
Interest rate swaps:				
Fixed rate receipt, floating rate payment	29,279,565	21,684,374	749,428	749,428
Floating rate receipt, fixed rate payment	27,691,732	20,881,757	(625,745)	(625,745)
Floating rate receipt, floating rate payment	304,779	304,779	37,011	37,011
Caps:				
Selling	128,726	128,726	(315)	96
Buying	53,005	53,005	18	(125)
Others:				
Selling	884,997	705,158	(13,524)	(1,485)
Buying	416,469	227,165	3,979	439
Total			$150,211	$158,978

Note: The fair value of listed transactions is calculated according to closing market prices on the Tokyo International Financial Futures Exchange and other exchanges. The fair value of over-the-counter transactions is calculated according to discounted present value, the option pricing model and other valuation techniques.

Currency transactions

	Millions of yen		
	2004		
	Contract or notional amount	Fair value	Unrealized gains (losses)
Over-the-counter:			
Currency rate swaps	¥221,865	¥ (407)	¥ (407)
Foreign exchange contracts:			
Selling	514,904	15,476	15,476
Buying	573,766	(13,053)	(13,053)
Currency options:			
Selling	12,572	(151)	(18)
Buying	26,069	224	41

	Millions of yen		
	2003		
	Contract or notional amount	Fair value	Unrealized gains (losses)
Over-the-counter:			
Currency rate swaps (Note 2)	¥352,552	¥(1,805)	¥(1,805)

	Thousands of U.S. dollars		
	2004		
	Contract or notional amount	Fair value	Unrealized gains (losses)
Over-the-counter:			
Currency rate swaps	$2,100,000	$ (3,859)	$ (3,859)
Foreign exchange contracts:			
Selling	4,873,682	146,491	146,491
Buying	5,430,822	(123,557)	(123,557)
Currency options:			
Selling	119,000	(1,438)	(175)
Buying	246,757	2,120	394

Notes: 1. The fair value of over-the-counter currency transactions is calculated according to discounted present value, the option pricing model and other valuation techniques.
2. Currency rate swaps were accrued in 2003 in accordance with the transitional applications described in the Industry Audit Committee Report No. 25, "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" issued by the JICPA.
3. Foreign exchange contracts and currency options were excluded from the above table in 2003, as their carrying amounts were re-priced at the end of term and their gains and losses were stated in the consolidated statement of operations. Contract or notional amount of these transactions in 2003 was as follows:

	Millions of yen
	2003
	Contract or notional amount
Over-the-counter:	
Foreign exchange contracts:	
Selling	¥441,436
Buying	465,095
Currency options:	
Selling	24,040
Buying	31,540

Stock transactions

	Millions of yen		
	2004		
	Contract or notional amount	Fair value	Unrealized gains (losses)
Listed:			
Stock index futures			
Selling	¥1,735	¥ (33)	¥ (33)
Over-the-counter:			
Stock index swaps:			
Receipts equity index return/Payments short-term floating rate interest	5,032	(73)	(73)
Total		¥(106)	¥(106)

	Millions of yen		
	2003		
	Contract or notional amount	Fair value	Unrealized gains (losses)
Over-the-counter:			
Stock index swaps:			
Receipts equity index return/Payments short-term floating rate interest	¥4,045	¥(223)	¥(223)

	Thousands of U.S. dollars		
	2004		
	Contract or notional amount	Fair value	Unrealized gains (losses)
Listed:			
Stock index futures			
Selling	**$16,429**	**$ (317)**	**$ (317)**
Over-the-counter:			
Stock index swaps:			
Receipts equity index return/Payments short-term floating rate interest	**47,634**	**(694)**	**(694)**
Total		**$(1,011)**	**$(1,011)**

Note: The fair value of listed transactions is calculated according to closing market prices on the Tokyo International Financial Futures Exchange and other exchanges. The fair value of over-the-counter transactions is calculated according to discounted present value and other valuation techniques.

Bond transactions

	Millions of yen		
	2004		
	Contract amount	Fair value	Unrealized gains (losses)
Listed:			
Bond futures:			
Selling	**¥11,578**	**¥ (7)**	**¥ (7)**
Buying	**12,904**	**(38)**	**(38)**

	Millions of yen		
	2003		
	Contract amount	Fair value	Unrealized gains (losses)
Listed:			
Bond futures:			
Selling	¥4,537	¥(0)	¥(0)
Buying	736	3	3

	Thousands of U.S. dollars		
	2004		
	Contract amount	Fair value	Unrealized gains (losses)
Listed:			
Bond futures:			
Selling	**$109,590**	**$ (69)**	**$ (69)**
Buying	**122,141**	**(366)**	**(366)**

Note: The fair value of listed transactions is calculated according to closing market prices on the stock exchanges, such as the Tokyo Stock Exchange.

Credit derivative transactions

	Millions of yen			
	2004			
	Contract or notional amount			
	Total	Over one year	Fair value	Unrealized gains (losses)
Over-the-counter:				
Credit default swaps				
Selling	**¥65,000**	**¥65,000**	**¥(57)**	**¥(57)**

	Thousands of U.S. dollars			
	2004			
	Contract or notional amount			
	Total	Over one year	Fair value	Unrealized gains (losses)
Over-the-counter:				
Credit default swaps				
Selling	**$615,238**	**$615,238**	**$(542)**	**$(542)**

Notes: 1. Fair value is calculated according to discounted present value.
2. "Selling" refers to acceptance transactions on credit risk.

29. Segment Information

Information about business segments, geographic segments and ordinary income from international operations for the years ended March 31, 2004 and 2003, is as follows:

(1) Business Segment Information

	Millions of yen			
	2004			
	Trust banking business	Other finance-related operations	Eliminations/ corporate	Consolidated
Ordinary income:				
External customers	**¥ 463,460**	**¥ 52,725**	**¥ —**	**¥ 516,186**
Intersegment	**8,337**	**19,738**	**(28,075)**	**—**
Total ordinary income	**471,798**	**72,464**	**(28,075)**	**516,186**
Ordinary expenses	**369,705**	**60,813**	**(19,693)**	**410,825**
Ordinary profit	**¥ 102,092**	**¥ 11,650**	**¥ (8,382)**	**¥ 105,361**
Assets, depreciation and capital expenditures:				
Total assets	**¥12,803,893**	**¥1,066,777**	**¥(1,116,913)**	**¥12,753,758**
Depreciation	**19,847**	**30,174**	**—**	**50,021**
Capital expenditures	**11,001**	**27,600**	**—**	**38,602**

	Millions of yen			
	2003			
	Trust banking business	Other finance-related operations	Eliminations/ corporate	Consolidated
Ordinary income:				
External customers	¥ 438,039	¥ 59,212	¥ —	¥ 497,252
Intersegment	5,760	11,541	(17,301)	—
Total ordinary income	443,800	70,753	(17,301)	497,252
Ordinary expenses	478,815	60,072	(16,908)	521,979
Ordinary profit (loss)	¥ (35,014)	¥ 10,681	¥ (393)	¥ (24,727)
Assets, depreciation and capital expenditures:				
Total assets	¥12,372,152	¥1,298,284	¥(1,192,414)	¥12,478,021
Depreciation	26,130	29,876	—	56,007
Capital expenditures	25,411	30,861	—	56,272

	Thousands of U.S. dollars			
	2004			
	Trust banking business	Other finance-related operations	Eliminations/ corporate	Consolidated
Ordinary income:				
External customers	**$ 4,386,757**	**$ 499,061**	**$ —**	**$ 4,885,818**
Intersegment	**78,913**	**186,827**	**(265,740)**	**—**
Total ordinary income	**4,465,670**	**685,888**	**(265,740)**	**4,885,818**
Ordinary expenses	**3,499,339**	**575,611**	**(186,401)**	**3,888,549**
Ordinary profit	**$ 966,331**	**$ 110,276**	**$ (79,339)**	**$ 997,268**
Assets, depreciation and capital expenditures:				
Total assets	**$121,191,613**	**$10,097,282**	**$(10,571,823)**	**$120,717,072**
Depreciation	**187,860**	**285,604**	**—**	**473,464**
Capital expenditures	**104,130**	**261,246**	**—**	**365,377**

Notes: 1. Ordinary income represents total income excluding mainly net reversal of allowance for possible loan losses and gain on transfer of the substitutional portion of the governmental pension program in other income. Ordinary expenses represents total expenses excluding mainly losses on disposition of premises and equipment and amortization of transitional obligation for retirement benefits in other expenses.

2. "Other finance-related operations" mainly consists of credit guarantee services, leasing and credit card services.

(2) Geographic Segment Information

Since domestic (Japan) total ordinary income and total assets by geographic segment for the years ended March 31, 2004 and 2003, represented more than 90% of the consolidated total ordinary income and total assets of each respective year, geographic segment information was not required to be disclosed.

(3) Ordinary Income from International Operations

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Ordinary income from international operations (A)	**¥ 49,357**	¥ 29,469	**$ 467,182**
Consolidated ordinary income (B)	**516,186**	497,252	**4,885,818**
(A)/(B) (%)	**9.5%**	5.9%	**9.5%**

30. Per Share Information

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2004 and 2003, was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year ended March 31, 2004	Net income (loss)	Weighted-average shares	EPS	EPS
Basic EPS				
Net income available to common shareholders	**¥45,508**	**819,258**	**¥55.54**	**$0.52**
Effect of dilutive securities				
Bonds with warrants	**4**	**2,236**		
Preferred stocks	**5,278**	**970,925**		
Diluted EPS				
Net income for computation	**¥50,790**	**1,792,419**	**¥28.33**	**$0.26**
Year ended March 31, 2003				
Basic EPS				
Net loss available to common shareholders	¥(101,988)	813,860	¥(125.31)	

Diluted net income per share for the year ended March 31, 2003, was not computed because of the net loss position.

31. Subsequent Event

The following plan of Mitsui Trust Holdings for the appropriation of unappropriated profit was approved at the general meeting of shareholders held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Year-end dividends:		
Common stock, ¥2.50 ($0.02) per share	¥2,058	$19,481
Class I preferred stock, ¥40.00 ($0.37) per share	800	7,572
Class II preferred stock, ¥14.40 ($0.13) per share	1,350	12,778
Class III preferred stock, ¥20.00 ($0.18) per share	3,128	29,608
Total	¥7,336	$69,439

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Independent Auditors' Report

To the Board of Directors of
Mitsui Trust Holdings, Inc.:

We have audited the accompanying consolidated balance sheets ("Banking Account") of Mitsui Trust Holdings, Inc. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui Trust Holdings, Inc. and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2004

The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than Japan. The standards to audit such financial statements are those which are generally accepted in Japan.

Member of
Deloitte Touche Tohmatsu

Non-Consolidated Balance Sheets (Supplemental Information—Unaudited)

Mitsui Trust Holdings, Inc.
As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
ASSETS			
Current assets:			
Income tax refunds receivable	**¥ 831**	¥ 19,183	**$ 7,873**
Deferred tax assets	**200**	—	**1,899**
Other current assets	**79**	660	**755**
Total current assets	**1,112**	19,844	**10,527**
Non-current assets:			
Tangible fixed assets	**1**	1	**10**
Intangible fixed assets	**1**	1	**12**
Investments and other assets:	**873,018**	872,157	**8,263,307**
Investment securities	**75**	75	**709**
Investments in subsidiaries and associated companies (Stocks)	**631,948**	618,408	**5,981,531**
Investments in subsidiaries (Bonds)	**100,000**	100,000	**946,521**
Investments in subsidiaries (Convertible bonds)	**466**	3,206	**4,410**
Investments in subsidiaries (Long-term loans)	**140,000**	150,000	**1,325,130**
Deferred tax assets	**136**	80	**1,293**
Other investments	**391**	387	**3,709**
Total non-current assets	**873,020**	872,160	**8,263,330**
Deferred charges	**185**	406	**1,757**
Total	**¥874,318**	¥892,412	**$8,275,615**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Current liabilities:			
Short-term loans from subsidiaries	**¥ 5,977**	¥ 23,983	**$ 56,575**
Accrued expenses	**603**	442	**5,713**
Accrued taxes	**576**	—	**5,456**
Reserve for bonus payment	**39**	39	**378**
Deferred tax liabilities	**—**	1,677	**—**
Other current liabilities	**51**	36	**485**
Total current liabilities	**7,248**	26,179	**68,608**
Non-current liabilities:			
Long-term loans	**140,000**	150,000	**1,325,130**
Bonds	**203,300**	192,500	**1,924,278**
Convertible bonds	**466**	3,206	**4,410**
Reserve for retirement benefits	**343**	226	**3,253**
Reserve for expenses related to Expo 2005 Japan	**45**	—	**429**
Total non-current liabilities	**344,155**	345,932	**3,257,502**
Total liabilities	**351,403**	372,112	**3,326,111**
Shareholders' equity:			
Common stock and preferred stock	**261,462**	260,092	**2,474,794**
Capital surplus	**244,866**	243,494	**2,317,710**
Retained earnings	**16,883**	16,818	**159,807**
Treasury stock—at cost			
862,013 shares in 2004 and 489,389 shares in 2003	**(296)**	(105)	**(2,807)**
Total shareholders' equity	**522,915**	520,299	**4,949,504**
Total	**¥874,318**	¥892,412	**$8,275,615**

Non-Consolidated Statements of Income (Supplemental Information—Unaudited)

Mitsui Trust Holdings, Inc.
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Operating income:			
Interest income on loans to subsidiaries	**¥ 2,347**	¥ 3,096	**$ 22,223**
Interest income on investments in subsidiaries (Bonds)	**3,072**	1,556	**29,079**
Interest income on investments in subsidiaries (Convertible bonds)	**6**	118	**66**
Fees and commissions received from subsidiaries	**2,119**	2,479	**20,065**
Dividends received from subsidiaries	**8,545**	2	**80,886**
Total operating income	**16,092**	7,251	**152,321**
Operating expenses:			
Interest expense on loans	**2,347**	3,096	**22,223**
Interest expense on bonds	**6,250**	3,589	**59,165**
Interest expense on convertible bonds	**6**	117	**66**
General and administrative expenses	**1,566**	1,922	**14,828**
Total operating expenses	**10,172**	8,725	**96,282**
Operating profit (loss)	**5,920**	(1,474)	**56,038**
Non-operating income:			
Gain on sales of securities	**0**	11,737	**0**
Other non-operating income	**279**	240	**2,642**
Total non-operating income	**279**	11,977	**2,643**
Non-operating expenses:			
Interest expenses on loans from subsidiaries	**142**	114	**1,350**
Other non-operating expenses	**577**	558	**5,464**
Total non-operating expenses	**719**	673	**6,814**
Income before income taxes	**5,479**	9,829	**51,866**
Income taxes:	**136**	1,600	**1,294**
Current	**2,071**	3	**19,603**
Deferred	**(1,934)**	1,597	**(18,308)**
Net income	**¥ 5,342**	¥ 8,228	**$ 50,572**

	Yen		U.S. dollars
	2004	2003	**2004**
Per share of common stock:			
Basic net income	**¥0.07**	¥3.60	**$0.00**
Diluted net income	**0.07**	3.59	**0.00**

Non-Consolidated Balance Sheets (Supplemental Information—Unaudited)

The Chuo Mitsui Trust and Banking Company, Limited
As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
ASSETS			
Cash and cash equivalents	**¥ 398,352**	¥ 566,513	**$ 3,770,491**
Due from banks other than due from the Bank of Japan	**64,293**	58,913	**608,550**
Receivables under resale agreements	**—**	24,999	**—**
Receivables under securities borrowing transactions	**34,427**	10,564	**325,858**
Monetary claims bought	**54,187**	—	**512,898**
Trading assets	**21,121**	13,203	**199,918**
Securities	**3,585,337**	3,098,805	**33,935,995**
Money held in trust	**11,961**	61,747	**113,216**
Loans and bills discounted	**7,289,543**	7,165,614	**68,997,095**
Foreign exchanges	**6,713**	4,978	**63,545**
Other assets	**444,281**	281,198	**4,205,222**
Premises and equipment	**137,984**	167,385	**1,306,051**
Deferred tax assets	**268,900**	335,500	**2,545,196**
Customers' liabilities for acceptances and guarantees	**263,401**	243,780	**2,493,153**
Allowance for possible loan losses	**(92,603)**	(144,438)	**(876,513)**
Total	**¥12,487,902**	¥11,888,766	**$118,200,681**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits	**¥ 9,138,118**	¥ 8,683,806	**$ 86,494,259**
Call money	**154,817**	300,000	**1,465,382**
Payables under repurchase agreements	**—**	99,999	**—**
Payables under securities lending transactions	**418,182**	194,245	**3,958,188**
Bills sold	**97,900**	—	**926,644**
Trading liabilities	**4,298**	8,933	**40,683**
Borrowed money	**342,833**	363,411	**3,244,989**
Foreign exchanges	**28**	25	**273**
Subordinated bonds	**116,100**	116,100	**1,098,911**
Bonds with warrants	**466**	3,206	**4,410**
Payables to trust account	**1,340,159**	1,500,303	**12,684,896**
Other liabilities	**85,618**	68,259	**810,397**
Reserve for bonus payment	**2,006**	2,184	**18,989**
Reserve for possible losses on collateralized real estate loans sold to CCPC	**—**	4,389	**—**
Acceptances and guarantees	**263,401**	243,780	**2,493,153**
Total liabilities	**11,963,930**	11,588,645	**113,241,180**
Shareholders' equity:			
Common stock and preferred stock	**356,264**	349,894	**3,372,120**
Capital surplus	**105,578**	202,401	**999,327**
Retained earnings (Accumulated deficit)	**90,407**	(103,192)	**855,727**
Land revaluation difference	**(14,736)**	(3,028)	**(139,480)**
Net unrealized losses on available-for-sale securities	**(13,543)**	(145,954)	**(128,193)**
Total shareholders' equity	**523,971**	300,120	**4,959,501**
Total	**¥12,487,902**	¥11,888,766	**$118,200,681**

Non-Consolidated Statements of Operations (Supplemental Information—Unaudited)

The Chuo Mitsui Trust and Banking Company, Limited
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Income:			
Interest income:			
Interest on loans and bills discounted	**¥115,911**	¥ 119,934	**$1,097,131**
Interest and dividends on securities	**40,392**	41,565	**382,322**
Interest on call loans and bills bought	**140**	294	**1,330**
Other interest income	**1,025**	1,236	**9,706**
Trust fees	**46,024**	56,943	**435,631**
Fees and commissions	**62,047**	46,085	**587,296**
Trading gains	**11,376**	780	**107,680**
Other operating income	**62,866**	77,717	**595,049**
Other income	**154,648**	54,743	**1,463,783**
Total income	**494,434**	399,302	**4,679,932**
Expenses:			
Interest expense:			
Interest on deposits	**25,830**	30,452	**244,492**
Interest on call money and bills sold	**96**	23	**915**
Interest on borrowings	**10,449**	11,984	**98,911**
Other interest expense	**15,482**	21,822	**146,543**
Fees and commissions	**15,050**	13,688	**142,456**
Trading losses	**419**	3	**3,972**
Other operating expenses	**17,953**	2,330	**169,936**
General and administrative expenses	**106,965**	125,262	**1,012,453**
Other expenses	**156,575**	262,863	**1,482,016**
Total expenses	**348,824**	468,433	**3,301,698**
Income (loss) before income taxes	**145,610**	(69,130)	**1,378,233**
Income taxes:			
Current	**310**	(620)	**2,940**
Deferred	**66,600**	45,843	**630,383**
Net income (loss)	**¥ 78,699**	¥(114,354)	**$ 744,910**

	Yen		U.S. dollars
	2004	2003	**2004**
Per share of common stock			
Basic net income (loss)	**¥59.81**	¥(103.43)	**$0.56**
Diluted net income	**35.76**	—	**0.34**

Non-Consolidated Balance Sheets (Supplemental Information—Unaudited)

Mitsui Asset Trust and Banking Company, Limited
As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
ASSETS			
Cash and cash equivalents	**¥ 58,028**	¥263,846	**$ 549,253**
Due from banks other than due from the Bank of Japan	**1,876**	15,457	**17,756**
Securities	**55,221**	117,215	**522,683**
Other assets	**42,718**	37,013	**404,344**
Premises and equipment	**2,001**	2,870	**18,941**
Deferred tax assets	**6,879**	7,218	**65,114**
Allowance for possible loan losses	**(12)**	(19)	**(119)**
Total	**¥166,712**	¥443,602	**$1,577,973**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits	**¥ 149**	¥ 14,796	**$ 1,419**
Call money	**65,300**	—	**618,078**
Borrowed money	**52,000**	2,000	**492,191**
Payables to trust account	**2,940**	364,492	**27,835**
Other liabilities	**5,013**	15,020	**47,450**
Reserve for bonus payment	**340**	543	**3,220**
Reserve for retirement benefits	**461**	972	**4,372**
Total liabilities	**126,206**	397,824	**1,194,567**
Shareholders' equity:			
Common stock	**11,000**	11,000	**104,117**
Capital surplus	**21,246**	21,246	**201,098**
Retained earnings	**8,262**	13,538	**78,206**
Net unrealized losses on available-for-sale securities	**(1)**	(6)	**(16)**
Total shareholders' equity	**40,506**	45,777	**383,406**
Total	**¥166,712**	¥443,602	**$1,577,973**

Non-Consolidated Statements of Income (Supplemental Information—Unaudited)

Mitsui Asset Trust and Banking Company, Limited
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Income:			
Interest income:			
Interest and dividends on securities	**¥ 19**	¥ 6	**$ 188**
Other interest income	**70**	100	**667**
Trust fees	**38,208**	43,683	**361,654**
Fees and commissions	**3,960**	3,300	**37,490**
Other operating income	**—**	6,300	**—**
Other income	**1,929**	342	**18,259**
Total income	**44,189**	53,734	**418,260**
Expenses:			
Interest expense:			
Interest on borrowings	**131**	70	**1,247**
Other interest expense	**41**	663	**391**
Fees and commissions	**9,340**	4,161	**88,411**
Other operating expenses	**—**	3,302	**—**
General and administrative expenses	**21,068**	24,175	**199,422**
Other expenses	**7,048**	5,185	**66,715**
Total expenses	**37,631**	37,560	**356,188**
Income before income taxes	**6,557**	16,174	**62,072**
Income taxes:			
Current	**1,597**	7,347	**15,120**
Deferred	**336**	(1,861)	**3,180**
Net income	**¥ 4,624**	¥10,688	**$ 43,771**

	Yen		U.S. dollars
	2004	2003	**2004**
Per share of common stock			
Net income	**¥7,707.48**	¥17,813.56	**$72.95**

Financial Statements of Subsidiary Banks (Trust Account—Unaudited)

Mitsui Trust Holdings, Inc.
As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Assets:			
Loans and bills discounted (Note 2)	**¥ 1,867,778**	¥ 2,543,351	**$ 17,678,924**
Securities (Note 3)	**4,657,178**	14,347,385	**44,081,195**
Securities held for investment trusts	**—**	3,070,539	**—**
Foreign investment held for investment trusts	**—**	654,368	**—**
Beneficiary rights	**24,815,037**	9,839,782	**234,879,670**
Securities held in custody accounts	**263**	96,113	**2,495**
Monetary claims	**753,749**	982,322	**7,134,405**
Premises and equipment	**1,868,865**	1,358,915	**17,689,213**
Other claims	**31,117**	551,195	**294,536**
Call loans	**—**	858,240	**—**
Due from banking account	**1,343,100**	1,864,795	**12,712,731**
Cash and due from banks	**161,423**	336,906	**1,527,908**
Total assets	**¥35,498,514**	¥36,503,916	**$336,001,082**
Liabilities:			
Money trusts (Note 4)	**¥15,793,951**	¥17,773,394	**$149,493,151**
Pension trusts	**6,659,413**	6,452,735	**63,032,780**
Property formation benefit trusts	**18,963**	19,808	**179,496**
Loan trusts (Note 5)	**1,778,080**	2,391,307	**16,829,911**
Securities investment trusts	**4,585,161**	4,297,779	**43,399,540**
Money in trust other than money trusts	**1,323,529**	1,044,826	**12,527,488**
Securities in trust	**664,562**	1,019,117	**6,290,228**
Money claims in trust	**767,270**	915,366	**7,262,381**
Equipment in trust	**431**	561	**4,086**
Real estate in trust	**88,101**	114,552	**833,900**
General trusts	**3,819,048**	2,474,464	**36,148,116**
Total liabilities	**¥35,498,514**	¥36,503,916	**$336,001,082**

See Notes to Financial Statements of Subsidiary Banks (Trust Account—Unaudited).

Notes to Financial Statements of Subsidiary Banks (Trust Account—Unaudited)

Mitsui Trust Holdings, Inc.
Years ended March 31, 2004 and 2003

1. Trust Accounts

Under the Trust Law of Japan, trust activities must be administered separately from a commercial banking business. As a result, assets accepted in trust must be segregated from other assets. Within the general category of trust accounts, each trust account is segregated from other trust assets. Accordingly, the financial statements of Mitsui Trust Holdings, Inc. ("Mitsui Trust Holdings"), do not reflect Mitsui Trust Holdings' records as to the assets accepted in trust, which are maintained separately under the trust account.

Under certain trust agreements, repayments of the principal of the customers' trust assets are guaranteed by The Chuo Mitsui Trust and Company, Limited, and such guaranteed principal as of March 31, 2004 and 2003, was ¥3,565,436 million ($33,747,623 thousand) and ¥4,243,306 million, respectively.

All amounts have been rounded down to the nearest million yen, and to the nearest thousand dollars.

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥105.65 to US$1, the approximate rate of exchange as of March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Loans on deeds	**¥1,560,860**	¥1,983,108	**$14,773,880**
Loans on notes	**305,809**	560,243	**2,894,548**
Bills discounted	**1,108**	—	**10,495**
Total	**¥1,867,778**	¥2,543,351	**$17,678,924**

Under certain trust agreements, repayments of the principal of the customers' trust assets are guaranteed by banking subsidiaries, and loans on such guaranteed trust assets as of March 31, 2004 and 2003, included the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Loans to borrowers in legal bankruptcy	**¥ 7,928**	¥10,928	**$ 75,045**
Past due loans	**32,269**	27,360	**305,435**
Accruing loans contractually past due three months or more	**437**	1,506	**4,136**
Restructured loans	**22,644**	50,335	**214,332**
Total	**¥63,279**	¥90,131	**$598,950**

3. Securities

Securities are stated at market price or at cost by each trust agreement.

Securities held as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Government bonds	**¥2,233,749**	¥ 2,840,755	**$21,142,919**
Municipal bonds	**143,727**	223,216	**1,360,412**
Corporate bonds	**633,818**	1,101,458	**5,999,230**
Stocks	**1,245,733**	6,664,446	**11,791,133**
Foreign securities	**399,390**	3,096,780	**3,780,320**
Other securities	**758**	420,728	**7,178**
Total	**¥4,657,178**	¥14,347,385	**$44,081,195**

4. Balance of Jointly Operated Designated Money Trusts

Jointly operated designated money trusts are included in money trusts and the balances of these accounts were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Assets:			
Loans and bills discounted	**¥ 564,284**	¥ 837,842	**$ 5,341,075**
Securities	**21,443**	2	**202,965**
Other	**985,109**	749,857	**9,324,269**
Total	**¥1,570,837**	¥1,587,701	**$14,868,310**
Liabilities:			
Principal	**¥1,570,268**	¥1,587,366	**$14,862,932**
Reserve for possible loan losses	**74**	25	**702**
Other	**494**	310	**4,675**
Total	**¥1,570,837**	¥1,587,701	**$14,868,310**

In the case of jointly operated designated money trusts, the principal amount is guaranteed and, as the above table indicates, reserve for possible loan losses is set aside by banking subsidiaries. The figures of the table include funds reinvested from the other trusts managed by a banking subsidiary.

5. Balance of Loan Trusts

The balance of loan trusts is as follows (the figures include funds reinvested from other trusts managed by a banking subsidiary):

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Assets:			
Loans and bills discounted	**¥1,246,988**	¥1,631,538	**$11,803,012**
Securities	**54,916**	125,511	**519,792**
Other	**713,487**	927,662	**6,753,313**
Total	**¥2,015,391**	¥2,684,713	**$19,076,118**
Liabilities:			
Principal	**¥1,995,167**	¥2,655,940	**$18,884,691**
Special reserve funds	**10,910**	14,929	**103,273**
Other	**9,313**	13,842	**88,153**
Total	**¥2,015,391**	¥2,684,713	**$19,076,118**

As in jointly operated designated money trusts, the principal amount of loan trusts is guaranteed and, as the above table indicates, special reserve funds are set aside by a banking subsidiary.

Consolidated Five-Year Summary

	Mitsui Trust Holdings	Mitsui Trust Holdings	Mitsui Trust Holdings	Chuo Mitsui	Chuo Trust and Mitsui Trust
			Billions of yen		
	2004	2003	2002	2001	2000
Banking account* (As of March 31)					
Total assets	**¥12,753.7**	¥12,478.0	¥13,372.8	¥13,887.9	¥15,297.5
Cash and due from banks	**521.8**	890.9	1,321.0	500.3	1,009.2
Call loans and bills bought	**17.0**	—	0.0	181.6	247.5
Securities	**3,585.9**	3,232.5	3,436.9	4,261.6	4,976.6
Loans and bills discounted	**7,189.9**	7,200.3	7,416.0	7,707.4	7,740.4
Foreign exchanges	**6.7**	4.9	4.8	13.3	13.0
Customers' liabilities for acceptances and guarantees	**376.5**	220.2	306.9	406.5	463.3
Total liabilities	**¥12,182.0**	¥12,129.2	¥12,811.0	¥13,104.4	¥14,149.8
Deposits	**9,116.0**	8,672.2	7,742.4	7,860.4	7,910.2
Call money and bills sold	**318.0**	300.0	586.5	37.4	135.0
Borrowed money	**341.9**	509.3	434.8	463.3	510.2
Foreign exchanges	**0.0**	0.0	0.0	0.0	0.0
Acceptances and guarantees	**376.5**	220.2	306.9	406.5	463.3
Total shareholders' equity	**¥ 463.3**	¥ 251.6	¥ 496.1	¥ 778.5	¥ 1,139.9
Trust account* (As of March 31)					
Total assets	**¥35,498.5**	¥36,503.9	¥38,077.2	¥43,451.4	¥44,404.9
Loans and bills discounted	**1,867.7**	2,543.3	2,592.9	3,244.5	3,973.4
Securities	**4,657.1**	14,347.3	23,023.4	22,375.2	22,000.4
Beneficiary rights	**24,815.0**	9,839.7	1,011.0	3.3	232.8
Total liabilities	**¥35,498.5**	¥36,503.9	¥38,077.2	¥43,451.4	¥44,404.9
Money trusts	**15,793.9**	17,773.3	17,202.1	22,071.8	22,698.2
Pension trusts	**6,659.4**	6,452.7	6,374.2	6,288.7	6,045.2
Property formation benefit trusts	**18.9**	19.8	21.2	20.0	20.8
Loan trusts	**1,778.0**	2,391.3	3,762.1	5,271.2	6,192.1
Securities investment trusts	**4,585.1**	4,297.7	5,238.7	6,894.6	7,035.6
Statements of operations (Years ended March 31)					
Total income	**¥ 553.9**	¥ 506.6	¥ 540.9	¥ 657.5	¥ 1,011.2
Total expenses	**426.7**	546.3	958.0	611.0	891.3
Income (loss) before income taxes and minority interests	**127.2**	(39.6)	(417.1)	46.5	119.8
Net income (loss)	**¥ 50.7**	¥ (96.7)	¥ (277.9)	¥ 23.0	¥ 47.8

Notes: 1. All figures are based on the consolidated financial statements.
2. Figures for 2002, 2003 and 2004 are for Mitsui Trust Holdings, Inc.
3. Figures for 2001 are for The Chuo Mitsui Trust and Banking Company, Limited.
4. Figures for 2000 are combined totals from The Chuo Trust and Banking Company, Limited, and The Mitsui Trust and Banking Company, Limited.

* Figures for 2004, 2003 and 2002 are combined totals from The Chuo Mitsui Trust and Banking Company, Limited, and Mitsui Asset Trust and Banking Company, Limited.

Definitions of Self-Assessment System, Disclosure of Assets 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 non-accrual 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, composition or civil reconstruction, 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 proceedings 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 claims: 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 claims: 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. Non-accrual loans: Of loans for which accrued interest is not recorded, non-accrual 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 non-accrual 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, non-accrual 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. Non-accrual 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.