Financial Section

Name Changes of Mitsui Trust Holdings, Inc., and Mitsui Asset Trust Banking Company, Limited

On October 1, 2007, Mitsui Trust Holdings, Inc., changed its name to Chuo Mitsui Trust Holdings, Inc. Likewise, Mitsui Asset Trust Banking Company, Limited, became Chuo Mitsui Asset Trust and Banking Company, Limited. However, the names used in the sections of this annual report entitled Financial Review, Financial Statements and Notes and Basel II Related Data are those that were official as of March 31, 2007.

Economic and Fiscal Environments

The economic environment in fiscal 2006—the consolidated fiscal year ended March 31, 2007—was much like that in fiscal 2005, with a mixture of opportunities and challenges both overseas and in Japan. Of note overseas, an expansionary atmosphere persisted despite a slowdown in the United States caused by sluggish demand for housing, while in Japan, favorable export activity and capital investment within the business community offset a lull, albeit temporary, in personal consumption in the summer of 2006.

In the domestic finance industry, short-term interest rates, raised twice by the Bank of Japan, settled in the vicinity of 0.5% in February 2006 and stayed at this level. Long-term interest rates shifted into the upper one-percentile range, amid a gradual yet sustained recovery in business conditions. The Nikkei Stock Average fluctuated considerably during fiscal 2006, prompted largely by speculation over business conditions at home and abroad, and ended in the 17,000 range, as of March 31, 2007. A high dollar/low yen situation continued to characterize the foreign exchange market, primarily because of a gap between foreign and domestic interest rates. The U.S. dollar strengthened against the yen, moving from the low 120s at the start of 2007 into the 117 range by March 31, 2007.

A trend among individuals to apply personal financial assets toward equity and investment trusts rather than deposits and saving accounts became more pronounced in fiscal 2006. In the real estate market, the flow of risk money increased, and the scale of transactions reached a high level.

To address these economic and fiscal opportunities and challenges, Mitsui Trust Financial Group adhered to its basic direction, emphasizing accelerated recomposition of the revenue structure and enhanced profitability through expanded gross operating profit. Efforts were therefore channeled into activities that would reinforce Groupwide strengths in growth fields and underpinned by the Group's two trust banks, with Chuo Mitsui focusing on individual services, financial services, real estate operations and stock transfer agency services, and Mitsui Asset concentrating on pension trusts and securities trusts.

Fiscal 2006 Consolidated Performance

As of March 31, 2007, the deposits amounted to ¥8,529.7 billion, down 3.1% from a year earlier. Loans and bills discounted reached ¥7,377.3 billion, up 1.2%. Securities came to ¥4,511.7 billion, up 17.6%.

Total assets stood at ¥14,090.5 billion, up 2.0%.

Against the combined value of total equity and minority interests, at March 31, 2006, net assets rose 17.8% year-on-year, to ¥1,137.3 billion.

On the profit-and-loss front, total income fell 2.3%, to ¥468.0 billion, but with a 15.0% reduction in total expenses, to ¥288.3 billion, income before income taxes and minority interests grew 28.4%, to ¥179.6 billion. Net income, however, decreased 5.8%, to ¥112.7 billion, and net income per share dropped to ¥123.33, compared with ¥139.04 a year earlier.

The consolidated capital adequacy ratio, calculated according to domestic criteria, was 12.13% in fiscal 2006, down from 12.35% in fiscal 2005.

Segment Information

The trust and banking business generated total ordinary income of ¥405.9 billion and ordinary expenses of ¥242.7 billion, leading to ordinary profit of ¥163.2 billion. Other finance-related operations generated ordinary income of ¥93.4 billion and ordinary expenses of ¥64.2 billion, for ordinary profit of ¥29.1 billion.

Cash Flows

Net cash provided by operating activities in fiscal 2006 reached ¥521.8 billion, a ¥994.2 billion change from ¥472.4 billion used in fiscal 2005. This turnaround is largely the result of a net increase in marketable funds.

Net cash used in investing activities amounted to ¥568.0 billion, a ¥966.8 billion change from ¥398.8 billion provided in fiscal 2005. This turnaround is primarily due to a reduction in proceeds from investment securities.

Net cash used in financing activities came to ¥2.7 billion, or ¥20.2 billion more than in fiscal 2005. The year-on-year difference reflects the appearance of proceeds from the issuance of common stock to minority shareholders which, at ¥33.0 billion, offset major applications of funds for financing activities, including the issue of subordinated convertible bonds—that is, preferred stock through private placement.

Cash and cash equivalents at the end of the year settled at ¥303.1 billion, down ¥48.3 billion from a year earlier.

Non-Consolidated Fiscal 2006 Performance

Total assets of Mitsui Trust Holdings stood at ¥717.0 billion, primarily owing to an increase in marketable securities following the change to wholly consolidated subsidiary status for Mitsui Asset. Net assets reached ¥578.2 billion, for net assets per share of ¥191.69.

Income before income taxes and minority interests slipped to ¥18.9 billion, reflecting a decline in fees and commissions from subsidiaries. Net income retreated to ¥19.1 billion, and net income per share of common stock decreased to ¥16.71.

Dividends

In view of its public duty as a financial institution, Mitsui Trust Holdings' basic policy on dividends is underscored by an unwavering commitment to ensure sound management. Therefore, the Company aims to boost retained earnings to an appropriate level while maintaining stable dividends for shareholders.

The Company paid dividends of ¥5.00 per share of common stock in fiscal 2006. Dividends on preferred stock remained the same as in fiscal 2005: ¥14.40 for class II preferred and ¥20.00 per share for class III preferred.

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).

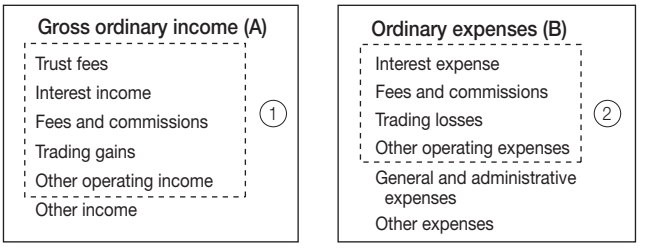
Net Operating Profit at Trust Banks

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