

Financial Statements

31st December 1999



Tokyo-Mitsubishi International plc

Company Number : 1698498





Tokyo-Mitsubishi International plc

Directors' Report

The directors have pleasure in submitting their annual report and financial statements for the year ended 31st December 1999.

Principal Activities

As the London-based international capital markets arm of The Bank of Tokyo-Mitsubishi, Ltd., the company ("TMI") is active in the fixed income, derivatives, structured finance and equity-linked markets.

TMI is regulated by The Securities and Futures Authority Limited and is a member of The London International Financial Futures & Options Exchange, the International Securities Market Association and the International Primary Market Association.

Business Review

In 1999 TMI benefited from its investment in growth areas such as equity business and structured products. However, the company's overall financial results are disappointing due to losses incurred in derivative trading.

In 2000 TMI intends to sustain a measured growth by continuing to invest in its successful business areas and by continuing to shift more of its resources into supporting its equity and end-client originated businesses.

Financial

The loss for the year amounted to £19,802,355 (1998 loss £38,733,451).

Dividends

The Directors do not recommend the payment of a dividend for 1999 (1998 nil).

Capital Reconstruction

On 26th February 1999 The Bank of Tokyo-Mitsubishi, Ltd. purchased 120,980,000 Ordinary £1 shares for a consideration of £185,000,000 in order to provide the company with increased working capital. At the same time the sum of £64,020,000 was placed to the credit of the Share Premium Account of the company pursuant to section 130 of the Companies Act 1985. On the same day, at an Extra-Ordinary Shareholders' Meeting of the company, it was resolved to cancel the above credit of the Share Premium Account. On 9th April 1999 High Court approval was given for the company's petition to cancel the Share Premium Account, the balance being set against the accumulated losses on the Profit and Loss Account.



Tokyo-Mitsubishi International plc

Directors

The directors are as follows:

T Shimura
M Yamada
K Wakabayashi
J Fujii
K Komagata
H Suzuki
F Yano
H Watanabe
A D Loehnis, C.M.G.

Mr K Watanabe resigned and Mr H Watanabe was appointed on 19th July 1999.

None of the directors had any interest in the shares of the company at any time during the year.

Year 2000

The potential risk associated with the year 2000 was recognised by the company and, accordingly, a formal year 2000 compliance project was given the high priority it required.

A risk analysis was performed on both the company's systems and also the preparations of clients and suppliers, and appropriate actions were taken to seek to mitigate any potential problems. The Directors are pleased to report that, as a result of their preparations, problems were not encountered either during or after the year end. Whilst confident that no serious year 2000 issues will now arise, management will continue to monitor the situation throughout the year.

Employees

It is the policy of the company to give full and fair consideration to applications for employment from disabled persons, to continue wherever possible the employment of members of staff who may become disabled and to ensure that suitable training, career development and promotion are encouraged. Various means are used to communicate with employees on personnel policies and issues and on the performance, objectives and business direction of the company.

Payment to Creditors

It is the company's policy to settle all of its trading transactions on the agreed settlement date. In relation to all of its suppliers, the policy is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms. The company does not follow any code or statement on payment practice. The number of days purchases outstanding for payment by the company at 31st December 1999 was 13 days.



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Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the board

David I Spencer
Secretary

6 Broadgate
London EC2M 2AA

17th February 2000



Tokyo-Mitsubishi International plc

Auditors' Report to the Shareholders of Tokyo-Mitsubishi International plc

We have audited the financial statements on pages 5 – 21.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examinations, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors
London

17th February 2000



Tokyo-Mitsubishi International plc

Accounting Policies

Basis of Preparation

The following accounting policies have been consistently applied in dealing with items which are considered material in relation to the company's financial statements.

Format of Financial Statements

The financial statements of a dealer in securities require special treatment, which is not dealt with in the statutory requirements, in order to present a true and fair view of its state of affairs and results. Accordingly, the directors believe that for the best presentation of the company's results and financial position, it is necessary to depart from the statutory accounting rules. A company dealing in securities has no equivalent to turnover, cost of sales and gross profit and therefore income from operations represents the net amount earned from trading and from holding positions in securities. Interest arising therefrom forms an integral part of the income from operations and, because it is reflected also in movements in market prices, should not be separately identified.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of dealing securities, and in accordance with applicable accounting standards and with the Companies Act 1985, except as noted below in respect of dealing securities.

Dealing securities held as current trading assets are stated at market value and profits and losses arising from this valuation are taken to the profit and loss account. This is not in accordance with Schedule 4 to the Companies Act 1985 which requires that such assets be stated at the lower of cost and net realisable value, or that if revalued any revaluation differences be taken to revaluation reserve. The directors consider that these requirements would fail to give a true and fair view of the profit/loss for the year of an investing enterprise that holds readily marketable investments as current assets since their marketability enables decisions to be taken continually about whether to hold or sell those assets, and hence the economic measure of performance in any period is properly made by reference to market values. It is not practicable to quantify the effect on the accounts of these departures since information on original cost, being of no continuing relevance to the business, is not readily available and therefore a note of the historical cost profit or loss, as required by paragraph 26 of Financial Reporting Standard No 3, has not been presented.

Securities

Securities held for trading purposes are stated at market value. Securities held to provide, in the longer term, income or capital growth are shown at cost less provision for any permanent diminution in value. Hence fair value adjustments are not made.

Open futures and options contracts are accounted for on a marked-to-market basis unless they hedge long term investments, in which case gains or losses on the contracts are deferred and amortised over the life of the hedged instrument. Premium or discounts on purchased long term investments are deferred and amortised over the life of the underlying assets. All premiums, discount and hedge deferrals are eliminated if the underlying assets is sold or matures.

Transactions are accounted for on a trade date basis.



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Accounting Policies *(continued)*

Swaps

Swaps are accounted for using current market rates based on the net present value of the associated cashflows. Certain interest rate swaps, entered into with a view to managing interest rate exposures, are accounted for on an accrual basis. The resulting balance sheet amounts are included in debtors or creditors as appropriate and are presented net by counterparty where there is a legal right of set off in accordance with general industry practice.

Management Fees and Commission

Management fees and commission are accounted for on an accruals basis.

Repurchase and Resale Agreements

Repurchase and resale agreements are regarded as financing transactions and are shown as debtors and creditors respectively.

Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies and open forward foreign exchange contracts are translated using the rate of exchange ruling at the balance sheet date. Gains or losses on translation are included in the profit and loss account. Fixed asset investments denominated in foreign currency are translated using the rate of exchange ruling at the balance sheet date. Gains or losses on translation are offset against the corresponding gain or loss on translating the matched borrowings.

Depreciation

Depreciation is provided to write off the cost less estimated residual value of fixed tangible assets by equal instalments over their estimated useful economic lives as follows:

Leasehold improvements	10 - 25 years
Office furniture and fittings	5 years
Motor vehicles	4 years
Office machinery and computer software	4 years

Taxation

Provision is made for deferred taxation only to the extent that it is considered probable that an actual liability will arise.

Pensions

Based on actuarial advice, pension costs are charged to the profit and loss account so as to produce a regular cost which is a substantially level percentage of the current and expected future pensionable payroll. Variations from the regular cost are allocated over the remaining service lives of current employees.



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Business and Risk Management Policies

1 Role of Financial Instruments

a) The Nature and Purpose for which financial instruments are held

The company maintains positions in financial instruments for three principal reasons:

- as a result of the sale or assignment of structured or derivative positions to our clients (usually on the over-the-counter market);
- to hedge positions in our own books created by the business noted above; and
- for trading or arbitrage purposes.

In addition to the activities noted above the company also acts as agent for its customers in the purchase, sale and assignment of securities and derivatives listed on recognised investment exchanges.

b) An explanation of objectives, policies and strategies relating to financial instruments including hedging

The majority of the financial instruments are held as part of portfolios which are maintained and monitored by instrument or risk type. The positions thus maintained will result from the company's normal market activities. The company maintains a variety of hedging strategies. Individual trading areas are allocated risk limits based on a wide range of market factors and are required to maintain portfolios within those limits. As such they are responsible for maintaining hedges at a macro level.

The development of new business is subject to a detailed approval process, which aims to encourage the proactive identification of risks and rewards before the company transacts in new financial instruments or services. This process includes the setting of any limits applicable to the new business.

A more detailed explanation of risk strategy and factors is given below.

There have been no significant changes in the factors noted above as compared to the previous accounting period.

2 Risk Management

The company manages market risk through the Risk Management Committee, which is chaired by the Chief Executive Officer. Day to day responsibility rests with the independent risk management function, the head of which reports independently of the business units to the Chief Executive Officer of the company.

The company uses a wide range of techniques to manage the market price risk in its trading book, including Value at Risk ("VaR") methodologies. The VaR of a trading book is the expected aggregate loss that will, with a specified probability, arise on the trading book over a specified period of time (holding period) from adverse market movements. The company uses a VaR methodology to monitor the market risks arising from different trading books. Actual profit and loss outcomes are also monitored to test the validity of the assumptions made in the calculation of VaR. The VaR figures disclosed below are based on a Variance/Covariance model combined with scenario analyses for options portfolios. Aggregate risk is computed as the square root of the sums of squares of risks of individual groups of portfolios.



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Business and Risk Management Policies *(continued)*

Assuming a 95% confidence level and a one-day holding period, the VaR for the company's trading book as at 31st December 1999 was estimated to be £3.2M (1998: £2.4M). The average, highest and lowest VaR for the trading book during 1999 were £3.8M £5.6M and £1.8M respectively (1998: £3.0M, £4.0M, and £2.1M). This means that, on the basis of the risks in the trading book as at 31st December 1999, the company expected not to incur a loss on its trading book of more than £3.2M in any one day more than 5% of the time. In both 1999 and 1998 the number of occasions on which actual trading book outcomes (both profits and losses) exceeded the previous day's VaR was within the expected bounds.

The company recognises that VaR measures of market price risk, considered in isolation, have limitations. It is for this reason that the company uses a wide range of other risk measurement techniques, such as stop-loss limits, position limits and risk factor sensitivity limits, to manage its market risk exposures. The VaR figures disclosed above have the following limitations:

- The historical data on which the calculations have been based may not reflect all the factors that are relevant to the estimation of VaR, give the correct weight to these factors, or be the best estimate of risk factor changes that will occur in the future.
- Using a one day time horizon does not fully capture the market price risk of positions that cannot be closed off within one day. Similarly, focusing on the maximum loss that is expected to be incurred 95% of the time says little about the smaller losses that are expected to be incurred more frequently, or the larger losses in excess of VaR that are expected to be incurred 5% of the time.
- All the VaR figures disclosed above are based on calculations performed at the end of each business day. The VaR during the course of a single day may change substantially, and there is no reason why the end-of-day figure should be representative of the figure at other times of the day.
- The aggregation method used to derive the VaR figures disclosed above implicitly assumes independence between different groups of portfolios run by different businesses within the company. The company does not rely solely on VaR measures to control the market risks in its trading book. Instead the company sets a wide range of limits on other risk parameters which act as the main control on the risks incurred by different trading books.

The company manages its credit risks in accordance with credit policies determined by the parent bank. The credit function is independent of the business areas. Counterparty exposure is managed through a process of limit setting and exception reporting with credit policy determining the maximum exposure on both a group and company basis. The company uses an internal credit rating system to manage the credit risk of individual counterparties.

Liquidity Risk is controlled by a process that ensures that cumulative financing requirements are restricted to pre-set levels, on both a next day and next eight calendar day basis. In addition, to ensure that the company has sufficient reserves to guard against any unforeseen event, the Treasury function operates within an unsecured funding limit that is set at a level below the estimated level of funds available. A key operating requirement of the Treasury function is to ensure that the company's long term assets, one year's annual operating expenses and long dated investments are covered by long term equity and existing credit lines.

During the course of Treasury's financing activities, there is often a need to swap surplus flows in one currency into another, a process achieved via swap transactions. Similarly, financial futures are also occasionally used to mitigate any interest rate risk arising from funding the company's operations.



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Profit and Loss Account

For the year ended 31st December 1999

	Notes	1999 £'000	1998 £'000
Income from Operations	1	58,618	33,106
Administrative expenses	2 - 4	(78,420)	(71,839)
Loss on ordinary activities before taxation	1	(19,802)	(38,733)
Taxation on ordinary activities	5	-	-
Loss on ordinary activities after taxation		<u>(19,802)</u>	<u>(38,733)</u>

The company has no recognised gains and losses during the current and previous year other than the loss for the year. All losses shown above are derived from continuing operations.



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Balance Sheet

As at 31st December 1999

	Notes	1999 £'000	1998 £'000
Fixed assets			
Tangible assets	6	13,852	12,843
Investment	21	2,148	2,402
		<u>16,000</u>	<u>15,245</u>
Current assets			
Debtors	7	5,090,904	5,094,802
Securities	8	2,430,907	2,512,750
Cash at bank and in hand		7,885	1,535
		<u>7,529,696</u>	<u>7,609,087</u>
Creditors: Amounts falling due within one year	9	<u>(6,428,272)</u>	<u>(6,718,819)</u>
Net current assets		<u>1,101,424</u>	<u>890,268</u>
Total assets less current liabilities		<u>1,117,424</u>	<u>905,513</u>
Creditors: Amounts falling due after more than one year	10	<u>(803,746)</u>	<u>(757,033)</u>
Net assets		<u>313,678</u>	<u>148,480</u>
Capital and Reserves			
Called up share capital	15	333,480	212,500
Profit and loss account	16	(19,802)	(64,020)
Shareholders' Funds	17	<u>313,678</u>	<u>148,480</u>

The accounts on pages 5 to 21 were approved by the Board of Directors on 17th February 2000 and signed on its behalf by:

Juntaro Fujii
Director

17th February 2000



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Cash Flow Statement

For the year ended 31st December 1999

	Notes	1999 £'000	1998 £'000
Net cash outflow from operating activities	(i)	(222,671)	(72,763)
Capital expenditure	(ii)	<u>(5,396)</u>	<u>(3,782)</u>
Net cash outflow before financing		(228,067)	(76,545)
Financing	(ii)	77,212	(31,348)
Issue of Ordinary share capital		<u>185,000</u>	<u>-</u>
Increase/(Decrease) in cash in the year		<u>34,145</u>	<u>(107,893)</u>

Reconciliation of net cash flow to movement in net debt

	1999 £'000	1998 £'000
Increase/(Decrease) in cash in period	34,145	(107,893)
Cash inflow from increase in long-term debt	(184,484)	(134,061)
Cash outflow from redemption of long-term debt	149,216	146,822
Effect of foreign exchange	(66,261)	(20,882)
Other movements	<u>(41,944)</u>	<u>18,588</u>
Movement in net debt in period	(109,328)	(97,426)
Net debt at 1st January	<u>(906,650)</u>	<u>(809,224)</u>
Net debt at 31st December	(iii) <u>(1,015,978)</u>	<u>(906,650)</u>



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Notes on the Cash Flow Statement

(i) Reconciliation of Operating loss to net Cash Outflow in Operating Activities

	1999 £'000	1998 £'000
Income from operations	58,618	33,106
Administrative expenses	(78,420)	(71,839)
Depreciation charges	4,430	4,449
Profit on disposal of fixed assets	(43)	(28)
Decrease in securities	582,035	554,975
Decrease in debtors	3,898	634,683
Decrease in creditors	(859,704)	(1,248,858)
Effect of foreign exchange differences	66,515	20,749
Net cash outflow from operating activities	<u>(222,671)</u>	<u>(72,763)</u>

(ii) Analysis of Cash Flows for headings netted in Cash Flow Statement

	£'000	£'000
Capital Expenditure		
Additions to tangible fixed assets	(5,452)	(3,845)
Disposal of tangible fixed assets	56	63
Net cash outflow for capital expenditure	<u>(5,396)</u>	<u>(3,782)</u>
Financing		
Proceeds of notes issues and borrowing	417,411	227,894
Redemption of note issues and borrowing	(340,199)	(259,242)
Net cash inflow/(outflow) from financing	<u>77,212</u>	<u>(31,348)</u>

(iii) Analysis of changes in net debt

	At 1/1/99 £'000	Cash flows £'000	Other changes £'000	At 31/12/99 £'000
Cash in hand at bank	1,535	6,350	-	7,885
Overdrafts	(29,087)	27,795	-	(1,292)
	<u>(27,552)</u>	<u>34,145</u>	<u>-</u>	<u>6,593</u>
Debt due within 1 year	(122,065)	(41,944)	(54,816)	(218,825)
Debt due after 1 year	(757,033)	(35,268)	(11,445)	(803,746)
Total	<u>(906,650)</u>	<u>(43,067)</u>	<u>(66,261)</u>	<u>(1,015,978)</u>



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Notes on the Financial Statements

1 Income from operations and profit/loss on ordinary activities before taxation

The whole of the income from operations and profit/loss on ordinary activities is derived from substantially the same class of business and in a market which is not delineated by geographical bands.

2 Administrative Expenses

	1999 £'000	1998 £'000
Staff costs (note 3)	38,392	36,143
Depreciation of fixed tangible assets	4,430	4,449
Operating lease rentals:		
Hire of quotation and communication equipment	3,321	3,462
Rental of premises	2,979	2,892
Auditors' remuneration:		
Audit fees	110	105
Non audit related fees	217	190
Profit on disposal of fixed assets	(42)	(28)
Other administrative expenses	29,013	24,626
	<u>78,420</u>	<u>71,839</u>

3 Staff costs

	1999	1998
Average number of employees	325	309
Employee costs (Excluding directors' emoluments)	£'000	£'000
Wages and salaries	32,264	30,188
Social security costs	3,440	3,091
Pension costs	2,688	2,864
	<u>38,392</u>	<u>36,143</u>

4 Directors' Emoluments

	1999 £'000	1998 £'000
Fees	-	-
Emoluments (excluding pension contribution)	1,122	840
	<u>1,122</u>	<u>840</u>

The emoluments of the highest paid director amounted to £270,586 (1998 £217,906).



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Notes *(continued)*

5 Taxation on ordinary activities

There has been no charge made for UK corporation tax due to the loss for the year.

6 Fixed tangible assets

	Leasehold improvements £'000	Office furniture and fittings £'000	Motor vehicles £'000	Office machinery £'000	Total £'000
Cost					
At 1st January 1999	6,903	400	350	18,100	25,753
Additions	91	62	-	5,299	5,452
Disposals	-	-	(89)	(154)	(243)
At 31st December 1999	<u>6,994</u>	<u>462</u>	<u>261</u>	<u>23,245</u>	<u>30,962</u>
Depreciation					
At 1st January 1999	2,970	137	277	9,526	12,910
Charge for the year	439	80	41	3,870	4,430
Disposals	-	-	(76)	(154)	(230)
At 31st December 1999	<u>3,409</u>	<u>217</u>	<u>242</u>	<u>13,242</u>	<u>17,110</u>
Net book value at 31st December 1999	<u>3,585</u>	<u>245</u>	<u>19</u>	<u>10,003</u>	<u>13,852</u>
Net book value at 31st December 1998	<u>3,933</u>	<u>263</u>	<u>73</u>	<u>8,574</u>	<u>12,843</u>

7 Debtors: Due within one year

	1999 £'000	1998 £'000
Securities sold but not delivered	38,422	906,441
Reverse repurchase agreements	2,168,669	131,702
Amounts owed by group undertakings	215,541	1,133,721
Swaps	2,166,873	2,496,584
Purchased options	180,026	210,332
Other debtors	232,285	148,020
Prepayments and accrued income	89,088	68,002
	<u>5,090,904</u>	<u>5,094,802</u>



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Notes *(continued)*

8 Securities

	1999		1998	
	Listed £'000	Unlisted £'000	Listed £'000	Unlisted £'000
Dealing securities, at market value	1,632,621	584,920	1,466,754	862,259
Securities held at cost				
market value £201,895,488 (1998 £182,365,911)	213,366	-	126,315	57,422
	<u>1,845,987</u>	<u>584,920</u>	<u>1,593,069</u>	<u>919,681</u>
Total	<u>2,430,907</u>		<u>2,512,750</u>	

Of the dealing securities £400,744,258 (1998 £244,380,625) are listed on the London Stock Exchange Limited and the rest on stock exchanges outside Great Britain.

9 Creditors: Due within one year

	1999 £'000	1998 £'000
Securities bought but not delivered	83,301	2,545,892
Repurchase agreements	1,877,777	214,672
Amount owed to group undertakings	398,402	1,088,618
Dealing securities at market value (listed)	790,024	267,272
Dealing securities at market value (unlisted)	67,805	90,365
Swaps	2,604,449	2,020,186
Bank loans and overdrafts	1,292	29,087
Short term borrowings	218,825	122,065
Tax and social security	2,102	965
Options sold	260,441	246,584
Other creditors	123,854	93,113
	<u>6,428,272</u>	<u>6,718,819</u>

Of the dealing securities, £39,091,930 (1998 £4,784,423) are listed on the London Stock Exchange Limited and the rest on stock exchanges outside Great Britain.

10 Creditors: Due after more than one year

	1999		1998	
	£'000	£'000	£'000	£'000
Amounts repayable within	2-5	over 5	2-5	over 5
	years	years	years	years
Japanese Yen loans at rates of				
interest between 3.95% and 4.48%	245,091	18,382	104,330	146,062
US Dollar notes with various rates of interest	189,221	104,860	239,486	183,370
Japanese Yen notes with various rates of interest	12,451	78,162	-	-
Amount owed to group undertakings	155,579	-	83,785	-
	<u>602,342</u>	<u>201,404</u>	<u>427,601</u>	<u>329,432</u>
	<u>803,746</u>		<u>757,033</u>	



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Notes *(continued)*

11 Fair Values of Financial Assets and Liabilities

Set out below is a comparison by category of book amounts and fair values of the company's trading and non-trading financial assets and liabilities.

	1999	
	Book Amount £'000	Fair Value £'000
Instruments held or issued to finance the company's operations		
Debt securities issued	(481,814)	(482,943)
Money market assets	203,767	203,741
Money market liabilities	(817,454)	(835,914)
Interest rate swaps and similar instruments	885,729	905,681
Funding offset with trading areas	215,362	215,267
Investment assets and liabilities		
Debt securities	213,366	201,895
Repurchase agreements	(186,633)	(186,633)
Interest rate swaps and similar instruments	8,768	(1,151)
Funding offset with trading areas	226,908	226,908
Trading assets and liabilities		
Securities	2,217,541	2,217,541
Securities (short positions)	(857,829)	(857,829)
Debt securities issued	(121,705)	(121,705)
Repurchase agreements	(1,691,144)	(1,691,144)
Reverse repurchase agreements	2,168,669	2,168,669
Options purchased	180,026	180,026
Options sold	(260,441)	(260,441)
Interest rate swaps and similar instruments	(1,332,073)	(1,332,073)
Funding offset with financing and non-trading areas	(442,175)	(442,175)

All futures contracts shown above are entered into on a recognised exchange. Profits and losses on futures contracts are paid to the relevant exchange on a daily basis. On a mark-to-market basis, the balance sheet value of these contracts net of such payments is therefore zero. Under the accruals accounting methodology, certain gains on futures and options contracts are deferred if they hedge an existing bond position. The balances of these amounts are shown above.



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Notes *(continued)*

Certain trading assets are funded by non-trading or financing areas. Where this is the case, the above amounts include the effects of the transaction with the relevant trading area.

Hedge transactions are accounted for in accordance with the accounting treatment of the underlying transaction. Any hedge gains or losses recognised during the year offset gains or losses on the item being hedged. The unrecognised and deferred gains and losses on hedges at 31st December 1999 are not material.

12 Foreign Currency Exposures

The company's objective in managing currency exposures is to minimise exposure to currency related risks. As a natural consequence of trading in a multi-currency environment the company will make profits in a number of currencies. These profits are periodically converted into sterling.

Within financing and non-trading areas the foreign currency exposures of assets and liabilities is not material.

13 Interest Rate Sensitivity Gap Analysis

The following tables provide an analysis of the aggregate amounts of financing and non-trading assets and liabilities, analysed by category of asset and liability and, within those categories, into time bands. The interest rate sensitivity of the trading assets and liabilities are included within the VaR analysis at page 7.

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non- interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31st December 1999							
Non-trading assets							
Money market instruments	651,554	-	26,041	-	-	-	677,595
Debt securities	10,262	-	9,265	62,942	130,898	-	213,367
Other internal assets with trading books	421,016	366,127	-	30,636	57,654	-	875,433
Non-interest bearing assets	-	-	-	-	-	32,632	32,632
Total non-trading assets	1,082,832	366,127	35,306	93,578	188,552	32,632	1,799,027



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Notes *(continued)*

Interest Rate Sensitivity Gap Analysis *(continued)*

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non- interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non-trading liabilities							
Money market instruments	(701,594)	-	-	(122,545)	(18,382)	-	(842,521)
Debt securities issued	(287,405)	(41,244)	(30,583)	(40,355)	(82,227)	-	(481,814)
Repurchase agreements	(186,633)	-	-	-	-	-	(186,633)
Non-interest bearing liabilities	-	-	-	-	-	(15,977)	(15,977)
Total non-trading liabilities	<u>(1,175,632)</u>	<u>(41,244)</u>	<u>(30,583)</u>	<u>(162,900)</u>	<u>(100,609)</u>	<u>(15,977)</u>	<u>(1,526,945)</u>
Off balance sheet items	<u>(498,780)</u>	<u>50,952</u>	<u>-</u>	<u>425,264</u>	<u>22,564</u>	<u>-</u>	<u>-</u>
Interest rate sensitivity gap	<u>(591,580)</u>	<u>375,835</u>	<u>4,723</u>	<u>355,942</u>	<u>110,507</u>	<u>16,655</u>	<u>272,082</u>

Certain trading assets are funded by non-trading or financing areas. Where this is the case, the above amounts include the effects of the transaction with the relevant trading area.

14 Gains and losses on financial assets and financial liabilities held or issued for trading

The net gain from trading in financial assets and liabilities shown in the profit and loss account for the year ended 31st December 1999 can be analysed into the following business areas:

	£'000
Fixed income	7,086
Equity	17,374
Structured products	21,972
	<u>46,432</u>

All of the above business areas include securities and derivative instruments.



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Notes *(continued)*

15 Called up share capital

	1999		1998	
	No '000	£'000	No '000	£'000
Ordinary shares of £1 each:				
Authorised	500,000	500,000	300,000	300,000
Alotted, called up and fully paid	<u>333,480</u>	<u>333,480</u>	<u>212,500</u>	<u>212,500</u>

On 26th February 1999 the company increased its authorised share capital to 500,000,000 Ordinary Shares of £1 each. On the same date 120,980,000 Ordinary Shares of £1 each were allotted and issued for a consideration of £185,000,000.

16 Reserves

	Profit and Loss Account	Share Premium Account
	£'000	£'000
Balance at 1st January 1999	(64,020)	-
Premium on shares issues	-	64,020
Transfer to profit and loss account	64,020	(64,020)
Loss for the year	<u>(19,802)</u>	<u>-</u>
Balance at 31st December 1999	<u>(19,802)</u>	<u>-</u>

17 Reconciliation of movements in shareholders' funds

	1999 £'000	1998 £'000
Opening shareholders' funds	148,480	187,213
Increase in share capital	120,980	-
Increase in share premium account	64,020	-
Retained loss for the financial year	<u>(19,802)</u>	<u>(38,733)</u>
Closing shareholders' funds	<u>313,678</u>	<u>148,480</u>

Shareholders' funds are solely attributable to equity interests.



Tokyo-Mitsubishi International plc

Notes *(continued)*

18 Guarantees, Contingent Liabilities and Commitments

In the ordinary course of its business the company entered into contracts for swaps, futures and options and other financial instruments. Annual commitments under non-cancellable operating leases, all of which expire in over five years time are £2,932,000 (1998 £2,932,000).

There were no material outstanding guarantees or contingent liabilities, other than those incurred in the normal course of the company's business on which no loss is expected.

19 Pension Fund

The Tokyo-Mitsubishi International plc Pension Scheme provides a defined benefit pension scheme for employees who commenced service before 6th April 1997 and employees of the company who commenced service after 6th April 1997 and are at least 36 years of age or designated senior staff. This scheme was closed to new entrants from 1st July 1999.

An actuarial valuation was performed as at November 1997 but with an effective date of 6th April 1997. The results of the valuation, which was performed using the projected unit method, showed that the assets of the scheme amounted to £12,959,448 and were sufficient to secure 96% of the liabilities of the scheme based on projected final pensionable salaries. The main actuarial assumptions were an investment rate of return of 8.5% per annum, an increase in salaries of 7% and that pensions would increase in payment by 4.5%. Total charge to the Profit and Loss Account for 1999 was £1,907,175 (1998 £2,242,091).

A Group Personal Pension Plan (GPPP) operates with Standard Life Assurance Company for the benefit of all employees of the company who commenced service after the 6th April 1997 and are under 36 years of age. With effect from 1st July 1999 all employees joining the company are entitled to join the GPPP.

20 Related Party Transactions

Disclosures in respect of related party transactions are not required because the company, as a wholly owned subsidiary, is entitled to the exemption given in Financial Reporting Standard 8 (FRS 8).

21 Investment in Subsidiary

The company owns the whole of the issued ordinary share capital in the following subsidiaries:

	<u>Country of Incorporation</u>	<u>Main Activity</u>
BTM Securities (Spain) S.A., S.V.B.	Spain	Securities dealing
TMI Nominees Limited	United Kingdom	Nominee for TMI

The subsidiaries have been treated as fixed asset investments and are stated at cost adjusted for exchange rate fluctuations. Both subsidiaries are not consolidated into the company's financial statements as they are not material for the purpose of giving a true and fair view.



Tokyo-Mitsubishi International plc

Notes *(continued)*

22 Ultimate Holding Company

The company is a wholly owned subsidiary of its ultimate holding company, The Bank of Tokyo-Mitsubishi, Ltd. which is incorporated in Japan. The company's financial statements are consolidated in the accounts of The Bank of Tokyo-Mitsubishi, Ltd. Copies of the group financial statements of the ultimate holding company are available from:

The Bank of Tokyo-Mitsubishi, Ltd.
7-1, Marunouchi 2-chome
Chiyoda-ku
Tokyo 100
Japan