

Profile

Founded in 1962, The Chuo Trust & Banking Co., Ltd., is one of the country's leading banks and maintains a leading presence in such trust banking fields as stock transfer agency services, corporate lending, pension and fund management and administration, asset management and advisory services, and real estate brokerage and appraisal services.

In fiscal 1998, Chuo Trust was again Japan's top provider of stock transfer agency services.

Now, Chuo Trust operates 110 branches throughout Japan, after the succession of the Honshu-based offices of Hokkaido Takushoku Bank in November 1998, and boasts the largest national branch network of any domestic trust bank. Moreover, Chuo Trust concluded an agreement with the Mitsui Trust and Banking Company, Limited, on a merger slated for April 1, 2000, aiming to create a new type of comprehensive financial institution with trust banking expertise.

Committed to being an active corporate member of the communities in which it operates, Chuo Trust not only serves the public but also supports a broad range of humanitarian objectives by providing superior financial services.

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Non-Consolidated Financial Highlights

The Chuo Trust & Banking Co., Ltd.
Fiscal Years Ended March 31, 1999 and 1998

	Millions of yen (Except per share amount)		Thousands of U.S. dollars (Note 1)
	1999	1998	1999
For the Year:			
Total Income	¥ 198,973	¥ 275,254	\$ 1,650,544
Trust Fees	64,934	77,348	538,651
Total Expenses	280,681	262,871	2,328,343
Income (Loss) before Income Taxes	(81,708)	12,382	(677,799)
Net Income (Loss)	(48,697)	12,321	(403,958)
Core Business Profit (<i>Gyomu Juneki</i>)	27,356	58,404	
At Year-End:			
Total Assets	¥13,496,024	¥12,223,873	\$111,953,750
Total Funds	12,645,011	11,427,969	104,894,329
Deposits	3,072,304	1,786,793	25,485,730
Loan Trusts	2,250,646	2,746,201	18,669,821
Money Trusts	5,463,932	4,954,659	45,325,032
Pension Trusts	1,855,193	1,973,244	15,389,415
Property Formation Trusts	2,932	3,071	24,330
Total Loans and Bills Discounted	4,162,138	3,784,497	34,526,245
Total Securities Portfolio	8,676,625	7,799,730	71,975,324
Capital and Reserves	433,169	354,750	3,593,273
Per Common Share (Yen):			
Net Income (Loss)	¥ (209.44)	¥ 53.44	\$ (1.74)
Dividend	5.50	6.00	0.05
Net Assets	570.41	646.97	4.73
Ratio (BIS Standard):			
Capital Adequacy Ratio	13.18%	12.73%	
Tier I Ratio (Note 2)	8.84%	7.94%	
Resources			
At Year-End:			
Number of Employees	4,679	3,450	
Number of Domestic Branches (Note 3)	111	52	

Notes: 1. Figures stated in U.S. dollars in this report are translated solely for convenience at the rate of ¥120.55 to US\$1.00, the rate of exchange at March 31, 1999.

2. The Capital Adequacy Ratio and Tier I Ratio are presented on a consolidated basis in accordance with the guidelines set forth by the Bank for International Settlements (BIS).

3. Number of Domestic Branches includes the Head Office.

Message from the President



Hideie Hirakawa, President

The Results of a Challenging Year

Fiscal 1998, the year ended March 31, 1999, was a turbulent 12 months for the domestic financial community. The operating environment was characterized by industry-wide efforts to reinforce asset quality and polish tarnished credibility in financial markets, stemming from acute concern over the status of non-performing loans. A detailed description of Chuo Trust's fiscal performance can be found in the financial review on pages 21-22 of this annual report.

During the year in review the Bank tackled prevailing structural concerns and laid the foundation for a healthier financial institution. We rigidly assessed assets to elicit a stronger balance sheet and addressed the problem of non-performing loans by disposing of an appropriate amount and setting aside reserves, in accordance with guidelines established by the Financial Reconstruction Commission, should additional loans sour. These efforts, however, led to a net loss of ¥48.7 billion.

Fiscal 1998 was also an immensely important year in a historical sense, and I would be remiss if I did not mention the implementation of drastic yet imperative business strategies designed to buoy profits in the near term, and the positive strides taken in fortifying our retail base to ensure survival in an increasingly competitive market segment.

The accompanying sections of this annual report will provide readers with insight into the Bank's position on the pertinent issues that surround the domestic financial community, but allow me to outline a few of the major points.

Toward a New Role in Banking

Chuo Trust aims to reach the status of a trust bank with a high degree of specialization, particularly strong in the area of retail banking. An indispensable step toward this goal was the November 1998 absorption of Honshu-based offices

of the Hokkaido Takushoku Bank, Limited. Our domestic network now boasts 110 branches, primarily in the nation's largest market—the Tokyo metropolitan area—and with our transition into a trust bank with the most branches nationwide, we have moved closer to our goal of leadership in trust banking services for the retail market.

In the area of banking business, we posted exceedingly better-than-anticipated results in fiscal 1998. This achievement is due in part to the acquisition of a quality transaction base comprising individuals and small and midsized businesses, as well as an expansion of funds, notably a favorable increase in medium- and long-term funds, including new accounts, by individuals. We also marked growth in our four core trust-banking operations—asset administration, asset management, stock transfer agency services and real estate-related business—and dramatically improved convenience and accessibility for clients through our broader branch network.

A pivotal decision reached during fiscal 1998 that will help secure our position as a trust bank with a high degree of specialization was the agreement with the Mitsui Trust and Banking Company, Limited, on a merger slated for April 1, 2000. The underlying aim of this merger is to strengthen our four core trust-banking capabilities and concentrate the high-level know-how accumulated in respective fields of expertise into a powerful single entity. Moreover, the merger of two financial institutions with trust-banking expertise will expedite rationalization tasks and trim costs.

Post-merger, the new bank will play a leading role as a completely new type of comprehensive financial institution—No. 1 in many primary domains of trust banking, and boasting specialized excellence and client convenience. I am confident that this new bank will prevail amid the intense competition spurred by Big Bang financial reforms in Japan.

Public-Fund Injection and Healthier Asset Base

In March 1999, Chuo Trust submitted to the Financial Reconstruction Commission a plan to reinforce management soundness that highlights the merger with Mitsui Trust and hinges upon the inherent restructuring of operations. With the commission's approval of the plan, the Bank issued ¥150 billion in preferred shares to boost capitalization.

Prior to the injection of public funds, we sought to procure funds on our own. In December 1998, we issued perpetually subordinated yen-denominated convertible bonds, and in March 1999, we executed a third-party allocation of ordinary shares to raise capital. The swift implementation of efforts to buoy net worth in an unsettled financial environment substantiated strategic capabilities that will ensure the Bank's permanence after competition reshapes the Japanese banking industry.

Supported by these capital enhancement processes, Chuo Trust aggressively disposed of non-performing loans and hidden losses on marketable securities. Moreover, we worked to further streamline the executive hierarchy, expedite management decisions and improve profitability, moved to replenish internal reserves, and set the stage for promised repayment of public funds.

Overall, the end of fiscal 1998 marked the near-completion of bad-loan processing by both Chuo Trust and the Chuo Trust Group. With an efficient, financially sound banking group, we can confidently formulate forward-looking strategies that will guide the Chuo Trust–Mitsui Trust merger in new business pursuits.

Outlook for the Future

The 21st century is just around the corner, and with the dawning of the new millennium will come heightened financial globalization and increasingly fierce competition that transcends industry borders.

In the domestic financial realm, a number of financial institutions have formulated strategies prioritizing local markets, specifically the retail market. Competition within these markets is sure to escalate.

To overcome the cutthroat rivalry, Chuo Trust must secure the support and loyalty of clients, the general market and society as a whole. Toward this end, we must establish a position that holds individuals and corporations in the highest esteem. Our success depends on it.

In response, Chuo Trust will offer not only a wide assortment of products and services geared to expanding client needs but also seek to ensure that these products and services satisfy prevailing market demands for high quality and

suitability to needs. We will improve convenience to clients through greater branch accessibility and a broader consultation function, while demonstrating a comprehensive financial function matched to client requirements.

Chuo Trust's confidence is underscored by three pillars of strength: a nationwide network through which exceptionally executed specialized services substantiate the vast potential of trust banking services; a well-balanced base of quality clients; and a solid team of skilled personnel who can further enhance the value of accumulated business assets.

During fiscal 1998, the banking community faced several major infrastructure hurdles, namely administrative, accounting and legislative changes, that will have considerable impact on the future of operations.

On the administrative front, the authorities put more emphasis on monitoring the present status of banks and their activities, especially in regard to inspection practices. Clear-cut rules have been defined and, as means to monitor compliance of these rules, the Financial Supervisory Agency was established and has already implemented such measures as prompt corrective action, a new bank inspection format and extensive disclosure of non-performing loans.

In the area of accounting systems, Japan is moving ahead with revisions that parallel worldwide trends in accounting practices, including a sweeping transition to consolidated disclosure and the adoption of the New Standard for the inclusion of subsidiaries and affiliates.

In view of these developments, Japan would seem to be making a conscious effort to heighten the transparency of activities within the financial system. Indeed, Japanese banks, the pros and cons of their operating strategies and progress toward specified goals have all come under the relentless scrutiny of the market, rating agencies and the public at large.

Amid diversifying evaluation processes and assessment of companies via the market, rating agencies and mass media, for example, Chuo Trust will go beyond fiscal reporting to broader-based disclosure that explains the thoughts behind executive decisions, the reasons for adopting a strategy, and past progress on business plans. Through these efforts, we will reinforce and maintain operational health, autonomy and clarity.

To create a strong financial institution for the 21st century, Chuo Trust will of course make operations more efficient, and further fortify compliance and risk-management systems. In regard to the most prevalent risk-hedging priority—the Millennium Bug—we have instituted an ongoing and meticulously formulated plan centered on the Year 2000 (Y2K) Executive Committee, a cross-section of in-house representatives led by the deputy president.


In Closing

On June 29, 1999, I succeeded Shozo Endoh as president of the Bank. I will, in this new role, maintain the momentum of my predecessor in keeping the Bank on a strategic course toward the intended destination. While the road ahead is lined with many challenges, we will persevere. With the well-earned confidence of shareholders, clients and the public as a whole, we will acquire fair evaluation in the market—i.e., an appropriate share price—by maintaining business practices underpinned by fiscal soundness, autonomy and transparency.

On behalf of the Board, I ask for the continued support of shareholders and associates as we lead Chuo Trust in the pursuit of stable banking performance.

And now I invite you to read further in this annual report to gain a broader perspective of management's efforts to improve the health of the Bank.

August 1999



Hideie Hirakawa
President

*Succession of
the Hokkaido
Takushoku Bank's
Operations in
Honshu*

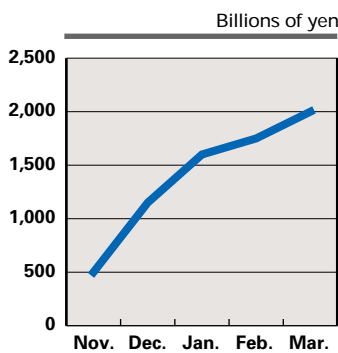
As touched upon briefly in the president's message, Chuo Trust made the Honshu-based offices of the Hokkaido Takushoku Bank, Limited, part of its own business in November 1998. The Bank now boasts the largest national branch network of any domestic trust bank, with particularly strong coverage in the Tokyo metropolitan area. The following data highlights the primary operating gains derived from the acquisition.

Summary of Succession of the Hokkaido Takushoku Bank's Operations in Honshu

(As of transfer date, November 16, 1998)

	Approximate Numbers
Branches (In Metropolitan Tokyo)	59 (54)
Personnel	1,200
Total Assets	¥1,460 billion
Deposit Balance	¥770 billion
Lending Balance (Including customers' liabilities for acceptances and guarantees)	¥1,130 billion
Ordinary Deposit Accounts	700,000
Corporate Borrowers	3,500 companies
Retail Borrowers	36,000 loans

Net Increase in Post-Transfer Medium- and Long-Term Retail Funds
(All-branch base)



Through the succession of the Hokkaido Takushoku Bank's operations in the Honshu (the main island of Japan), Chuo Trust added to its existing transaction base about 700,000 ordinary deposit accounts, a massive block of loans—roughly 36,000 contracts—extended to individuals, and corporate loans for about 3,500 companies, more than 90% of which are small and midsize businesses. To build a client base of this depth from scratch typically requires a considerable investment of time and capital. The transfer of established operations, however, has enabled Chuo Trust to extend its business reach in an extremely economical fashion.

Aside from the direct benefits obtained specifically by Chuo Trust, the decision to absorb the Honshu-based operations of the Hokkaido Takushoku Bank will surely contribute to financial system stability and job security. Management hopes the socially positive implications of this move will win favor with an increasingly watchful public.

Amid efforts by many Japanese financial institutions to streamline and consolidate branch networks, Chuo Trust has attracted attention for a strategically different approach to marketing. The lucrative potential of Japan's retail market is underscored by a huge pool—¥1,200 trillion—of financial assets held by individuals, but about 60% of these funds are firmly entrenched in savings accounts. To spur the movement of financial assets beyond deposit borders, we subscribe to a marketing perspective that accurately addresses this situation with a complementary blend of human skills and man-made technology.

Compared with equipment-oriented industries, the trust-banking realm is particularly dependent upon efficient development of staffed branches boasting highly trained professionals to capitalize on business opportunities. Management firmly believes that skilled personnel and a strong market presence are vital to survival in an intensely competitive field, and the Bank's branch strategy is certainly appropriate, especially under prevailing circumstances.

We also seek to augment client-access channels through unmanned points, such as automated teller machines (ATMs), telephone banking services, and direct banking, including on-line transactions.

These efforts are not the contraction they may seem. Rather, the resourceful integration of the human component and the merits of information and communication technologies accords greater convenience to clients and streamlines operating costs. Through these efforts, Chuo Trust will diligently pursue the development of a balanced network, featuring both manned and unmanned locations that trim costs and still meet the banking requirements of each client segment.

Merger with Mitsui Trust

In May 1999, Chuo Trust concluded an agreement outlining the details of its proposed merger with Mitsui Trust. With approval granted at the General Shareholders' Meeting in June, we now head toward the union of two trust banks on April 1, 2000.

The post-merger entity, to be known as the Chuo Mitsui Trust and Banking Co., Ltd., will become the largest financial institution in Japan with total funds of ¥41.3 trillion on a domestic basis. The new bank is expected to post a market-based operating profit above the ¥200 billion line in the near future. We are confident that Chuo Mitsui Trust will secure top share in the main areas of trust business, namely investment trust operations, such as asset administration, and asset management, including application of corporate pension funds.

Financial Summary of Merging Banks

(As of March 31, 1999)

	Trillions of yen			Position
	Chuo Trust	Mitsui Trust	Total	
Domestic Branches (Note 1)	111	55	166	No. 1 trust bank
[In Metropolitan Tokyo]	[78]	[30]	[108]	[No. 1 trust bank]
Balance of Trust Assets	¥15.2	¥29.5	¥44.7	No. 1 trust bank
Domestic Funds (Note 2)	¥12.2	¥29.1	¥41.3	No. 1 among all domestic banks
[Total Funds]	[¥12.6]	[¥29.6]	[¥42.2]	[No. 2 among all domestic banks]
Lending Balance	¥4.1	¥7.7	¥11.9	No. 1 trust bank
Balance of Pension Trusts under Management	¥1.8	¥4.3	¥6.1	No. 1 trust bank
Number of Companies Entrusting the Bank as Stock Transfer Agent (Note 3)	1,262	447	1,709	No. 1 trust bank
Number of Shareholders under Administration (Thousands)	9,285	3,455	12,740	No. 1 trust bank
Number of Land Trusts	334	342	676	No. 1 trust bank
Balance of Investment Trusts under Management	¥4.2	¥2.4	¥6.7	No. 2 trust bank

Notes: 1. Number of Domestic Branches includes the Head Office.

2. Domestic Funds exclude funds from overseas offices, Negotiable Certificates of Deposit (NCDs) and offshore funds.

3. Number of Companies is the number of domestic companies.

Chuo Trust and Mitsui Trust entered into the merger agreement because management at both banks realized that as partners seeking a lean yet strong operating foundation we could swiftly reinforce shared core trust-banking operations, expedite responses to evolving client needs and thereby enhance the chances of surviving the fast-paced changes transforming Japan's financial industry.

Impossible if we were not in the same business, the merger will dramatically improve overall operating efficiency through the consolidation of overlapping branches and systems in each area of trust-banking activities. The synergistic effect of the merger will be especially noticeable in asset administration and stock transfer agency services where we rely heavily on sophisticated systems. Unified systems development will expedite tasks and cut costs.

The merger will augment our geographical presence in Japan and hone a sharper marketing edge for us among retail clients. The number of households in our revenue base will more than double, from 1.1 million to 2.7 million, providing the new bank with a low-cost and stable source of operating funds.

Anticipating growth in the investment trust market will lead to an increase in sales commissions, we are shifting personnel assets into strategic marketing sectors dealing with these products. Clients of Chuo Mitsui Trust will benefit from a solid team of in-house experts, including securities analysts, real estate consultants and financial planners, as well as highly skilled professionals with in-depth knowledge and experience in trust-banking business. Well-placed staff and sophisticated and specialized services will ensure that the new bank responds flexibly to market needs.

Post-Merger Employee Qualifications

	Pre-Merger	Post-Merger Estimate
Securities Analysts	113	286
Pension Actuaries	9	20
Real Estate Appraisers, including Real Estate Appraiser Candidates	84	151
Real Estate Transaction Supervisors	1,844	4,019

An ill-favored side effect of mergers is repetitive operations. Our merger, however, will create little duplication among corporate clients. Indeed, our corporate transaction base of large corporate clients and the small and midsize businesses previously serviced by the Hokkaido Takushoku Bank will be enriched by Mitsui Trust's corporate transaction base of major companies.

Ahead of the merger, we are implementing policies on collective sales of investment trusts, for example, and reciprocal, no-fee access to ATMs. The early introduction of jointly offered services will make the business transition smoother and enhance convenience for clients sooner.

We will eliminate repetitiveness among subsidiaries and affiliates within the groups of both banks through restructuring and during the initial stages following the merger. The consolidation of functions will fortify operating efficiency. We have already combined investment advisory, credit guarantee and credit card operations, effective July 1999, and will continue, under a single corporate banner, to realize the benefits of the merger as quickly as possible.

Capital Enhancement, Public Fund Acceptance and the Bank's Business Improvement Plan

In March 1999, Chuo Trust applied for and received approval from the Financial Reconstruction Commission for access to public funds, in accordance with the Law Concerning Emergency Measures for Early Strengthening of Financial Function, otherwise known as the "Early Strengthening Law."

At the time we requested the funds, the prevailing business environment was characterized by lingering instability in Japan's financial system and persistently difficult fund-procurement conditions at home and abroad. A practical view of the situation indicated further deterioration of the fund-raising environment.

Moreover, our net worth ratio had declined as risk assets, which factor predominantly into the calculation of the net worth ratio, expanded by ¥1.1 trillion with the absorption of Honshu-based Hokkaido Takushoku Bank operations. The ratio was further eroded by a massive write-off of non-performing loans in fiscal 1998. Consequently, management pledged to establish a solid financial footing and a sharper competitive edge among financial institutions by quickly reinforcing net worth and offsetting the effects of the shaky financial environment.

Even before the acceptance of public funds, we sought to fortify our financial position by acquiring funds on our own. In November 1998, we issued perpetually subordinated yen-denominated convertible bonds worth ¥34.2 billion, and in March 1999, we initiated a third-party allocation of ordinary shares to raise ¥37.5 billion. With the Financial Reconstruction Commission's approval of our business improvement plan, which hinged on the forward-looking stance described above, we complemented previous fund-raising efforts with ¥150 billion in public funds obtained through the issue of preferred stock. All told, our exercise in capital enhancement paid off as the capital adequacy ratio, according to the standard set by the BIS, rebounded to 13.18%, at the end of March 1999, after falling to 11.85%, at the close of September 1998.

The business improvement plan spotlighted the restructuring of operations through the merger with Mitsui Trust. The goals of a post-merger blueprint to be attained by fiscal 2004, ending March 2005, are presented below.

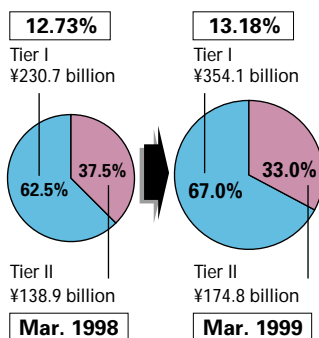
We expect the number of domestic branches at the time of merger to stand at 166. While prioritizing convenient access to the new bank by clients, we will trim the domestic network to 131 locations.

The introduction of an executive officer system, currently under discussion, will reduce the number of seats on the Board of Directors from the two-bank total of 50 at the time of merger, to just 28 in the first year after the merger, and then further, to 24, by the end of fiscal 2004.

We will streamline personnel from the two-bank total of 9,876 at March 31, 1999, to 8,300 at March 31, 2005, through such moves as the consolidation of branches located in the same neighborhood, and integrate headquarters capabilities at the new head office where a high-level information infrastructure will elicit greater efficiency in our banking operations. Annual personnel costs in fiscal 2004 should shrink by about ¥14 billion from the fiscal 1999 figure.

Chuo Trust's withdrawal from international banking operations and the consolidation of domestic branches, as well as the merits accorded by shared computer systems will trim annual non-personnel expenses by about ¥29 billion, compared with the total upon merger.

BIS Ratio



	Two-Bank Totals at March 31, 2000	Merged-Bank Totals at March 31, 2005	Difference
Directors	50	24	-52%
Employees (Note 1)	9,876	8,300	-16%
Domestic Branches (Note 2)	166	131	-21%
Personnel Costs	¥90.2 billion	¥76.5 billion	-15%
Non-Personnel Expenses	¥112.6 billion	¥83.3 billion	-26%
Administrative Costs	¥210.1 billion	¥167.4 billion	-20%

Notes: 1. Only the figure for employees is as of March 31, 1999.
2. Number of Domestic Branches includes the Head Office.

Non-Performing Loans

Explanation of Loan Categories

The Bank determines according to similar standards the total in the banking account and the total of loan trusts and other products in the trust account for which the principal is guaranteed.

Loans to legally bankrupt entities are loans which the Bank is highly unlikely to recover owing to the bankruptcy or virtual bankruptcy of the borrower.

Nonaccrual loans are loans for which there is a high possibility that the Bank will have to write the debt off as a loss, such as loans on which the borrower has not paid interest for more than six months due to business difficulties. This category excludes the aforementioned loans to legally bankrupt entities.

Loans with interest payments more than three months in arrears represent loans whose principal and/or interest are overdue more than three months from the day following contractual payment date. Such amounts exclude non-performing loans which are disclosed as loans to legally bankrupt entities and non-accrual loans. Restructured loans are loans for which the Bank grants a concession in order to financially support the debtor during the period the debtor is experiencing financial difficulties. Such concession includes reducing the interest rate and deferring or waiving of interest or principal payment on the loan. Such amounts exclude loans to legally bankrupt entities, nonaccrual loans and loans with interest payments more than three months in arrears.

For the fiscal 1998 settlement, Chuo Trust switched to a different set of accounting standards and now discloses both consolidated and nonconsolidated risk-monitored loans, as stipulated in the Bank Law and the Law Concerning Concurrent Trust Banking Business of Financial Institutions. We also disclose the results of asset-quality assessments based on the Law Concerning Emergency Measures for Revitalizing the Financial Function (the "Financial Revitalization Law").

For risk-monitored loans, banks are required to examine the repayment status of each credit, not each borrower, and to classify all loans into the following four categories: 1) loans to legally bankrupt entities; 2) nonaccrual loans; 3) loans with interest payments more than three months in arrears; and 4) and restructured loans.

Risk-Monitored Loans

As of March 31	Millions of yen		
	1999 (Non-Consolidated)	1999 (Consolidated)	1998 (Non-Consolidated)
Loans to Legally Bankrupt Entities:			
Banking Account	¥ 26,014	¥ 26,396	¥ 68,894
Trust Account	12,052	12,052	18,411
Total	¥ 38,066	¥ 38,448	¥ 87,305
Nonaccrual Loans:			
Banking Account	¥ 22,419	¥ 22,577	¥ 78,279
Trust Account	35,084	35,084	29,461
Total	¥ 57,504	¥ 57,662	¥ 107,741
Loans with Interest Payments More than Three Months in Arrears:			
Banking Account	¥ 12,582	¥ 12,594	¥ 9,159
Trust Account	7,169	7,169	11,691
Total	¥ 19,752	¥ 19,764	¥ 20,850
Restructured Loans:			
Banking Account	¥ 84,781	¥ 84,781	¥ 65,094
Trust Account	2,984	2,984	4,331
Total	¥ 87,765	¥ 87,765	¥ 69,425
Total Risk-Monitored Loans:			
Banking Account	¥ 145,798	¥ 146,349	¥ 221,427
Trust Account	57,291	57,291	63,896
Total (Note 1)	¥ 203,089	¥ 203,641	¥ 285,323
Total Balance of Loans:			
Banking Account	¥2,320,032	¥2,299,363	¥1,753,643
Trust Account	1,755,747	1,755,747	1,920,475
Total (Note 2)	¥4,075,780	¥4,055,110	¥3,674,119
Ratio of Total Risk-Monitored Loans to Total Balance of Loans (%)	4.98%	5.02%	7.77%
Reserves and Allowances (Note 3)	¥ 66,072	¥ 67,073	¥ 161,215
Ratio of Reserves and Allowances to Total Risk-Monitored Loans (%)	32.53%	32.93%	56.50%

Notes: 1. Direct reduction (partial direct write-off) of Total Risk-Monitored Loans, on both non-consolidated and consolidated bases, as of March 31, 1999, amounted to ¥136.5 billion, respectively.

2. The Total Balance of Loans in the Trust Account represents the portion of contracts in the trust account for which principal is guaranteed.

3. Reserves and Allowances is the sum of reserve for possible loan losses in the Banking Account, reserve for possible impairment of principals in jointly operated designated money trusts, and special reserve fund in loan trusts.

Explanation of Loan Categories

Claims under bankruptcy and virtual bankruptcy are loans to borrowers that have failed and are either bankrupt or struggling under court-sanctioned corporate reorganization measures. In-house self-assessments account for these claims as loans to bankrupt borrowers and loans to essentially bankrupt borrowers.

Claims under high risk are loans for which the Bank is highly unlikely to receive outstanding principal and interest by the contractual payment date because, while the borrower may not be bankrupt, its poor financial standing and deteriorating business performance preclude loan retirement as scheduled. In-house self-assessments account for these claims as loans to borrowers on the brink of failure.

Claims under close observation are loans for which interest payments are more than three months in arrears and restructured loans. Of risk-monitored loans, claims under close observation are regarded neither as claims under bankruptcy and virtual bankruptcy nor claims under high risk.

Healthy claims are loans to borrowers free of financial and business troubles. That is, the loans do not fall into the three problem-loan categories listed above.

In contrast, disclosure of lending assets evaluated under the guidelines of the Financial Revitalization Law targets the client—not the loan—and casts a spotlight on total credit exposure, including loans, foreign exchange, customers' liabilities for acceptances and guarantees, unpaid interest, suspense payments and loan receivables in securities. The four categories are: 1) claims under bankruptcy and virtual bankruptcy; 2) claims under high risk; 3) claims under close observation; and 4) healthy claims. Because these categories embrace a wider disclosure range than those under the risk-monitored loan heading, the amount of non-performing loans in all categories except "healthy claims" is larger than that determined for risk-monitored loans. Please note that in "claims under close observation," only the lending amount comes under scrutiny.

In March 1999, Chuo Trust increased its reserves for possible loan losses. Of "claims under bankruptcy and virtual bankruptcy" and "claims under high risk" in the banking account, we directly disposed of or set aside reserves for portions in the former that were not secured by collateral or guarantees, and established a 70% reserve for loans in the latter. Of loans to borrowers in the "claims under close observation" category, we put up a 15% reserve on the unsecured portion. We also set up an appropriate reserve for other claims.

We achieved a coverage ratio of 79.96% through collateral, guarantees and allowance for doubtful accounts established against the total of "claims under bankruptcy and virtual bankruptcy," "claims under high risk" and "claims under close observation."

Disclosure of Problem Loans—Based on the Financial Revitalization Law

	Billions of yen		
	Banking Account	Trust Account (Note 1)	Total
Claims under Bankruptcy and Virtual Bankruptcy	¥ 55.0	¥ 32.1	¥ 87.2
Claims under High Risk	70.7	22.2	93.0
Claims under Close Observation	48.7	9.0	57.7
Subtotal (A) (Note 2)	174.5	63.5	238.0
Healthy Claims	2,704.2	1,692.2	4,396.4
Total	¥2,878.7	1,755.7	4,634.4
Reserves, Collateral, Guarantees and Allowance for Doubtful Accounts to the above Subtotal (B)	146.2	44.0	190.3
Coverage Ratio (B/A)	83.80%	69.39%	79.96%

Notes: 1. "Trust Account" represents the portion of contracts in the trust account for which principal is guaranteed.

2. Direct reduction (partial direct write-off) used for ¥153.7 billion.

Hidden Losses on Marketable Securities

As of March 31, 1999, Chuo Trust disposed of ¥36.0 billion in losses on marketable securities, bringing the total hidden losses to ¥69.7 billion, of which listed marketable securities represented ¥43.6 billion. Based on our business improvement plan, we projected completion of disposal of hidden losses by March 2002 with core business profit (*gyomu juneki*), assuming a Tokyo Stock Price Index of ¥13,500. Utilizing improvements in profitability, we will strive to process losses as quickly as possible.

Review of Operations

Funding & Lending

Funding forms the bedrock that supports all of Chuo Trust's operations. In fiscal 1998, the Bank expanded both its client base as well as its transaction volume for funding and lending through the assumption of operations previously executed by the Honshu-based offices of the Hokkaido Takushoku Bank.

Complemented by energetic marketing activities, the balance of total deposits, primarily term deposits, jumped 71.9%, to ¥3.1 trillion at year-end. In the final analysis, total funds rose 10.6%, to ¥12.6 trillion. In lending, effective marketing activities led to a 10.0% increase of figures in both accounts (banking and trust), or ¥4.2 trillion, against the weak-demand-for-funds background.

Above all, owing to the increase of lending assets caused by the succession of the Hokkaido Takushoku Bank's Honshu-based operations, lending in the banking account climbed 32.3%, to ¥2.3 trillion.

New developments during the term under review include the July 1998 debut of a U.S. dollar-denominated term deposit geared to the diversifying needs of clients in the era of Big Bang financial reforms. In December 1998, we also began handling securities investment trusts throughout our domestic branch network.

To enhance convenience for clients, we introduced *Chuo Telephone Banking* in October 1998. This service enables clients to execute transactions by phone rather than appearing in person at a branch. In March 1999, we initiated an on-line link to the ATMs and cash dispensers of the postal savings system to facilitate access to Chuo Trust accounts through any post office in Japan.

Our outlook for the immediate future highlights a dramatic expansion in our transaction base, from the current 1.1 million clients to 2.7 million clients, through the merit of scale afforded by the upcoming merger with Mitsui Trust. The merger will also facilitate the establishment of a funding substructure supported quantitatively and qualitatively by accumulated funding know-how at both banks and the application of client-administration systems.

In light of anticipated progress in private banking, we installed financial planners and other experts to provide comprehensive consultation services to our retail clients, strengthen housing loan and investment trust sales, and strive to extend distinctive and sophisticated services characteristic of a trust bank. Blanket development of funding operations and our four core trust-banking services will enable us to hone a sharper competitive edge and further reinforce profitability.

Asset Administration

In securities- and pension fund-management services, we prioritized investment in systems, such as a pension asset-management system, to maintain and further enhance competitiveness in a tougher business environment. We pinpointed areas of development and fine-tuned allocation of personnel and monetary resources to these areas. We promoted standardization and manuals outlining office procedures to trim costs, and thereby increased profitability in our fund-management services.

To raise procedural precision and elicit greater credibility in fund-management activities, Chuo Trust acquired ISO 9002 certification in foreign securities-management services. Our achievement is particularly noteworthy as we are the first Japanese bank to obtain this world-renowned endorsement. Our next task is ongoing: to preserve this high standing.

Toward this end, we will further complement our consultation function in such pension-related areas as pension asset-liability management and fund-management advisory services, and take appropriate action on defined contribution-style pension plans with a clear-cut perspective, including alliances with other financial institutions.

Asset Administration Sector Acquires ISO 9002 Certification

In February 1999, Chuo Trust acquired ISO 9002 certification from the International Organization for Standardization for systems designed to provide stable, high-quality services in three areas of operations—foreign securities-management services, investment trust administration and fiduciary services, and standing proxy services. Recognition in foreign securities-management services and investment trust administration and fiduciary services is particularly noteworthy because Chuo Trust's milestone is also a first for the Japanese domestic banking community.

Stock Transfer Agency Services

The sluggish stock market crimped demand for transfer of title services, a mainstay component of stock transfer agency services. However, a follow-up release of government-held shares in Nippon Telegraph and Telephone Corp. and agreements with listing companies raised the number of

shareholders under Chuo Trust's administration by 178, to 9,285,000.

Reduced corporate profitability, for example, held many businesses back from a listing, which curbed the number of newly listed companies on our register of securities under management. Nevertheless, stalwart efforts to attract new agreements boosted the number of companies for which the Bank acts as stock transfer agent to 1,263 at March 1999, an increase of 136 from a year earlier.

Of all domestic stock transfer agency services, in terms of total agreements and stockholders served, Chuo Trust captured about 22% of the market and retained the industry crown as the top stock transfer agent in Japan.

Chuo Trust set the standard for the industry's top stock transfer agency with services fine-tuned to the needs of shareholders and corporate clients. The Bank resourcefully addressed necessary resource allocation reinforce its planning division and polish all-round capabilities in, for example, systems, administrative procedures and custody applications.

Stock transfer agency services are governed by strict legal guidelines. Of note, the Commercial Code and the Securities and Exchange Law have come under frequent revision of late, highlighting the importance of legal compliance. Chuo Trust thus strives to extend a broad-based array of legal services.

In addition, we will enhance our consulting function, including advice on capitalization plans geared toward a stock listing, and forge closer ties with external affiliates as well as related internal divisions to foster an increase in the names of listed companies that have entrusted us as stock transfer agent.

Chuo Trust Launches Foreign Stockholder Surveys, Promotes Proxy Voting

An increase in the number of foreign shareholders, owing to the advance of global equity management techniques, has from a perspective of satisfying the quorum requirement for a general shareholders' meeting, as stipulated in the Commercial Code, prompted a growing number of companies in Japan to embrace investor relations activities geared to investors overseas and to urge foreign shareholders to exercise their voting rights. Against this backdrop, in October 1998, Chuo Trust embarked on full-scale services to seek out foreign shareholders and encourage them to use their voting rights. The Bank offers, for example, information from an investor database targeting listed issues worldwide, undertakes with the help of overseas research organizations investigations of foreign shareholders, and supports efforts to foster greater voting participation.

Asset Management

Amid the progress of Japan's Big Bang financial reforms, asset management has come under a direct and severe assault from major domestic and overseas fund-management companies as competition transcends traditional backstops.

As of March 31, 1999, Chuo Trust held ¥15.2 trillion in assets under management, up 1.2% from a year earlier. The Bank earned a high reputation from clients in the management of various assets, including pension funds.

Chuo Trust has established a strategic emphasis hinging on polished asset-allocation skills, heightened ability to manage individual funds, a more effective fund-management system and refined client services. These efforts will support and further expand assets entrusted to the Bank for return-generating application.

We adhere to a balanced fund-management style and strive to enhance our basic portfolio policies and medium- to long-term asset-application expertise.

In the area of individual funds, we have prioritized originality and excellence in domestic stock investments as well as strong individual asset-management capabilities honed through the diversification and sophistication of domestic securities investment techniques. On the organizational front, our strategies spotlight ongoing improvement in the quality of services provided by our portfolio managers, in addition to sharpening our competitive edge overall through more efficient allocation of personnel. These efforts promote thoroughly systematic investment activities.

To complement our skills in global fund management, we formed a non-exclusive relationship with HSBC Asset Management, under the umbrella of the HSBC Group, a U.K.-based international financial titan. We will continue to reinforce our ability to profitably manage foreign-currency assets through ties with prominent foreign-owned investment advisories and foreign-owned asset management firms.

Looking beyond our merger with Mitsui Trust, we envision a dedicated trust bank—a comprehensive financial institution at the forefront of the domestic banking industry in all areas of trust banking, especially asset management. The new bank will be No. 1 in corporate pensions under management, for example, drawing on and further expanding the investment know-how cultivated by the two parent banks, improving our competitive edge and capitalizing on heightened profitability potential.

Current conditions surrounding domestic corporate pension funds offer new opportunities and tremendous latitude

for growth. The operating environment is characterized by such developments as rapid deregulation of investment and fiscal administration rules, required disclosure of pension obligations on corporate balance sheets, and movement toward the implementation of defined contribution-style pension programs. Client needs are becoming more sophisticated and varied as administrative processes evolve. Chuo Trust will thus strive to improve the quality of products and services through a strong cadre of actuaries and offer germane pension consulting as well as comprehensive reporting expedited via pension-oriented asset-liability management.

In tune with the needs of property-owning companies, we enthusiastically engage in liquidity services utilizing land trusts.

The Start of Investment Trust Counter Sales

In December 1998, the ban on counter sales of investment trusts by banks in Japan was lifted, heralding a noticeable shift in the allocation of financial assets by individuals. Previously, the bulk of personal assets was banked as deposits. Coinciding with the removal of the ban, Chuo Trust launched sales of investment trusts at the Head Office and all 110 domestic branches. To extend suitable portfolio advice to clients, based on client-specific investment goals, risk thresholds and investing experience, the Bank implemented a branch-wide advisory service utilizing personal computers (PCs).

Real Estate

Although the domestic housing market showed a little improvement during the year to March 31, 1999, the real estate market as a whole remained lackluster. Against this backdrop, Chuo Trust resourcefully applied its market acumen and was rewarded with 1,240 transactions, brokerage worth ¥140.8 billion. This was 220 transactions, more than in the previous fiscal year, and a 17.5% increase in value.

To enhance brokerage operations and facilitate new business options, we will maximize the know-how accumulated through such activities as land trust services, and urban redevelopment and regional development projects. In addition, we will resourcefully invest in young employees by providing training that will have long-term dividends for our real estate services.

We have also consolidated the consulting functions of the Real Estate Business Department and the Development and Projects Department and are placing greater emphasis on proposal-style marketing activities.

Risk Management

Risk Management System

Financial deregulation comes as a mixed blessing to financial institutions in Japan. Progress in the financial realm generates new business opportunities but simultaneously exposes participants to increasingly varied and complex risks. To raise profitability while forging a sound operating foundation, each bank must skillfully pinpoint inherent risks and appropriately control these risks.

Early on, Chuo Trust made the establishment of a suitable risk-management system an executive priority. Our current goal stresses Bankwide adherence to the system and heightened ability to respond to specific risks.

The operating environment spins an intricate web of risks, namely credit risk, market risk, liquidity risk, operational risk, system risk, legal risk and reputation risk. Strict controls are applied in each department, with blanket supervision by the General Planning Department.

Our perspective on operational health and adequate security measures is grounded in the principles of self-responsibility. We review respective systems, for example, according to a risk checklist and other criteria recommended in such documents as the “Final Report of the Working Group on Financial Inspection Manuals” published by the Financial Supervisory Agency, and strive to further augment risk-hedging procedures and ensure conformity to a broader application of financial laws and ordinances. The new bank born through the merger of Chuo Trust and Mitsui Trust will maintain this enduring system-oriented emphasis on risk control.

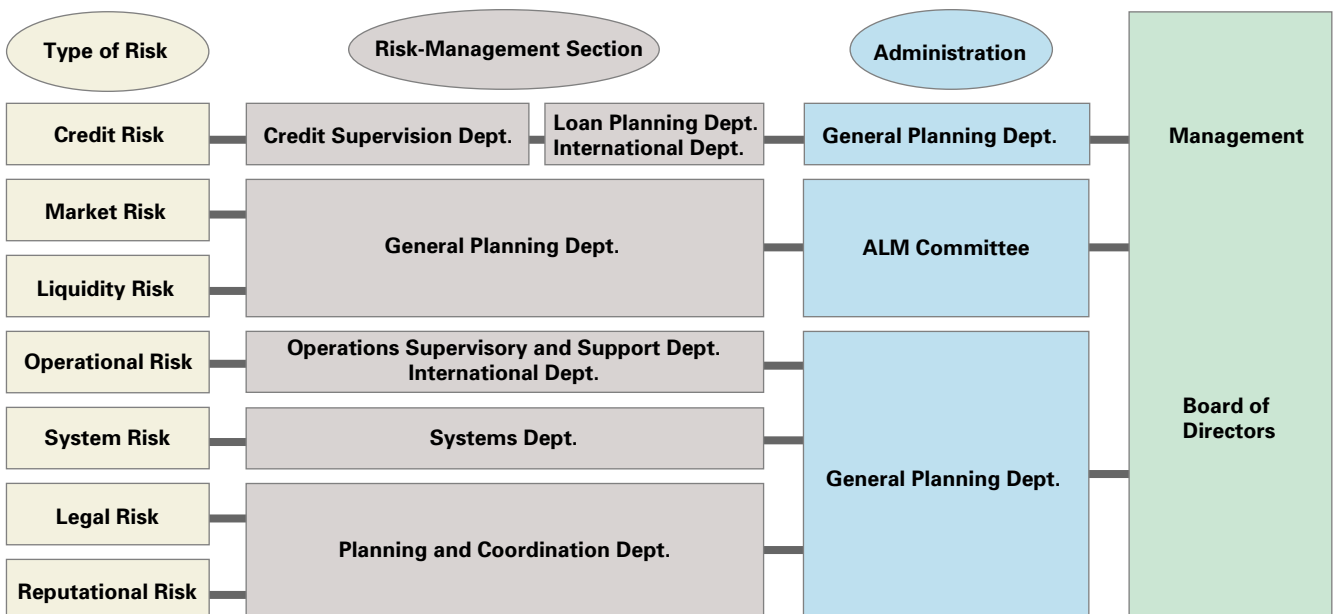
Credit Risk

Credit risk is the potential for the value of assets, including off-balance-sheet assets, to erode should a borrower’s financial conditions falter or fail completely, thereby saddling a financial institution with losses. Chuo Trust endeavors to comprehensively strengthen its risk-control capabilities with pre-contract investigations, fine-tuned client administration, and liability safeguards.

At Chuo Trust, proficient credit-risk management capabilities highlight five areas:

- 1) The Board of Directors and the Executive Committee establish discussion-based guidelines for each credit and determine the basic direction for provision of said credit, such as pertinent conditions governing the extension of funds.
- 2) We stress the independent nature of the Credit Supervision Department, sharply scrutinize each contract, and promote the application of sophisticated investigation techniques incorporating quantitative analysis and other risk-gauging formulas.
- 3) We cultivate lending expertise among marketing locations through on-the-job study sessions, and training by the Credit Supervision Department to bolster front-line assessment of borrower conditions and thereby hone the skills needed to ensure accurate, pre-contract risk-hedging competence.
- 4) We utilize specialist departments to minimize the risks associated with problem borrowers.
- 5) The Asset Quality Audit Department examines self-executed asset assessments independently from the Credit Supervision Department, and verifies the health of the Bank’s balance sheet.

Risk-Management System



Market Risk

Market risk is the possibility that the value of assets, including off-balance-sheet assets, will fluctuate because of changes to various major risk factors prevalent in the market, such as interest rates, foreign exchange rates and the price of marketable securities, and thereby present the issuing financial institution with losses.

At Chuo Trust, the Treasury Planning Office in the General Planning Department acts as an independent risk management section. This core office of the Bank's centralized system for internal evaluation of market risk-management activities formulates risk management techniques, determines risk limits, confirms adherence to various risk-management rules, and calculates, analyzes and drafts reports for executives on the Bank's overall market risk exposure and the respective market risk faced by each trading department.

The Asset-Liability Management (ALM) Committee—a group of departmental managers and designated directors well-versed in risk-management matters—focuses on efficient and balanced fund-management and procurement operations under prevailing economic and financial environments and against interest and exchange rate predictions. In addition, the ALM Committee works to secure stable and ever-broader profits, while keeping market risk and liquidity risk under control.

Establishing a Risk Limit

The fundamental purpose for establishing a risk limit is to pinpoint types of risks and incumbent attributes and to maintain the volume of risk carried by the Bank at a controllable level. More precisely, we measure risk volume—the maximum amount exposed to potential loss—by the fixed probability Value at Risk (VaR). Risk volume is then apportioned to each market-linked department. The risk limit and respective allocations are reviewed twice a year.

VaR guidelines are prevalent in each trading area, augmented by positioning restrictions for consistency and strict regulations, such as a loss limit, an alarm point and a loss-cut rule. Our fundamental risk-management direction is officially outlined in Risk-Management Rules for Marketable Transactions.

Organizational Structure

Chuo Trust classifies departments engaged in marketable transactions into three clearly defined entities: trading execution, procedure-administration and risk control. The respective functions of each department underpins the Bank's double-check system, but blanket control of market risks remains under the all-encompassing direction of the Treasury Planning Office in the General Planning Department.

Reporting Format

The departments engaged in marketable transactions tackle operations dictated by detailed administrative rules regarding type of transaction, position limits and risk limits. Trading departments, particularly those involved in derivative transactions, must adopt a process that can grasp not only the market evaluation of position but also various indicators, including delta and gamma option risks on a real-time basis. Daily Bank-wide risk-management reports prepared by the Treasury Planning Office in the General Planning Department, are forwarded to senior management, and monthly reports are provided to the ALM Committee and the Executive Committee.

Risk Volume Inherent in Trading Business

Trading business seeks to turn a profit in a relatively short term through the lucrative difference in buy and sell prices and through fluctuations in interest rates. Chuo Trust tabulates overall trading-risk exposure with VaR. Volatility and various correlation coefficients are recalculated at least once a month.

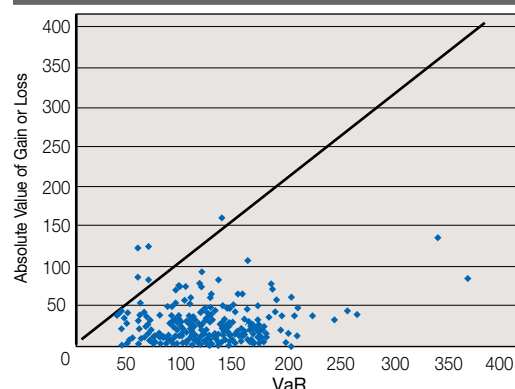
Between April 1, 1998, and March 31, 1999, the VaR on trading accounts (holding period: 1 day; confidence interval: 99%) shifted from a low of ¥45 million to a high of ¥380 million, with an average of ¥129 million. With regard to individual risks, such as the risk born from discrepancies between the fluctuating prices of designated securities, for example, and overall market-based prices, Chuo Trust calculates VaR based on the standard procedure advocated by the BIS.

The VaR as of the end of March 1999 stood at ¥79 million. The equivalent amount—net worth allocated to market risk—of market risk under BIS market-risk regulations was about ¥1 billion. The effect on the Bank's capital adequacy ratio was about 0.04%.

Back Testing

The accompanying graph illustrates back testing between April 1, 1998, and March 31, 1999, and verifies the precision of the VaR model.

Actual Distribution of VAR (Market Risk) and Profit (Loss)
Millions of yen



Stress Test

Chuo Trust prepares for unforeseen developments by performing a stress test to measure its position in trading transactions. The stress test yields a worst-possible scenario in the event that price fluctuation is greater than the future price fluctuation assumed in the risk-measurement model.

Liquidity Risk

Liquidity risk is two-fold. In a cash flow sense, liquidity risk appears when a bank's precarious financial position hinders its ability to secure vital funds for operations or when a bank must resort to fund procurement at exorbitantly higher interest rates than usual to sustain a healthy cash flow and is thus unavoidably burdened by associated losses. In a market sense, liquidity risk carries the possibility of losses stemming from a bank's inability to execute market transactions because of turmoil in a given market or from the bank's forced execution of transactions at prices noticeably more disadvantageous than usual.

At Chuo Trust, the Treasury and Securities Department is in charge of yen-based transactions, while the International Treasury Department, under the supervision of the International Department, is responsible for foreign-currency transactions. The ALM Committee receives reports on liquidity conditions from respective divisions via the General Planning Department, which pools risk-control information, then thoroughly discusses the situation with an eye toward the formulation of prudent strategies for each division. Seeking to improve precision in pinpointing cash flow requirements, the Bank predicts the daily cash gap up to about two months ahead as well as on a monthly basis thereafter.

Operational Risk

Operational risk is the possibility that a bank will experience a loss due to accident, management error or dishonest actions. At Chuo Trust, the Operations Supervisory and Support Department monitors operational risk in domestic operations, while the International Department oversees operational risk in the Bank's activities abroad. We aim to raise the level of administrative accuracy by strengthening the guidelines that underpin tasks executed at branches and by training specific branch-based individuals in the art of hedging operational risk. We review various rules and publish manuals to bring internal procedures up to scratch. Our double-check system reconfirms suitable control of risk through in-house audits by the Inspection Department.

The in-house audit system delegates inspection duties to six groups—planning, guidance, rules, investigations, systems,

and overseas and market-oriented activities—within the Inspection Department. The system subjects the Head Office and branches at home and abroad to tough scrutiny more than once a year to verify the status of internal-administration and risk-management controls.

To expedite inspections, we employ such measures as thorough preparation ahead of an inspection, individual interviews with divisional and branch managers and employees, post-inspection follow-ups, training to improve the capabilities of inspection staff, and full use of staff with specialist skills.

System Risk

System risk pertains to the possibility of losses incurred by financial institutions in the event of a computer crash, a malfunction or a system failure, as well as losses caused by illegal access to on-site computers.

Chuo Trust clearly defines the structure, the responsibilities and the authority granted to individuals in manuals outlining system development and operation. We have separated the development and operation of systems into two distinct departments as a backup maneuver for mutual checking.

In addition to troubleshooting strategies and security measures to thwart unauthorized entry or exit at the computer center and computer-related crimes, we exercise strict control over access to data stored in our computer system.

The Millennium Bug, also known as the Y2K problem, is an executive priority—one that demands full participation from all employees at Chuo Trust. Details on the Bank's readiness for possible Y2K disorders are found on page 17.

Legal Risk/Reputational Risk

Legal risk is inherent in individual transactions. At Chuo Trust, the Legal Affairs and Compliance Office in the Planning and Coordination Department handles audits and research related to legal matters, and coaches business segments in the treatment of legal concerns.

Reputational risk hinges on the regard accorded to a financial institution and any rumors that may be in circulation. We must prevent such risk from gaining prominence, promote measures such as those outlined above to avert risk, and aim for trustworthy, highly transparent operations. Toward this end, we strive to establish a solid compliance system and expand the scope of disclosure.

On our Web site, we spell out social concerns and topics of importance in our operations in a question-and-answer corner. We also seek to provide useful facts and figures for participants at analyst-oriented information meetings.

Y2K Readiness

The Y2K problem arises from encoding structures within many computer software programs and operating systems, which use only two digits to designate a calendar year. As a result, January 1, 2000, could be interpreted as January 1, 1900, a situation that would disrupt date-dependent data processing and cause software programs and systems, as well as related equipment, services and products, to malfunction.

In addition, 2000 is a leap year. The inability of computer programs to recognize the quadrennial appearance of February 29 also has the potential to trigger operational problems.

Organizational Measures

Management fully realizes the imperative nature of addressing Y2K concerns in order for Chuo Trust to ensure an uninterrupted flow of business in all parts of the Bank. This is not only a management issue; it encompasses the entire organization and all staff must gain a thorough understanding of potential problems and needed responses. We have allocated a workforce equivalent of 1,200 technicians focused on Y2K preparations for one month, as well as ¥2.7 billion to cover in-house systems personnel costs, outside developers' expenses and the purchase of relevant hardware and software. In terms of human and monetary resources, the Bank is well prepared to tackle the Y2K problem.

On the organizational front, the Y2K Executive Committee—a cross-sectional representation of the Bank led by the deputy president—holds meetings at least once a month to prepare for possible risks stemming from the Y2K problem. The committee, whose broad participation promotes wide-ranging opinions on the Y2K strategies formulated by each business division, evaluates plans and policies and tracks the progress of the Bank's Y2K readiness.

System Readiness

As of July 1997, Chuo Trust concluded its assessment of required responses on system readiness. Based on the assessment, we revised systems, ran internal tests (excluding client-connection tests), retested, and amended remaining problems. The plan was executed and completed on schedule by December 1998.

Currently, we are expanding the extent of our tests to make doubly sure of the Y2K readiness of the Hokkaido Takushoku Bank systems acquired when the Honshu-based branches were brought under the Chuo Trust umbrella in November 1998. While we confirmed that the system transferred from the Hokkaido Takushoku Bank was Y2K-ready when we assumed operations of the branches, we undertook

a comprehensive test of the system between April and May 1999 as further guarantee and reaffirmed readiness.

Preparations for the merger with Mitsui Trust must also take the Y2K problem into account. However, since the merger with Mitsui Trust will take place in April 2000, the Y2K problem is expected to have only a marginal impact on the Bank and its systems. A few programs will require modification, but all systems should check out by June 1999. As a final safeguard, we will run a rehearsal test in August.

Finally, we have taken a positive role in external connection tests with the Bank of Japan, for example, and the Federation of Bankers Associations of Japan. In addition, we are also running verification tests with outside sources to which we send and from which we receive electronic data.

Facilities and Security

As of December 1998, we had completed on schedule the bulk of our program revisions and countermeasures, including tests, on such facilities and security equipment as safes, facsimiles, elevators, switchboards, monitoring systems and cameras, and heating and cooling systems.

Contingency Plan

As outlined above, Chuo Trust has formulated various measures to ameliorate Y2K concerns, and the Bank is confident that these measures will suffice. However, we have drawn up a Bankwide contingency plan that we can fall back on should our systems fail to operate properly or should trouble in the social infrastructure hinder our ability to conduct business as usual.

In June 1999, each operating department produced a manual that outlines procedures to be followed in times of social infrastructure disruption, including emergency responses, preliminary schedules and strategies to get through the New Year. To further minimize Y2K-related risk, we also execute drills throughout the Bank to give employees practical knowledge of the schemes presented on paper.

Overseas Readiness

At our overseas offices, as well, the process of Y2K readiness moves steadily forward, in compliance with guidelines issued by local supervisory and regulatory authorities. In regard to systems, post-revision tests have born out readiness status and post-verification amendments have also been addressed. Y2K-ready systems are on-line. We have also formulated a unified contingency plan for overseas locations, even though Chuo Trust has decided to withdraw from international

Stronger Compliance Format

banking operations and will be closing its overseas branches at the end of September.

Client Relationships

We recognize the critical nature of Y2K concerns, which bear the potential to impact the entire financial system, and the success of our preparations will be instrumental to our survival in the future. Toward this end, we have collaborated with certain clients, namely those with which we exchange data via computer network or magnetic tape, for verification tests.

We have sent out questionnaires to interbank associates and clients to whom we have extended loans, to determine their status of Y2K readiness and gauge the influence of these clients' level of compliance on our operations. We will continue to seek response reports from clients when necessary to mitigate the client-relationship risk as it pertains to the Y2K problem.

Chuo Trust has used its Web site and disclosure reports to provide investors and analysts with updates on the Bank's efforts to prepare for 2000. We will resourcefully maintain this process of communication.

Note: The Y2K readiness information outlined above underscores the Bank's rigorous efforts to hedge the various risks that characterize the Y2K problem. However, these efforts are in no way a guarantee of complete compliance, nor are they an expression of liability should Y2K problems arise.

Management decisions, revolving around principles of self-responsibility, are increasingly underpinned by various legal and social rules. Compliance is not debatable, especially amid recent revelations of industry misconduct that have tarnished the overall reputation of the financial industry.

The principles of self-responsibility form a cornerstone of reliability in the eyes of the public. Following the September 1997 declaration by the Federation of Bankers Associations of Japan to rebuild the compliance system upon the foundation of a resolute charter of ethics, the banking community vowed to restore the industry to its former esteem.

As a trust bank, Chuo Trust has persistently sought to earn the confidence and loyalty of clients by adhering to strict standards of business management. We began fiscal 1998 by reemphasizing the importance of a strong compliance system. We reorganized the legal section of the Planning and Coordination Department into the Legal Affairs and Compliance Office in April 1998, and added staff to formulate and guide us in matters related to prevailing legal functions and compliance standards. We also established a seven-point code of ethics, hinging essentially on responsible conduct, quality products and services, and clear disclosure practices, as well as a six-point behavioral guide for managers that highlights honesty, respect for others and adherence to rules.

In June 1998, we installed compliance officers in all departments and at all branches to expedite legal consultations. Training and a constant flow of compliance-related information is an integral part of the process, not only for compliance officers but also for middle management and new recruits. A compliance manual, now in production, will further strengthen our positive perspective on rules.

Financial Section

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Non-Consolidated Five-Year Summary

The Chuo Trust & Banking Co., Ltd.
Fiscal Years Ended March 31

Millions of yen

	1999	1998	1997	1996	1995
For the Year					
Total Income	¥ 198,973	¥ 275,254	¥ 332,673	¥ 318,215	¥ 320,165
Total Expenses	280,681	262,871	326,914	389,534	315,440
Income (Loss) before Income Taxes	(81,708)	12,382	5,759	(71,319)	4,725
Net Income (Loss)	(48,697)	12,321	5,697	(74,892)	2,715
Core Business Profit (<i>Gyomu Juneki</i>)	27,356	58,404	89,390	36,599	24,689
At Year-End					
Banking Assets (Banking A/C)	5,210,380	3,704,007	3,814,105	4,219,418	4,541,263
Loan Trusts (Trust A/C)	2,250,646	2,746,201	3,215,882	3,549,613	3,844,562
Money Trusts (Trust A/C)	5,463,932	4,954,659	4,891,314	4,747,815	4,572,680
Pension Trusts (Trust A/C)	1,855,193	1,937,244	1,852,087	1,751,016	1,688,760
Property Formation Trusts (Trust A/C)	2,932	3,071	3,085	2,855	2,950
Customers' Liabilities for Acceptances and Guarantees (Banking A/C)	(532,725)	(64,838)	(77,337)	(79,956)	(119,759)
Due to Trust A/C (Banking A/C)	(754,336)	(1,056,471)	(1,143,869)	(1,499,774)	(1,733,834)
Total Assets	¥13,496,024	¥12,223,873	¥12,555,270	¥12,690,989	¥12,796,622
Deposits (Banking A/C)	3,072,304	1,786,793	1,978,163	1,865,834	1,972,814
Loan Trusts (Trust A/C)	2,250,646	2,746,201	3,215,882	3,549,613	3,844,562
Money Trusts (Trust A/C)	5,463,932	4,954,659	4,891,314	4,747,815	4,572,680
Pension Trusts (Trust A/C)	1,855,193	1,937,244	1,852,087	1,751,016	1,688,760
Property Formation Trusts (Trust A/C)	2,932	3,071	3,085	2,855	2,950
Total Funds	¥12,645,011	¥11,427,969	¥11,940,533	¥11,917,136	¥12,081,768
Loans and Bills Discounted (Banking A/C)	2,320,032	1,753,643	1,982,748	2,049,280	2,111,657
Loans (Trust A/C)	1,842,105	2,030,853	2,337,595	2,478,366	2,530,751
Total Loans and Bills Discounted	¥ 4,162,138	¥ 3,784,497	¥ 4,320,344	¥ 4,527,647	¥ 4,642,408
Total Stockholders' Equity (Banking A/C)	353,263	181,150	137,520	132,975	209,300
Reserve for Possible Loan Losses (Banking A/C)	53,238	145,854	82,594	118,763	23,336
Reserve for Retirement Allowances (Banking A/C)	8,814	8,672	8,824	8,928	8,951
Reserve for Losses on the Sale of Claims (Banking A/C)	6,825	5,095	3,998	—	—
Reserve for Losses on Investment Securities (Banking A/C)	667	—	—	—	—
Other Reserves (Banking A/C)	0	0	3,176	3,751	4,283
Special Reserve Fund (Loan Trusts, Trust A/C)	12,614	15,114	17,218	17,348	93,938
Reserve for Possible Impairment of Principals (Money Trusts, Trust A/C)	219	246	283	416	501
Bonuses for Directors	—	—	—	(50)	(60)
Dividends	(2,474)	(1,383)	(691)	(691)	(806)
Capital and Reserves	¥ 433,169	¥ 354,750	¥ 252,923	¥ 281,442	¥ 339,445

Non-Consolidated Financial Review

Chuo Trust operates in both the banking and trust business segments of Japan's financial industry. Because each segment is governed under Japan's Banking Law and Trust Business Law, respectively, trust banks, including Chuo Trust, are required to maintain separate accounts for each of their business categories. For the convenience of readers, this non-consolidated financial review incorporates combined amounts from both areas of operations in fiscal 1998, ended March 31, 1999, unless otherwise indicated.

FINANCIAL CONDITION

At fiscal year-end, total assets stood at ¥13,496.0 billion, up 10.4% over the previous fiscal year. The balance sheet showed marked increases in many line items, including cash and due from banks, securities, deposits, and loans and bills discounted in the banking account, owing to aggressive marketing activities as well as the transfer of Honshu-based offices once part of the national network of the Hokkaido Takushoku Bank.

Deposits in the banking account expanded 71.9%, to ¥3,072.3 billion.

Total Assets

As of March 31	Millions of yen		
	1999	1998	Change (%)
Banking Account	¥ 5,210,380	¥ 3,704,007	40.7
Total	¥13,496,024	¥12,223,873	10.4

Loans and bills discounted in the banking account grew 32.3%, to ¥2,320.0 billion, and represented 44.5% of total assets in the banking account. In particular, owing to weak demand for capital investment, trust funds decreased and loans in the trust account fell 9.3%, to ¥1,842.1 billion. Loans accounted for only 12.1% of total assets in the trust account. Also, loans to small and medium-sized enterprises, in both banking and trust accounts, increased 6.5%, to ¥2,141.1 billion.

Loans and Bills Discounted (Banking and Trust Accounts)

As of March 31, 1999	Millions of yen	
	Banking Account	Trust Account
Bills Discounted	¥ 37,303	¥ —
Loans on Bills	786,478	256,213
Loans on Deeds	1,076,262	1,585,892
Overdrafts	419,988	—
Total	¥2,320,032	¥1,842,105

As of March 31, 1998	Millions of yen	
	Banking Account	Trust Account
Bills Discounted	¥ 12,425	¥ —
Loans on Bills	738,640	319,114
Loans on Deeds	839,275	1,711,739
Overdrafts	163,302	—
Total	¥1,753,643	¥2,030,853

Total securities increased 11.2%, to ¥8,676.6 billion. Securities in the banking account reached ¥1,518.2 billion, a 45.1% gain, as the Bank worked to enrich asset composition and effectively manage funds. Securities in the trust account amounted to ¥7,158.4 billion, up 6.0% from the fiscal 1997 year-end.

Total Securities Portfolio

As of March 31	Millions of yen		
	1999	1998	Change (%)
Government Bonds	¥2,043,263	¥1,820,442	12.2
Municipal Bonds	164,632	129,213	27.4
Corporate Bonds	1,038,928	1,021,468	1.7
Stocks	3,537,292	3,384,564	4.5
Other Securities	1,891,929	1,443,995	31.0
Securities Lent	578	47	1,129.8
Total	¥8,676,625	¥7,799,730	11.2

TOTAL FUNDS

Chuo Trust's primary sources of funds are deposits in the banking account and funds, such as money trusts, pension trusts, property formation trusts and loan trusts, in the trust account. At March 31, 1999, total funds stood at ¥12,645.0 billion, a year-on-year increase of 10.6%.

Dramatic improvement in deposits in the banking account, at ¥3,072.3 billion, expanded the composition of this category in total funds to 24.3%, an 8.7-point improvement from a year earlier. Consequently, the complementary portion from funds in the trust account fell to 75.7%, as the yen amount, at ¥9,572.7 billion, slipped 0.7% from the previous term. Of funds in the trust account, loan trusts decreased 18.0%, to ¥2,250.6 billion, and pension trusts declined 4.2%, to ¥1,855.2 billion. On a positive note, however, money trusts, which at 43.2% constituted the largest component of total funds, grew 10.3%, to ¥5,463.9 billion.

Total Funds

As of March 31	Millions of yen		
	1999	1998	Change (%)
Banking Account:			
Deposits	¥ 3,072,304	¥ 1,786,793	71.9
Trust Account:			
Loan Trusts	2,250,646	2,746,201	(18.0)
Money Trusts	5,463,932	4,954,659	10.3
Pension Trusts	1,855,193	1,937,244	(4.2)
Property Formation Trusts	2,932	3,071	(4.5)
Total	¥12,645,011	¥11,427,969	10.6

OPERATING RESULTS

Total income retreated 27.7%, to ¥199.0 billion, primarily owing to eroded profit on sales of stocks and other securities in the other income category.

Total expenses climbed 6.8%, to ¥280.7 billion. The increase stems from a 27.8% rise in other expenses precipitated by the Bank's efforts to: 1) restore the health of its asset composition through rigid self-assessment of assets and 2) process a suitable level of non-performing loans and establish reserves for bad debt, as stipulated in Financial Reconstruction Commission guidelines.

Based on tax-effect accounting, the Bank posted a net loss of ¥48.7 billion yen, a drastic reduction from net income of ¥12.3 billion in fiscal 1997. Please note that under legislative revisions, tax-effect accounting applies to non-consolidated results as of the term ended March 31, 1999.

The Bank recorded a net loss per share of ¥209.44 for fiscal 1998, compared with a net income per share of ¥53.44 in fiscal 1997.

CAPITAL

To strengthen the Bank's financial position, management elected to issue perpetually subordinated yen-denominated convertible bonds in November 1998, followed in March 1999 by the execution of a third-party allocation of ordinary shares to raise capital and the issue of preferred stock based on the Financial Revitalization Law. These efforts boosted total stockholders' equity in the banking account by 95.0%, to ¥353.3 billion yen, and expanded capital and reserves by 22.1%, to ¥433.2 billion yen.

The Bank's consolidated capital adequacy ratio improved in fiscal 1998, reaching 13.18% at March 31, 1999, compared with 12.73% a year earlier. This ratio was calculated according to Ministry of Finance guidelines, which are based on requirements set by the BIS.

BIS Capital Adequacy Ratio¹

As of March 31	Millions of yen	
	1999	1998
Tier I:		
Stockholders' Equity	¥ 354,080	¥ 230,727
Total Adjusted Tier I Capital (A)	354,080	230,727
Tier II:		
45% of Unrealized Gains on Securities	—	—
Reserve for Possible Loan Losses ²	24,977	6,070
Other Items	149,860	132,800
Total Adjusted Tier II Capital (B)	174,837	138,870
Cross-Holdings with Other Financial Institutions (C)	1,499	—
Total Capital: (A) + (B) – (C) (D)	527,417	369,597
Risk-Adjusted Assets:		
On-Balance-Sheet Exposures	3,643,060	2,492,441
Off-Balance-Sheet Exposures	345,615	394,181
Appropriated Market Risk Amounts	12,683	15,936
Risk-Weighted Assets (E)	¥4,001,359	¥2,902,559
Capital Adequacy Ratio [(D)/(E)] × 100	13.18%	12.73%

Notes: 1. On a consolidated basis computed according to the formula laid down by a notice issued by the Ministry of Finance under Article 14-2 of the Banking Law.

2. Figures exclude a special loan loss provision and special reserve for overseas loan losses.

DEFINITIONS OF TRUST BANK ACCOUNTING TERMS

Below are the calculations for the trust bank accounting terms used throughout this annual report.

Total Assets

Total Assets (B/A) – Customers' Liabilities for Acceptances and Guarantees (B/A) + Money Trusts (T/A) + Pension Trusts (T/A) + Property Formation Trusts (T/A) + Loan Trusts (T/A) – Due to Trust Account for Above Trusts

Total Funds

Deposits (B/A) + Money Trusts (T/A) + Pension Trusts (T/A) + Property Formation Trusts (T/A) + Loan Trusts (T/A)

Total Loans and Bills Discounted

Loans and Bills Discounted (B/A) + Loans (T/A)

Capital and Reserves

Total Stockholders' Equity (B/A) + Reserve for Possible Loan Losses (B/A) + Reserve for Retirement Allowances (B/A) + Reserve for Losses on the Sale of Claims (B/A) + Reserve for Losses on Investment Securities (B/A) + Other Reserves (B/A) + Reserve for Possible Loan Losses (Money Trusts, T/A) + Special Reserve Fund (Loan Trusts, T/A) + Reserve for Possible Impairment of Principals (Money Trusts, T/A) – Dividends – Bonuses for Directors

Note: B/A indicates Banking Account. T/A indicates Trust Account.

Non-Consolidated Financial Statements

The Chuo Trust & Banking Co., Ltd.
At March 31, 1999 and 1998

NON-CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Assets			
Cash and Due from Banks	¥ 228,748	¥ 65,820	\$ 1,897,541
Call Loans	120,000	344,044	995,438
Bills Bought	—	25,000	—
Monetary Claims Bought	33,300	498	276,234
Trading Assets (Note 3)	23,192	46,548	192,388
Money Held in Trust	58,826	111,019	487,983
Securities (Note 5)	1,518,203	1,045,975	12,593,976
Loans and Bills Discounted (Note 6)	2,320,032	1,753,643	19,245,400
Foreign Exchanges (Note 7)	17,354	8,183	143,963
Other Assets (Note 9)	194,754	172,591	1,615,546
Premises and Equipment (Note 10)	94,356	65,843	782,716
Deferred Tax Assets (Note 25)	68,884	—	571,422
Customers' Liabilities for Acceptances and Guarantees (Note 11)	532,725	64,838	4,419,129
Total Assets	<u>¥5,210,380</u>	<u>¥3,704,007</u>	<u>\$43,221,735</u>
Liabilities			
Deposits (Note 12)	¥3,072,304	¥1,786,793	\$25,485,731
Call Money	74,433	52,263	617,445
Bills Sold	—	90,900	—
Trading Liabilities (Note 4)	2,199	7,438	18,247
Borrowed Money (Note 13)	157,172	148,615	1,303,799
Foreign Exchanges (Note 7)	524	74	4,351
Convertible Bonds (Note 14)	34,260	—	284,197
Due to Trust Account (Note 8)	754,336	1,056,471	6,257,454
Other Liabilities (Note 9)	159,613	155,838	1,324,042
Reserve for Possible Loan Losses	53,238	145,854	441,633
Reserve for Retirement Allowances	8,814	8,672	73,120
Reserve for Losses on the Sale of Claims	6,825	5,095	56,617
Reserve for Losses on Investment Securities	667	—	5,537
Acceptances and Guarantees (Note 11)	532,725	64,838	4,419,129
Total Liabilities	<u>¥4,857,116</u>	<u>¥3,522,856</u>	<u>\$40,291,303</u>
Stockholders' Equity			
Common Stock (Note 15)	¥ 79,966	¥ 61,215	\$ 663,345
Preferred Stock (Note 15)	91,000	16,000	754,873
Capital Surplus (Note 16)	160,851	67,100	1,334,311
Legal Reserve (Note 16)	5,356	4,861	44,438
Earned Surplus (Note 17)	16,089	31,973	133,466
Total Stockholders' Equity	<u>¥ 353,263</u>	<u>¥ 181,150</u>	<u>\$ 2,930,433</u>
Total Liabilities and Stockholders' Equity	<u>¥5,210,380</u>	<u>¥3,704,007</u>	<u>\$43,221,735</u>

The notes to non-consolidated financial statements are an integral part of these statements.

NON-CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Income			
Trust Fees (Note 18)	¥ 64,934	¥ 77,348	\$ 538,651
Interest Income:	73,345	90,423	608,424
Interest on Loans and Bills Discounted	41,681	45,878	345,762
Interest and Dividends on Securities	21,248	25,115	176,260
Other (Note 19)	10,415	19,428	86,403
Fees and Commissions	24,442	23,481	202,754
Trading Revenues	268	83	2,225
Other Operating Income (Note 20)	25,318	19,264	210,026
Other Income (Note 21)	10,664	64,653	88,463
Total Income	<u>¥198,973</u>	<u>¥275,254</u>	<u>\$1,650,544</u>
Expenses			
Interest Expenses:	¥ 63,373	¥ 86,302	\$ 525,700
Interest on Deposits	28,189	33,889	233,840
Interest on Borrowings and Rediscounts	6,115	7,208	50,726
Interest on Other (Note 22)	29,068	45,204	241,134
Fees and Commissions	3,197	3,116	26,521
Trading Expenses	—	1,170	—
Other Operating Expenses (Note 23)	7,399	5,548	61,383
General and Administrative Expenses	72,281	61,526	599,597
Other Expenses (Note 24)	134,430	105,207	1,115,142
Total Expenses	<u>¥280,681</u>	<u>¥262,871</u>	<u>\$2,328,343</u>
Income (Loss) before Income Taxes	¥ (81,708)	¥ 12,382	\$ (677,799)
Income Taxes—Current	90	61	751
—Deferred	(33,102)	—	(274,592)
Net Income (Loss)	(48,697)	12,321	(403,958)
Profit Brought Forward from Previous Year	3,735	3,073	30,990
Cumulative Effect of Prior Year's Deferred Taxation Resulting from the Initial Application of Deferred Tax Accounting	35,782	—	296,831
Interim Dividends	1,091	—	9,055
Transfer to Legal Reserve	218	—	1,811
Undivided Profit (Loss) at End of Year	<u>¥ (10,488)</u>	<u>¥ 15,395</u>	<u>\$ (87,004)</u>
Net Income (Loss) per Share	¥ (209.44)	¥ 53.44	\$ (1.74)

NON-CONSOLIDATED STATEMENTS OF EARNED SURPLUS

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Statement of Earned Surplus			
Balance at Beginning of Year	¥36,835	¥25,205	\$305,561
Earned Surplus	31,973	20,481	265,229
Legal Reserve	4,861	4,723	40,332
Additions	35,782	0	296,831
Prior Year's Adjustment for Deferred Tax	35,782	0	296,831
Deduction	2,474	691	20,529
Cash Dividends (Note 26)	2,474	691	20,529
Net Income (Loss)	(48,697)	12,321	(403,958)
Balance at End of Year	<u>¥21,446</u>	<u>¥36,835</u>	<u>\$177,904</u>

The notes to non-consolidated financial statements are an integral part of these statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The Chuo Trust and Banking Company, Limited (the Bank) maintains its records and prepares its financial statements in accordance with accounting principles and practices generally accepted in Japan. The accompanying financial statements have been prepared based on such financial statements filed with the Ministry of Finance as required by the Banking Law of Japan and the Securities and Exchange Law of Japan.

In preparing the financial statements, certain reclassifications and rearrangements have been made to the financial statements in Japan in order to present them in a form more familiar to readers outside Japan.

Further, reclassifications have been made to the prior year's non-consolidated financial statements to conform to the presentation used for fiscal 1998.

Amounts presented in Japanese yen have been rounded. Any fractional sum less than a million is discarded. Accordingly, the sum of each account may not be equal to the combined sum of the individual items.

U.S. dollar amounts are translated, solely for the convenience of the reader, from Japanese yen amounts at the rate of ¥120.55 to US\$1.00, the rate prevailing on March 31, 1999. The U.S. dollar amounts are then rounded off in thousands.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Foreign Currency Translations

Foreign currency-denominated assets and liabilities are primarily translated into Japanese yen at the exchange rates in effect at the balance-sheet date. Certain foreign currency denominated assets and liabilities, such as investments in foreign companies, foreign currency bonds issued and those items for which management believes that use of an exchange rate at the balance sheet date is not appropriate, are valued at historical rates. Accounts of overseas branches and agencies are combined with those of the Head Office after translation into Japanese yen at the exchange rates in effect at the balance sheet date.

(2) Trading Assets and Trading Liabilities

Trading account transactions executed to profit from arbitrage opportunities or short-term movements in indices or other prices in the interest rate, currency, securities, or other such markets are included in the balance sheets under Trading Assets or Trading Liabilities, with the gains or losses associated with such transactions recorded as Trading Revenues or Trading Expenses. With regard to the valuation of trading assets and trading liabilities, the value of marketable securities and monetary claims reflects the settlement date value, while that of derivatives reflects the relevant settlement-date notional amount. As for gains and losses associated with trading account transactions, those for marketable securities and monetary claims reflect the payment or receipt of interest during the period the transaction is open, while those for derivatives reflect increases or decreases in the relevant settlement-date notional amount.

In fiscal 1997, because specified trading accounts were established under Article 17-2 of the Banking Law of Japan, securities, monetary claims and other items relating to specified trading assets and specified trading liabilities were restated at market value and regarded as settlements of derivatives. As a consequence, total assets and total liabilities increased by ¥7,210 million and ¥5,360 million, respectively. The ¥1,849 million increase in trading revenues resulted in an increase in income before taxes of the same amount.

(3) Trading Account Securities

Prior to March 31, 1997, securities listed on an exchange were carried at the lower of cost or market, as determined by the moving average method. From fiscal 1998, which began on April 1, 1998, use of the

balance sheet item Trading Account Securities was discontinued in accordance with a revision of the Accounting Standards for Banks in Japan.

(4) Securities

Prior to the year ended March 31, 1998, listed stocks, convertible bonds, bonds with stock purchase warrants and foreign government bonds were carried at the lower of cost or market, using the moving average method. However, based on the revision of the Accounting Standards for Banks in Japan, from the year ended March 31, 1998, the valuation of such listed marketable securities was made using the cost method, since such instruments are held with a long-term objective and to eliminate the effects of short-term price movements on valuation.

As a result of the change in valuation method, in the year ended March 31, 1998, income before income taxes increased by ¥84,587 million.

As of March 31, 1998, the market price of certain listed stocks was significantly less than their book value.

(5) Premises and Equipment

Depreciation of bank premises and equipment is computed on the declining balance method over their estimated useful lives and is provided on the full amount permitted under the Accounting Standards for Banks in Japan. Prior to March 31, 1998, buildings were depreciated by up to 160% of the ratio allowable for taxation purposes; however, in accordance with the revision of the Accounting Standards for Banks in Japan, such additional depreciation had not been recorded since April 1, 1998.

As a result of not recording the additional depreciation in fiscal 1998, income before income taxes increased by ¥552 million.

(6) Reserve for Possible Loan Losses

From fiscal 1997, the Bank made provisions for the reserve for possible loan losses as described below, with such provisions based on the criteria for writing off and making provisions as stipulated in the Accounting Standards for Banks in Japan.

These provisions included provisions for the reserve for possible losses on loans to debtors in legal bankruptcy, including those that are engaged in negotiations for rehabilitation and debtors whose management have effectively failed, after deducting amounts judged to be recoverable through the sale of collateral or through guarantees. However in fiscal 1998, the Bank directly wrote off loans deemed unrecoverable. The write-off during the year amounted to ¥153,722 million.

As regards loans to debtors not in legal bankruptcy but which were judged to have a high probability of failing, the Bank made provisions for those amounts which are not judged to be recoverable through the sale of collateral or through guarantees after comprehensively analyzing each debtor's ability to meet future repayments.

As regards loans that do not fall within the aforementioned categories, the Bank made provisions for possible loan losses based on actual prior default rates.

Also, provisions were made in the Specified Reserve Account for Possible Losses on Overseas Loans (including the Reserve for Overseas Investment Losses specified under Article 55-2 of the Special Taxation Measures Law) to cover losses judged as likely to arise due to political and economic circumstances.

Regarding each and every loan, the Bank's Asset Quality Audit Department, which is independent from its operating divisions, reviews asset evaluations made by operating divisions based on the Bank's asset assessment standards. Decisions to make provisions for possible loan losses are based on the results of these reviews.

(7) Reserve for Retirement Allowances

In accordance with the Accounting Standards for Banks in Japan, the Reserve for Retirement Allowances is based on the amount that would be required if all employees voluntarily retired at the end of the accounting period concerned. In addition, the Bank has contributory pension plans covering all employees.

(8) Reserve for Losses on the Sale of Claims

The Bank makes provisions to this reserve which it views to be necessary based on estimates of possible losses it may sustain in the future on loans sold to the Cooperative Credit Purchasing Company, Limited (CCPC), taking account of the value of collateral securing these loans.

(9) Reserve for Losses on Investment Securities

The Bank established a reserve for securities whose issuer is legally or effectively bankrupt and has a high probability of default.

(10) Income Taxes

The Bank is subject to Japanese corporate income taxes on taxable income generated from both its domestic and overseas branches. In addition, it is subject to inhabitant tax and enterprise tax.

The Bank has applied a new accounting standard for deferred taxation which was introduced in fiscal 1998. The new accounting standard requires an asset and liability based approach in accounting for income taxes. Deferred tax assets and liabilities are recorded to reflect the tax consequences on future years of temporary differences of revenue and expense items for financial statement and income tax purposes.

In accordance with the application of deferred taxation, the provision for enterprise tax, which was included in General and Administrative Expenses in fiscal 1997, was reclassified as Provision for Income Taxes from fiscal 1998.

(11) Income and Expenses

Income and expenses are accounted for on an accrual basis.

(12) Net Income per Share

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year.

3. TRADING ASSETS

Trading Assets at March 31, 1999, consisted of the following:

	Millions of yen
Trading Securities	¥ 109
Trading-Related Financial Derivatives	2,088
Other Trading Assets	20,994
Total	¥23,192

4. TRADING LIABILITIES

Trading Liabilities at March 31, 1999, consisted of the following:

	Millions of yen
Trading-Related Financial Derivatives	¥2,199
Total	¥2,199

5. SECURITIES

Securities at March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Government Bonds	¥ 328,190	¥ 93,815
Municipal Bonds	69,871	57,940
Corporate Bonds	157,123	100,488
Stocks	617,509	555,224
Other Securities	344,929	238,458
Securities Lent	578	47
Total	¥1,518,203	¥1,045,975

6. LOANS AND BILLS DISCOUNTED

Loans and Bills Discounted at March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Bills Discounted	¥ 37,303	¥ 12,425
Loans on Bills	786,478	738,640
Loans on Deeds	1,076,262	839,275
Overdrafts	419,988	163,302
Total	¥2,320,032	¥1,753,643

Non-Performing Loans

In accordance with the Accounting Standards for Banks in Japan, non-performing loans of Loans and Bills Discounted for the years ended March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Loans to Legally Bankrupt Entities	¥ 26,014	¥ 68,894
Nonaccrual Loans	22,419	78,279
Loans with Interest Payments More than Three Months in Arrears	12,582	9,159
Restructured Loans	84,781	65,094
Total	¥145,798	¥221,427

Loans with Interest Payments More than Three Months in Arrears represent loans whose principal and/or interest payments are overdue more than three months from the day following the contractual payment date. Such amounts exclude non-performing loans which are disclosed as loans to legally bankrupt entities and nonaccrual loans.

Restructured Loans are loans for which the Bank grants a concession in order to financially support the debtor during the period the debtor is experiencing financial difficulties. Such concession includes reducing the interest rate and deferring or waiving interest or principal payments on the loan. Such amounts exclude non-performing loans specified in other categories in the above table.

There are no loans to entities which are operationally supported by the Bank as of March 31, 1999 and 1998.

7. FOREIGN EXCHANGE

(1) Foreign Exchange Assets

Foreign Exchange Assets at March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Due from Foreign Banks	¥ 6,583	¥6,053
Foreign Exchange Bills Bought	3,491	1,156
Foreign Exchange Bills Receivable	7,279	974
Total	¥17,354	¥8,183

(2) Foreign Exchange Liabilities

Foreign Exchange Liabilities at March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Due to Foreign Banks	¥ 1	¥10
Advances from Foreign Banks	—	57
Foreign Exchange Bills Sold	3	1
Foreign Exchange Bills Payable	519	5
Total	¥524	¥74

8. DUE TO TRUST ACCOUNT

This represents surplus funds in the Trust Account which were loaned to the Banking Account and utilized therein.

9. OTHER ASSETS AND OTHER LIABILITIES

(1) Other Assets

Other Assets at March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Prepaid Expenses	¥ 428	¥ 444
Accrued Income	21,358	22,583
Other	172,966	149,564
Total	¥194,754	¥172,591

(2) Other Liabilities

Other Liabilities at March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Domestic Exchange Settlement Payable*	¥ 137	¥ 131
Accrued Expenses	17,562	12,039
Unearned Income	2,826	1,576
Other	139,087	142,091
Total	¥159,613	¥155,838

Note: These are debits and credits representing unsettled balances accrued from domestic interbank exchange transfers.

10. PREMISES AND EQUIPMENT

Premises and Equipment at March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Land	¥54,136	¥40,911
Buildings	33,500	30,384
Equipment	7,123	6,415
Other	24,574	12,031
Accumulated Depreciation	24,979	23,898
Net Book Value	¥94,356	¥65,843

11. ACCEPTANCES AND GUARANTEES

All contingent liabilities arising in compliance with customer needs in foreign trade or other transactions are included in contra accounts Acceptances and Guarantees and Customers' Liabilities for Acceptances and Guarantees.

12. DEPOSITS

Deposits at March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Current Deposits	¥ 75,720	¥ 23,545
Ordinary Deposits	262,165	106,398
Deposits at Notice	65,935	30,302
Time Deposits	2,136,390	1,090,944
Negotiable Certificates of Deposit	354,930	266,640
Other Deposits	177,163	268,961
Total	¥3,072,304	¥1,786,793

13. BORROWED MONEY

Borrowed Money at March 31, 1999 and 1998, represents borrowed money from other financial institutions.

Borrowed Money included subordinated debt totaling ¥146,000 million at March 31, 1999 and 1998.

14. CONVERTIBLE BONDS

The Bank issued perpetual subordinated convertible bonds on November 16, 1998. The bonds are convertible to first series class-B preferred shares at the price of ¥1,600 per share.

15. COMMON STOCK AND PREFERRED STOCK

The common stock has a par value of ¥50 per share. Authorized ordinary shares were 866 million shares and 600 million shares at March 31, 1999 and 1998, respectively, and authorized preferred shares were 135 million and 20 million at March 31, 1999 and 1998, respectively. The number of issued shares as of March 31, 1999 and 1998, are as follows:

	Thousands	
	1999	1998
Issued Ordinary Shares	300,245	230,538
Issued Preferred Shares:		
First Series Class-A Preferred Shares	20,000	20,000
Second Series Class-A Preferred Shares	93,750	—
	413,995	250,538

In fiscal 1997, the Bank issued the first series class-A preferred shares in consideration for ¥1,600 per share. The first series class-A preferred shares are convertible into ordinary shares in the period from July 1, 1998 to July 31, 2018, by the holders at a conversion price of ¥533 per ordinary share (subject to adjustment in certain circumstances). The holders of the first series class-A preferred shares are entitled to receive non-cumulative annual dividends of ¥40 per share, with preference given to dividends to ordinary shares. In addition, in the event that the Bank distributes its residual assets, the holders of the first series class-A preferred shares are entitled to receive distribution of residual assets at a price of up to ¥1,600 per share, with preference given to holders of ordinary shares.

In fiscal 1998, the Bank issued the second series class-A preferred shares in consideration for ¥1,600 per share. Principally, the term of the second series class-A preferred shares is similar to the first series class-A preferred shares except for the following:

Conversion Period:	From July 1, 1999 to July 31, 2009
Conversion Price:	¥552 per share (subject to adjustment in certain circumstances)
Preferred Annual Dividends:	¥14.4 per share (non-cumulative)

16. CAPITAL SURPLUS AND LEGAL RESERVE

Under the Banking Law of Japan, the Bank shall set aside as a legal reserve at least 20% of the amount to be disbursed as distribution of retained earnings until such legal reserve equals the stated capital.

The Capital Surplus and Legal Reserve are not available for dividends but may be used to reduce a deficit or may be transferred to paid-in capital.

17. EARNED SURPLUS

Earned Surplus at March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Voluntary Reserve	¥26,577	¥16,578
Undivided Profit (Loss)	(10,488)	15,395
Total	¥16,089	¥31,973

18. TRUST FEES

Trust fees earned for the management and administration of trust assets are net of direct expenses, excluding general and administrative expenses, incurred in trust operations. The general and administrative expenses incurred by trust operations are included in General and Administrative Expenses in the Non-Consolidated Statements of Income.

19. OTHER INTEREST INCOME

	Millions of yen	
	1999	1998
Interest on Deposits with Banks	¥ 2,561	¥ 5,375
Interest on Interest Rate Swaps	5,381	11,458
Other	2,472	2,594
Total	¥10,415	¥19,428

20. OTHER OPERATING INCOME

	Millions of yen	
	1999	1998
Profit on Foreign Exchange	¥ 1,718	¥ 347
Profit on Sales of Bonds	3,666	18,025
Profit on Redemption of Bonds	157	107
Other	19,775	783
Total	¥25,318	¥19,264

21. OTHER INCOME

	Millions of yen	
	1999	1998
Profit on Sales of Stocks and Other Securities	¥ 6,605	¥56,452
Profit on Money Held in Trust	724	3,243
Other	3,334	4,958
Total	¥10,664	¥64,653

22. INTEREST ON OTHER

	Millions of yen	
	1999	1998
Interest on Convertible Bonds	¥ 183	¥ —
Interest on Interest Rate Swaps	18,158	27,604
Other	10,726	17,600
Total	¥29,068	¥45,204

23. OTHER OPERATING EXPENSES

	Millions of yen	
	1999	1998
Losses on Sales of Bonds	¥5,877	¥2,780
Losses on Redemption of Bonds	1,350	2,526
Losses on Devaluation of Government Bonds	17	79
Other	154	161
Total	¥7,399	¥5,548

24. OTHER EXPENSES

	Millions of yen	
	1999	1998
Provision for Reserve for Possible Loan Losses	¥ 39,222	¥ 68,138
Write off of Claims	37,729	1,992
Losses on Sales of Stock and Other Securities	5,030	12,111
Losses on Devaluation of Stock and Other Securities	9,485	3,669
Losses on Money Held in Trust	559	36
Other	42,402	19,257
Total	¥134,430	¥105,207

Note: Other includes the following losses for the year ended March 31, 1999: ¥1,465 million on sales of loans collateralized by real estate to the CCPC; ¥13,100 million on sales, etc., of loans to restructuring countries; ¥957 million on other claim sales; and ¥2,963 million in the form of provisions to the Reserve for Losses on the Sale of Claims.

25. DEFERRED TAX ASSETS

The components of deferred tax assets and liabilities as of March 31, 1999, consisted of the following:

	Millions of yen
Deferred Tax Assets:	
Reserve for Possible Loan Losses	¥46,952
Reserve for Losses on the Sale of Claims	2,788
Reserve for Retirement Allowances	2,269
Tax Loss Carryforwards	10,379
Other	6,502
Total Deferred Tax Assets	68,892
Deferred Tax Liabilities:	
Other	7
Total Deferred Tax Liabilities	7
Net Deferred Tax Assets	¥68,884

26. DIVIDENDS

Dividends are paid annually. Interim and year-end dividends are authorized after the close of each period to which they relate and are reflected in the Non-Consolidated Statements of Earned Surplus when duly declared.

27. SUBSEQUENT EVENT

The following appropriation of profit applicable to the year ended March 31, 1999, was approved at the General Meeting of Stockholders held on June 29, 1999.

	Millions of yen
Undivided Profit at End of Year	¥(10,488)
Transfer from Voluntary Reserve	15,001
Profits Appropriated as Follows:	
Legal Reserve	230
Dividends	1,154
Profit Carried Forward to Next Year	¥ 3,127

On May 24, 1999, the Bank completed a merger agreement with the Mitsui Trust and Banking Company, Limited ("Mitsui"), which is also engaged in the trust and banking business. The merger will be effective from April 1, 2000, and was approved by the stockholders of both banks.

Under the terms of the agreement, the Bank will deliver 3 ordinary shares of its own stock for each 10 ordinary shares of Mitsui with a par value of ¥50 each. The Bank will further deliver 7 third series class-A preferred shares (see below) for each 32 first series preferred shares of Mitsui with a value of ¥1,600 each. Additionally, the Bank will pay some cash to stockholders of Mitsui in exchange for cash dividends on Mitsui's shares.

Mitsui reported ordinary income of ¥741,392 million and a net loss of ¥144,021 million for the fiscal year ended March 31, 1999. It also reported total assets of ¥9,438,166 million and stockholders' equity of ¥749,567 million at March 31, 1999.

The term of the third series class-A preferred shares, which is similar to the first series and the second series class-A preferred shares issued at ¥1,600 per share, is as follows:

Conversion Period:	From issuance date to July 31, 2009
Conversion Price:	¥552 per share (subject to adjustment in certain circumstances)
Preferred Annual Dividends:	¥20 per share (non-cumulative)

In the event that the Bank distributes its residual assets, the holders of the third series class-A preferred shares are entitled to receive distribution of residual assets at a price of up to ¥1,600 per share, with preference given to holders of ordinary shares.

28. MARKET VALUE OF MARKETABLE SECURITIES

	1999			1998		
	Balance Sheet Amount	Market Value	Unrealized Gain (Loss)	Balance Sheet Amount	Market Value	Unrealized Gain (Loss)
Listed Securities						
Securities:						
Bonds	¥102,611	¥100,179	¥ (2,432)	¥ 70,543	¥ 71,789	¥ 1,245
Stocks	570,040	532,200	(37,839)	506,947	447,160	(59,786)
Other	17,908	14,546	(3,361)	17,030	15,623	(1,407)
Total	¥690,560	¥646,926	¥(43,633)	¥594,522	¥534,574	¥(59,948)

Notes: 1. The market value of securities listed on stock exchanges is primarily based on the closing price on the Tokyo Stock Exchange (TSE).

2. The category of "Other" consists primarily of foreign bonds.

3. The market value of unlisted securities for which the calculation of equivalent market prices is possible is as follows:

	1999			1998		
	Balance Sheet Amount	Market Value	Unrealized Gain (Loss)	Balance Sheet Amount	Market Value	Unrealized Gain (Loss)
Unlisted Securities						
Securities:						
Bonds	¥141,927	¥144,573	¥ 2,646	¥ 95,579	¥ 97,901	¥ 2,322
Stocks	12,160	12,112	(48)	17,881	8,331	(9,550)
Other	111,249	82,532	(28,716)	153,036	103,205	(49,830)
Total	¥265,336	¥239,218	¥(26,118)	¥266,498	¥209,438	¥(57,059)

Note: Other represents beneficiary certificates of securities investment trusts.

29. DERIVATIVES

(1) Interest Rate Related Transactions

Millions of yen

March 31, 1999			Contract Value or Notional Principal Amount [Option Premiums]		Market Value	Unrealized Gain (Loss)
				Over 1 Year		
Transactions Listed on Exchange:						
Futures	Sold		¥278,188	¥ —	¥278,318	¥ (129)
	Bought		263,497	—	263,695	198
Options	Sold	Call	—	—	—	—
		Put	[—]	—	—	—
	Bought	Call	—	—	—	—
		Put	[—]	—	—	—
OTC Contracts:						
FRAs	Sold		—	—	—	—
	Bought		—	—	—	—
Swaps	Rec: Fix, Pay: Flt		261,501	77,527	9,109	9,109
	Rec: Flt, Pay: Fix		282,217	93,926	(12,232)	(12,232)
	Rec: Flt, Pay: Flt		500	—	(1)	(1)
Options	Sold	Call	—	—	—	—
		Put	[—]	—	—	—
	Bought	Call	—	—	—	—
		Put	[—]	—	—	—
Cap	Sold		—	—	—	—
	Bought		[—] 130,000 [1,516]	130,000	16	(1,500)
Floor	Sold		—	—	—	—
	Bought		[—] — [—]	—	—	—
Total			/	/	/	¥ (4,555)

- Notes: 1. The market value of listed transactions is primarily calculated by using the closing prices on the TSE and the Tokyo International Financial Futures Exchange (TIFFE).
2. Regarding options transactions, amounts shown in the column of "Contract Value or Notional Principal Amount [Option Premiums]" expressed as "[]" correspond to the payments debited (credited) to the Non-Consolidated Balance Sheets.
3. The above schedule excludes trading-related transactions.
4. Trading-related transactions during the fiscal year ended March 31, 1999, are outlined in the following table.

			Millions of yen	
			Contract Value or Notional Principal Amount [Option Premiums]	Market Value
March 31, 1999				
Transactions Listed on Exchange:				
Futures	Sold		¥ 47,990	¥48,131
	Bought		37,216	37,321
Options	Sold	Call	—	—
		Put	[—]	—
	Bought	Call	—	—
		Put	[—]	—
OTC Contracts:				
FRA	Sold		—	—
	Bought		—	—
Swaps	Rec: Fix, Pay: Flt		104,090	1,531
	Rec: Flt, Pay: Fix		105,668	(1,757)
	Rec: Flt, Pay: Flt		—	—
Options	Sold	Call	—	—
		Put	[—]	—
	Bought	Call	—	—
		Put	[—]	—
Others	Sold		45,900	98
	Bought		[198]	—
			45,700	249
			[282]	—

Note: Regarding options transactions, amounts shown in the column of "Contract Value or Notional Principal Amount [Option Premiums]" expressed as "[]" correspond to the payments debited (credited) to the Non-Consolidated Balance Sheets.

(2) Currency-Related Transactions

				Millions of yen		
				Contract Value or Notional Principal Amount	Market Value	Unrealized Gain (Loss)
				Over 1 Year		
March 31, 1999						
OTC Contracts:						
Currency Swaps:						
U.S. Dollar			¥194,313	¥ —	¥(1,290)	¥(1,290)
Pound Sterling			194,313	—	(1,290)	(1,290)
Deutsche Mark			—	—	—	—
Others			—	—	—	—

- Notes: 1. The above schedule excludes transactions related to currency—for example, foreign exchange forward contracts and currency options—because these transactions are revalued at the market rates prevailing at the balance sheet date. The profit (or loss) consequence of the revaluation is credited (or debited) to the statements of income.
2. During the fiscal year ended March 31, 1999, the Bank had no currency trading-related transactions.
3. The aforementioned currency transactions are as follows:

			Millions of yen	
			Contract Value or Notional Principal Amount [Option Premiums]	
March 31, 1999				
Transactions Listed on Exchange:				
Futures	Sold		¥ —	
	Bought		—	
Options	Sold	Call	4,834	
		Put	[37]	
	Bought	Call	4,822	
		Put	[2]	
OTC Contracts:	Forward	Sold	96,806	
		Bought	137,971	
	Options	Sold	Call	—
			Put	[—]
Bought		Call	—	
		Put	[—]	
Others	Sold	—		
	Bought	—		

Note: Regarding options transactions, amounts shown in the column of "Contract Value or Notional Principal Amount [Option Premiums]" expressed as "[]" correspond to the payments debited (credited) to the Non-Consolidated Balance Sheets.

(3) Stock-Related Transactions

During the fiscal year ended March 31, 1999, the Bank had no derivative stock-related transactions.

(4) Bond-Related Transactions

			Millions of yen			
			Contract Value or Notional Principal Amount		Market Value	Unrealized Gain (Loss)
				Over 1 Year		
March 31, 1999						
Transactions Listed on Exchange:						
Futures	Sold		¥8,018	¥—	¥8,000	¥ 18
	Bought		8,790	—	8,726	(63)
Options	Sold	Call	—	—	—	—
		Put	—	—	—	—
	Bought	Call	—	—	—	—
		Put	—	—	—	—

Notes: 1. The market value of listed transactions is calculated by using the closing prices on the TSE and the TIFFE.
2. During the fiscal year ended March 31, 1999, the Bank had no OTC derivative bond-related transactions.
3. During the fiscal year ended March 31, 1999, the Bank had no trading-related bond transactions.

Consolidated Financial Statements

The Chuo Trust & Banking Co., Ltd.
At March 31, 1999 and 1998

CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Assets			
Cash and Due from Banks	¥ 231,276	¥ 57,834	\$ 1,918,507
Call Loans and Bills Bought	120,000	369,044	995,438
Monetary Claims Bought	33,300	498	276,234
Trading Assets	23,192	46,548	192,388
Money Held in Trust	67,300	111,019	558,280
Securities	1,520,738	1,053,303	12,615,005
Loans and Bills Discounted	2,299,363	1,754,494	19,073,941
Foreign Exchanges	17,354	8,183	143,963
Other Assets	214,007	172,946	1,775,256
Premises and Equipment	109,876	65,943	911,461
Deferred Tax Assets	69,175	49,581	573,836
Customers' Liabilities for Acceptances and Guarantees	532,725	64,908	4,419,129
Total Assets	<u>¥5,238,312</u>	<u>¥3,754,307</u>	<u>\$43,453,438</u>
Liabilities			
Deposits	¥3,065,038	¥1,784,295	\$25,425,451
Call Money and Bills Sold	74,433	144,868	617,445
Borrowed Money	172,965	138,615	1,434,800
Trading Liabilities	2,199	7,438	18,247
Foreign Exchanges	522	63	4,330
Subordinated Bonds	10,419	10,153	86,430
Convertible Bonds	34,260	—	284,197
Due to Trust Account	754,336	1,056,471	6,257,454
Other Liabilities	165,603	155,156	1,373,737
Reserve for Possible Loan Losses	54,240	145,842	449,940
Reserve for Retirement Allowances	8,840	8,672	73,338
Reserve for Losses on the Sale of Claims	6,825	5,095	56,617
Reserve for Losses on Investment Securities	667	—	5,537
Acceptances and Guarantees	532,725	64,908	4,419,129
Total Liabilities	<u>¥4,883,077</u>	<u>¥3,521,582</u>	<u>\$40,506,654</u>
Minority Interest	<u>¥ 613</u>	<u>¥ —</u>	<u>\$ 5,090</u>
Stockholders' Equity			
Common Stock	¥ 79,966	¥ 61,215	\$ 663,345
Preferred Stock	91,000	16,000	754,873
Capital Surplus	160,851	67,100	1,334,311
Earned Surplus	22,806	88,411	189,189
Treasury Shares of Common Stock	(2)	(1)	(24)
Total Stockholders' Equity	<u>¥ 354,621</u>	<u>¥ 232,724</u>	<u>\$ 2,941,694</u>
Total Liabilities, Minority Interest and Stockholders' Equity	<u>¥5,238,312</u>	<u>¥3,754,307</u>	<u>\$43,453,438</u>

The notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Income			
Trust Fees	¥ 64,934	¥ 77,348	\$ 538,651
Interest Income:	73,767	92,500	611,925
Interest on Loans	39,156	43,787	324,815
Interest and Dividends on Securities	22,218	26,286	184,313
Call Loans and Bills Discounted	1,819	2,116	15,092
Other	10,572	20,309	87,705
Fees and Commissions	26,485	23,718	219,705
Trading Revenues	268	83	2,225
Other Operating Income	25,380	19,312	210,543
Other Income	25,463	64,685	211,227
Total Income	<u>¥216,300</u>	<u>¥277,648</u>	<u>\$1,794,276</u>
Expenses			
Interest Expenses:	¥ 63,208	¥ 87,585	\$ 524,338
Interest on Deposits	27,932	34,287	231,706
Interest on Borrowings and Rediscounts	6,128	6,972	50,836
Interest on Other	29,148	46,325	241,796
Fees and Commissions	2,946	3,146	24,440
Trading Expenses	—	1,170	—
Other Operating Expenses	7,383	5,554	61,250
General and Administrative Expenses	73,609	61,893	610,615
Other Expenses	150,383	105,198	1,247,482
Total Expenses	<u>¥297,532</u>	<u>¥264,548</u>	<u>\$2,468,124</u>
Income (Loss) before Income Taxes	¥ (81,232)	¥ 13,100	\$ (673,847)
Income Taxes:	(19,017)	(20,232)	(157,758)
Current	216	211	1,800
Deferred	(19,234)	(20,444)	(159,558)
Minority Interest	89	—	738
Net Income (Loss)	<u>¥ (62,304)</u>	<u>¥ 33,333</u>	<u>\$ (516,833)</u>
		Yen	U.S. dollars
Net Income (Loss) per Share	<u>¥ (267.01)</u>	<u>¥ 144.59</u>	<u>\$ (2.21)</u>

CONSOLIDATED STATEMENTS OF EARNED SURPLUS

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Consolidated Statement of Earned Surplus			
Balance at Beginning of Year	¥88,411	¥55,768	\$733,399
Earned Surplus	83,549	51,045	693,067
Legal Reserve	4,861	4,723	40,332
Additions	232	—	1,927
Cumulative Effect of Prior Year's Deferred Taxation Resulting from the Initial Application of Deferred Tax Accounting	232	—	1,927
Deduction	3,532	691	29,304
Decrease of Retained Surplus Resulting from the Increase in Consolidated Subsidiaries	677	—	5,620
Decrease of Retained Surplus Resulting from the Decrease in Consolidated Subsidiaries	380	—	3,155
Cash Dividends	2,474	691	20,529
Net Income	(62,304)	33,333	(516,833)
Balance at End of Year	<u>¥22,806</u>	<u>¥88,411</u>	<u>\$189,189</u>

The notes to consolidated financial statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared on the basis of generally accepted accounting principles and practices in Japan and have been compiled from the consolidated financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan.

In preparing the financial statements, certain reclassifications and rearrangements have been made to the financial statements in Japan in order to present them in a form more familiar to readers outside Japan.

Further, reclassifications have been made to prior year's consolidated financial statements to conform to the presentation used for fiscal 1998.

As for Japanese yen amounts, any fractional sum less than a million is discarded. Accordingly, the sum of each account may not be equal to the combined sum of the individual items.

U.S. dollar amounts are translated, solely for convenience, from Japanese yen amounts at the rate of ¥120.55 to US\$1.00, the rate prevailing on March 31, 1999. The U.S. dollar amounts are then rounded off in thousands.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The Consolidated Financial Statements for the year ended March 31, 1998, include the accounts of the Bank and the consolidated subsidiaries listed below:

- Chuo Trust Asia Limited (a Hong Kong corporation)
- Chuo Trust International Limited (a U.K. corporation)
- Chuo Trust & Banking Company (Europe) S.A.
(a Belgian corporation)
- Chuo Finance (Cayman) Limited (a Cayman Island corporation)

Certain subsidiaries of the Bank have not been consolidated nor recognized under the equity method because their total assets, income before taxes and net income are not considered significant and have no material impact to the consolidated financial statements.

In fiscal 1998, the Bank newly consolidated the following subsidiaries in accordance with the revised consolidation accounting standards in Japan.

- Chuo Business Co., Ltd.
- Chuo Credit Company, Limited
- Chuo Card Service Co., Ltd.
- Chushin Leasing Co., Ltd.
- The Chushin Information Systems Co., Ltd.
- Chushin Capital Management Co., Ltd.
- Chushin Housing Services Co., Ltd.
- Chuo Staff Service Co., Ltd.
- Chushin Operation Service Co., Ltd.
- THT Credit Co., Ltd.
- CTBL (Panama) S.A.

The effects to beginning retained surplus resulting from newly consolidated subsidiaries are represented in the Consolidated Statements of Earned Surplus, after eliminating unrealized profit and loss resulting from transactions between the Bank and the subsidiaries.

In fiscal 1998, Chuo Trust & Banking Company (Europe) S.A. was excluded from consolidation as a result of the company's liquidation.

Under standard principles of consolidation, related amounts between the investment account of the Bank and the capital accounts of consolidated subsidiaries have been eliminated as of the date of investment.

Unrealized profit and loss accounts between the Bank and its consolidated subsidiaries have been eliminated on consolidation.

(2) Foreign Currency Translations

Foreign currency-denominated assets and liabilities are primarily translated into Japanese yen at the exchange rates in effect at the balance-sheet date. Certain foreign currency denominated assets and liabilities, such as investments in foreign companies, foreign currency bonds issued and those items for which management believes that use of an exchange rate at the balance sheet date is not appropriate, are valued at historical rates. Accounts of overseas branches and agencies are combined with those of the Head Office after translation into Japanese yen at the exchange rates in effect at the balance sheet date.

All balance sheet items of overseas consolidated subsidiaries, with the exception of other earned surplus at the beginning of the period and paid-in capital, have been converted using the foreign exchange rates at the balance sheet date.

The differential between the functional and reporting exchange rates is shown in the Consolidated Statements of Earned Surplus as Foreign Currency Translation Adjustment.

(3) Trading Assets and Trading Liabilities

Trading account transactions executed to profit from arbitrage opportunities or short-term movements in indices or other prices in the interest rate, currency, securities, or other such markets are included in the balance sheets under Trading Assets or Trading Liabilities, with the gains or losses associated with such transactions recorded as Trading Revenues or Trading Expenses. With regard to the valuation of trading assets and trading liabilities, the value of marketable securities and monetary claims reflects the settlement date value, while that of derivatives reflects the relevant settlement-date notional amount. As for gains and losses associated with trading account transactions, those for marketable securities and monetary claims reflect the payment or receipt of interest during the period the transaction is open, while those for derivatives reflect increases or decreases in the relevant settlement-date notional amount.

In fiscal 1997, because specified trading accounts were established under article 17-2 of the Banking Law of Japan, securities, monetary claims and other items relating to specified trading assets and specified trading liabilities were restated at market value and regarded as settlements of derivatives. As a consequence, total assets and total liabilities increased by ¥7,210 million and ¥5,360 million, respectively. The ¥1,849 million increase in trading revenues resulted in an increase in income before income taxes of the same amount.

Trading account transactions are made only by the Bank and no such transactions are made by consolidated subsidiaries.

(4) Trading Account Securities

Prior to March 31, 1997, securities listed on an exchange were carried at the lower of cost or market, as determined by the moving average method. From fiscal 1998, which began on April 1, 1998, use of the balance sheet item Trading Account Securities was discontinued in accordance with a revision of the Accounting Standards for Banks in Japan.

(5) Securities

Prior to the year ended March 31, 1998, listed stocks, convertible bonds, bonds with stock purchase warrants and foreign government bonds were carried at the lower of cost or market, using the moving average method. However, based on revision of the Accounting Standards for Banks in Japan, from the year ended March 31, 1998, the valuation of such listed marketable securities was made using the cost method, since such instruments are held with a long-term

objective and to eliminate the efforts of short-term price movements on valuation.

As a result of the change in valuation method, in the year ended March 31, 1998, income before income taxes increased by ¥84,587 million. As of March 31, 1998, the market price of certain listed stocks was significantly less than their book value.

(6) Income Taxes

In fiscal 1998, the Bank and its consolidated subsidiaries recognized deferred income taxes based on an asset and liability approach in accounting for income taxes in accordance with newly introduced accounting standard for deferred taxation in Japan. Since the Bank and its consolidated subsidiaries had used the deferral method instead of the assets and liabilities approach until fiscal 1997, as a result of the decrease of ¥18,336 million in deferred tax assets additional losses of ¥18,245 million were recognized. In addition, due to the decrease in the income tax rate in Japan, additional losses of ¥13,799 million were recognized relating to deferred tax assets.

(7) Other Accounting Principles and Practices

Other accounting principles and practices employed by the Bank are discussed in Note 2 of the Notes to the Non-Consolidated Financial Statements. Some consolidated subsidiaries apply accounting policies which may differ from the Bank's policies in certain respects, such as the method for depreciation of premises and equipment.

Report of Independent Certified Public Accountants

The Chuo Trust & Banking Co., Ltd.
Fiscal Years Ended March 31, 1999 and 1998



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Telephone (03) 3578-1910
Facsimile (03) 3434-2122

The Board of Directors and Stockholders The Chuo Trust and Banking Company, Limited

We have audited the Non-Consolidated Balance Sheets of the Banking Account of The Chuo Trust and Banking Company, Limited, as of March 31, 1999 and 1998, and the related Non-Consolidated Statements of Income and Earned Surplus for the years then ended (all expressed in yen). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Banking Account of The Chuo Trust and Banking Company, Limited, as of March 31, 1999 and 1998, and the results of its operations for the years then ended in conformity with generally accepted accounting principles in Japan, which, except for the change with which we concur in accounting policies, as described in Note 2 to the Non-Consolidated Financial Statements, have been applied on a consistent basis.

The Consolidated Financial Statements of The Chuo Trust and Banking Company, Limited, and its consolidated subsidiaries as of March 31, 1999 and 1998, have been subject to the same auditing procedures and, in our opinion, present fairly, in all material respects, the financial position of The Chuo Trust and Banking Company, Limited, and its consolidated subsidiaries as of March 31, 1999 and 1998, and the results of their operations for the years then ended in conformity with generally accepted accounting principles in Japan, which, except for the change with which we concur in accounting policies, as described in Note 2 to the Consolidated Financial Statements, have been applied on a consistent basis.

The accompanying Non-Consolidated and Consolidated Financial Statements expressed in United States dollars have been translated into dollars solely for the convenience of the reader. We have reviewed the translation and, in our opinion, the financial statements expressed in yen have been translated into dollars on the basis described in Note 1 in both the Non-Consolidated and Consolidated Financial Statements.

The accompanying financial statements have been prepared in accordance with the provisions set forth in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The standards, procedures and practices to audit such financial statements are those which are generally accepted and applied in Japan.

Century Audit Corporation

Tokyo, Japan
June 29, 1999



Financial Statements of Trust Account

The Chuo Trust & Banking Co., Ltd.
At March 31, 1999 and 1998

BALANCE SHEETS (UNAUDITED)

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Assets			
Loans (Note 2)	¥ 1,842,105	¥ 2,030,853	\$ 15,280,846
Securities (Note 3)	7,158,421	6,753,755	59,381,348
Securities Held for Investment Trusts	3,506,073	3,455,016	29,083,975
Foreign Investment Held for Investment Trusts	70,400	40,486	583,992
Beneficiary Rights	87,129	73,273	722,765
Securities Held in Custody Accounts	4,604	1,130	38,192
Lending Securities	90,008	213,514	746,648
Monetary Claims	658,242	143,116	5,460,329
Premises and Equipment	211,845	197,303	1,757,323
Other Claims	38,681	47,924	320,874
Bills Bought	1,498	13,899	12,433
Call Loans	484,757	745,293	4,021,214
Due from Banking Account	754,336	1,056,471	6,257,454
Cash and Due from Banks	330,807	292,718	2,744,149
Total Assets	¥15,238,911	¥15,064,757	\$126,411,542
Liabilities			
Money Trusts (Note 4)	¥ 5,463,932	¥ 4,954,659	\$ 45,325,032
Pension Trusts	1,855,193	1,937,244	15,389,415
Property Formation Trusts	2,932	3,071	24,330
Loan Trusts (Note 5)	2,250,646	2,746,201	18,669,821
Securities Investment Trusts	4,251,224	4,407,757	35,265,235
Money in Trust Other than Money Trusts	404,853	742,776	3,358,386
Securities in Trust	22,816	21,147	189,274
Money Claims in Trust	755,136	49,497	6,264,095
Equipment in Trust	137	176	1,139
Real Estate in Trust	21,561	22,155	178,863
General Trust	210,474	180,070	1,745,953
Total Liabilities	¥15,238,911	¥15,064,757	\$126,411,542

The notes to trust account balance sheets are an integral part of these statements.

NOTES TO TRUST ACCOUNT BALANCE SHEETS

1. TRUST ACCOUNT

Since the Bank has both a banking business under the Banking Law and a trust business under the Trust Business Law, their accounting is separated into these two businesses and differs in that respect from the accounting of ordinary banks such as city banks. Under the Trust Business Law, the Bank is obligated to maintain and administer separate accounts for trust assets accepted through its trust business and banking assets accepted through its banking business. Even within the overall category of the Trust Account, individual trust accounts are processed differently depending on their nature.

These two are clearly separated into the Banking Account and the Trust Account in the financial statements of the Bank, and these two accounts are related mainly in the two items of temporary surplus of funds transferred to the Banking Account (from the Trust Account) and Trust Fees.

2. LOANS

Loans at March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Loans on Bills	¥ 256,213	¥ 319,114
Loans on Deeds	1,585,892	1,711,739
Total	¥1,842,105	¥2,030,853

3. SECURITIES

Securities—including listed stocks, convertible bonds and bonds with stock purchase warrants—are valued at cost, using the moving average method.

Securities at March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Government Bonds	¥1,715,072	¥1,726,626
Municipal Bonds	94,761	71,272
Corporate Bonds	881,804	920,979
Stocks	2,919,782	2,829,339
Foreign Securities	1,482,652	1,130,845
Other Securities	64,348	74,690
Total	¥7,158,421	¥6,753,755

4. BALANCE OF JOINTLY OPERATED DESIGNATED MONEY TRUSTS

The balance of jointly operated designated money trusts at March 31, 1999 and 1998, was as follows:

	Millions of yen	
	1999	1998
Assets		
Loans	¥ 72,315	¥ 81,361
Securities	180,130	137,788
Other	119,387	148,522
Total	¥371,832	¥367,672
Liabilities		
Principal	¥373,376	¥367,439
Reserve for Possible Impairment of Principals	219	246
Other	(1,763)	(13)
Total	¥371,832	¥367,672

The Bank makes provision for possible loan losses from Jointly operated designated money trusts. Jointly operated designated money trusts are included in Money Trusts in the Balance Sheets of the Trust Account.

Funds in a trust account that are reinvested in other trusts managed by the Bank are deducted from these other accounts to prevent duplication in accordance with a notification announced by the director of the Banking Bureau of the Ministry of Finance. The figures in the accompanying Financial Statements of Trust Account at March 31, 1999 and 1998, are calculated on this basis. However, the amounts disclosed in the notes include funds reinvested from other trusts managed by the Bank.

5. BALANCE OF LOAN TRUSTS

The balance of Loan Trusts at March 31, 1999 and 1998, was as follows:

	Millions of yen	
	1999	1998
Assets		
Loans	¥1,683,432	¥1,839,114
Securities	309,748	296,549
Other	417,425	778,424
Total	¥2,410,605	¥2,914,088
Liabilities		
Principal	¥2,362,266	¥2,817,372
Special Reserve Fund	12,614	15,114
Other	35,724	81,601
Total	¥2,410,605	¥2,914,088

As the Bank guarantees repayment of the principal of Loan Trusts, it provides, in accordance with the Loan Trust Law of Japan, for impairment thereof resulting from operation of the trust. The Special Reserve Fund is made for guarantee of Loan Trusts in the amount of 4% of the trust fees of the period with the limit of the accumulated balance fixed at 0.5% of the principal outstanding at the end of the period. Any excess in the existing reserve over the required provision reverts to the Bank. The reserve is included in Loan Trusts in the Financial Statements of Trust Account.

The above figures include funds reinvested from other trusts managed by the Bank.

6. NON-PERFORMING LOANS

The balance of loans in trusts with contracts guaranteeing the principal at March 31, 1999 and 1998, was ¥1,755,747 million and ¥1,920,475 million, respectively.

Of this total, non-performing loans at March 31, 1999 and 1998, consisted of the following:

	Millions of yen	
	1999	1998
Loans to Legally Bankrupt Entities	¥12,052	¥18,411
Nonaccrual Loans	35,084	29,461
Loans with Interest Payments More than Three Months in Arrears	7,169	11,691
Restructured Loans	2,984	4,331
Total	¥57,291	¥63,896

Loans with Interest Payments More than Three Months in Arrears represent loans whose principal and/or interest payments are overdue more than three months from the day following the contractual payment date. Such amounts exclude non-performing loans which are disclosed as loans to legally bankrupt entities and nonaccrual loans.

Restructured Loans are loans for which the Bank grants a concession in order to financially support the debtor during the period the debtor is experiencing financial difficulties. Such concession includes reducing the interest rate and deferring or waiving interest or principal payments on the loan. Such amounts exclude non-performing loans specified in other categories in the above table.

There are no loans to entities which are operationally supported by the Bank as of March 31, 1999 and 1998.

Directors and Auditors

(As of July 31, 1999)



Shozo Endoh
Chairman of the Board



Hideie Hirakawa
President



Hiroshi Sugano
Deputy President



Shuichi Ohnishi
Senior Managing Director



Toyozo Narita
Senior Managing Director



Tomohiro Itoh
Managing Director



Tamotsu Ogawa
Managing Director



Ryota Mizuno
Managing Director



Michio Taki
Managing Director



Akira Komatsubara
Managing Director



Sanpei Hamada
Managing Director



Mitsuyuki Yoshida
Managing Director

Chairman of the Board

Shozo Endoh

President

Hideie Hirakawa

Deputy President

Hiroshi Sugano

Senior Managing Directors

Shuichi Ohnishi

Toyozo Narita

Managing Directors

Tomohiro Itoh

Tamotsu Ogawa

Ryota Mizuno

Michio Taki

Akira Komatsubara

Sanpei Hamada

Mitsuyuki Yoshida

Directors

Yoshibumi Tanaka

Shinichi Miya

Kimihiko Funahashi

Osamu Muramatsu

Kojiro Kadohira

Katsuro Ouchi

Yoshinobu Tsumori

Motomu Ueda

Takashi Endoh

Yutaka Shimizu

Toshiro Harada

Masahiro Kajimura

Ryuichi Takai

Standing Auditors

Kazuo Maeda

Yoshimasa Konishi

Makoto Yamakami

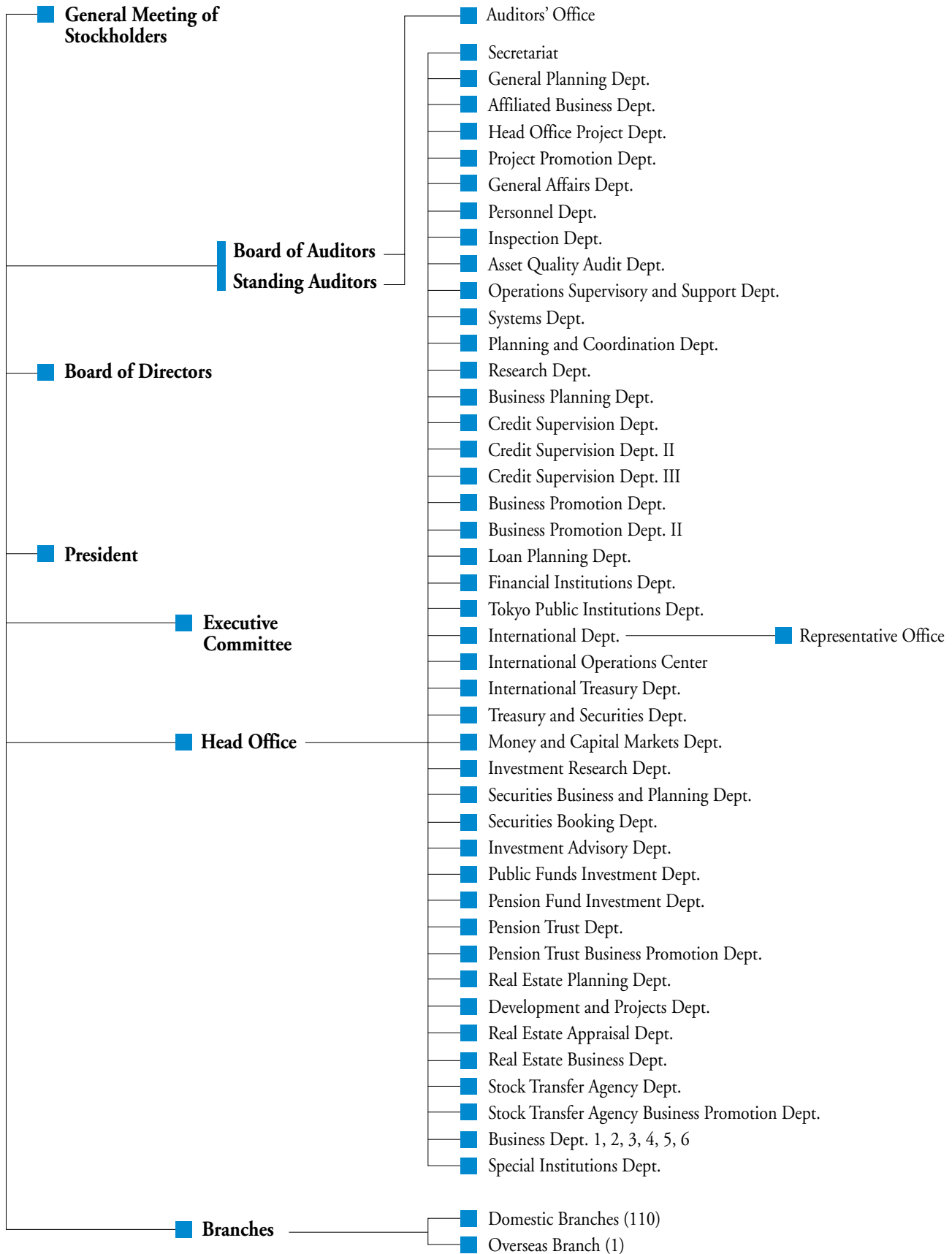
Auditors

Hiroshi Yamada

Osamu Naito

Organization Chart

(As of July 31, 1999)



Corporate Data

(As of March 31, 1999)

Head Office:

7-1, Kyobashi 1-chome, Chuo-ku,
Tokyo 104-8345, Japan
Tel: (81) 3-3567-1451
Fax: (81) 3-3562-6902
Telex: CTRUST J33368/CTRUST J24789
Cable Address: CHUOTRUSTBANK
S.W.I.F.T. Address: CHUOJPJT
Web site: <http://www.chuotrust.co.jp>

Date of Establishment:

May 26, 1962

Number of Employees:

4,679

Capital:

¥170,966,183 thousand

Major Stockholders:

	Number of Shares Held (Thousands)	Percentage of Total Shares Issued (%)
Nagoya Railroad Co., Ltd.	24,575	8.18
Japan Securities Agents, Ltd.	18,557	6.18
The Tokai Bank, Ltd.	11,451	3.81
The Dai-Ichi Kangyo Bank, Ltd.	11,451	3.81
The Industrial Bank of Japan, Ltd.	11,451	3.81
Toyota Motor Corp.	8,682	2.89
Ono Pharmaceutical Co., Ltd.	8,319	2.77
The Chiyoda Fire & Marine Insurance Co., Ltd.	7,287	2.42
Daiwa Securities Co., Ltd.	6,348	2.11
Asahi Mutual Life Insurance Co.	6,053	2.01
Total	<u>114,180</u>	<u>38.02</u>
Preferred First Series Class-A The Resolution and Collection Bank Limited	20,000	100.00
Preferred Second Series Class-A The Resolution and Collection Bank Limited	<u>93,750</u>	<u>100.00</u>

Independent Certified Public Accountants:

Century Audit Corporation

Stock Exchange Listings:

Tokyo Stock Exchange
Osaka Securities Exchange
Nagoya Stock Exchange

Number of Shares Authorized:

Common	866,989,500
Preferred	
Class-A	113,750,000
Class-B	21,412,500

Number of Shares Issued:

Common	300,245 thousand
Preferred	
Class-A First Series	20,000 thousand
Class-A Second Series	93,750 thousand

Number of Stockholders:

Common	4,938
Preferred	
Class-A First Series	1
Class-A Second Series	1