

MITSUBISHI TOKYO FINANCIAL GROUP INC

Form 20-F

August 25, 2005

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As filed with the Securities and Exchange Commission on August 25, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended March 31, 2005

OR

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

For the transition period to

OR

**“ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

Commission file number 1-10277

KABUSHIKI KAISHA MITSUBISHI TOKYO FINANCIAL GROUP

(Exact name of Registrant as specified in its charter)

mitsubishi tokyo financial group, inc.

(Translation of Registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

4-1, Marunouchi 2-chome

Chiyoda-ku, Tokyo 100-6326

Japan

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common stock, without par value	New York Stock Exchange (1)
American depositary shares, each of which represents one one-thousandth of one share of common stock	New York Stock Exchange

(1) The listing of the registrant's common stock on the New York Stock Exchange is for technical purposes only and without trading privileges.

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

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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

At March 31, 2005, (1) 6,545,353 shares of common stock (including 6,802 shares of common stock held by the registrant and its consolidated subsidiaries as treasury stock), (2) 40,700 shares of class 1 preferred stock (3) 100,000 shares of class 3 preferred stock were issued.

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

Yes No

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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For purposes of this Annual Report, we have presented our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, or US GAAP, except for risk-adjusted capital ratios, business segment financial information and some other specifically identified information. Unless otherwise stated or the context otherwise requires, all amounts in our financial statements are expressed in Japanese yen.

When we refer in this Annual Report to Mitsubishi Tokyo Financial Group, MTFG, we, us, our and the Group, we mean Mitsubishi Tokyo Financial Group, Inc. and its consolidated subsidiaries. References in this Annual Report to yen or ¥ are to Japanese yen and references to US dollars, US dollar, dollars, US\$ or \$ are to United States dollars. Our fiscal year ends on March 31 of each year. From time to time, we may refer to the fiscal year ended March 31, 2005 in this Annual Report as fiscal 2004 or the 2004 fiscal year. We may also refer to other fiscal years in a corresponding manner. References to years not specified as being fiscal years are to calendar years.

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

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Forward-Looking Statements

We may from time to time make written or oral forward-looking statements. Written forward-looking statements may appear in documents filed with the U.S. Securities and Exchange Commission, or SEC, including this Annual Report, and other reports to shareholders and other communications.

The U.S. Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking information to encourage companies to provide prospective information about themselves. We rely on this safe harbor in making these forward-looking statements.

Forward-looking statements appear in a number of places in this Annual Report and include statements regarding our intent, business plan, targets, belief or current expectations and/or the current belief or current expectations of our management with respect to our results of operations and financial condition, including, among other matters, our problem loans and loan losses. In many, but not all cases, we use words such as anticipate, aim, believe, estimate, expect, intend, plan, probability, risk and similar expressions, as they relate to us or our operations, to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary materially from those which are anticipated, believed, estimated, expected, intended or planned.

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

We do not intend to update our forward-looking statements. We are under no obligation, and disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

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

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

On April 2, 2001, we were formed as a holding company for The Bank of Tokyo-Mitsubishi, Ltd., or Bank of Tokyo-Mitsubishi, The Mitsubishi Trust and Banking Corporation, or Mitsubishi Trust Bank, and Nippon Trust Bank Limited, or Nippon Trust Bank. Nippon Trust Bank was formerly a majority-owned subsidiary of Bank of Tokyo-Mitsubishi and merged into Mitsubishi Trust Bank in October 2001. The business combination between Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank was accounted for under the pooling-of-interests method and, accordingly, the selected statement of operations and balance sheet data shown below for the periods ended before the combination set forth the combined results of Bank of Tokyo-Mitsubishi, including Nippon Trust Bank, and Mitsubishi Trust Bank as if the combination had been in effect for all the periods presented.

Except for risk-adjusted capital ratios, which are calculated in accordance with Japanese banking regulations based on information derived from our financial statements prepared in accordance with Japanese GAAP, and the average balance information, the selected financial data set forth below are derived from our financial statements prepared in accordance with US GAAP.

Upon the acquisition of additional common shares of ACOM CO., LTD., or ACOM, in April 2004, we applied the equity method of accounting to its investments in ACOM in a manner consistent with the accounting for step-by-step acquisition of a subsidiary. Accordingly, certain financial data for fiscal years ended on and before March 31, 2004 has been retroactively adjusted.

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

	Fiscal years ended March 31,				
	2001	2002	2003	2004	2005
(in millions, except per share data and number of shares)					
Statement of operations data:					
Interest income	¥ 2,278,168	¥ 2,013,571	¥ 1,582,493	¥ 1,421,754	¥ 1,442,623
Interest expense	1,309,454	938,274	539,270	426,514	471,231
Net interest income	968,714	1,075,297	1,043,223	995,240	971,392
Provision (credit) for credit losses	783,855	598,412	437,972	(114,109)	109,502
Net interest income after provision (credit) for credit losses	184,859	476,885	605,251	1,109,349	861,890
Non-interest income	853,492	359,696	840,634	1,308,095	995,090
Non-interest expense	1,021,708	1,161,294	1,182,406	1,236,040	1,135,591
Income (loss) from continuing operations before income tax expense (benefit) and cumulative effect of a change in accounting principle	16,643	(324,713)	263,479	1,181,404	721,389
Income tax expense (benefit)	47,594	(99,729)	69,872	357,817	305,257
Income (loss) from continuing operations before cumulative effect of a change in accounting principle	(30,951)	(224,984)	193,607	823,587	416,132
Income (loss) from discontinued operations net	(27,084)	1,235	10,370	(585)	
Cumulative effect of a change in accounting principle, net of tax ⁽¹⁾		5,867	(532)		(977)
Net income (loss)	¥ (58,035)	¥ (217,882)	¥ 203,445	¥ 823,002	¥ 415,155
Net income (loss) available to common shareholders	¥ (66,371)	¥ (222,050)	¥ 190,941	¥ 815,021	¥ 408,318
Amounts per share⁽²⁾:					
Basic earnings (loss) per common share income (loss) from continuing operations available to common shareholders before cumulative effect of a change in accounting principle	¥ (7,143.20)	¥ (41,255.15)	¥ 32,240.37	¥ 128,443.00	¥ 62,867.28
Basic earnings (loss) per common share net income (loss) available to common shareholders	(12,067.64)	(39,976.55)	33,991.75	128,350.88	62,717.21
Diluted earnings (loss) per common share income (loss) from continuing operations available to common shareholders before cumulative effect of a change in accounting principle	(7,143.20)	(41,255.15)	29,486.78	125,123.73	62,626.69
Diluted earnings (loss) per common share net income (loss) available to common shareholders	(12,067.64)	(39,976.55)	31,164.84	125,033.96	62,476.76
Number of shares used to calculate basic earnings per common share (in thousands)	5,500	5,555	5,617	6,350	6,510
Number of shares used to calculate diluted earnings per common share (in thousands)	5,500	5,555	5,863 ⁽³⁾	6,517 ⁽³⁾	6,516 ⁽³⁾
Cash dividends per share declared during the fiscal year ⁽⁴⁾					
Common shares	¥ 8,255.25	¥ 4,127.63	¥ 6,000.00	¥ 4,000.00	¥ 6,000.00
	\$ 76.99	\$ 38.50	\$ 55.96	\$ 37.31	\$ 55.96
Preferred shares (Class 1)	¥ 82,500.00	¥ 41,250.00	¥ 123,750.00	¥ 82,500.00	¥ 82,500.00
	\$ 769.45	\$ 384.72	\$ 1,154.17	\$ 769.45	\$ 769.45
Preferred shares (Class 2)	¥ 16,200.00	¥ 8,100.00	¥ 24,300.00	¥ 16,200.00	¥ 16,200.00
	\$ 151.09	\$ 75.55	\$ 226.64	\$ 151.09	\$ 151.09

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At March 31,

	2001	2002	2003	2004	2005
(in millions)					
Balance sheet data:					
Total assets	¥ 93,472,202	¥ 94,360,925	¥ 96,537,404	¥ 103,699,099	¥ 108,422,100
Loans, net of allowance for credit losses	47,953,919	48,494,545	47,105,433	47,637,729	50,330,832
Total liabilities	90,287,654	91,738,617	93,978,776	99,854,128	104,049,003
Deposits	60,105,742	63,659,501	67,303,678	70,024,252	71,294,863
Long-term debt	4,963,455	5,183,841	5,159,132	5,659,877	5,981,747
Shareholders' equity	3,184,548	2,622,308	2,558,628	3,844,971	4,373,097
Capital stock ⁽⁵⁾	956,664	973,156	1,084,708	1,084,708	1,084,708

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	Fiscal years ended March 31,				
	2001	2002	2003	2004	2005
	(in millions, except percentages)				
Other financial data:	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Average balances:					
Interest-earning assets	¥ 83,192,062	¥ 85,027,796	¥ 86,246,966	¥ 90,850,630	¥ 99,485,278
Interest-bearing liabilities	75,645,416	78,683,185	79,658,352	84,975,055	92,365,823
Total assets	89,322,862	92,365,532	95,478,978	102,827,850	110,829,406
Shareholders' equity	3,445,630	3,035,140	2,432,279	3,289,783	3,880,044
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Return on equity and assets:					
Net income (loss) available to common shareholders as a percentage of total average assets	(0.07)%	(0.24)%	0.20%	0.79%	0.37%
Net income (loss) available to common shareholders as a percentage of average shareholders' equity	(1.93)%	(7.32)%	7.85%	24.77%	10.52%
Dividends per common share as a percentage of basic earnings per common share	(6)	(6)	17.65%	3.12%	9.57%
Average shareholders' equity as a percentage of total average assets	3.86%	3.29%	2.55%	3.20%	3.50%
Net interest income as a percentage of total average interest-earning assets	1.16%	1.26%	1.21%	1.10%	0.98%
Credit quality data:					
Allowance for credit losses	¥ 1,716,984	¥ 1,735,180	¥ 1,360,136	¥ 888,127	¥ 740,706
Allowance for credit losses as a percentage of loans	3.46%	3.45%	2.81%	1.83%	1.45%
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 4,272,794	¥ 4,164,982	¥ 2,753,026	¥ 1,731,083	¥ 1,286,670
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	8.60%	8.29%	5.68%	3.57%	2.52%
Allowance for credit losses as a percentage of nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	40.18%	41.66%	49.41%	51.30%	57.57%
Net loan charge-offs	¥ 598,362	¥ 603,404	¥ 814,811	¥ 337,124	¥ 260,927
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net loan charge-offs as a percentage of average loans	1.21%	1.23%	1.64%	0.69%	0.51%
Average interest rate spread	1.01%	1.18%	1.15%	1.06%	0.94%
Risk-adjusted capital ratio calculated under Japanese GAAP ⁽⁷⁾	10.15%	10.30%	10.84%	12.95%	11.76%

- (1) Effective April 1, 2001, we adopted Statement of Financial Accounting Standards, or SFAS, No. 133 Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137 and SFAS No. 138. On April 1, 2002, we adopted SFAS No. 142, Goodwill and Other Intangible Assets. Effective April 1, 2004, we adopted Financial Accounting Standards Board Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.
- (2) Amounts have been adjusted to reflect the stock-for-stock exchange creating Mitsubishi Tokyo Financial Group, Inc. for the fiscal year ended March 31, 2001.
- (3) Includes the common shares potentially issuable pursuant to the 3% exchangeable guaranteed notes due 2002 and Class 2 preferred stock. The 3% exchangeable guaranteed notes due 2002 were redeemed in November 2002.
- (4) For the convenience of readers, the US dollar amounts are presented as translations of Japanese yen amounts at the rate of ¥107.22 = US\$1.00, the noon buying rate on March 31, 2005 in New York City for cable transfers in Japanese yen as certified for customs purposes by the Federal Reserve Bank of New York.
- (5) Amounts include common stock and convertible Class 2 preferred stock. Redeemable Class 1 and Class 3 preferred stock are excluded.
- (6) Percentages against basic loss per common share have not been presented because such information is not meaningful.
- (7) Risk-adjusted capital ratios have been calculated in accordance with Japanese banking regulations, based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP. Ratio for the fiscal year ended March 31, 2001 represents combined risk-adjusted capital ratios of Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank before any combination-related adjustments.

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The tables below set forth, for each period indicated, the noon buying rate in New York City for cable transfers in Japanese yen as certified for customs purposes by the Federal Reserve Bank of New York, expressed in Japanese yen per \$1.00. On August 22, 2005, the noon buying rate was \$1.00 equals ¥109.75 and the inverse noon buying rate was ¥100 equals \$0.91.

	Year 2005						
	February	March	April	May	June	July	August ⁽¹⁾
High	¥ 105.84	107.49	108.67	108.17	110.91	113.42	112.12
Low	103.70	103.87	104.64	104.41	106.64	110.47	109.37

(1) Period from August 1 to August 22.

	Fiscal year ended March 31,				
	2001	2002	2003	2004	2005
Average (of month-end rates)	¥ 111.65	¥ 125.64	¥ 121.10	¥ 112.75	¥ 107.28

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Investing in our securities involves a high degree of risk. You should carefully consider the risks described below as well as all the other information in this Annual Report, including our consolidated financial statements and related notes, Item 5. Operating and Financial Review and Prospects, Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk and Selected Statistical Data.

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

Risks Relating to Our Business

We may have difficulty integrating our business and operations with those of the UFJ group, which may have a material adverse effect on our business, results of operations, financial condition and stock price.

We plan to merge with UFJ Holdings, Inc., or UFJ Holdings, and its consolidated subsidiaries. Our merger with UFJ Holdings will be a complex, time-consuming and costly process. Risks to the successful completion of the merger include:

potential disruptions of our ongoing business and the distraction of our management;

additional delays or other difficulties in integrating the domestic and overseas branch and subsidiary networks, head office functions, information and management systems, personnel and customer base of

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the two groups, which may prevent us from enhancing the convenience and efficiency of our branch and subsidiary network and operational systems as planned;

impairment of relationships with customers, employees and strategic partners;

additional credit-related expenses or losses that may be incurred as uniform accounting policies and policies for establishing allowances are applied to the asset and loan portfolio of the two groups;

unanticipated asset-quality problems in UFJ Holdings' asset portfolio that may cause significant losses on write-downs or require additional allowances to be established; and

unanticipated expenses in connection with litigation related to the merger.

We may not succeed in addressing these risks or other problems encountered in connection with the merger. We recently decided to postpone the planned merger between Bank of Tokyo-Mitsubishi and UFJ Bank Limited, or UFJ Bank, to January 1, 2006. The postponement was undertaken to enable additional testing of the two banks' systems intended to minimize risks arising from the merger. The postponement may also lead to future changes in our plan to complete all systems integration group-wide by March 31, 2007. Significant or unexpected costs may be incurred during the integration process, preventing us from achieving the targeted cost reductions from the business integration as scheduled or at all. If we are unable to resolve smoothly the problems that arise in the integration process between us and the UFJ group, our business, results of operations, financial condition and stock price may be materially and adversely affected. For additional information on the planned merger with UFJ Holdings, see Item 4.B. Business Overview and Item 5.A. Operating and Financial Review and Prospects Recent Developments Management Integration of Mitsubishi Tokyo Financial Group and the UFJ Group Effect of the Merger.

We may have difficulty achieving the benefits expected from the merger, which may have a material adverse effect on our business, results of operations and financial condition.

Our ability to realize the growth opportunities and other expected benefits of the merger will depend in part on the successful integration of the domestic and overseas branch and subsidiary network, head office functions, information and management systems, personnel and customer base and other resources and aspects of our and the UFJ group's holding companies, banks, trust banks and securities companies. To realize the anticipated benefits of the merger, we must implement a business plan that will effectively combine two operations that are diverse in terms of their respective products, services, customer segments and geographic scope, as well as management systems. Achieving the targeted cost savings is dependent on the successful implementation of the integration plan. We expect to incur annual integration-related expenses in implementing the integration plan and, for the first two years after the merger, these integration-related expenses are expected to exceed the targeted cost savings. These integration-related expenses may continue to exceed cost savings beyond that period. The primary challenges involved in achieving the benefits of the merger include:

retaining the existing customers and strategic partners of each company;

integrating our management, key employees and other personnel with that of the UFJ group;

coordinating and consolidating the functions of our domestic and overseas branch offices with those of the UFJ group;

identifying and streamlining redundant operations and assets;

combining customer products and services effectively and quickly;

transitioning relevant operations and facilities smoothly to a common information technology system; and

developing and implementing uniform accounting and reserve policies, internal controls, disclosure policies and procedures and other standards.

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Estimates of targeted cost savings and other synergies in connection with the merger are inherently uncertain, and we may fail to achieve these targeted cost savings and other synergies as scheduled or at all.

We and UFJ Holdings have announced that the two groups will seek to realize cost savings through the merger, but that annual integration-related costs within the first two years after the merger are expected to exceed cost synergies during that period. In addition, we and UFJ Holdings announced that we will report for the fiscal year ending March 31, 2006 a significant amount of extraordinary charges under Japanese GAAP, a majority of which are non-cash items. Our targeted cost-savings are based on a number of assumptions, including that we will be able to implement necessary cost-saving measures such as the consolidation of overlapping products, services, branch offices and head office functions. In addition, these cost-savings targets assume that we will be able to integrate the operations, systems and personnel of the two institutions efficiently and as scheduled. Some of these assumptions may no longer be accurate due to passage of time or subsequent material changes in circumstances. For example, system integration and related costs may increase from our previous expectations due to the postponement of the merger between Bank of Tokyo-Mitsubishi and UFJ Bank. Additional delays or other difficulties in integrating the systems of the two banks may result in additional costs or cause delays in achieving the targeted cost savings and other merger synergies. If we fail to achieve the targeted cost savings from the merger, our financial condition and results of operations could be materially and adversely affected.

Although we also expect revenue synergies to yield increases in gross revenue, a decrease in revenue is expected for the first one to two years following the merger due to adjustments in loan exposures to certain borrowers. Revenue synergies are dependent on the successful implementation of our business strategy. If the revenue synergies do not materialize in the expected time period, our financial condition and results of operations could be materially and adversely affected.

Significant costs will be incurred in the course of and as a result of the merger.

We and UFJ Holdings expect to incur significant costs related to the merger. We will incur, for the first few years following the merger, significant expenses to close overlapping branches and subsidiaries and to integrate IT systems and other operations. Transaction-related expenses include financial advisory, legal and accounting fees and expenses, severance/employee benefit-related expenses, filing fees, printing expenses and other related charges. Additionally, we and UFJ Holdings may also incur significant costs in compensating creditors with creditor protection rights. Additional litigation-related costs may also be incurred as a result of the civil suit brought by Sumitomo Trust & Banking Co., Ltd. against UFJ Holdings in October 2004, or any other litigation that may arise in connection with the merger. We and UFJ Holdings may also incur additional unanticipated expenses in connection with the merger and the integration of the operations, information systems, domestic and overseas branch office network and personnel of the two groups.

The merger is subject to regulatory approvals and will be subject to various conditions set forth in the merger agreement and, even though the terms of the merger agreement have been approved by both sets of shareholders, the merger nonetheless may not be completed as scheduled or at all.

The merger agreement provides that the respective obligations of us and UFJ Holdings to complete the merger are subject to a number of specified conditions, including the obtaining or satisfying of all regulatory approvals, permits, consents and requirements necessary for the consummation of the merger. Regulatory authorities in Japan or elsewhere may seek to block or delay the merger between the holding companies or the mergers between the key operating subsidiaries, or may impose conditions that reduce or delay the anticipated benefits of the merger or make it difficult to complete as planned. If there are any delays in or unexpected conditions to the merger, our financial condition and results of operations could be materially and adversely affected. In addition, we and UFJ Holdings have the right to terminate the merger agreement at any time, upon the parties' mutual written consent. Either party may also terminate the merger agreement if an event occurs that results in any material change to our financial or economic condition or that of UFJ Holdings, or that materially interferes with the execution of the merger, upon mutual agreement following consultation. If the merger

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agreement is terminated, we will not be able to achieve any of the anticipated integration benefits and our market reputation may be harmed.

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

We and the UFJ group have suffered from asset quality problems since the early 1990s. Despite our recent progress in reducing the level of our problem loans, UFJ Holdings continues to have a particularly concentrated exposure to large troubled borrowers and we will have a considerable amount of problem loans on our balance sheet at the time the merger is completed. A number of borrowers are still facing challenging circumstances, and our problem loans and credit-related expenses could increase if:

current restructuring plans of borrowers are not successfully implemented;

additional large borrowers become insolvent or must be restructured;

economic conditions in Japan deteriorate;

real estate prices in Japan continue to decline or stock prices in Japan decline;

the rate of corporate bankruptcies in Japan or elsewhere in the world rises;

additional economic problems arise elsewhere in the world; or

the global economic environment deteriorates generally.

An increase in problem loans and credit-related expenses would adversely affect our results of operations, weaken our financial condition and erode our capital base. Credit losses may increase if we elect, or are forced by economic or other considerations, to sell or write off our problem loans at a larger discount, in a larger amount or in a different time or manner than we may otherwise want. For a discussion of our historical problem loans, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans and Selected Statistical Data Loan Portfolio.

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

Our allowance for credit losses in our loan portfolios is based on evaluations, assumptions and estimates about customers, the value of collateral we hold and the economy as a whole. The allowance for credit losses in UFJ Holdings loan portfolio is also based on similar evaluations, assumptions and estimates. Our loan losses and those of UFJ Holdings could prove to be materially different from the estimates and could materially exceed these allowances. If actual loan losses are higher than currently expected, the current allowances for credit losses will be insufficient. We may incur credit losses or have to provide for additional allowance for credit losses if:

economic conditions, either generally or in particular industries in which large borrowers operate, deteriorate;

the standards for establishing allowances change, causing us to change some of the evaluations, assumptions and estimates used in determining the allowances;

the value of collateral we hold declines; or

we are adversely affected by other factors to an extent that is worse than anticipated.

For a detailed discussion of our allowance policy and the historical trend of allowances for credit losses, see Item 5.A. Operating and Financial Review and Prospects Operating Results Critical Accounting Estimates Allowance for Credit Losses and Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans.

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The credit quality of our loan portfolio may be adversely affected by the continuing financial difficulties facing some companies operating in the Japanese real estate, construction, trading, wholesale and retail, and automotive sectors.

We and UFJ Holdings have large exposures to some borrowers in the Japanese real estate, construction, trading, wholesale and retail, and automotive sectors, and are thus exposed to the ongoing financial difficulties faced by some borrowers operating in those sectors. Some of the companies in these sectors to which we or UFJ Holdings have extended credit are exposed to ongoing financial difficulties and they may be in restructuring negotiations or considering whether to seek bankruptcy protection. If these companies are unsuccessful in their restructuring efforts due to continuing financial and operational difficulties or other factors, are otherwise forced to seek bankruptcy protection, or if other lenders discontinue or decrease their financial support to these companies for any reason, there may be further significant deterioration in the credit quality of our loan portfolio, which would expose us to further loan losses. For a detailed discussion of our exposure to these sectors, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans and Selected Statistical Data Loan Portfolio.

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

We may provide additional loans, equity capital or other forms of support to troubled borrowers in order to facilitate their restructuring and revitalization efforts. We may forbear from exercising some or all of our rights as a creditor against them, and we may forgive loans to them in conjunction with their debt restructuring. We may take these steps even when our legal rights might permit us to take stronger action against the borrower and even when others might take stronger action against the borrower to maximize recovery or to reduce exposure in the short term. We may provide support to troubled borrowers for various reasons, including any of the following reasons arising from Japan's business environment and customs:

political or regulatory considerations;

reluctance to push a major client into default or bankruptcy or to disrupt a restructuring plan supported by other lenders; and

a perceived responsibility for the obligations of our affiliated and associated companies, as well as companies with which we or UFJ Holdings have historical links or other long-standing relationships.

These practices may substantially increase our exposure to troubled borrowers and increase our losses.

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

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

the difficulty of foreclosing on collateral in Japan;

the illiquidity of and depressed values in the Japanese real estate market; and

the depressed values of pledged securities held as collateral.

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

Some Japanese financial institutions, including banks, non-bank lending and credit institutions, affiliates of securities companies and insurance companies, are still experiencing declining asset quality and capital adequacy

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and other financial problems. This may lead to severe liquidity and solvency problems, which have in the past resulted in the liquidation, government control or restructuring of affected institutions. The continued financial difficulties of other financial institutions could adversely affect us because:

we and UFJ Holdings have extended loans, some of which are classified as nonaccrual and restructured loans, to banks and other financial institutions that are not our consolidated subsidiaries;

we and UFJ Holdings are shareholders of some other banks and financial institutions that are not our consolidated subsidiaries;

we and UFJ Holdings may be requested to participate in providing assistance to support distressed financial institutions that are not our consolidated subsidiaries;

financial institutions may become majority owned or controlled by the Japanese government as a result of the government's conversion, after the merger with UFJ Holdings, of our preferred stock into common stock or injection of additional public funds into financial institutions pursuant to the Deposit Insurance Law of Japan, such as the injection of public funds into Resona Bank, Ltd. and Ashikaga Bank, Ltd. in 2003, or other newly introduced frameworks for the injection of public funds into financial institutions;

if the government takes control of major financial institutions, we will become a direct competitor of government-controlled financial institutions and may be at a competitive disadvantage if the Japanese government provides regulatory, tax, funding or other benefits to those financial institutions to strengthen their capital, facilitate their sale or otherwise;

deposit insurance premiums could rise if deposit insurance funds prove to be inadequate;

repeated or large-scale bankruptcies or government support or control of financial institutions could generally undermine depositor confidence or adversely affect the overall banking environment; and

negative media coverage of the Japanese banking industry, regardless of its accuracy and applicability to us, could affect investor sentiment and have a materially adverse effect on our stock price.

Charges to earnings resulting from the application of the purchase method of accounting may adversely affect our financial results and the price of our common stock following the merger.

In accordance with US GAAP, we will account for the merger using the purchase method of accounting. We will allocate the total purchase price to our assets and liabilities based on the proportionate share of the fair values of those assets and liabilities. We will incur additional amortization expense over the estimated useful lives of certain of the identifiable intangible assets acquired in connection with the transaction. In addition, the excess of the purchase price over the fair values of UFJ Holdings' assets and liabilities will be recorded as goodwill. If the recorded goodwill becomes impaired, we may be required to incur material charges relating to the impairment of goodwill. If the anticipated benefits of the merger are not achieved, our financial results and the price of our common stock could be adversely affected.

Negative media coverage of the merger, as well as statements by parties with competing interests, could have a material adverse effect on our reputation, business and results of operations.

The merger between us and UFJ Holdings has been the subject of extensive coverage by both Japanese and foreign media, and of statements by parties with competing interests. Some of this coverage and these statements are negative and pertain to a wide range of matters relating to the merger. Negative media coverage and statements about the merger, regardless of their veracity, may affect investor sentiment and could have a material adverse effect on our stock price. The resulting reputational harm from such negative media coverage and statements relating to the merger may also impact consumer perception, negatively affecting our business and results of operations. We may also be forced to devote considerable resources to address the impact of such media coverage and statements relating to the merger.

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We may experience difficulties implementing effective internal controls.

In order to operate as a global financial institution, it is essential for us to have effective internal controls, corporate compliance functions, and accounting systems to manage our assets and operations. Moreover, under the U.S. Sarbanes-Oxley Act of 2002, which will apply by reason of our status as an SEC reporting company, we will be required to establish internal control over our financial reporting and our management will be required to assess the effectiveness of our internal control over financial reporting and disclose whether such internal control is effective. Our auditors must also conduct an audit to evaluate management's assessment of the effectiveness of the internal control over financial reporting, and then render an opinion on our assessment and the effectiveness of our internal control over financial reporting.

Designing and implementing an effective system of internal controls capable of monitoring and managing our business and operations represents a significant challenge for us. Particularly, UFJ Holdings has previously admitted, in response to administrative action from the Financial Services Agency, to failures in internal controls that led to inappropriate responses to Financial Services Agency inspections of UFJ Bank's large borrower classifications, errors in the management of loans to small- and medium-sized borrowers and deficiencies in their system for monitoring and managing credit risk. The internal control framework to be implemented by us after the planned merger with UFJ Holdings will need to have the ability to identify and prevent similar occurrences on a group-wide basis. The design and implementation of internal controls may require significant management and human resources, and result in considerable costs. In addition, as a result of unanticipated issues arising after the merger, we may need to take a permitted scope limitation on our assessment of internal control over financial reporting, may report material weaknesses in our internal control over financial reporting or may be unable to assert that our internal control over financial reporting is effective. If such circumstances arise, it could adversely affect the market's perception of us.

We may be adversely affected if economic conditions in Japan worsen.

Since the early 1990s, the Japanese economy has performed poorly due to a number of factors, including weak consumer spending and lower capital investment by Japanese companies, causing a large number of corporate bankruptcies and the failure of several major financial institutions. Although some economic indicators and stock prices have recently improved, if the economy weakens, then our earnings and credit quality may be adversely affected. For a discussion of Japan's current economic environment, see Item 5.A. Operating and Financial Review and Prospects Operating Results Business Environment Economic Environment in Japan.

Changes in interest rate policy, particularly unexpected or sudden increases in interest rates, could adversely affect the value of our bond portfolio, problem loans and results of operations.

We and UFJ Holdings hold a significant amount of Japanese government bonds and foreign bonds, including U.S. Treasury bonds. An increase in relevant interest rates, particularly if such increase is unexpected or sudden, may negatively affect the value of the two groups' bond portfolios and reduce the so-called spread, which is the difference between the rate of interest earned and the rate of interest paid. In addition, an increase in relevant interest rates may increase our problem loans as some of our borrowers may not be able to meet the increased interest payment requirements, thereby adversely affecting our results of operations and financial condition. For a detailed discussion of our bond portfolio, see Selected Statistical Data Investment Portfolio.

Corporate credibility issues among our borrowers could increase our problem loans or otherwise negatively affect our results of operations.

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During the past few years, high profile bankruptcy filings and reports of past accounting or disclosure irregularities, including fraud, in the United States, Japan and other countries have raised corporate credibility issues, particularly with respect to public companies. In response to these developments and regulatory responses to these developments in the United States, Japan and elsewhere, regulators, auditors and corporate managers

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generally have begun to review financial statements more thoroughly and conservatively. As a result, additional accounting irregularities and corporate governance issues may be uncovered and bring about additional bankruptcy filings and regulatory action in the United States, Japan and elsewhere. Such developments could increase our credit costs if they directly involve our borrowers or indirectly affect our borrowers' credit.

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

We, as a holding company, and our Japanese subsidiary banks, are required to maintain risk-weighted capital ratios above the levels specified in the capital adequacy guidelines of the Financial Services Agency. The capital ratios are calculated in accordance with Japanese banking regulations based on information derived from the relevant entity's financial statements prepared in accordance with Japanese GAAP. Our subsidiaries in California, UnionBanCal Corporation and Union Bank of California, N.A., referred to collectively as UNBC, are subject to similar U.S. capital adequacy guidelines. We or our subsidiary banks may be unable to continue to satisfy the capital adequacy requirements because of:

credit costs we or our subsidiary banks may incur as we dispose of problem loans and remove impaired assets from our balance sheet;

credit costs we or our subsidiary banks may incur due to losses from a future deterioration in asset quality;

a reduction in the value of our or our subsidiary banks' deferred tax assets;

changes in accounting rules or in the guidelines regarding the calculation of bank holding companies' or banks' capital ratios;

declines in the value of our or our subsidiary banks' securities portfolio;

the inability of us or our subsidiary banks to refinance subordinated debt obligations with equally subordinated debt;

adverse changes in foreign currency exchange rates; and

other adverse developments discussed in these risk factors.

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

Our capital ratios may also be negatively affected by contemplated or recently adopted regulatory changes.

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Several proposed regulatory changes could have an adverse impact on our capital ratios. In particular, the Financial System Council of the Financial Services Agency is discussing the adoption of rules that limit the amount of deferred tax assets that may be included in the calculation of Tier I or total regulatory capital. The imposition of any such limits would likely reduce our regulatory capital, perhaps materially. As of March 31, 2005,

Our net deferred tax assets amounted to ¥428.3 billion under Japanese GAAP, or approximately 10.0% of the amount of our Tier I capital of ¥4,286.8 billion calculated in accordance with Japanese GAAP as required by the Financial Services Agency, and

UFJ Holdings' net deferred tax assets amounted to ¥1,093.6 billion under Japanese GAAP, or approximately 47.3% of the amount of our Tier I capital of ¥2,313.5 billion calculated in accordance with Japanese GAAP as required by the Financial Services Agency.

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In addition, effective March 31, 2003, the Financial Services Agency strongly suggested that major banks calculate loan loss reserves for certain impaired loans by analyzing the projected cash flows from those loan assets, discounted to present value, instead of basing reserves on historical loan loss data. We employ a methodology to calculate loan loss reserves for these credits based on their estimated cash flows. However, if in the future the Financial Services Agency adopts a calculation methodology that is different from the methodology we employ, the size of our allowance for loan losses under Japanese GAAP could increase. Because capital ratios are calculated under Japanese GAAP, this change may materially reduce our capital ratios. Further regulatory changes are expected based on the new framework relating to regulatory capital requirements that were established by the Basel Committee on Banking Supervision and endorsed by the central bank governors and the heads of bank supervisory authorities of the Group of Ten (G10) countries in June 2004. The Financial Services Agency is expected to issue revised rules for the new capital adequacy framework around the end of 2005, which will become effective for the fiscal year ending March 31, 2007.

We may fail to meet the operating targets in the restructuring plan we will submit to the Financial Services Agency, which could subject us to administrative actions, the replacement of senior management, the conversion of preferred shares held by the Resolution and Collection Corporation and other adverse actions.

UFJ Holdings is a recipient of public funds from the Resolution and Collection Corporation, a Japanese government entity. The public funds were injected in the form of a preferred stock investment, and this preferred stock will be exchanged as part of the merger for newly issued preferred stock of the surviving entity. As a result, we will be required to prepare and submit a restructuring plan to the Financial Services Agency, and to periodically update such restructuring plan. Material failure to achieve the operating targets outlined in the restructuring plan could result in the following:

we or our affiliates may be subject to administrative action from the Financial Services Agency;

the Financial Services Agency may take steps to replace our senior management or that of our bank subsidiaries; or

the Resolution and Collection Corporation may convert the preferred stock we issued as part of the merger, which may make the Japanese government our largest shareholder.

In addition, the Financial Services Agency, the Resolution and Collection Corporation or other governmental agencies could take other actions, as a regulator or shareholder, that are designed to protect the interests of depositors or the Japanese government's investment but may be materially adverse to the interests of other investors in our shares.

The Japanese government could become a significant shareholder.

After our merger with UFJ Holdings, the Resolution and Collection Corporation will hold preferred shares that do not have voting rights but are convertible into 12.6% of our common shares. If the preferred shares are converted into common shares, the Japanese government could hold a substantial interest in us. On April 4, 2003, the Financial Services Agency issued guidelines concerning when the Japanese government may convert the preferred shares of banks or bank holding companies that it owns into common shares. Among the conditions under which the Japanese government may convert its preferred shares under those guidelines is the non-payment of dividends on those preferred shares for two consecutive fiscal years, or non-payment for one fiscal year and only a partial payment of preferred dividends for the second fiscal year. If we are unable to pay the necessary amount of dividends on our preferred shares for any reason, the Japanese government could elect to convert the preferred shares it holds into common shares. This could result in significant reputational harm and significant changes to our strategic goals and operations.

Administrative sanctions by the Financial Services Agency against the UFJ group could have a materially adverse effect on our reputation, business, results of operations and stock price.

In June 2004, the Financial Services Agency levied business improvement administrative actions against the UFJ group after concluding that members of the UFJ group's management had taken actions that amounted to

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evasions of inspections conducted by the Financial Services Agency on the classification of large borrowers. The causes of these sanctions led to the resignation of the top management of UFJ Holdings, UFJ Bank and UFJ Trust Bank Limited, or UFJ Trust Bank. The Financial Services Agency's administrative order also directed the UFJ group to address serious deficiencies in its internal control framework. Subsequently, in October 2004, the Financial Services Agency filed criminal indictments against UFJ Bank and former members of its management. In conjunction with these indictments, the Tokyo District Public Prosecutors Office announced in December 2004 that they would seek to prosecute UFJ Bank, its former executive officers and a former employee on suspicion of violations of the Banking Law of Japan. In February 2005, three former executives of UFJ Bank pleaded guilty to obstructing the Financial Services Agency's inspections in violation of the Banking Law. On April 25, 2005, UFJ Bank and its former executives were convicted of breaches of the Banking Law. UFJ Bank was fined ¥90 million, a former executive officer was sentenced to ten months imprisonment with a stay of execution for three years and two other former executive officers were sentenced to eight months imprisonment with a stay of execution for three years. These administrative sanctions and criminal proceedings may affect investor sentiment and could have a material adverse effect on our stock price. The resulting reputational harm from these events may also adversely impact consumer perception or relationships with both existing and potential business partners, negatively affecting our business and operations.

Our results of operations and capital ratios will be negatively affected if we are required to reduce our deferred tax assets.

We, UFJ Holdings and the two groups' Japanese subsidiary banks determine the amount of net deferred tax assets and regulatory capital pursuant to Japanese GAAP and Japanese banking regulations, which differ from US GAAP and U.S. regulations. Under current Japanese banking regulations, all deferred tax assets established pursuant to Japanese GAAP are included in regulatory capital. Currently, Japanese GAAP generally permits the establishment of deferred tax assets for tax benefits that are expected to be realized during a period that is reasonably foreseeable, generally five fiscal years. The calculation of deferred tax assets under Japanese GAAP is based upon various assumptions, including assumptions with respect to future taxable income. Actual results may differ significantly from these assumptions. Even if our ability to include deferred tax assets in regulatory capital is not affected by rule changes (see "Our capital ratios may also be negatively affected by contemplated or recently adopted regulatory changes" above), if we conclude, based on our projections of future taxable income, that we or our Japanese bank subsidiaries will be unable to realize a portion of the deferred tax assets, our deferred tax assets may be reduced and, as a result, our results of operations may be negatively affected and our capital ratios may decline.

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

As of March 31, 2005, subordinated debt accounted for approximately

33.8% of our total regulatory capital,

31.5% of Bank of Tokyo-Mitsubishi's total regulatory capital,

39.7% of Mitsubishi Trust Bank's total regulatory capital,

32.6% of UFJ Holdings' total regulatory capital,

33.1% of UFJ Bank's total regulatory capital, and

31.7% of UFJ Trust Bank's total regulatory capital,

in each case, as calculated under Japanese GAAP. We or our subsidiary banks may not be able to refinance their subordinated debt obligations with equally subordinated debt after the merger. The failure to refinance these subordinated debt obligations with equally subordinated debt may reduce our total regulatory capital and, as a result, negatively affect our capital ratios.

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

We and UFJ Holdings hold large amounts of marketable equity securities. The market values of these securities are inherently volatile. The Nikkei 225 stock average declined to a 20-year low in April 2003 before recovering during the fiscal year ended March 31, 2004. The Nikkei 225 stock average remained relatively unchanged during the fiscal year ended March 31, 2005. As of mid-August 2005, the Nikkei 225 stock average was approximately ¥12,000. We will incur losses on our securities portfolio if the Japanese stock market declines in the future. Material declines in the Japanese stock market may also materially adversely affect our capital ratios. For a detailed discussion of our holdings of marketable equity securities and the effect of market declines on our capital ratios, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Adequacy and Selected Statistical Data Investment Portfolio.

Our efforts to reduce our shareholdings of equity securities may adversely affect our relationships with customers as well as our stock price, and we or the UFJ group could also be forced to sell some holdings of equity securities at price levels lower than we or the UFJ group would otherwise sell at in order to remain compliant with relevant Japanese laws.

Like many Japanese financial institutions, a substantial portion of our and UFJ Holdings equity securities portfolio is held for strategic and business-relationship purposes. In November 2001, the Japanese government enacted a law forbidding bank holding companies and banks, including we and UFJ Holdings and our respective bank subsidiaries, from holding, after September 30, 2006, stock with an aggregate value that exceeds their adjusted Tier I capital. Additionally, Japanese banks are also generally prohibited by the Banking Law and the Anti-Monopoly Law of Japan from purchasing or holding more than 5% of the equity interest in any domestic third party. In order to comply with this requirement, prior to or soon after the merger we and the UFJ group may be required to sell some holdings of equity securities so that the two groups combined holdings do not exceed this 5% threshold after the merger.

The sale of equity securities, whether to remain compliant with the prohibition on holding stock in excess of our adjusted Tier I capital, to reduce our risk exposure to fluctuations in equity security prices, to comply with the requirements of the Banking Law and the Anti-Monopoly Law or otherwise, will reduce our strategic shareholdings, which may have an adverse effect on relationships with our customers. In addition, our plans to reduce our strategic shareholdings may encourage some of our customers to sell their shares of our common stock, which may have a negative impact on our stock price. In order to remain compliant with the legal requirements described above, we and the UFJ group may also sell some equity securities at price levels lower than we and the UFJ group would otherwise sell at.

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

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

increases in interest rates may have an adverse effect on the value of our fixed income securities portfolio, as discussed in Changes in interest rate policy, particularly unexpected or sudden increases in interest rates, could adversely affect the value of our bond portfolio, problem loans and results of operations above; and

the strengthening of the yen against the U.S. dollar and other foreign currencies will reduce the value, in our financial statements, of our substantial portfolio of foreign currency denominated investments.

In addition, downgrades of the credit ratings of some of the fixed income securities in our portfolio could negatively affect our results of operations. Our results of operations and financial condition in future periods will be exposed to the risks of loss associated with these activities. For a discussion of our investment portfolio and

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related risks see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition Investment Portfolio and Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.

A downgrade of our credit ratings could have a negative effect on our business.

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

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

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

charged an additional risk premium to Japanese financial institutions for short-term borrowings in the interbank market; and

placed restrictions on the amount of credit, including interbank deposits, that they extend to Japanese banks.

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

We may not be able to achieve the goals of our business strategies.

We currently plan to pursue various business strategies to improve our profitability. In addition to the risks associated with the merger with UFJ Holdings, there are various other risks that could adversely impact our ability to achieve our business objectives. For example:

we may be unable to cross-sell our products and services as effectively as anticipated;

we may have difficulty in coordinating the operations of our subsidiaries and affiliates as planned due to legal restrictions, internal conflict or market resistance;

we may lose customers and business as some of our subsidiaries or affiliates operations are reorganized and, in some cases, rebranded;

our efforts to streamline operations may require more time than expected and cause some negative reactions from our customers;

new products and services we introduce may not gain acceptance among customers; and

we may have difficulty developing and operating the necessary information systems.

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

As we expand the range of our products and services beyond our traditional banking and trust businesses and as the sophistication of financial products and management systems grows, we will be exposed to new and increasingly complex risks. We may have only limited experience with the risks related to the expanded range of these products and services. To the extent we expand our product and service offerings through acquisitions, we

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face risks relating to the integration of acquired businesses with our existing operations. Moreover, some of the activities that our subsidiaries are expected to engage in, such as derivatives and foreign currency trading, present substantial risks. Our risk management systems may prove to be inadequate and may not work in all cases or to the degree required. As a result, we are subject to substantial market, credit and other risks in relation to the expanding scope of our products, services and trading activities, which could result in us incurring substantial losses. In addition, our efforts to offer new services and products may not succeed if product or market opportunities develop more slowly than expected or if the profitability of opportunities is undermined by competitive pressures. For a detailed discussion of our risk management systems, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.

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

UNBC contributes a significant portion of our net income. Any adverse change in the business or operations of UNBC could significantly affect our results of operations. Factors that could negatively affect UNBC's results include adverse economic conditions in California, including the decline in the technology sector, the California state government's financial condition, a potential downturn in the real estate and housing industries in California, substantial competition in the California banking market, growing uncertainty over the U.S. economy due to the threat of terrorist attacks, fluctuating oil prices and rising interest rates, negative trends in debt ratings and equity valuations of various borrowers increasing the risk of corporate bankruptcy filings, and additional costs which may arise from enterprise-wide compliance with applicable laws and regulations such as the Bank Secrecy Act and related amendments under the U.S. Patriot Act. For a detailed segment discussion relating to UNBC, see Item 5.A. Operating and Financial Review and Prospects Operating Results Business Segment Analysis Bank of Tokyo-Mitsubishi.

We are exposed to substantial credit and market risks in Asia, Latin America and other regions.

We are active in Asia, Latin America and other regions through a network of branches and subsidiaries and are thus exposed to a variety of credit and market risks associated with countries in these regions. A decline in the value of Asian, Latin American or other relevant currencies could adversely affect the creditworthiness of some of our borrowers in those regions. For example, the loans we and the UFJ group have made to Asian, Latin American and other overseas borrowers and banks are often denominated in yen, U.S. dollars or other foreign currencies. These borrowers often do not hedge the loans to protect against fluctuations in the values of local currencies. A devaluation of the local currency would make it more difficult for a borrower earning income in that currency to pay its debts to us and other foreign lenders. In addition, some countries in which we operate may attempt to support the value of their currencies by raising domestic interest rates. If this happens, the borrowers in these countries would have to devote more of their resources to repaying their domestic obligations, which may adversely affect their ability to repay their debts to us and other foreign lenders. The limited credit availability resulting from these and related conditions may adversely affect economic conditions in some countries. This could cause a further deterioration of the credit quality of borrowers and banks in those countries and cause us to incur further losses. In addition, we are active in other regions that expose us to risks similar to the risks described above and also risks specific to those regions, which may cause us to incur losses or suffer other adverse effects. For a more detailed discussion of our credit exposure to Asian, Latin American and other relevant countries, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans.

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

Our international operations are subject to fluctuations in foreign currency exchange rates against the Japanese yen. When the yen appreciates, yen amounts for transactions denominated in foreign currencies, including a substantial portion of UNBC's transactions, decline. In addition, a portion of our assets and liabilities are denominated in foreign currencies. To the extent that our foreign currency denominated assets and liabilities

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are not matched in the same currency or appropriately hedged, fluctuations in foreign currency exchange rates against the yen may adversely affect our financial condition, including our capital ratios. In addition, fluctuations in foreign exchange rates will create foreign currency translation gains or losses. For a historical discussion of the effect of changes in foreign currency exchange rates, see Item 5.A. Operating and Financial Review and Prospects Operating Results Effect of the Change in Exchange Rates on Foreign Currency Translation.

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

We may incur losses if the fair value of our pension plans assets declines, if the rate of return on our pension assets declines or if there is a change in the actuarial assumptions on which the calculations of the projected benefit obligations are based. Changes in the interest rate environment and other factors may also adversely affect the amount of unfunded pension obligations and the resulting annual amortization expense.

We may have to compensate for losses in our loan trusts and jointly operated designated money in trusts. This could have a negative effect on our results of operations.

Our trust bank subsidiary may have to compensate for losses of principal of all loan trusts and some jointly operated designated money in trusts. Funds in those guaranteed trusts are generally invested in loans and securities. Our trust bank subsidiary will be required to maintain reserves in the accounts of those guaranteed trusts for loan losses and other impairments of principal, but the amount of these compensation obligations would not appear as a liability on our balance sheet. If the amount of assets and reserves held in the guaranteed trusts falls below the principal as a result of loan losses, losses in the investment portfolio or otherwise, which are not absorbed by the profit earned by the trusts, our trust bank subsidiary would be required to make a payment on the guaranties. For a detailed discussion of guaranteed trusts, see Item 5. Operating and Financial Review and Prospects.

Trust beneficiaries of loan trusts and jointly operated designated money in trust are entitled to a semi-annual dividend, which in practice is the projected rate published semi-annually. Sharp declines in interest rates or in the value of the securities held in our trusts investment portfolios will partly reduce performance-dependent trust fees that our trust bank subsidiary will generate from our loan trusts and jointly operated designated money in trust, thereby adversely affecting our results of operations.

Our business and operations are exposed to various system, political and social risks beyond our control.

As a major financial institution, our business and operations are significantly dependent upon the domestic and world economies and are thus exposed to various system, political and social risks beyond our control. Recent examples include disruptions of the Internet and other information networks due to major virus outbreaks, major terrorist activity such as the July 2005 London attacks, serious political instability and major health epidemics such as the outbreak of severe acute respiratory syndrome, or SARS. Such incidents may directly affect our business and operations by disrupting our operational infrastructure or internal systems. Such incidents may also negatively impact the economic conditions, political regimes and social infrastructure of countries and regions in which we operate, and possibly the global economy as a whole. These various factors beyond our control, as well as the threat of such risks or related countermeasures, may materially and adversely affect our business, operating results and financial condition.

We may be subject to liability and regulatory action if we are unable to protect personal and other confidential information.

In recent years, there have been many cases of personal information and records in the possession of corporations and institutions being leaked or improperly accessed. In the event that personal information in our possession about our customers or employees is leaked or improperly accessed and subsequently misused, we

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may be subject to liability and regulatory action. The standards applicable to us have become more stringent under the new Personal Information Protection Act of Japan, which became effective from April 2005. As an institution in possession of personal information, we may have to provide compensation for economic loss and emotional distress arising out of a failure to protect such information in accordance with the Personal Information Protection Act. In addition, such incidents could create a negative public perception of our operations, systems or brand, which may in turn decrease customer and market confidence and materially and adversely affect our business, operating results and financial condition.

Adverse regulatory developments or changes in laws, government policies or economic controls could have a negative impact on our business and results of operations.

We conduct our business subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in Japan and the other markets in which we operate. Future developments or changes in laws, regulations, policies, voluntary codes of practice, fiscal or other policies and their effects are unpredictable and beyond our control. In particular, the Financial Services Agency has announced various regulatory changes that it would consider. For example, in December 2004, the Financial Services Agency launched an initiative designed to identify additional subjects for future financial reforms to be enacted over the next two years relating to various financial issues, including the possible enactment of an investment services law, which aims to provide an overall regulatory regime applicable to financial institutions and financial products and the improvement of corporate governance and risk management of financial institutions. The Financial Services Agency and other regulatory authorities also have the authority to conduct, at any time, inspections to review banks' accounts, including those of our bank subsidiaries. Any of the changes referred to above or any action that must be taken by us, whether as a result of regulatory developments or changes or inspections, could negatively affect our business and results of operations.

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

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

Our ability to pay dividends is substantially dependent on our subsidiaries and affiliated companies' dividend payments to us.

As a holding company, substantially all of our cash flow will come from dividends that our subsidiaries and affiliated companies pay to us. Under some circumstances, various statutory or contractual provisions may restrict the amount of dividends our subsidiaries and affiliated companies can pay to us. Also, if our subsidiaries and affiliated companies do not have sufficient earnings, they will be unable to pay dividends to us, and we in turn may be unable to pay dividends.

Risks Related to Owning Our Shares

Efforts by other companies to reduce their holdings of our shares may adversely affect our stock price.

Many companies in Japan that hold shares of our stock and UFJ Holdings stock have announced plans to reduce their shareholdings in other companies. Any future plans of ours to sell shares in other companies may further encourage those companies and other companies to sell our shares. If an increased number of shares of our common stock are sold in the market, it will adversely affect the trading price of shares of our common stock.

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Rights of shareholders under Japanese law may be different from those under the laws of jurisdictions within the United States and other countries.

Our articles of incorporation, the regulations of our board of directors and the Japanese Commercial Code govern our corporate affairs. Legal principles relating to such matters as the validity of corporate procedures, directors and officers fiduciary duties and shareholders rights are different from those that would apply if we were not a Japanese corporation. Shareholders rights under Japanese law are different in some respects from shareholders rights under the laws of jurisdictions within the United States and other countries. You may have more difficulty in asserting your rights as a shareholder than you would as a shareholder of a corporation organized in a jurisdiction outside of Japan. For a detailed discussion of the relevant provisions under the Japanese Commercial Code and our Articles of Incorporation, see Item 10.B. Additional Information Memorandum and Articles of Association.

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

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

Risks Related to Owning Our ADSs

As a holder of ADSs, you have fewer rights than a shareholder and you must act through the depositary to exercise these rights.

The rights of our shareholders under Japanese law to take actions such as voting their shares, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records and exercising appraisal rights are available only to shareholders of record. Because the depositary, through its custodian, is the record holder of the shares underlying the ADSs, a holder of ADSs may not be entitled to the same rights as a shareholder. In your capacity as an ADS holder, you are not able to bring a derivative action, examine our accounting books and records or exercise appraisal rights, except through the depositary.

Foreign exchange rate fluctuations may affect the U.S. dollar value of our ADSs and dividends payable to holders of our ADSs.

Market prices for our ADSs may fall if the value of the yen declines against the U.S. dollar. In addition, the U.S. dollar amount of cash dividends and other cash payments made to holders of our ADSs would be reduced if the value of the yen declines against the U.S. dollar.

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Item 4. Information on the Company.

A. History and Development of the Company

Mitsubishi Tokyo Financial Group, Inc.

Mitsubishi Tokyo Financial Group, Inc. is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Commercial Code of Japan. On April 2, 2001, Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Nippon Trust Bank established Mitsubishi Tokyo Financial Group, Inc. to be a holding company for the three of them. Before that, each of the banks had been a publicly held company. On April 2, 2001, through a stock-for-stock exchange, they became wholly-owned subsidiaries of Mitsubishi Tokyo Financial Group, Inc., and the former shareholders of the three banks became shareholders of Mitsubishi Tokyo Financial Group, Inc. Nippon Trust Bank was later merged into Mitsubishi Trust Bank. As a result, Mitsubishi Tokyo Financial Group, Inc. now has two directly held banking subsidiaries, Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank, although each of these two banks also has other subsidiaries of its own.

On April 1, 2004, we implemented a new integrated business group system, which currently integrates the operations of Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Mitsubishi Securities Co, Ltd., or Mitsubishi Securities, in the following three areas Retail, Corporate, and Trust Assets. Although this new measure did not change the legal entities of Mitsubishi Tokyo Financial Group, Inc., Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank, and Mitsubishi Securities, it is intended to enhance synergies by promoting more effective and efficient collaboration between our subsidiaries.

On July 1, 2005, Mitsubishi Tokyo Financial Group, Inc. made Mitsubishi Securities a directly-held subsidiary by acquiring all of the shares of Mitsubishi Securities common stock held by Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank.

On June 29, 2005, the merger agreement between us and UFJ Holdings was approved at the general shareholders meetings of Mitsubishi Tokyo Financial Group, Inc. and UFJ Holdings. As the surviving entity, Mitsubishi Tokyo Financial Group, Inc. will be renamed Mitsubishi UFJ Financial Group, Inc. and use the abbreviation MUFG. Under the current schedule, the merger of the two bank holding companies is expected to be completed on October 1, 2005.

Mitsubishi Tokyo Financial Group, Inc.'s registered address is 4-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-6326, Japan, and its telephone number is 81-3-3240-8111.

For a discussion of the planned integration with the UFJ group and other recent developments, see Item 4.B. Business Overview and Item 5.A. Operating and Financial Review and Prospects Recent Developments.

The Bank of Tokyo-Mitsubishi, Ltd.

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

Bank of Tokyo-Mitsubishi was formed through the merger, on April 1, 1996, of The Mitsubishi Bank, Limited and The Bank of Tokyo, Ltd. The origins of Mitsubishi Bank can be traced to the Mitsubishi Exchange Office, a money exchange house established in 1880 by Yataro Iwasaki, a key figure in the Japanese industrial revolution and the founder of the Mitsubishi industrial, commercial and financial group. In 1895, the Mitsubishi Exchange Office was succeeded by the Banking Division of the Mitsubishi Goshi Kaisha, the holding company

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of the Mitsubishi group of companies, that began in the late 19th century with interests in shipping and trading. Mitsubishi Bank had been a principal bank to many of the Mitsubishi group companies, but broadened its relationships to cover a wide range of Japanese industries, small and medium-sized companies and individuals.

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

As part of our planned merger with UFJ Holdings, Bank of Tokyo-Mitsubishi and UFJ Bank will merge, and the surviving entity, Bank of Tokyo-Mitsubishi, will be a wholly-owned subsidiary of the new holding company. Bank of Tokyo-Mitsubishi will be renamed The Bank of Tokyo-Mitsubishi UFJ, Ltd. On August 12, 2005, the merger date was postponed to January 1, 2006. The postponement was undertaken to enable additional testing of the two banks' systems intended to minimize risks arising from the merger. The merger agreement entered into separately between the two banks was amended to reflect the postponement. The postponement may also lead to future changes in our plan to complete all systems integration group-wide by March 31, 2007.

Bank of Tokyo-Mitsubishi is a member of the Mitsubishi group of companies. The expression Mitsubishi group is used to describe companies with historical links to a group of companies that were under common control. Although there are numerous, generally small, cross-shareholdings among these companies even today, the Mitsubishi group companies have been managed and operated independently. The Mitsubishi group companies are engaged in a broad range of activities including manufacturing, trading, natural resources, transportation, real estate, banking and insurance.

The Mitsubishi Trust and Banking Corporation

Mitsubishi Trust Bank is a major trust bank in Japan, providing trust and banking services to meet the financing and investment needs of clients in Japan and the rest of Asia, as well as in the United States and Europe. Mitsubishi Trust Bank's registered head office is located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan. Its telephone number is 81-3-3212-1211. Mitsubishi Trust Bank is also a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Japanese Commercial Code.

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

Nippon Trust Bank and The Tokyo Trust Bank, Ltd., which were previously subsidiaries of Bank of Tokyo-Mitsubishi, were merged into Mitsubishi Trust Bank on October 1, 2001. By combining the trust-related resources and expertise of these three trust banks, we believe Mitsubishi Trust Bank is well-positioned to provide clients with trust services that match their evolving needs.

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As part of our planned merger with UFJ Holdings, Mitsubishi Trust Bank and UFJ Trust Bank will merge on October 1, 2005, and the surviving entity, Mitsubishi Trust Bank, will be a wholly-owned subsidiary of the new holding company. Mitsubishi Trust Bank will be renamed Mitsubishi UFJ Trust and Banking Corporation .

Mitsubishi Trust Bank is also a member of the Mitsubishi group of companies.

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Mitsubishi Securities Co., Ltd.

On September 1, 2002, Bank of Tokyo-Mitsubishi completed the merger of its securities subsidiaries and affiliate, KOKUSAI Securities Co., Ltd., Tokyo-Mitsubishi Securities Co., Ltd. and Tokyo-Mitsubishi Personal Securities Co., Ltd., and Mitsubishi Trust Bank's securities affiliate, Issei Securities Co., Ltd., to form Mitsubishi Securities Co., Ltd., or Mitsubishi Securities. Since the merger, Bank of Tokyo-Mitsubishi has been consolidating various areas of its securities and investment banking business, such as mergers and acquisitions, part of its derivative operations, corporate advisory and securitization operations, under Mitsubishi Securities. On July 1, 2005, Mitsubishi Tokyo Financial Group, Inc. made Mitsubishi Securities a directly-held subsidiary by acquiring all of the shares of Mitsubishi Securities common stock held by Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank.

As part of our planned merger with UFJ Holdings, Mitsubishi Securities and UFJ Tsubasa Securities will merge on October 1, 2005, and the surviving entity, Mitsubishi Securities, will become a majority-owned, direct subsidiary of the new holding company. Mitsubishi Securities will be renamed Mitsubishi UFJ Securities, Co., Ltd.

Mitsubishi Securities is also a member of the Mitsubishi group of companies.

B. Business Overview

Mitsubishi Tokyo Financial Group, Inc. is one of the world's leading bank holding companies. Through our two directly held subsidiary banks, Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank, Mitsubishi Securities and other subsidiaries, we provide a full range of domestic and international financial services, including commercial banking, investment banking and asset management services, as well as securities-related services, trust services, to individuals and corporate customers.

While maintaining the corporate cultures and core competencies of Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Mitsubishi Securities, Mitsubishi Tokyo Financial Group, Inc., as the holding company, seeks to work with them to find ways to:

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

leverage the flexibility afforded by our organizational structure to expand our business;

benefit from the collective expertise of Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Mitsubishi Securities;

achieve operational efficiencies and economies of scale; and

enhance the sophistication and comprehensiveness of the group's risk management expertise.

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On June 29, 2005, the merger agreement between us and UFJ Holdings was approved at the general shareholders meetings of Mitsubishi Tokyo Financial Group, Inc. and UFJ Holdings. Under the current schedule, the mergers of the holding companies, trust banks and securities companies are expected to be completed on October 1, 2005. The merger between Bank of Tokyo-Mitsubishi and UFJ Bank has been postponed to January 1, 2006 in order to enable additional testing of the two banks' systems intended to minimize risks arising from the merger.

Through the merger, we aim to create a leading comprehensive financial group that is competitive on a global basis and provides a broad range of financial products and services to a worldwide client base. We believe that our business operations and domestic and global branch networks are highly complementary with those of UFJ Holdings. By leveraging the respective strengths of each group, creating synergies through the merger and reinforcing a customer-focused management philosophy, we will seek to improve the standard of our products and services and seek to provide significant benefits expected from the merger to customers and shareholders.

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Following the merger, we believe we will have the largest market value among Japanese financial institutions, and we will be the largest bank in the world when measured by assets. We will also have a strong presence in core financial business areas, including:

banking;	credit cards and consumer finance;
trust banking;	leasing; and
securities;	international banking.
investment trusts;	

As part of the merger, we will aim to integrate our operations with those of UFJ Holdings in the following manner:

Holding companies. Mitsubishi Tokyo Financial Group, Inc. and UFJ Holdings, Inc. will merge, with Mitsubishi Tokyo Financial Group, Inc. as the surviving company. Mitsubishi Tokyo Financial Group, Inc. will be renamed Mitsubishi UFJ Financial Group, Inc. with the abbreviation MUFG .

Banks. Bank of Tokyo-Mitsubishi and UFJ Bank will merge, and the surviving entity, Bank of Tokyo-Mitsubishi, will be a wholly-owned subsidiary of the new holding company. Bank of Tokyo-Mitsubishi will be renamed The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Trust banks. Mitsubishi Trust Bank and UFJ Trust Bank will merge, and the surviving entity, Mitsubishi Trust Bank, will be a wholly-owned subsidiary of the new holding company. Mitsubishi Trust Bank will be renamed Mitsubishi UFJ Trust and Banking Corporation .

Securities companies. Mitsubishi Securities and UFJ Tsubasa Securities will merge, and the surviving entity, Mitsubishi Securities, will become a majority-owned, direct subsidiary of the new holding company. Mitsubishi Securities will be renamed Mitsubishi UFJ Securities, Co., Ltd.

The completion of the planned merger with UFJ Holdings is expected to increase our competitive position in a number of areas, including:

Japan's Preeminent Global Banking Network. The merger will enable us to serve diverse financial needs worldwide using an enhanced domestic network, as well as a global network that will cover over 40 countries and be staffed by experienced personnel familiar with local business customs. Our domestic corporate and retail clients will have access to a wide range of products and services, including some of those offered by UnionBank of California.

Strong Business Foundation Based on Retail Deposits and Diverse Customer Base. The significant level of retail deposits that we are expected to hold after the integration has the potential to be a source of improved earnings in the retail segment. Our diverse customer base, including an estimated 40 million retail customers and 280,000 corporate customers following the merger, will also be an important element in facilitating expansion of the trust and investment banking services in our corporate banking business. By providing a wide range of financial products and services to our diverse customer base, we will seek to significantly enhance profitability and competitiveness.

Strong Financial Foundation. Following the merger, we will aim to maintain a strong financial foundation by minimizing the portion of our equity capital comprised of public funds and deferred tax assets. We plan to repay public funds as rapidly as is prudent and

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aim to implement our growth strategy under a more focused management. We have been a leader among Japanese financial groups in achieving large-scale reductions of non-performing loans, and we will continue these efforts to achieve financial soundness. Our strong financial foundation will not only enable us to assume larger risk positions but also allow management resources to be fully devoted to business initiatives.

Highly Complementary Businesses and Networks. We believe that the merger will enable us to realize integration synergies and to strengthen our customer base and business foundation in a well-balanced manner due to the highly complementary nature of our and the UFJ group's businesses and branch

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networks. For example, while our customer base consists primarily of large corporations, the UFJ group's primary customer base consists of individual customers and small- and medium-sized companies. The branch networks of the two groups are also complementary, as we have a large number of branches in the Tokyo metropolitan area, while the UFJ group's branch network is more concentrated in the Nagoya and Osaka metropolitan areas. These factors will also help reduce the impact of the planned consolidation of overlapping outlets on the existing customer base and operations. We will seek to enhance customer convenience through the balanced development of branch networks primarily in the Tokyo, Nagoya and Osaka metropolitan areas. We believe that we will be able to provide a wider range of customer services due to the complimentary nature of the companies comprising the new bank group created through the integration.

Strong Corporate Governance and Transparency. As the only Japanese bank holding company listed on the NYSE, we have been subject to the U.S. Sarbanes-Oxley Act and have been preparing to meet the requirements in respect of internal control financial reporting that are mandated for all SEC-reporting companies. We will aim to continue implementing an effective corporate governance system and to conduct transparent management at a level expected of a leading global financial institution. We will also seek to implement appropriate corporate social responsibility policies to support sustainable growth.

In order to further enhance our operations and increase profits, in April 2004 we introduced an integrated business group system comprising three core business areas: Retail, Corporate, and Trust Assets (Asset Management and Administration). These three businesses serve as the group's core sources of net operating profit. In addition, the role of Mitsubishi Tokyo Financial Group, Inc. as the holding company has expanded from strategic coordination to integrated strategic management. Group-wide strategies are determined by the holding company and executed by the subsidiary banks and other subsidiaries.

Under the integrated business group system, each of our business units cooperates with the various business units and groups of Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Mitsubishi Securities. For example,

Mitsubishi Securities collaborates with the retail banking business unit to develop and offer products and services for our retail clients as part of our Integrated Retail Banking Business Group.

The commercial banking business unit, the global corporate banking business unit, the investment banking and asset management business unit and Mitsubishi Securities work together to develop and provide products and services for our corporate clients as part of our Integrated Corporate Banking Business Group.

Bank of Tokyo-Mitsubishi's IT solution business, which is part of the eBusiness and IT initiatives business unit, offers services as part of our Integrated Corporate Banking Business Group.

Bank of Tokyo-Mitsubishi's asset management services and global custody services, which are part of the investment banking and asset management business unit, collaborate with business groups of Mitsubishi Trust Bank to offer services and products as part of our Integrated Trust Assets Business Group.

The retail banking services provided by Mitsubishi Trust Bank's trust banking business group and the real estate services provided to individuals by Mitsubishi Trust Bank's real estate business group are provided as part of our Integrated Retail Banking Business Group.

The corporate finance products and services provided by Mitsubishi Trust Bank's trust banking business group, the real estate services provided to corporate clients by Mitsubishi Trust Bank's real estate business group and the services provided by Mitsubishi Trust Bank's stock transfer agency business group are provided as part of our Integrated Corporate Banking Business Group.

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The trust assets management services and the asset administration and custodial services provided by Mitsubishi Trust Bank's trust assets business group are provided as part of our Integrated Trust Assets Business Group.

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The UNBC business unit, which comprises our subsidiaries in California, the operations services unit, the treasury unit, the system services unit, the eBusiness & IT initiatives unit (except the IT solution business of Bank of Tokyo-Mitsubishi), and the corporate center are not part of our integrated business group system. With the exception of treasury-related services, services in the global markets business group of Mitsubishi Trust Bank are provided as part of our integrated corporate banking business group.

Under this integrated business group system, we aim to reduce overlapping of functions within the group, thereby increasing efficiency and realizing the benefits of group resources and scale of operations. Moreover, through greater integration of our shared expertise in the banking, trust and securities businesses, we aim to deliver a more diverse but integrated lineup of products and services to customers. As part of our efforts to increase group synergies and customer convenience, we also seek to create and develop new services and distribution channels.

Bank of Tokyo-Mitsubishi

Bank of Tokyo-Mitsubishi is a major Japanese commercial banking organization. It provides a broad range of domestic and international banking services in Japan and around the world. As of June 1, 2005, Bank of Tokyo-Mitsubishi's network in Japan included 251 branches, 28 sub-branches, 60 loan plazas, 474 branch ATMs and 19,062 convenience store-based, non-exclusive ATMs. Bank of Tokyo-Mitsubishi organizes its operations based on customer and product segmentation, as follows:

retail banking;

commercial banking;

global corporate banking;

investment banking and asset management, and Mitsubishi Securities;

UNBC;

operations services;

treasury; and

other, including systems services and eBusiness & IT initiatives.

Retail Banking Business Unit

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Our retail banking business unit offers a full range of banking products and services, including financial consulting services to individual customers in Japan through its branch offices and other direct distribution channels.

Deposits. The unit offers a full range of bank deposit products. The unit also introduced a new non-interest-bearing deposit account that is redeemable on demand and intended primarily for payment and settlement functions, and is fully insured without a maximum amount limitation. In addition, the unit also offers a wide range of foreign currency deposit accounts.

Investment trusts. The unit offers 30 equity and public utility bond funds and a program fund, the M-CUBE program, which was developed exclusively for Bank of Tokyo-Mitsubishi by Frank Russell Company and combines four specific funds. The unit offers a menu of funds that allows customers to achieve their desired balance of risk diversification and return. During 2004, the unit introduced three new open-ended funds and four new closed-end funds.

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Individual annuity insurance. The unit has been actively promoting the sales of individual annuity insurance products since the Japanese government lifted the prohibition against sales of such products by banks in October 2002. The unit's current product lineup features capital guaranteed variable annuity products, foreign currency-denominated variable annuity products and foreign currency- and yen-denominated fixed annuity insurance products.

Bank of Tokyo-Mitsubishi formed business alliances in individual annuity insurance product development and sales with Manulife Life Insurance Company in March 2004, with Millea Group's Tokio Marine & Nichido Financial Life Insurance Co., Ltd. in September 2004, and with AIG Star Life Insurance Co., Ltd. in January 2005.

Securities intermediation operations. The unit entered the securities industry following the lifting of the ban on securities intermediation by banks in Japan on December 1, 2004 with Mitsubishi Securities and Me Net Securities Co., Ltd. acting as securities agents. After the transfer of around 300 employees from Mitsubishi Securities, securities intermediation operations commenced from April 2005 at all branches that offer investment trusts (247 branches as of June 2005). The unit intends to increase its range of product offerings in the future.

Loans. The unit offers housing loans, card loans and other loans to individuals. With respect to housing loans, the unit has begun offering long-term fixed interest loans with a maximum period of 35 years. Furthermore, the unit conducts business development as an integrated group through activities such as offering favorable interest rates for housing loans that are implemented together with Mitsubishi Trust Bank.

Credit cards. In October 2004, Bank of Tokyo-Mitsubishi launched a new comprehensive IC card service that adds VISA credit card and electronic money functions to its bank cash card. The card is also equipped with a biometric verification security system that enhances security for customers. This comprehensive IC card with biometric verification system is the first such product in the world. In addition, our subsidiaries, DC Card Co., Ltd. and Tokyo Credit Services, Ltd., offer VISA and MasterCard credit cards.

Domestic Network. In addition to its branch offices, the retail banking business unit offers products and services through other direct distribution channels such as ATMs (including a convenience store-based ATM network utilized by a number of different banks), Tokyo-Mitsubishi Direct (telephone and internet banking services), MTFG Telebank (utilizes broadband video technology to provide counter services) and mail order. In December 2004, Bank of Tokyo-Mitsubishi formed a business alliance with Japan Post in ATM/CD services.

In February 2004, we opened MTFG Plaza, which provides individual customers with one-stop access to our comprehensive financial product lineup by integrating commercial bank, trust bank and securities services. Bank of Tokyo-Mitsubishi operated eight MTFG Plazas as of March 31, 2005.

Trust agency operations. As a trust agency, the unit markets Mitsubishi Trust Bank products to its retail customers. In addition, following the December 2004 amendments to the Trust Business Law allowing trust agencies to begin conducting inheritance-related businesses, starting March 2005 the unit began offering five Mitsubishi Trust Bank inheritance-related services.

Commercial Banking Business Unit

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As part of our Integrated Corporate Banking Business Group, the commercial banking business unit of Bank of Tokyo-Mitsubishi provides banking products and services to a wide range of business customers, from large corporations to medium-sized and small businesses, and is responsible for customer relationships. The unit serves these customers through 115 offices in Japan as well as directly from its headquarters. The unit provides

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traditional commercial banking services, such as deposits, settlement, foreign exchange and loans, as well as trust products of Mitsubishi Trust Bank, electronic banking and highly sophisticated consultancy services to meet its customers' needs. The unit works closely with other business units, such as the global corporate banking business unit, the treasury unit and the investment banking and asset management business unit.

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

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

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

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

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

Corporate welfare facilities. The unit offers products and administrative services to help customers with employee benefit plans. As a service to customers, the unit often provides housing loans to customers' employees. The unit also provides company-sponsored employee savings plans and defined contribution plans.

Global Corporate Banking Business Unit

The global corporate banking business unit of Bank of Tokyo-Mitsubishi provides banking services to large Japanese corporations, as well as the overseas operations of both large and medium-sized Japanese corporations. The unit also caters to non-Japanese corporations who do business on a global basis. The unit serves customers through corporate banking divisions in Tokyo, a global network of 57 overseas branches and sub-branches, 16 representative offices and overseas banking subsidiaries.

Overseas business support. The unit provides a full range of services to support customers' overseas activities, including loans, deposits, assistance with mergers and acquisitions and cash management services. The unit provides financial services to customers in cooperation with other business units, such as the treasury unit and the investment banking and asset management business unit, and also through subsidiaries that

are part of those units, such as Mitsubishi Securities, Mitsubishi Securities International plc (formerly Tokyo-Mitsubishi International plc) and BTM Capital Corporation.

The unit also provides advisory services to help customers develop financial strategies, such as arranging the issuance of asset-backed commercial paper, providing credit commitments and securitizing real estate in Japan. Together with the investment banking and asset management business unit, the unit also developed its investment banking business to increase our non-interest income.

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Global Cash Management Service. Bank of Tokyo-Mitsubishi started offering Global Cash Management Service, or GCMS, through its foreign branches. This service allows customers to monitor their foreign accounts and make remittances through their personal computers and Bank of Tokyo-Mitsubishi has introduced several enhancements such as Internet-based access and Chinese-language capability. This service is now available through 24 foreign branches and the total number of GCMS corporate customers was over 2,804 as of March 31, 2005.

Investment Banking and Asset Management Business Unit

Bank of Tokyo-Mitsubishi's investment banking business unit and asset management business unit were merged in May 2003 to form the investment banking and asset management business unit.

Investment Banking

The unit provides capital markets, derivatives, securitization, syndicated loans, structured finance and other services. Other business units of Bank of Tokyo-Mitsubishi cooperate with the investment banking and asset management business unit in offering services to customers. In addition, BTM Capital Corporation and BTM Leasing & Finance, Inc. provide leasing services to their customers.

Capital Markets. The unit provides arrangement services relating to private placements for mainly medium-sized enterprise issuers and institutional investors. During the fiscal year ended March 31, 2005, we arranged 2,449 issuances totaling ¥352.9 billion.

Derivatives. The unit develops and offers derivatives products for risk management and other financial needs. The unit has trading desks and sales teams specializing in derivatives in Tokyo, Singapore, Hong Kong, London and New York.

Securitization. In the securitization area, the unit is primarily engaged in asset-backed commercial paper programs and has securitization teams based in Tokyo, New York and London. It continues to develop and structure new types of transactions.

Syndicated loans. The unit structures and syndicates many types of loan transactions, including term loans, revolving credit and structured transactions. It has loan syndication operations in Tokyo, New York, London, Hong Kong and Singapore. We arranged syndicated loans with an aggregate principal amount totaling \$78.3 billion in the fiscal year ended March 31, 2005.

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

Other investment banking services. In the United States, the unit offers leasing services through two subsidiaries, BTM Capital Corporation and BTM Leasing & Finance. BTM Capital Corporation offers a wide range of leasing services to non-Japanese customers, while BTM Leasing

& Finance focuses on providing services to the U.S. subsidiaries and affiliates of Japanese corporations.

Asset Management

The unit provides asset management and trust products and services mainly to high net worth individuals, branch customers and corporate clients in Japan. Generally, these products and services are delivered to customers of Bank of Tokyo-Mitsubishi through the retail banking business unit and the commercial banking business unit, and are provided by Mitsubishi Asset Management Co., Ltd. and Mitsubishi Trust Bank.

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Mitsubishi Asset Management Co., Ltd. was formed on October 1, 2004 through a merger between Tokyo-Mitsubishi Asset Management Ltd. and Mitsubishi Trust Asset Management Co., Ltd. Mitsubishi Asset Management aims to become a leader in Japan's publicly offered investment trust industry by leveraging its high-quality, sophisticated products and services with our broad customer base.

Asset management. Mitsubishi Asset Management, a licensed investment trust management company and discretionary investment advisor, provides investment trust-related products and services. It also offers a wide array of other investment products which, as of March 31, 2005, are marketed by almost 70 Japanese financial institutions, including the Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and regional banks, mainly to individual customers.

Mitsubishi Asset Management has continued to expand its investment product line. In the first half of the fiscal year ended March 31, 2005, it launched an SRI (Socially Responsible Investment) fund that mainly invests in Japanese companies that have a reputation for being employee-friendly.

Bank of Tokyo-Mitsubishi and Mitsubishi Asset Management also maintain business relationships with Mellon Financial Group, Frank Russell Company, Ltd. and Schroder Investment Management (Japan) Ltd. Mitsubishi Asset Management distributes sophisticated investment products provided by these institutions.

Mitsubishi Asset Management Co., Ltd. signed a merger agreement with UFJ Partners Asset Management Co., Ltd. which is one of subsidiaries of UFJ group, on July 1, 2005. The merger is scheduled to occur on October 1, 2005. The name of the new asset management company will be Mitsubishi UFJ Asset Management Co., Ltd.

Advice on Defined Contribution Plans. We provide consulting services for defined contribution plans through Defined Contribution Plan Consulting of Japan Co., Ltd., which was established by Bank of Tokyo-Mitsubishi in alliance with Mitsubishi Trust Bank, Meiji Yasuda Life Insurance Company and Tokio Marine & Nichido Fire Insurance Co., Ltd., following legislation introduced in October 2001. Defined Contribution Plan Consulting of Japan provides a full range of services, such as plan administration services and advising clients in the selection of investment products, to meet various needs for our corporate clients and the plan participants.

Wealth management. In 2002, two wealth management companies were established to capitalize on our wealth management resources and capabilities. In August 2002, Mitsubishi Tokyo Wealth Management Securities, Ltd. began its operations, and in September 2002, Mitsubishi Tokyo Wealth Management (Switzerland), Ltd. took over the private banking business from Bank of Tokyo-Mitsubishi (Switzerland), Ltd. These two subsidiaries provide sophisticated and broad investment services and solutions to high net worth customers.

UNBC Business Unit

As of June 30, 2005, Bank of Tokyo-Mitsubishi owned 61.2% of UnionBanCal Corporation, a publicly traded company listed on the NYSE. UnionBanCal is a U.S. commercial bank holding company. Union Bank of California, N.A., UnionBanCal's bank subsidiary, is one of the largest commercial banks in California based on total assets and total deposits and is among the oldest banks on the West Coast, having roots as far back as 1864.

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

UNBC's operations are divided into four primary groups.

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The Community Banking and Investment Services Group. This group offers its customers a wide spectrum of financial products within its comprehensive lineup. With a broad line of checking and savings, investment, loan and fee-based banking products, individual and business clients, including not-for-profit, small and institutional investors, can each have their specific needs met. As of June 30, 2005, these products are offered in 318 full-service branches, primarily in California, as well as in Oregon and Washington. In addition, the group offers international and settlement services, e-banking through its website, check cashing services at its Cash & Save locations and loan and investment products tailored to its high net worth consumer customers through its private banking business. Institutional customers are offered employee benefit, 401(k) administration, corporate trust, securities lending and custody (global and domestic) services. The group also includes a registered broker-dealer and a registered investment advisor, which provide investment advisory services and manage a proprietary mutual fund family.

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

The International Banking Group. This group primarily provides correspondent banking and trade finance-related products and services to financial institutions worldwide, primarily in Asia.

The Global Markets Group. This group is responsible for treasury management, which encompasses wholesale funding, liquidity management and interest rate risk management. In collaboration with our other business groups, this group also offers customers a broad range of financial services products and risk management products.

Operations Services Unit

Through its operations services unit, Bank of Tokyo-Mitsubishi provides operations and settlement services to its other business units. The unit also earns fee income by providing settlement and remittance services, including correspondent banking services, to Bank of Tokyo-Mitsubishi's customers. In addition, the unit also offers competitive operations and settlement services to other financial institutions to meet their outsourcing needs.

Operations services. The operations division of Bank of Tokyo-Mitsubishi's operations services unit provides operations services for the domestic commercial banking activities of the retail banking, commercial banking and global corporate banking business units. Bank of Tokyo-Mitsubishi has expanded centralized processing at its operations centers, which will increase the efficiency of its branch offices.

The operations division also offers outsourcing services in foreign remittance, export and import operations for Japanese financial institutions. As of March 31, 2005, 71 Japanese banks utilized Bank of Tokyo-Mitsubishi's foreign remittance services offered under its Global Operation Automatic Link (GOAL) service, and a number of Japanese banks outsourced their export and import operations to Bank of Tokyo-Mitsubishi.

Correspondent banking and settlement. The payment and clearing services division of Bank of Tokyo-Mitsubishi's operations services unit maintains financial institutions' accounts with correspondent arrangements. As of March 31, 2005, Bank of Tokyo-Mitsubishi had correspondent arrangements with 2,915 foreign banks and other financial institutions, of which 1,599 had yen settlement accounts with Bank of

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Tokyo-Mitsubishi. Bank of Tokyo-Mitsubishi also had correspondent arrangements with 133 Japanese financial institutions, for which Bank of Tokyo-Mitsubishi held 147 yen and foreign currency accounts.

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The Foreign Exchange Yen Clearing System in Japan introduced an entrustment procedure for yen clearing through which banks may entrust other banks to conduct yen clearing for them. Bank of Tokyo-Mitsubishi has the largest share of this business in the market. As of March 31, 2005, 47 regional and foreign banks in Japan outsourced their yen clearing operations to Bank of Tokyo-Mitsubishi. Bank of Tokyo-Mitsubishi handled approximately 28% of these transactions based on transaction amounts and is a market leader in the yen settlement business.

Bank of Tokyo-Mitsubishi's payment and clearing services division is also taking the initiative in the global implementation of the Continuous Linked Settlement operation, which is intended to eliminate the settlement risk that can occur when foreign exchange deals are settled.

Treasury Unit

The treasury unit of Bank of Tokyo-Mitsubishi manages Bank of Tokyo-Mitsubishi's overall funding requirements. The unit is responsible for Bank of Tokyo-Mitsubishi's asset liability management and manages Bank of Tokyo-Mitsubishi's securities investment portfolio, foreign exchange and derivatives transactions, including proprietary trading. It works with other business units to provide various financial products such as foreign currency forward, currency options and commercial paper.

The treasury unit is active in financial markets worldwide and has global treasury offices in Tokyo, New York, London, Singapore and Hong Kong.

As part of its asset liability management for Bank of Tokyo-Mitsubishi, the treasury unit seeks to control the interest rate and liquidity risks of Bank of Tokyo-Mitsubishi and to enable it to conduct its investment and fund-raising activities within an appropriate range of risk. The treasury unit centrally monitors and manages all interest rate risk and liquidity risk for Bank of Tokyo-Mitsubishi.

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

Bank of Tokyo-Mitsubishi is a leading market maker for the Tokyo foreign exchange and over-the-counter currency option markets. Bank of Tokyo-Mitsubishi has a large market share of transactions in the U.S. dollar-yen sector and in other major cross currency and currency option trading.

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

Other Business Units

In addition to the above, Bank of Tokyo-Mitsubishi also has other business units, including:

system services, which is responsible for Bank of Tokyo-Mitsubishi's computer systems;

eBusiness & IT initiatives, which is responsible for developing and overseeing information technology within the Bank of Tokyo-Mitsubishi as well as related business opportunities; and

the corporate center, which retains functions such as strategic planning, overall risk management, internal auditing and compliance within Bank of Tokyo-Mitsubishi.

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Mitsubishi Trust Bank

Mitsubishi Trust Bank is one of the major trust banks in Japan. It engages in the following businesses:

trust-banking business;

trust assets business;

real estate business;

stock transfer agency business; and

global markets business.

As of March 31, 2005, Mitsubishi Trust Bank had a network of 44 branches and five sub-branches in Japan.

Trust-Banking Business Group

The trust-banking business group of Mitsubishi Trust Bank provides retail banking and trust services, as well as corporate financing services. The trust-banking business group provides a full range of trust and commercial banking products and various financial services to individuals, corporations, institutional investors and public organizations. Mitsubishi Trust Bank offers some of its products and services through its trust agency arrangements with various banks, including Bank of Tokyo-Mitsubishi.

As it serves as the first point of contact with customers, this group is responsible for building and maintaining good relationships with retail and corporate clients.

Retail banking services. The trust-banking business group offers a variety of asset-management and asset administration services to individuals. The group's asset management products include savings instruments such as current accounts, ordinary deposits, time deposits, deposits at notice and other deposit facilities. It also offers trust products, such as loan trusts and money trusts, and other investment products, such as investment trusts, performance-based money trusts and foreign-currency deposits.

The group creates portfolios tailored to the customers' needs by combining savings instruments and investment products. The group also provides a range of asset management and asset administration products as well as customized trust products for high net worth individuals. Examples of services offered include advisory services relating to, among other things, the purchase and disposal of real estate and effective land utilization and testamentary trusts.

Since 1999, Mitsubishi Trust Bank has offered a members-only service called the Excellent Club targeted at customers who have aggregate balances of over ¥10 million per household at Mitsubishi Trust Bank. As of March 31, 2005, the Excellent Club had a membership of over 260,000 households. Members of the Excellent Club have access to, among other things, favorable interest rates and fee discounts, wealth management services and special products such as the Excellent Club time deposits.

Corporate finance products and services. The trust-banking business group offers a range of services which integrate trust and banking functions in order to satisfy the financial needs of approximately 7,000 corporate clients. Examples of traditional commercial banking services include loans, the arrangement of syndicated loans, securitization and the establishment of loan commitments. Leveraging Mitsubishi Trust Bank's experience and know-how relating to the asset management business, real estate brokerage and appraisal services, the group offers services tailored to the financial strategies of each client, including securitization of real estate, receivables and other assets.

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With respect to securitization services, the group is engaged in the securitization of the Government Housing Loan Corporation's housing loans and the securitization of non-performing loans in cooperation with Japan's Resolution and Collection Corporation. As of March 31, 2005, the outstanding balance of loan credits (including non-performing loans), property, sales credits and other credits that were securitized was over ¥8 trillion.

In order to meet the various needs of corporate customers, the group offers appropriate solutions by providing trust banking that combines trust services, such as those related to pensions and real estate, with diverse financing options.

Trust Assets Business Group

The trust assets business group provides fiduciary asset management and administration services. As of March 31, 2005, the balance of corporate pension assets entrusted to Mitsubishi Trust Bank surpassed the level held by all other trust banks in Japan combined.

The group is strengthening its consulting capabilities in response to an increasing demand for specialized consulting services as more Japanese companies seek to reform their pension and human resources systems.

Trust assets management services. The group manages investment funds, corporate pensions, public pensions, public sector funds and individual funds on behalf of its clients and in accordance with their investment objectives.

Mitsubishi Trust Asset Management Co., Ltd. merged with Tokyo-Mitsubishi Asset Management to form Mitsubishi Asset Management Co., Ltd. on October 1, 2004. We believe this merger strengthens our competitiveness in Japan's publicly offered investment trust industry by combining high-quality, sophisticated products and services with our broad customer base.

To address the diverse needs of Mitsubishi Trust Bank's clients, the group offers a wide range of products, including actively managed funds for investors seeking to outperform the market as well as passively managed or index-based funds, which are becoming increasingly popular. The group also provides currency overlay management services and alternative investment products.

Asset administration and custodial services. In the asset administration business, the group provides a broad range of administrative and custodial services to corporations, institutional investors and other clients. In May 2002, Mitsubishi Trust Bank transferred to Master Trust Bank of Japan, Ltd. assets under management encompassing securities held by funds including pension trusts, specified money trusts and securities investment trusts. Master Trust Bank of Japan is a trust bank which specializes in asset administration. It was established in May 2000 by Mitsubishi Trust Bank, Nippon Life, UFJ Trust Bank, Meiji Yasuda Life and Deutsche Bank. In October 2002 and November 2003, UFJ Trust Bank transferred its assets under management encompassing securities held by funds, including pension trusts, specified money trusts, and securities investment trusts to Master Trust Bank of Japan, increasing its trust assets to approximately ¥80 trillion as of March 31, 2005.

Real Estate Business Group

In addition to its principal business of real estate brokerage operations, the real estate business group utilizes its significant know-how relating to the securitization of real estate and real estate development, management and appraisal, to meet the diverse real estate-related needs of retail and corporate clients. The group is also focused on providing services that build on the experience and expertise of a trust bank. For example, the group offers advice relating to clients' real estate assets in the context of the restructuring of their businesses and financial

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strategies and their balance sheets, as clients try to respond to changes in the accounting treatment of impairment losses and the increased focus on consolidated financial statements under Japanese GAAP. The group retains the services of a large number of highly qualified experts, including registered architects, registered real estate transaction managers, appraisers and associate appraisers and registered real estate consultants.

Stock Transfer Agency Business Group

In April 2004, Mitsubishi Trust Bank upgraded the status of its stock transfer agency business from part of the trust-banking business group to a newly established stock transfer agency business group. Mitsubishi Trust Bank aims to expand its stock transfer agency business by tapping into a wider client base and working closely with Bank of Tokyo-Mitsubishi. The group offers stock transfer agency services for corporate clients where Mitsubishi Trust Bank acts as an agent, as designated under the Japanese Commercial Code, and handles various administrative procedures such as stock title transfers and the calculation and payment of dividends. The group also offers consultation services relating to investor relations and corporate governance to listed companies and advises companies planning to go public on how to prepare for an initial public offering and other practical procedures involved in the issuance of shares. The group also provides a service that enables companies to send shareholder meeting notices to, and receive proxies from, shareholders via the Internet. As of March 31, 2005, Mitsubishi Trust Bank was serving as the stock transfer agent for 979 companies based in Japan and overseas.

Global Markets Business Group

The global markets business group is active in various financial operations, including banking, money and capital markets operations, securities investments and custody operations and asset management. With the U.S., European and Asian markets as its core foundation, the group's business, through efficient management of its portfolio of financial products including securities, loan receivables and derivatives, has consistently maintained a high level of profitability and has been one of Mitsubishi Trust Bank's most important businesses.

In the area of international finance, the group offers loans, guarantees and other credit facilities to multinational corporate clients, including the overseas affiliates of Japanese corporations.

As of March 31, 2005, Mitsubishi Trust Bank maintained a presence in the world's major financial markets through a network of five branches, two representative offices and five major subsidiaries.

Mitsubishi Securities

In September 2002, we merged the Bank of Tokyo-Mitsubishi's securities subsidiaries and affiliate, KOKUSAI Securities Co., Ltd., Tokyo-Mitsubishi Securities Co., Ltd. and Tokyo-Mitsubishi Personal Securities Co., Ltd., and Mitsubishi Trust Bank's securities affiliate, Issei Securities Co., Ltd., to create Mitsubishi Securities. As of March 31, 2005, Mitsubishi Tokyo Financial Group, Inc. owned 57.49% of Mitsubishi Securities. Mitsubishi Securities functions as the core of our securities and investment banking business. Since the merger we have consolidated most of our securities business and various areas of our investment banking business, such as mergers and acquisitions, derivatives, corporate advisory and securitization operations that were previously conducted through Bank of Tokyo-Mitsubishi's investment banking unit, into Mitsubishi Securities. During the fiscal year ended March 31, 2005, we integrated Mitsubishi Securities in the new integrated business group system for financial management purposes. For more details, see Item 5.A. Operating and Financial Review and Prospects Operating

Results Business Segment Analysis.

In addition to its own branch network, Mitsubishi Securities serves individual customers with Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank through joint branches and MTFG Plazas, and provides financial products and services to customers. Mitsubishi Securities has 67 offices, including its Head Office and branches, and, as of March 31, 2005, 33 of these had already been converted to joint branches with Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank.

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In the fixed income securities business, Mitsubishi Securities offers its customers a wide range of investment products. Mitsubishi Securities has research functions and provides in-depth company and strategy reports. The equity sales staff members provide services to clients ranging from individual investors to institutional investors in Japan and abroad. Through derivative products, Mitsubishi Securities provides solutions to meet customers' risk management needs. Other services offered by Mitsubishi Securities include bond underwriting, equity underwriting, securitization of assets, initial public offerings, mergers and acquisitions, and support for IR activities. To strengthen and concentrate our global securities business network under Mitsubishi Securities, Mitsubishi Securities acquired overseas securities subsidiaries of the Bank of Tokyo-Mitsubishi in New York, Hong Kong, and Singapore in 2003, and made Tokyo Mitsubishi International plc (currently Mitsubishi Securities International plc) in London into its subsidiary in July 2004.

Competition

We face strong competition in all of our principal areas of operation. The deregulation of the Japanese financial markets as well as structural reforms in the regulation of the financial industry have resulted in dramatic changes in the Japanese financial system. Structural reforms have prompted Japanese banks to merge or reorganize their operations, thus changing the nature of the competition from other financial institutions as well as from other types of businesses.

Japan

Deregulation. Competition in Japan has intensified as a result of the relaxation of regulations relating to Japanese financial institutions. Previously, there were various restrictions, such as foreign exchange controls, ceilings on deposit interest rates and restrictions that compartmentalized business sectors. These restrictions served to limit competition. However, as a result of the deregulation of the financial sector, such as through the Financial Big Bang which was announced in 1996, most of these restrictions were lifted before 2000. Deregulation has eliminated barriers between different types of Japanese financial institutions, which are now able to compete directly against one another. Deregulation and market factors have also facilitated the entry of various large foreign financial institutions into the Japanese domestic market.

The Law Amending the Relevant Laws for the Reform of the Financial System, or the Financial System Reform Act, which was promulgated in June 1998, provided a framework for the reform of the Japanese financial system by reducing the barriers between the banking, securities and insurance businesses and enabled financial institutions to engage in businesses which they were not permitted to conduct before. The Banking Law, as amended, now permits banks to engage in the securities business by establishing or otherwise owning domestic and overseas securities subsidiaries with the approval of the Financial Services Agency, an agency of the Cabinet Office. Further increase in competition among financial institutions is expected in these new areas of permissible activities.

In terms of new market entrants, other financial institutions, such as Orix Corporation, and non-financial companies, such as Sony Corporation and Ito-Yokado Co., Ltd., have also begun to offer various banking services, often through non-traditional distribution channels. Also, in recent years, various large foreign financial institutions have significantly expanded their presence in the Japanese domestic market. Citigroup, for example, has expanded its banking activities and moved aggressively to provide investment banking and other financial services, including retail services.

In the corporate banking sector, the principal effect of these reforms has been the increase in competition as two structural features of Japan's highly specialized and segmented financial system have eroded:

the separation of banking and securities businesses in Japan; and

the distinctions among the permissible activities of Japan's three principal types of private banking institutions.

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For a discussion of the three principal types of private banking institutions, see *The Japanese Financial System*. In addition, in recent years, Japanese corporations are increasingly raising funds by accessing the capital markets, both within Japan and overseas, resulting in a decline in demand for loan financing. Furthermore, as foreign exchange controls have been generally eliminated, customers can now have direct access to foreign financial institutions, with which we must also compete.

In the consumer banking sector, the deregulation of interest rates on yen deposits and other factors have enabled banks to offer customers an increasingly attractive and diversified range of products. For example, banks may now sell investment trusts and some types of insurance products, with the possibility of expanding to additional types of insurance products in the future. We face competition in this sector from other private financial institutions as well as from Japan Post, a government-run public services corporation established on April 1, 2003, which was formerly known as the Postal Service Agency and which is the world's largest holder of deposits. Recently, competition has also increased due to the development of new products and distribution channels. For example, Japanese banks have started competing with one another by developing innovative proprietary computer technologies that allow them to deliver basic banking services in a more efficient manner and to create sophisticated new products in response to customer demand.

The trust assets business is a promising growth area that is competitive and becoming more so because of changes in the industry. In addition, there is growing corporate demand for change in the trust regulatory environment, such as reform of the pension system and related accounting regulations under Japanese GAAP. However, competition may increase in the future as regulatory barriers to entry are lowered. A new trust business law came into effect on December 30, 2004. Among other things, the new trust business law expands the types of property that can be entrusted and allows non-financial companies to conduct trust business upon approval. The new law also adopts a new type of registration for companies that wish to conduct only the administration type trust business. These regulatory developments are expected to facilitate the expansion of the trust business, but competition in this area is also expected to intensify.

Integration. Another major reason for heightened competition in Japan is the integration and reorganization of Japanese financial institutions. In 1998, amendments were made to the Banking Law to allow the establishment of bank holding companies, and this development together with various factors, such as the decline of institutional strength caused by the bad loan crisis and intensifying global competition, resulted in a number of integrations involving major banks in recent years. In September 2000, The Dai-Ichi Kangyo Bank, Limited, The Fuji Bank, Limited and The Industrial Bank of Japan, Limited jointly established a holding company, Mizuho Holdings, Inc., to own the three banks. In April 2002, these three banks were reorganized into two banks - Mizuho Bank, Ltd. and Mizuho Corporate Bank, Ltd. In April 2001, The Sumitomo Bank, Limited and The Sakura Bank, Limited were merged into Sumitomo Mitsui Banking Corporation. In December 2001, The Daiwa Bank, Ltd. and two regional banks established Daiwa Bank Holdings Inc., which in March 2002 consolidated with Asahi Bank, Ltd. and changed its corporate name to Resona Holdings, Inc. in October 2002. For information on the injection of public funds into Resona Bank, Ltd., a subsidiary bank of Resona Holdings, Inc., see *Supervision and Regulation - Japan - Deposit Insurance System and Government Investment in Financial Institutions*.

Foreign

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

In other international markets, we face competition from commercial banks and similar financial institutions, particularly major international banks and the leading domestic banks in the local financial markets in which we conduct business.

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The Japanese Financial System

Japanese financial institutions may be categorized into three types:

the central bank, namely the Bank of Japan;

private banking institutions; and

government financial institutions.

The Bank of Japan

The Bank of Japan's role is to maintain price stability and the stability of the financial system to ensure a solid foundation for sound economic development.

Private Banking Institutions

Private banking institutions in Japan are commonly classified into three categories (the following numbers are based on currently available information published by the Financial Services Agency) as of July 8, 2005:

ordinary banks (127 ordinary banks and 70 foreign commercial banks with ordinary banking operations);

trust banks (25 trust banks, including 6 Japanese subsidiaries of foreign financial institutions); and

long-term credit banks (one long-term credit bank).

Ordinary banks in turn are classified as city banks, of which there are six, including Bank of Tokyo-Mitsubishi and UFJ Bank, and regional banks, of which there are 112. In general, the operations of ordinary banks correspond to commercial banking operations in the United States. City banks and regional banks are distinguished based on head office location as well as the size and scope of their operations.

The city banks are generally considered to constitute the largest and most influential group of banks in Japan. Generally, these banks are based in large cities, such as Tokyo and Osaka, and operate nationally through networks of branch offices. City banks have traditionally emphasized their business with large corporate clients, including the major industrial companies in Japan. However, in light of deregulation and other competitive factors, many of these banks, including Bank of Tokyo-Mitsubishi and UFJ Bank, in recent years have increased their emphasis on

other markets, such as small and medium-sized companies and retail banking.

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

Trust banks, including Mitsubishi Trust Bank and UFJ Trust Bank, provide various trust services relating to money trusts, pension trusts and investment trusts and offer other services relating to real estate, stock transfer agency and testamentary services as well as banking services.

Long-term credit banks are engaged primarily in providing long-term loans to Japanese industries, principally with funds obtained from the issue of debentures.

In recent years, almost all of the city banks have consolidated with other city banks and also, in some cases, with trust banks or long-term credit banks. Integration among these banks was achieved, in most cases, through the use of a bank holding company as discussed in Competition Japan Integration and Supervision and Regulation Japan Bank Holding Company Regulations.

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

Government Financial Institutions

Since World War II, a number of government financial institutions have been established. These corporations are wholly owned by the government and operate under its supervision. Their funds are provided mainly from government sources.

Among them are the following:

The Development Bank of Japan, whose purpose is to contribute to the economic development of Japan by extending long-term loans, mainly to primary and secondary sector industries;

Japan Bank for International Cooperation, whose purpose is to supplement and encourage the private financing of exports, imports, overseas investments and overseas economic cooperation;

Japan Finance Corporation for Small Business, The Government Housing Loan Corporation and The Agriculture, Forestry and Fisheries Finance Corporation, the purpose of each of which is to supplement private financing in its relevant field of activity; and

The Postal Service Agency, which was reorganized in April 2003 into Japan Post, a government-run public services corporation.

Supervision and Regulation

Japan

Supervision. As a result of the deregulation and structural reforms in the Japanese financial industry, Japanese financial institutions gained the opportunity to provide a wider range of financial products and options to their clients, while at the same time becoming subject to stricter control and supervision.

After several reorganizations of Japanese governmental agencies, the Financial Services Agency was established as an agency of the Cabinet Office in 1998. It is responsible for supervising and inspecting financial institutions, making policy for the overall Japanese financial system and conducting insolvency proceedings with respect to financial institutions. The Bank of Japan, as the central bank for financial institutions, conducts on-site inspections, in which its staff visits financial institutions and inspects the assets and risk management systems of those institutions.

The Banking Law. Among the various laws that regulate financial institutions, the Banking Law and its subordinated orders and ordinances are regarded as the fundamental law for ordinary banks and other private financial institutions. The Banking Law addresses bank holding companies, capital adequacy, inspections and reporting, as well as the scope of business activities, disclosure, accounting, limitation on granting credit and standards for arm's length transactions.

Bank holding company regulations. In December 1997, the Anti-Monopoly Law was amended to generally permit the creation and existence of holding companies, which had been previously prohibited, except in circumstances in which the existence of a holding company would result in an excessive concentration of economic power. Additional legislative measures relating to holding companies of certain types of financial institutions, such as banks, trust banks and securities companies, were also proposed around this time and they ultimately became effective in March 1998. In connection with those legislative measures and amendments, in December 1997, the Fair Trade Commission amended the guidelines under the Anti-Monopoly Law to relax the standards for approval of a financial institution's stockholdings of more than 5% in another company, thereby permitting a financial institution to acquire interests in other financial institutions.

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A bank holding company is prohibited from carrying on any business other than the management of its subsidiaries and other incidental businesses. A bank holding company may have any of the following as a subsidiary: a bank (including a trust bank and a long-term credit bank), a securities company, an insurance company or a foreign subsidiary that is engaged in the banking, securities or insurance business. In addition, a bank holding company may have as a subsidiary any company that is engaged in a business relating or incidental to the businesses of the companies mentioned above, such as a credit card company, a leasing company or an investment advisory company. Companies that cultivate new business fields may also become the subsidiary of a bank holding company.

Capital adequacy. The capital adequacy guidelines adopted by the Financial Services Agency that are applicable to Japanese bank holding companies and banks with international operations closely follow the risk-weighted approach proposed by the Basel Committee on Banking Supervision of the Bank for International Settlements, and are intended to further strengthen the soundness and stability of Japanese banks.

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

In addition to credit risks, the guidelines regulate market risks. Market risk is defined as the risk of losses in on- and off-balance-sheet positions arising from movements in market prices. The risks subject to these guidelines are:

the risks pertaining to interest rate-related instruments and equities in the trading book; and

foreign exchange risks and commodities risks of the bank.

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

Capital is classified into three tiers, referred to as Tier I, Tier II and Tier III. Tier I capital generally consists of stockholders' equity items, including common stock, preferred stock, capital surplus, retained earnings (which includes deferred tax assets) and minority interests, but recorded goodwill and other items, such as treasury stock, are deducted from Tier I capital. Tier II capital generally consists of:

general reserves for credit losses, subject to a limit of 1.25% of modified risk-weighted assets;

45% of the unrealized gains on investment securities available for sale;

45% of the land revaluation excess;

the balance of perpetual subordinated debt; and

the balance of subordinated term debt with an original maturity of over five years up to 50% of Tier I capital.

Tier III capital generally consists of short-term subordinated debt with an original maturity of at least two years and which is subject to a lock-in provision, which stipulates that neither interest nor principal may be

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paid if such payment would cause the bank's overall capital amount to be less than its minimum capital requirement. At least 50% of the minimum total capital requirements must be maintained in the form of Tier I capital.

Several regulatory changes have been proposed with respect to the calculation of capital ratios. In particular, the Financial System Council of the Financial Services Agency is discussing the adoption of rules limiting the amount of deferred tax assets that may be included in the calculation of Tier I and total regulatory capital.

Inspection and reporting. By evaluating banks' systems of self-assessment, auditing their accounts and reviewing their compliance with laws and regulations, the Financial Services Agency monitors the financial soundness of banks, including the status and performance of their control systems for business activities. The inspection of banks is performed pursuant to a Financial Inspection Manual published by the Financial Services Agency with a view to emphasizing (1) each bank's self-assessment rather than the advice of the governmental authority and (2) risk management made by each bank instead of a simple assessment of its assets. In recent years, the Financial Services Agency has continuously conducted special inspections of major banks in Japan regarding the grading and levels of write-offs and provisioning of some of their borrowers.

The Financial Services Agency, if necessary to secure the sound and appropriate operation of a bank's business, may request the submission of reports or materials from, or conduct an on-site inspection of, the bank or the bank holding company which holds the bank. If a bank's capital adequacy ratio falls below a specified level, the Financial Services Agency may request the bank to submit an improvement program and may restrict or suspend the bank's operation when it determines that action is necessary.

Under the amendments to the Banking Law and its subordinated orders and ordinances, which became effective as of April 1, 2002, a person who desires to hold 20% or, in exceptional cases 15%, or more of the voting rights of a bank holding company or a bank is required to obtain prior approval from the Prime Minister. In addition, the Prime Minister may request the submission of reports or materials from, or conduct an inspection of, the person who holds 20% or 15%, as the case may be, or more of the voting rights of a bank holding company or a bank if necessary to ensure the appropriate business operation of the bank.

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

The Bank of Japan also conducts inspections of banks similar to those undertaken by the Financial Services Agency. The Bank of Japan Law provides that the Bank of Japan and financial institutions may agree as to the form of inspection to be conducted by the Bank of Japan.

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

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In November 2001, a law which imposes a limitation on a bank's shareholding of up to the amount equivalent to its Tier I capital was enacted. This limitation was scheduled to become effective in September 2004, but the effective date has been postponed to September 2006. To assist banks in complying with this limitation while mitigating the adverse impact on the stock market, the Banks' Shareholdings Purchase Corporation was established through the contributions of 128 financial institutions to acquire stocks from banks at market prices. The lifespan of the Banks' Shareholdings Purchase Corporation was extended to March 2017.

In October 2002, the Policy Board of the Bank of Japan issued guidelines for the Bank of Japan's purchase of listed stocks from commercial banks whose aggregate value of stockholdings exceed their Tier I capital. The

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Bank of Japan has adopted this policy for the purpose of assisting commercial banks in reducing the size of their share portfolios without materially adversely affecting prevailing market prices. Under the guidelines, which were revised in March 2003, the Bank of Japan will acquire up to ¥3 trillion of stock from the portfolios of commercial banks at prevailing market prices and not sell the acquired securities until after September 2007.

The Securities and Exchange Law. Article 65 of the Securities and Exchange Law of Japan generally prohibits a bank from engaging in the securities business. Under this law, banks, including Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank, may not engage in the securities business except for limited activities such as dealing in, underwriting and acting as broker for, Japanese governmental bonds, Japanese local government bonds and Japanese government guaranteed bonds, and selling investment trust certificates. A recent deregulation of the securities business has made clear that banks may engage in market-inducting businesses such as providing advice in connection with public offerings or listings and that banks may provide securities intermediary services with appropriate firewalls.

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

Despite the general prohibition under Article 65, the Financial System Reform Act allows banks, trust banks and securities companies to engage in the businesses of other financial sectors through their subsidiaries in Japan. Furthermore, banks' securities subsidiaries in Japan are now permitted to engage in the underwriting and brokerage of not only bonds, but also equity securities. This has enabled the securities subsidiaries of banks to offer various securities-related services to their customers.

In addition, Mitsubishi Tokyo Financial Group, Inc. and some of our subsidiaries are required to file with the Director of the Kanto Local Finance Bureau of the Ministry of Finance a securities report for each fiscal period supplemented by semi-annual and extraordinary reports pursuant to the Securities and Exchange Law.

Anti-money laundering laws. Under the Law for Punishment of Organized Crimes and Regulation of Criminal Profits, banks and other financial institutions are required to report to the competent minister, in the case of banks, the Commissioner of the Financial Services Agency, any assets which they receive while conducting their businesses that are suspected of being illicit profits from criminal activity.

Law concerning trust business conducted by financial institutions. Under the Trust Business Law, joint stock companies that are licensed by the Prime Minister as trust companies are allowed to conduct trust business. In addition, under the Law Concerning Concurrent Operation for Trust Business by Financial Institutions, banks and other financial institutions, as permitted by the Prime Minister, are able to conduct trust business. The Trust Business Law was amended in December 2004 to expand the types of property that can be entrusted, to allow non-financial companies to conduct trust business and to allow a new type of registration to conduct only administration type trust business.

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

City banks, regional banks, trust banks, long-term credit banks and various other credit institutions participate in the deposit insurance system on a compulsory basis.

Under the Deposit Insurance Law, the maximum amount of protection is ¥10 million per customer within one bank. Since April 1, 2005, all deposits are subject to the ¥10 million maximum, except non-interest bearing deposits that are redeemable on demand and used by the depositor primarily for payment and settlement functions, which are fully protected without a maximum amount limitation. Currently, the Deposit Insurance Corporation charges insurance premiums equal to 0.115% on the deposits in current accounts, ordinary accounts

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and other similar accounts, which are fully protected as mentioned above, and premiums equal to 0.083% on the deposits in other accounts.

Since 1998, the failure of a number of large-scale financial institutions has led to the introduction of various measures with a view to stabilize Japan's financial system, including financial support from the national budget.

The Law Concerning Emergency Measures for Revitalization of Financial Function, or the Financial Revitalization Law, enacted in October 1998, provides for (1) temporary national control of a failed financial institution, (2) the dispatch of a financial resolution administrator to the failed financial institution, and (3) the establishment of a bridge bank which takes over the business of the failed financial institution on a temporary basis.

The Law Concerning Emergency Measures for Early Strengthening of Financial Function, or the Financial Function Early Strengthening Law, also enacted in October 1998, provided for government funds to be made available to financial institutions prior to failure as well as to financial institutions with sound management, to increase the capital ratio of such financial institutions and to strengthen their function as financial market intermediaries. The availability of new funds for this purpose ended in March 2001. Capital injections made under the Financial Function Early Strengthening Law amounted to approximately ¥10 trillion.

Banks and bank holding companies that have received investments from the Resolution and Collection Corporation under the framework that previously existed under the Financial Function Early Strengthening Law, including UFJ Holdings, are required to submit and, if necessary, update their restructuring plans relating to their management, finances and other activities. If a bank or bank holding company materially fails to meet the operating targets set in its restructuring plan, the Financial Services Agency can require it to report on alternative measures to achieve the targets, and also issue a business improvement order requiring it to submit a business improvement plan that indicates concrete measures to achieve the targets. See *Administrative Sanctions Against the UFJ Group by the Financial Services Agency*. The preferred shares that were previously issued by UFJ Holdings to the Resolution and Collection Corporation will be exchanged for our newly issued preferred shares, and as a result, we will also be required to submit restructuring plans until those preferred shares are redeemed. See *Risk Factors Risks Relating to our Business* we may fail to meet the operating targets in the restructuring plan we will submit to the Financial Services Agency, which could subject us to administrative actions, the replacement of senior management, the conversion of preferred shares held by the Resolution and Collection Corporation and other adverse actions.

Starting in April 2001, amendments to the Deposit Insurance Law established a new framework which enables the Deposit Insurance Corporation to inject capital into a bank if the Commissioner of the Financial Services Agency recognizes it must do so to guard against financial systemic risk. In May 2003, Resona Bank, Ltd., a subsidiary bank of Resona Holdings, Inc., was recognized by the Prime Minister to be in need of a subscription of shares and other measures to expand its capital. The recognition was made in accordance with Article 102, Section 1 of the Deposit Insurance Law. In response to the recognition, Resona Bank, Ltd. applied for and received an injection of public funds in the total amount of ¥1.96 trillion.

Personal Information Protection Law. With regards to protection of personal information, the new Personal Information Protection Law became fully effective on April 1, 2005. Among other matters, the law requires Japanese banking institutions to limit the use of personal information to the stated purpose and to properly manage the personal information in their possession, and forbids them from providing personal information to third parties without consent. If a bank violates certain provisions of the law, the Financial Services Agency may advise or order the bank to take proper action. Furthermore, stricter rules than the standards stated in the law may be introduced for financial institutions in the near future.

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Law concerning Protection of Depositors from Illegal Withdrawals made by Counterfeit or Stolen Cards. This new law, which was promulgated in August 2005 and is scheduled to become effective in February 2006, requires financial institutions to establish internal systems to prevent illegal withdrawals of deposits made using counterfeit or stolen bank cards. The law also requires financial institutions to compensate depositors for any amount illegally withdrawn using counterfeit bank cards, unless the financial institution can verify that it acted in good faith without negligence, and there is gross negligence on the part of the relevant account holder.

Administrative Sanctions Against the UFJ Group by the Financial Services Agency. The UFJ group's predecessor entities, like other major Japanese banks, were recipients of public funds in the form of preferred shares and subordinated loans during the 1990s. Due to the continued ownership by Japan's Resolution and Collection Corporation of preferred shares of UFJ Holdings, the UFJ group is required to prepare a business revitalization plan and report to the Financial Services Agency on progress in meeting its goals. For the year ended March 31, 2003, 15 financial institutions, including the UFJ group, underperformed some of their plan targets by more than 30% and, as a result, the Financial Services Agency in August 2003 issued business improvement administrative orders against such institutions.

For the year ended March 31, 2004, the UFJ group again failed to meet the goals of its business revitalization plan, largely due to the recognition of substantial additional credit-related expenses as a result of inspections conducted by the Financial Services Agency on the classification of large borrowers. In the course of those inspections, the Financial Services Agency concluded that members of the UFJ group's management had taken actions that amounted to evasions of inspection. Following these events, the UFJ group was the subject of additional business improvement administrative actions by the Financial Services Agency in June 2004. The causes of these sanctions led to the resignation of the top management of UFJ Holdings, UFJ Bank and UFJ Trust Bank. The administrative order also directed the UFJ group to address serious deficiencies in its internal control framework. The UFJ group's new management submitted a business improvement plan to the Financial Services Agency in July 2004 and intends to take any measures necessary to address the Financial Services Agency's concerns. Subsequently, in October 2004, the Financial Services Agency filed criminal indictments against UFJ Bank and former members of its management with the Tokyo District Public Prosecutors Office. At the same time, the Financial Services Agency ordered the suspension of loan origination for new customers by UFJ Bank's Tokyo corporate office and Osaka corporate office for the period from October 18, 2004 to April 17, 2005. In conjunction with these indictments, the Tokyo District Public Prosecutors Office announced in December 2004 that it would seek to prosecute UFJ Bank, its former executive officers and a former employee on suspicion of violations of the Banking Law. In February 2005, three former executives of UFJ Bank pleaded guilty to obstructing the Financial Services Agency's inspections in violation of the Banking Law. On April 25, 2005, UFJ Bank and its former executives were convicted of breaches of the Banking Law. UFJ Bank was fined ¥90 million, a former executive officer was sentenced to ten months imprisonment with a stay of execution for three years and two other former executive officers were sentenced to eight months imprisonment with a stay of execution for three years.

United States

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

Overall supervision and regulation. We are subject to supervision, regulation and examination with respect to our U.S. operations by the Board of Governors of the Federal Reserve System, or the Federal Reserve Board, pursuant to the U.S. Bank Holding Company Act of 1956, as amended, or the BHCA, and the International Banking Act of 1978, as amended, or the IBA, because we are a bank holding company and a foreign banking organization, respectively, as defined pursuant to those statutes.

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The Federal Reserve Board functions as our umbrella regulator under amendments to the BHCA effected by the Gramm-Leach-Bliley Act of 1999, which among other things:

prohibited further expansion of activities in which bank holding companies, acting directly or through nonbank subsidiaries, may engage;

authorized qualifying bank holding companies to opt to become financial holding companies, and thereby acquire the authority to engage in an expanded list of activities, including merchant banking, insurance underwriting and a full range of securities activities; and

modified the role of the Federal Reserve Board by specifying new relationships between the Federal Reserve Board and the functional regulators of nonbank subsidiaries of both bank holding companies and financial holding companies.

We have not elected to become a financial holding company.

The BHCA generally prohibits each of a bank holding company and a foreign banking organization that maintains branches or agencies in the United States from, directly or indirectly, acquiring more than 5% of the voting shares of any company engaged in nonbanking activities in the United States unless the bank holding company or foreign banking organization has elected to become a financial holding company, as discussed above, or the Federal Reserve Board has determined, by order or regulation, that such activities are so closely related to banking as to be a proper incident thereto and has granted its approval to the bank holding company or foreign banking organization for such an acquisition. The BHCA also requires a bank holding company or foreign banking organization that maintains branches or agencies in the United States to obtain the prior approval of an appropriate federal banking authority before acquiring, directly or indirectly, the ownership of more than 5% of the voting shares or control of any U.S. bank or bank holding company. In addition, under the BHCA, a U.S. bank or a U.S. branch or agency of a foreign bank is prohibited from engaging in various tying arrangements involving it or its affiliates in connection with any extension of credit, sale or lease of any property or provision of any services.

U.S. branches and agencies of subsidiary Japanese banks. Under the authority of the IBA, our subsidiary banks in Japan, Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank, operate seven branches, two agencies and four representative offices in the United States. Bank of Tokyo-Mitsubishi operates branches in Los Angeles and San Francisco, California; Chicago, Illinois; New York, New York; Portland, Oregon; and Seattle, Washington; agencies in Atlanta, Georgia and Houston, Texas; and representative offices in Washington, D.C; Minneapolis, Minnesota; Dallas, Texas; and Jersey City, New Jersey. Mitsubishi Trust Bank operates a branch in New York, New York.

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

U.S. branches and agencies of foreign banks must be licensed, and are also supervised and regulated, by a state or by the Office of the Comptroller of the Currency, or the OCC, the federal regulator of national banks. All of the branches and agencies of Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank in the United States are state-licensed. Under U.S. federal banking laws, state-licensed branches and agencies of foreign banks may engage only in activities that would be permissible for their federally-licensed counterparts, unless the Federal Reserve Board

determines that the additional activity is consistent with sound practices. U.S. federal banking laws also subject state-licensed branches and agencies to the single-borrower lending limits that apply to federal

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branches and agencies, which generally are the same as the lending limits applicable to national banks, but are based on the capital of the entire foreign bank.

As an example of state supervision, the branches of Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank in New York are licensed by the New York State Superintendent of Banks, or the Superintendent, pursuant to the New York Banking Law. Under the New York Banking Law and the Superintendent's Regulations, each of Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank must maintain with banks in the State of New York eligible assets as defined and in amounts determined by the Superintendent. These New York branches must also submit written reports concerning their assets and liabilities and other matters, to the extent required by the Superintendent, and are examined at periodic intervals by the New York State Banking Department. In addition, the Superintendent is authorized to take possession of the business and property of Bank of Tokyo-Mitsubishi or Mitsubishi Trust Bank located in New York whenever events specified in the New York Banking Law occur.

U.S. subsidiary banks. We indirectly own and control three U.S. banks:

Bank of Tokyo-Mitsubishi Trust Company, New York, New York (through Bank of Tokyo-Mitsubishi, a registered bank holding company),

Union Bank of California, N.A. (through Bank of Tokyo-Mitsubishi and its subsidiary, UnionBanCal Corporation, a registered bank holding company), and

Mitsubishi Trust & Banking Corporation (U.S.A.), New York, New York (through Mitsubishi Trust Bank, a registered bank holding company).

Bank of Tokyo-Mitsubishi Trust Company and Mitsubishi Trust & Banking Corporation (U.S.A.) are chartered by the State of New York and are subject to the supervision, examination and regulatory authority of the Superintendent pursuant to the New York Banking Law. Union Bank of California, N.A., is a national bank subject to the supervision, examination and regulatory authority of the OCC pursuant to the National Bank Act.

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

An FDIC-insured institution that is affiliated with a failed or failing FDIC-insured institution can be required to indemnify the FDIC for losses resulting from the insolvency of the failed institution, even if this causes the affiliated institution also to become insolvent. In the liquidation or other resolution of a failed FDIC-insured depository institution, deposits in its U.S. offices and other claims for administrative expenses and employee compensation are afforded priority over other general unsecured claims, including deposits in offices outside the United States, non-deposit claims in all offices and claims of a parent company. Moreover, under longstanding Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength for its subsidiary banks and to commit resources to support such banks.

Bank capital requirements and capital distributions. Our U.S. bank subsidiaries and UnionBanCal Corporation, our U.S. subsidiary bank holding company, are subject to applicable risk-based and leverage capital guidelines issued by U.S. regulators for banks and bank holding

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companies. All of our U.S. subsidiary banks are well capitalized under those guidelines as they apply to banks, and our U.S. subsidiary bank holding company exceeds all minimum regulatory capital requirements applicable to domestic bank holding companies. The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, provides, among other things, for expanded regulation of insured depository institutions, including banks, and their parent holding companies. As required by FDICIA, the federal banking agencies have established five capital tiers ranging from well capitalized to critically undercapitalized for insured depository institutions. As an institution's capital position deteriorates, the federal banking regulators may take progressively stronger actions, such as further restricting affiliate transactions, activities, asset growth or interest payments. In addition, FDICIA generally prohibits an

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insured depository institution from making capital distributions, including the payment of dividends, or the payment of any management fee to its holding company, if the insured depository institution would subsequently become undercapitalized.

The availability of dividends from insured depository institutions in the United States is limited by various other statutes and regulations. The National Bank Act and other federal laws prohibit the payment of dividends by a national bank under various circumstances and limit the amount a national bank can pay without the prior approval of the OCC. In addition, state-chartered banking institutions are subject to dividend limitations imposed by applicable federal and state laws.

Other regulated U.S. subsidiaries. Our nonbank subsidiaries that engage in securities or futures-related activities in the United States are regulated by appropriate functional regulators, such as the SEC, the Commodities Futures Trading Commission, any self-regulatory organizations of which they are members, and the appropriate state regulatory agencies. These nonbank subsidiaries are required to meet separate minimum capital standards as imposed by those regulatory authorities.

The Gramm-Leach-Bliley Act removed almost all of the pre-existing statutory barriers to affiliations between commercial banks and securities firms by repealing Sections 20 and 32 of the Glass-Steagall Act. At the same time, however, the so-called "push-out" provisions of the Gramm-Leach-Bliley Act narrowed the exclusion of banks, including the U.S. branches of foreign banks, from the definitions of "broker" and "dealer" under the Securities Exchange Act of 1934, potentially requiring all such banks to transfer some activities to affiliated broker-dealers. The SEC has issued rules regarding the push-out of "dealer" functions that became effective on September 30, 2003. On June 30, 2004, the SEC issued its proposed Regulation B, which would govern the push-out requirements for "broker" functions. The SEC has issued Regulation B in interim form but has exempted banks from the definition of "broker" until September 30, 2005. The final form of Regulation B, its applicability to banks and the date of its effectiveness are still subject to change. At this time, we do not believe that these push-out rules as adopted or as currently proposed will have a significant impact on our business as currently conducted in the United States.

USA PATRIOT Act. The USA PATRIOT Act of 2001 substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extraterritorial jurisdiction of the United States. Failure of a financial institution to comply with the USA PATRIOT Act's requirements could have serious legal and reputational consequences for the institution.

C. Organizational Structure

The following chart presents our basic corporate structure:

As of July 1, 2005, Mitsubishi Tokyo Financial Group, Inc. has four direct subsidiaries.

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On October 1, 2004, Tokyo-Mitsubishi Asset Management Ltd. and Mitsubishi Trust Asset Management Co., Ltd. were merged to create Mitsubishi Asset Management Co., Ltd. As a result, Mitsubishi Tokyo Financial Group, Inc. directly holds 50% of Mitsubishi Asset Management, while Mitsubishi Trust Bank and Bank of Tokyo-Mitsubishi holds 25% and 15%, respectively.

On July 1, 2005, Mitsubishi Tokyo Financial Group, Inc. made Mitsubishi Securities a directly-held subsidiary by acquiring all of the shares of Mitsubishi Securities common stock held by Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank. As a result of the transaction, Mitsubishi Tokyo Financial Group, Inc. holds Mitsubishi Securities common stock representing 57.5% of the voting rights as of July 1, 2005.

Mitsubishi Tokyo Financial Group, Inc. also hold shares representing 12.9% of ACOM (15.1% together with the interests of The Mitsubishi Trust) and shares representing 40.0% of the voting rights in Diamond Computer Service Co., Ltd..

Other subsidiaries and affiliated companies of ours are held indirectly under Bank of Tokyo-Mitsubishi, Mitsubishi Trust, Mitsubishi Securities, and Mitsubishi Asset Management.

Set forth below is a list of our significant subsidiaries at March 31, 2005.

<u>Name</u>	<u>Country of incorporation</u>	<u>Proportion of ownership interest (%)</u>	<u>Proportion of voting interest (%)</u>
The Bank of Tokyo-Mitsubishi, Ltd.	Japan	100.00	100.00
The Mitsubishi Trust and Banking Corporation	Japan	100.00	100.00
Mitsubishi Asset Management Co., Ltd.	Japan	92.78	92.78
Mitsubishi Securities Co., Ltd.	Japan	57.77	57.49
DC Card Co., Ltd.	Japan	43.06	43.06
Mitsubishi Tokyo Wealth Management Securities, Ltd.	Japan	100.00	100.00
The Diamond Factors Limited	Japan	76.94	76.94
The Diamond Home Credit Company Limited	Japan	99.66	99.66
Defined Contribution Plan Consulting of Japan Co., Ltd.	Japan	70.00	70.00
BOT Lease Co., Ltd.	Japan	21.06	21.06
UnionBanCal Corporation	United States	61.05	61.05
Union Bank of California, N.A.	United States	61.05	61.05
Bank of Tokyo-Mitsubishi Trust Company	United States	100.00	100.00
Mitsubishi Securities International plc	United Kingdom	100.00	100.00
Mitsubishi Tokyo Wealth Management (Switzerland), Ltd.	Switzerland	100.00	100.00
Mitsubishi Trust International Limited	United Kingdom	100.00	100.00
Mitsubishi Trust & Banking Corporation (U.S.A.)	United States	100.00	100.00
Mitsubishi Trust Finance (Ireland) PLC	Ireland	100.00	100.00

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Premises and equipment at March 31, 2004 and 2005 consisted of the following:

	<u>2004</u>	<u>2005</u>
	(in millions)	
Land	¥ 171,379	¥ 170,834
Buildings	426,691	415,611
Equipment and furniture	443,251	441,332
Leasehold improvements	228,104	230,333
Construction in progress	4,136	2,923
	<u>1,273,561</u>	<u>1,261,033</u>
Total		
Less accumulated depreciation	693,488	691,821
	<u>580,073</u>	<u>569,212</u>
Premises and equipment net	¥ 580,073	¥ 569,212

Our head office is located at 4-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, and comprises 2,221.19 square meters of office space. At March 31, 2005, we conducted our banking operations either in our owned premises or in leased properties.

The following table presents the areas and book values of our material office and other properties at March 31, 2005:

	<u>Area</u>	<u>Book value</u>
	(in thousands of square feet)	(in millions)
Owned land	13,061	¥ 170,834
Leased land	1,259	
Owned buildings	15,841	205,992
Leased buildings	9,117	

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

In March 1999, Bank of Tokyo-Mitsubishi sold a 50% undivided interest in each of its head office land and building and its main office land and building and, at the same time, Bank of Tokyo-Mitsubishi entered into an agreement to lease back from the buyer the 50% undivided interests of the buildings sold for a period of seven years. We accounted for these transactions as financing arrangements. On July 21, 2005, Bank of Tokyo-Mitsubishi announced that it has reached an agreement to buy back the aforementioned land and building from the buyer on August 31, 2005. For further information, see Note 8 to our consolidated financial statements.

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During the fiscal year ended March 31, 2005, we invested approximately ¥44.0 billion in our subsidiaries primarily for office renovations and purchases of furniture and equipment.

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The following discussion and analysis should be read in conjunction with Item 3.A. Key Information Selected Financial Data, Selected Statistical Data and our consolidated financial statements and related notes included elsewhere in this Annual Report.

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A. Operating Results**Introduction**

We are a holding company for Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank, and Mitsubishi Securities. Through our subsidiaries and affiliated companies, we engage in a broad range of financial operations, including commercial banking, investment banking, trust banking and asset management services, securities businesses, and provide related services to individual and corporate customers.

Table of Contents**Key Financial Figures**

The following are some key figures in accordance with US GAAP relating to our business. As discussed in Recent Developments Strategic Business and Capital Alliance with ACOM below, our results of operations for the fiscal year ended March 31, 2003 and 2004 have been retroactively adjusted.

	Fiscal year ended March 31,		
	2003	2004	2005
	(in billions)		
Net interest income	¥ 1,043.3	¥ 995.3	¥ 971.4
Provision (credit) for credit losses	438.0	(114.1)	109.5
Non-interest income	840.6	1,308.1	995.1
Non-interest expense	1,182.4	1,236.1	1,135.6
Net income	203.4	823.0	415.2
Total assets (at end of period)	96,537.4	103,699.1	108,422.1

Our revenues consists of net interest income and non-interest income.

Net interest income is a function of:

the amount of interest-earning assets,

the general level of interest rates,

the so-called spread, or the difference between the rate of interest earned on interest-earning assets and the rate of interest paid on interest-bearing liabilities, and

the proportion of interest-earning assets financed by non-interest-bearing liabilities and equity.

Non-interest income consists of:

fees and commissions, including

trust fees,

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fees on funds transfer and service charges for collections,

fees and commissions on international business,

fees and commissions on credit card business,

service charges on deposits,

fees and commissions on securities business,

fees on real estate business, and

other fees and commissions;

foreign exchange gains (losses) net, which primarily include net gains (losses) on currency derivative instruments entered into for trading purposes and transaction gains (losses) on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies;

trading account profits net, which primarily include net gains (losses) on trading securities and interest rate derivative instruments entered into for trading purposes;

investment securities gains (losses) net, which primarily include net gains on sales of marketable securities, particularly marketable equity securities;

equity in earnings (losses) of equity method investees; and

other non-interest income.

Provision (credit) for credit losses are charged to operations to maintain the allowance for credit losses at a level deemed appropriate by management. Although in recent periods, we generally recorded a provision for credit losses, we recorded a reversal of allowance for credit losses in the fiscal year ended March 31, 2004.

Table of Contents**Core Business Areas**

Effective April 1, 2004, we implemented a new integrated business group system, which currently integrates the operations of Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Mitsubishi Securities in the following three areas: Retail, Corporate and Trust Assets. These three businesses serve as the core sources of our revenue. Operations that are not covered under the integrated business group system are classified under Treasury, UNBC and other.

Our business segment information is not consistent with our financial statements prepared in accordance with US GAAP. The following chart illustrates the relative contributions to operating profit for the fiscal year ended March 31, 2005 of the three core business areas and the other business areas based on our segment information:

Business Trends and Challenges

Reduction of nonperforming loans. We have been actively working on disposing nonperforming loans. We met the guideline for the disposal of nonperforming loans, which was based on a Japanese regulation established under the program for financial revival announced by the Japanese government in October 2002. Under the program, the Financial Services Agency stated that it would strive to normalize the problems with nonperforming loans by March 31, 2005, by reducing major Japanese banks' ratio of nonperforming loans to total loans by about half. The following table sets forth a summary of our nonaccrual and restructured loans, and accruing loans that are contractually past due 90 days or more as to principal or interest payments, and allowance for credit losses at March 31, 2003, 2004 and 2005:

	At March 31,		
	2003	2004	2005
	(in billions, except percentages)		
Nonaccrual loans	¥ 1,413.6	¥ 1,083.1	¥ 822.4
Restructured loans	1,319.0	632.4	454.2
Accruing loans contractually past due 90 days or more	20.4	15.6	10.1
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	5.68%	3.57%	2.52%
Allowance for credit losses	¥ 1,360.1	¥ 888.1	¥ 740.7
Allowance for credit losses as a percentage of loans	2.81%	1.83%	1.45%
Allowance for credit losses as a percentage of nonaccrual and restructured loans and accruing loans contractually past due 90 days or more	49.41%	51.30%	57.57%

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In the future, we may suffer additional losses due to new nonperforming loans, and our allowance for credit losses may be insufficient to cover future loan losses.

Broader range of products. The reduction of barriers since the late 1990s among the banking, securities and insurance businesses has enabled us to engage in businesses such as sales of annuity and investment trusts to retail banking customers, which we were not permitted to conduct before. We have been seeking, and will continue to seek, to increase our fees and commissions by taking advantage of the reduction of barriers and other deregulatory trends.

Greater competition. We face strong competition in all of our principal areas of operation as a result of the relaxation of regulations relating to Japanese financial institutions. Deregulation has eliminated barriers between different types of Japanese financial institutions, which are now able to compete directly against one another. Deregulation and market factors have also facilitated the entry of various large foreign financial institutions into the Japanese domestic market. Greater competition may prevent us from increasing our level of fee income in the future.

External economic conditions. The financial services industry and the global financial markets are influenced by many unpredictable factors, including economic conditions, monetary policy, international political events, liquidity in global markets and regulatory developments. Our operations are significantly affected by external factors, such as the level and volatility of interest rates, currency exchange rates, stock and real estate markets and other economic and market conditions. In addition, we hold a significant number of shares in some of our customers for strategic purposes, in particular to maintain long-term relationships. These shareholdings expose us to risk of losses resulting from a decline in market prices of the shares. Accordingly, our results of operations may vary significantly from period to period because of unpredictable events, including unexpected failures of large corporate borrowers, defaults in emerging markets and market volatility.

Recent Developments

Management Integration of Mitsubishi Tokyo Financial Group and the UFJ Group

Signing of Basic Agreement. On August 12, 2004, we, UFJ Holdings, Bank of Tokyo-Mitsubishi, UFJ Bank, Mitsubishi Trust Bank, UFJ Trust Bank, Mitsubishi Securities and UFJ Tsubasa Securities concluded a basic agreement with regard to the management integration of the holding companies, banks, trust banks and securities companies of the two groups.

Preferred Stock Investment into UFJ Bank. On September 17, 2004, we purchased 3.5 billion non-voting class E preferred shares issued by UFJ Bank for ¥700 billion. This capital injection to UFJ Bank is part of our proposed management integration with the UFJ group. The investment is based on the assumption that the management integration of the two groups will proceed, and is intended to maximize the benefits of the management integration.

Signing of Integration Agreement. On February 18, 2005, we, UFJ Holdings, Bank of Tokyo-Mitsubishi, UFJ Bank, Mitsubishi Trust Bank, UFJ Trust Bank, Mitsubishi Securities and UFJ Tsubasa Securities entered into an integration agreement, which sets forth various terms of the management integration, including the merger ratios, company names and other material terms. The merger ratios with respect to the common stock set forth in the integration agreement are as follows:

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Holding companies: 0.62 shares of our common stock for each share of UFJ Holdings common stock;

Banks: 0.62 shares of Bank of Tokyo-Mitsubishi common stock for each share of UFJ Bank common stock;

Trust banks: 0.62 shares of Mitsubishi Trust Bank common stock for each share of UFJ Trust Bank common stock; and

Securities companies: 0.42 shares of Mitsubishi Securities common stock for each share of UFJ Tsubasa Securities common stock.

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On April 20, 2005, the parties to the integration agreement amended several technical provisions in the integration agreement to make the terms consistent with the merger agreements entered into on April 20, 2005 between the holding companies, banks, trust banks and securities companies.

Announcement of Integration Strategy. On February 18, 2005, we and UFJ Holdings also announced some details about implementing the combined group's integration strategy. In particular, we and UFJ Holdings announced the following cost saving measures:

A group-wide reduction and reassignment of roughly 10,000 employees by streamlining back office operations mainly in the head office, including a reduction of staff by approximately 6,000 and a reassignment of approximately 4,000 to strategic business areas and marketing sections by the end of the fiscal year ending March 31, 2009.

Integration of systems relating to treasury activities and overseas activities by the closing of the merger, and integration of the domestic settlement and information systems by the end of the fiscal year ending March 31, 2008.

Consolidation of approximately 170 retail branches and 100 corporate branches in Japan, and approximately 30 overseas branches by the end of the fiscal year ending March 31, 2009.

Integration of head office functions and overlapping subsidiaries.

In implementing the integration strategy, we anticipate that integration-related costs will exceed cost synergies for the first one to two years following the merger until the cost saving effects begin to materialize. In addition, we expect that the combined entity's revenues will decrease for the first one to two years after the merger as the combined entity adjusts loan exposures to certain borrowers.

Signing of Merger Agreement. On April 20, 2005, we and UFJ Holdings entered into a merger agreement setting forth the final terms of the merger, including the detailed terms of our shares to be issued to UFJ Holdings shareholders and other proposed amendments to our articles of incorporation upon the merger, as well as the details of the shareholders meetings at which the merger agreement and related matters necessary to complete the merger were to be approved.

Approval of Merger Agreement at General Shareholders Meeting. On June 29, 2005, the merger agreement between us and UFJ Holdings, Inc. was approved at the general shareholders meetings of Mitsubishi Tokyo Financial Group, Inc. and UFJ Holdings. The general shareholders meetings of Bank of Tokyo-Mitsubishi, UFJ Bank, Mitsubishi Trust Bank, UFJ Trust Bank, Mitsubishi Securities and UFJ Tsubasa Securities, which were also held in late June 2005, also approved the merger agreements of the respective banks, trust banks and securities companies.

Effect of the Merger. Pursuant to the merger agreement, Mitsubishi Tokyo Financial Group, Inc. and UFJ Holdings will combine their businesses by consummating a statutory merger under the Commercial Code of Japan, with Mitsubishi Tokyo Financial Group, Inc. being the surviving entity. As a result of the merger, UFJ Holdings shareholders of record as of the date one day prior to the date of the merger, other than us (if we hold UFJ Holdings common stock on that date), will become entitled to receive 0.62 shares of Mitsubishi Tokyo Financial Group, Inc. common stock in exchange for each share of UFJ Holdings common stock. Concurrently, the surviving entity will be renamed Mitsubishi UFJ Financial Group, Inc. and use the abbreviation MUFG.

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Additionally, holders of UFJ Holdings preferred stock will receive shares of our preferred stock as follows:

Holders of class II preferred shares of UFJ Holdings: an equal number of shares of newly issued Mitsubishi Tokyo Financial Group, Inc. class 8 preferred shares

Holders of class IV preferred shares of UFJ Holdings: an equal number of shares of newly issued Mitsubishi Tokyo Financial Group, Inc. class 9 preferred shares

Holders of class V preferred shares of UFJ Holdings: an equal number of shares of newly issued Mitsubishi Tokyo Financial Group, Inc. class 10 preferred shares

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Holders of class VI preferred shares of UFJ Holdings: an equal number of shares of newly issued Mitsubishi Tokyo Financial Group, Inc. class 11 preferred shares

Holders of class VII preferred shares of UFJ Holdings: an equal number of shares of newly issued Mitsubishi Tokyo Financial Group, Inc. class 12 preferred shares

Based on the number of shares of UFJ Holdings capital stock issued as of March 31, 2005, we expect to allocate an aggregate of 3,199,734 shares of common stock, representing a 48.89% increase in our issued shares as of March 31, 2005, to shareholders of UFJ Holdings in connection with the merger. All shares that will be issued to UFJ Holdings shareholders in connection with the merger will be newly issued on the effective date of the merger.

Postponement of Bank Merger. The merger between Bank of Tokyo-Mitsubishi and UFJ Bank has been postponed to January 1, 2006 in order to enable additional testing of the two banks' systems intended to minimize risks arising from the merger. The postponement may lead to future changes in our plan to complete all systems integration group-wide by March 31, 2007. Additional delays or other difficulties in integrating the systems of the two banks may result in additional costs or cause delays in achieving targeted cost savings and other merger synergies.

The mergers between the holding companies, trust banks and securities companies of the two groups are still expected to occur on October 1, 2005.

Introduction of Integrated Business Groups

Effective April 1, 2004, we implemented a new integrated business group system, which currently integrates the operations of Bank of Tokyo-Mitsubishi, Mitsubishi Trust Bank and Mitsubishi Securities in the following three areas: Retail, Corporate, and Trust Assets. See Business Segment Analysis.

Redemption of Class 1 Preferred Shares

On October 1, 2004, we redeemed 40,700 shares of the 81,400 issued shares of our class 1 preferred shares at ¥3 million per share. Further, on April 1, 2005, we redeemed all of the remaining outstanding shares of the class 1 preferred shares, comprising 40,700 shares.

Issuance of Class 3 Preferred Shares

On February 17, 2005, we issued 100,000 shares of class 3 preferred shares at ¥2.5 million per share, the aggregate amount of the issue price being ¥250 billion. The preferred shares were issued to Meiji Yasuda Life Insurance Company, Tokio Marine & Nichido Fire Insurance Co., Ltd. and Nippon Life Insurance Company. The preferred shares do not have voting rights at any general meetings of shareholders, unless otherwise provided by applicable laws and regulations. Preferred dividends are set at ¥60,000 per share annually, except that the dividends for the fiscal year ended March 31, 2005 were ¥7,069 per share.

We used the proceeds from the issuance of our preferred shares for our capital injection to Bank of Tokyo-Mitsubishi on February 21, 2005, in which we received preferred shares of Bank of Tokyo-Mitsubishi.

Issuance of Non-dilutive Preferred Securities

On August 24, 2005, MTFG Capital Finance, a special purpose company established in the Cayman Islands, issued ¥165 billion in non-cumulative perpetual preferred securities in a private placement to institutional investors. These preferred securities are non-dilutive and cannot be converted into our common shares. The proceeds will be provided to Bank of Tokyo-Mitsubishi in order to strengthen its capital base. The issuance of the preferred securities will increase our Tier I capital as well as that of Bank of Tokyo-Mitsubishi under the BIS capital adequacy requirements, thereby enhancing the flexibility of our capital management.

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Mitsubishi Securities becomes a Directly-Held Subsidiary

On July 1, 2005, Mitsubishi Tokyo Financial Group, Inc. made Mitsubishi Securities a directly-held subsidiary by acquiring all of the shares of Mitsubishi Securities common stock held by Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank. As a result of the transaction, Mitsubishi Tokyo Financial Group, Inc. holds Mitsubishi Securities common stock representing 57.43% of the voting rights as of July 1, 2005.

Strategic Business and Capital Alliance with ACOM

In March 2004, we reached an agreement with ACOM Co., Ltd., or ACOM, a consumer finance company in Japan, with respect to a strategic business alliance in retail financial services and a capital alliance. The main elements of the business alliance are undertaken by ACOM and Bank of Tokyo-Mitsubishi. As part of the capital alliance, in April 2004, we acquired an additional 12.9% of the common shares of ACOM, resulting in an aggregate ownership interest of 15.1% in ACOM. Prior to the acquisition, we held 2.2% of the common shares of ACOM and accounted for the investment as available for-sale securities. As a result of our additional investment and a change in our relationship with ACOM, including an increase in our representation on ACOM's board of directors, we had the ability to exercise significant influence over the operations of ACOM and applied the equity method to the investment in the fiscal year ended March 31, 2005. The equity method was applied in a manner consistent with the accounting for a step-by-step acquisition of a subsidiary in accordance with Accounting Principles Board, or APB, Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. Accordingly, the accompanying financial statements for the fiscal years ended March 31, 2003 and 2004 have been retroactively adjusted to reflect the adoption of the equity method. For more information, see note 2 to our consolidated financial statements.

Basic Agreement Regarding the Combination of Operations and Reorganization to Strengthen the Consumer Finance Business

On October 29, 2004, we, Bank of Tokyo-Mitsubishi, and our subsidiaries DC Card Co., Ltd. and Tokyo-Mitsubishi Cash One Ltd., or Cash One, reached a basic agreement with ACOM to integrate and reorganize the business operations of our consumer finance business. Cash One will integrate its business operations with DC Card's processing centers, call centers and guarantee divisions during the first half of the fiscal year ending March 31, 2006. On January 31, 2005, ACOM acquired shares in DC Card and Cash One. After the acquisition of the shares, ACOM owns approximately 55% and we own approximately 45% of the common shares of Cash One, which has changed its name to DC Cash One Ltd.

Transfer of Shareholdings in Diamond Computer Service

During the fiscal year ended March 31, 2005, Mitsubishi Tokyo Financial Group, Inc. acquired 100% of Diamond Computer Service Co., Ltd., or DCS, a former equity method investee of Bank of Tokyo-Mitsubishi which provides data processing and IT development services, through a share exchange. 26,205 shares of our common stock were issued in exchange for all of the outstanding shares of DCS's common stock based on the exchange ratio of 0.00135 shares of our common stock for each share of DCS's common stock. Following the completion of the exchange offer, in accordance with a business alliance between DCS and Mitsubishi Research Institute, Inc., or MRI, a research and consulting company headquartered in Tokyo, Japan, we sold 60% of our shares of DCS to MRI. As a result, DCS became an equity method investee at March 31, 2005.

Planned Merger of Mitsubishi Asset Management and UFJ Partners Asset Management

On July 1, 2005, Mitsubishi Asset Management Co., Ltd. and UFJ Partners Asset Management Co., Ltd. signed a merger agreement, which was subsequently approved at the general meeting of shareholders of the respective companies on July 25, 2005.

Mitsubishi Asset Management was created on October 1, 2004 by the merger of Tokyo-Mitsubishi Asset Management Ltd. and Mitsubishi Trust Asset Management Co., Ltd., and we own 92.8% of Mitsubishi Asset

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Management. The merger of Mitsubishi Asset Management and UFJ Partners Asset Management is scheduled to be completed on October 1, 2005. The name of the new asset management company will be Mitsubishi UFJ Asset Management Co., Ltd.

Business Revitalization Plan of Mitsubishi Motors

On January 28, 2005, Mitsubishi Motors Corporation announced a new business revitalization plan through the fiscal year ending March 31, 2008. The new revitalization plan includes measures for stabilizing Mitsubishi Motors' operations and improving its financial position over the medium-and long-term. In connection with the revitalization plan, and at the request of Mitsubishi Motors, Bank of Tokyo-Mitsubishi, Mitsubishi Heavy Industries, Ltd. and Mitsubishi Corporation participated in a capital enhancement of ¥274 billion by purchasing newly issued common and preferred shares of Mitsubishi Motors on March 10, 2005. As a result, Bank of Tokyo-Mitsubishi subscribed to common and preferred shares of Mitsubishi Motors for an aggregate amount of ¥154 billion, of which ¥54 billion consisted of a debt-for-equity swap. In addition, on March 22, 2005, Mitsubishi Trust Bank purchased, in a debt-for-equity swap, newly issued preferred shares of Mitsubishi Motors for an aggregate amount of ¥10.2 billion.

Suspension of Consolidated Corporate-Tax System

In February 2005, our application to suspend the consolidated corporate-tax system, which has been adopted since the fiscal year ended March 31, 2003, was approved by the Japanese tax authorities. We filed, for the fiscal year ended March 31, 2005, our tax returns under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of a parent company and its wholly-owned domestic subsidiaries. Due to the suspension of the consolidated corporate-tax system, deferred income taxes for the fiscal year ended March 31, 2005 are calculated separately based on temporary differences and future taxable income at each company as of March 31, 2005.

Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities

As discussed under "Accounting Changes" below, the substitutional portion of employee pension fund liabilities of Bank of Tokyo-Mitsubishi were transferred to the Japanese government in March 2005. Since the transfer was completed after the measurement date in the fiscal year ended March 31, 2005, the impact of the transfer, an increase in pre-tax income of ¥36.1 billion, will be reflected to our consolidated financial statements for the fiscal year ending March 31, 2006.

Strengthening of Corporate Governance in the United States

We have decided to strengthen our corporate governance function in the United States by appointing a managing officer with responsibility for corporate governance in the United States as of June 29, 2005. This managing officer will be resident in the United States and will oversee governance-related matters with respect to our U.S. consolidated subsidiaries, including risk management, and legal and other compliance issues. In conjunction with this appointment, we have also established a Corporate Governance Division for the United States to carry out support functions for the managing officer.

Purchase of 50% of Bank of Tokyo-Mitsubishi's Head Office and Nihonbashi Annex

On July 21, 2005, Bank of Tokyo-Mitsubishi announced that it reached an agreement to purchase from Mitsubishi Estate Co., Ltd., or Mitsubishi Estate, the equivalent of 50% of the land and building of each of Bank of Tokyo-Mitsubishi's head office and Nihonbashi annex. These assets are currently jointly owned by Bank of Tokyo-Mitsubishi and Mitsubishi Estate. The purchase is scheduled to take place on August 31, 2005 and the total purchase price will be ¥111.3 billion. For further information, see note 8 to our consolidated financial statements.

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Business Environment

We engage, through our subsidiaries and affiliated companies, in a wide range of financial operations, including commercial banking, investment banking, asset management, trust banking and securities-related businesses, and provide related services to individual and corporate customers around the world. Our results of operations and financial condition are exposed to changes in various external economic factors, including:

General economic conditions;

Interest rates;

Currency exchange rates; and

Stock and real estate prices.

Economic Environment in Japan

In the Japanese economy, exports and capital expenditures rose due to increased overseas demand in the early part of the current period. Private consumption also steadily increased as consumer confidence improved. Nevertheless, a certain degree of uncertainty prevailed over the Japanese economy from the latter part of the fiscal year ended March 31, 2005 and deflation continued.

With respect to interest rates, the Bank of Japan continued its current easy monetary policy and kept short-term interest rates at near zero percent. On the other hand, the yield on ten-year Japanese government bonds which was approximately 1.4% in April 2004, rose temporarily to approximately 1.9% in June and July 2004, before declining to approximately 1.3% in March 2005. As of mid-August 2005, the yield was around 1.4%. The following chart shows the interest rate trends in Japan since January 2000:

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The Japanese stock markets were relatively stable during the fiscal year ended March 31 2005. The Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, declined from ¥11,715.39 at March 31, 2004 to ¥11,668.95 at March 31, 2005. Conversely, the Tokyo Stock Price Index, or TOPIX, a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, rose from 1,179.23 at March 31, 2004 to 1,182.18 at March 31, 2005. As of mid-August 2005, the Nikkei Stock Average was around ¥12,000, and TOPIX was around 1,200.

In the foreign exchange markets, although the yen initially depreciated against the U.S. dollar mainly due to the rise in the U.S. federal funds rate, the exchange rate subsequently stabilized and remained within a narrow range. See Item 3.A. Key Information Selected Financial Data Exchange Rate Information for the historical noon buying rates of the Federal Reserve Bank of New York.

Land prices in Japan continued to decline during the fiscal year ended March 31, 2005, but the extent of the decline was smaller than the previous fiscal year. Based on the average government-set official land prices as of January 1, 2005, nationwide residential land prices declined 4.6%, compared to a 5.7% decline in the previous fiscal year, and nationwide land prices for commercial properties declined 5.6%, compared to a 7.4% decline in the previous fiscal year.

The number of corporate bankruptcy filings in Japan during the fiscal year ended March 31, 2005 was approximately 13,000 representing an 16% decline compared with the previous fiscal year.

International Financial Markets

With respect to the financial and economic environment for the fiscal year ended March 31, 2005, overseas economies moved toward recovery in the early part of this period, particularly in the United States where the recovery was driven by large-scale tax cuts, and in China where domestic demand continued to expand. In the latter part of the fiscal year, however, a certain degree of uncertainty prevailed in overseas economies as the positive effects of the tax cuts in the United States began to wane, as China began to restrain investments and as crude oil prices rose sharply.

In the United States, the 10-year U.S. treasury note, a benchmark for long-term interest rates, started at around 3.8% in April 2004 and rose to around 4.5% in March 2005. As of mid-July 2005, the yield was around 4.2%. The target for the federal funds rate has been steadily increased since the end of the previous fiscal year, rising from 1.0% in April 2004 to 3.5% as of August 2005.

In the EU, the European Central Bank's policy rate remained at 2% during the fiscal year ended March 31, 2005 and has remained unchanged as of July 2005.

Critical Accounting Estimates

Our financial statements are prepared in accordance with US GAAP. Many of the accounting policies require management to make difficult, complex or subjective judgments regarding the valuation of assets and liabilities. The accounting policies are fundamental to understanding our operating and financial review and prospects. The notes to our consolidated financial statements provide a summary of our significant

accounting policies. The following is a summary of the critical accounting estimates.

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of probable losses in our loan portfolio. The evaluation process involves a number of estimates and judgments. The allowance is based on two principles of accounting: (1) Statement of Financial Accounting Standards, or SFAS, No. 5, Accounting for Contingencies, which requires that losses be accrued when they are probable of occurring and can be estimated;

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and (2) SFAS No. 114, Accounting by Creditors for Impairment of a Loan and SFAS No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures, which require that losses be accrued based on the difference between the present value of expected future cash flows discounted at the loan's effective interest rate, the fair value of collateral or the loan's value that is observable in the secondary market and the loan balance.

Our allowance for credit losses consists of an allocated allowance and an unallocated allowance. The allocated allowance comprises (a) the allowance for specifically identified problem loans, (b) the allowance for large groups of smaller balance homogeneous loans, (c) the allowance for loans exposed to specific country risk and (d) the formula allowance. Both the allowance for loans exposed to specific country risk and formula allowance are provided to performing loans, that are not subject to either the allowance for specifically identified problem loans or the allowance for large groups of smaller balance homogeneous loans. The allowance for loans exposed to specific country risk covers transfer risk which is not specifically covered by other types of allowance. Each of these components is determined based upon estimates that can and do change when actual events occur.

The allowance for specifically identified problem loans, which represent large-balance, non-homogeneous loans that have been individually determined to be impaired, uses various techniques to arrive at an estimate of loss. Historical loss information, discounted cash flows, fair value of collateral and secondary market information are all used to estimate those losses.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment, and the allowance for such loans is established through a process that begins with estimates of probable losses inherent in the portfolio, based upon various analyses, including historical delinquency and credit loss experience.

The allowance for loans exposed to specific country risk is based on an estimate of probable losses relating to our exposure to countries that we identify as having a high degree of transfer risk. We use a country risk grading system that assigns risk ratings to individual countries. To determine the risk rating, we consider the instability of foreign currency and difficulties regarding our borrowers' ability to service their debt.

The formula allowance uses a model based on historical losses as an indicator of future probable losses. However, the use of historical losses is inherently uncertain and as a result could differ from losses incurred in the future. However, since this history is updated with the most recent loss information, the differences that might otherwise occur are mitigated.

Our actual losses could be more or less than the estimates. The unallocated allowance captures losses that are attributable to various economic events, industry or geographic sectors whose impact on the portfolio have occurred but have yet to be recognized in the allocated allowance. For further information regarding our allowance for credit losses, see Item 5.B. Liquidity and Capital Resources Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans.

In addition to the allowance for credit losses on our loan portfolio, we maintain an allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, a variety of guarantees and standby letters of credit. Such allowance is included in other liabilities. With regard to the allocated allowance for specifically identified credit exposure and the allocated formula allowance, we apply the same methodology that we use in determining the allowance for loan credit losses.

To the extent that actual losses differ from management's estimates, additional provisions for credit losses may be required that would adversely impact our operating results and financial condition in future periods.

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Impairment of Investment Securities

US GAAP requires the recognition in earnings of an impairment loss on investment securities for a decline in fair value that is other than temporary. Determinations of whether a decline is other than temporary often involves estimating the outcome of future events. Management judgment is required in determining whether factors exist that indicate that an impairment loss has been incurred at the balance sheet date. These judgments are based on subjective as well as objective factors. We conduct a review semi-annually to identify and evaluate investment securities that have indications of possible impairment.

Debt and marketable equity securities. In determining whether a decline in fair value is other than temporary for a particular security, indicators of an other-than-temporary decline for both debt and marketable equity securities include the extent of decline in fair value below cost and the length of time that the decline has continued. If a decline in fair value is 20% or more or a decline in fair value has continued for six months or more, we generally deem such decline as an indicator of other-than-temporary decline. We also consider the financial condition and near-term prospects of issuers primarily based on the credit standing of the issuers as determined by its credit rating system.

Prior to the fiscal year ended March 31, 2004, we did not take the lengths of time that a decline continued into consideration with respect to debt securities because a substantial majority of our investments in debt securities are in high-grade fixed-rate bonds, including sovereign bonds such as U.S. treasury bonds and we generally had the intent to hold such investments for a period longer than that inherent in cyclical short-term market price fluctuations due to market interest rate and foreign exchange rate changes. However, in light of the recent decline in the bond market, which made it difficult for us to hold debt securities for a period longer than that necessary for recovery, during the fiscal year ended March 31, 2004, we determined that the length of period that a decline in fair value continued should be considered in identifying other-than-temporary decline in fair value of debt securities. The aggregate amount of unrealized losses at March 31, 2005 that we determined to be temporary was ¥42,496 million.

The determination of other-than-temporary impairment for certain securities held by UnionBanCal Corporation, our U.S. subsidiary, which primarily consists of securities backed by the full faith and credit of the U.S. government and corporate asset-backed and debt securities, are made on the basis of a cash flow analysis of securities and/or the ability of UnionBanCal Corporation to hold such securities to maturity.

Non-marketable equity securities. We consider the credit standing of issuers and the extent of decline in net assets of issuers to determine whether the decline is other than temporary. When we determine that the decline is other than temporary, non-marketable equity securities are written down to our share of the amount of the issuer's net assets, which approximates fair value.

The markets for equity securities and debt securities are inherently volatile, and the values of both types of securities have fluctuated significantly in recent years. Accordingly, our assessment of potential impairment involves risks and uncertainties depending on the market condition. If we later conclude that a decline is other than temporary, the impairment loss may significantly affect our operating results and financial condition in future periods.

Valuation of Deferred Tax Assets

A valuation allowance for deferred tax assets is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. All available evidence, both positive and negative, is considered to determine

whether, based on the weight of that evidence, a valuation allowance is needed. Future realization of the tax benefit of existing deductible temporary differences or carryforwards ultimately depends on the existence of sufficient taxable income in future periods.

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

At March 31, 2005, we had operating loss carryforwards of ¥1,274.7 billion. Based on our estimates of future taxable income, we recognized a valuation allowance for a portion of the operating loss carryforwards.

Because the establishment of the valuation allowance is an inherently uncertain process involving estimates, currently established allowance may not be sufficient. If the estimated allowance is not sufficient, we will incur additional deferred tax expenses, which could materially affect our operating results and financial condition in future periods.

Accounting for Goodwill

US GAAP requires us to test goodwill for impairment at least annually using a two-step process that begins with an estimation of the fair value of a reporting unit of its business, which is to be compared with the carrying amount of the unit, to identify potential impairment of goodwill. The fair value of a reporting unit is defined as the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. Since an observable quoted market price for units is not always available, the estimate of fair value is based on the best information available, including prices for comparable units and the results of using other valuation techniques including the present value technique, which requires an estimate of future cash flows and other assumptions. If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss. This test requires comparison of the implied fair value of the unit's goodwill with the carrying amount of that goodwill. The estimate of the implied fair value of the reporting unit's goodwill requires us to allocate the fair value of a reporting unit to all of the assets and liabilities of that unit, including unrecognized intangible assets, if any, since the implied fair value is determined as the excess of the fair value of a reporting unit over the net amounts assigned to its assets and liabilities in the allocation. Accordingly, the second step of the impairment test also requires an estimate of the fair value of individual assets and liabilities, including any unrecognized intangible assets that belong to that unit.

At March 31, 2005, we had goodwill of ¥85.8 billion. In connection with our merger with UFJ Holdings, we expect to record a significant amount of additional goodwill.

Accrued Severance Indemnities and Pension Liabilities

We have defined benefit retirement plans, including lump-sum severance indemnities and pension plans, which cover substantially all of our employees. Severance indemnities and pension costs are calculated based upon a number of actuarial assumptions, including discount rates, expected long-term rates of return on our plan assets and rates of increase in future compensation levels. In accordance with US GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods, and affect our recognized net periodic pension costs and accrued severance indemnities and pension obligations in future periods. We had an unrecognized net actuarial loss for domestic severance indemnities and pension plans of ¥337.0 billion at March 31, 2005. Differences in actual experience or changes in assumptions may affect our financial condition and operating results in future periods.

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The discount rates for the domestic plans are set to reflect the interest rates of high-quality fixed-rate instruments with maturities that correspond to the timing of future benefit payments.

In developing our assumptions for expected long-term rates of return, we refer to the historical average returns earned by the plan assets and the rates of return expected to be available for reinvestment of existing plan assets, which reflect recent changes in trends and economic conditions, including market price. We also evaluate input from our actuaries, including their reviews of asset class return expectations.

Table of Contents**Valuation of Financial Instruments with No Available Market Prices**

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

The estimated fair values of financial instruments without quoted market prices are as follows:

	At March 31,	
	2004	2005
	(in billions)	
Financial assets:		
Trading account assets, excluding derivatives	¥ 5,732	¥ 5,268
Investment securities	25,328	25,386
Derivative financial instruments, net	153	34
Financial liabilities:		
Trading account liabilities, excluding derivatives	182	142
Obligations to return securities received as collateral	2,322	2,880

A significant portion of trading account assets and liabilities, excluding derivatives, investment securities and obligations to return securities received as collateral consists of Japanese national government and agency bonds, and foreign government and official institutions bonds, for which prices are actively quoted among brokers and are readily available but are not publicly reported and therefore are not considered quoted market prices. Additionally, a substantial portion of derivative financial instruments are comprised of over-the-counter interest rate and currency swaps and options. Estimates of fair value of these derivative transactions are determined using quantitative models with multiple market inputs, which can be validated through external sources, including brokers and market transactions with third parties.

Accounting Changes

Variable Interest Entities In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation, or FIN, No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. FIN No. 46 addresses consolidation by business enterprises of variable interest entities, or VIEs. The consolidation requirements of FIN No. 46 apply immediately to VIEs created after January 31, 2003. We have applied, as required, FIN No. 46 to all VIEs created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003, which has been amended by the FASB as described below.

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In December 2003, the FASB issued FIN No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51, or FIN No. 46R. FIN No. 46R modifies FIN No. 46 in certain respects including the scope exception, the definition of VIEs, and other factors that would affect the determination of VIEs and primary beneficiaries that must consolidate VIEs. FIN No. 46R, as written, applies to VIEs created before February 1, 2003 no later than the end of the first reporting period that ends after March 15, 2004, and to all special purpose entities no later than the first reporting period that ends after December 15, 2003.

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Subsequent to the issuance of FIN No. 46R, the Chief Accountant of the U.S. Securities and Exchange Commission, or SEC, stated the SEC staff's position in a letter to the American Institute of Certified Public Accountants, or AICPA, dated March 3, 2004, that the SEC staff does not object to the conclusion that FIN No. 46R should not be required to be applied at a date earlier than the original FIN No. 46 and that foreign private issuers would be required to apply FIN No. 46R at various dates depending on the entity's year-end and the frequency of interim reporting. In accordance with the letter, we adopted FIN No. 46R on April 1, 2004, except for its variable interests in certain investment companies, for which the effective date of FIN No. 46R is deferred. Under FIN No. 46R, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE is to be recognized as a cumulative effect of a change in accounting principle. The cumulative effect of the change in accounting principle was to decrease net income by ¥977 million. See Note 26 for further discussion of VIEs in which we hold variable interests.

Certain Financial Instruments with Characteristics of both Liabilities and Equity In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective at the beginning of the first interim period beginning after June 15, 2003, which is our fiscal year ended March 31, 2005. On November 7, 2003, FASB Staff Position No. 150-3, *Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*, delayed the effective date of certain provisions of SFAS No. 150 for certain mandatorily redeemable noncontrolling interests. The adoption of SFAS No. 150 did not have a material impact on our financial position and results of operations.

Disclosure about Pension and Other Postretirement Benefit In December 2003, the FASB issued SFAS No. 132 (revised 2003), *Employers Disclosures about Pensions and Other Postretirement Benefits*, an amendment of FASB Statements No. 87, 88, and 106, or SFAS No. 132R, which replaces existing FASB disclosure requirements for pensions. SFAS No. 132R requires disclosure of more details about plan assets, benefit obligations, cash flows, benefit costs and other relevant information. SFAS No. 132R is generally effective for the fiscal years ending after December 15, 2003, and for interim periods beginning after December 15, 2003. See Note 17 for our condensed consolidated financial statements for the required disclosure.

Impairment of Securities Investments In November 2003, the FASB Emerging Issues Task Force (the EITF) reached a consensus on Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, or EITF 03-1. EITF 03-1 requires certain additional quantitative and qualitative disclosures in addition to the disclosures already required by SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The new disclosure requirements are applied to financial statements for the fiscal years ending after December 15, 2003. See Note 5 for the required disclosures. In March 2004, the EITF also reached a consensus on additional accounting guidance for other-than-temporary impairments, which requires an evaluation and recognition of other-than-temporary impairment by a three-step impairment test. The guidance should be applied for reporting periods beginning after June 15, 2004. On September 30, 2004, FASB Staff Position EITF Issue 03-1-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments* delayed the effective date for the measurement and recognition guidance contained in paragraphs 10 through 20 of EITF 03-1. The FASB will be issuing implementation guidance related to this topic. Once issued, we will evaluate the effect of the measurement and recognition provision of EITF 03-1.

Goodwill and Other Intangible Assets Effective April 1, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires that goodwill, formerly amortized over its useful life, no longer be amortized but rather tested for impairment at least annually. Further, SFAS No. 142 requires that intangible assets that have finite useful lives will continue to be amortized over their useful lives while intangible assets with indefinite lives will no longer be amortized and are subject to impairment testing at least annually.

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We performed the required transitional impairment tests of goodwill and intangible assets with indefinite lives upon adoption of SFAS No. 142. The initial adoption resulted in a cumulative adjustment charge to earnings of ¥532 million.

Derivative Instruments and Hedging Activities In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, SFAS No. 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative, (2) clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows, (3) amends the definition of underlyings, one of three characteristics of derivatives, to include the occurrence or non-occurrence of a specified event such as scheduled payments under a contract, and (4) amends certain other existing pronouncements, in particular, those related to the scope of instruments that are subject to the requirements of SFAS No. 133. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on our financial position or results of operations.

Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities In January 2003, the EITF reached a consensus on Issue No. 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities, or EITF 03-2, which was ratified by the FASB in February 2003. EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an employee pension fund and requires employers to account for the entire separation process of the substitutional portion from an entire plan upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. It also requires that the difference between the fair value of the obligation and the assets required to be transferred to the government, if any, should be accounted for as a subsidy from the government, separately from gain or loss on settlement of the substitutional portion of the obligation, upon completion of the transfer.

In June 2003, Bank of Tokyo-Mitsubishi submitted to the government an application to transfer the obligation to pay benefits for future employee service related to the substitutional portion and the application was approved in August 2003. In August 2004, Bank of Tokyo-Mitsubishi made another application for transfer to the government of the remaining substitutional portion and the application was approved in November 2004. Substitutional obligation and related plan assets were transferred to a government agency in March 2005 and Bank of Tokyo-Mitsubishi was released from paying the substitutional portion of the benefits to its employees. The completion of the transfer to the Japanese Government of the substitutional portion of the employee pension plan constituted a settlement of such plan. However, since there remains a defined benefit plan and the settlement occurred subsequent to December 31, 2004 (the measurement date of such plan), the impact of the transfer / settlement of a pre-tax income of ¥36.1 billion will be recognized in the fiscal year ending March 31, 2006. See Note 17 to our consolidated financial statements for the required disclosure.

Recently Issued Accounting Pronouncements

Accounting for Certain Loans and Debt Securities Acquired in a Transfer In December 2003, the AICPA issued Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, or SOP 03-3 which supersedes AICPA Practice Bulletin 6, Amortization of Discounts on Certain Acquired Loans and addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least, in part, to credit quality. SOP 03-3 requires acquired impaired loans for which it is probable that the investor will be unable to collect all contractually required payments receivable to be recorded at the present value of amounts expected to be received and prohibits carrying over or creation of valuation allowances in the initial accounting for these loans SOP 03-3 also limits accretable yield to the excess of the investor's

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estimate of undiscounted cash flows over the investor's initial investment in the loan and prohibits the recognition of the non-accretable difference. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life while any decreases in such cash flows should be recognized as impairments. SOP 03-3 also provides guidance with regard to presentation and disclosures. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. We have not completed the study of what effect SOP 03-3 will have on our financial position and results of operations.

Share-Based Payment In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS No. 123R. SFAS No. 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion, or APB, No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123 preferred a fair-value-based method of accounting for share-based payment transactions with employees, but it permitted the option of continuing to apply the guidance of using intrinsic-value-based measurement method in APB No. 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. SFAS No. 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires a fair-value-based measurement method in accounting for share-based payment transactions with employees. As a result, the cost resulting from all share-based payment transactions shall be recognized in the financial statements. SFAS No. 123R is effective as of the beginning of the interim or annual reporting periods beginning after June 15, 2005. See Note 1 to our consolidated financial statements for the pro forma information as if the fair value based method had been applied to all awards in accordance with SFAS No.123.

Exchanges of Nonmonetary Assets In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, an amendment of APB Opinion No. 29. The guidance in APB No. 29, *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier adoption permitted. We have not completed the study of what effect SFAS No. 153 will have on our financial position and results of operations.

Accounting Changes and Error Corrections In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 replaces APB No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, with earlier adoption permitted. Accordingly, we can not reasonably estimate the ultimate impact of SFAS No. 154.

Accounting for Conditional Asset Retirement Obligations In March 2005, the FASB issued FIN No. 47, *Accounting for Conditional Asset Retirement Obligations* an interpretation of FASB Statement No. 143. This Interpretation clarifies that the term *conditional asset retirement obligation* as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset

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retirement obligation. This Interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. We have not completed the study of what effect FIN No. 47 will have on our financial position and results of operations.

Results of Operations

The following table sets forth a summary of our results of operations for the fiscal years ended March 31, 2003, 2004 and 2005. As discussed in Recent Developments Strategic Business and Capital Alliance with ACOM above, our results of operations for the fiscal year ended March 2003 and 2004 have been retroactively adjusted.

	Fiscal years ended March 31,		
	2003	2004	2005
		(in billions)	
Interest income	¥ 1,582.5	¥ 1,421.8	¥ 1,442.6
Interest expense	539.2	426.5	471.2
Net interest income	1,043.3	995.3	971.4
Provision (credit) for credit losses	438.0	(114.1)	109.5
Non-interest income	840.6	1,308.1	995.1
Non-interest expense	1,182.4	1,236.1	1,135.6
Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle	263.5	1,181.4	721.4
Income tax expense	69.9	357.8	305.3
Income from continuing operations before cumulative effect of a change in accounting principle	193.6	823.6	416.1
Income (loss) from discontinued operations net	10.3	(0.6)	
Cumulative effect of a change in accounting principle, net of tax	(0.5)		(0.9)
Net income (loss)	¥ 203.4	¥ 823.0	¥ 415.2

We reported ¥415.2 billion of net income for the fiscal year ended March 31, 2005, compared to ¥823.0 billion of net income for the fiscal year ended March 31, 2004. Our basic earnings per common share (net income available to common shareholders) for the fiscal year ended March 31, 2005 was ¥62,717.21 compared to an earnings per share of ¥128,350.88 for the fiscal year ended March 31, 2004. Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle for the fiscal year ended March 31, 2005 was ¥721.4 billion, compared with ¥1,181.4 billion for the fiscal year ended March 31, 2004. The changes in our operating results were primarily attributable to the following:

Non-interest income decreased ¥313.0 billion from ¥1,308.1 billion for the fiscal year ended March 31, 2004 to ¥995.1 billion for the fiscal year ended March 31, 2005. This decrease was primarily attributable to a decrease of ¥460.9 billion in net foreign exchange gains, from a gain of ¥413.9 billion for the fiscal year ended March 31, 2004 to a loss of ¥47.0 billion for the fiscal year ended March

31, 2005. This decrease in foreign exchange gains was due to the depreciation of the yen against foreign currencies in the fiscal year ended March 31, 2005, compared to an appreciation of the yen in the fiscal year ended March 31, 2004. All transaction gains or losses on translation of monetary liabilities denominated in foreign currencies are included in current earnings. However, the transaction gains or losses on translation of securities available for sale, such as bonds denominated in foreign currencies, are not included in current earnings but are reflected in other changes in equity from nonowner sources. As we maintain monetary liabilities denominated in foreign currencies for our asset liability management, net foreign exchange gains (losses) fluctuate with the appreciation (depreciation) of the yen. This decrease in foreign exchange gains was partially offset by the increase in fees and commissions of ¥76.5 billion and an increase in net investment securities gains of ¥79.4 billion compared to the fiscal year ended March 31, 2004.

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For the fiscal year ended March 31, 2005, provision for credit losses of ¥109.5 billion was recorded. In contrast, for the fiscal year ended March 31, 2004, a reversal of allowance for credit losses of ¥114.1 billion was recorded. Although the reversals of allowance for credit losses were recorded for both March 31, 2004 and 2005 due to improvements in our loan portfolio as evidenced by the reduction in our nonperforming loans, for the fiscal year ended March 31, 2005, additional provisions were recognized as downgrades of several borrowers to which we extended relatively large amounts of loans were greater than the reversals recognized.

Net Interest Income

Net interest income is a function of:

the amount of interest-earning assets;

the general level of interest rates;

the so-called spread, or the difference between the rate of interest earned on interest-earning assets and the rate of interest paid on interest-bearing liabilities; and

the proportion of interest-earning assets financed by non-interest-bearing liabilities and equity.

Our net interest income for the fiscal years ended March 31, 2003, 2004 and 2005 were not materially affected by gains or losses resulting from derivative financial instruments used for hedging purposes.

The following is a summary of the interest rate spread for the fiscal years ended March 31, 2003, 2004 and 2005:

	Fiscal years ended March 31,					
	2003		2004		2005	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	(in billions, except percentages)					
Interest-earning assets:						
Domestic	¥ 62,605.1	1.19%	¥ 67,524.8	1.06%	¥ 76,426.1	0.96%
Foreign	23,641.9	3.55	23,325.8	3.03	23,059.2	3.06
Total	¥ 86,247.0	1.83%	¥ 90,850.6	1.56%	¥ 99,485.3	1.45%
Financed by:						
Interest-bearing funds:						

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Domestic	¥ 64,827.9	0.34%	¥ 70,151.1	0.31%	¥ 77,195.3	0.30%
Foreign	14,830.5	2.13	14,823.9	1.41	15,170.5	1.58
	<hr/>		<hr/>		<hr/>	
Total	79,658.4	0.68	84,975.0	0.50	92,365.8	0.51
Non-interest-bearing funds	6,588.6		5,875.6		7,119.5	
	<hr/>		<hr/>		<hr/>	
Total	¥ 86,247.0	0.62%	¥ 90,850.6	0.46%	¥ 99,485.3	0.47%
	<hr/>		<hr/>		<hr/>	
Spread on:						
Interest-bearing funds		1.15%		1.06%		0.94%
Total funds		1.21%		1.10%		0.98%

Fiscal Year Ended March 31, 2005 Compared to Fiscal Year Ended March 31, 2004

Net interest income for the fiscal year ended March 31, 2005 was ¥971.4 billion, a decrease of ¥23.9 billion, or 2.4%, from ¥995.3 billion for the fiscal year ended March 31, 2004. This decrease was due primarily to the decline in the average interest rate on domestic interest earning assets and the increase in average rate of foreign interest-bearing funds. In addition, a decrease in the average balance of foreign investment securities which earn relatively higher yields, contributed to the decrease in net interest income.

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The average interest rate spread decreased 12 basis points from 1.06% for the fiscal year ended March 31, 2004 to 0.94% for the fiscal year ended March 31, 2005. This decrease was due primarily to the increase in average rate of foreign interest-bearing funds, reflecting the rise in interest rates on foreign deposits as interest rates in foreign markets such as the United States rose, and also due to the decline in average rate of domestic investment securities and domestic loans. The decline in average rate of domestic investment securities was mainly due to the increase in our holdings of Japanese government bonds, as the interest rates on Japanese government bonds are generally lower compared to other domestic investment securities reflecting the low risk. The decline in average rate of domestic loans was mainly due to the reduction of loans with relatively high interest rates, and due to increased competition in lending to large corporations and in retail housing loans, which negatively affected the interest rate spread of our loans.

Net interest income as a percentage of average total funds decreased 12 basis points from 1.10% for the fiscal year ended March 31, 2004 to 0.98% for the fiscal year ended March 31, 2005.

Average interest-earning assets for the fiscal year ended March 31, 2005 were ¥99,485.3 billion, an increase of ¥8,634.7 billion, or 9.5%, from ¥90,850.6 billion for the fiscal year ended March 31, 2004. The increase was primarily attributable to an increase of ¥6,988.5 billion in domestic investment securities, which reflected an increase in our holdings of Japanese government bonds, and an increase of ¥2,052.5 billion in domestic loans. The increase in domestic loans was primarily due to an increase in loans to industries such as manufacturing, real estate, wholesale and retail, and other industries, reflecting the consolidation of certain VIEs in accordance with FIN No. 46R. These increases were partially offset by a decrease of ¥690.0 billion in foreign investment securities reflecting the decrease in our holdings of US treasury bonds.

Average interest-bearing liabilities for the fiscal year ended March 31, 2005 were ¥92,365.8 billion, an increase of ¥7,390.8 billion, or 8.7%, from ¥84,975.0 billion for the fiscal year ended March 31, 2004. The increase in average interest-bearing liabilities primarily reflected an increase of ¥5,874.0 billion in domestic other short-term borrowings and trading account liabilities, reflecting an increase of funding from the Bank of Japan in connection with our daily money market operations, and an increase in commercial paper issued by VIEs consolidated in accordance with FIN No. 46R.

Fiscal Year Ended March 31, 2004 Compared to Fiscal Year Ended March 31, 2003

Net interest income for the fiscal year ended March 31, 2004 was ¥995.3 billion, a decrease of ¥48.0 billion, or 4.6%, from ¥1,043.3 billion for the fiscal year ended March 31, 2003. This decrease was due primarily to a decline in the average interest rate spread. In addition, a decrease in average foreign loans, which earn relatively higher yields, contributed to the decrease in net interest income.

The average interest rate spread decreased 9 basis points from 1.15% for the fiscal year ended March 31, 2003 to 1.06% for the fiscal year ended March 31, 2004. The average rate of both the foreign interest-earning assets and foreign interest-bearing liabilities declined during the fiscal year ended March 31, 2004, primarily due to the decline in short-term interest rates in most foreign markets. Since the average balance of foreign interest-earning assets for the fiscal year ended March 31, 2004 was about 1.6 times larger than the average balance of foreign interest-bearing liabilities for the same period, the decline in the average rate had a negative effect on our net interest income.

Net interest income as a percentage of average total interest-earning assets decreased 11 basis points from 1.21% for the fiscal year ended March 31, 2003 to 1.10% for the fiscal year ended March 31, 2004.

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The increase in average interest-earning assets for the fiscal year ended March 31, 2004 was primarily attributable to increases in average trading account assets, average investment securities and average call loans, funds sold, and receivables under resale agreements and securities borrowing transactions, which yield relatively low rate of interest income. These increases were partially offset by decreases in average interest-earning

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deposits and average loans, which yield relatively high rate of interest income. The shift in investment from relatively high yielding assets to low yielding assets more than offset an increase in average interest-earning assets and had a negative impact on interest income.

The increase in average interest-bearing liabilities for the fiscal year ended March 31, 2004 primarily reflected an increase in average call money, funds purchased, and payables under repurchase agreements and securities lending transactions, average deposits and average other short-term borrowings and trading account liabilities.

Provision (Credit) for Credit Losses

Provision (credit) for credit losses are charged to operations to maintain the allowance for credit losses at a level deemed appropriate by management. For a description of the approach and methodology used to establish the allowance for credit losses, see Item 5.B. Liquidity and Capital Resources Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans.

Fiscal Year Ended March 31, 2005 Compared to Fiscal Year Ended March 31, 2004

For the fiscal year ended March 31, 2005, provision for credit losses of ¥109.5 billion was recorded. In contrast, for the fiscal year ended March 31, 2004, a reversal of allowance for credit losses of ¥114.1 billion was recorded. Although the reversals of allowance for credit losses were recorded for both March 31, 2004 and 2005 due to improvements in our loan portfolio as evidenced by the reduction in our nonperforming loans, for the fiscal year ended March 31, 2005, additional provisions were recognized as downgrades of several borrowers to which we extended relatively large amounts of loans were greater than the reversals recognized.

For a further discussion of allowance for credit losses, see Item 5.B. Liquidity and Capital Resources Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans.

Fiscal Year Ended March 31, 2004 Compared to Fiscal Year Ended March 31, 2003

A reversal of allowance for credit losses of ¥114.1 billion was recorded for the fiscal year ended March 31, 2004, compared with a provision for credit losses of ¥438.0 billion for the fiscal year ended March 31, 2003. This change was due mainly to a decrease in our specific allowance as a result of our reduction of nonperforming loans and a decrease in our formula allowance reflecting a decline in loans classified as special mention or substandard.

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The following table is a summary of our non-interest income for the fiscal years ended March 31, 2003, 2004 and 2005:

	Fiscal years ended March 31,		
	2003	2004	2005
	(in billions)		
Fees and commissions:			
Trust fees	¥ 103.8	¥ 90.0	¥ 102.8
Fees on funds transfer and service charges for collections	58.1	59.8	60.2
Fees and commissions on international business	54.5	53.8	51.9
Fees and commissions on credit card business	57.1	60.5	61.7
Service charges on deposits	34.6	36.2	37.1
Fees and commissions on securities business	68.0	99.0	126.4
Fees on real estate business	20.0	20.5	31.4
Other fees and commissions	124.7	152.9	177.7
Total	520.8	572.7	649.2
Foreign exchange gains (losses) net	25.6	413.9	(47.0)
Trading account profits net	267.6	103.9	62.0
Investment securities gains (losses) net	(22.7)	118.6	198.0
Equity in earnings (losses) of equity method investees	(9.8)	5.2	26.3
Refund of the local taxes by the Tokyo Metropolitan Government		42.0	
Other non-interest income	59.1	51.8	106.6
Total non-interest income	¥ 840.6	¥ 1,308.1	¥ 995.1

Net foreign exchange gains (losses) primarily include net gains (losses) on currency derivative instruments entered into for trading purposes and transaction gains (losses) on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies. The transaction gains (losses) on the translation into Japanese yen fluctuate from period to period depending upon the spot rates at the end of each fiscal year. This is primarily because the transaction gains (losses) on translation of securities available for sale, such as bonds denominated in foreign currencies, are not included in current earnings, but are reflected in other changes in equity from nonowner sources, while in principle all transaction gains (losses) on translation of monetary liabilities denominated in foreign currencies are included in current earnings.

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

Net investment securities gains (losses) primarily include net gains on sales of marketable securities, particularly marketable equity securities. In addition, impairment losses are recognized as an offset of net investment securities gains when management concludes that declines in fair value of investment securities are other than temporary.

Fiscal Year Ended March 31, 2005 Compared to Fiscal Year Ended March 31, 2004

Non-interest income for the fiscal year ended March 31, 2005 was ¥995.1 billion, a decrease of ¥313.0 billion, or 23.9%, from ¥1,308.1 billion for the fiscal year ended March 31, 2004. This decrease was primarily attributable to a decrease in net foreign exchange gains of ¥460.9 billion and a decrease in net trading account

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profits of ¥41.9 billion. These decreases were partially offset by an increase in net investment securities gains of ¥79.4 billion and an increase in fees and commissions of ¥76.5 billion.

Fees and commissions for the fiscal year ended March 31, 2005 increased ¥76.5 billion from the previous fiscal year. This increase primarily reflected an increase in fees and commissions on securities business as well as other fees and commissions. Fees and commissions on securities business increased ¥27.4 billion from the previous fiscal year primarily due to an increase in commissions in brokerage, underwriting and distribution at Mitsubishi Securities, which were in line with the increased trading volume of the Japanese stock markets during the same period and the increase in fees related to securitization business at Mitsubishi Securities. Other fees and commissions increased ¥24.8 billion from the previous fiscal year, as fees related to the sales of investment and insurance products to retail customers, and fees in investment banking businesses, such as arrangement of syndicated loans increased at our subsidiary banks.

Net foreign exchange losses for the fiscal year ended March 31, 2005 were ¥47.0 billion, compared to net foreign exchange gains of ¥413.9 billion for the fiscal year ended March 31, 2004. The decrease in foreign exchange gains was due to the depreciation of the yen against foreign currencies in the fiscal year ended March 31, 2005, compared to an appreciation of the yen in the fiscal year ended March 31, 2004. This decrease in net foreign exchange gains primarily reflected a decrease in transaction gains on translation of monetary liabilities denominated in foreign currencies. All transaction gains or losses on translation of monetary liabilities denominated in foreign currencies are included in current earnings. However, the transaction gains or losses on translation of securities available for sale, such as bonds denominated in foreign currencies, are not included in current earnings but are reflected in other changes in equity from nonowner sources. As we maintain monetary liabilities denominated in foreign currencies for our asset liability management, net foreign exchange gains (losses) fluctuate with the appreciation (depreciation) of the yen.

Net trading account profits for the fiscal year ended March 31, 2005 were ¥62.0 billion, a decrease of ¥41.9 billion, or 40.3%, from ¥103.9 billion for the fiscal year ended March 31, 2004. The net trading account profits for the fiscal years ended March 31, 2004 and 2005 consisted of the following:

	Fiscal years ended March 31,	
	2004	2005
	(in billions)	
Net profits (losses) on derivative instruments, primarily interest-rate futures, swaps and options	¥ (2.0)	¥ 6.4
Net profits on trading securities	105.9	55.6
Net trading account profits	¥ 103.9	¥ 62.0

The decrease in net profits on trading securities primarily reflected the decrease in profits of trading in debt and equity securities at Mitsubishi Securities compared to the previous fiscal year.

Net investment securities gains for the fiscal year ended March 31, 2005 were ¥198.0 billion, an increase of ¥79.4 billion, from a gain of ¥118.6 billion for the fiscal year ended March 31, 2004. Major components of net investment securities gains for the fiscal years ended March 31, 2004 and 2005 are summarized below:

	Fiscal years ended March 31,	
	2004	2005
	(in billions)	
Net gains on sales of marketable equity securities	¥ 371.2	¥ 246.0
Impairment losses on marketable equity securities	(15.4)	(17.9)
Other	(237.2)	(30.1)
	<hr/>	<hr/>
Net investment securities gains	¥ 118.6	¥ 198.0
	<hr/>	<hr/>

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The increase in net investment securities gains for the fiscal year ended March 31, 2005 mainly reflected a decrease in losses on debt securities compared to the previous fiscal year, which in turn was primarily a result of smaller impairment losses on Japanese government bonds, as long-term interest rates in Japan remained relatively low and stable compared to the previous fiscal year. This improvement was partially offset by the decrease in net gains on sales of marketable equity securities and impairment losses on equity securities which are not classified as marketable equity securities, such as preferred stocks.

We had a ¥21.1 billion increase in equity in earnings of equity method investees mainly due to our increased shareholdings in ACOM, which also reported improved results for the fiscal year ended March 31, 2005.

Other non-interest income increased by ¥54.8 billion reflecting, among other items, a ¥10.1 billion gain on the sale of a merchant card portfolio at UnionBanCal Corporation and ¥10.0 billion in net gains on sales of premises and equipment.

Fiscal Year Ended March 31, 2004 Compared to Fiscal Year Ended March 31, 2003

Non-interest income for the fiscal year ended March 31, 2004 was ¥1,308.1 billion, an increase of ¥467.5 billion, or 55.6%, from ¥840.6 billion for the fiscal year ended March 31, 2003. This increase was primarily attributable to an increase in net foreign exchange gains of ¥388.3 billion and an increase in net investment securities gains of ¥141.3 billion. These gains were partially offset by a decrease in net trading account profits of ¥163.7 billion.