

MITSUBISHI UFJ FINANCIAL GROUP INC

Form 20-F

September 21, 2007

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As filed with the Securities and Exchange Commission on September 21, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

“ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF

THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2007

OR

“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period to

OR

“ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number 1-10277

KABUSHIKI KAISHA MITSUBISHI UFJ FINANCIAL GROUP

(Exact name of Registrant as specified in its charter)

MITSUBISHI UFJ FINANCIAL GROUP, INC.

(Translation of Registrant's name into English)

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Japan

(Jurisdiction of incorporation or organization)

7-1, Marunouchi 2-chome

Chiyoda-ku, Tokyo 100-8330

Japan

(Address of principal executive offices)

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

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

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

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

\$2,300,000,000 Fixed/Floating Rate Non-Cumulative Preferred Securities of MUFG Capital Finance 1 Limited, and Mitsubishi UFJ Financial Group, Inc.'s Guarantee thereof

750,000,000 Fixed/Floating Rate Non-Cumulative Preferred Securities of MUFG Capital Finance 2 Limited, and Mitsubishi UFJ Financial Group, Inc.'s Guarantee thereof

¥120,000,000,000 Fixed/Floating Rate Non-Cumulative Preferred Securities of MUFG Capital Finance 3 Limited, and Mitsubishi UFJ Financial Group, Inc.'s Guarantee thereof

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

At March 31, 2007, (1) 10,861,644 shares of common stock (including 652,968 shares of common stock held by the registrant and its consolidated subsidiaries as treasury stock), (2) 100,000 shares of first series of class 3 preferred stock, (3) 17,700 shares of class 8 preferred stock, (4) 1 share of class 11 preferred stock, (5) 33,700 shares of class 12 preferred stock were issued.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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

Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Item 17 Item 18

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

Yes No

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

When we refer in this Annual Report to Mitsubishi UFJ Financial Group, MUFG, we, us, our and the Group, we generally mean Mitsubishi Financial Group, Inc. and its consolidated subsidiaries, but from time to time as the context requires, we mean Mitsubishi UFJ Financial Group, Inc. as an individual legal entity. Similarly, references to MTFG and UFJ Holdings are to Mitsubishi Tokyo Financial Group, Inc. and to UFJ Holdings, Inc., respectively, as well as to MTFG and UFJ Holdings and their respective consolidated subsidiaries, as the context requires. Unless the context otherwise requires, references in this Annual Report to the financial results or business of the UFJ group refer to those of UFJ Holdings and its consolidated subsidiaries. References in this Annual Report to yen or ¥ are to Japanese yen and references to US dollars, US dollar, dollars, US\$ or \$ are to United States dollars. Our fiscal year ends on March 31 of each year. From time to time, we may refer to the fiscal year ended March 31, 2007 in this Annual Report as fiscal 2006 or the 2006 fiscal year. We may also refer to other fiscal years in a corresponding manner. References to years not specified as being fiscal years are to calendar years.

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

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Forward-Looking Statements

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

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

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

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

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

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PART I

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

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

The selected statement of income data and selected balance sheet data set forth below have been derived from our audited consolidated financial statements. On October 1, 2005, Mitsubishi Tokyo Financial Group, Inc., or MTFG, merged with UFJ Holdings, Inc., or UFJ Holdings, with MTFG being the surviving entity. Upon consummation of the merger, MTFG changed its name to Mitsubishi UFJ Financial Group, Inc., or MUFG. The merger was accounted for under the purchase method of accounting, and the assets and liabilities of UFJ Holdings and its subsidiaries were recorded at fair value as of October 1, 2005. Therefore, numbers as of and for the fiscal years ended March 31, 2003, 2004 and 2005 reflect the financial position and results of MTFG and its subsidiaries only. Numbers as of March 31, 2006 reflect the financial position of MUFG while numbers for the fiscal year ended March 31, 2006 comprised the results of MTFG and its subsidiaries for the six months ended September 30, 2005 and the results of MUFG from October 1, 2005 to March 31, 2006. Numbers as of March 31, 2007 and for the fiscal year ended March 31, 2007 reflect the financial position and results of MUFG. See note 2 to our consolidated financial statements for more information.

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

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You should read the selected financial data set forth below in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and other financial data included elsewhere in this Annual Report on Form 20-F. These data are qualified in their entirety by reference to all of that information.

| | Fiscal years ended March 31, | | | | |
|---|------------------------------|----------------------|----------------------|----------------------|-----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| (in millions, except per share data and number of shares) | | | | | |
| Statement of income data: | | | | | |
| Interest income | ¥ 1,578,069 | ¥ 1,417,902 | ¥ 1,438,701 | ¥ 2,530,682 | ¥ 3,915,729 |
| Interest expense | 537,387 | 425,162 | 469,606 | 882,069 | 1,585,963 |
| Net interest income | 1,040,682 | 992,740 | 969,095 | 1,648,613 | 2,329,766 |
| Provision (credit) for credit losses | 437,972 | (114,364) | 108,338 | 110,167 | 358,603 |
| Net interest income after provision (credit) for credit losses | 602,710 | 1,107,104 | 860,757 | 1,538,446 | 1,971,163 |
| Non-interest income | 832,639 | 1,298,665 | 986,810 | 1,067,352 | 1,947,936 |
| Non-interest expense | 1,175,806 | 1,229,405 | 1,129,173 | 2,076,125 | 2,784,168 |
| Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle | 259,543 | 1,176,364 | 718,394 | 529,673 | 1,134,931 |
| Income tax expense | 67,843 | 355,308 | 303,755 | 165,473 | 552,826 |
| Income from continuing operations before cumulative effect of a change in accounting principle | 191,700 | 821,056 | 414,639 | 364,200 | 582,105 |
| Income (loss) from discontinued operations net | 12,277 | 1,946 | 1,493 | 8,973 | (817) |
| Cumulative effect of a change in accounting principle, net of tax ⁽¹⁾ | (532) | | (977) | (9,662) | |
| Net income | ¥ 203,445 | ¥ 823,002 | ¥ 415,155 | ¥ 363,511 | ¥ 581,288 |
| Net income available to common shareholders | ¥ 190,941 | ¥ 815,021 | ¥ 408,318 | ¥ 156,842 | ¥ 300,227 |
| Amounts per share: | | | | | |
| Basic earnings per common share income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle | ¥ 31,900.86 | ¥ 128,044.42 | ¥ 62,637.96 | ¥ 19,398.62 | ¥ 29,944.47 |
| Basic earnings per common share net income available to common shareholders | 33,991.75 | 128,350.88 | 62,717.21 | 19,313.78 | 29,863.20 |
| Diluted earnings per common share income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle | 29,161.52 | 124,735.34 | 62,397.57 | 19,036.71 | 29,763.44 |
| Diluted earnings per common share net income available to common shareholders | 31,164.84 | 125,033.96 | 62,476.76 | 18,951.87 | 29,682.17 |
| Number of shares used to calculate basic earnings per common share (in thousands) | 5,617 | 6,350 | 6,510 | 8,121 | 10,053 |
| Number of shares used to calculate diluted earnings per common share (in thousands) | 5,863 ⁽²⁾ | 6,517 ⁽³⁾ | 6,516 ⁽³⁾ | 8,121 ⁽⁴⁾ | 10,053 ⁽⁴⁾ |
| Cash dividends per share declared during the fiscal year: | | | | | |
| Common share | ¥ 6,000.00 | ¥ 4,000.00 | ¥ 6,000.00 | ¥ 9,000.00 | ¥ 9,000.00 |
| | \$ 50.26 | \$ 33.41 | \$ 55.46 | \$ 79.30 | \$ 77.45 |
| Preferred share (Class 1) | ¥ 123,750.00 | ¥ 82,500.00 | ¥ 82,500.00 | ¥ 41,250.00 | |
| | \$ 1,024.65 | \$ 725.09 | \$ 772.49 | \$ 374.08 | |
| Preferred share (Class 2) | ¥ 24,300.00 | ¥ 16,200.00 | ¥ 8,100.00 | | |
| | \$ 201.20 | \$ 142.38 | \$ 74.88 | | |
| Preferred share (Class 3) | | | | ¥ 37,069.00 | ¥ 60,000.00 |
| | | | | \$ 312.99 | \$ 516.35 |

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| | |
|----------------------------|-------------|
| Preferred share (Class 8) | ¥ 23,850.00 |
| | \$ 205.27 |
| Preferred share (Class 9) | ¥ 18,600.00 |
| | \$ 160.11 |
| Preferred share (Class 10) | ¥ 19,400.00 |
| | \$ 167.00 |
| Preferred share (Class 11) | ¥ 7,950.00 |
| | \$ 68.42 |
| Preferred share (Class 12) | ¥ 17,250.00 |
| | \$ 148.46 |

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| | At March 31, | | | | |
|---|-----------------------------------|---------------|---------------|---------------|---------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | (in millions) | | | | |
| Balance sheet data: | | | | | |
| Total assets | ¥ 96,537,404 | ¥ 103,699,099 | ¥ 108,422,100 | ¥ 186,219,447 | ¥ 186,202,911 |
| Loans, net of allowance for credit losses | 46,928,860 | 47,469,598 | 50,164,144 | 94,494,608 | 94,210,391 |
| Total liabilities | 93,978,776 | 99,854,128 | 104,049,003 | 176,551,294 | 175,769,599 |
| Deposits | 67,096,271 | 69,854,507 | 71,143,099 | 126,639,931 | 126,587,009 |
| Long-term debt | 5,159,132 | 5,659,877 | 5,981,747 | 13,889,525 | 14,389,930 |
| Total shareholders' equity | 2,558,628 | 3,844,971 | 4,373,097 | 9,668,153 | 10,433,312 |
| Capital stock ⁽⁵⁾ | 1,084,708 | 1,084,708 | 1,084,708 | 1,084,708 | 1,084,708 |
| Fiscal years ended March 31, | | | | | |
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | (in millions, except percentages) | | | | |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Other financial data: | | | | | |
| Average balances: | | | | | |
| Interest-earning assets | ¥ 86,083,365 | ¥ 90,653,495 | ¥ 99,282,143 | ¥ 135,385,329 | ¥ 168,767,341 |
| Interest-bearing liabilities | 79,523,577 | 84,860,252 | 92,226,818 | 118,120,185 | 146,796,013 |
| Total assets | 95,478,978 | 102,827,850 | 110,829,406 | 159,347,769 | 185,683,033 |
| Total shareholders' equity | 2,432,279 | 3,289,783 | 3,880,044 | 7,106,910 | 9,823,404 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Return on equity and assets: | | | | | |
| Net income available to common shareholders as a percentage of total average assets | 0.20% | 0.79% | 0.37% | 0.10% | 0.16% |
| Net income available to common shareholders as a percentage of total average shareholders' equity | 7.85% | 24.77% | 10.52% | 2.21% | 3.06% |
| Dividends per common share as a percentage of basic earnings per common share | 17.65% | 3.12% | 9.57% | 46.60% | 30.14% |
| Total average shareholders' equity as a percentage of total average assets | 2.55% | 3.20% | 3.50% | 4.46% | 5.29% |
| Net interest income as a percentage of total average interest-earning assets | 1.21% | 1.10% | 0.98% | 1.22% | 1.38% |
| Credit quality data: | | | | | |
| Allowance for credit losses | ¥ 1,360,136 | ¥ 888,120 | ¥ 739,872 | ¥ 1,012,227 | ¥ 1,112,453 |
| Allowance for credit losses as a percentage of loans | 2.82% | 1.84% | 1.45% | 1.06% | 1.17% |
| Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more | ¥ 2,753,026 | ¥ 1,730,993 | ¥ 1,285,204 | ¥ 2,044,678 | ¥ 1,699,500 |
| Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans | 5.70% | 3.58% | 2.52% | 2.14% | 1.78% |
| Allowance for credit losses as a percentage of nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more | 49.41% | 51.31% | 57.57% | 49.51% | 65.46% |
| Net loan charge-offs | ¥ 814,811 | ¥ 336,876 | ¥ 260,622 | ¥ 136,135 | ¥ 262,695 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Net loan charge-offs as a percentage of average loans | 1.64% | 0.69% | 0.51% | 0.19% | 0.27% |
| Average interest rate spread | 1.15% | 1.06% | 0.94% | 1.12% | 1.24% |
| Risk-adjusted capital ratio calculated under Japanese GAAP ⁽⁶⁾ | 10.84% | 12.95% | 11.76% | 12.20% | 12.59% |

Notes:

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- (1) On April 1, 2002, we adopted SFAS No. 142, Goodwill and Other Intangible Assets. Effective April 1, 2004, we adopted Financial Accounting Standards Board Interpretation, or FIN, No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. Effective March 31, 2006, we adopted FIN No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143.
- (2) Includes the common shares potentially issuable pursuant to the 3% exchangeable guaranteed notes due 2002 and Class 2 Preferred Stock. The 3% exchangeable guaranteed notes due 2002 were redeemed in November 2002.
- (3) Includes the common shares potentially issuable by conversion of the Class 2 Preferred Stock.
- (4) Includes the common shares potentially issuable by conversion of the Class 11 Preferred Stock.
- (5) Amounts include common shares and convertible Class 2 Preferred Stock. Redeemable Class 1 and Class 3 Preferred Stock are excluded.
- (6) Risk-adjusted capital ratios have been calculated in accordance with Japanese banking regulations, based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP.

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The tables below set forth, for each period indicated, the noon buying rate in New York City for cable transfers in Japanese yen as certified for customs purposes by the Federal Reserve Bank of New York, expressed in Japanese yen per \$1.00. On September 18, 2007, the noon buying rate was \$1.00 equals ¥115.75 and the inverse noon buying rate was ¥100 equals \$0.86.

| | Year 2007 | | | | | | |
|------|-----------|----------|----------|----------|----------|----------|--------------------------|
| | March | April | May | June | July | August | September ⁽¹⁾ |
| High | ¥ 118.15 | ¥ 119.84 | ¥ 121.79 | ¥ 124.09 | ¥ 123.34 | ¥ 119.76 | ¥ 116.21 |
| Low | 116.01 | 117.69 | 119.77 | 121.08 | 118.41 | 113.81 | 113.43 |

(1) Period from September 1 to September 18.

| | Fiscal years ended March 31, | | | | |
|------------------------------|------------------------------|----------|----------|----------|----------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Average (of month-end rates) | ¥ 121.10 | ¥ 112.75 | ¥ 107.28 | ¥ 113.67 | ¥ 116.55 |

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

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

Risks Related to Our Business

We may have difficulty integrating our business and operations with those previously operated by the UFJ Group and, as a result, may have difficulty achieving the benefits expected from the integration.

Although the merger with UFJ Holdings was completed in October 2005, our ability to fully realize the growth opportunities and other expected benefits of the merger depends in part on the continued successful integration of the domestic branch and subsidiary network, head office functions, information and management systems, personnel and customer base and other resources and aspects of the two financial groups. To realize the anticipated benefits of the merger, we have been implementing a business integration plan that is complex, time-consuming and costly. Achieving the targeted revenue synergies and cost savings is dependent on the successful implementation of the integration plan. Risks to the successful completion of the ongoing integration process include:

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

delays or other difficulties in coordinating, consolidating and integrating the domestic branch and subsidiary networks, head office functions, information and management systems, and customer

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

corporate cultural or other difficulties in integrating management, key employees and other personnel with those of the UFJ Group;

unanticipated difficulties in streamlining redundant operations and assets;

delays, increased costs or other problems in transitioning relevant operations and facilities smoothly to a common information technology system; and

unanticipated expenses related to the ongoing integration process.

We may not succeed in addressing these risks or other problems encountered in the ongoing integration process. For example, the merger between our two banking subsidiaries, The Bank of Tokyo-Mitsubishi, Ltd. and UFJ Bank Limited, was implemented on January 1, 2006 after being postponed from October 1, 2005 to enable additional testing for connecting the two banks' systems to minimize risks arising from the merger. The Bank of Tokyo-Mitsubishi UFJ, or BTMU, plans to commence the integration of the two banks' systems into a new common IT system in the first half of 2008, while Mitsubishi UFJ Trust and Banking Corporation, or MUTB, plans to integrate the existing systems by lines of business from 2006 through 2008. Significant or unexpected costs may be incurred during the ongoing integration process, preventing us from achieving the previously announced cost reduction targets as scheduled or at all. In addition, previously expected revenue synergies may not materialize in the expected time period if we fail to address any problems that arise in the ongoing integration process. If we are unable to resolve smoothly any problems that arise in the ongoing integration process, our business, results of operations, financial condition and stock price may be materially and adversely affected.

Significant costs have been and will continue to be incurred in the course of the ongoing integration process.

We have incurred and expect to incur significant costs related to the ongoing integration of our business with that of the UFJ Group. We will incur, for the first few years following the merger, significant expenses to close overlapping branches and subsidiaries and to integrate IT systems and other operations. We may also incur additional unanticipated expenses in connection with the integration of the operations, information systems, domestic branch office network and personnel of the two groups.

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

We suffered from asset quality problems beginning in the early 1990s. Despite our progress in reducing the level of our problem loans, a number of borrowers are still facing challenging circumstances. Additionally, our consumer lending exposure has increased significantly as a result of the merger with UFJ Holdings. Our problem loans and credit-related expenses could increase if:

current restructuring plans of borrowers are not successfully implemented;

additional large borrowers become insolvent or must be restructured;

economic conditions in Japan deteriorate;

real estate prices or stock prices in Japan decline;

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

additional economic problems arise elsewhere in the world; or

the global economic environment deteriorates generally.

An increase in problem loans and credit-related expenses would adversely affect our results of operations, weaken our financial condition and erode our capital base. Credit losses may increase if we elect, or are forced by

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economic or other considerations, to sell or write off our problem loans at a larger discount, in a larger amount or in a different time or manner than we may otherwise want.

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

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

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

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

the value of collateral we hold declines; or

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

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

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

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

political or regulatory considerations;

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

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

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

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

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

the difficulty of foreclosing on collateral in Japan;

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

the depressed values of pledged securities held as collateral.

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

During the past few years, high profile bankruptcy filings and reports of past accounting or disclosure irregularities, including fraud, in the United States, Japan and other countries have raised corporate credibility issues, particularly with respect to public companies. In response to these developments and regulatory responses to these developments in the United States, Japan and elsewhere, regulators, auditors and corporate managers generally have begun to review financial statements more thoroughly and conservatively. As a result, additional accounting irregularities and corporate governance issues may be uncovered and bring about additional bankruptcy filings and regulatory action in the United States, Japan and elsewhere. Such developments could increase our credit costs if they directly involve our borrowers or indirectly affect our borrowers' credit. In addition, the credit review process by credit rating agencies has been subject to debate in the United States and other jurisdictions. The debate may result in new measures or policies that could negatively affect some of our borrowers' credit or the debt securities that they issue.

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

Some Japanese financial institutions, including banks, non-bank lending and credit institutions, affiliates of securities companies and insurance companies, have experienced declining asset quality and capital adequacy and other financial problems. This may lead to severe liquidity and solvency problems, which have in the past resulted in the liquidation, government control or restructuring of affected institutions. The financial difficulties of other financial institutions could adversely affect us because:

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

we are a shareholder of some other banks and financial institutions that are not our consolidated subsidiaries;

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

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

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

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

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

If the goodwill recorded in connection with the merger with UFJ Holdings becomes impaired, we may be required to record impairment charges, which may adversely affect our financial results and the price of our securities.

In accordance with US GAAP, we have accounted for the merger with UFJ Holdings using the purchase method of accounting. We allocated the total purchase price to our assets and liabilities based on the proportionate share of the fair values of those assets and liabilities. We have been incurring additional amortization expense over the estimated useful lives of certain of the identifiable intangible assets acquired in

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connection with the transaction. In addition, we recorded the excess of the purchase price over the fair values of UFJ Holdings' assets and liabilities as goodwill. If we do not achieve the anticipated benefits of the merger, we may be required to record impairment charges relating to the recorded goodwill, and our financial results and the price of our securities could be adversely affected.

We may experience difficulties implementing effective internal controls.

In order to operate as a global financial institution, it is essential for us to have effective internal controls, corporate compliance functions, and accounting systems to manage our assets and operations. Moreover, under the U.S. Sarbanes-Oxley Act of 2002, which applies by reason of our status as an SEC reporting company, we are required to establish internal control over our financial reporting, and our management is required to assess the effectiveness of our internal control over financial reporting and disclose whether such internal control is effective beginning from our fiscal year ended March 31, 2007. Our independent auditors must also conduct an audit to evaluate management's assessment of the effectiveness of the internal control over financial reporting, and then render an opinion on our assessment and the effectiveness of our internal control over financial reporting.

Designing and implementing an effective system of internal control capable of monitoring and managing our business and operations represents a significant challenge. Our internal control framework needs to have the ability to identify and prevent similar occurrences on a group-wide basis. The design and implementation of internal control may require significant management and human resources and may result in considerable costs. In addition, as a result of unanticipated issues, we may need to take a permitted scope limitation on our assessment of internal control over financial reporting, may report material weaknesses in our internal control over financial reporting or may be unable to assert that our internal control over financial reporting is effective. If such circumstances arise, it could adversely affect the market's perception of us.

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

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

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

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

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

We started calculating our risk-weighted capital ratios based on a new framework relating to regulatory capital requirements based on the Basel II framework published by the Basel Committee on Banking Supervision as of March 31, 2007. We, as a holding company, and our Japanese banking subsidiaries are required to maintain risk-weighted capital ratios above the levels specified in the capital adequacy guidelines of the Financial Services Agency of Japan. The capital ratios are calculated in accordance with Japanese banking regulations based on information derived from the relevant entity's financial statements prepared in accordance with Japanese GAAP. Our subsidiaries in California, UnionBanCal Corporation and Union Bank of California, N.A., referred to collectively as UNBC, are subject to similar U.S. capital adequacy guidelines. We or our banking subsidiaries may be unable to continue to satisfy the capital adequacy requirements because of:

increases in credit risk assets and expected losses we or our banking subsidiaries may incur due to fluctuations in our or our banking subsidiaries' securities portfolios as a result of deteriorations in the credit of our borrowers and the issuers of equity and debt securities;

increases in credit costs we or our banking subsidiaries may incur as we or our banking subsidiaries dispose of problem loans or as a result of deteriorations in the credit of our borrowers;

declines in the value of our or our banking subsidiaries' securities portfolio;

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

a reduction in the value of our or our banking subsidiaries' deferred tax assets;

our or our banking subsidiaries' inability to refinance subordinated debt obligations with equally subordinated debt;

adverse changes in foreign currency exchange rates; and

other adverse developments discussed in these risk factors.

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

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

We and our Japanese banking subsidiaries determine the amount of net deferred tax assets and regulatory capital pursuant to Japanese GAAP and Japanese banking regulations, which differ from US GAAP and U.S. regulations. Currently, Japanese GAAP generally permits the

establishment of deferred tax assets for tax benefits that are expected to be realized during a period that is reasonably foreseeable, generally five fiscal years. The calculation of deferred tax assets under Japanese GAAP is based upon various assumptions, including assumptions with respect to future taxable income. Actual results may differ significantly from these assumptions. Our ability to include deferred tax assets in regulatory capital has been limited to a certain extent by rule changes that became effective on March 31, 2006. If we conclude, based on our projections of future taxable income, that we or our Japanese banking subsidiaries will be unable to realize a portion of the deferred tax assets, our deferred tax assets may be reduced and, as a result, our results of operations may be negatively affected and our capital ratios may decline.

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

As of March 31, 2007, subordinated debt accounted for approximately 28.8% of our total regulatory capital, 29.6% of BTMU's total regulatory capital, and 22.5% of MUTB's total regulatory capital, in each case, as calculated under Japanese GAAP. We or our banking subsidiaries may not be able to refinance our subordinated debt obligations with equally subordinated debt. The failure to refinance these subordinated debt obligations with equally subordinated debt may reduce our total regulatory capital and, as a result, negatively affect our capital ratios.

Recent changes in the business environment for consumer finance companies in Japan have adversely affected our recent financial results, and may further adversely affect our future financial results.

We have a large loan portfolio to the consumer lending industry as well as large shareholdings of consumer finance companies. The Japanese government is implementing regulatory reforms affecting the consumer lending industry. In December 2006, the Diet passed legislation to reduce the maximum permissible interest rate under the Law concerning Acceptance of Investment, Cash, Deposit and Interest Rate, Etc., or the Investment Deposit and Interest Rate Law, which is currently 29.2% per annum, to 20% per annum. The reduction in the maximum permissible interest rate will be gradually implemented in phases from 2007 through 2010, at the latest. Under the reforms, all interest rates will be subject to the lower limits (15-20% per annum) imposed by the Interest Rate Restriction Law, which will compel lending institutions to lower the interest rates they charge borrowers.

Currently, consumer finance companies that satisfy certain conditions are able to charge interest rates exceeding the limits stipulated by the Interest Rate Restriction Law. Accordingly, our consumer finance subsidiaries and an equity method investee offer loans at interest rates above the Interest Rate Restriction Law. During the past year, the Supreme Court of Japan rendered decisions concerning interest rates exceeding the limits stipulated by the Interest Rate Restriction Law, and the business environment for consumer finance companies in Japan has been altered in favor of borrowers. Due to such changes, borrowers' claims for reimbursement of such excess interest payments that they have once made to the consumer finance companies have significantly increased in the past 12 months. Furthermore, new regulations that are scheduled to be enacted before mid-2010 are expected to require, among other things, consumer finance companies to review the repayment capability of borrowers before lending, thereby limiting the amount of borrowing available to individual borrowers, which in turn may negatively affect our future financial results.

These and other related developments have adversely affected, and may further adversely affect, the operations and financial condition of our subsidiaries, other affiliated entities and borrowers which are engaged in consumer lending, which in turn may affect the value of our related shareholdings and loan portfolio. For example, there may be increases in the allowance for repayment of excess interest at our consumer finance subsidiary. In the fiscal year ended March 31, 2007, we recognized ¥184.0 billion of impairment of intangible assets, as a result of the downward revision of expected future cash flows at our consumer finance subsidiary. Moreover, one of our equity method investees in the consumer finance business increased its allowance for repayment of excess interest for the same period which had a negative impact of ¥77.6 billion on equity in earnings (losses) of equity method investees. These developments may have indirect negative financial consequences on us, such as a change in our tax circumstances or an increase in our valuation allowance for deferred tax assets as a result of a decline in the estimated future taxable income of our consumer finance subsidiaries and may also negatively affect market perception of our consumer lending operations, thereby adversely affecting our future financial results.

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

We hold large amounts of marketable equity securities. The market values of these securities are inherently volatile. We will incur losses on our securities portfolio if the Japanese stock market declines in the future. Material declines in the Japanese stock market may also materially adversely affect our capital ratios. For a detailed discussion of our holdings of marketable equity securities and the effect of market declines on our capital ratios, see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Adequacy and Selected Statistical Data Investment Portfolio.

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

Like many Japanese financial institutions, a substantial portion of our equity securities portfolio is held for strategic and business-relationship purposes. Under Japanese law, however, bank holding companies and banks, including us and our banking subsidiaries, are prohibited from holding stock with an aggregate value that exceeds their adjusted Tier I capital. Additionally, Japanese banks are also generally prohibited by the Banking Law and the Anti-Monopoly Law of Japan from purchasing or holding more than 5% of the equity interest in any domestic third party. In order to comply with this requirement, our banking subsidiaries, BTMU and MUTB, are required to sell some holdings of equity securities within five years from the date of the each merger, January 1, 2006 and October 1, 2005, respectively, so that their holdings do not exceed the 5% threshold.

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

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

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

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

the strengthening of the Japanese yen against the US dollar and other foreign currencies will reduce the value of our substantial portfolio of foreign currency denominated investments.

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In addition, downgrades of the credit ratings of some of the securities in our portfolio could negatively affect our results of operations. Our results of operations and financial condition are exposed to the risks of loss associated with these activities. For a discussion of our investment portfolio and related risks see Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Financial Condition Investment Portfolio and Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.

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

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

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

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

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

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

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

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

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

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

We are exposed to new or increased risks as we expand the range of our products and services.

As we expand the range of our products and services beyond our traditional banking and trust businesses and as the sophistication of financial products and management systems grows, we will be exposed to new and increasingly complex risks. We may have only limited experience with the risks related to the expanded range of these products and services. To the extent we expand our product and service offerings through acquisitions, we face risks relating to the integration of acquired businesses with our existing operations. Moreover, some of the activities that our subsidiaries are expected to engage in, such as derivatives and foreign currency trading, present substantial risks. Our risk management systems may prove to be inadequate and may not work in all cases or to the degree required. As a result, we are subject to substantial market, credit and other risks in relation to the expanding scope of our products, services and trading activities, which could result in us incurring substantial losses. In addition, our efforts to offer new services and products may not succeed if product or market opportunities develop more slowly than expected or if the profitability of opportunities is undermined by competitive pressures. For a detailed discussion of our risk management systems, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.

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

UNBC contributes to a significant portion of our net income. Any adverse change in the business or operations of UNBC could significantly affect our results of operations. Factors that could negatively affect UNBC's results include adverse economic conditions in California, including the decline in the technology sector, the state government's financial condition, a potential downturn in the real estate and housing industries in California, substantial competition in the California banking market, growing uncertainty over the U.S. economy due to deteriorating credit markets in the United States, the threat of terrorist attacks, fluctuating oil prices and rising interest rates, negative trends in debt ratings, and additional costs and other adverse

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consequences which may arise from enterprise-wide compliance, or failure to comply, with applicable laws and regulations such as the U.S. Bank Secrecy Act and related amendments under the USA PATRIOT Act.

For example, on September 14, 2007, Union Bank of California, N.A. agreed to a consent order and payment of a civil money penalty of \$10.0 million assessed concurrently by the U.S. Office of the Comptroller of the Currency (OCC) and the U.S. Financial Crimes Enforcement Network (FinCEN) relating to the Bank Secrecy Act / Anti-Money Laundering compliance controls and processes of Union Bank of California. On September 17, 2007, Union Bank of California also entered into a deferred prosecution agreement with the U.S. Department of Justice under which Union Bank of California agreed to a payment of \$21.6 million and the government agreed to defer prosecution of a Bank Secrecy Act Program violation primarily related to the discontinued international banking business of Union Bank of California and dismiss prosecution if Union Bank of California meets the conditions of the deferred prosecution agreement, including complying with the OCC consent order for one year. UNBC has committed to a number of improvements and may incur additional expenses relating to such measures.

For a detailed segment discussion relating to UNBC, see Item 5.A. Operating and Financial Review and Prospects Operating Results Business Segment Analysis.

Our results of operations may be negatively affected by the recent financial instability in the U.S. resulting from subprime mortgages.

The recent credit market instability in the U.S. resulting from concerns with increased defaults of higher risk mortgages to lower income households, or the so-called subprime mortgages, may adversely affect our loan and investment portfolios. For example, some of our investment securities may need to be marked at a significantly lower price because a market price for those securities is depressed or not properly quoted. We may also be affected by credit market deterioration caused by defaults on subprime mortgages. Specifically, the availability of credit may become limited, causing some of our counterparties to default, or some of our credit derivative transactions to otherwise be negatively affected. Moreover, the negative developments in U.S. credit markets may cause significant fluctuations in stock markets globally, and foreign currency exchange rates which in turn may affect our results of operation. If credit market conditions continue to deteriorate, our capital funding structure may need to be adjusted, and our funding costs may increase.

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

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

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

Our international operations are subject to fluctuations in foreign currency exchange rates against the Japanese yen. When the Japanese yen appreciates, Japanese yen amounts for transactions denominated in foreign currencies, including a substantial portion of UNBC's transactions, decline. In addition, a portion of our assets and liabilities is denominated in foreign currencies. To the extent that our foreign currency denominated assets and liabilities are not matched in the same currency or appropriately hedged, fluctuations in foreign currency exchange rates against the Japanese yen may adversely affect our financial condition, including our capital ratios. In addition, fluctuations in foreign exchange rates will create foreign currency translation gains or losses. For a historical discussion of the effect of changes in foreign currency exchange rates, see Item 5.A. Operating and Financial Review and Prospects Operating Results Effect of the Change in Exchange Rates on Foreign Currency Translation.

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

We may incur losses if the fair value of our pension plans' assets declines, if the rate of return on our pension assets declines or if there is a change in the actuarial assumptions on which the calculations of the projected benefit obligations are based. We may also experience unrecognized service costs in the future due to amendments to existing pension plans. Changes in the interest rate environment and other factors may also adversely affect the amount of unfunded pension obligations and the resulting annual amortization expense. Additionally, the assumptions used in the computation of future pension expenses may not remain constant.

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

Our trust bank subsidiary may have to compensate for losses of principal of all loan trusts and some money in trusts. Funds in those guaranteed trusts are generally invested in loans and securities. If the amount of assets and reserves held in the guaranteed trusts falls below the principal as a result of loan losses, losses in the investment portfolio or otherwise, it would adversely affect our results of operations.

Our information systems and other aspects of our business and operations are exposed to various system, political and social risks.

As a major financial institution, our information systems and other aspects of our business and operations are exposed to various system, political and social risks beyond our control. Incidents such as disruptions of the Internet and other information networks due to major virus outbreaks, major terrorist activity, serious political instability and major health epidemics have the potential to directly affect our business and operations by disrupting our operational infrastructure or internal systems. Such incidents may also negatively impact the economic conditions, political regimes and social infrastructure of countries and regions in which we operate, and possibly the global economy as a whole. Our risk management policies and procedures may be insufficient to address these and other large-scale unanticipated risks.

In particular, the capacity and reliability of our electronic information technology systems are critical to our day-to-day operations and a failure or disruption of these systems would adversely affect our capacity to conduct our business. In addition to our own internal information systems,

we also provide our customers with access to our services and products through the Internet and ATMs. These systems as well as our hardware and software are subject to malfunction or incapacitation due to human error, accidents, power loss, sabotage, hacking, computer viruses and similar events, as well as the loss of support services from third parties such as telephone and Internet service providers.

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Additionally, as with other Japanese companies, our offices and other facilities are subject to the risk of earthquakes and other natural disasters. Our redundancy and backup measures may not be sufficient to avoid a material disruption in our operations, and our contingency plans may not address all eventualities that may occur in the event of a material disruption.

These various factors, the threat of such risks or related countermeasures, or a failure to address such risks, may materially and adversely affect our business, operating results and financial condition.

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

In recent years, there have been many cases where personal information and records in the possession of corporations and institutions were leaked or improperly accessed. In the event that personal information in our possession about our customers or employees is leaked or improperly accessed and subsequently misused, we may be subject to liability and regulatory action. The standards applicable to us have become more stringent under the Personal Information Protection Act of Japan, which became fully effective from April 2005. As an institution in possession of personal information, we may have to provide compensation for economic loss and emotional distress arising out of a failure to protect such information in accordance with the Personal Information Protection Act. In addition, such incidents could create a negative public perception of our operations, systems or brand, which may in turn decrease customer and market confidence and materially and adversely affect our business, operating results and financial condition.

Transactions with counterparties in countries designated by the U.S. Department of State as state sponsors of terrorism may lead some potential customers and investors in the U.S. and other countries to avoid doing business with us or investing in our shares.

We, through our banking subsidiaries, engage in operations with entities in or affiliated with Iran and Cuba, including transactions with entities owned or controlled by the Iranian or Cuban governments, and the banking subsidiary has a representative office in Iran. The U.S. Department of State has designated Iran and Cuba as state sponsors of terrorism, and U.S. law generally prohibits U.S. persons from doing business with such countries. Our activities with counterparties in or affiliated with Iran, Cuba and other countries designated as state sponsors of terrorism are conducted in compliance in all material respects with both applicable Japanese and U.S. regulations.

Our operations with entities in Iran consist primarily of loans to Iranian financial institutions in the form of financing for petroleum projects and trade financing for general commercial purposes, as well as letters of credit and foreign exchange services. In addition, we extend trade financing for general commercial purposes to a corporate entity affiliated with Cuba. We do not believe our operations relating to Iran and Cuba are material to our business, financial condition and results of operations, as the loans outstanding to borrowers in or affiliated with Iran and Cuba as of March 31, 2007 were approximately \$662.0 million and \$8.1 million, respectively, which together represented less than 0.1% of our total assets as of March 31, 2007.

We are aware of initiatives by U.S. governmental entities and U.S. institutional investors, such as pension funds, to adopt or consider adopting laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with Iran and other countries identified as state sponsors of terrorism. It is possible that such initiatives may result in our being unable to gain or retain entities subject to such prohibitions as customers or as investors in our shares. In addition, depending on socio-political developments our reputation may suffer due to our association with these countries. The above circumstances could have a significant adverse effect on our business and financial condition.

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We have recently been subject to several regulatory actions for non-compliance with legal requirements. These regulatory matters and any future regulatory matters or regulatory changes could have a negative impact on our business and results of operations.

We conduct our business subject to ongoing regulation and associated regulatory compliance risks, including the effects of changes in laws, regulations, policies, voluntary codes of practice and interpretations in Japan and other markets in which we operate. Our compliance risk management systems and programs may not be fully effective in preventing all violations of laws, regulations and rules.

The Financial Services Agency of Japan and regulatory authorities in the United States and elsewhere also have the authority to conduct, at any time, inspections to review banks' accounts, including those of our banking subsidiaries. Some of our other financial services businesses, such as our securities business, are also subject to regulations set by, and inspections conducted by, various self-regulatory organizations, such as the National Securities Dealers Association in the United States.

In February 2007, BTMU received an administrative order from the Financial Services Agency of Japan in respect of compliance management at certain of its operations regarding the occurrence of certain inappropriate transactions. The administrative order required temporary suspensions of credit extensions to new corporate customers, training of all staff and directors regarding compliance, temporary suspension of the establishment of new domestic corporate business locations, strengthening of the management and internal control framework, presentation and implementation of a business improvement plan, and reports on the progress of such business improvement plan. In June 2007, BTMU received administrative orders from the Financial Services Agency of Japan in respect of its overseas business and investment trust sales and related businesses in Japan. The administrative order required BTMU to make improvements in its compliance structure and related internal control functions in its overseas and domestic investment trust sales and related business, presentation and implementation of a business improvement plan, and reports on the progress of such business improvement plan. Also, in January 2007, Mitsubishi UFJ Securities received a business improvement order from the Financial Services Agency of Japan following a recommendation by the Securities and Exchange Surveillance Commission of Japan based upon the ascertainment of certain facts constituting an infringement of applicable laws and regulations concerning securities transactions conducted by Mitsubishi UFJ Securities for its proprietary account.

In December 2006, we and BTMU entered into a written agreement with the Federal Reserve Banks of San Francisco and New York and the New York State Banking Department, and Bank of Tokyo-Mitsubishi UFJ Trust Company, or BTMUT, a subsidiary of BTMU, consented to an Order to Cease and Desist issued by the Federal Deposit Insurance Corporation and the New York State Banking Department, to strengthen the compliance framework and operations of BTMU, the New York Branch of BTMU and BTMUT, respectively, for preventing money laundering. As a result of the written agreement and the consent to the Order to Cease and Desist, MUFG is required, among other things, to implement corrective measures and submit periodic progress reports to the authorities. Separately, on September 14, 2007, Union Bank of California agreed to a consent order and payment of a civil money penalty of \$10.0 million assessed concurrently by the U.S. Office of the Comptroller of the Currency (OCC) and the U.S. Financial Crimes Enforcement Network (FinCEN) relating to the Bank Secrecy Act / Anti-Money Laundering compliance controls and processes of Union Bank of California. On September 17, 2007, Union Bank of California also entered into a deferred prosecution agreement with the U.S. Department of Justice under which Union Bank of California agreed to a payment of \$21.6 million and the government agreed to defer prosecution of a Bank Secrecy Act Program violation primarily related to the discontinued international banking business of Union Bank of California and dismiss prosecution if Union Bank of California meets the conditions of the deferred prosecution agreement, including complying with the OCC consent order for one year. UNBC has committed to a number of improvements and may incur additional expenses relating to such measures.

Our failure or inability to comply fully with applicable laws and regulations could lead to fines, public reprimands, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of

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authorization to operate, adversely affecting our business and results of operations. Regulatory matters may also negatively affect our ability to obtain regulatory approvals for future strategic initiatives. Furthermore, failure to take necessary corrective action, or the discovery of violations of law in the process of further review of any of the matters mentioned above or in the process of implementing any corrective measures, could result in further regulatory action.

In addition, future developments or changes in laws, regulations, policies, voluntary codes of practice, fiscal or other policies and their effects are unpredictable and beyond our control. For example, new regulations to be enacted before mid-2010 are expected to require, among other things, consumer finance companies in Japan to review the repayment capabilities of borrowers before lending, thereby limiting the amount of borrowing available to individual borrowers, which in turn may negatively affect our future financial results.

Our influential position in the Japanese financial markets may subject us to potential claims of unfair trade practices from regulatory authorities and customers.

We are one of the largest and most influential financial institutions in Japan by virtue of our market share and the size of our operations and customer base. As a result of our influential position in the Japanese financial markets, we may be subject to more exacting scrutiny from regulatory authorities and customers regarding our trade practices and potential abuses of our dominant bargaining position in our dealings with customers.

Any claims of unfair trade practices relating to our sales, lending and other operations, regardless of their validity, could create a negative public perception of our operations which may in turn adversely affect our business, operating results and financial condition.

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

In recent years, the Japanese financial system has been increasingly deregulated and barriers to competition have been reduced. In addition, the Japanese financial industry has been undergoing significant consolidation, which trend may continue in the future and further increase competition. The planned privatization of the Japanese postal savings system and the establishment of a Postal Saving Bank in October 2007, as well as the planned privatization of certain governmental financial institutions, could also substantially increase competition within the financial services industry. If we are unable to compete effectively in this more competitive and deregulated business environment, our business, results of operations and financial condition will be adversely affected. For a more detailed discussion of our competition in Japan, see Item 4.B. Information on the Company Business Overview Competition Japan .

We may have difficulty achieving the benefits expected from the recently completed and planned mergers and other business combinations involving our subsidiaries and affiliates.

In line with our ongoing strategic effort to create a leading comprehensive financial group that offers a broad range of financial products and services, we have recently completed and are planning to complete mergers and other business combinations involving some of our subsidiaries and equity method investees. For example, UFJ NICOS Co., Ltd. and DC Card Co., Ltd., our credit card subsidiaries, merged on April 1, 2007, with UFJ NICOS being the surviving entity, to form Mitsubishi UFJ NICOS Co., Ltd. Diamond Lease Company Limited and UFJ Central Leasing Co., Ltd., equity method investees of BTMU, merged on the same day. Additionally, on April 18, 2007, BTMU completed a public tender offer to acquire additional shares of kabu.com Securities Co., Ltd., an online brokerage firm. As a result of the tender offer, we increased

our ownership interest in kabu.com Securities from 30.85% to 40.36%. We have made kabu.com Securities our consolidated subsidiary in June 2007. On September 20, 2007, we announced that we plan to make Mitsubishi UFJ NICOS our wholly-owned subsidiary through a share exchange expected to go into effect on August, 2008. The growth opportunities and other expected benefits of these business combinations, however, may not be realized in the expected time period

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and unanticipated problems could arise in the integration process, including unanticipated expenses related to the integration process as well as delays or other difficulties in coordinating, consolidating and integrating personnel, information and management systems, and customer products and services. If we are unable to implement the business and operational integration of our subsidiaries and equity method investees, our business, results of operations, financial condition and stock price may be materially and adversely affected. For a more detailed discussion of recently completed and planned mergers and other business combinations involving our subsidiaries and affiliates, see Item 4.B. Information on the Company Business Overview and Item 5.A. Operating and Financial Review and Prospects Operating Results Recent Developments.

Our ability to pay dividends is substantially dependent on our subsidiaries and affiliated companies payments of dividends and management fees to us.

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

Risks Related to Owning Our Shares

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

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

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

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

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

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

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Risks Related to Owning Our ADSs

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

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

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

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

Item 4. Information on the Company.

A. History and Development of the Company

Mitsubishi UFJ Financial Group, Inc.

MUFG is a bank holding company incorporated as a joint stock company (*kabushiki kaisha*) under the Commercial Code of Japan. Formed through the merger between Mitsubishi Tokyo Financial Group, Inc., or MTFG, and UFJ Holdings, Inc. on October 1, 2005, we are one of the largest bank holding companies in the world when measured by total assets. We are the holding company for The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, and Mitsubishi UFJ Securities Co., Ltd., or MUS.

On April 2, 2001, The Bank of Tokyo-Mitsubishi, Ltd., Mitsubishi Trust and Banking Corporation, or Mitsubishi Trust Bank, and Nippon Trust Bank Limited established MTFG to be a holding company for the three entities. Before that, each of the banks had been a publicly held company. On April 2, 2001, through a stock-for-stock exchange, they became wholly-owned subsidiaries of MTFG, and the former shareholders of the three banks became shareholders of MTFG. Nippon Trust Bank was later merged into Mitsubishi Trust Bank.

On April 1, 2004, we implemented a new integrated business group system, which currently integrates the operations of BTMU, MUTB and MUS into the following three areas: Retail, Corporate, and Trust Assets. Although this new measure did not change the legal entities of MUFG, BTMU, MUTB and MUS, it is intended to enhance synergies by promoting more effective and efficient collaboration between our subsidiaries.

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

On June 29, 2005, the merger agreement between us and UFJ Holdings was approved at the general shareholders meetings of MTFG and UFJ Holdings. As the surviving entity, Mitsubishi Tokyo Financial Group, Inc. was renamed Mitsubishi UFJ Financial Group, Inc. The merger of the two bank holding companies was completed on October 1, 2005.

Our registered address is 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, Japan, and our telephone number is 81-3-3240-8111.

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

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The Bank of Tokyo-Mitsubishi UFJ, Ltd.

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

BTMU was formed through the merger, on January 1, 2006, of Bank of Tokyo-Mitsubishi, and UFJ Bank Limited, after their respective parent companies, MTFG and UFJ Holdings, merged to form MUFG on October 1, 2005.

Bank of Tokyo-Mitsubishi was formed through the merger, on April 1, 1996, of The Mitsubishi Bank, Limited and The Bank of Tokyo, Ltd.

The origins of Mitsubishi Bank can be traced to the Mitsubishi Exchange Office, a money exchange house established in 1880 by Yataro Iwasaki, the founder of the Mitsubishi industrial, commercial and financial group. In 1895, the Mitsubishi Exchange Office was succeeded by the Banking Division of the Mitsubishi Goshi Kaisha, the holding company of the Mitsubishi group of companies. Mitsubishi Bank had been a principal bank to many of the Mitsubishi group companies, but broadened its relationships to cover a wide range of Japanese industries, small and medium-sized companies and individuals.

Bank of Tokyo was established in 1946 as a successor to The Yokohama Specie Bank, Ltd., a special foreign exchange bank established in 1880. When the government of Japan promulgated the Foreign Exchange Bank Law in 1954, Bank of Tokyo became the only bank licensed under that law. Because of its license, Bank of Tokyo received special consideration from the Ministry of Finance in establishing its offices abroad and in many other aspects relating to foreign exchange and international finance.

UFJ Bank was formed through the merger, on January 15, 2002, of The Sanwa Bank, Limited and The Tokai Bank, Limited.

Sanwa Bank was established in 1933 when the three Osaka-based banks, the Konoike Bank, the Yamaguchi Bank, and the Sanjyushi Bank merged. Sanwa Bank was known as a city bank having the longest history in Japan, since the foundation of Konoike Bank can be traced back to the Konoike Exchange Office established in 1656. The origin of Yamaguchi Bank was also a money exchange house, established in 1863. Sanjyushi Bank was founded by influential fiber wholesalers in 1878. The corporate philosophy of Sanwa Bank had been the creation of the premier banking services especially for small and medium-sized companies and individuals.

Tokai Bank was established in 1941 when the three Nagoya-based banks, the Aichi Bank, the Ito Bank, and the Nagoya Bank merged. In 1896, Aichi Bank took over businesses of the Jyuichi Bank established by wholesalers in 1877 and the Hyakusanjyushi Bank established in 1878. Ito Bank and Nagoya Bank were established in 1881 and 1882, respectively. Tokai Bank had expanded the commercial banking business to contribute to economic growth mainly of the Chubu area in Japan, which is known for the manufacturing industry, especially automobiles.

Mitsubishi UFJ Trust and Banking Corporation

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

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MUTB was formed on October 1, 2005 through the merger of Mitsubishi Trust and Banking Corporation, or Mitsubishi Trust Bank, and UFJ Trust Bank Limited. As the surviving entity, Mitsubishi Trust Bank was renamed Mitsubishi UFJ Trust and Banking Corporation .

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

Nippon Trust Bank and The Tokyo Trust Bank, Ltd., which were previously subsidiaries of Bank of Tokyo-Mitsubishi, were merged into Mitsubishi Trust Bank on October 1, 2001.

UFJ Trust Bank was founded in 1959 as The Toyo Trust & Banking Company, Limited, or Toyo Trust Bank. The Sanwa Trust & Banking Company, Limited, which was a subsidiary of Sanwa Bank, was merged into Toyo Trust Bank on October 1, 1999. The Tokai Trust & Banking Company, Limited, which was a subsidiary of Tokai Bank, was merged into Toyo Trust Bank on July 1, 2001. Toyo Trust Bank was renamed UFJ Trust Bank Limited on January 15, 2002.

Mitsubishi UFJ Securities Co., Ltd.

MUS was formed through the merger between Mitsubishi Securities and UFJ Tsubasa Securities on October 1, 2005. As the surviving entity, Mitsubishi Securities was renamed Mitsubishi UFJ Securities Co., Ltd. As of March 31, 2007, MUFG held MUS common stock representing 62.75% of the voting rights. MUS is scheduled to become a wholly-owned subsidiary of MUFG on September 30, 2007.

MUS functions as the core of our securities and investment banking business, including underwriting and brokerage of securities, mergers and acquisitions, derivatives, corporate advisory and securitization operations.

In addition to its own independent branches, MUS serves individual customers with BTMU and MUTB through MUFG Plazas.

In the securities business, MUS offers its customers a wide range of investment products. The equity sales staff members provide services to clients ranging from individual investors to institutional investors in Japan and abroad. Through derivative products, MUS provides solutions to meet customers' risk management needs. MUS also offers structured bonds utilizing various types of derivatives in response to customers' investment needs. In the investment trust business, MUS provides its retail and corporate customers a wide variety of products. MUS also offers investment banking services in such areas as bond underwriting, equity underwriting, initial public offerings, support for IR activities, securitization of assets and mergers and acquisitions. MUS has research functions and provides in-depth company and strategy reports. To strengthen and enhance our global securities business network, MUS has major overseas subsidiaries in London, New York, Hong Kong, Singapore and Shanghai.

B. Business Overview

We are one of the world's largest and most diversified financial groups with total assets of almost ¥190 trillion as of March 31, 2007. Following the creation of Mitsubishi UFJ NICOS Co., Ltd. and Mitsubishi UFJ Lease & Finance Company Limited in April 2007, the Group is comprised of five primary operating companies, including BTMU, MUTB and MUS. Our services include commercial banking, trust banking, securities, credit cards, consumer finance, asset management, leasing and many more fields of financial services. The Group has the largest overseas network of any Japanese bank, comprised of offices and subsidiaries, including Union Bank of California, in more than 40 countries.

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While maintaining the corporate cultures and core competencies of BTMU, MUTB, MUS, we as the holding company seek to work with them to find ways to:

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

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

benefit from the collective expertise of BTMU, MUTB and MUS;

achieve operational efficiencies and economies of scale; and

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

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

Integrated Retail Banking Business Group

The Integrated Retail Banking Business Group covers all domestic retail businesses, including commercial banking, trust banking and securities businesses, and enables us to offer a full range of banking products and services, including financial consulting services, to retail customers in Japan. This business group integrates the retail business of BTMU, MUTB and MUS as well as retail product development, promotion and marketing in a single management structure. Many of our retail services are offered through our network of MUFG Plazas providing individual customers with one-stop access to our comprehensive financial product line-up of integrated commercial banking, trust banking and securities services.

Deposits and retail asset management services. We offer a full range of bank deposit products including a non-interest-bearing deposit account that is redeemable on demand and intended primarily for payment and settlement functions, and is fully insured without a maximum amount limitation. In July 2006, we raised interest rates on our ordinary deposits for the first time in almost four years from 0.001% per annum to 0.1% per annum and rates were increased again in February 2007 from 0.1% per annum to 0.2% per annum. We raised interest rates on fixed term deposits in accordance with trends in market interest rates.

We also offer a variety of asset management and asset administration services to individuals, including savings instruments such as current accounts, ordinary deposits, time deposits, deposits at notice and other deposit facilities. We also offer trust products, such as loan trusts and money trusts, and other investment products, such as investment trusts, performance-based money trusts and foreign currency deposits.

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We create portfolios tailored to customer needs by combining savings instruments and investment products. We also provide a range of asset management and asset administration products as well as customized trust products for high net worth individuals, as well as advisory services relating to, among other things, the purchase and disposal of real estate and effective land utilization and testamentary trusts.

Investment trusts. We provide a varied line-up of products allowing our customers to choose products according to their investment needs through BTMU, MUTB and MUS as well as kabu.com Securities, which specializes in online financial services. In order to provide a strong line-up of investment products to meet the second life needs of the baby boom generation in their retirement, we launched the MUFG Fidelity Retirement Allowance Fund in November 2006 and the Mitsubishi UFJ Asset Formation Fund in March 2007. Furthermore, we are strengthening our SRI (Socially Responsible Investment) funds as part of our commitment to CSR (Corporate Social Responsibility), one of the key elements of MUFG's business strategy.

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Individual annuity insurance. Since the Japanese government lifted the prohibition against sales of such products by banks in October 2002, we have been actively selling individual annuities in an effort to meet the needs of our customers. Our current line-up of insurance products consists of investment-type individual annuities, foreign currency denominated insurance annuities and yen denominated fixed-amount annuity insurance. Additionally, since January 2005, we have been offering single premium term insurance.

Securities intermediation operations. Our banking subsidiaries entered the securities industry following the lifting of the ban on securities intermediation by banks in Japan on December 1, 2004. We offer stocks including public offerings, foreign and domestic investment trusts, Japanese government bonds, foreign bonds and other various products through BTMU and MUTB with MUS, Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd. and kabu.com Securities Co., Ltd. acting as agents. By the end of March 2007, BTMU had accepted around 640 personnel from MUS of whom around 550 have been stationed throughout the nationwide BTMU branch network as specialists in charge of investment consulting in order to further strengthen our sales system.

Loans. We offer housing loans, card loans and other loans to individuals. With respect to housing loans, in addition to ultra-long term fixed rate housing loans and housing loans incorporating health insurance for seven major illnesses, we began offering the Flat 35 guaranteed housing loan in a tie-up with the Japan Housing Finance Agency. We have also started offering preferential rates on refinancing applications received via the internet as part of our efforts to develop products to meet a wide variety of customer needs in a time of rising interest rates.

Credit cards. In October 2004, we began to issue a multi-functional IC card, which combines ATM card, credit card and electronic money functions. Our other initiatives to provide convenient solutions to customers include the February 2007 launch of the Super IC Card Suica Mitsubishi-Tokyo UFJ VISA in collaboration with East Japan Railway Company.

BTMU's subsidiary, UFJ NICOS Co., Ltd., merged with Kyodo Credit Service Co., Ltd. in October 2006, and with DC Card Co., Ltd., another BTMU subsidiary, in April 2007 to form Mitsubishi UFJ NICOS Co., Ltd. On September 20, 2007, we announced that we will acquire ¥120 billion of newly issued Mitsubishi UFJ NICOS shares on November 6, 2007, thereby increasing our holdings to approximately 75% of Mitsubishi UFJ NICOS total issued shares. We also announced that we and Mitsubishi UFJ NICOS had entered into an agreement to make Mitsubishi UFJ NICOS our wholly-owned subsidiary through a share exchange expected to go into effect on August 1, 2008.

As part of its new medium term business plan, Mitsubishi UFJ NICOS will concentrate resources on the credit card business and transfer its installment credit sales business to JACCS Co., Ltd.

We will also hold discussions with The Norinchukin Bank to expand the business and capital alliance between The Norinchukin Bank and Mitsubishi UFJ NICOS. As part of these discussions, we will consider the possibility of having Mitsubishi UFJ NICOS become an equity method investee of The Norinchukin Bank after Mitsubishi UFJ NICOS becomes our wholly-owned subsidiary.

Domestic Network. We offer products and services through a wide range of channels, including branches, ATMs (including convenience store ATMs shared by multiple banks), Tokyo-Mitsubishi UFJ Direct (telephone, internet and mobile phone banking), the BTMU Telebank service video conferencing counters (counters that allow face-to-face style contact with operators through the use of broadband internet video conferencing) and mail order.

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Our MUFG Plazas provide individual customers with one-stop access to our comprehensive financial product lineup by integrating commercial bank, trust bank and securities services. We operated 62 MUFG Plazas as of March 31, 2007. As an exclusive membership service for high net worth customers, private banking offices have been established since December 2006, featuring lounges and private rooms where customers can receive wealth management advice and other services in a relaxing and comfortable setting. As of March 31, 2007, we have opened seven private banking offices in the Tokyo metropolitan area, Nagoya and Osaka.

Trust agency operations. As of the end of July 2007, BTMU is conducting the following eight businesses as the trust banking agent for MUTB: testamentary trusts, inheritance management, asset succession planning, inheritance management agency operations, business management financial clinic, lifetime gift trusts, share

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disposal trusts, and marketable securities administration trusts. In October 2006, BTMU accepted approximately 30 financial consultants (sales managers specializing in inheritance business) from MUTB. Because of Japan's increasingly aging society, customer demand for inheritance-related advice is increasing and we aim to drastically strengthen our sourcing of information from the banking market.

Strategic alliances. In March 2007, BTMU agreed to strengthen its business and capital alliance with kabu.com Securities Co., Ltd., an equity-accounted affiliate of MUFG, in order to strengthen our retail online financial services and expand the range of online financial services available. In terms of the capital alliance, as a result of a public tender offer by BTMU for shares of kabu.com Securities conducted during March and April 2007, our shareholding in kabu.com Securities has increased to 40.4%. In June 2007, directors dispatched from MUFG held a majority of the seats on the Board of Directors of kabu.com Securities and kabu.com Securities became a consolidated subsidiary of MUFG.

Integrated Corporate Banking Business Group

The Integrated Corporate Banking Business Group covers all domestic and overseas corporate businesses, including commercial banking, investment banking, trust banking and securities businesses as well as UNBC. UNBC consists of BTMU's subsidiaries in California, UnionBanCal Corporation and Union Bank of California, N.A. Through the integration of these business lines, diverse financial products and services are provided to our corporate clients, from large corporations to medium-sized and small businesses. The business group has clarified strategic domains, sales channels and methods to match the different growth stages and financial needs of our corporate customers.

CIB (Corporate and Investment Banking)

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

Capital Markets. We manage the underwriting of debt and equity for mainly large corporations. We also provides arrangement services relating to private placements for mainly medium-sized enterprise issuers and institutional investors.

Commercial Banking

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

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

Transaction Banking

Settlement services. We provide electronic banking services that allow customers to make domestic and overseas remittances electronically. Settlement and cash management services include global settlement services, Global Cash Management Services, which is a global pooling/netting service, and Treasury Station, a fund management system for group companies.

Trust Banking

MUTB's experience and know-how in the asset management business, real estate brokerage and appraisal services also enable us to offer services tailored to the financial strategies of each client, including securitization of real estate, receivables and other assets. Subject to approval by the relevant authorities, in November 2007, BTMU will issue and allocate 1,000,000 shares of its first series class 6 non-voting preferred shares to MUTB to acquire nine of the corporate business outlets of MUTB.

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Global Businesses

Overseas business support. We provide a full range of services to support customers' overseas activities, including loans, deposits, assistance with mergers and acquisitions and cash management services. We also provide advisory services to help customers develop financial strategies, such as arranging the issuance of asset-backed commercial paper, providing credit commitments and securitizing real estate in Japan.

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

UNBC. As of March 31, 2007, BTMU owned 65% of UnionBanCal Corporation, a publicly traded company listed on the New York Stock Exchange. UnionBanCal is a U.S. commercial bank holding company. Union Bank of California, N.A., UnionBanCal's subsidiary, is one of the largest commercial banks in California based on total assets and total deposits. UNBC provides a wide range of financial services to consumers, small businesses, middle market companies and major corporations, primarily in California, Oregon and Washington but also nationally and internationally. In October 2005, Union Bank of California sold its international correspondent banking business to Wachovia Corp. for approximately US\$245 million.

Integrated Trust Assets Business Group

The Integrated Trust Assets Business Group covers asset management and administration services for products such as pension trusts and security trusts by integrating the trust banking expertise of MUTB and the international strengths of BTMU. The business group provides a full range of services to corporate and other pension funds, including stable and secure pension fund management and administration, advice on pension schemes, and payment of benefits to scheme members. Our Integrated Trust Assets Business Group combines MUTB's trust assets business, comprising of trust assets management services, asset administration and custodial services, Mitsubishi UFJ Global Custody S.A.'s global custody services and Mitsubishi UFJ Asset Management Co., Ltd.'s asset management services.

Mitsubishi UFJ Asset Management Co., Ltd., which was established on October 1, 2005 through a merger between Mitsubishi Asset Management Co., Ltd. and UFJ Partners Asset Management Co., Ltd., provides asset management and trust products and services mainly to high net worth individuals, branch customers and corporate clients in Japan.

Mitsubishi UFJ Global Custody S.A. was formerly named Bank of Tokyo-Mitsubishi UFJ (Luxembourg) S.A. It changed its name as well as its shareholding structure on April 2, 2007. The shareholding structure was changed from a wholly-owned subsidiary of BTMU into a subsidiary 70% owned by MUTB, while BTMU still holds the remaining 30%.

Global Markets

Global Markets consists of the treasury operations of BTMU, MUTB and MUS. Global Markets also conducts asset liability management and liquidity management and provides various financial operations such as money markets and foreign exchange operations and securities

investments.

Other

Other mainly consists of the corporate center of the holding company, BTMU, MUTB and MUS.

Competition

We face strong competition in all of our principal areas of operation. The deregulation of the Japanese financial markets as well as structural reforms in the regulation of the financial industry have resulted in dramatic

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changes in the Japanese financial system. Structural reforms have prompted Japanese banks to merge or reorganize their operations, thus changing the nature of the competition from other financial institutions as well as from other types of businesses.

Japan

Deregulation. Competition in Japan has intensified as a result of the relaxation of regulations relating to Japanese financial institutions. Most of the restrictions that served to limit competition were lifted before the year 2000. Deregulation has eliminated barriers between different types of Japanese financial institutions, which are now able to compete directly against one another. Deregulation and market factors have also facilitated the entry of various large foreign financial institutions into the Japanese domestic market.

The Banking Law, as amended, now permits banks to engage in the securities business by establishing or otherwise owning domestic and overseas securities subsidiaries with the approval of the Financial Services Agency, an agency of the Cabinet Office. Further increases in competition among financial institutions are expected in these new areas of permissible activities.

In terms of new market entrants, other financial institutions, such as Orix Corporation, and non-financial companies, such as Sony Corporation and Ito-Yokado Co., Ltd., have also begun to offer various banking services, often through non-traditional distribution channels. Also, in recent years, various large foreign financial institutions have significantly expanded their presence in the Japanese domestic market. Citigroup, for example, has expanded its banking activities and moved aggressively to provide investment banking and other financial services, including retail services and, through its recent acquisition of Nikko Cordial Corporation, securities brokerage services. The planned privatization of Japan Post, a government-run public services corporation established on April 1, 2003 that is the world's largest holder of deposits, and the expected establishment of a Postal Saving Bank on October 1, 2007, as well as the planned privatization of other governmental financial institutions, could also substantially increase competition within the financial services industry.

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

the separation of banking and securities businesses in Japan; and

the distinctions among the permissible activities of Japan's three principal types of private banking institutions. For a discussion of the two principal types of private banking institutions, see [The Japanese Financial System](#).

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

In the consumer banking sector, deregulation has enabled banks to offer customers an increasingly attractive and diversified range of products. For example, banks may now sell investment trusts and some types of insurance products, with the possibility of expanding to additional types of insurance products in the future. We face competition in this sector from other private financial institutions as well as from Japan Post. Recently, competition has also increased due to the development of new products and distribution channels. For example, Japanese banks have started competing with one another by developing innovative proprietary computer technologies that allow them to deliver basic banking

services in a more efficient manner and to create sophisticated new products in response to customer demand.

The trust assets business is a promising growth area that is competitive and becoming more so because of changes in the industry. In addition, there is growing corporate demand for change in the trust regulatory

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

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

Foreign

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

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

The Japanese Financial System

Japanese financial institutions may be categorized into three types:

the central bank, namely the Bank of Japan;

private banking institutions; and

government financial institutions.

The Bank of Japan

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

Private Banking Institutions

Private banking institutions in Japan are commonly classified into two categories (the following numbers are based on currently available information published by the Financial Services Agency) as of July 1, 2007:

ordinary banks (126 ordinary banks and 64 foreign commercial banks with ordinary banking operations); and

trust banks (21 trust banks, including 4 Japanese subsidiaries of foreign financial institutions).

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Ordinary banks in turn are classified as city banks, of which there are five, including BTMU, and regional banks, of which there are 110 and other banks, of which there are 11. In general, the operations of ordinary banks correspond to commercial banking operations in the United States. City banks and regional banks are distinguished based on head office location as well as the size and scope of their operations.

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

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

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

In recent years, almost all of the city banks have consolidated with other city banks and also, in some cases, with trust banks. Integration among these banks was achieved, in most cases, through the use of a bank holding company.

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

Government Financial Institutions

Since World War II, a number of government financial institutions have been established. These corporations are wholly owned by the government and operate under its supervision. Their funds are provided mainly from government sources. Certain types of operations currently undertaken by these institutions are planned to be assumed by, or integrated with the operations of, private corporations, through measures such as the privatization of Japan Post and other institutions.

Among them are the following:

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

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

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

The Postal Service Agency, which was reorganized in April 2003 into Japan Post, a government-run public services corporation, which is scheduled to be privatized on October 1, 2007.

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Supervision and Regulation

Japan

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

The Financial Services Agency is responsible for supervising and overseeing financial institutions, making policy for the overall Japanese financial system and conducting insolvency proceedings with respect to financial institutions. The Bank of Japan, as the central bank for financial institutions, conducts on-site inspections, in which its staff visits financial institutions and inspects the assets and risk management systems of those institutions.

The Banking Law. Among the various laws that regulate financial institutions, the Banking Law and its subordinated orders and ordinances are regarded as the fundamental law for ordinary banks and other private financial institutions. The Banking Law addresses bank holding companies, capital adequacy, inspections and reporting, as well as the scope of business activities, disclosure, accounting, limitation on granting credit and standards for arms length transactions. In addition, the amendment to the Banking Law which came into effect in April 2006 relaxed the standards relating to bank-agent eligibility, which encourages banks to expand their operations through the use of bank agents.

Bank holding company regulations. A bank holding company is prohibited from carrying on any business other than the management of its subsidiaries and other incidental businesses. A bank holding company may have any of the following as a subsidiary: a bank, a securities company, an insurance company and a foreign subsidiary that is engaged in the banking, securities or insurance business. In addition, a bank holding company may have as a subsidiary any company that is engaged in a business relating or incidental to the businesses of the companies mentioned above, such as a credit card company, a leasing company or an investment advisory company. Certain companies that are designated by a ministerial ordinance as those that cultivate new business fields may also become the subsidiary of a bank holding company.

Capital adequacy. The capital adequacy guidelines adopted by the Financial Services Agency that are applicable to Japanese bank holding companies and banks with international operations closely follow the risk-weighted approach introduced by the Basel Committee on Banking Supervision of the Bank for International Settlements, or BIS. In June 2004, the Basel Committee released revised standards called International Convergence of Capital Measurement and Capital Standards: A Revised Framework, or Basel II, which has become applicable to Japanese banks since the end of March 2007. Basel II has three core elements, or pillars: requiring minimum regulatory capital, the self-regulation of financial institutions based on supervisory review, and market discipline through the disclosure of information. Base II is based on the belief that these three pillars will collectively ensure the stability and soundness of financial systems. These amendments do not change the minimum capital requirements applicable to internationally active banks.

The revised Framework provides more risk-sensitive approaches and a range of options for measuring risks and determining the capital requirements. As a result, Basel II also reflects the nature of risks at each bank more closely. Under Basel II, we and our banking subsidiaries adopted the Foundation Internal Ratings-Based Approach, or IRB approach, to calculate capital requirements for credit risk. The Standardised Approach is used for some subsidiaries that are considered to be immaterial to the overall MUFG capital requirements and a few subsidiaries adopted a phased rollout of the IRB approach. We and our banking subsidiaries adopted the Standardised Approach to calculate capital requirements for operational risk. As for market risk, we and our banking subsidiaries adopted the Internal Models Approach mainly to calculate general market risk and adopted the Standardised Methodology to calculate specific risk.

The capital adequacy guidelines are in accordance with the standards of the Bank for International Settlement for a target minimum standard ratio of capital to modified risk-weighted assets of 8.0% on both

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consolidated and non-consolidated bases for banks with international operations, including BTMU and MUTB, or on a consolidated basis for bank holding companies with international operations, such as MUFG. Modified risk-weighted assets is the sum of risk-weighted assets compiled for credit risk purposes, market risks and operational risk multiplied by 12.5. The capital adequacy guidelines place considerable emphasis on tangible common stockholders' equity as the core element of the capital base, with appropriate recognition of other components of capital.

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

The amount that eligible reserves for credit losses exceed expected losses in the IRB approach, and general reserves for credit losses, subject to a limit of 1.25% of modified risk-weighted assets in the partial use of the Standardised Approach (including a phased rollout of the IRB approach);

45% of the unrealized gains on investment securities classified as other securities under Japanese accounting rules;

45% of the land revaluation excess;

the balance of perpetual subordinated debt; and

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

Tier III capital generally consists of short-term subordinated debt with an original maturity of at least two years and which is subject to a lock-in provision, which stipulates that neither interest nor principal may be paid if such payment would cause the bank's overall capital amount to be less than its minimum capital requirement. At least 50% of the minimum total capital requirements must be maintained in the form of Tier I capital.

Amendments to the capital adequacy guidelines limiting the portion of Tier I capital consisting of deferred tax assets became effective on March 31, 2006. The restrictions are targeted at major Japanese banks and their holding companies, which include MUFG and its banking subsidiaries. The cap was initially set at 40% for the fiscal year ended March 31, 2006 and 30% for the fiscal year ended March 31, 2007. It will then be lowered to 20% for the fiscal year ending March 31, 2008. The banks subject to the restrictions will not be able to reflect in their capital adequacy ratios any deferred tax assets that exceed the relevant limit.

Inspection and reporting. By evaluating banks' systems of self-assessment, auditing their accounts and reviewing their compliance with laws and regulations, the Financial Services Agency monitors the financial soundness of banks, including the status and performance of their control systems for business activities. The Financial Services Agency implemented the Financial Inspection Rating System (FIRST) for deposit-taking financial institutions which has become applicable to major banks from April 1, 2007. By providing inspection results in the form of graded evaluations (i.e., ratings), the Financial Services Agency expects this rating system to motivate financial institutions to voluntarily improve their management and operations.

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

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

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

In November 2001, a law which imposes a limitation on a bank's shareholding of up to the amount equivalent to its Tier I capital was enacted. This limitation took effect in September 30, 2006.

Securities and Exchange Law. Article 65 of the Securities and Exchange Law of Japan generally prohibits a bank from engaging in the securities business. Despite the general prohibition under Article 65, the Financial System Reform Act allows banks, trust banks and securities companies to engage in the businesses of other financial sectors through their subsidiaries in Japan.

Further deregulation of the securities business has made clear that banks may engage in market-inducing businesses such as providing advice in connection with public offerings or listings and the amendment to the Securities and Exchange Law as of June 2, 2004 lifted the ban on banks engaging in securities intermediation. As a result of the amendment, since December 1, 2004, banks have been allowed to provide securities intermediation services if appropriate firewalls are in place.

Implementation of Financial Instruments and Exchange Law. The Financial Instruments and Exchange Law amending the Securities and Exchange Law was promulgated in June 2006 and is scheduled to become effective on September 30, 2007. The new law not only preserves the basic concepts of the Securities and Exchange Law, but is also intended to further protect investors. The new law also regulates sales of a wide range of financial instruments and services, requiring financial institutions to revise their sales rules and strengthen compliance frameworks accordingly. Among the instruments that the Japanese banks deal with, derivatives, foreign currency denominated deposits, and variable insurance and annuity products will be subject to regulations that are applicable to securities covered by sales-related rules of conduct.

Article 33 of the Financial Instruments and Exchange Law generally prohibits banks from engaging in the securities business, as it was provided in Article 65 of the Securities and Exchange Law. Under certain circumstances, banks are allowed to provide securities intermediation services if appropriate firewalls are in place.

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

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

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

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

Under the Deposit Insurance Law, the maximum amount of protection is ¥10 million per customer within one bank. Since April 1, 2005, all deposits are subject to the ¥10 million maximum, except non-interest bearing deposits that are redeemable on demand and used by the depositor primarily for payment and settlement functions (the settlement accounts), which are fully protected without a maximum amount limitation. Currently, the Deposit Insurance Corporation charges insurance premiums equal to 0.110% on the deposits in the settlement accounts, which are fully protected as mentioned above, and premiums equal to 0.080% on the deposits in other accounts.

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

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

Banks and bank holding companies that have received investments from the Resolution and Collection Corporation under the framework that previously existed under the Financial Function Early Strengthening Law are required to submit and, if necessary, update their restructuring plans relating to their management, finances and other activities. If a bank or bank holding company materially fails to meet the operating targets set in its restructuring plan, the Financial Services Agency can require it to report on alternative measures to achieve the targets, and also issue a business improvement order requiring it to submit a business improvement plan that indicates concrete measures to achieve the targets. The preferred shares that were previously issued by UFJ Holdings to the Resolution and Collection Corporation were exchanged for our newly issued preferred shares in the merger with UFJ Holdings and, as a result, we were required to submit restructuring plans until those preferred shares were redeemed. As we completed the repayment of the public funds that UFJ Holdings received from the Resolution and Collection Corporation on June 9, 2006, we are no longer required to submit such restructuring plans.

Starting in April 2001, amendments to the Deposit Insurance Law established a new framework which enables the Deposit Insurance Corporation to inject capital into a bank if the Commissioner of the Financial Services Agency recognizes that it must do so to guard against financial systemic risk.

On June 14, 2004, the Strengthening Financial Functions Law was enacted to establish a new framework for injecting public funds into financial institutions. The Strengthening Financial Functions Law broadens the range of financial institutions eligible to receive public funds and facilitates the preventive injection of public funds into troubled or potentially troubled financial institutions in order to avert financial crises. Applications for public-funds injection under the Strengthening Financial Functions Law must be made by March 31, 2008.

Personal Information Protection Law. With regards to protection of personal information, the Personal Information Protection Law became fully effective on April 1, 2005. Among other matters, the law requires Japanese banking institutions to limit the use of personal information to

the stated purpose and to properly manage the personal information in their possession, and forbids them from providing personal information to

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third parties without consent. If a bank violates certain provisions of the law, the Financial Services Agency may advise or order the bank to take proper action. The Financial Services Agency announced related guidelines for the financial services sector in December 2004.

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

Recent Regulatory Actions. In February 2007, BTMU received an administrative order from the Financial Services Agency of Japan in respect of compliance management at certain of its operations regarding the occurrence of certain inappropriate transactions. The administrative order required, among other things, temporary suspensions of credit extensions to new corporate customers, training of all staff and directors regarding compliance, temporary suspension of the establishment of new domestic corporate business locations, strengthening of the management and internal control framework, presentation and implementation of a business improvement plan, and reports on the progress of such business improvement plan. Further, in June 2007, BTMU received a separate administrative order from the Financial Services Agency of Japan in respect of its overseas business and its investment trust sales and related business. The administrative order required, among other things, BTMU to make improvements of its compliance structure and related internal control functions in its overseas business and its domestic investment trust sales and related business, presentation and implementation of a business improvement plan, and reports on the progress of such business improvement plan.

Also, in January 2007, Mitsubishi UFJ Securities received a business improvement order from the Financial Services Agency of Japan following a recommendation by the Securities and Exchange Surveillance Commission of Japan regarding securities transactions conducted by Mitsubishi UFJ Securities for its proprietary account.

Proposed government reforms to restrict maximum interest rates on consumer lending business. The Japanese government is implementing regulatory reforms affecting the consumer lending industry. In December 2006, the Diet passed legislation to reduce the maximum permissible interest rate under the Law Concerning Acceptance of Investment, Cash Deposit and Interest Rate etc., which is currently 29.2% per annum, to 20% per annum. The reduction in the maximum permissible interest rate will be gradually implemented in phases from 2007 through 2010, at the latest. Under the reforms, all interest rates will be subject to the lower limits (15-20% per annum) imposed by the Interest Rate Restriction Law, which will compel lending institutions to lower the interest rates they charge borrowers.

Currently, consumer finance companies that satisfy certain conditions are able to charge interest rates exceeding the limits stipulated by the Interest Rate Restriction Law. Accordingly, MUFG's consumer finance subsidiary and an equity method investee offer loans at interest rates above the Interest Rate Restriction Law. During the past year, the Supreme Court of Japan passed decisions concerning interest exceeding the limits stipulated by the Interest Rate Restriction Law, and the business environment for consumer finance companies in Japan has been altered in favor of borrowers. Due to such environmental changes, borrowers' demands for reimbursement of such excess interest that they have once paid to the consumer finance companies have significantly increased in the past 12 months. Furthermore, new regulations that are scheduled to be enacted before mid-2010 are expected to require, among other things, consumer finance companies to review the repayment capability of borrowers before lending, thereby limiting the amount of borrowing available to individual borrowers.

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United States

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

Overall supervision and regulation. We are subject to supervision, regulation and examination with respect to our U.S. operations by the Board of Governors of the Federal Reserve System, or the Federal Reserve Board, pursuant to the U.S. Bank Holding Company Act of 1956, as amended, or the BHCA, and the International Banking Act of 1978, as amended, or the IBA, because we are a bank holding company and a foreign banking organization, respectively, as defined pursuant to those statutes. The Federal Reserve Board functions as our umbrella supervisor under amendments to the BHCA effected by the Gramm-Leach-Bliley Act of 1999, which among other things:

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

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

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

We have not elected to become a financial holding company.

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

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

The IBA provides, among other things, that the Federal Reserve Board may examine U.S. branches and agencies of foreign banks, and that each such branch and agency shall be subject to on-site examination by the appropriate federal or state bank supervisor as frequently as would a U.S.

bank. The IBA also provides that if the Federal Reserve Board determines that a foreign bank is not subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country, or if there is reasonable cause to believe that the foreign bank or its affiliate has committed a violation of law or engaged in an unsafe or unsound banking practice in the United States, the Federal Reserve Board may order the foreign bank to terminate activities conducted at a branch or agency in the United States.

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U.S. branches and agencies of foreign banks must be licensed, and are also supervised and regulated, by a state or by the Office of the Comptroller of the Currency, or the OCC, the federal regulator of national banks. All of the branches and agencies of BTMU and MUTB in the United States are state-licensed. Under U.S. federal banking laws, state-licensed branches and agencies of foreign banks may engage only in activities that would be permissible for their federally-licensed counterparts, unless the Federal Reserve Board determines that the additional activity is consistent with sound practices. U.S. federal banking laws also subject state-licensed branches and agencies to the single-borrower lending limits that apply to federal branches and agencies, which generally are the same as the lending limits applicable to national banks, but are based on the capital of the entire foreign bank.

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

U.S. banking subsidiaries. We indirectly own and control three U.S. banks:

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

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

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

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

The Federal Deposit Insurance Corporation, or the FDIC, is the primary federal agency responsible for the supervision, examination and regulation of the two New York-chartered banks referred to above. The FDIC may take enforcement action, including the issuance of prohibitive and affirmative orders, if it determines that a financial institution under its supervision has engaged in unsafe or unsound banking practices, or has committed violations of applicable laws and regulations. The FDIC insures the deposits of all three U.S. banking subsidiaries. In the event of the failure of an FDIC-insured bank, the FDIC is virtually certain to be appointed as receiver, and would resolve the failure under provisions of the Federal Deposit Insurance Act. An FDIC-insured institution that is affiliated with a failed or failing FDIC-insured institution can be required to indemnify the FDIC for losses resulting from the insolvency of the failed institution, even if this causes the affiliated institution also to become insolvent. In the liquidation or other resolution of a failed FDIC-insured depository institution, deposits in its U.S. offices and other claims for administrative expenses and employee compensation are afforded priority over other general unsecured claims, including deposits in offices outside the United States, non-deposit claims in all offices and claims of a parent company. Moreover, under longstanding Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength for its banking subsidiaries and to commit resources to support such banks.

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

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

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

The Gramm-Leach-Bliley Act removed almost all of the pre-existing statutory barriers to affiliations between commercial banks and securities firms by repealing Sections 20 and 32 of the Glass-Steagall Act. At the same time, however, the so-called push-out provisions of the Gramm-Leach-Bliley Act narrowed the exclusion of banks, including the U.S. branches of foreign banks, from the definitions of broker and dealer under the Securities Exchange Act of 1934, potentially requiring all such banks to transfer some activities to affiliated broker-dealers. The SEC has issued rules regarding the push-out of dealer functions that became effective on September 30, 2003. The SEC has also proposed rules that would govern the push-out requirements for broker functions but exempted banks from the definition of broker until September 28, 2007. The final form of these rules, their applicability to banks and the date of their effectiveness are still subject to change. At this time, we do not believe that these push-out rules as adopted or as currently proposed will have a significant impact on our business as currently conducted in the United States.

Anti-Money Laundering Initiatives and the USA PATRIOT Act. A major focus of U.S. governmental policy relating to financial institutions in recent years has been aimed at preventing money laundering and terrorist financing. The USA PATRIOT Act of 2001 substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Department of the Treasury has issued a number of implementing regulations that impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and to verify the identity of their customers. In addition, the bank regulatory agencies carefully scrutinize the adequacy of an institution's policies, procedures and controls. As a result, there has been an increased number of regulatory sanctions and law enforcement authorities have been taking a more active role. Failure of a financial institution to maintain and implement adequate policies, procedures and controls to prevent money laundering and terrorist financing could in some cases have serious legal and reputational consequences for the institution, including the incurring of expenses to enhance the relevant programs, the imposition of limitations on the scope of their operations and the imposition of fines and other monetary penalties.

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Recent Regulatory Actions. In December 2006, we and BTMU entered into a written agreement with the Federal Reserve Banks of San Francisco and New York and the New York State Banking Department, and Bank of Tokyo-Mitsubishi UFJ Trust Company, or BTMUT, a subsidiary of BTMU, consented to an Order to Cease and Desist issued by the Federal Deposit Insurance Corporation and the New York State Banking Department, to strengthen the compliance framework and operations of BTMU, the New York Branch of BTMU and BTMUT, respectively, for preventing money laundering. As a result of the written agreement and the consent to the Order to Cease and Desist, we are required, among other things, to implement corrective measures and submit periodic progress reports to the authorities.

Separately, on September 14, 2007, Union Bank of California, N.A. agreed to a consent order and payment of a civil money penalty of \$10.0 million assessed concurrently by the U.S. Office of the Comptroller of the Currency (OCC) and the U.S. Financial Crimes Enforcement Network (FinCEN) relating to the Bank Secrecy Act / Anti-Money Laundering compliance controls and processes of Union Bank of California. On September 17, 2007, Union Bank of California also entered into a deferred prosecution agreement with the U.S. Department of Justice under which Union Bank of California agreed to a payment of \$21.6 million and the government agreed to defer prosecution of a Bank Secrecy Act Program violation primarily related to the discontinued international banking business of Union Bank of California and dismiss prosecution if Union Bank of California meets the conditions of the deferred prosecution agreement, including complying with the OCC consent order for one year.

In October 2004, Union Bank of California International, or UBOCI, a subsidiary of UNBC, entered into a written agreement with the Federal Reserver Bank of New York relating to its anti-money laundering controls and processes. With the liquidation of UBOCI in March 2007, the written agreement is no longer effective.

The SEC is also currently conducting an inquiry regarding marketing and distribution practices of mutual funds managed by a subsidiary of Union Bank of California. Neither we nor UNBC can be certain at this time as to the final results of that inquiry.

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C. Organizational Structure

The following chart presents our corporate structure summary as at March 31, 2007:

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Set forth below is a list of our principal consolidated subsidiaries at March 31, 2007:

| <u>Name</u> | <u>Country of Incorporation</u> | <u>Proportion of Ownership Interest</u> | <u>Proportion of Voting Interest</u> |
|--|---------------------------------|---|--|
| | | (%) | (%) |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | Japan | 100.00 | 100.00 |
| The Senshu Bank, Ltd. | Japan | 68.06 | 68.23 |
| Mitsubishi UFJ Trust and Banking Corporation | Japan | 100.00 | 100.00 |
| The Master Trust Bank of Japan, Ltd. | Japan | 46.50 | 46.50 |
| Mitsubishi UFJ Securities Co., Ltd. | Japan | 62.37 | 63.11 |
| Mitsubishi UFJ Wealth Management Securities, Ltd. | Japan | 100.00 | 100.00 |
| UFJ NICOS Co.,Ltd. | Japan | 69.07 | 69.14 |
| DC Card Co., Ltd. | Japan | 44.82 | 44.82 |
| Tokyo Credit Services, Ltd. | Japan | 53.00 | 53.00 |
| Ryoshin DC Card Company, Ltd. | Japan | 75.20 | 75.20 |
| NBL Co., Ltd. | Japan | 89.74 | 89.74 |
| Mitsubishi UFJ Factors Limited | Japan | 75.77 | 75.77 |
| MU Frontier Servicer Co.,Ltd. | Japan | 79.68 | 79.68 |
| Mitsubishi UFJ Capital Co.,Ltd | Japan | 40.26 | 40.26 |
| MU Hands-on Capital Co., Ltd. | Japan | 50.00 | 50.00 |
| Defined Contribution Plan Consulting of Japan Co., Ltd. | Japan | 77.49 | 77.49 |
| KOKUSAI Asset Management Co., Ltd. | Japan | 45.86 | 45.93 |
| Mitsubishi UFJ Asset Management Co., Ltd. | Japan | 100.00 | 100.00 |
| MU Investments Co.,Ltd. | Japan | 100.00 | 100.00 |
| Mitsubishi UFJ Real Estate Services Co., Ltd. | Japan | 100.00 | 100.00 |
| Mitsubishi UFJ Personal Financial Advisers Co., Ltd. | Japan | 73.69 | 73.69 |
| Mitsubishi UFJ Research and Consulting Ltd. | Japan | 69.45 | 69.45 |
| Diamond Business Engineering Corporation | Japan | 15.00 | 15.00 |
| BOT Lease Co., Ltd. | Japan | 21.06 | 21.38 |
| UnionBanCal Corporation | USA | 65.31 | 65.31 |
| Mitsubishi UFJ Trust & Banking Corporation (U.S.A.) | USA | 100.00 | 100.00 |
| Bank of Tokyo-Mitsubishi UFJ (Luxembourg) S.A. | Luxembourg | 99.99 | 99.99 |
| Mitsubishi UFJ Wealth Management Bank(Switzerland), Ltd. | Switzerland | 100.00 | 100.00 |
| Mitsubishi UFJ Securities International plc | UK | 100.00 | 100.00 |
| Mitsubishi UFJ Securities (USA), Inc. | USA | 100.00 | 100.00 |
| Mitsubishi UFJ Trust International Limited | UK | 100.00 | 100.00 |
| Mitsubishi UFJ Securities (HK) Holdings, Limited | Peoples Republic of China | 100.00 | 100.00 |
| Mitsubishi UFJ Securities (Singapore), Limited. | USA | 100.00 | 100.00 |
| BTMU Capital Corporation | USA | 100.00 | 100.00 |
| BTMU Leasing & Finance, Inc. | USA | 100.00 | 100.00 |
| PT U Finance Indonesia | Indonesia | 95.00 | 95.00 |
| PT UFJ-BRI Finance | Indonesia | 55.00 | 55.00 |
| BTMU Lease (Deutschland) GmbH | Germany | 100.00 | 100.00 |
| BTMU Participation (Thailand) Co., Ltd. | Thailand | 24.49 | 24.49 |
| Mitsubishi UFJ Baillie Gifford Asset Management Limited | UK | 51.00 | 51.00 |

Table of Contents**D. Property, Plants and Equipment**

Premises and equipment at March 31, 2006 and 2007 consisted of the following:

| | <u>2006</u> | <u>2007</u> |
|-------------------------------|------------------|------------------|
| | (in millions) | |
| Land | ¥ 471,184 | ¥ 449,283 |
| Buildings | 576,899 | 551,188 |
| Equipment and furniture | 565,857 | 618,513 |
| Leasehold improvements | 308,905 | 346,254 |
| Construction in progress | 6,703 | 12,556 |
| | <u>1,929,548</u> | <u>1,977,794</u> |
| Total | | |
| Less accumulated depreciation | 755,971 | 830,283 |
| | <u>1,173,577</u> | <u>1,147,511</u> |
| Premises and equipment net | | |

Our registered address is 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo. At March 31, 2007, we and our subsidiaries conducted our operations either in our owned premises or in leased properties.

The following table presents the areas and book values of our material office and other properties at March 31, 2007:

| | <u>Area</u> | <u>Book value</u> |
|------------------|-------------------------------|-------------------|
| | (in thousands of square feet) | (in millions) |
| Owned land | 57,822 | ¥ 449,283 |
| Leased land | 20,762 | |
| Owned buildings | 29,692 | 274,665 |
| Leased buildings | 16,878 | |

Our owned buildings and land are primarily used by us and our subsidiaries. The above figures includes 36,511 thousands of square feet of owned land and 18,701 thousands of square feet of leased land held through a variable interest entity, which property is not directly used for our operations. Most of the buildings and land owned by us are free from material encumbrances, except as described below.

During the fiscal year ended March 31, 2007, we invested approximately ¥119.0 billion in our subsidiaries primarily for office renovations and relocation.

Item 4A. Unresolved Staff Comments.

None.

Table of Contents**Item 5. Operating and Financial Review and Prospects.**

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

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A. Operating Results**Introduction**

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

Key Financial Figures

The following are some key figures prepared in accordance with US GAAP relating to our business.

Our merger with UFJ Holdings completed on October 1, 2005 was the major factor in the changes in many of the items in our consolidated statements of income over the three fiscal years ended March 31, 2007. The

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results for the fiscal year ended March 31, 2005 reflect the results of MTFG only. The results for the fiscal year ended March 31, 2006 reflect the pre-merger results of MTFG for the six months ended September 30, 2005 and the post-merger results of MUFG for the six months ended March 31, 2006. The results for the fiscal year ended March 31, 2007 reflect the post-merger results of MUFG for the full twelve-month period.

| | Fiscal years ended March 31, | | |
|---------------------------------|------------------------------|-----------|-----------|
| | 2005 | 2006 | 2007 |
| | (in billions) | | |
| Net interest income | ¥ 969.1 | ¥ 1,648.6 | ¥ 2,329.8 |
| Provision for credit losses | 108.3 | 110.2 | 358.6 |
| Non-interest income | 986.8 | 1,067.4 | 1,947.9 |
| Non-interest expense | 1,129.2 | 2,076.1 | 2,784.2 |
| Net income | 415.2 | 363.5 | 581.3 |
| Total assets (at end of period) | 108,422.1 | 186,219.4 | 186,202.9 |

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

Net interest income is a function of:

the amount of interest-earning assets,

the general level of interest rates,

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

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

Non-interest income consists of:

fees and commissions, including

trust fees,

fees on funds transfer and service charges for collections,

fees and commissions on international business,

fees and commissions on credit card business,

service charges on deposits,

fees and commissions on securities business,

fees on real estate business,

insurance commissions,

fees and commissions on stock transfer agency services,

guarantee fees, and

other fees and commissions;

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

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

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

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equity in earnings (losses) of equity method investees;

gains on sales of loans; and

other non-interest income.

Provision for credit losses are charged to operations to maintain the allowance for credit losses at a level deemed appropriate by management.

Core Business Areas

We operate our main businesses under an integrated business group system, which integrates the operations of BTMU, MUTB, MUS and other subsidiaries in the following three areas Retail, Corporate and Trust Assets. These three businesses serve as the core sources of our revenue. Operations that are not covered under the integrated business group system are classified under Global Markets and Other.

Our business segment information is not consistent with our consolidated financial statements prepared in accordance with US GAAP. The following chart illustrates the relative contributions to operating profit for the fiscal year ended March 31, 2007 of the three core business areas and the other business areas based on our segment information:

Establishment of Mitsubishi UFJ Financial Group

In October 2005, Mitsubishi Tokyo Financial Group, Inc., or MTFG, merged with UFJ Holdings, Inc. to form MUFG. At the same time, our respective trust banking and securities companies merged to form MUTB and MUS. Subsequently, our subsidiary commercial banks merged to form BTMU in January 2006.

The merger marked the creation of a comprehensive financial group with a broad and balanced domestic and international network, and a diverse range of services provided by group companies, complemented by one of the largest customer bases in Japan.

The merger of MTFG and UFJ Holdings was accounted for under the purchase method of accounting, and the assets and liabilities of UFJ Holdings and its subsidiaries were recorded at fair value as of October 1, 2005. The purchase price of UFJ Holdings amounted to ¥4,406.1 billion, of which ¥4,403.2 billion was recorded in capital surplus relating to the merger with UFJ Holdings and the direct acquisition costs of ¥2.9 billion were included in the purchase price. The total fair value of UFJ Holdings' net assets acquired was ¥2,673.0 billion and the goodwill relating to the merger with UFJ Holdings was ¥1,733.1 billion. For further information, see note 2 to our consolidated financial statements.

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Recent Developments

Completion of Public Fund Repayment and Repurchase of Our Common Stock

UFJ Holdings was a recipient of public funds from the Resolution and Collection Corporation, or RCC, a Japanese government entity. The public funds were injected in the form of a convertible preferred stock investment in UFJ Holdings. This convertible preferred stock was exchanged in the merger with UFJ Holdings for newly issued convertible preferred stock of MUFG.

Between October 2005 and June 2006, RCC sold in the market 666,962 shares of our common stock which were issued upon conversion (or acquisition claim after the Company Law took effect) of our preferred stock held by RCC. Along with these sales, we repurchased 681,690 shares of our common stock.

In June 2006, 277,245 shares of the common stock issued upon an acquisition claim for the preferred stock were sold by the RCC in a secondary offering of shares. In connection with this secondary offering, we sold 41,000 treasury shares of our common stock by way of overallotment.

The remaining preferred stock held by RCC were sold to non-governmental institutions.

As a result of the above transactions, there are currently no securities held by RCC in our capital base.

Mitsubishi UFJ Securities to Become a Wholly-Owned Subsidiary

On March 28, 2007, we and MUS entered into a share exchange agreement relating to the proposed share exchange to make MUS a wholly-owned subsidiary. The purpose of making MUS a wholly-owned subsidiary is, among other factors, to seize the opportunities presented by the deregulation of the Japanese financial markets and further enhance cooperation between group companies. We believe that we will be able to further strengthen our securities and investment banking businesses and maximize synergies among our banking, trust and securities businesses. The share exchange ratio has been set at 1.02 shares of MUFG common stock to one share of MUS common stock. The share exchange ratio was calculated based on the assumption that the stock split described under *Investment Unit Reduction* below will become effective as planned.

On June 28, 2007, MUS shareholders approved the proposed transaction, and the proposed share exchange is expected to become effective on September 30, 2007 immediately after the stock split described under *Investment Unit Reduction* below.

kabu.com Securities Co., Ltd. Becomes a Consolidated Subsidiary

To strengthen the retail online securities business and enhance comprehensive Internet-based financial services, BTMU implemented a tender offer for 94,000 common shares of kabu.com Securities Co., Ltd., or kabu.com Securities, from March 20, 2007 to April 18, 2007, at ¥240,000 per share. As a result, MUFG's ownership in kabu.com Securities increased to 40.36% on a consolidated basis.

In addition, on June 24, 2007, directors and an employee from the MUFG Group were approved as directors at the general meeting of shareholders of kabu.com Securities, and directors dispatched from the MUFG Group, including those appointed on June 24, 2007, constitute a majority on the board of directors of kabu.com Securities. As a result, kabu.com Securities, a former equity method investee of MUFG, became a consolidated subsidiary of MUFG.

Investment Unit Reduction

In June 2007, our shareholders approved amendments to our Articles of Incorporation to increase the total number of authorized shares and other related matters in order to reduce the investment unit of our common

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stock, which will take effect as of September 30, 2007. Our minimum stock investment unit (or investment unit price) with respect to our common stock will be reduced to one-tenth of the current unit through (a) a stock split by which one share will be split into 1,000 shares and (b) the adoption of a unit share system under which one unit of our common stock will be comprised of 100 shares. The purpose of the investment unit reduction is to broaden our investor base by making our common stock more accessible to potential individual shareholders, thereby achieving our medium- and long-term objective of maximizing our corporate value.

Regarding our ADRs which are traded on the New York Stock Exchange, subject to the effectiveness of the stock split described above, we plan to change the ratio of the ADRs in relation to the underlying shares of our common stock as follows:

Ratio before change: 1,000 ADR = 1 common share

Ratio after change: 1,000 ADR = 1,000 common shares (1:1)

Record date: Friday, September 28, 2007 (U.S. Eastern Standard Time)

First trading date after change: Monday, October 1, 2007 (U.S. Eastern Standard Time)

Written Agreement with Regulatory Authorities in the United States

On December 18, 2006, we and BTMU entered into a written agreement with the Federal Reserve Banks of San Francisco and New York and the New York State Banking Department, and Bank of Tokyo-Mitsubishi UFJ Trust Company, or BTMUT, a subsidiary of BTMU, consented to an Order to Cease and Desist issued by the Federal Deposit Insurance Corporation and the New York State Banking Department, to strengthen the compliance framework and operations of BTMU, its New York Branch and BTMUT, respectively, for preventing money laundering.

As a result of the written agreement and the consent to the Order to Cease and Desist, we are required, among other things, to implement corrective measures, submit periodic progress reports to the authorities and take other actions. We expect to incur some expenses relating to such efforts including consulting fees, personnel costs and IT related investments.

Separately, on September 14, 2007, Union Bank of California, N.A. agreed to a consent order and payment of a civil money penalty of \$10.0 million assessed concurrently by the U.S. Office of the Comptroller of the Currency (OCC) and the U.S. Financial Crimes Enforcement Network (FinCEN) relating to the Bank Secrecy Act / Anti-Money Laundering compliance controls and processes of Union Bank of California. On September 17, 2007, Union Bank of California also entered into a deferred prosecution agreement with the U.S. Department of Justice under which Union Bank of California agreed to a payment of \$21.6 million and the government agreed to defer prosecution of a Bank Secrecy Act Program violation primarily related to the discontinued international banking business of Union Bank of California and dismiss prosecution if Union Bank of California meets the conditions of the deferred prosecution agreement, including complying with the OCC consent order for one year.

Administrative Orders from the Financial Services Agency to Bank of Tokyo-Mitsubishi UFJ

On February 15, 2007, BTMU received from the Financial Services Agency an administrative order based on Article 26-1 of the Banking Law of Japan (business improvement order with partial business suspension order) in respect of compliance management at certain of its operations regarding the occurrence of certain inappropriate transactions.

The administrative order requires temporary suspension of extending credit to new corporate customers, training of all directors and staff regarding compliance, temporary suspension of the establishment of new

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domestic corporate business locations, establishment of a stronger management and internal control framework, submission and implementation of a business improvement plan, and a series of periodical progress reports of such business improvement plan.

In response to the administrative order described above, on March 16, 2007, we presented and announced a business improvement plan including the formulation and improvement of internal policies, rules and manuals. However, we currently do not expect that this event will have a material adverse impact on our financial position or results of operations.

On June 11, 2007, BTMU received from the Financial Services Agency administrative orders based on Article 26-1 of the Banking Law of Japan (business improvement orders) in respect of its overseas business and its investment trust sales and related business in Japan. We are required by the administrative orders, among other things, to make improvements in respect of our compliance structure and related internal control functions in our overseas business and certain business practices in our domestic investment trust sales and related business.

In response to the administrative orders described above, on July 5, 2007, we presented and announced a business improvement plan. However, we currently do not expect that this event will have a material adverse impact on our financial condition or results of operations.

Administrative Disciplinary Action by the Financial Services Agency in Respect of Mitsubishi UFJ Securities

On January 31, 2007, MUS received a business improvement order from the Financial Services Agency. This followed a recommendation issued on January 29, 2007 by Japan's Securities and Exchange Surveillance Commission that the Financial Services Agency take administrative disciplinary action in respect of MUS. The recommendation by Japan's Securities and Exchange Surveillance Commission was based upon the ascertainment of certain facts constituting an infringement of applicable laws and regulations concerning securities transactions conducted by MUS on its proprietary account based on Corporate-Related Information. In response to the business improvement order received by MUS, we will work to strengthen legal compliance and internal controls in our Group.

Agreement to Settle the Civil Suit Brought by Sumitomo Trust

In November 2006, we reached an agreement with The Sumitomo Trust & Banking Co., Ltd., or Sumitomo Trust, to settle the civil suit originally brought by Sumitomo Trust against UFJ Holdings in October 2004 following a failed negotiation over a proposed business transfer. In connection with this settlement, we agreed, among other things, to pay ¥2.5 billion to Sumitomo Trust. As a result of this settlement, the lawsuit between us and Sumitomo Trust was conclusively resolved.

Issuance of Non-dilutive Preferred Securities

In order to enhance the flexibility of our capital management, in January 2007, MUFG Capital Finance 4 Limited and MUFG Capital Finance 5 Limited, special purpose companies established in the Cayman Islands, issued \$500 million and £550 million, respectively, in non-cumulative and non-dilutive perpetual preferred securities in an offering targeting mainly European institutional investors.

These preferred securities were reflected in our Tier I capital as of March 31, 2007 under the Bank for International Settlements, or BIS, capital adequacy requirements, which is calculated primarily from our Japanese GAAP financial information. However, for accounting purposes under US GAAP, because those special purpose companies are not consolidated entities, the loans, which are made to us from the proceeds from the preferred securities issued by these special purpose companies, are presented as long-term debt on our consolidated balance sheet as of March 31, 2007.

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Redemption of Non-dilutive Preferred Securities

In January 2007, UFJ Capital Finance 1 Limited, UFJ Capital Finance 2 Limited and UFJ Capital Finance 3 Limited, all special purpose companies established in the Cayman Islands, redeemed in total ¥218 billion of non-cumulative and non-dilutive perpetual preferred securities. These securities were previously accounted for as part of our Tier I capital.

Change in Business Environment for Consumer Finance Companies in Japan

The Japanese government is implementing regulatory reforms affecting the consumer lending industry. In December 2006, the Diet passed legislation to reduce the maximum permissible interest rate under the Investment Deposit and Interest Rate Law, which is currently 29.2% per annum, to 20% per annum. The reduction in interest rate will be gradually implemented in phases from 2007 through 2010, at the latest. Under the reforms, all interest rates will be subject to the lower limits (15-20% per annum) imposed by the Interest Rate Restriction Law, which will compel lending institutions to lower the interest rates they charge borrowers.

Currently, consumer finance companies that satisfy certain conditions are able to charge interest rates exceeding the limits stipulated by the Interest Rate Restriction Law. Accordingly, MUFG's consumer finance subsidiaries and an equity method investee have been offering loans at interest rates above the Interest Rate Restriction Law. During the past year, the Supreme Court of Japan rendered decisions concerning interest rates exceeding the limits stipulated by the Interest Rate Restriction Law in favor of borrowers. Due to such changes, borrowers' claims for reimbursement of excess interest have significantly increased in the fiscal year ended March 31, 2007.

As a result, our consumer finance subsidiaries have increased the allowance for repayment of excess interest from ¥9.7 billion as of March 31, 2006 to ¥102.5 billion as of March 31, 2007.

In addition, ¥184.0 billion of impairment of intangible assets was recognized for the fiscal year ended March 31, 2007 as a result of the downward revision of expected future cash flows at our consumer finance subsidiary primarily due to these developments. As a result of the negative change in forecasted operating results and estimated future taxable income of our consumer finance subsidiary, we recorded a valuation allowance for deferred tax assets in the fiscal year ended March 31, 2007. See note 11 to our consolidated financial statements for more information.

Also, one of our equity method investees in the consumer finance business increased its allowance for the fiscal year ended March 31, 2007, which had a negative impact of ¥77.6 billion on equity in earnings (losses) of equity method investees.

Merger of Leasing Affiliates

On April 1, 2007, Diamond Lease Company Limited and UFJ Central Leasing Co., Ltd., both of which were equity method investees, merged to become Mitsubishi UFJ Lease & Finance Company Limited. The objective of the merger is to improve their competitiveness and presence in the domestic leasing market. The new company continues to be an equity method investee.

Sale of UnionBanCal's International Correspondent Banking Business

In September 2005, UnionBanCal Corporation, a U.S. subsidiary of BTMU, signed a definitive agreement to sell its international correspondent banking operations to Wachovia Bank, N.A. effective October 6, 2005, and the principal legal closing of the transaction took place on the same day. As of June 30, 2006, all of UnionBanCal Corporation's offices designated for disposal were closed. The remaining assets include deposits with banks awaiting approval for repatriation of capital and unremitted profits and loans that are maturing in 2008. The remaining liabilities primarily consist of accrued expenses, which will be settled when due.

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We accounted for this transaction as a discontinued operation in accordance with Statement of Financial Accounting Standards, or SFAS, No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, and presented the results of discontinued operations as a separate line item in our consolidated statements of income. In addition, assets to be disposed or sold, accounted for at the lower of cost or fair value, and liabilities to be extinguished or assumed in connection with discontinued operations, were presented as separate assets and liabilities, respectively, in our consolidated balance sheets. See note 3 to our consolidated financial statements for more information.

On September 14, 2007, Union Bank of California agreed to a consent order and payment of a civil money penalty of \$10.0 million assessed concurrently by the U.S. Office of the Comptroller of the Currency (OCC) and the U.S. Financial Crimes Enforcement Network (FinCEN) relating to the Bank Secrecy Act / Anti-Money Laundering compliance controls and processes of Union Bank of California. On September 17, 2007, Union Bank of California also entered into a deferred prosecution agreement with the U.S. Department of Justice under which Union Bank of California agreed to a payment of \$21.6 million and the government agreed to defer prosecution of a Bank Secrecy Act Program violation primarily related to the discontinued international banking business of Union Bank of California and dismiss prosecution if Union Bank of California meets the conditions of the deferred prosecution agreement, including complying with the OCC consent order for one year.

Establishment of Mitsubishi UFJ Merrill Lynch PB Securities

In May 2006, we established a joint-venture private banking firm named Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd., with Merrill Lynch & Co., Inc. and Merrill Lynch Japan Securities Co., Ltd. The joint venture firm offers high-net-worth Japanese individuals and small and medium-sized organizations a full range of innovative financial products and services. BTMU and MUS own 40% and 10%, respectively, of the voting common shares of the joint venture company, and Merrill Lynch Japan Securities owns the remaining 50%. Merrill Lynch Japan Securities contributed its private client business, comprising approximately 8,000 client accounts and more than ¥1 trillion in assets under administration, into the joint venture firm. We, in turn, are introducing the capabilities and services of the joint venture firm to BTMU's high-net-worth client base.

Merger of UFJ NICOS and DC Card

On April 1, 2007, UFJ NICOS Co., Ltd., or UFJ NICOS, and DC Card Co., Ltd., or DC Card, our credit card subsidiaries merged to become Mitsubishi UFJ NICOS Co., Ltd, or Mitsubishi UFJ NICOS. The objective of the merger is to combine UFJ NICOS' large and extensive network, reputation and product development capability with DC Card's co-branding relationships and acceptance of regional cards.

Business and Capital Alliance in Consumer Finance Business

On September 20, 2007, we entered into a basic agreement with BTMU, Mitsubishi UFJ NICOS and JACCS Co., Ltd. with respect to a business and capital alliance. As part of the basic agreement, Mitsubishi UFJ NICOS is expected to transfer its installment credit sales business, automobile loan business and automobile leasing business to JACCS on April 1, 2008. In addition to transferring installment credit sale contracts, Mitsubishi UFJ NICOS is expected to transfer approximately 340 personnel and five business offices. At the same time, we, together with BTMU and Mitsubishi UFJ NICOS, plan to form a business alliance with JACCS with respect to credit card related operations, installment credit sales business, settlement operations and housing loan related operations. In addition, BTMU is expected to acquire newly issued common shares of JACCS by March 31, 2008, subject to regulatory approval. Following the acquisition of the additional JACCS shares, BTMU will own approximately 20% of the voting rights in JACCS, and accordingly, JACCS is expected to become an equity method investee.

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On the same day, we also announced that we are expected to acquire ¥120 billion of newly issued Mitsubishi UFJ NICOS shares on November 6, 2007, thereby increasing our holdings to approximately 75% of Mitsubishi UFJ NICOS total issued shares. In addition, we announced that we plan to make Mitsubishi UFJ NICOS our wholly-owned subsidiary through a share exchange expected to go into effect on August 1, 2008. The objective of the investment and share exchange is to strengthen Mitsubishi UFJ NICOS financial base to enable Mitsubishi UFJ NICOS to implement its restructuring measures, including a new credit card business strategy to respond to the changing business environment for consumer finance companies in Japan.

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As part of its new medium term business plan, Mitsubishi UFJ NICOS will implement measures to reform its business structure, including the following measures:

Concentrate resources on the credit card business and transfer Mitsubishi UFJ NICOS installment credit sales business to JACCS as discussed above.

Reduce personnel by 2,890 over a three-year period, including seeking the voluntary early retirement of approximately 2,300 persons in the fiscal year ending March 31, 2008.

Merge six regional credit finance subsidiaries of Mitsubishi UFJ NICOS into Mitsubishi UFJ NICOS in January 2008.

We will also hold discussions with The Norinchukin Bank to expand the business and capital alliance between The Norinchukin Bank and Mitsubishi UFJ NICOS. As part of these discussions, we will consider the possibility of having Mitsubishi UFJ NICOS become an equity method investee of The Norinchukin Bank after Mitsubishi UFJ NICOS becomes our wholly-owned subsidiary.

Adoption of Stock-Based Compensation Plan

BTMU, MUTB and we elected to adopt a stock-based compensation plan for directors, corporate auditors and executive officers and obtained the necessary shareholder approval at their respective ordinary general meetings held on June 28, 2007 at us and on June 27, 2007 at BTMU and MUTB, while abolishing the practice of paying them retirement allowances. Under the stock-based compensation plan, our directors, corporate auditors and executive officers will be offered stock options to acquire shares of our common stock. The exercise price is expected to be set at ¥1 per share. For more information on the stock-based compensation plan, see Item 6.B. Compensation and Item 7.B. Major Shareholders and Related Party Transactions Related Party Transactions.

Purchase of Preferred Stock of Subsidiary

In May 2006, BTMU purchased from Merrill Lynch all of the preferred stock and the rights to subscribe for new shares issued by MU Strategic Partner Co., Ltd., a subsidiary of BTMU. BTMU paid ¥120.0 billion for the preferred stock and ¥48.6 billion for the rights to subscribe for new shares.

MU Strategic Partner Co., Ltd., formerly known as UFJ Strategic Partner Co., Ltd., was incorporated in December 2002 for the purpose of promoting the resolution of problem loans and raising equity capital. Pursuant to the investors agreement between the former UFJ Bank Limited and Merrill Lynch in February 2003, MU Strategic Partner raised equity capital by the issuance of preferred stock of ¥120.0 billion to Merrill Lynch, and has committed itself to restructuring, and resolving problem loans.

MU Strategic Partner has made substantive progress in its measures to resolve problem loans, and BTMU has dissolved its capital relationship with Merrill Lynch through MU Strategic Partner and has made MU Strategic Partner its wholly owned subsidiary.

Business Environment

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

General economic conditions;

Interest rates;

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Currency exchange rates; and

Stock and real estate prices.

Economic Environment in Japan

In Japan, while the overall growth momentum slightly weakened toward the end of the fiscal year ended March 31, 2007, exports and capital investments continued to rise along with solid corporate earnings and moderate improvement in personal consumption.

With respect to interest rates, the Bank of Japan raised the uncollateralized overnight call rate to 0.5% in February 2007, following the termination of its zero-interest rate policy in July 2006. This has led to slightly increased upward pressure on Japan's short-term market interest rates. In the long-term interest rate market, the yield on ten-year Japanese government bonds rose temporarily before the zero-interest rate policy was lifted in July 2006, but has since declined and fluctuated within a range until May 2007. As of mid-September 2007, the uncollateralized overnight call rate target was around 0.5% and the yield on ten-year Japanese government bonds was around 1.5%. The following chart shows the interest rate trends in Japan since April 2005:

Regarding the Japanese stock market, the Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, rose from ¥17,059.66 at March 31, 2006 to ¥17,287.65 at March 30, 2007. As for the Tokyo Stock Price Index, or TOPIX, a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, the index slightly declined from 1,728.16 at March 31, 2006 to 1,713.61 at March 30, 2007. From late July 2007, stock markets in Japan declined along with other international markets, primarily as a result of the possible negative impact of heightened concerns with increased defaults of high-risk mortgages to lower-income households, generally known as sub-prime mortgages, on the U.S. economy in general and on financial institutions in particular. As of mid-September 2007, the Nikkei Stock Average was around ¥16,000, and TOPIX was around 1,500.

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In the foreign exchange markets, the Japanese yen was at similar levels at the end of March 2007 against the US dollar as compared to the beginning of the fiscal year. The Japanese yen/US dollar foreign exchange rate was around ¥118 to \$1 at the beginning of April 2006. After appreciating against the US dollar to around ¥110 in mid-May 2006, the Japanese yen depreciated to around ¥118 at the end of March 2007. As of mid-September 2007, the Japanese yen/US dollar foreign exchange rate was around ¥115 to \$1. Against the Euro, the Japanese yen weakened during the fiscal year from around ¥143 to 1 at the beginning of April 2006 to around ¥157 at the end of March 2007. As of the mid-September 2007, the Japanese yen/Euro foreign exchange rate was around ¥159 to 1. The Japanese yen has been fluctuating significantly in recent weeks against the US dollar, Euro and other foreign currencies as a result of instability in the global financial markets and its impact on so-called yen carry trades. The following chart shows the foreign exchange rates expressed in Japanese yen per \$1.00 since April 2005:

Based on the average official land prices set by the government, average land prices in Japan as of January 1, 2007 increased for the first time in 16 years. Nationwide residential land prices and land prices for commercial properties as of January 1, 2007 rose by 0.1% and 2.3%, respectively, compared to January 1, 2006. In the three major metropolitan areas, Tokyo, Osaka and Nagoya, residential land prices on average rose by 2.8%, and commercial properties rose by 8.9%, compared to the previous year. On the other hand, in the local regions of Japan, which consist of regions other than the major metropolitan areas, residential land prices on average declined by 2.7%, and commercial properties declined by 2.8%, compared to the previous year.

According to Teikoku Databank, a Japanese research institution, the number of companies who filed for legal bankruptcy in Japan between April 2006 and March 2007 was approximately 9,600, an increase of approximately 9% from the previous fiscal year, mainly due to an increase in legal bankruptcies of small sized companies. On the other hand, the aggregate amount of liabilities subject to bankruptcy filings for the fiscal year was approximately ¥5.3 trillion, a decrease of approximately 9% from the previous year, owing to a decrease in large-scale bankruptcies.

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International Financial Markets

With respect to the international financial and economic environment for the fiscal year ended March 31, 2007, overseas economies generally remained firm as seen in China's continued strong growth led by exports, despite the slowdown of the United States economy. Since late July 2007, the credit markets in the United States have been negatively affected by heightened concerns with increased defaults of sub-prime mortgages.

In the United States, the target for the federal funds rate was raised to 5.25% in June 2006. Subsequently, on September 18, 2007, the target rate for the federal funds was lowered by 50 basis points to 4.75%. Since mid-August 2007, the Federal Reserve Board has twice lowered the primary credit rate to improve market liquidity in the financial markets. As of September 20, 2007, the federal funds rate was 4.75%, and the primary credit rate was 5.25%.

In the EU, the European Central Bank's policy rate was raised to 3.75% in March 2007, and was further raised to 4.0% in June 2007.

Critical Accounting Estimates

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

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of probable losses in our loan portfolio. The evaluation process, including credit-ratings and self-assessments, involves a number of estimates and judgments. The allowance is based on two principles of accounting: (1) SFAS No. 5, Accounting for Contingencies, which requires that losses be accrued when they are probable of occurring and can be estimated; and (2) SFAS No. 114, Accounting by Creditors for Impairment of a Loan and SFAS No. 118, Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures, which require that losses be accrued based on the difference between the present value of expected future cash flows discounted at the loan's effective interest rate, the fair value of collateral or the loan's observable market value and the loan balance.

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

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

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

The allowance for loans exposed to specific country risk is based on an estimate of probable losses relating to our exposure to countries that we identify as having a high degree of transfer risk. We use a country risk

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grading system that assigns risk ratings to individual countries. To determine the risk rating, we consider the instability of foreign currency and difficulties regarding our borrowers' ability to service their debt.

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

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

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

Determining the adequacy of the allowance for credit losses requires the exercise of considerable judgment and the use of estimates, such as those discussed above. To the extent that actual losses differ from management's estimates, additional provisions for credit losses may be required that would adversely impact our operating results and financial condition in future periods.

Impairment of Investment Securities

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

Debt and marketable equity securities. In determining whether a decline in fair value below cost is other than temporary for a particular security, indicators of an other than temporary decline for both debt and marketable equity securities include, but are not limited to, the extent of decline in fair value below cost and the length of time that the decline in fair value below cost has continued. If a decline in fair value below cost is 20% or more or has continued for six months or more, we generally deem such decline as an indicator of an other than temporary decline. We also consider the current financial condition and near-term prospects of issuers primarily based on the credit standing of the issuers as determined by our credit rating system.

Certain securities held by BTMU, MUTB and certain other subsidiaries, which primarily consist of debt securities issued by the Japanese national government and generally considered to be of minimal credit risk, were determined not to be impaired in some cases, on the basis of the respective subsidiary's ability and positive intent to hold such securities to maturity.

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

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The aggregate amount of unrealized losses at March 31, 2007 that we determined to be temporary was ¥54.1 billion.

Nonmarketable equity securities. Nonmarketable equity securities are equity securities of companies that are not publicly traded or are thinly traded. Such securities are primarily held at cost less other than temporary impairment if applicable. For the securities carried at cost, we consider factors such as the credit standing of issuers and the extent of decline in net assets of issuers to determine whether the decline is other than temporary. When we determine that the decline is other than temporary, nonmarketable equity securities are written down to the estimated fair value, determined based on such factors as the ratio of our investment in the issuer to the issuer's net assets and the latest transaction price if applicable. When the decline is other than temporary, certain nonmarketable equity securities issued by public companies, such as preferred stock convertible to marketable common stock in the future, are written down to fair value estimated by commonly accepted valuation models, such as option pricing models based on a number of factors, including the quoted market price of the underlying marketable common stock, volatility and dividend payments as appropriate.

The markets for equity securities and debt securities are inherently volatile, and the values of both types of securities have fluctuated significantly in recent years. Accordingly, our assessment of potential impairment involves risks and uncertainties depending on market conditions that are global or regional in nature and the condition of specific issuers or industries, as well as management's subjective assessment of the estimated future performance of investments. If we later conclude that a decline is other than temporary, the impairment loss may significantly affect our operating results and financial condition in future periods.

Valuation of Deferred Tax Assets

A valuation allowance for deferred tax assets is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Future realization of the tax benefit of existing deductible temporary differences or carryforwards ultimately depends on the existence of sufficient taxable income in future periods.

In determining a valuation allowance, we perform a review of future taxable income (exclusive of reversing temporary differences and carryforwards) and future reversals of existing taxable temporary differences. Future taxable income is developed from forecasted operating results, based on recent historical trends and approved business plans, the eligible carryforward periods and other relevant factors. For certain subsidiaries where strong negative evidence exists, such as the existence of significant amounts of operating loss carryforwards, cumulative losses and the expiration of unused operating loss carryforwards in recent years, a valuation allowance is recognized against the deferred tax assets to the extent that it is more likely than not that they will not be realized.

Among other factors, forecasted operating results, which serve as the basis of our estimation of future taxable income, have a significant effect on the amount of the valuation allowance. In developing forecasted operating results, we assume that our operating performance is stable for certain entities where strong positive evidence exists, including core earnings based on past performance over a certain period of time. The actual results may be adversely affected by unexpected or sudden changes in interest rates as well as an increase in credit-related expenses due to the deterioration of economic conditions in Japan and material declines in the Japanese stock market to the extent that such impacts exceed our original forecast. In addition, near-term taxable income is also influential on the amount of the expiration of unused operating loss carryforwards since the Japanese corporate tax law permits operating losses to be deducted for a predetermined period generally no longer than seven years. At March 31, 2007, we had operating loss carryforwards of ¥3,296.8 billion, the majority of which will expire by March 31, 2012.

Because the establishment of the valuation allowance is an inherently uncertain process involving estimates as discussed above, the currently established allowance may not be sufficient. If the estimated allowance is not

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sufficient, we will incur additional deferred tax expenses, which could materially affect our operating results and financial condition in future periods.

Accounting for Goodwill and Intangible Assets

US GAAP requires us to test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired, using a two-step process that begins with an estimation of the fair value of a reporting unit of our business, which is to be compared with the carrying amount of the unit, to identify potential impairment of goodwill. A reporting unit is an operating segment or component of an operating segment that constitutes a business for which discrete financial information is available and is regularly reviewed by management. The fair value of a reporting unit is defined as the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. Since an observable quoted market price for a reporting unit is not always available, the fair value of the reporting units are determined using a combination of valuation techniques consistent with the income approach and market approach. In the income approach, discounted cash flows were calculated by taking the net present value based on each reporting unit's internal forecasts. Cash flows were discounted using a discount rate approximating the weighted average cost of capital after making adjustments for risks inherent in the cash flows. In the market approach, analysis using market-based trading and transaction multiples was used. If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss recorded in income. This test requires comparison of the implied fair value of the unit's goodwill with the carrying amount of that goodwill. The estimate of the implied fair value of the reporting unit's goodwill requires us to allocate the fair value of a reporting unit to all of the assets and liabilities of that reporting unit, including unrecognized intangible assets, if any, since the implied fair value is determined as the excess of the fair value of a reporting unit over the net amounts assigned to its assets and liabilities in the allocation. Accordingly, the second step of the impairment test also requires an estimate of the fair value of individual assets and liabilities, including any unrecognized intangible assets that belong to that unit.

In connection with our merger with UFJ Holdings, we recorded goodwill of ¥1,733.1 billion, and goodwill was not impaired as of March 31, 2006 and 2007, nor was any goodwill written off during the fiscal years ended March 31, 2006 and 2007. See note 2 to our consolidated financial statements for more information on the goodwill acquired in connection with the merger with UFJ Holdings, and note 10 to our consolidated financial statements for more information on goodwill by major business segments.

Intangible assets are amortized over their estimated useful lives unless they have indefinite useful lives. Amortization for intangible assets is computed in a manner that best reflects the economic benefits of the intangible assets. Intangible assets having indefinite useful lives are subject to annual impairment tests. An impairment exists if the carrying value of an indefinite-lived asset exceeds its fair value. For other intangible assets subject to amortization, an impairment is recognized if the carrying amount exceeds the fair value of the intangible asset.

Accrued Severance Indemnities and Pension Liabilities

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

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

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

We adopted the recognition provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) as of March 31, 2007. See *Accounting Changes - Defined Benefit Pension and Other Postretirement Plans* and note 18 to our consolidated financial statements for further information.

Valuation of Financial Instruments with No Available Market Prices

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

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

| | At March 31, | |
|---|----------------------|-------------|
| | 2006 | 2007 |
| | (in billions) | |
| Financial assets: | | |
| Trading account assets, excluding derivatives | ¥ 6,790 | ¥ 6,927 |
| Investment securities | 40,343 | 40,556 |
| Financial liabilities: | | |
| Trading account liabilities, excluding derivatives | 119 | 797 |
| Obligations to return securities received as collateral | 3,946 | 3,649 |
| Derivative financial instruments, net | 219 | 67 |

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

Accounting Changes

Variable Interest Entities In January 2003, the Financial Accounting Standards Board, or the FASB, issued FASB Interpretation, or FIN, No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. FIN No. 46 addresses consolidation by business enterprises of variable interest entities, or VIEs. The consolidation requirements of FIN No. 46 applied immediately to VIEs created after January 31, 2003. We

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have applied, as required, FIN No. 46 to all VIEs created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003, which has been amended by the FASB as described below.

In December 2003, the FASB issued FIN No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, an interpretation of ARB No. 51, or FIN No. 46R. FIN No. 46R modified FIN No. 46 in certain respects, including the scope exception, the definition of VIEs, and other factors that effect the determination of VIEs and primary beneficiaries that must consolidate VIEs. FIN No. 46R, as written, applies to VIEs created before February 1, 2003 no later than the end of the first reporting period that ends after March 15, 2004, and to all special purpose entities no later than the first reporting period that ends after December 15, 2003. Subsequent to the issuance of FIN No. 46R, the Chief Accountant of the U.S. Securities and Exchange Commission, or SEC, stated the SEC staff's position in a letter to the American Institute of Certified Public Accountants, or AICPA, dated March 3, 2004, that the SEC staff did not object to the conclusion that FIN No. 46R should not be required to be applied at a date earlier than the original FIN No. 46 and that foreign private issuers would be required to apply FIN No. 46R at various dates depending on the entity's year-end and the frequency of interim reporting. In accordance with the letter, we adopted FIN No. 46R on April 1, 2004, except for certain investment companies, for which the effective date of FIN No. 46R was deferred. Under FIN No. 46R, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE is recognized as a cumulative effect of a change in accounting principle. The cumulative effect of the change in accounting principle was to decrease net income by ¥977 million for the fiscal year ended March 31, 2005. See note 27 to our consolidated financial statements for further discussion of VIEs in which we hold variable interests.

Accounting for Conditional Asset Retirement Obligations In March 2005, the FASB issued FIN No. 47, *Accounting for Conditional Asset Retirement Obligations* an interpretation of FASB Statement No. 143. FIN No. 47 clarifies that the term *conditional asset retirement obligation* as used in SFAS No. 143, *Accounting for Asset Retirement Obligations* refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. Effective March 31, 2006, we adopted FIN No. 47 to existing asset retirement obligations associated with commitments to return property subject to operating leases to its original condition upon lease termination. The cumulative effect of the change in accounting principle was to decrease net income by ¥9,662 million. This adjustment represents the cumulative depreciation and accretion that would have been recognized through the date of adoption of FIN No. 47 had the statement applied to our existing asset retirement obligations at the time they were initially incurred.

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Had the asset retirement obligations been accounted for under FIN No. 47 at the inception of operating leases requiring restoration, our net income and net income per share would have been the pro forma amounts indicated in the following table:

| | Fiscal years ended March 31, | |
|---|------------------------------|-------------|
| | 2005 | 2006 |
| | (in millions) | |
| Reported net income | ¥ 415,155 | ¥ 363,511 |
| Cumulative effect of a change in accounting principle related to adoption of FIN No. 47, net of taxes: | | |
| Reported | | 9,662 |
| Pro forma | 667 | 516 |
| Pro forma net income, after cumulative effect of a change in accounting principle related to adoption of FIN No. 47, net of taxes | ¥ 414,488 | ¥ 372,657 |
| | (in Yen) | |
| Basic earnings per common share net income available to common shareholders: | | |
| Reported | ¥ 62,717.21 | ¥ 19,313.78 |
| Pro forma | 62,717.11 | 19,314.91 |
| Diluted earnings per common share net income available to common shareholders: | | |
| Reported | 62,476.76 | 18,951.87 |
| Pro forma | 62,476.66 | 18,953.00 |

Share-Based Payment In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, or SFAS No. 123R. SFAS No. 123R replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinions, or APB, No. 25, Accounting for Stock Issued to Employees. In March 2005, the SEC issued Staff Accounting Bulletin, or SAB, No. 107, which provides interpretive guidance on SFAS No. 123R. SFAS No. 123 preferred a fair-value-based method of accounting for share-based payment transactions with employees, but it permitted the option of continuing to apply the intrinsic-value-based measurement method in APB No. 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. SFAS No. 123R eliminates the alternative to use the intrinsic value method of accounting and requires entities to recognize the costs of share-based payment transactions with employees based on the grant-date fair value of those awards over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123R is effective as of the beginning of the fiscal year or interim period beginning after June 15, 2005. We adopted SFAS No. 123R on April 1, 2006 under the modified prospective method, which resulted in a decrease in income from continuing operations before income tax expense of ¥1,969 million and a decrease in income from continuing operations, net of taxes, of ¥1,026 million for the fiscal year ended March 31, 2007, which includes estimated forfeitures for restricted stock and the amortization of compensation costs related to unvested stock options. The corresponding impact to both basic and diluted earnings per share was a reduction of ¥102.08 per share for the fiscal year ended March 31, 2007. The adoption of SFAS No. 123R did not have a material impact on our cash flows. See note 33 to our consolidated financial statements for a further discussion of the adoption of SFAS No. 123R and stock-based compensation plans.

Exchanges of Nonmonetary Assets In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. The guidance in APB No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier adoption permitted. We adopted SFAS No. 153 on April 1, 2006, which did not have a material impact on our financial position and results of operations.

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Accounting Changes and Error Corrections In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 replaces APB No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principles. SFAS No. 154 also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, with earlier adoption permitted. We adopted SFAS No. 154 on April 1, 2006, which did not have a material impact on our financial position and results of operations.

The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments In November 2005, the FASB staff issued an FASB Staff Position, or FSP, on SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than temporary impairments. The guidance in this FSP is applicable for certain investments such as debt and equity securities that are within the scope of SFAS No. 115 and equity securities that are not subject to the scope of SFAS No. 115 and No. 124 and not accounted for under the equity method pursuant to APB No. 18, The Equity Method of Accounting for Investments in Common Stock, and related interpretations. This FSP nullifies the requirements of paragraphs 10-18 of the FASB Emerging Issues Task Force, or the EITF, Issue 03-1 and supersedes EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value. This FSP carries forward the requirements of paragraphs 8 and 9 of EITF Issue 03-1 with respect to cost-method investments, and carries forward the disclosure requirements included in paragraphs 21 and 22 of EITF Issue 03-1. Also, the guidance in this FSP amends SFAS No. 115, SFAS No. 124 and APB No. 18. The guidance in this FSP shall be applied to reporting periods beginning after December 15, 2005, with earlier application permitted. We adopted the FSP on April 1, 2006, which did not have a material impact on our financial position and results of operations.

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

In June 2003, BTMU submitted to the government an application to transfer the obligation to pay benefits for future employee service related to the substitutional portion and the application was approved in August 2003. In August 2004, BTMU made another application for transfer to the government of the remaining substitutional portion and the application was approved in November 2004. The substitutional obligation and related plan assets were transferred to a government agency in March 2005 and BTMU was released from paying the substitutional portion of the benefits to its employees. The completion of the transfer to the Japanese Government of the substitutional portion of the employee pension plan constituted a settlement of such plan. However, since there remains a defined benefit plan and the settlement occurred subsequent to December 31, 2004 (the measurement date of such plan), we recognized net gains of ¥34,965 million as a result of the transfer /

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settlement for the fiscal year ended March 31, 2006. See note 18 to our consolidated financial statements for further discussion.

Effects of Prior Year Misstatements on Current Year Financial Statements In September 2006, the SEC staff issued SAB No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 provides guidance on quantifying and evaluating the materiality of unrecorded misstatements. It requires the use of both the iron curtain and rollover approaches in quantifying and evaluating the materiality of a misstatement. Under the iron curtain approach, the error is quantified as the cumulative amount by which the current year balance sheet is misstated. The rollover approach quantifies the error as the amount by which the current year income statement is misstated. If either approach results in a material misstatement, financial statement adjustments are required. SAB No. 108 is effective for financial statements issued for fiscal years ending after November 15, 2006. Early adoption is encouraged in interim periods which are part of a fiscal year ending after November 15, 2006. We adopted SAB No. 108 as of March 31, 2007, which did not have a material impact on our financial position and results of operations.

Defined Benefit Pension and Other Postretirement Plans In September 2006, the FASB issued SFAS No. 158. SFAS No. 158 requires entities to recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement plans in its consolidated statement of financial position and recognize changes in the funded status of defined benefit pension and other postretirement plans in the year in which the changes occur in comprehensive income. SFAS No. 158 clarifies that defined benefit assets and obligations should be measured as of the date of the entity's fiscal year-end statement of financial positions. SFAS No. 158 also requires additional disclosure information related to certain effects on the net periodic benefit costs and credits, and transition assets or obligations. The requirement to recognize the funded status as of the date of the statement of financial position is effective for fiscal years ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the statement of financial position is effective for fiscal years ending after December 15, 2008. We adopted the recognition provisions of SFAS No. 158 as of March 31, 2007. The adoption of SFAS No. 158, which had no impact on how we determine our net periodic benefit costs, did have the effect of increasing shareholders' equity by ¥178,784 million, net of taxes, which was recorded in accumulated other changes in equity from nonowner sources.

Recently Issued Accounting Pronouncements

Accounting for Certain Hybrid Financial Instruments In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*. SFAS No. 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* and resolves issues addressed in SFAS No. 133 Implementation Issue D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133. SFAS No. 155 establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. SFAS No. 155 also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We have not completed the study of what effect SFAS No. 155 will have on our financial position and results of operations.

Accounting for Servicing of Financial Assets In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*. SFAS No. 156 amends SFAS No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires an entity to

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recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract, and requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS No. 156 permits an entity to choose either the amortization method or the fair value measurement method for each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for the fiscal year beginning after September 15, 2006. Earlier adoption is permitted. We have not completed the study of what effect SFAS No. 156 will have on our financial position and results of operations.

Determining the Variability to Be Considered in Applying FIN No. 46R In April 2006, the FASB staff issued an FSP on FIN No. 46R-6,

Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R). This FSP states that the variability to be considered in applying FIN No. 46R shall be based on an analysis of the design of the entity as outlined in the following two steps: (a) analyze the nature of the risks in the entity, (b) determine the purpose for which the entity was created and determine the variability (created by the risks identified in step (a)) the entity is designed to create and pass along to its interest holders. For the purposes of this FSP, interest holders include all potential variable interest holders (including contractual, ownership, or other pecuniary interests in the entity). After determining the variability to be considered, the reporting enterprise can determine which interests are designed to absorb that variability. The FSP should be applied prospectively to all entities (including newly created entities) with which an enterprise first becomes involved, and to all entities previously required to be analyzed under FIN No. 46R when a reconsideration event has occurred beginning the first day of the first reporting period beginning after June 15, 2006. Early application is permitted for periods for which financial statements have not yet been issued. Retrospective application to the date of the initial application of FIN No. 46R is permitted but not required. If retrospective application is elected, it must be completed no later than the end of the first annual reporting period ending after July 15, 2006. We have not completed the study of what effect the FSP will have on our financial position and results of operations.

Uncertainty in Income Taxes In June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes*. FIN No. 48 requires recognition of a tax benefit to the extent of management's best estimate of the impact of a tax position, provided it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. We will adopt the provisions of FIN No. 48 on April 1, 2007. The impact of adopting FIN No. 48 is not expected to be significant on our financial position and results of operations.

Leveraged Leases In July, 2006, the FASB issued an FSP on SFAS No. 13, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*. This FSP requires if, during the lease term, the projected timing of the income tax cash flows generated by a leveraged lease is revised, the rate of return and the allocation of income shall be recalculated from the inception of the lease. At adoption, the cumulative effect of applying the provisions of this FSP shall be reported as an adjustment to the beginning balance of retained earnings as of the beginning of the period in which this FSP is adopted. This FSP shall be applied to fiscal years beginning after December 15, 2006. We will adopt the provisions of this FSP on April 1, 2007. We estimate that the cumulative effect of adopting this FSP will be to reduce the beginning balance of retained earnings by approximately ¥6 billion, net of taxes. The reduction to retained earnings at adoption will be recognized in interest income over the remaining terms of the affected leases as tax benefits are realized.

Fair Value Measurements In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having

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previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS No. 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under SFAS No. 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. We have not completed the study of what effect SFAS No. 157 will have on our financial position and results of operations.

Fair Value Option for Financial Assets and Financial Liabilities In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No 115. SFAS No. 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities and certain other items at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted subject to certain conditions. We have not completed the study of what effect SFAS No. 159 will have on our financial position and results of operations.

Investment Company Accounting In June 2007, the AICPA issued Statement of Position, or SOP, 07-1, Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies. SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies, or the AICPA Guide. The statement also addresses whether the specialized industry accounting principles of the AICPA Guide should be retained by a parent company in consolidation or by an investor that has the ability to exercise significant influence over the investment company and applies the equity method of accounting to its investment in the entity. SOP 07-1 is effective for fiscal years beginning on or after December 15, 2007, with earlier application encouraged. In addition, in May 2007, the FASB issued an FSP FIN No. 46R-7, Application of FIN No. 46R to Investment Companies, which amends FIN No. 46R to make permanent the temporary deferral of the application of FIN No. 46R to entities within the scope of the revised audit guide under SOP 07-1. We have not completed the study of what effect SOP 07-1 and FSP FIN No. 46R-7 will have on our financial position and results of operations.

Table of Contents**Results of Operations**

The following table sets forth a summary of our results of operations for the fiscal years ended March 31, 2005, 2006 and 2007:

| | Fiscal years ended March 31, | | |
|---|------------------------------|-----------|-----------|
| | 2005 | 2006 | 2007 |
| | (in billions) | | |
| Interest income | ¥ 1,438.7 | ¥ 2,530.7 | ¥ 3,915.7 |
| Interest expense | 469.6 | 882.1 | 1,585.9 |
| Net interest income | 969.1 | 1,648.6 | 2,329.8 |
| Provision for credit losses | 108.3 | 110.2 | 358.6 |
| Non-interest income | 986.8 | 1,067.4 | 1,947.9 |
| Non-interest expense | 1,129.2 | 2,076.1 | 2,784.2 |
| Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle | 718.4 | 529.7 | 1,134.9 |
| Income tax expense | 303.8 | 165.5 | 552.8 |
| Income from continuing operations before cumulative effect of a change in accounting principle | 414.6 | 364.2 | 582.1 |
| Income (loss) from discontinued operations net | 1.5 | 9.0 | (0.8) |
| Cumulative effect of a change in accounting principle, net of tax | (0.9) | (9.7) | |
| Net income | ¥ 415.2 | ¥ 363.5 | ¥ 581.3 |

We reported ¥581.3 billion of net income for the fiscal year ended March 31, 2007, compared to ¥363.5 billion of net income for the fiscal year ended March 31, 2006. Our basic earnings per common share (net income available to common shareholders) for the fiscal year ended March 31, 2007 was ¥29,863.20, compared with an earnings per share of ¥19,313.78 for the fiscal year ended March 31, 2006. Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle for the fiscal year ended March 31, 2007 was ¥1,134.9 billion, compared with ¥529.7 billion for the fiscal year ended March 31, 2006.

Our merger with UFJ Holdings completed on October 1, 2005 was the major factor in the changes in many of the items in our consolidated statements of income over the three fiscal years ended March 31, 2007. The results for the fiscal year ended March 31, 2005 reflect the results of MTFG only. The results for the fiscal year ended March 31, 2006 reflect the pre-merger results of MTFG for the six months ended September 30, 2005 and the post-merger results of MUFG for the six months ended March 31, 2006. The results for the fiscal year ended March 31, 2007 reflect the post-merger results of MUFG for the full twelve-month period.

Table of Contents**Net Interest Income**

The following is a summary of the interest rate spread for the fiscal years ended March 31, 2005, 2006 and 2007:

| | Fiscal years ended March 31, | | | | | |
|-----------------------------------|------------------------------|--------------|--------------------|--------------|--------------------|--------------|
| | 2005 | | 2006 | | 2007 | |
| | Average | Average | Average | Average | Average | Average |
| | balance | rate | balance | rate | balance | rate |
| (in billions, except percentages) | | | | | | |
| Interest-earning assets: | | | | | | |
| Domestic | ¥ 76,424.5 | 0.96% | ¥ 104,942.8 | 1.30% | ¥ 130,196.1 | 1.63% |
| Foreign | 22,857.6 | 3.07 | 30,442.5 | 3.85 | 38,571.2 | 4.65 |
| Total | ¥ 99,282.1 | 1.45% | ¥ 135,385.3 | 1.87% | ¥ 168,767.3 | 2.32% |
| Financed by: | | | | | | |
| Interest-bearing funds: | | | | | | |
| Domestic | ¥ 77,195.3 | 0.30% | ¥ 98,788.9 | 0.37% | ¥ 122,332.7 | 0.54% |
| Foreign | 15,031.5 | 1.58 | 19,331.3 | 2.65 | 24,463.3 | 3.78 |
| Total | 92,226.8 | 0.51 | 118,120.2 | 0.75 | 146,796.0 | 1.08 |
| Non-interest-bearing funds | 7,055.3 | | 17,265.1 | | 21,971.3 | |
| Total | ¥ 99,282.1 | 0.47% | ¥ 135,385.3 | 0.65% | ¥ 168,767.3 | 0.94% |
| Spread on: | | | | | | |
| Interest-bearing funds | | 0.94% | | 1.12% | | 1.24% |
| Total funds | | 0.98% | | 1.22% | | 1.38% |

Our net interest income for the fiscal years ended March 31, 2005, 2006 and 2007 were not materially affected by gains or losses resulting from derivative financial instruments used for hedging purposes.

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Net interest income for the fiscal year ended March 31, 2007 was ¥2,329.8 billion, an increase of ¥681.2 billion, from ¥1,648.6 billion for the fiscal year ended March 31, 2006. This increase was mainly due to the fact that net interest income for the fiscal year ended March 31, 2006 reflected only that of the post-merger MUFG for six months (with the first half of the fiscal year reflecting that of the pre-merger MTFG only), while net interest income for the fiscal year ended March 31, 2007 reflected that of the post-merger MUFG for the full twelve-month period. For the fiscal year ended March 31, 2007, interest rates in Japan, the United States and Europe generally increased. In the rising interest rate environment in Japan during the fiscal year ended March 31, 2007, the increase in average rates on domestic interest-earning assets, such as loans, was larger than the increase in average rates on domestic interest-bearing funds, such as deposits. This increase in interest rate spread

contributed to the increase in our net interest income.

The average interest rate spread on interest-bearing funds increased, showing an increase of 12 basis points from 1.12% for the fiscal year ended March 31, 2006 to 1.24% for the fiscal year ended March 31, 2007. The average interest rate spread on total funds also increased, showing an increase of 16 basis points from 1.22% for the fiscal year ended March 31, 2006 to 1.38% for the fiscal year ended March 31, 2007.

Average interest-earning assets for the fiscal year ended March 31, 2007 were ¥168,767.3 billion, an increase of ¥33,382.0 billion, from ¥135,385.3 billion for the fiscal year ended March 31, 2006. The increase was primarily attributable to an increase in domestic interest-earning assets, as the average balance for the fiscal year ended March 31, 2007 reflected that of the post-merger results of MUFG for the full twelve-month period compared to the average balance for the previous fiscal year, which reflected only that of the post-merger MUFG for six months (with the first half of the fiscal year reflecting that of the pre-merger MTFG only).

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Average interest-bearing funds for the fiscal year ended March 31, 2007 were ¥146,796.0 billion, an increase of ¥28,675.8 billion, from ¥118,120.2 billion for the fiscal year ended March 31, 2006. The increase was primarily attributable to an increase in domestic interest-bearing deposits. The increase in domestic interest-bearing deposits was mainly due to the fact that the fiscal year ended March 31, 2006 reflected only six months of the post-merger MUFG (with the first half of the fiscal year reflecting the pre-merger MTFG only), while the fiscal year ended March 31, 2007 reflected the post-merger MUFG for the full twelve-month period.

Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

Net interest income for the fiscal year ended March 31, 2006 was ¥1,648.6 billion, an increase of ¥679.5 billion, from ¥969.1 billion for the fiscal year ended March 31, 2005. This increase was mainly due to the merger with UFJ Holdings on October 1, 2005. For the fiscal year ended March 31, 2006, interest rates in the United States and Europe generally increased. The increase in foreign interest rates also contributed to the increase in our net interest income, as the effect of higher foreign interest rates had a larger contributory effect on our interest income compared to our interest expense, partly due to the fact that our foreign interest-earning assets average balance of ¥30,442.5 billion is much larger than the average balance of our foreign interest-bearing liabilities of ¥19,331.3 billion.

The average interest rate spread on interest-bearing funds increased, showing an increase of 18 basis points from 0.94% for the fiscal year ended March 31, 2005 to 1.12% for the fiscal year ended March 31, 2006. The average interest rate spread on total funds also increased, showing an increase of 24 basis points from 0.98% for the fiscal year ended March 31, 2005 to 1.22% for the fiscal year ended March 31, 2006.

Average interest-earning assets for the fiscal year ended March 31, 2006 were ¥135,385.3 billion, an increase of ¥36,103.2 billion, from ¥99,282.1 billion for the fiscal year ended March 31, 2005. The increase was primarily attributable to an increase of ¥19,073.1 billion in domestic loans, and an increase of ¥8,302.6 billion in domestic investment securities, which were mainly due to the merger with UFJ Holdings.

Average interest-bearing funds for the fiscal year ended March 31, 2006 were ¥118,120.2 billion, an increase of ¥25,893.4 billion, from ¥92,226.8 billion for the fiscal year ended March 31, 2005. The increase was also primarily attributable to the merger with UFJ Holdings, as domestic interest-bearing liabilities increased by ¥21,593.6 billion after we acquired the domestic deposit base of UFJ Holdings.

Provision for Credit Losses

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

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Provision for credit losses for the fiscal year ended March 31, 2007 was ¥358.6 billion, an increase of ¥248.4 billion from ¥110.2 billion for the fiscal year ended March 31, 2006. The increase in provision for credit losses was mainly due to the downgrade in credit rating of a large

borrower in the transportation industry. Additionally, provision for credit losses increased in the consumer finance industry.

Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

Provision for credit losses for the fiscal year ended March 31, 2006 was ¥110.2 billion, an increase of ¥1.9 billion from ¥108.3 billion for the fiscal year ended March 31, 2005. Our loan portfolio and allowance for credit losses were favorably affected by the upgrades of many borrowers credit ratings resulting from improvements in

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their business performance mainly attributable to the general recovery in the Japanese economy, as well as upgrades of credit ratings of borrowers to whom we had large exposures and who made progress in their restructuring plans.

However, most of the foregoing favorable impact on the quality of our loan portfolio was not reflected in our provision for credit losses in the fiscal year ended March 31, 2006, because any subsequent increases in the expected cash flows from impaired loans acquired in the merger with UFJ Holdings were not accounted for as reversals of the allowance for credit losses but rather as adjustments to accretable yields under Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, or SOP 03-3. On the other hand, the favorable impact on the quality of these loans was reflected in the increase in interest income and the gains on sales of loans included in non-interest income.

For a further discussion of the adoption of SOP 03-3, see Basis of Financial Statements and Summary of Significant Accounting Policies in note 1 to our consolidated financial statements, and for the allowance for credit losses, see Item 5.B. Liquidity and Capital Resources Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans.

Non-Interest Income

The following table is a summary of our non-interest income for the fiscal years ended March 31, 2005, 2006 and 2007:

| | Fiscal years ended March 31, | | |
|---|------------------------------|----------------|----------------|
| | 2005 | 2006 | 2007 |
| | (in billions) | | |
| Fees and commissions: | | | |
| Trust fees | ¥ 102.8 | ¥ 121.4 | ¥ 146.0 |
| Fees on funds transfer and service charges for collections | 60.2 | 105.5 | 151.3 |
| Fees and commissions on international business | 45.1 | 62.2 | 70.2 |
| Fees and commissions on credit card business | 62.2 | 110.1 | 164.2 |
| Service charges on deposits | 36.5 | 35.9 | 37.5 |
| Fees and commissions on securities business | 104.5 | 145.2 | 136.6 |
| Fees on real estate business | 31.4 | 45.8 | 60.2 |
| Insurance commissions | 36.0 | 48.5 | 52.2 |
| Fees and commissions on stock transfer agency services | 20.1 | 39.4 | 73.7 |
| Guarantee fees | 19.4 | 53.1 | 88.3 |
| Fees on investment funds business | 11.7 | 65.9 | 129.7 |
| Other fees and commissions | 111.2 | 200.3 | 297.3 |
| Total | 641.1 | 1,033.3 | 1,407.2 |
| Foreign exchange losses net | (47.2) | (322.4) | (162.0) |
| Trading account profits net | 62.1 | 16.4 | 404.8 |
| Investment securities gains net | 198.0 | 89.9 | 238.3 |
| Equity in earnings (losses) of equity method investees | 26.3 | 22.3 | (56.9) |
| Government grant for transfer of substitutional portion of Employees Pension Fund Plans | | 103.0 | |
| Gains on sales of loans | 0.6 | 34.8 | 23.1 |
| Other non-interest income | 105.9 | 90.1 | 93.4 |

| | | | |
|---------------------------|---------|-----------|-----------|
| Total non-interest income | ¥ 986.8 | ¥ 1,067.4 | ¥ 1,947.9 |
|---------------------------|---------|-----------|-----------|

Net foreign exchange gains (losses) primarily include net gains (losses) on currency derivative instruments entered into for trading purposes and transaction gains (losses) on the translation into Japanese yen of monetary

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

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

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

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Non-interest income for the fiscal year ended March 31, 2007 was ¥1,947.9 billion, an increase of ¥880.5 billion, from ¥1,067.4 billion for the fiscal year ended March 31, 2006. This increase was primarily due to an increase of ¥388.4 billion in net trading account profits, an increase of ¥373.9 billion in fees and commissions and an increase of ¥148.4 billion in net investment securities gains. These increases were partially offset by a decrease of ¥103.0 billion in government grant for the transfer of the substitutional portion of employees' pension fund plans, as there were no such transfers for the fiscal year ended March 31, 2007.

Fees and commissions for the fiscal year ended March 31, 2007 were ¥1,407.2 billion, an increase of ¥373.9 billion, from ¥1,033.3 billion for the fiscal year ended March 31, 2006. This increase was mainly due to the fact that the fiscal year ended March 31, 2006 reflected only six months of the post-merger MUFG (with the first half of the fiscal year reflecting the pre-merger MTFG only), while the results for the fiscal year ended March 31, 2007 reflected the post-merger MUFG for the full twelve-month period.

Net foreign exchange losses for the fiscal year ended March 31, 2007 were ¥162.0 billion, compared to net foreign exchange losses of ¥322.4 billion for the fiscal year ended March 31, 2006. The improvement in foreign exchange losses was due mainly to the smaller depreciation of the Japanese yen against foreign currencies in the fiscal year ended March 31, 2007, compared to the fiscal year ended March 31, 2006. For reference, the mid foreign exchange rate expressed in Japanese yen per \$1.00 by BTMU was ¥107.39 at March 31, 2005, ¥117.47 at March 31, 2006 and ¥118.05 at March 30, 2007. The mid foreign exchange rate expressed in Japanese yen per 1.00 by BTMU was ¥138.87 at March 31, 2005, ¥142.81 at March 31, 2006 and ¥157.33 at March 30, 2007. All transaction gains or losses on translation of monetary liabilities denominated in foreign currencies are included in current earnings. However, the transaction gains or losses on translation of securities available for sale, such as bonds denominated in foreign currencies, are not included in current earnings but are reflected in other changes in equity from nonowner sources. As we maintain monetary liabilities denominated in foreign currencies for our asset liability management, net foreign exchange gains (losses) fluctuate with the appreciation (depreciation) of the Japanese yen.

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Net trading account profits of ¥404.8 billion were recorded for the fiscal year ended March 31, 2007, compared to net trading account profits of ¥16.4 billion for the fiscal year ended March 31, 2006. The net trading account profits for the fiscal years ended March 31, 2006 and 2007 consisted of the following:

| | Fiscal years ended March 31, | |
|--|-------------------------------------|----------------|
| | 2006 | 2007 |
| | (in billions) | |
| Net profits (losses) on interest rate and other derivative contracts | ¥ (347.1) | ¥ 212.8 |
| Net profits on trading account securities, excluding derivatives | 363.5 | 192.0 |
| Net trading account profits | ¥ 16.4 | ¥ 404.8 |

Net profits (losses) on interest rate and other derivative contracts were largely affected by the impact of the increase (decrease) in Japanese long-term interest rates on interest rate swaps principally held for risk management purposes. Although such contracts are generally entered into for risk management purposes, a majority of them did not meet the conditions to qualify for hedge accounting under US GAAP and thus are accounted for as trading positions.

Though Japanese yen short-term interest rates generally rose during the fiscal year ended March 31, 2007 compared to the previous fiscal year, long-term interest rates generally declined. This decline in long-term interest rates had a favorable impact on our interest rate swap portfolios, in which we generally maintained net receive-fix and pay-variable positions, for managing interest rate risks on domestic deposits. The increase in net profits on interest rate and other derivative contracts of ¥559.9 billion was partially offset by a decrease in net profits on trading account securities, excluding derivatives of ¥171.5 billion, primarily reflecting the decline in profits from trading in debt and equity securities at MUS primarily due to unfavorable market conditions.

Net investment securities gains for the fiscal year ended March 31, 2007 were ¥238.3 billion, an increase of ¥148.4 billion, from ¥89.9 billion for the fiscal year ended March 31, 2006. Major components of net investment securities gains for the fiscal years ended March 31, 2006 and 2007 are summarized below:

| | Fiscal years ended March 31, | |
|---|-------------------------------------|----------------|
| | 2006 | 2007 |
| | (in billions) | |
| Net gains on sales of marketable equity securities | ¥ 196.7 | ¥ 105.7 |
| Impairment losses on marketable equity securities | (5.2) | (71.3) |
| Other (includes impairment losses on and net gains on sales of Japanese government bonds) | (101.6) | 203.9 |
| Net investment securities gains | ¥ 89.9 | ¥ 238.3 |

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The increase in net investment securities gains for the fiscal year ended March 31, 2007 mainly reflected the fact that net gains on sales of Japanese government bonds increased as the book value of such bonds declined due to impairment losses recorded during the fiscal year ended March 31, 2006. The increase was partially offset by a decrease in net gains on sales of marketable equity securities and an increase in impairment losses on marketable equity securities. The decrease in net gains on sales of marketable equity securities for the fiscal year ended March 31, 2007 was partly due to a one-time adjustment to the book value of some of our marketable equity securities in connection with the merger with UFJ Holdings. The increase in impairment losses on marketable equity securities was due to the fact that a larger number of our marketable equity securities were trading at depressed prices in a stagnant Japanese stock market in the fiscal year 2007, compared to a generally rising stock market in the previous fiscal year. The Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, was ¥11,668.95 at March 31, 2005, ¥17,059.66 at March 31, 2006 and ¥17,287.65 at March 30, 2007.

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We recorded equity in losses of equity method investees for the fiscal year ended March 31, 2007 of ¥56.9 billion, compared to equity in earnings of equity method investees of ¥22.3 billion for the fiscal year ended March 31, 2006. The negative change in the fiscal year ended March 31, 2007 was mainly due to losses in an equity method investee in the consumer finance business.

Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

Non-interest income for the fiscal year ended March 31, 2006 was ¥1,067.4 billion, an increase of ¥80.6 billion, from ¥986.8 billion for the fiscal year ended March 31, 2005. This increase was primarily due to an increase in fees and commissions of ¥392.2 billion, resulting from the merger with UFJ Holdings. This increase was partially offset by the increase in foreign exchange losses of ¥275.2 billion.

Regarding factors other than the merger, fees and commissions for the fiscal year ended March 31, 2006 increased from our securities business due mainly to the improvement in the Japanese stock market, and increased fees related to the real estate business and sales of investment and insurance products to retail customers.

Net foreign exchange losses for the fiscal year ended March 31, 2006 were ¥322.4 billion, compared to net foreign exchange losses of ¥47.2 billion for the fiscal year ended March 31, 2005. The increase in foreign exchange losses was due mainly to the larger depreciation of the Japanese yen against foreign currencies in the fiscal year ended March 31, 2006, compared to the fiscal year ended March 31, 2005. For reference, the noon buying rate expressed in Japanese yen per \$1.00 was ¥104.18 at March 31, 2004, ¥107.22 at March 31, 2005, and ¥117.48 at March 31, 2006. This increase in net foreign exchange losses primarily reflected an increase in transaction losses on translation of monetary liabilities denominated in foreign currencies. All transaction gains or losses on translation of monetary liabilities denominated in foreign currencies are included in current earnings. However, the transaction gains or losses on translation of securities available for sale, such as bonds denominated in foreign currencies, are not included in current earnings but are reflected in other changes in equity from nonowner sources. As we maintain monetary liabilities denominated in foreign currencies for our asset liability management, net foreign exchange gains (losses) fluctuate with the appreciation (depreciation) of the Japanese yen.

Net trading account profits of ¥16.4 billion were recorded for the fiscal year ended March 31, 2006, compared to net trading account profits of ¥62.1 billion for the fiscal year ended March 31, 2005. The net trading account profits for the fiscal years ended March 31, 2005 and 2006 consisted of the following:

| | Fiscal years ended March 31, | |
|--|-------------------------------------|---------------|
| | 2005 | 2006 |
| | (in billions) | |
| Net profits (losses) on interest rate and other derivative contracts | ¥ 6.4 | ¥ (347.1) |
| Net profits on trading account securities, excluding derivatives | 55.7 | 363.5 |
| Net trading account profits | ¥ 62.1 | ¥ 16.4 |

The net losses on interest rate and other derivative contracts for the fiscal year ended March 31, 2006 mainly reflected losses due to the rise in interest rates. These losses were partially offset by the increase in profits on trading account securities, excluding derivatives, for the fiscal year

ended March 31, 2006 caused by an increase in profits from trading of debt and equity securities at MUS, and trading account profits from gains in investment trusts.

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Net investment securities gains for the fiscal year ended March 31, 2006 were ¥89.9 billion, a decrease of ¥108.1 billion, from ¥198.0 billion for the fiscal year ended March 31, 2005. Major components of net investment securities gains for the fiscal years ended March 31, 2005 and 2006 are summarized below:

| | Fiscal years ended March 31, | |
|--|------------------------------|---------|
| | 2005 | 2006 |
| | (in billions) | |
| Net gains on sales of marketable equity securities | ¥ 246.0 | ¥ 196.7 |
| Impairment losses on marketable equity securities | (17.9) | (5.2) |
| Other (primarily impairment losses on Japanese government bonds) | (30.1) | (101.6) |
| Net investment securities gains | ¥ 198.0 | ¥ 89.9 |

The decrease in net investment securities gains for the fiscal year ended March 31, 2006 mainly reflected an increase in losses on debt securities, primarily Japanese government bonds, compared to the previous fiscal year, as long-term interest rates in Japan, such as the yield on ten-year Japanese government bonds, climbed from approximately 1.3% in April 2005 to approximately 1.8% in March 2006.

Equity in earnings of equity method investees for the fiscal year ended March 31, 2006 were ¥22.3 billion, a decrease of ¥4.0 billion, from ¥26.3 billion for the fiscal year ended March 31, 2005. The decrease was mainly due to the impairment losses on our equity holdings of an affiliate in the consumer lending business, which was partially offset by the addition of affiliates to our Group as a result of the merger with UFJ Holdings.

Government grant for the transfer of the substitutional portion of Employees Pension Fund Plans amounted to ¥103.0 billion for the fiscal year ended March 31, 2006, as the difference between the accumulated benefit obligations settled and the assets transferred to the Japanese government as a government grant for transfer of the substitutional portion of Employees Pension Fund Plans.

Non-Interest Expense

The following table shows a summary of our non-interest expense for the fiscal years ended March 31, 2005, 2006 and 2007:

| | Fiscal years ended March 31, | | |
|---|------------------------------|---------|---------|
| | 2005 | 2006 | 2007 |
| | (in billions) | | |
| Salaries and employee benefits | ¥ 473.1 | ¥ 746.4 | ¥ 862.4 |
| Occupancy expenses net | 97.2 | 146.9 | 179.4 |
| Fees and commission expenses | 87.2 | 218.4 | 238.0 |
| Outsourcing expenses, including data processing | 87.9 | 168.0 | 267.9 |

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| | | | |
|--|-------------------|-------------------|-------------------|
| Depreciation of premises and equipment | 47.1 | 81.3 | 118.9 |
| Amortization of intangible assets | 69.3 | 179.5 | 264.9 |
| Impairment of intangible assets | 2.2 | 0.3 | 184.8 |
| Insurance premiums, including deposit insurance | 57.0 | 89.7 | 112.8 |
| Minority interest in income of consolidated subsidiaries | 36.7 | 157.2 | 16.9 |
| Communications | 27.4 | 44.4 | 62.2 |
| Taxes and public charges | 32.1 | 58.3 | 79.7 |
| Provision for repayment of excess interest | 0.0 | 12.9 | 106.2 |
| Other non-interest expenses | 112.0 | 172.8 | 290.1 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total non-interest expense | ¥ 1,129.2 | ¥ 2,076.1 | ¥ 2,784.2 |
| | <u> </u> | <u> </u> | <u> </u> |

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Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Non-interest expense for the fiscal year ended March 31, 2007 was ¥2,784.2 billion, an increase of ¥708.1 billion from the previous fiscal year. This increase was primarily due to increases in most types of expenses, especially salaries and employee benefits and other non-interest expenses. These increases reflected the fact that the fiscal year ended March 31, 2006 reflected only six months of the post-merger MUFG (with the first half of the fiscal year reflecting the pre-merger MTFG only), while the results for the fiscal year ended March 31, 2007 reflected the post-merger MUFG for the full twelve-month period.

Outsourcing expenses, including data processing, for the fiscal year ended March 31, 2007 was ¥267.9 billion, an increase of ¥99.9 billion, from ¥168.0 billion for the previous fiscal year. The increase was mainly due to increased expenses related to the merger with UFJ Holdings.

Amortization of intangible assets for the fiscal year ended March 31, 2007 was ¥264.9 billion, an increase of ¥85.4 billion, from ¥179.5 billion for the previous fiscal year. This increase was mainly due to the amortization of core deposit intangibles recognized in the merger with UFJ Holdings, as well as the amortization of IT systems-related software, which also increased due to the merger.

Impairment of intangible assets for the fiscal year ended March 31, 2007 was ¥184.8 billion, an increase of ¥184.5 billion, from ¥0.3 billion for the previous fiscal year. The increase was mainly due to the impairment of intangible assets related to our subsidiary in the consumer finance business caused by the downward revision of projected earnings of the subsidiary due to adverse changes in the consumer finance business environment.

Minority interest in income of consolidated subsidiaries for the fiscal year ended March 31, 2007 was ¥16.9 billion, a decrease of ¥140.3 billion, from ¥157.2 billion for the previous fiscal year. The decrease mainly reflects a decrease in income from our consolidated subsidiaries and variable interest entities, including, in particular, losses recorded at a consumer finance subsidiary.

Provision for repayment of excess interest for the fiscal year ended March 31, 2007 was ¥106.2 billion, an increase of ¥93.3 billion from ¥12.9 billion for the previous fiscal year. The increase was mainly due to an increase in allowance for repayment at our consumer finance subsidiaries which reflected a rise in borrowers' claims for reimbursement of excess interest payments.

Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

Non-interest expense for the fiscal year ended March 31, 2006 was ¥2,076.1 billion, an increase of ¥946.9 billion from the previous fiscal year. This increase was primarily due to increases in most types of expenses, especially salaries and employee benefits and fees and commission expenses. Other factors which contributed to the increase in non-interest expenses include a ¥120.5 billion increase in minority interest in income of consolidated subsidiaries due to an increase in income resulting from the improvement in the Japanese stock market and increased profits at UNBC. The transfer to the Japanese government of the substitutional portion of employees' pension fund plans also increased salaries and employee benefits by ¥68.0 billion.

Income Tax Expense

The following table presents a summary of our income tax expense:

| | Fiscal years ended March 31, | | |
|---|-----------------------------------|---------|-----------|
| | 2005 | 2006 | 2007 |
| | (in billions, except percentages) | | |
| Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle | ¥ 718.4 | ¥ 529.7 | ¥ 1,134.9 |
| Income tax expense | ¥ 303.8 | ¥ 165.5 | ¥ 552.8 |
| Effective income tax rate | 42.3% | 31.2% | 48.7% |
| Combined normal effective statutory tax rate | 40.6% | 40.6% | 40.6% |

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In September 2002, we applied to the tax authorities for approval to file our national income tax returns based on the consolidated corporate-tax system starting from the fiscal year ended March 31, 2003, and received the approval in March 2003. The consolidated corporate-tax system allows companies to base tax payments on the combined profits or losses of a parent company and its wholly-owned domestic subsidiaries.

In February 2005, our application to suspend the consolidated corporate-tax system was approved by the Japanese tax authorities. We filed our tax returns under the consolidated corporate-tax system for the fiscal year ended March 31, 2005. Due to the suspension of the consolidated corporate-tax system, deferred income taxes had been calculated separately based on temporary differences as of March 31, 2005 and future taxable income at each company.

Reconciling items between the combined normal effective statutory tax rates and the effective income tax rates for the fiscal years ended March 31, 2005, 2006 and 2007 are summarized as follows:

| | Fiscal years ended March 31, | | |
|--|------------------------------|--------|-------|
| | 2005 | 2006 | 2007 |
| Combined normal effective statutory tax rate | 40.6% | 40.6% | 40.6% |
| Increase (decrease) in taxes resulting from: | | | |
| Nondeductible expenses | 0.4 | 0.7 | 0.2 |
| Dividends from foreign subsidiaries | 1.1 | 1.6 | 0.9 |
| Foreign tax credit and payments | 1.6 | 1.4 | 0.8 |
| Lower tax rates applicable to income of subsidiaries | (0.8) | (6.9) | (0.5) |
| Minority interests | 1.6 | 9.5 | 0.6 |
| Change in valuation allowance | (2.6) | 0.2 | 7.2 |
| Realization of previously unrecognized tax effects of subsidiaries | (0.1) | (16.5) | |
| Nontaxable dividends received | (1.2) | (1.7) | (1.4) |
| Tax expense on capital transactions by a subsidiary | | 4.4 | |
| Other net | 1.7 | (2.1) | 0.3 |
| Effective income tax rate | 42.3% | 31.2% | 48.7% |

The effective income tax rate of 48.7% for the fiscal year ended March 31, 2007 was 8.1 percentage points higher than the combined normal effective statutory tax rate of 40.6%. This higher tax rate primarily reflected an addition of valuation allowance for certain companies, including a subsidiary in the consumer finance business.

The effective income tax rate of 31.2% for the fiscal year ended March 31, 2006 was 9.4 percentage points lower than the combined normal effective statutory tax rate of 40.6%. This lower tax rate primarily reflected realization of previously unrecognized tax effects in conjunction with the liquidation of certain subsidiaries and recognition of tax benefits through the reorganization of business within the Group, which were partly offset by certain items, including minority interests and tax expense on capital transactions by a subsidiary.

The effective income tax rate of 42.3% for the fiscal year ended March 31, 2005 was 1.7 percentage points higher than the combined normal effective statutory tax rate of 40.6%. The 2.6 percentage point decrease due to the change in valuation allowance was offset by certain increases, including reconciliations related to minority interests, dividends from foreign subsidiaries and foreign tax credit and payments.

Business Segment Analysis

We measure the performance of each of our business segments primarily in terms of operating profit. Operating profit and other segment information are based on the financial information prepared in accordance with Japanese GAAP as adjusted in accordance with internal management accounting rules and practices. Accordingly, the format and information is not consistent with our consolidated financial statements prepared on

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the basis of US GAAP. For example, operating profit does not reflect items such as a part of provision (credit) for credit losses (primarily an equivalent of formula allowance under US GAAP), foreign exchange gains (losses) and equity investment securities gains (losses).

We operate our main businesses under an integrated business group system, which integrates the operations of BTMU, MUTB and MUS and other subsidiaries in the following three areas Retail, Corporate, and Trust Assets. This integrated business group system is intended to enhance synergies by promoting more effective and efficient collaboration between our subsidiaries. Under this system, as the holding company, we formulate strategy for the Group on an integrated basis, which is then executed by the subsidiaries. Through this system, we aim to reduce overlapping of functions within the Group, thereby increasing efficiency and realizing the benefits of group resources and scale of operations. Moreover, through greater integration of our shared expertise in banking, trust and securities businesses, we aim to deliver a more diverse but integrated lineup of products and services for our customers.

Effective April 1, 2005, we have changed the classification of our business segments and included UNBC, which consists of BTMU subsidiaries in California, UnionBanCal Corporation and Union Bank of California, N.A., as a part of the Integrated Corporate Banking Business Group. We have also introduced a unified core deposit concept when measuring the performance of each business segment and made minor changes in the management accounting method. The unified core deposit concept takes into account that a portion of the Japanese yen short-term deposits of our customers can be deemed as a long-term source of funding from an interest risk management perspective and, therefore, the interest rate spread gained from the long-term funds should be allocated to the relevant business segments.

Operations that are not covered by the integrated business group system are classified under Global Markets and Other.

The following is a brief explanation of our business segments:

Integrated Retail Banking Business Group Covers all domestic retail businesses, including commercial banking, trust banking and securities businesses. This business group integrates the retail business of BTMU, MUTB and MUS and other subsidiaries as well as retail product development, promotion and marketing in a single management structure. At the same time, the business group has developed and implemented MUFU Plaza, a one-stop, comprehensive financial services concept that provides integrated banking, trust and securities services.

Integrated Corporate Banking Business Group Covers all domestic and overseas corporate businesses, including commercial banking, investment banking, trust banking and securities businesses as well as UNBC. Through the integration of these business lines, diverse financial products and services are provided to our corporate clients. The business group has clarified strategic domains, sales channels and methods to match the different growth stages and financial needs of our corporate customers. Regarding UNBC, as of March 31, 2007, BTMU owned approximately 65% of UnionBanCal, a public company listed on the New York Stock Exchange. UnionBanCal is a U.S. commercial bank holding company. Union Bank of California, N.A., UnionBanCal's bank subsidiary, is one of the largest commercial banks in California based on total assets and total deposits. UNBC provides a wide range of financial services to consumers, small businesses, middle market companies and major corporations, primarily in California, Oregon and Washington but also nationally and internationally.

Integrated Trust Assets Business Group Covers asset management and administration services for products such as pension trusts and security trusts by integrating the trust banking expertise of MUTB and the global network of BTMU. The business group provides a full range of services to corporate and other pension funds, including stable and secure pension fund management and administration, advice on pension schemes, and payment of benefits to scheme members.

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Global Markets Consists of the treasury operations of BTMU and MUTB. Global Markets also conducts asset liability management and liquidity management and provides various financial operations such as money markets and foreign exchange operations and securities investments.

Other Consists mainly of the corporate center of MUFG, BTMU and MUTB. The elimination of duplicated amounts of net revenue among business segments is also reflected in Other.

The following table sets forth the net revenue, operating expenses and operating profits (loss) of each of our business segments for the periods indicated. Our merger with UFJ Holdings completed on October 1, 2005 was the major factor in the changes in many of the items in our consolidated statements of income over the three fiscal years ended March 31, 2007. The results for the fiscal year ended March 31, 2005 reflect the results of MTFG only. The results for the fiscal year ended March 31, 2006 reflect the pre-merger results of MTFG for the six months ended September 30, 2005 and the post-merger results of MUFG for the six months ended March 31, 2006. The results for the fiscal year ended March 31, 2007 reflect the post-merger results of MUFG for the full twelve-month period.

Regarding the Integrated Corporate Banking Business Group, the Integrated Trust Assets Business Group, and Other, the presentation for the fiscal years ended March 31, 2005 and 2006 has been reclassified to conform to the new presentation for the fiscal year ended March 31, 2007, including minor reclassification of subsidiaries within the above business segments.

Effective April 1, 2006, we changed the managerial accounting method applicable to trust fees. The change mainly affected the Integrated Trust Assets Business Group, resulting in a ¥7.8 billion increase in net revenue and operating profit for the fiscal year ended March 31, 2007 compared to the fiscal year ended March 31, 2006.

| | Integrated Retail Banking Business Group | Integrated Corporate Banking Business Group | | | | Total | Integrated Trust Assets Business Group | Global Markets | Other | Total |
|----------------------------------|--|---|------------|---------|-------------------|-----------|--|-------------------|-----------|-----------|
| | | Overseas | | | | | | | | |
| | | Domestic | Other than | | Overseas total | | | | | |
| | | | UNBC | UNBC | | | | | | |
| (in billions) | | | | | | | | | | |
| Fiscal year ended March 31, 2005 | | | | | | | | | | |
| Net revenue | ¥ 454.8 | ¥ 664.7 | ¥ 165.7 | ¥ 274.9 | ¥ 440.6 | ¥ 1,105.3 | ¥ 59.9 | ¥ 285.0 | ¥ (8.7) | ¥ 1,896.3 |
| Operating expenses | 323.7 | 251.6 | 118.2 | 158.8 | 277.0 | 528.6 | 46.6 | 38.9 | 91.3 | 1,029.1 |
| Operating profit (loss) | ¥ 131.1 | ¥ 413.1 | ¥ 47.5 | ¥ 116.1 | ¥ 163.6 | ¥ 576.7 | ¥ 13.3 | ¥ 246.1 | ¥ (100.0) | ¥ 867.2 |
| Fiscal year ended March 31, 2006 | | | | | | | | | | |
| Net revenue | ¥ 887.5 | ¥ 1,093.1 | ¥ 237.0 | ¥ 350.3 | ¥ 587.3 | ¥ 1,680.4 | ¥ 126.7 | ¥ 315.7 | ¥ (41.3) | ¥ 2,969.0 |
| Operating expenses | 576.9 | 410.1 | 155.7 | 202.3 | 358.0 | 768.1 | 78.6 | 43.8 | 135.4 | 1,602.8 |
| Operating profit (loss) | ¥ 310.6 | ¥ 683.0 | ¥ 81.3 | ¥ 148.0 | ¥ 229.3 | ¥ 912.3 | ¥ 48.1 | ¥ 271.9 | ¥ (176.7) | ¥ 1,366.2 |
| Fiscal year ended March 31, 2007 | | | | | | | | | | |
| Net revenue | ¥ 1,245.6 | ¥ 1,360.0 | ¥ 307.9 | ¥ 324.3 | ¥ 632.2 | ¥ 1,992.2 | ¥ 197.8 | ¥ 301.4 | ¥ 8.2 | ¥ 3,745.2 |
| Operating expenses | 833.5 | 567.8 | 174.4 | 200.8 | 375.2 | 943.0 | 107.1 | 48.3 | 176.7 | 2,108.6 |

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| | | | | | | | | | | |
|-------------------------|---------|---------|---------|---------|---------|-----------|--------|---------|-----------|-----------|
| Operating profit (loss) | ¥ 412.1 | ¥ 792.2 | ¥ 133.5 | ¥ 123.5 | ¥ 257.0 | ¥ 1,049.2 | ¥ 90.7 | ¥ 253.1 | ¥ (168.5) | ¥ 1,636.6 |
|-------------------------|---------|---------|---------|---------|---------|-----------|--------|---------|-----------|-----------|

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Net revenue of the Integrated Retail Banking Business Group increased ¥358.1 billion, from ¥887.5 billion for the fiscal year ended March 31, 2006 to ¥1,245.6 billion for the fiscal year ended March 31, 2007. Net revenue of the Integrated Retail Banking Business Group mainly consists of revenue from commercial banking operations, such as deposits and lending operations, and fees related to the sales of investment products to retail customers, as well as fees of subsidiaries within the Integrated Retail Banking Business Group. The increase in net revenue was mainly due to increases in net fees and revenue from the deposits and consumer finance

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businesses, including those of UFJ NICOS (presently Mitsubishi UFJ NICOS). These increases primarily reflected the fact that the fiscal year ended March 31, 2006 reflected only six months of the post-merger MUFG (with the first half of the fiscal year reflecting the pre-merger MTFG only), while the results for the fiscal year ended March 31, 2007 reflected the post-merger MUFG for the full twelve-month period. Other factors which increased net revenue were increases in fee income from investment trusts and in interest spread from our domestic Japanese Yen deposits.

Operating expenses of the Integrated Retail Banking Business Group increased ¥256.6 billion, from ¥576.9 billion for the fiscal year ended March 31, 2006 to ¥833.5 billion for the fiscal year ended March 31, 2007. The increase primarily reflected the fact that operating expenses for the fiscal year ended March 31, 2006 reflected only those of the post-merger MUFG for six months (with the first half of the fiscal year reflecting those of the pre-merger MTFG only), while operating expenses for the fiscal year ended March 31, 2007 reflected those of the post-merger MUFG for the full twelve-month period. An increase in general expenses due to the expansion of our consumer finance business also increased our operating expenses.

Operating profit of the Integrated Retail Banking Business Group increased ¥101.5 billion from ¥310.6 billion for the fiscal year ended March 31, 2006 to ¥412.1 billion for the fiscal year ended March 31, 2007. This increase was mainly due to the increase in net revenue, as stated above.

Net revenue of the Integrated Corporate Banking Business Group increased ¥311.8 billion, from ¥1,680.4 billion for the fiscal year ended March 31, 2006 to ¥1,992.2 billion for the fiscal year ended March 31, 2007. Net revenue of the Integrated Corporate Banking Business Group mainly consists of revenue from lending and other commercial banking operations, investment banking and trust banking businesses in relation to corporate clients, as well as fees of subsidiaries within the Integrated Corporate Banking Business Group. The increase in net revenue was due mainly to increased net revenue in domestic businesses, resulting from the merger with UFJ Holdings.

With regard to the domestic businesses, net revenue of ¥1,360.0 billion, an increase of ¥266.9 billion from the previous fiscal year, was recorded for the fiscal year ended March 31, 2007. The increase primarily reflected the fact that net revenue for the fiscal year ended March 31, 2006 reflected only that of the post-merger MUFG for six months (with the first half of the fiscal year reflecting that of the pre-merger MTFG only), while net revenue for the fiscal year ended March 31, 2007 reflected that of the post-merger MUFG for the full twelve-month period. As a result, net revenue in most areas, such as net interest income from loans, and fees related to investment banking, settlements and securities businesses, increased. A decrease in interest spread from our lending operations to large- and medium-sized Japanese companies, due to the improved credit of many borrowers and increased competition with other financial institutions, partially offset the increase in net revenue.

With regard to the overseas businesses, net revenue of ¥632.2 billion, an increase of ¥44.9 billion from the previous fiscal year, was recorded for the fiscal year ended March 31, 2007. This increase was mainly due to increased overseas businesses mainly consisting of loans to Japanese corporate clients situated outside Japan. This increase primarily reflected the fact that the fiscal year ended March 31, 2006 reflected only six months of the post-merger MUFG (with the first half of the fiscal year reflecting the pre-merger MTFG only), while the results for the fiscal year ended March 31, 2007 reflected the post-merger MUFG for the full twelve-month period. An increase in lending and foreign exchange businesses to Japanese and non-Japanese corporate clients situated in Asia, excluding Japan, also contributed to the increase in net revenue. On the other hand, net revenue at UNBC decreased mainly due to a decrease in net interest income, caused by the shift in customer deposits from non-interest bearing deposits to interest bearing deposits or other investments, in response to rising short-term interest rates in the United States.

Operating expenses of the Integrated Corporate Banking Business Group increased ¥174.9 billion, from ¥768.1 billion for the fiscal year ended March 31, 2006 to ¥943.0 billion for the fiscal year ended March 31, 2007. The increase primarily reflected the fact that operating expenses for the fiscal year ended March 31, 2006

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reflected only those of the post-merger MUFG for six months (with the first half of the fiscal year reflecting those of the pre-merger MTFG only), while operating expenses for the fiscal year ended March 31, 2007 reflected those of the post-merger MUFG for the full twelve-month period.

Operating profit of the Integrated Corporate Banking Business Group increased ¥136.9 billion, from ¥912.3 billion for the fiscal year ended March 31, 2006 to ¥1,049.2 billion for the fiscal year ended March 31, 2007. This increase was due mainly to the increase in net revenue as stated above.

Net revenue of the Integrated Trust Assets Business Group increased ¥71.1 billion, from ¥126.7 billion for the fiscal year ended March 31, 2006 to ¥197.8 billion for the fiscal year ended March 31, 2007. Net revenue of the Integrated Trust Assets Business Group mainly consists of fees from asset management and administration services for products such as pension trusts and investment trusts. The increase in net revenue was mainly due to an increase in business in pension products and investment trusts and the change in the managerial accounting method applied to trust fees. The managerial accounting change resulted in a ¥7.0 billion increase in net revenue and operating profit for the fiscal year ended March 31, 2007 compared to that for the fiscal year ended March 31, 2006. The consolidation of The Master Trust Bank of Japan, Ltd. and KOKUSAI Asset Management Co, Ltd. also contributed to the increase in net revenue. In addition, the increase in net revenue is partly attributable to the fact that net revenue for the fiscal year ended March 31, 2006 reflected only that of the post-merger MUFG for six months (with the first half of the fiscal year reflecting that of the pre-merger MTFG only), while net revenue for the fiscal year ended March 31, 2007 reflected that of the post-merger MUFG for the full twelve-month period.

Operating expenses of the Integrated Trust Assets Business Group increased ¥28.5 billion, from ¥78.6 billion for the fiscal year ended March 31, 2006 to ¥107.1 billion for the fiscal year ended March 31, 2007. The increase primarily reflected the fact that operating expenses for the fiscal year ended March 31, 2006 reflected only those of the post-merger MUFG for six months (with the first half of the fiscal year reflecting those of the pre-merger MTFG only), while operating expenses for the fiscal year ended March 31, 2007 reflected those of the post-merger MUFG for the full twelve-month period. The addition of newly consolidated subsidiaries also contributed to the increase in operating expenses.

Operating profit of the Integrated Trust Assets Business Group increased ¥42.6 billion, from ¥48.1 billion for the fiscal year ended March 31, 2006 to ¥90.7 billion for the fiscal year ended March 31, 2007. This increase was due mainly to the increase in net revenue as stated above.

Net revenue of Global Markets decreased ¥14.3 billion, from ¥315.7 billion for the fiscal year ended March 31, 2006 to ¥301.4 billion for the fiscal year ended March 31, 2007. The decrease in net revenue was mainly caused by the rise in Japanese and foreign currency interest rates, which resulted in a decline in revenue from our bond trading operations in such currencies. This decrease was partially offset by the fact that the fiscal year ended March 31, 2006 reflected only six months of the post-merger MUFG (with the first half of the fiscal year reflecting the pre-merger MTFG only), while the results for the fiscal year ended March 31, 2007 reflected the post-merger MUFG for the full twelve-month period.

Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

Net revenue of the Integrated Retail Banking Business Group increased ¥432.7 billion, from ¥454.8 billion for the fiscal year ended March 31, 2005 to ¥887.5 billion for the fiscal year ended March 31, 2006. Net revenue of the Integrated Retail Banking Business Group mainly consists of revenue from commercial banking operations, such as deposits and lending operations, and fees related to the sales of investment products to retail customers, as well as fees of subsidiaries within the Integrated Retail Banking Business Group. The increase in net revenue was mainly due to the merger with UFJ Holdings, as UFJ Holdings' large domestic retail customer base increased net fees, as well as revenue from the

deposits and consumer finance businesses, including those of UFJ NICOS. Other factors which increased net revenue are increases in fee income from investment trusts and securities intermediary business.

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Operating expenses of the Integrated Retail Banking Business Group increased ¥253.2 billion, from ¥323.7 billion for the fiscal year ended March 31, 2005 to ¥576.9 billion for the fiscal year ended March 31, 2006. The merger with UFJ Holdings, along with an increase in general expenses due to the expansion of our consumer finance business, increased our operating expenses.

Operating profit of the Integrated Retail Banking Business Group increased ¥179.5 billion from ¥131.1 billion for the fiscal year ended March 31, 2005 to ¥310.6 billion for the fiscal year ended March 31, 2006. This increase was mainly due to the increase in net revenue, as stated above.

Net revenue of the Integrated Corporate Banking Business Group increased ¥575.1 billion, from ¥1,105.3 billion for the fiscal year ended March 31, 2005 to ¥1,680.4 billion for the fiscal year ended March 31, 2006. Net revenue of the Integrated Corporate Banking Business Group mainly consists of revenue from lending and other commercial banking operations, investment banking and trust banking businesses to corporate clients, as well as fees of subsidiaries within the Integrated Corporate Banking Business Group. The increase in net revenue was due mainly to increased net revenue in domestic businesses, resulting from the merger with UFJ Holdings.

With regard to the domestic businesses, net revenue of ¥1,093.1 billion, an increase of ¥428.4 billion, was recorded for the fiscal year ended March 31, 2006. This increase was mainly due to the merger with UFJ Holdings, which had a large customer base in domestic businesses. Other factors which increased net revenue include fees related to foreign exchange transactions, such as currency options, and fees related to investment banking businesses. The increase in fees in the investment banking business, reflects an increase in fees from sales of derivative products, an increase in fees from arrangement of syndicated loans, and an increase in fees from real estate securitization transactions.

With regard to the overseas businesses, net revenue of ¥587.3 billion, an increase of ¥146.7 billion, was recorded for the fiscal year ended March 31, 2006. This increase was also mainly due to the merger with UFJ Holdings, which had a large customer base in overseas businesses mainly consisting of loans to Japanese corporate clients situated outside Japan. Other factors which increased net revenue include the increase in net revenue at UNBC. At UNBC, an increase in loans and deposits in California, an increase in net interest margins, and the profits from the sale of its international correspondent banking operations contributed to the increase in net revenue. In addition, the depreciation of the Japanese yen against the US dollar compared to the previous fiscal period increased the UNBC revenue included in our consolidated results.

Operating expenses of the Integrated Corporate Banking Business Group increased ¥239.5 billion, from ¥528.6 billion for the fiscal year ended March 31, 2005 to ¥768.1 billion for the fiscal year ended March 31, 2006. The merger with UFJ Holdings was the primary factor for this increase.

Operating profit of the Integrated Corporate Banking Business Group increased ¥335.6 billion, from ¥576.7 billion for the fiscal year ended March 31, 2005 to ¥912.3 billion for the fiscal year ended March 31, 2006. This increase was due mainly to the increase in net revenue as stated above.

Net revenue of the Integrated Trust Assets Business Group increased ¥66.8 billion, from ¥59.9 billion for the fiscal year ended March 31, 2005 to ¥126.7 billion for the fiscal year ended March 31, 2006. Net revenue of the Integrated Trust Assets Business Group mainly consists of fees from asset management and administration services for products such as pension trusts and security trusts. The increase in net revenue was mainly due to the merger with UFJ Holdings, which had a large trust asset business. Other factors which increased net revenue include an increase in revenue from our asset management and administration services due to increased business in investment trusts, as well as increased revenue from our global custodian services due to the increase in assets under custody.

Operating expenses of the Integrated Trust Assets Business Group increased ¥32.0 billion, from ¥46.6 billion for the fiscal year ended March 31, 2005 to ¥78.6 billion for the fiscal year ended March 31, 2006. The merger with UFJ Holdings, along with an increase in operating expenses relating to our trust assets administration services and custody services, was a factor that increased operating expenses.

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Operating profit of the Integrated Trust Assets Business Group increased ¥34.8 billion, from ¥13.3 billion for the fiscal year ended March 31, 2005 to ¥48.1 billion for the fiscal year ended March 31, 2006. This increase was due mainly to the increase in net revenue as stated above.

Net revenue of Global Markets increased ¥30.7 billion, from ¥285.0 billion for the fiscal year ended March 31, 2005 to ¥315.7 billion for the fiscal year ended March 31, 2006. The increase in net revenue was mainly due to the merger with UFJ Holdings, which had a large treasury operation. Other factors which increased net revenue include increased revenue from our foreign exchange currency option sales. These increases were partially offset by an increase in funding costs caused by the rise in foreign short-term interest rates.

Geographic Segment Analysis

The table immediately below sets forth our total revenue, income from continuing operations before income tax expense and cumulative effect of a change in accounting principle and net income on a geographic basis, based principally on the domicile of activities for the fiscal years ended March 31, 2005, 2006 and 2007.

The total revenue, total expense, income (loss) from continuing operations before income tax expense and cumulative effect of a change in accounting principle and net income (loss) for the fiscal year ended March 31, 2006 have been restated. For further information, see note 31 to our consolidated financial statements.

| | Fiscal years ended March 31, | | |
|--|------------------------------|--------------------|------------------|
| | 2005 | 2006 (Restated) | 2007 |
| | (in billions) | | |
| Total revenue (interest income and non-interest income): | | | |
| Domestic | ¥ 1,610.1 | ¥ 2,168.6 | ¥ 3,668.0 |
| Foreign: | | | |
| United States of America | 487.7 | 907.4 | 1,191.6 |
| Europe | 153.1 | 221.1 | 540.6 |
| Asia/Oceania excluding Japan | 96.8 | 179.3 | 270.2 |
| Other areas* | 77.8 | 121.6 | 193.3 |
| Total foreign | 815.4 | 1,429.4 | 2,195.7 |
| Total | ¥ 2,425.5 | ¥ 3,598.0 | ¥ 5,863.7 |
| Income (loss) from continuing operations before income tax expense and cumulative effect of a change in accounting principle: | | | |
| Domestic | ¥ 289.7 | ¥ (25.7) | ¥ 236.8 |
| Foreign: | | | |
| United States of America | 236.7 | 367.9 | 462.9 |

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| | | | |
|------------------------------|-------------------|-------------------|-------------------|
| Europe | 49.6 | 53.6 | 254.5 |
| Asia/Oceania excluding Japan | 84.7 | 65.5 | 83.5 |
| Other areas* | 57.7 | 68.4 | 97.2 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total foreign | 428.7 | 555.4 | 898.1 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | ¥ 718.4 | ¥ 529.7 | ¥ 1,134.9 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net income (loss): | | | |
| Domestic | ¥ 110.0 | ¥ (78.4) | ¥ 63.0 |
| | <u> </u> | <u> </u> | <u> </u> |
| Foreign: | | | |
| United States of America | 180.5 | 285.3 | 248.9 |
| Europe | 24.2 | 44.4 | 169.2 |
| Asia/Oceania excluding Japan | 61.7 | 56.6 | 44.2 |
| Other areas* | 38.8 | 55.6 | 56.0 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total foreign | 305.2 | 441.9 | 518.3 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | ¥ 415.2 | ¥ 363.5 | ¥ 581.3 |
| | <u> </u> | <u> </u> | <u> </u> |

* Other areas primarily include Canada, Latin America and the Caribbean.

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Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

Domestic net income for the fiscal year ended March 31, 2007 was ¥63.0 billion, compared to a net loss of ¥78.4 billion for the fiscal year ended March 31, 2006. This improvement primarily reflected the increase in non-interest income due to increases in net trading profits and net investment securities gains and a decrease in net foreign exchange losses.

Foreign net income for the fiscal year ended March 31, 2007 was ¥518.3 billion, compared to ¥441.9 billion for the fiscal year ended March 31, 2006.

Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

Domestic net income for the fiscal year ended March 31, 2006 was a net loss of ¥78.4 billion, compared to a net income of ¥110.0 billion for the fiscal year ended March 31, 2005.

Foreign net income for the fiscal year ended March 31, 2006 was ¥441.9 billion, compared to ¥305.2 billion for the fiscal year ended March 31, 2005.

Effect of Change in Exchange Rates on Foreign Currency Translation

Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

The average exchange rate for the fiscal year ended March 31, 2007 was ¥117.02 per \$1.00, compared to the prior fiscal year's average exchange rate of ¥113.31 per \$1.00. The average exchange rate for the conversion of the US dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2006 was ¥116.38 per \$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2005 of ¥110.21 per \$1.00.

The change in the average exchange rate of the Japanese yen against the US dollar and other foreign currencies had the effect of increasing total revenue by approximately ¥105 billion, net interest income by approximately ¥37 billion and income before income taxes by approximately ¥19 billion, respectively, for the fiscal year ended March 31, 2007.

Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

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The average exchange rate for the fiscal year ended March 31, 2006 was ¥113.31 per \$1.00, compared to the prior fiscal year's average exchange rate of ¥107.55 per \$1.00. The average exchange rate for the conversion of the US dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2005 was ¥110.21 per \$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2004 of ¥108.24 per \$1.00.

The change in the average exchange rate of the Japanese yen against the US dollar and other foreign currencies had the effect of increasing total revenue by approximately ¥68 billion, net interest income by approximately ¥21 billion and income before income taxes by approximately ¥20 billion, respectively, for the fiscal year ended March 31, 2006.

B. Liquidity and Capital Resources

Financial Condition

Total Assets

Our total assets at March 31, 2007 were ¥186.20 trillion, which remain unchanged from the previous year. The balance of net loans was ¥94.21 trillion, substantially unchanged from ¥94.49 trillion at March 31, 2006. Though cash and due from banks decreased by ¥3.39 trillion compared to the previous fiscal year-end partly due to the lowering of our deposit balance with the Bank of Japan, caused by the termination of the zero-interest rate

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policy by the Bank of Japan in July 2006, this decrease was mostly offset by an increase in receivables under resale agreements of ¥3.18 trillion, which was primarily due to an increase in such transactions at our securities subsidiary.

We have allocated a substantial portion of our assets to international activities. As a result, reported amounts are affected by changes in the value of the Japanese yen against the US dollar and other foreign currencies. Foreign assets are denominated primarily in US dollars. The following table shows our total assets at March 31, 2006 and 2007 by geographic region based principally on the domicile of the obligors:

| | At March 31, | |
|------------------------------|-----------------|-----------------|
| | 2006 | 2007 |
| | (in trillions) | |
| Japan | ¥ 152.05 | ¥ 143.11 |
| Foreign: | | |
| United States of America | 16.65 | 19.21 |
| Europe | 9.48 | 12.67 |
| Asia/Oceania excluding Japan | 5.24 | 6.67 |
| Other areas* | 2.80 | 4.54 |
| Total foreign | 34.17 | 43.09 |
| Total | ¥ 186.22 | ¥ 186.20 |

* Other areas primarily include Canada, Latin America and the Caribbean.

At March 30, 2007, the noon buying rate of the Federal Reserve Bank of New York was ¥117.56 per \$1.00, as compared with ¥117.48 per \$1.00 at March 31, 2006. The Japanese yen amount of foreign currency-denominated assets and liabilities increases as the relevant exchange rates change weakening the value of the Japanese yen for foreign currencies, and vice versa. The depreciation of the Japanese yen against the US dollar and other foreign currencies during the fiscal year ended March 31, 2007 increased the Japanese yen amount of our total assets by approximately ¥1.82 trillion. See Item 3.A. Key Information Selected Financial Data Exchange Rate Information.

Table of Contents**Loan Portfolio**

The table immediately below sets forth our loans outstanding by domicile and type of industry of borrowers, before deduction of allowance for credit losses, at March 31, 2006 and 2007, based on classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes, which is not necessarily based on use of proceeds.

The classification of loans by industry at March 31, 2006 has been restated. For further information, see Selected Statistical Data III. Loan Portfolio.

| | At March 31, | |
|---|-------------------|-------------------|
| | 2006 | 2007 |
| | (Restated) | 2007 |
| | (in billions) | |
| Domestic: | | |
| Manufacturing | ¥ 10,749.4 | ¥ 10,973.6 |
| Construction | 1,980.3 | 1,830.8 |
| Real estate | 8,624.7 | 7,924.2 |
| Services | 6,599.3 | 6,921.2 |
| Wholesale and retail | 9,760.8 | 9,404.2 |
| Banks and other financial institutions | 5,555.6 | 4,395.8 |
| Communication and information services | 1,185.8 | 1,132.1 |
| Other industries | 11,764.4 | 10,411.3 |
| Consumer | 23,727.8 | 24,455.3 |
| Total domestic | 79,948.1 | 77,448.5 |
| Foreign: | | |
| Governments and official institutions | 332.2 | 374.2 |
| Banks and other financial institutions | 1,101.2 | 1,529.4 |
| Commercial and industrial | 11,776.8 | 13,498.0 |
| Other | 2,337.2 | 2,523.6 |
| Total foreign | 15,547.4 | 17,925.2 |
| Unearned income, unamortized premium net and deferred loan fees net | 11.3 | (50.9) |
| Total | ¥ 95,506.8 | ¥ 95,322.8 |

Domestic loans within the consumer category in the above table include loans to individuals who use loan proceeds to finance their proprietor activities and not for their personal financing needs. A precise breakdown of the balance of such consumer loans by the type of proprietor business at March 31, 2006 and 2007 is presented below:

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| | <u>Manufacturing</u> | | <u>Construction</u> | <u>Real estate</u> | <u>Services</u> | <u>Wholesale and retail</u> | <u>Banks and other financial institutions</u> | <u>Communication and information service</u> | <u>Other industries</u> | <u>Total included in Consumer</u> | |
|----------------|----------------------|--------|---------------------|--------------------|-----------------|-----------------------------|---|--|-------------------------|-----------------------------------|--|
| | (in billions) | | | | | | | | | | |
| March 31, 2006 | ¥ 17.2 | ¥ 13.9 | ¥ 425.9 | ¥ 160.8 | ¥ 30.9 | ¥ 1.0 | ¥ 3.0 | ¥ 6.3 | ¥ 659.0 | | |
| March 31, 2007 | ¥ 14.6 | ¥ 12.3 | ¥ 367.3 | ¥ 132.9 | ¥ 26.1 | ¥ 0.7 | ¥ 2.4 | ¥ 5.4 | ¥ 561.7 | | |

Loans are our primary use of funds. The average loan balance accounted for 53.9% of total interest-earning assets for the fiscal year ended March 31, 2006 and 56.6% for the fiscal year ended March 31, 2007.

At March 31, 2007, our total loans were ¥95.32 trillion, representing a decrease of ¥0.19 trillion, or 0.2%, from ¥95.51 trillion at March 31, 2006. Before the addition of unearned income, unamortized premiums-net and

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deferred loan fees-net, our loan balance at March 31, 2007 consisted of ¥77.45 trillion of domestic loans and ¥17.93 trillion of foreign loans, while the loan balance at March 31, 2006 consisted of ¥79.95 trillion of domestic loans and ¥15.55 trillion of foreign loans.

Domestic loans decreased ¥2.50 trillion and foreign loans increased ¥2.38 trillion compared to the previous fiscal year. Analyzing the change of domestic loans by industry segment, the largest decrease was seen in the other industries segment, including loans to the government. The decrease in domestic loans was also due partly to generally weak loan demand from the Japanese corporate sector.

As for foreign loans, loans increased in all segments. There was a large increase in syndicate loans related to natural resources development projects in Europe, which are classified under other.

Allowance for Credit Losses, Nonperforming and Past Due Loans

The following table shows a summary of the changes in the allowance for credit losses for the fiscal years ended March 31, 2005, 2006 and 2007:

| | Fiscal years ended March 31, | | |
|--|------------------------------|-----------|-----------|
| | 2005 | 2006 | 2007 |
| | (in billions) | | |
| Balance at beginning of fiscal year | ¥ 888.1 | ¥ 739.9 | ¥ 1,012.2 |
| Additions resulting from the merger with UFJ Holdings ⁽¹⁾ | | 287.5 | |
| Provision for credit losses | 108.3 | 110.2 | 358.6 |
| Charge-offs: | | | |
| Domestic | (217.5) | (153.6) | (289.2) |
| Foreign | (80.4) | (11.2) | (13.9) |
| Total | (297.9) | (164.8) | (303.1) |
| Recoveries: | | | |
| Domestic | 22.1 | 11.4 | 35.5 |
| Foreign | 15.2 | 17.2 | 5.0 |
| Total | 37.3 | 28.6 | 40.5 |
| Net charge-offs | (260.6) | (136.2) | (262.6) |
| Others ⁽²⁾ | 4.1 | 10.8 | 4.3 |
| Balance at end of fiscal year | ¥ 739.9 | ¥ 1,012.2 | 1,112.5 |

Notes:

- (1) Additions resulting from the merger with UFJ Holdings represent the valuation allowance for acquired loans outside the scope of SOP 03-3. The allowance for credit losses on loans within the scope of SOP 03-3 was not carried over.
- (2) Others principally include foreign exchange translation and discontinued operations adjustments.

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Provision for credit losses for the fiscal year ended March 31, 2007 was ¥358.6 billion, an increase of ¥248.4 billion from ¥110.2 billion for the fiscal year ended March 31, 2006. The increase in provision for credit losses was mainly due to the downgrade in credit rating of a large borrower in the transportation industry. Additionally, provision for credit losses increased in the consumer finance industry.

The ratio of the provision for credit losses for the fiscal year ended March 31, 2007 of ¥358.6 billion to the average loan balance of ¥95.56 trillion was 0.38%, and that to the total average interest-earning assets for the same period of ¥168.77 trillion was 0.21%.

Net charge-offs for the fiscal year ended March 31, 2007 were ¥262.6 billion, an increase of ¥126.4 billion from ¥136.2 billion for the fiscal year ended March 31, 2006. Charge-offs of domestic loans increased for the fiscal year ended March 31, 2007 as a result of an increase in the consumer segment.

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The following table presents comparative data in relation to the principal amount of nonperforming loans sold and reversal of allowance for credit losses:

| | Principal amount of loans⁽¹⁾ | Allowance for credit losses⁽²⁾ | Loans, net of allowance | Reversal of allowance for credit losses |
|--|--|--|--|--|
| | (in billions) | | | |
| For the fiscal year ended March 31, 2005 | ¥ 101.7 | ¥ 40.5 | ¥ 61.2 | ¥ (15.5) |
| For the fiscal year ended March 31, 2006 | ¥ 108.1 | ¥ 38.7 | ¥ 69.4 | ¥ (13.4) |
| For the fiscal year ended March 31, 2007 | ¥ 127.5 | ¥ 35.8 | ¥ 91.7 | ¥ (32.0) |

Notes:

(1) Represents principal amount after the deduction of charge-offs made before the sales of nonperforming loans.

(2) Represents allowance for credit losses at the latest balance-sheet date.

Through the sale of nonperforming loans to third parties, additional provisions or gains may arise from factors such as a change in the credit quality of the borrowers or the value of the underlying collateral subsequent to the prior reporting date, and the risk appetite and investment policy of the purchasers. Along with a reduction in nonperforming loans, conditions surrounding the sales of loans have improved in recent years.

Due to the inherent uncertainty of factors that may affect negotiated prices which reflect the borrowers' financial condition and the value of underlying collateral, the fact that we recorded no additional cost during the reported periods is not necessarily indicative of the results that we may record in the future.

In connection with the sale of loans including performing loans, we recorded gains of ¥15.4 billion, ¥47.1 billion and ¥31.2 billion for the fiscal years ended March 31, 2005, 2006 and 2007, respectively. Such excess is reported in the consolidated statements of income as reduction in provision for credit losses to the extent of the existing allowance for credit losses on sold loans and remaining excess as gains on sales of loans.

The following table summarizes the allowance for credit losses by component at March 31, 2005, 2006 and 2007:

| | At March 31, | | |
|--|---------------------|-------------|-------------|
| | 2005 | 2006 | 2007 |
| | (in billions) | | |
| Allocated allowance: | | | |
| Specific specifically identified problem loans | ¥ 460.4 | ¥ 441.4 | ¥ 569.7 |
| Large groups of smaller balance homogeneous loans | 37.4 | 152.3 | 129.6 |
| Loans exposed to specific country risk | 0.1 | 0.1 | 0.1 |
| Formula substandard, special mention and other loans | 233.4 | 410.7 | 406.1 |
| Unallocated allowance | 8.6 | 7.7 | 7.0 |

| | | | |
|-----------------|---------|-----------|-----------|
| Total allowance | ¥ 739.9 | ¥ 1,012.2 | ¥ 1,112.5 |
|-----------------|---------|-----------|-----------|

Allowance Policy

Our credit rating system is closely linked to the risk grading standards set by the Japanese regulatory authorities for asset evaluation and assessment, and is used as a basis for establishing the allowance for credit losses and charge-offs. The categorization is based on conditions that may affect the ability of borrowers to service their debt, such as current financial condition and results of operations, historical payment experience, credit documentation, other public information and current trends. For a discussion of our credit rating system, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Credit Risk Management Credit Rating System.

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Change in total allowance and provision for credit losses

At March 31, 2007, the total allowance for credit losses was ¥1,112.5 billion, representing 1.17% of our total loan portfolio or 65.46% of our total nonaccrual and restructured loans and accruing loans contractually past due 90 days or more. At March 31, 2006, the total allowance for credit losses was ¥1,012.2 billion, representing 1.06% of our total loan portfolio or 49.51% of our total nonaccrual and restructured loans and accruing loans contractually past due 90 days or more.

The total allowance at March 31, 2007 increased ¥100.3 billion compared to the previous year-end. The increase in allowance was mainly due to the downgrade in credit rating of a large borrower in the transportation industry, and such increase exceeded the decrease in allowance due to charge-offs.

During the fiscal years ended March 31, 2006 and 2007, there were no significant additions to the allowance for credit losses resulting from directives, advice or counsel from governmental or regulatory bodies.

Provision for credit losses for the fiscal year ended March 31, 2007 was ¥358.6 billion, an increase of ¥248.4 billion from ¥110.2 billion for the fiscal year ended March 31, 2006. The increase in provision for credit losses was mainly due to the downgrade in credit rating of a large borrower in the transportation industry. Additionally, provision for credit losses increased in the consumer finance industry.

Allocated allowance for specifically identified problem loans

The allocated credit loss allowance for specifically identified problem loans represents the allowance against impaired loans called for in SFAS No. 114, Accounting by Creditors for Impairment of a Loan. Impaired loans primarily include nonaccrual loans and restructured loans. We generally discontinue accrual of interest income on loans when substantial doubt exists as to the full and timely collection of either principal or interest, or when principal or interest is contractually past due one month or more with respect to loans of our domestic banking subsidiaries, including BTMU and MUTB, and 90 days or more with respect to loans of certain foreign banking subsidiaries. Loans are classified as restructured loans when we grant a concession to the borrowers for economic or legal reasons related to the borrowers' financial difficulties.

Detailed reviews of impaired loans are performed after a borrower's annual or semi-annual financial statements first become available. In addition, as part of an ongoing credit review process, our credit officers monitor changes in all customers' creditworthiness, including bankruptcy, past due principal or interest, downgrading of external credit rating, declining stock price, business restructuring and other events, and reassess borrowers' ratings in response to such events. This credit monitoring process forms an integral part of our overall control process. An impaired loan is evaluated individually based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral at the annual and semi-annual balance-sheet date, if the loan is collateral-dependent at a balance-sheet date.

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The following table summarizes the distribution of nonaccrual and restructured loans, and accruing loans that are contractually past due 90 days or more as to principal or interest payments, at March 31, 2005, 2006 and 2007:

| | At March 31, | | |
|---|-----------------------------------|------------|------------|
| | 2005 | 2006 | 2007 |
| | (in billions, except percentages) | | |
| Nonaccrual loans: | | | |
| Domestic: | | | |
| Manufacturing | ¥ 113.9 | ¥ 126.9 | ¥ 81.0 |
| Construction | 47.8 | 37.7 | 44.5 |
| Real estate | 122.0 | 162.8 | 121.1 |
| Services | 169.6 | 60.7 | 133.2 |
| Wholesale and retail | 85.7 | 128.6 | 132.3 |
| Banks and other financial institutions | 4.3 | 15.8 | 16.7 |
| Communication and information services | 11.8 | 12.8 | 31.9 |
| Other industries | 22.3 | 29.2 | 140.0 |
| Consumer | 119.2 | 360.7 | 333.8 |
| Total domestic | 696.6 | 935.2 | 1,034.5 |
| Foreign | 124.3 | 74.6 | 51.8 |
| Total nonaccrual loans | 820.9 | 1,009.8 | 1,086.3 |
| Restructured loans: | | | |
| Domestic: | | | |
| Manufacturing | 30.8 | 50.9 | 103.4 |
| Construction | 54.1 | 30.8 | 13.9 |
| Real estate | 116.1 | 149.7 | 86.9 |
| Services | 36.6 | 58.4 | 49.2 |
| Wholesale and retail | 87.3 | 379.9 | 110.8 |
| Banks and other financial institutions | 0.3 | 0.1 | 0.6 |
| Communication and information services | 3.6 | 8.2 | 2.9 |
| Other industries | 48.0 | 157.4 | 93.9 |
| Consumer | 54.2 | 101.8 | 87.0 |
| Total domestic | 431.0 | 937.2 | 548.6 |
| Foreign | 23.2 | 74.7 | 42.1 |
| Total restructured loans | 454.2 | 1,011.9 | 590.7 |
| Accruing loans contractually past due 90 days or more: | | | |
| Domestic | 9.2 | 21.9 | 20.7 |
| Foreign | 0.9 | 1.1 | 1.8 |
| Total accruing loans contractually past due 90 days or more | 10.1 | 23.0 | 22.5 |
| Total | ¥ 1,285.2 | ¥ 2,044.7 | ¥ 1,699.5 |
| Total loans | ¥ 50,904.0 | ¥ 95,506.8 | ¥ 95,322.8 |

| | | | |
|---|-------|-------|-------|
| Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of total loans | 2.52% | 2.14% | 1.78% |
|---|-------|-------|-------|

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Domestic nonaccrual loans and restructured loans within the consumer category in the above table include loans to individuals who use loan proceeds to finance their proprietor activities and not for their personal financing needs. A precise breakdown of the balance of such consumer loans by the type of proprietor business at March 31, 2005, 2006 and 2007 is presented as below:

| | Manufacturing | Construction | Real estate | Services | Wholesale and retail | Banks and other financial institutions | Communication and information services | Other industries | Total included in Consumer |
|--------------------|---------------|--------------|-------------|----------|----------------------|--|--|------------------|----------------------------|
| (in billions) | | | | | | | | | |
| March 31, 2005 | | | | | | | | | |
| Nonaccrual loans | ¥ 1.3 | ¥ 1.0 | ¥ 43.3 | ¥ 13.7 | ¥ 3.2 | ¥ | ¥ 0.2 | ¥ 0.5 | ¥ 63.2 |
| Restructured loans | 1.2 | 0.3 | 19.2 | 2.9 | 1.9 | | | | 25.5 |
| March 31, 2006 | | | | | | | | | |
| Nonaccrual loans | ¥ 1.1 | ¥ 0.8 | ¥ 27.9 | ¥ 9.7 | ¥ 1.6 | ¥ | ¥ 0.2 | ¥ 0.3 | ¥ 41.6 |
| Restructured loans | 0.3 | 0.1 | 14.4 | 1.3 | 0.9 | | | | 17.0 |
| March 31, 2007 | | | | | | | | | |
| Nonaccrual loans | ¥ 1.2 | ¥ 0.5 | ¥ 21.6 | ¥ 7.3 | ¥ 1.0 | ¥ | ¥ 0.1 | ¥ 0.3 | ¥ 32.0 |
| Restructured loans | 0.3 | | 11.5 | 0.9 | 0.5 | | | | 13.2 |

We have been actively making efforts to reduce our nonperforming loans. These efforts have been made to improve the quality of our own loan assets, which conforms to the policy to decrease nonperforming loans under the program for financial revival announced by the Japanese government in October 2002. Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more decreased ¥345.2 billion from March 31, 2006 to ¥1,699.5 billion at March 31, 2007. Similarly, the percentage of nonperforming loans to the total loans decreased to 1.78% at March 31, 2007 from 2.14% at March 31, 2006.

Total nonaccrual loans were ¥1,086.3 billion at March 31, 2007, an increase of ¥76.5 billion, or 7.6%, from ¥1,009.8 billion at March 31, 2006. The increase was mainly caused by the downgrade in credit rating to nonaccrual loans of a large borrower in the transportation industry.

Total restructured loans were ¥590.7 billion at March 31, 2007, a decrease of ¥421.2 billion, or 41.6%, from ¥1,011.9 billion at March 31, 2006. Analyzing by industry segments, restructured loans decreased in most industry segments, particularly in domestic wholesale and retail by ¥269.1 billion due to upgrades of borrowers' credit ratings in those industries.

The following table summarizes the balances of impaired loans and related impairment allowances at March 31, 2005, 2006 and 2007, excluding smaller-balance homogeneous loans:

| At March 31, | | | | | |
|---------------|----------------------|--------------|----------------------|--------------|----------------------|
| 2005 | | 2006 | | 2007 | |
| Loan balance | Impairment allowance | Loan balance | Impairment allowance | Loan balance | Impairment allowance |
| (in billions) | | | | | |

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| | | | | | | |
|---|------------------|----------------|------------------|----------------|------------------|----------------|
| Requiring an impairment allowance | ¥ 1,042.0 | ¥ 460.4 | ¥ 1,205.6 | ¥ 441.4 | ¥ 1,118.9 | ¥ 569.7 |
| Not requiring an impairment allowance | 147.3 | | 254.0 | | 263.1 | |
| Total | ¥ 1,189.3 | ¥ 460.4 | ¥ 1,459.6 | ¥ 441.4 | ¥ 1,382.0 | ¥ 569.7 |
| Percentage of the allocated allowance to total impaired loans | 38.7% | | 30.2% | | 41.2% | |

In addition to impaired loans presented in the above table, there were loans held for sale that were impaired in the amount of ¥15.3 billion, ¥0.2 billion and ¥0.8 billion at March 31, 2005, 2006 and 2007, respectively.

Impaired loans decreased ¥77.6 billion, or 5.3%, from ¥1,459.6 billion at March 31, 2006 to ¥1,382.0 billion at March 31, 2007.

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The percentage of the allocated allowance to total impaired loans at March 31, 2007 was 41.2%, an increase of 11.0 percentage points from 30.2% at March 31, 2006. The increase in the percentage of the allocated allowance was due to a decrease in restructured loans, which had a relatively low level of allowance compared to nonaccrual loans.

Based upon a review of borrowers' financial status, from time to time each of our banking subsidiaries grants various concessions (modification of loan terms) to troubled borrowers at the borrowers' request, including reductions in the stated interest rates or the principal amount of loans, and extensions of the maturity date. According to the policies of each of our banking subsidiaries, such modifications are made to mitigate the near-term burden of the borrowers and to better match the payment terms with the borrowers' expected future cash flows or, in cooperation with other creditors, to reduce the overall debt burden of the borrowers so that they may normalize their operations, in each case to improve the likelihood that the loans will be repaid in accordance with the revised terms. The nature and amount of the concessions depend on the particular financial condition of each borrower. In principle, however, each of our banking subsidiaries do not modify the terms of loans to borrowers that are considered Likely to Become Bankrupt, Virtually Bankrupt or Bankrupt because in these cases there is little likelihood that the modification of loan terms would enhance recovery of the loans.

Allocated allowance for large groups of smaller-balance homogeneous loans

The allocated credit loss allowance for large groups of smaller-balance homogeneous loans is focused on loss experience for the pool rather than on an analysis of individual loans. Large groups of smaller-balance homogeneous loans primarily consist of first mortgage housing loans to individuals. The allowance for groups of performing loans is based on historical loss experience over a period. In determining the level of the allowance for delinquent groups of loans, we classify groups of homogeneous loans based on the risk rating and/or the number of delinquencies. We determine the credit loss allowance for groups of delinquent loans based on the probability of insolvency by the number of actual delinquencies and actual loss experience. The loss experience is usually determined by reviewing the historical loss rate. The allocated credit loss allowance for large groups of smaller-balance homogeneous loans was ¥129.6 billion at March 31, 2007, a decrease of ¥22.7 billion from ¥152.3 billion at March 31, 2006.

Allocated allowance for country risk exposure

The allocated credit loss allowance for country risk exposure is based on an estimate of probable losses relating to the exposure to countries that we identify as having a high degree of transfer risk. The countries applicable to the allowance for country risk exposure are decided based on a country risk grading system used to assess and rate the transfer risk to individual countries. The allowance is generally determined based on a function of default probability and expected recovery ratios, taking external credit ratings into account. The allocated allowance for country risk exposure was approximately ¥0.1 billion at March 31, 2006 and 2007.

Formula allowance for substandard, special mention and unclassified loans

The formula allowance is calculated by applying estimated loss factors to outstanding substandard, special mention and unclassified loans. In evaluating the inherent loss for these loans, we rely on a statistical analysis that incorporates a percentage of total loans based on historical loss experience.

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Each of our banking subsidiaries has computed the formula allowance based on estimated credit losses using a methodology defined by the credit rating system. Estimated losses inherent in the loan portfolio at the balance sheet date are calculated by multiplying the default ratio by the nonrecoverable ratio (determined as a complement of the recovery ratio). The default ratio is determined by each credit risk rating, taking into account the historical number of defaults of borrowers within each credit risk rating divided by the total number of borrowers within that credit risk rating existing at the beginning of the three-year observation period. The recovery ratio is mainly determined by the historical experience of collections against loans in default.

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UnionBanCal Corporation, our largest overseas subsidiary, calculates the formula allowance by applying loss factors to outstanding loans and certain unused commitments, in each case based on the internal risk grade of such loans, leases and commitments. Changes in risk grades affect the amount of the formula allowance. Loss factors are based on their historical loss experience and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. Loss factors are developed in the following ways:

loss factors for individually graded credits are derived from a migration model that tracks historical losses over a period, which we believe captures the inherent losses in our loan portfolio; and

pooled loan loss factors (not individually graded loans) are based on expected net charge-offs. Pooled loans are loans that are homogeneous in nature, such as consumer installment, home equity, residential mortgage loans and certain small commercial and commercial real estate loans.

Though there are a few technical differences in the methodology used for the formula allowance for credit losses as mentioned above, we examine overall sufficiency of the formula allowance periodically by back-test comparison with the actual loss experience subsequent to the balance sheet date.

The formula allowance decreased ¥4.6 billion from ¥410.7 billion at March 31, 2006 to ¥406.1 billion at March 31, 2007.

Unallocated allowance

The unallocated allowance is based on management's evaluation of conditions that are not directly reflected in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they may not be identified with specific problem credits or portfolio segments. The conditions evaluated in connection with the unallocated allowance include the following, which were considered to exist at the balance sheet date:

general economic and business conditions affecting our key lending areas;

credit quality trends (including trends in nonperforming loans expected to result from existing conditions);

collateral values;

loan volumes and concentrations;

specific industry conditions within portfolio segments;

recent loss experience in particular segments of the portfolio;

duration of the current economic cycle;

bank regulatory examination results; and

findings of internal credit examination.

Executive management reviews these conditions quarterly in discussion with our senior credit officers. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's estimate of the effect of such conditions may be reflected as a specific allowance, applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's evaluation of the probable loss related to such condition is reflected in the unallocated allowance.

The unallocated allowance decreased ¥0.7 billion from ¥7.7 billion at March 31, 2006 to ¥7.0 billion at March 31, 2007. This decrease resulted mainly from management's positive outlook of economic and specific industry conditions.

Table of Contents***Allowance for Off-balance-sheet Credit Instruments***

In addition to the allowance for credit losses on the loan portfolio, we maintain an allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, a variety of guarantees and standby letters of credit. This allowance is included in other liabilities. With regard to the specific allocated allowance for specifically identified credit exposure and the allocated formula allowance, we apply the same methodology that we use in determining the allowance for loan credit losses. The allowance for credit losses on off-balance-sheet credit instruments was ¥85.0 billion at March 31, 2007, a decrease of ¥17.3 billion, or 16.9%, from ¥102.3 billion at March 31, 2006.

Investment Portfolio

Our investment securities are primarily comprised of marketable equity securities and Japanese government and Japanese government agency bonds, which are mostly classified as available-for-sale securities. We also hold Japanese government bonds which are classified as securities being held to maturity.

Historically, we have held equity securities of some of our customers for strategic purposes, in particular to maintain long-term relationships with these customers. However, we have been reducing the aggregate value of our equity securities because we believe that, from a risk management perspective, it is important to reduce the price fluctuation risk in our equity portfolio. As of March 31, 2007, the aggregate value of our marketable equity securities under Japanese GAAP satisfies the requirements of the legislation forbidding banks from holding equity securities in excess of their Tier I capital after September 30, 2006.

Investment securities increased ¥0.57 trillion, from ¥48.81 trillion at March 31, 2006 to ¥49.38 trillion at March 31, 2007.

The following table shows information as to the amortized costs and estimated fair values of our investment securities available for sale and being held to maturity at March 31, 2006 and 2007:

| | At March 31, | | | | | |
|--|-------------------|-------------------------|-------------------------------------|-------------------|-------------------------|----------------------------|
| | 2006 | | | 2007 | | |
| | Amortized cost | Estimated fair value | Net unrealized gains (losses) | Amortized cost | Estimated fair value | Net unrealized gains |
| | (in billions) | | | | | |
| Securities available for sale: | | | | | | |
| Debt securities, principally Japanese government bonds and corporate bonds | ¥ 36,737.2 | ¥ 36,939.1 | ¥ 201.9 | ¥ 36,622.0 | ¥ 37,029.3 | ¥ 407.3 |
| Marketable equity securities | 4,852.9 | 8,546.8 | 3,693.9 | 4,677.6 | 8,650.5 | 3,972.9 |
| Total securities available for sale | ¥ 41,590.1 | ¥ 45,485.9 | ¥ 3,895.8 | ¥ 41,299.6 | ¥ 45,679.8 | ¥ 4,380.2 |

| | | | | | | |
|---|-----------|-----------|----------|-----------|-----------|-------|
| Debt securities being held to maturity, principally Japanese government bonds | ¥ 2,466.1 | ¥ 2,451.8 | ¥ (14.3) | ¥ 3,033.1 | ¥ 3,034.6 | ¥ 1.5 |
|---|-----------|-----------|----------|-----------|-----------|-------|

The amortized cost of securities being held to maturity increased ¥0.57 trillion as our treasury operations increased holdings in Japanese government bonds for asset-liability management purposes, mainly due to the fact that our balance of deposits exceeded our loans, and Japanese government bonds were a viable investment option for us.

The estimated fair value of available-for-sale securities increased ¥0.19 trillion from ¥45.49 trillion at March 31, 2006 to ¥45.68 trillion at March 31, 2007. The increase in foreign currency bonds was partially offset by the decrease in Japanese government bonds.

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Net unrealized gains on available-for-sale securities included in the investment portfolio at March 31, 2006 and 2007 were ¥3.90 trillion and ¥4.38 trillion, respectively. These net unrealized gains related principally to marketable equity securities.

Cash and Due from Banks

Cash and due from banks at March 31, 2007 was ¥2.85 trillion, a decrease of ¥3.39 trillion from ¥6.24 trillion at March 31, 2006. The decrease was primarily due to the lowering of our deposit balance with the Bank of Japan, following the termination of the zero-interest rate policy by the Bank of Japan in July 2006.

Interest-earning Deposits in Other Banks

Interest-earning deposits in other banks fluctuate significantly from day to day depending upon financial market conditions. Interest-earning deposits in other banks at March 31, 2007 were ¥6.06 trillion, a decrease of ¥0.18 trillion, from ¥6.24 trillion at March 31, 2006. This decrease primarily reflected a decrease in foreign currency deposits at our overseas offices.

Intangible Assets

At March 31, 2007, intangible assets was ¥1.27 trillion, a decrease of ¥0.23 trillion from ¥1.50 trillion at March 31, 2006. The decrease was mainly due to the amortization of intangible assets such as core deposit intangibles and IT systems, as well as impairment related to our subsidiary in the consumer finance business.

Goodwill

Goodwill at March 31, 2007 was ¥1.84 trillion, substantially unchanged from March 31, 2006.

Deferred Tax Assets

Deferred tax assets decreased ¥0.65 trillion, or 54.1%, from ¥1.21 trillion at March 31, 2006 to ¥0.56 trillion at March 31, 2007. This decrease was primarily due to the realization of deferred tax assets for operating loss carryforwards and allowance for credit losses and an increase in deferred tax liabilities related to investment securities. In addition, the valuation allowance increased for certain companies including a subsidiary in the consumer finance business due to the decline in their forecasted operating results and estimated future taxable income, and an increase in their deductible temporary differences.

Total Liabilities

At March 31, 2007, total liabilities were ¥175.77 trillion, substantially unchanged from ¥176.55 trillion at March 31, 2006, as the total balance of deposits was ¥126.59 trillion, substantially unchanged from ¥126.64 trillion at March 31, 2006. The decrease in non-interest bearing deposits of ¥3.77 trillion compared to the previous fiscal year end was mostly offset by the increase in interest bearing deposits of ¥3.72 trillion mainly due to a rise in interest rates.

The depreciation of the Japanese yen against the US dollar and other foreign currencies during the fiscal year ended March 31, 2007 increased the Japanese yen amount of foreign currency-denominated liabilities by approximately ¥1.78 trillion.

Deposits

Deposits are our primary source of funds. Total average balance of deposits increased ¥25.27 trillion from ¥98.26 trillion for the fiscal year ended March 31, 2006 to ¥123.53 trillion for the fiscal year ended March 31, 2007. This increase primarily reflected a ¥20.32 trillion increase in average domestic interest-bearing deposits primarily resulting from the merger with UFJ Holdings.

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Domestic deposits decreased ¥1.35 trillion from ¥110.06 trillion at March 31, 2006 to ¥108.71 trillion at March 31, 2007, while foreign deposits increased ¥1.29 trillion from ¥16.58 trillion at March 31, 2006 to ¥17.87 trillion at March 31, 2007. As for both domestic and foreign deposits, the balance of non-interest bearing deposits decreased while interest-bearing deposits increased, partially in response to the rising short-term interest rates in Japan and the United States.

Short-term Borrowings

We use short-term borrowings as a funding source and in our management of interest rate risk. For management of interest rate risk, short-term borrowings are used in asset-liability management operations to match interest rate risk exposure resulting from loans and other interest-earning assets and to manage funding costs of various financial instruments at an appropriate level, based on our forecast of future interest rate levels. Short-term borrowings consist of call money and funds purchased, payables under repurchase agreements, payables under securities lending transactions, due to trust accounts and other short-term borrowings.

Short-term borrowings decreased by ¥1.18 trillion, from ¥24.35 trillion at March 31, 2006 to ¥23.17 trillion at March 31, 2007 primarily due to a decrease in short-term borrowings related to our money market operations.

Long-term debt

Long-term debt at March 31, 2007 was ¥14.39 trillion, an increase of ¥0.50 trillion from ¥13.89 trillion at March 31, 2006. This increase was partly due to an increase in bond issuance by our securities subsidiary. The increase was partially offset by a decrease in the balance of straight bonds issued by BTMU of ¥0.61 trillion.

Sources of Funding and Liquidity

Our primary source of liquidity is from a large balance of deposits, mainly ordinary deposits, certificates of deposit and time deposits. Time deposits have shown a historically high rollover rate among our corporate customers and individual depositors. As of March 31, 2007, our deposits of ¥126.59 trillion exceeded our loans, net of allowance for credit losses of ¥94.21 trillion, by ¥32.38 trillion. These deposits provide us with a sizable source of stable and low-cost funds. While approximately 46.7% of certificates of deposit and time deposits mature within three months, we continuously monitor relevant interest rate characteristics of these funds and utilize asset and liability management techniques to manage the possible impact of the rollovers on our net interest margin and liquidity. Our average deposits, combined with average shareholders equity, funded 71.8% of our average total assets of ¥185.68 trillion during the fiscal year ended March 31, 2007.

Most of the remaining funding was provided by short-term borrowings and long-term senior and subordinated debt. Short-term borrowings consist of call money and funds purchased, payables under repurchase agreements, payables under securities lending transactions, due to trust account, and other short-term borrowings. From time to time, we have issued long-term instruments such as straight bonds with mainly three to five years maturity. Liquidity may also be provided by the sale of financial assets, including securities available for sale, trading account securities and loans. Additional liquidity may be provided by the maturity of loans.

Table of Contents**Total Shareholders' Equity**

The following table presents a summary of our total shareholders' equity at March 31, 2006 and 2007:

| | At March 31, | |
|---|-----------------------------------|-------------------|
| | 2006 | 2007 |
| | (in billions, except percentages) | |
| Preferred stock | ¥ 247.1 | ¥ 247.1 |
| Common stock | 1,084.7 | 1,084.7 |
| Capital surplus | 5,566.9 | 5,834.5 |
| Retained earnings | 1,664.2 | 1,876.4 |
| Accumulated other changes in equity from nonowner sources, net of taxes | 1,880.2 | 2,392.1 |
| Treasury stock, at cost | (774.9) | (1,001.5) |
| Total shareholders' equity | ¥ 9,668.2 | ¥ 10,433.3 |
| Ratio of total shareholders' equity to total assets | 5.19% | 5.60% |

Total shareholders' equity increased ¥765.1 billion, from ¥9,668.2 billion at March 31, 2006 to ¥10,433.3 billion at March 31, 2007. The ratio of total shareholders' equity to total assets also showed an increase of 0.41 percentage points from 5.19% at March 31, 2006 to 5.60% at March 31, 2007. The increase in total shareholders' equity at March 31, 2007, and the resulting increase in the ratio to total assets, were principally attributable to an increase of ¥212.2 billion in retained earnings due to our recorded profits for the fiscal year ended March 31, 2007, and an increase of ¥267.6 billion in capital surplus. These increases were partially offset by an increase in treasury stock, which reflected repurchases of our own shares at the time of the public fund repayment. Accumulated other changes in equity from nonowner sources, net of taxes increased ¥511.9 billion from the previous fiscal year, mainly due to an increase in net unrealized gains on investment securities available for sale, net of tax, of ¥309.1 billion.

Due to our holdings of a large amount of marketable Japanese equity securities and the volatility of the equity markets in Japan, changes in the fair value of marketable equity securities have significantly affected our shareholders' equity. The following table presents information relating to the accumulated net unrealized gains before tax effect in respect of marketable equity securities classified as available for sale at March 31, 2006 and 2007:

| | At March 31, | |
|--|-----------------------------------|-----------|
| | 2006 | 2007 |
| | (in billions, except percentages) | |
| Accumulated net unrealized gains | ¥ 3,693.9 | ¥ 3,972.9 |
| Accumulated net unrealized gains to total assets | 1.98% | 2.13% |

Capital Adequacy

We are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which we operate. Failure to meet minimum capital requirements can initiate mandatory actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements.

We continually monitor our risk-adjusted capital ratio closely and manage our operations in consideration of the capital ratio requirements. These ratios are affected not only by fluctuations in the value of our assets, including our credit risk assets such as loans and equity securities, the risk weights of which depend on the borrowers' or issuers' internal ratings, marketable securities and deferred tax assets, but also by fluctuations in the value of the Japanese yen against the US dollar and other foreign currencies and by general price levels of Japanese equity securities.

Table of Contents***Capital Requirements for Banking Institutions in Japan***

A Japanese banking institution is subject to the minimum capital adequacy requirements both on a consolidated basis and a stand-alone basis, and is required to maintain the minimum capital irrespective of whether it operates independently or as a subsidiary under the control of another company. A bank holding company is also subject to the minimum capital adequacy requirements on a consolidated basis. Under the Financial Services Agency's guidelines, capital is classified into three tiers, referred to as Tier I, Tier II and Tier III capital. Our Tier I capital generally consists of shareholders' equity items, including common stock, non-cumulative preferred stock, capital surplus, minority interests and retained earnings (which includes deferred tax assets), but recorded goodwill and other items, such as treasury stock, are deducted from Tier I capital. Our Tier II capital generally consists of the amount by which eligible reserves for credit losses exceeds expected losses in the Internal Ratings Based approach, or the IRB approach, and general reserves for credit losses up to 1.25% of modified risk-weighted assets determined by the partial use of the Standardized Approach (including a phased rollout of the IRB approach), 45% of the unrealized gains on investment securities available for sale, 45% of the land revaluation excess, the balance of perpetual subordinated debt and the balance of subordinated term debt with an original maturity of over five years subject to certain limitations, up to 50% of Tier I capital. Our Tier III capital consists of short-term subordinated debt with an original maturity of at least two years, subject to certain limitations. At least 50% of the minimum capital requirements must be maintained in the form of Tier I capital.

The eligible regulatory capital set forth in the Financial Services Agency guidelines discussed above were modified as of March 31, 2007 to reflect the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, often referred to as Basel II.

As of March 31, 2007, we have calculated our risk-weighted assets in accordance with Basel II. In determining capital ratios under Basel II, most of our major subsidiaries adopted the FIRB approach to reflect the credit risk in the risk-weighted assets. Under the FIRB approach, we and our major banking subsidiaries generally take into account probability of default, or PD, applicable to borrower rating and PD, loss given default and exposure at default applicable to pool assignment. Market risk is reflected in the risk-weighted assets by applying the Internal Models Approach to calculate general market risk and the Standardized Methodology to calculate specific risk. Under the Internal Models Approach, we principally use a historical simulation model to calculate value-at-risk amounts by estimating the profit and loss on our portfolio by applying actual fluctuations in the market rates and prices over a fixed period in the past. Under Basel II, we newly reflected operational risk in the risk-weighted assets by applying the Standardized Approach. Specifically, operational risk capital charge is determined based on the amount of gross profit allocated to business lines multiplied by a factor ranging from 12% to 18%.

For additional discussion of the calculation of our capital ratios under Basel II, see note 23 to our consolidated financial statements.

Under the Japanese regulatory capital requirements, our consolidated capital components, including Tier I, Tier II and Tier III capital and risk-weighted assets, are calculated from our consolidated financial statements prepared under Japanese GAAP. Also, each of the consolidated and stand-alone capital components of our banking subsidiaries in Japan is calculated from consolidated and non-consolidated financial statements prepared under Japanese GAAP.

For a detailed discussion of the capital adequacy guidelines adopted by the Financial Services Agency and proposed amendments, see Item 4.B. Information on the Company Business Overview Supervision and Regulation Japan Capital Adequacy.

Table of Contents***Capital Requirements for Banking Institutions in the United States***

In the United States, UnionBanCal Corporation and its banking subsidiary, Union Bank of California, N.A., our largest subsidiaries operating outside Japan, are subject to various regulatory capital requirements administered by U.S. Federal banking agencies, including minimum capital requirements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, they must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under U.S. regulatory accounting practices. Their capital amounts and prompt corrective action classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

For a detailed discussion of the capital adequacy guidelines applicable to our U.S. banking subsidiaries, see Item 4.B. Information on the Company Business Overview Supervision and Regulation United States Bank Capital Requirements and Capital Distributions.

Capital Requirements for Securities Firms in Japan and Overseas

We have securities subsidiaries in Japan and overseas, which are also subject to regulatory capital requirements. In Japan, the Securities and Exchange Law of Japan and related ordinances require securities firms to maintain a minimum capital ratio of 120% calculated as a percentage of capital accounts less certain illiquid assets, as determined in accordance with Japanese GAAP, against amounts equivalent to market, counterparty credit and operations risks. Specific guidelines are issued as a ministerial ordinance which detail the definition of essential components of the capital ratios, including capital, illiquid assets deductions, risks and related measures. Failure to maintain a minimum capital ratio will trigger mandatory regulatory actions. A capital ratio of less than 140% will call for regulatory reporting and a capital ratio of 100% or less may lead to a suspension of all or part of the business for a period of time and cancellation of registration. Overseas securities subsidiaries are subject to the relevant regulatory capital requirements of the countries or jurisdictions in which they operate.

Mitsubishi UFJ Financial Group Ratios

The table below presents our consolidated risk-based capital, risk-adjusted assets and risk-based capital ratios at March 31, 2006 and 2007 (underlying figures are calculated in accordance with Japanese banking regulations based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP, as required by the Financial Services Agency).

The March 31, 2006 data are calculated according to Basel I since Basel II became effective in Japan at March 31, 2007.

| | At March 31, | | Minimum capital ratios required |
|--|--|-------------|--|
| | 2006 | 2007 | |
| | (in billions, except percentages) | | |
| Capital components: | | | |
| Tier I capital | ¥ 7,501.7 | ¥ 8,054.9 | |
| Tier II capital includable as qualifying capital | 6,293.7 | 5,718.2 | |

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| | | | |
|---|-------------|-------------|-------|
| Tier III capital includable as qualifying capital | | | |
| Deductions from total qualifying capital | 335.0 | 424.0 | |
| | <hr/> | <hr/> | |
| Total risk-based capital | ¥ 13,460.4 | ¥ 13,349.1 | |
| | <hr/> | <hr/> | |
| Risk-weighted assets | ¥ 110,292.7 | ¥ 106,048.3 | |
| Capital ratios: | | | |
| Tier I capital | 6.80% | 7.60% | 4.00% |
| Total risk-based capital | 12.20 | 12.59 | 8.00 |

The implementation of Basel II at March 31, 2007 had the effect of decreasing our risk-weighted assets due to a decrease in credit risk assets, while at the same time decreasing our total risk-based capital. Our Tier I capital ratio and total risk-based capital ratio at March 31, 2007 were 7.60% and 12.59% respectively.

Table of Contents**Capital Ratios of Our Major Banking Subsidiaries in Japan**

The table below presents the risk-based capital ratios of BTMU and MUTB at March 31, 2006 and 2007 (underlying figures are calculated in accordance with Japanese banking regulations based on information derived from their consolidated and non-consolidated financial statements prepared in accordance with Japanese GAAP, as required by the Financial Services Agency).

The March 31, 2006 data are calculated according to Basel I since Basel II became effective in Japan at March 31, 2007.

| | At March 31, | | Minimum capital ratios required |
|-------------------------------------|--------------|-------|------------------------------------|
| | 2006 | 2007 | |
| Consolidated capital ratios: | | | |
| BTMU | | | |
| Tier I capital | 7.05% | 7.71% | 4.00% |
| Total risk-based capital | 12.48 | 12.83 | 8.00 |
| MUTB | | | |
| Tier I capital | 8.80 | 8.40 | 4.00 |
| Total risk-based capital | 13.06 | 13.20 | 8.00 |
| Stand-alone capital ratios: | | | |
| BTMU | | | |
| Tier I capital | 7.47 | 7.95 | 4.00 |
| Total risk-based capital | 13.29 | 13.22 | 8.00 |
| MUTB | | | |
| Tier I capital | 8.40 | 8.01 | 4.00 |
| Total risk-based capital | 12.65 | 12.86 | 8.00 |

At March 31, 2007, management believes that our banking subsidiaries were in compliance with all capital adequacy requirements to which they are subject.

Capital Ratios of Banking Subsidiaries in the United States

The table below presents the risk-based capital ratios of UnionBanCal Corporation and Union Bank of California, both subsidiaries of BTMU, at December 31, 2005 and 2006:

| | At December 31, | | Minimum capital ratios required | Ratios OCC requires to be well-capitalized |
|---|-----------------|-------|------------------------------------|--|
| | 2005 | 2006 | | |
| UnionBanCal Corporation: | | | | |
| Tier I capital (to risk-weighted assets) | 9.17% | 8.68% | 4.00% | |
| Tier I capital (to quarterly average assets)* | 8.39 | 8.44 | 4.00 | |
| Total capital (to risk-weighted assets) | 11.10 | 11.71 | 8.00 | |

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| Union Bank of California: | | | | |
|---|-------|-------|-------|-------|
| Tier I capital (to risk-weighted assets) | 9.62% | 8.46% | 4.00% | 6.00% |
| Tier I capital (to quarterly average assets)* | 8.78 | 8.25 | 4.00 | 5.00 |
| Total capital (to risk-weighted assets) | 10.59 | 10.69 | 8.00 | 10.00 |

* Excludes certain intangible assets

Management believes that, as of December 31, 2006, UnionBanCal Corporation and Union Bank of California met all capital adequacy requirements to which they are subject.

As of December 31, 2006, the Office of the Comptroller of the Currency, or OCC, categorized Union Bank of California as well-capitalized. To be categorized as well capitalized, Union Bank of California must maintain minimum total risk-based, Tier I risk-based and Tier I leverage capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed Union Bank of California's category.

Table of Contents**Capital Adequacy Ratio of Mitsubishi UFJ Securities**

At March 31, 2006 and 2007, MUS's capital accounts less certain fixed assets of ¥680.4 billion and ¥689.5 billion represented 564.1% and 456.6%, respectively, of the total amounts equivalent to market, counterparty credit and operations risks.

Off-balance-sheet Arrangements

In the normal course of our business, we engage in several types of off-balance-sheet arrangements to meet the financing needs of our customers, including various types of guarantees, commitments to extend credit and commercial letters of credit. The following table summarizes these commitments at March 31, 2007:

| | Amount of commitment by expiration period | | | |
|--|---|-----------------|----------------|------------------|
| | Less than | 1-5 | Over | Total |
| | 1 year | years | 5 years | |
| (in billions) | | | | |
| Guarantees: | | | | |
| Standby letters of credit and financial guarantees | ¥ 2,346 | ¥ 1,662 | ¥ 1,638 | ¥ 5,646 |
| Performance guarantees | 1,371 | 762 | 75 | 2,208 |
| Derivative instruments | 24,327 | 15,121 | 2,905 | 42,353 |
| Guarantees for the repayment of trust principal | 308 | 1,568 | 45 | 1,921 |
| Liabilities of trust account | 2,776 | 143 | 803 | 3,722 |
| Others | 814 | 1 | 5 | 820 |
| Total guarantees | 31,942 | 19,257 | 5,471 | 56,670 |
| Other off-balance-sheet instruments: | | | | |
| Commitments to extend credit | 48,855 | 11,721 | 1,570 | 62,146 |
| Commercial letters of credit | 834 | 8 | | 842 |
| Others | 9 | 11 | 13 | 33 |
| Total other off-balance-sheet instruments | 49,698 | 11,740 | 1,583 | 63,021 |
| Total | ¥ 81,640 | ¥ 30,997 | ¥ 7,054 | ¥ 119,691 |

See note 26 to our consolidated financial statements for a description of the nature of our guarantees and other off-balance-sheet instruments.

The contractual amounts of these guarantees and other off-balance-sheet instruments represent the amounts at risk should the contracts be fully drawn upon with a subsequent default by our customer and a decline in the value of the underlying collateral. Because many of these commitments expire without being drawn upon, the total contractual or notional amounts of these commitments do not necessarily represent our

future cash requirements. At March 31, 2007, approximately 68% of these commitments will expire within one year, 26% from one year to five years and 6% after five years. Such risks are monitored and managed as a part of our risk management system as set forth in Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk. In addition, in accordance with SFAS No. 5, we evaluate off-balance-sheet arrangement in the manner described in note 1 to our consolidated financial statements.

In the aggregate, the income generated from fees and commissions is one of our most important sources of revenue. Such income amounted to ¥1,407.2 billion during the fiscal year ended March 31, 2007, accounting for approximately 72% of our non-interest income which amounted to ¥1,947.9 billion for the fiscal year. However, the fees generated specifically from off-balance-sheet arrangements are not a dominant source of our fees and commissions.

Some of our off-balance-sheet arrangements are related to activities of special purpose entities, most of which are VIEs.

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The table immediately below presents, by type of VIE, the total assets of non-consolidated VIEs and the maximum exposures to non-consolidated VIEs at March 31, 2006 and 2007.

The total assets of non-consolidated VIEs and the maximum exposure to non-consolidated VIEs at March 31, 2006 have been restated. For further information, see note 27 to our consolidated financial statements.

| Non-Consolidated VIEs | 2006 | | 2007 | |
|---|----------------------|-----------------------------------|--------------------|---------------------|
| | Assets (Restated) | Maximum exposure (Restated) | Assets | Maximum exposure |
| | (in billions) | | | |
| Asset-backed commercial paper conduits | ¥ 19,090.9 | ¥ 2,005.9 | ¥ 39,357.6 | ¥ 2,826.0 |
| Securitization conduits of client properties | 2,585.5 | 835.4 | 3,013.2 | 924.7 |
| Investment funds | 66,907.7 | 1,811.7 | 67,224.2 | 2,084.0 |
| Special purpose entities created for structured financing | 23,124.4 | 1,734.1 | 26,111.5 | 2,127.0 |
| Repackaged instruments | 120,316.6 | 1,645.6 | 116,842.8 | 2,602.8 |
| Others | 9,222.2 | 1,336.8 | 11,532.0 | 1,512.6 |
| Total | ¥ 241,247.3 | ¥ 9,369.5 | ¥ 264,081.3 | ¥ 12,077.1 |

Off-balance sheet arrangements include the following types of special purpose entities:

Asset-backed Commercial Paper Conduits

We administer several multi-seller finance entities (primarily commercial paper conduits) that purchase financial assets, primarily pools of receivables, from third-party customers. The assets purchased by these conduits are generally funded by issuing commercial paper to and/or by borrowings from us or third parties. While customers basically continue to provide servicing for the transferred trade receivables, we underwrite, distribute, make a market in commercial paper issued by the conduits, and also provide liquidity and credit support facilities to the entities.

Securitization Conduits of Client Properties

We administer several conduits that acquire client assets, primarily real estate, from third-party customers (property sellers) with the property sellers continuing to use the acquired real estate through lease-back agreements. The equity of the conduits is provided by the property sellers but such equity holders have no ability to make decisions about the activities of the conduits. Thus, we consider those conduits to be VIEs. The assets acquired by these conduits are generally funded by borrowings from us or third parties.

Investment Funds

We hold investments and loans in various investment funds that collectively invest in equity and debt securities including listed Japanese securities and investment grade bonds, and, to a limited extent, securities and other interests issued by companies including those in a start-up or restructuring stage. Such investment funds are managed by investment advisory companies or fund management companies that make investment decisions and administer the funds.

We not only manage the composition of investment trust funds but also play a major role in composing venture capital funds. We generally do not have significant variable interests through composing these type of funds.

We occasionally sell assets such as nonperforming loans to these funds, in particular the Corporate Recovery Fund, when we believe that such sale may improve our asset quality.

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Corporate Recovery Fund. We have non-controlling equity interests in corporate recovery funds whose principal business purpose is to generate profits by investing in companies in the process of restructuring and then, typically, to sell these investments after the companies complete their restructurings. Such funds purchase nonperforming loans from us or others and in some cases acquire majority ownership in the borrower companies by means of a debt-for-equity swap. Our non-voting interests in these funds amounted to ¥47.4 billion at March 31, 2006 and ¥35.6 billion at March 31, 2007, respectively. In addition, at March 31, 2007, we had commitments to make additional contributions up to ¥16.0 billion to these funds.

We sold to corporate recovery funds nonperforming loans with an aggregate net book value of ¥4.1 billion for ¥1.3 billion during the fiscal year ended March 31, 2006 and an aggregate net book value of ¥1.7 billion for ¥0.3 billion during the fiscal year ended March 31, 2007. For a detailed discussion on additional provisions for credit losses associated with the sale of such loans, see Financial Condition Allowance for Credit Losses, Nonperforming and Past Due Loans.

Venture Capital Fund. We own non-controlling equity interests in investment funds managed by fund management companies who have discretionary investment powers. These funds seek to invest in start-up companies or companies that are rapidly developing. We made contributions to these funds amounting to ¥663.2 billion at March 31, 2007. At March 31, 2007, in accordance with the applicable limited partnership agreements, we had commitments to make additional contributions up to ¥230.9 billion when required by the fund management companies.

Investment Trust. We purchase the share units of investment trusts as mid- to long-term investments. These investment trusts are managed by investment advisory companies with the objective of investing in a diversified portfolio consisting of equity and debt securities, primarily shares of Japanese public companies.

Generally, we are not obligated to invest in or extend funds by purchasing additional share units and our off-balance-sheet exposures or commitments relating to this type of special purpose entity were not material.

Special Purpose Entities Created for Structured Financing

We extend non-recourse asset-backed loans to special purpose entities, which hold beneficial interests in real properties, to provide financing for special purpose projects including real estate development and natural resource development managed by third parties.

We generally act as a member of a lending group and do not have any equity investment in the entities, which is typically provided by project owners. For most of these financings, the equity provided by the project owners is of sufficient level to absorb expected losses, while expected returns to the owners are arranged to be the most significant among all returns. Accordingly, we determined that we are not the primary beneficiary of most of these entities. However, in transactions with entities whose investments at risk are exceptionally thin, where we provide most of the financing, we are ultimately required to consolidate this type of entity.

Repackaged Instruments

We have two types of relationships with special purpose entities that repackage financial instruments to create new financial instruments.

We provide repackaged instruments with features that meet customers' needs and preferences through special purpose entities. We purchase financial instruments such as bonds and transfer them to special purpose entities which then issue new instruments. The special purpose entities may enter into derivative transactions including interest rate and currency swaps with us or other financial institutions to modify the cash flows of the underlying financial instruments. We underwrite and market the new instruments issued by the special purpose entities to our customers.

We also invest in repackaged instruments arranged and issued by third parties.

Table of Contents**Trust Arrangements**

We offer a variety of asset management and administration services under trust arrangements including securities investment trusts, pension trusts and trusts used as securitization vehicles. Although in limited cases we may assume risks through guarantees or certain protections as provided in the agreements or relevant legislation, we have determined that we will not absorb a majority of expected losses in connection with such trust arrangements. In a typical trust arrangement, however, we manage and administer assets on behalf of the customers in an agency, fiduciary and trust capacity and do not assume risks associated with the entrusted assets. Customers receive and absorb expected returns and losses on the performance and operations of trust assets under our management. Accordingly, we determined that we are generally not a primary beneficiary to any trust arrangements under management as our interests in the trust arrangements are insignificant in most cases. Fees on trust products that we offer for the fiscal years ended March 31, 2006 and 2007 were ¥121.4 billion and ¥146.0 billion, respectively.

See notes 16, 26 and 29 to our consolidated financial statements for further details.

Other Type of VIEs

We are also a party to other types of VIEs including special purpose entities created to hold assets on our behalf as an intermediary.

We identified borrowers that were determined to be VIEs due to an insufficient level of equity. We determined that we are not the primary beneficiary of most of these borrowers because of our limited exposure as a lender to such borrowers. Such borrowers engage in diverse business activities of various sizes in industries such as manufacturing, distribution, construction and real estate development, independently from us.

Contractual Cash Obligations

In the normal course of our business, we enter into contractual agreements whereby we commit to future purchases of products or services from unaffiliated parties. The following table shows a summary of our contractual cash obligations at March 31, 2007:

| | Payments due by period | | | | |
|-------------------------------|------------------------|-----------|-----------|---------|----------|
| | Less than | | Over | | Total |
| | 1 year | 1-3 years | 3-5 years | 5 years | |
| | (in billions) | | | | |
| Contractual cash obligations: | | | | | |
| Time deposits | ¥ 44,087 | ¥ 8,888 | ¥ 2,617 | ¥ 177 | ¥ 55,769 |
| Long-term debt | 2,058 | 3,352 | 3,154 | 5,636 | 14,200 |
| Capital lease obligations | 54 | 103 | 28 | 5 | 190 |
| Operating leases | 45 | 73 | 48 | 47 | 213 |

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| | | | | | |
|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Purchase obligations | 10 | 15 | 17 | 99 | 141 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total* | ¥ 46,254 | ¥ 12,431 | ¥ 5,864 | ¥ 5,964 | ¥ 70,513 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

* The total amount of expected future pension payments is not included in the above table or the total amount of commitments outstanding at March 31, 2007 as such amount is not currently determinable. We expect to contribute approximately ¥64.6 billion to the plan assets for the pension benefits and other benefits for our employees for the fiscal year ending March 31, 2008.

Purchase obligations include any legally binding contractual obligations that require us to spend more than ¥100 million annually under the contract. Purchase obligations in the table primarily include commitments to make investments into corporate recovery or private equity investment funds.

Table of Contents**Non-exchange Traded Contracts Accounted for at Fair Value**

The use of non-exchange traded or over-the-counter contracts provides us with the ability to adapt to the varied requirements of a wide customer base while mitigating market risks. Non-exchange traded contracts are accounted for at fair value, which is generally based on pricing models or quoted market prices for instruments with similar characteristics. Gains or losses on non-exchange traded contracts are included in Trading account profits net in our consolidated statements of income. The following table summarizes the changes in fair value of non-exchange traded contracts for the fiscal years ended March 31, 2006 and 2007:

| | Fiscal years ended March 31, | |
|--|------------------------------|----------|
| | 2006 | 2007 |
| | (in millions) | |
| Net fair value of contracts outstandings at beginning of fiscal year | ¥ 29,823 | ¥ 70,803 |
| Changes attributable to contracts realized or otherwise settled during the fiscal year | (9,117) | (17,684) |
| Fair value of new contracts when entered into during the fiscal year | 983 | 8,069 |
| Other changes in fair value, principally revaluation at end of fiscal year | 49,114 | 25,324 |
| Net fair value of contracts outstanding at end of fiscal year | ¥ 70,803 | ¥ 86,512 |

During the fiscal year ended March 31, 2007, the fair value of non-exchange traded contracts increased primarily due to an increase in the fair value of oil commodity contracts indexed to the WTI crude oil prices, reflecting political factors in the Middle East and other factors.

The following table summarizes the maturities of non-exchange traded contracts at March 31, 2007:

| | Net fair value of contracts unrealized gains | |
|----------------------------|--|-------------------------|
| | Prices based on models and | |
| | Prices actively quoted | other valuation methods |
| | (in millions) | |
| Maturity less than 1 year | ¥ 1,243 | ¥ (71) |
| Maturity less than 3 years | 32,446 | (119) |
| Maturity less than 5 years | 25,254 | 3,186 |
| Maturity 5 years or more | 24,963 | (390) |
| Total fair value | ¥ 83,906 | ¥ 2,606 |

C. Research and Development, Patents and Licenses, etc.

Not applicable.

D. Trend Information

See the discussions under Items 5.A. and 5.B. of this Annual Report.

E. Off-balance-sheet Arrangements

See the discussion under Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources.

F. Tabular Disclosure of Contractual Obligations

See the discussion under Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources.

Table of Contents**G. Safe Harbor**

See the discussion under Forward-Looking Statements.

Item 6. Directors, Senior Management and Employees.**A. Directors and Senior Management**

The following table sets forth the members of our board of directors as of July 31, 2007, together with their respective dates of birth and positions.

| Name | Date of Birth | Position at MUFG | Previous or Current Position |
|--------------------|----------------------|--|---|
| Ryosuke Tamakoshi | July 10, 1947 | Chairman | Deputy Chairman of BTMU |
| Haruya Uehara | July 25, 1946 | Deputy Chairman and Chief Audit Officer | President of MUTB |
| Nobuo Kuroyanagi | December 18, 1941 | President and Chief Executive Officer | President of BTMU |
| Katsunori Nagayasu | April 6, 1947 | Deputy President and Chief Compliance Officer | Deputy President of BTMU |
| Yoshihiro Watanabe | July 26, 1947 | Senior Managing Director and Chief Risk Management Officer | Director of MUS |
| Toshihide Mizuno | April 19, 1950 | Senior Managing Director and Chief Planning Officer | Director of MUTB |
| Hiroshi Saito | July 13, 1951 | Senior Managing Director and Chief Financial Officer | Director of BTMU |
| Shintaro Yasuda | December 23, 1946 | Director | Deputy President of MUTB |
| Hirohisa Aoki | July 11, 1949 | Director | President of MUS |
| Fumiyuki Akikusa | October 9, 1949 | Director | Deputy President of MUS |
| Nobuyuki Hirano | October 23, 1951 | Director | Managing Director of BTMU |
| Taihei Yuki | October 3, 1952 | Director | Managing Director of MUTB |
| Iwao Okijima | December 27, 1934 | Director | Advisor to the Board of Hino Motors, Ltd. |
| Akio Harada | November 3, 1939 | Director | Attorney-at-law |
| Takuma Otoshi | October 17, 1948 | Director | President of IBM Japan, Ltd. |

The following is a brief biography of each of our directors:

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Ryosuke Tamakoshi has been the chairman since October 2005. He has also been the deputy chairman of BTMU since January 2006. He served as the president and chief executive officer of UFJ Holdings from June 2004 to September 2005 and as the chairman of UFJ Bank from May 2004 to December 2005. He served as a

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deputy president of UFJ Bank from May 2002 to May 2004, and as a senior executive officer of UFJ Bank from January 2002 to May 2002. Mr. Tamakoshi served as a senior executive officer of The Sanwa Bank, Limited, or Sanwa Bank, from June 1999 to January 2002, and as a director of Sanwa Bank from June 1997 to June 1999.

Haruya Uehara has been the deputy chairman and chief audit officer since October 2005. He has also been the president of MUTB since October 2005. He served as the chairman and co-chief executive officer of MTFG from June 2004 to September 2005 and as a director of MTFG from June 2003 to April 2004. He served as the president of Mitsubishi Trust Bank from April 2004 to September 2005 and as a deputy president of Mitsubishi Trust Bank from June 2002 to April 2004. He served as a senior managing director of Mitsubishi Trust Bank from June 2001 to June 2002 and as a managing director of Mitsubishi Trust Bank from June 1998 to June 2001. Mr. Uehara served as a director of Mitsubishi Trust Bank from June 1996 to June 1998.

Nobuo Kuroyanagi has been the president and chief executive officer since October 2005. He has also been the president of BTMU since January 2006. He served as the president and chief executive officer of MTFG from June 2004 to September 2005 and as a director of MTFG from June 2003 to June 2004. He served as the president of Bank of Tokyo-Mitsubishi from June 2004 to December 2005 and as a deputy president of Bank of Tokyo-Mitsubishi from June 2002 to June 2004. He served as a managing director of Bank of Tokyo-Mitsubishi from June 1996 to June 2002, during which period he also served as a board member from June 1996 to June 2001. Mr. Kuroyanagi served as a director of Bank of Tokyo-Mitsubishi from June 1992 to June 1996.

Katsunori Nagayasu has been the deputy president since June 2006, during which period he has also been the chief compliance officer since April 2007. He has also been a deputy president of BTMU since January 2006. He served as a managing officer from October 2005 to December 2005. He served as a managing officer of MTFG from April 2004 to September 2005 and as a director of MTFG from April 2001 to June 2004. He served as a deputy president of Bank of Tokyo-Mitsubishi from May 2005 to December 2005 and as a senior managing director of Bank of Tokyo-Mitsubishi from January 2005 to May 2005. He served as a managing director of Bank of Tokyo-Mitsubishi from June 2002 to January 2005. He served as a managing director of Nippon Trust Bank Limited, or Nippon Trust Bank, from June 2000 to September 2001, then as a managing director of Mitsubishi Trust Bank from October 2001 to June 2002 after the merger of Nippon Trust Bank into Mitsubishi Trust Bank. Mr. Nagayasu served as a director of Bank of Tokyo-Mitsubishi from June 1997 to June 2000.

Yoshihiro Watanabe has been a senior managing director and chief risk management officer since October 2005. He has also been a director of MUS since June 2006. He served as a senior managing director of MTFG from June 2005 to September 2005 and as a managing officer of MTFG from April 2004 to May 2005. He served as a senior managing director of Bank of Tokyo-Mitsubishi from January 2005 to June 2005 and as a managing director of Bank of Tokyo-Mitsubishi from May 2001 to January 2005, during which period he also served as a board member from June 2004 to June 2005 and from May 2001 to June 2001. Mr. Watanabe served as a director of Bank of Tokyo-Mitsubishi from June 1997 to May 2001.

Toshihide Mizuno has served as a senior managing director and chief planning officer since October 2005. He has also been a director of MUTB since October 2005. He served as a director and senior executive officer of UFJ Holdings from June 2002 to September 2005. He served as a director of UFJ Trust Bank from May 2004 to September 2005. He served as a director of UFJ Bank from June 2002 to October 2004, during which period he also served as a senior executive officer of UFJ Bank from May 2004 to July 2004. He served as a senior executive officer of UFJ Holdings from May 2002 to June 2002 and as an executive officer of UFJ Bank from January 2002 to May 2002. Mr. Mizuno served as an executive officer of Sanwa Bank from May 2000 to January 2002.

Hiroshi Saito has been a senior managing director and chief financial officer since June 2007. He has also been a director of BTMU since June 2007. He served as a managing officer from May 2007 to June 2007. He served as a managing director of MUTB from June 2006 to June 2007 and as an executive officer of MUTB from October 2005 to June 2006. Mr. Saito served as a non-board member director of Mitsubishi Trust

Bank from June 2002 to September 2005.

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Shintaro Yasuda has been a director since October 2005. He has also been as a deputy president of MUTB since October 2005. He served as a director of UFJ Holdings from June 2004 to September 2005 and served as the president of UFJ Trust Bank from May 2004 to September 2005. He served as a deputy president and senior executive officer of UFJ Trust Bank from May 2003 to May 2004 and as a director and senior executive officer of UFJ Trust Bank from January 2002 to May 2003. He served as a senior executive officer of UFJ Holdings from April 2001 to January 2002 and as a managing director of Toyo Trust and Banking Company, Limited, or Toyo Trust Bank, from June 2000 to March 2001. He served as a senior executive officer of Toyo Trust Bank from May 2000 to June 2000 and as an executive officer of Toyo Trust Bank from June 1999 to May 2000. Mr. Yasuda served as a director of Toyo Trust Bank from June 1998 to June 1999.

Hirohisa Aoki has been a director since October 2005. He has also been the president of MUS since June 2006. He served as a director and principal executive officer of MUS from October 2005 to June 2006 and as a director and senior executive officer of UFJ Tsubasa Securities from June 2004 to September 2005. He served as a senior executive officer of UFJ Tsubasa Securities from June 2002 to June 2004, and as a senior executive officer of UFJ Capital Markets Securities Co., Ltd. from January 2002 to May 2002. Mr. Aoki served as a senior executive officer of The Tokai Bank, Limited, or Tokai Bank, from April 2000 to January 2002 and as an executive officer of Tokai Bank from June 1998 to April 2000.

Fumiya Akikusa has been a director since June 2006. He has also been a deputy president of MUS since June 2006. He served as a director and principal executive officer of MUS from October 2005 to June 2006 and served as a senior managing director and principal executive officer of Mitsubishi Securities from June 2005 to September 2005. He served as a managing officer of MTFG from May 2004 to May 2005. He served as a managing director of Bank of Tokyo-Mitsubishi from June 2004 to June 2005, during which period he also served as a board member from June 2004 to June 2005. Mr. Akikusa served as a director of Bank of Tokyo-Mitsubishi from June 2000 to May 2003, during which period he served as a board member director of Bank of Tokyo-Mitsubishi from June 2000 to June 2001.

Nobuyuki Hirano has been a director since October 2005. He has also been a managing director of BTMU since January 2006. He served as a director of MTFG from June 2005 to September 2005 and as an executive officer of MTFG from July 2004 to June 2005. He served as a managing director of Bank of Tokyo-Mitsubishi from June 2005 to December 2005. Mr. Hirano served as a non-board member managing director of Bank of Tokyo-Mitsubishi from May 2005 to June 2005 and as a non-board member director of Bank of Tokyo-Mitsubishi from June 2001 to May 2005.

Taihei Yuki has been a director since June 2007. He has also been a managing director of MUTB since June 2007. He served as an executive officer from October 2005 to June 2007 and as an executive officer of MTFG from July 2004 to September 2005. He served as a managing executive officer of MUTB from June 2006 to June 2007 and as an executive officer of MUTB from October 2005 to June 2006. He served as a general manager of the corporate planning division of Mitsubishi Trust Bank from April 2003 to September 2005, during which period he also served as a non-board member director of Mitsubishi Trust Bank from June 2004 to September 2005. Mr. Yuki served as a general manager of the financial policy division of MTFG from April 2001 to April 2003.

Iwao Okijima has been a director since October 2005. He served as a director of UFJ Holdings from June 2004 to September 2005. He has also been an advisor to the board of Hino Motors, Ltd., or Hino Motors, since June 2004 and an advisor of Toyota Motor Corporation, or Toyota, since July 2002. He served as the chairman of the board and representative director of Hino Motors from June 2000 to June 2004 and as the chairman of Koito Manufacturing Co., Ltd., from June 1999 to June 2003. He served as a director of Hino Motors from June 1999 to June 2000 and as a senior advisor to the board of Toyota from June 1999 to July 2002. He served as the chairman of the board and representative director of Toyota Finance Corporation Co., Ltd., from June 1999 to June 2000. He served as a vice president, member of the board and representative director of Toyota from August 1995 to June 1999 and as a senior managing director and member of the board of Toyota from September 1992 to August 1995.

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Mr. Okijima served as a managing director, member of the board of Toyota from September 1990 to September 1992 and as a director, member of the board of Toyota from September 1985 to September 1990.

Akio Harada has been a director since June 2006. He has also been an attorney-at-law at Hironaka Law Office since October 2004 and the president of Tokyo Woman's Christian University since July 2005. He served as the prosecutor general of the Tokyo High Prosecutors' Office from July 2001 to June 2004 and as the chief prosecutor of the same office from December 1999 to July 2001. He served as the administrative vice minister of the Ministry of Justice from June 1998 to December 1999 and as the director general of the Criminal Affairs Bureau, the Ministry of Justice from January 1996 to June 1998. He served as the deputy vice minister of the Ministry of Justice from December 1993 to January 1996 and as the chief public prosecutor of the Morioka District Public Prosecutor Office from April 1992 to December 1993. Mr. Harada served as a general manager of the personnel division of the Minister's Secretariat, the Ministry of Justice from April 1988 to April 1992.

Takuma Otoshi has been a director since October 2005. He served as a director of MTFG from June 2004 to September 2005. He has also been the president of IBM Japan, Ltd. since December 1999. Mr. Otoshi served as a managing director of IBM Japan, Ltd. from March 1997 to December 1999 and as a director of IBM Japan, Ltd. from March 1994 to March 1997.

The following table sets forth our corporate auditors as of July 31, 2007, together with their respective dates of birth and positions.

| Name | Date of Birth | Position at MUFG | Previous or Current Position |
|------------------|--------------------|-------------------------------|--|
| Haruo Matsuki | April 25, 1948 | Corporate Auditor (Full-Time) | Former Corporate Auditor (Full-Time) of UFJ Trust Bank |
| Shota Yasuda | July 23, 1948 | Corporate Auditor (Full-Time) | Former Senior Managing Director of BTMU |
| Takeo Imai | January 29, 1942 | Corporate Auditor | Attorney-at-law |
| Tsutomu Takasuka | February 11, 1942 | Corporate Auditor | Professor, Department of Business Administration, Bunkyo Gakuin University Full-time Corporate Auditor of BTMU (Former Partner at Tohmatsu & Co.) |
| Kunie Okamoto | September 11, 1944 | Corporate Auditor | President of Nippon Life Insurance Company |

The following is a brief biography of each of our corporate auditors:

Haruo Matsuki has been a corporate auditor (full-time) since October 2005. He served as a corporate auditor of UFJ Bank from June 2005 to December 2005 and as a corporate auditor of UFJ Holdings and UFJ Trust Bank from June 2005 to September 2005. He served as a senior executive officer of UFJ Trust Bank from January 2002 to June 2005, during which period he also served as a director of UFJ Trust Bank from January 2002 to September 2004. He served as a senior managing director of Toyo Trust Bank from June 2001 to January 2002, and as a senior executive officer of Toyo Trust Bank from March 2001 to June 2001. Mr. Matsuki served as an executive officer of Toyo Trust Bank from June 1999 to March 2001.

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Shota Yasuda has been a corporate auditor (full-time) since June 2007. He served as a senior managing director of BTMU from January 2006 to June 2007. He served as a non-board member managing director of Bank of Tokyo-Mitsubishi from May 2002 to December 2005 and as a non-board member director of Bank of Tokyo-Mitsubishi from June 2001 to May 2002. Mr. Yasuda served as a director of Bank of Tokyo-Mitsubishi from June 1998 to June 2001.

Takeo Imai has been a corporate auditor since October 2005. He has also been a corporate auditor of MUS since October 2005. He served as a corporate auditor of MTFG from April 2001 to September 2005. He served

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as a corporate auditor of Mitsubishi Securities from September 2002 to September 2005. Mr. Imai has been a partner at the law firm Miyake, Imai & Ikeda since January 1972.

Tsutomu Takasuka has been a corporate auditor since October 2005. He has also been a full-time corporate auditor of BTMU since January 2006. He served as a corporate auditor of MTFG from June 2005 to September 2005 and served as a full-time corporate auditor of Bank of Tokyo-Mitsubishi from October 2004 to December 2005. He has been a professor at Bunkyo Gakuin University since April 2004. He served as a partner at Tohmatsu & Co. from February 1990 to September 2002, and as a partner at Mita Audit Corporation from June 1985 to February 1990.

Kunie Okamoto has been a corporate auditor since October 2005. He served as a corporate auditor of UFJ Holdings from June 2005 to September 2005. He has also been the president of Nippon Life Insurance Company, or Nippon Life, since April 2005 and served as a senior managing director of Nippon Life from March 2002 to April 2005. He served as a managing director of Nippon Life from March 1999 to March 2002. Mr. Okamoto served as a director of Nippon Life from July 1995 to March 1999.

The following table sets forth our executive officers as of July 31, 2007, together with their respective dates of birth and positions.

| Name | Date of Birth | Position at MUFG | Previous or Current Position |
|-------------------|----------------------|--|--|
| Takamune Okihara | July 11, 1951 | Managing Officer, Group Head of Integrated Corporate Banking Business Group | Deputy President of BTMU, Chief Executive of Corporate Banking Business Unit |
| Kinya Okauchi | September 10, 1951 | Managing Officer, Group Head of Integrated Trust Assets Business Group | Senior Managing Director of MUTB, Chief Executive of Trust Assets Business Unit |
| Tetsuya Wada | March 1, 1954 | Managing Officer, Group Head of Integrated Retail Banking Business Group | Managing Director of BTMU, Chief Executive of Retail Banking Business Unit |
| Norimichi Kanari | December 4, 1946 | Managing Officer, Deputy Group Head of Integrated Corporate Banking Business Group | Deputy President of BTMU, Chief Executive of Global Business Unit |
| Noriaki Hanamizu | September 11, 1947 | Managing Officer, Deputy Group Head of Integrated Corporate Banking Business Group | Deputy President of MUTB, Chief Executive of Corporate Business Unit |
| Toshiro Toyozumi | October 26, 1949 | Managing Officer, Deputy Group Head of Integrated Corporate Banking Business Group | Managing Executive Officer of BTMU, Head, Corporate and Investment Banking Group Head, Corporate Banking Group No.1 |
| Shigeru Tsuburaya | August 7, 1953 | Managing Officer, Deputy Group Head of Integrated Retail Banking Business Group | Managing Director of MUTB, Chief Executive of Retail Banking Business Unit |

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| Name | Date of Birth | Position at MUFG | Previous or Current Position |
|---------------------|----------------------|---|--|
| Takeshi Ogasawara | August 1, 1953 | Managing Officer, Deputy Group Head of Integrated Trust Assets Business Group | Managing Executive Officer of BTMU, Deputy Head, Corporate and Investment Banking |
| Kyota Omori | March 14, 1948 | Resident Managing Officer for the Americas | Managing Executive Officer of BTMU, Chief Executive Officer for the Americas |
| Ryusaburo Harasawa | January 30, 1951 | Managing Officer, in charge of Operations & Systems Planning Division | Managing Director of BTMU, Chief Executive of Operations and Systems Unit |
| Junichi Itoh | November 26, 1950 | Managing Officer, Deputy Chief Compliance Officer | Managing Director of BTMU, Chief Compliance Officer |
| Kazuaki Kido | September 26, 1951 | Managing Officer, Deputy Chief Compliance Officer | Managing Director of MUTB, Chief Compliance Officer |
| Shigeyasu Kasamatsu | April 10, 1952 | Managing Officer, Deputy Chief Compliance Officer | Director and Senior Executive Officer of MUS, Head of Compliance Unit, Chief Compliance Officer |
| Jun Sato | October 26, 1951 | Executive Officer, General Manager of Corporate Governance Division for the United States | Managing Executive Officer of BTMU, Deputy Chief Executive Officer for the Americas |
| Kazuhiro Shimanuki | July 25, 1952 | Executive Officer, General Manager of Internal Audit Division | Former Executive Officer of UFJ Holdings |
| Takehiko Nemoto | August 20, 1953 | Executive Officer, General Manager of Operations & Systems Planning Division | Executive Officer of BTMU, General Manager of Systems Division |
| Fumio Sato | November 22, 1953 | Executive Officer, General Manager of Corporate Business Development Division of Integrated Corporate Banking Business Group | Executive Officer of BTMU, General Manager of Corporate Banking Business Promotion Division |
| Akira Kamiya | September 16, 1953 | Executive Officer, General Manager of Global Planning Division of Integrated Corporate Banking Business Group | Executive Officer of BTMU, General Manager of Global Planning Division |
| Takashi Morisaki | January 1, 1955 | Executive Officer, General Manager of Corporate & Investment Banking Planning Division of Integrated Corporate Banking Business Group | Executive Officer of BTMU, General Manager of Corporate & Investment Banking Business Development Division |

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| Name | Date of Birth | Position at MUFG | Previous or Current Position |
|---------------------|----------------------|---|--|
| Shunichi Nakajima | February 7, 1955 | Executive Officer, General Manager of Retail Business Development Division of Integrated Retail Banking Business Group | General Manager of Retail Banking Business Promotion Division of BTMU |
| Hikari Yamazaki | February 20, 1955 | Executive Officer, General Manager of Trust Business Planning Division of Integrated Corporate Banking Business Group | Executive Officer of MUTB, General Manager of Corporate Business Planning and Development Division |
| Hidekazu Fukumoto | November 6, 1955 | Executive Officer, General Manager of Corporate Business Planning Division of Integrated Corporate Banking Business Group | Executive Officer of BTMU, General Manager of Corporate Business Planning Division |
| Kaoru Wachi | December 9, 1955 | Executive Officer, General Manager of Asset Management and Administration Planning Division of Integrated Trust Assets Business Group | Executive Officer of MUTB, General Manager of Trust Assets Planning Division |
| Hatsuhito Kaneko | November 2, 1956 | Executive Officer, General Manager of Retail Trust Business Planning Division of Integrated Retail Banking Business Group | Executive Officer of MUTB, General Manager of Retail Banking Business Planning Division |
| Yoshihiro Hashimoto | December 19, 1956 | Executive Officer, General Manager of Retail Branch Management Division of Integrated Retail Banking Business Group | Executive Officer of BTMU, General Manager of Retail Branch Management Division |
| Tadachiyo Osada | October 26, 1956 | Executive Officer, General Manager of Retail Business Planning Division of Integrated Retail Banking Business Group | Executive Officer of BTMU, General Manager of Retail Banking Planning Division |
| Takami Onodera | April 4, 1957 | Executive Officer, General Manager of Credit & Investment Management Division | Executive Officer of BTMU, General Manager of Credit Policy & Planning Division |
| Katsumi Hatao | September 12, 1957 | Executive Officer, General Manager of Corporate Risk Management Division | Executive Officer of BTMU, General Manager of Corporate Risk Management Division |

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| Name | Date of Birth | Position at MUFG | Previous or Current Position |
|---------------------|----------------------|--|---|
| Kenichi Ihara | January 7, 1956 | Executive Officer, Co-General Manager of Corporate Risk Management Division | Executive Officer of MUTB, General Manager of Corporate Risk Management Division |
| Juichi Nishimura | August 22, 1953 | Executive Officer, Co-General Manager of Compliance Division | Executive Officer of MUTB, General Manager of Compliance & Legal Division |
| Takashi Kawasaki | September 14, 1955 | Executive Officer, Co-General Manager of Operations & Systems Planning Division | Executive officer of MUTB, General Manager of Systems Planning Division |
| Takashi Oyamada | November 2, 1955 | Executive Officer, Co-General Manager of Corporate Planning Division | Executive Officer of BTMU, General Manager of Corporate Planning Division |
| Satoshi Murabayashi | November 8, 1958 | Executive Officer, Co-General Manager of Operations & Systems Planning Division | Executive Officer of BTMU, General Manager, Systems Division |
| Takashi Kanagami | November 21, 1953 | Executive Officer, Co-General Manager of Asset Management and Administration Planning Division of Integrated Trust Assets Business Group | Managing Executive Officer of MUTB, Deputy Chief Executive of Trust Assets Business Unit |
| Masayoshi Nakamura | November 10, 1954 | Executive Officer, Securities/Investment Banking Business Strategy of Integrated Corporate Banking Business Group | Director & Senior Executive Officer of MUS, Head of Global Investment Banking Business Unit |
| Masaaki Yoshida | May 26, 1954 | Executive Officer for Kyusyu | Executive Officer for Kyusyu of BTMU |
| Yoshiaki Masuda | December 6, 1954 | Executive Officer of branches of Central Japan, Integrated Retail Banking Business Group | Executive Officer, Retail Banking, Central Region of Japan of BTMU |
| Shigenobu Tokuoka | September 17, 1955 | Executive Officer of branches of Western Japan, Integrated Retail Banking Business Group | Executive Officer, Retail Banking, Western Region of Japan of BTMU |
| Yuya Saijo | November 11, 1955 | Executive Officer, Co-General Manager of Asset Management and Administration Planning Division of Integrated Trust Assets Business Group | Executive officer of MUTB, General Manager of Investment Research & Planning Division |

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| Name | Date of Birth | Position at MUFG | Previous or Current Position |
|----------------|----------------------|--|---|
| Mikiyasu Hiroi | September 21, 1955 | Executive Officer of branches of Eastern Japan, Integrated Retail Banking Business Group | Executive Officer, Retail Banking, Eastern Region of Japan of BTMU |
| Takashi Mikumo | September 8, 1957 | Executive Officer, Co-General Manager of Trust Business Planning Division of Integrated Corporate Banking Business Group | Executive officer of MUTB, General Manager of Corporate Agency Division |

The board of directors, executive officers and corporate auditors may be contacted through our headquarters at Mitsubishi UFJ Financial Group, Inc., 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, Japan.

All directors and corporate auditors were elected at a general meeting of shareholders. All executive officers were appointed by resolution of the board of directors. The regular term of office of a director is one year from the date of election and that of an executive officer is one year from the date of assumption of office, and the regular term of office of a corporate auditor is four years from the date of assumption of office. Directors and corporate auditors may serve their terms until the close of the annual general meeting of shareholders held in the last year of their terms, and executive officers may serve their terms until the close of the first board of directors meeting held after the annual general meeting of shareholders. Directors, executive officers and corporate auditors may serve any number of consecutive terms. None of our directors is party to a service contract with MUFG or any of its subsidiaries that provides for benefits upon termination of employment.

B. Compensation

The aggregate amount of remuneration, including bonuses but excluding retirement allowances, paid by MUFG and its subsidiaries during the year ended March 31, 2007 to our directors and corporate auditors was ¥437million and ¥72 million, respectively.

Prior to June 28, 2007, in accordance with customary Japanese practice, when a director or corporate auditor retired, a proposal to pay a retirement allowance was submitted at the annual ordinary general meeting of shareholders for approval. The retirement allowance consisted of a one-time payment of a portion of the allowance paid at the time of retirement and periodic payments of the remaining amount for a prescribed number of years. After the shareholders' approval was obtained, the retirement allowance for a director or corporate auditor was fixed by the board of directors or by consultation among the corporate auditors in accordance with our internal regulations and practice and generally reflected the position of the director or corporate auditor at the time of retirement, the length of his service as a director or corporate auditor and his contribution to our performance. MUFG did not set aside reserves for any retirement payments for directors and corporate auditors made under this practice. The aggregate amount of allowance paid by MUFG and its subsidiaries during the fiscal year ended March 31, 2007 to our directors and corporate auditors who have retired from their respective positions held at MUFG or, if such directors and corporate auditors concurrently held positions at MUFG's subsidiaries, who have retired from such positions, was ¥228 million and ¥89 million, respectively.

MUFG has elected to discontinue its practice of paying a retirement allowance. MUFG, however, obtained a one-time shareholder approval on June 28, 2007 for retirement allowances for the current directors and corporate auditors, other than those elected at the most recent shareholders meeting. The current directors and corporate auditors other than those elected at the most recent shareholders' meeting will be paid up to an aggregate amount of ¥287 million in the future at the time of their retirement. MUFG plans to set aside as of September 30, 2007 a reserve in the same amount for such retirement payments. In the future, MUFG does not plan to seek shareholder approvals for retirement allowances.

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MUFG also obtained shareholder approval for the adoption of a stock-based compensation plan for directors and corporate auditors on June 28, 2007. Under the plan, the directors and corporate auditors will be offered stock options to acquire shares of MUFG common stock. Within one year of shareholder approval, MUFG may sell stock options representing up to 300 shares to directors and 100 shares to corporate auditors, subject to adjustment due to stock options and other changes, including the 1,000-to-one stock split expected to take effect as of September 30, 2007. The options are expected to be sold at a price determined by an officer duly authorized by the board of directors based on the fair value of the stock options to be offered. The exercise price is expected to be set at ¥1 per share. The duly authorized officer will also determine the exercise period not exceeding 30 years from the date on which the stock option is issued as well as other terms of the stock options.

As of August 3, 2007, our directors and corporate auditors held the following numbers of shares of our common stock:

| Directors | Number of Shares Registered |
|---------------------------|--|
| Ryosuke Tamakoshi | 12 |
| Haruya Uehara | 15 |
| Nobuo Kuroyanagi | 29 |
| Katsunori Nagayasu | 5 |
| Yoshihiro Watanabe | 28 |
| Toshihide Mizuno | 14 |
| Hiroshi Saito | 5 |
| Shintaro Yasuda | 11 |
| Hirohisa Aoki | 9 |
| Fumiyuki Akikusa | 10 |
| Nobuyuki Hirano | 15 |
| Taihei Yuki | 8 |
| Iwao Okijima | 4 |
| Akio Harada | |
| Takuma Otoshi | 3 |
| | Number of Shares Registered |
| Corporate Auditors | |
| Haruo Matsuki | 7 |
| Shota Yasuda | 15 |
| Takeo Imai | |
| Tsutomu Takasuka | |
| Kunie Okamoto | |

C. Board Practices

Our articles of incorporation provide for a board of directors of not more than twenty members and not more than seven corporate auditors. Our corporate officers are responsible for executing our business operations, and our directors oversee these officers and set our fundamental strategies.

We currently have fifteen directors. Our board of directors has ultimate responsibility for the administration of our affairs. By resolution, our board of directors is empowered to appoint representative directors from the directors who may represent us severally. Our board of directors

may also appoint a chairman, deputy chairmen, a president, deputy presidents, senior managing directors and managing directors from their members by resolution. Deputy presidents assist the president, and senior managing directors and managing directors assist the president and deputy presidents, if any, in the management of our day-by-day operations.

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Under the Company Law, the resolution of the board of directors is required if any director wishes to engage in any business that is in competition with us. Additionally, no director may vote on a proposal, arrangement or contract in which that director is deemed to be materially interested.

Neither the Company Law nor our articles of incorporation contain special provisions as to the borrowing power exercisable by a director, the retirement age of our directors and corporate auditors or a requirement of our directors and corporate auditors to hold any shares of our capital stock.

The Company Law requires a resolution of the board of directors for a company to determine the execution of important business, to acquire or dispose of material assets, to borrow substantial amounts of money, to employ or discharge executive officers and other important employees, and to establish, change or abolish branch offices or other material corporate organizations, to float bonds, to establish internal control systems, and to exempt a director from liability to the company in accordance with applicable laws and regulations.

Under the Company Law and our articles of incorporation, we may exempt, by resolution of the board of directors, our directors and corporate auditors from liabilities to the company arising in connection with their failure to execute their duties within the limits stipulated by applicable laws and regulations. In addition, we have entered into a liability limitation agreement with each outside director and outside corporate auditor which limits the maximum amount of their liability to the company arising in connection with a failure to execute their duties to the greater of either ¥10 million or the aggregate sum of the amounts prescribed in item 1 of Article 425 of the Company Law and Article 113 and 114 of the Company Law Enforcement Regulations.

We currently have five corporate auditors, including three outside corporate auditors (as defined below). Our corporate auditors, who are not required to be certified public accountants, have various statutory duties, including principally:

the examination of the financial statements, business reports, proposals and other documents which our board of directors prepares and submits to a general meeting of shareholders;

the examination of our directors' administration of our affairs; and

the preparation and submission of a report on their examination to a general meeting of shareholders.

Our corporate auditors are obligated to attend meetings of our board of directors, and to make statements at the meetings if they deem necessary, although they are not entitled to vote at the meetings. Our corporate auditors comprise the board of corporate auditors, which determines matters relating to the performance of audits. The Company Law provides that a company that has or is required to have a board of corporate auditors must have three or more corporate auditors, and at least half of the corporate auditors must be outside corporate auditors. An outside corporate auditor is defined as a person who has not served as a director, account assistant, corporate executive officer (*shikkoyakuin*), manager or any other type of employee of the company or any of its subsidiaries prior to his or her appointment. In a company that has or is required to have a board of corporate auditors, one or more of the corporate auditors must be designated by the board of corporate auditors to serve on a full-time basis.

The Company Law permits two types of governance systems for large companies. The first system is for companies with audit, nomination and compensation committees and the other is for companies with corporate auditors. If a company has corporate auditors, it is not obligated to have

any outside directors. Although we have adopted a board of corporate auditors, we have three outside directors as part of our efforts to further enhance our corporate governance.

In accordance with the Company Law, we have elected to adopt a corporate governance system based on corporate auditors. If a company has corporate auditors, it is not obligated to have any audit, nomination and compensation committees. In an effort to further enhance our corporate governance, however, we have

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voluntarily established our internal audit and compliance committee, nomination committee and compensation committee to support our board of directors.

Internal Audit and Compliance Committee. The internal audit and compliance committee, a majority of which is comprised of outside directors and specialists, deliberates important matters relating to internal audits, internal control of financial information, financial audits, compliance, corporate risk management, and other internal control systems. This committee makes reports and proposals to the board of directors about important matters for deliberation and necessary improvement measures. We aim to enhance the effectiveness of internal audit functions by utilizing the external view points provided by the internal audit and compliance committee members. The chairman of the internal audit and compliance committee is Akio Harada, who is an outside director. The other members of this committee are Iwao Okijima, an outside director, Kouji Tajika, a certified public accountant, Yoshinari Tsutsumi, an attorney-at-law, and Haruya Uehara, the deputy chairman and chief audit officer. The internal audit and compliance committee met thirteen times from April 2006 to March 2007.

Nomination Committee. The nomination committee, a majority of which is comprised of outside directors, deliberates matters relating to the appointment and dismissal of our directors and the directors of our banking subsidiaries. This committee makes reports and proposals to the board about important matters for deliberation. The chairman of the nomination committee is Iwao Okijima. The other members of this committee are Akio Harada, Takuma Otoshi, an outside director, and Nobuo Kuroyangi, President and CEO. The nomination committee met on May 15, 2007.

Compensation Committee. The compensation committee, a majority of which is comprised of outside directors, deliberates matters relating to the compensation framework of our directors and the directors of our subsidiaries, as well as the compensation of our top management and the top management of our banking subsidiaries. This committee also makes reports and proposals to the board of directors about important matters for deliberation and necessary improvement measures. The chairman of the compensation committee is Takuma Otoshi. The other members of this committee are Iwao Okijima, Akio Harada and Nobuo Kuroyangi. The compensation committee met six times from April 2006 to March 2007.

For additional information on our board practices, see Item 6.A. Directors and Senior Management.

Summary of Significant Differences in Corporate Governance Practices between MUFG and U.S. Companies Listed on the New York Stock Exchange

The NYSE allows NYSE-listed companies that are foreign private issuers, such as MUFG, with certain exceptions, to follow home-country practices in lieu of the corporate governance practices followed by U.S. companies pursuant to the NYSE's Listed Company Manual. The following sections summarize the significant differences between MUFG's corporate governance practices and those followed by U.S. listed companies under the NYSE's Listed Company Manual.

1. A NYSE-listed U.S. company must have a majority of directors that meet the independence requirements under Section 303A of the NYSE's Listed Company Manual.

As of August 31 2007, MUFG has three outside directors as members of its board of directors. For companies employing the corporate auditor system such as MUFG, the task of overseeing the management of the company is assigned to the corporate auditors as well as the board of

directors. At least half of the corporate auditors are required to be an outside corporate auditor as defined below.

Under the Company Law, an outside director is defined as a director who has not served as an executive director, corporate executive officer, manager or any other type of employee of the relevant company or any of its subsidiaries prior to his or her appointment.

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For MUFG and other large Japanese companies employing a corporate governance system based on a board of corporate auditors, the Company Law has no independence or similar requirement with respect to directors.

2. A NYSE-listed U.S. company must have an audit committee composed entirely of independent directors.

Under the Company Law, MUFG and other Japanese companies (excluding companies with management committees established pursuant to the Company Law) are not obliged to establish an audit committee.

As discussed above, MUFG employs a corporate auditor system as stipulated by the Company Law. Accordingly, MUFG has established a board of corporate auditors consisting of corporate auditors with a statutory duty to audit MUFG director's performance of their professional duties and to review and report on the manner and results of the audit of MUFG's financial statements, for the benefit of the MUFG's shareholders.

The Company Law requires companies employing the corporate auditor system, including MUFG, to elect at least three corporate auditors through a resolution adopted at a general meeting of shareholders. At least half of the corporate auditors must be an outside corporate auditor, which is defined as a corporate auditor who has not served as a director, account assistant, executive officer, manager, or any other employee of the relevant company or any of its subsidiaries.

As of August 31 2007, MUFG had five corporate auditors, three of whom are outside corporate auditors.

3. A NYSE-listed U.S. company must have a compensation committee composed entirely of independent directors.

Under the Company Law, MUFG and other Japanese companies (excluding companies with management committees established pursuant to the Company Law) are not obliged to establish a compensation committee.

The maximum aggregate amounts of compensation for MUFG's directors and corporate auditors are approved at MUFG's general meeting of shareholders. The amount and allocation of compensation for each MUFG director are then proposed to, and voted upon by, the board of directors. The amount and allocation of compensation for each MUFG corporate auditor are determined through discussions and agreement among MUFG's corporate auditors.

4. A NYSE-listed U.S. company must have a nominating or corporate governance committee composed entirely of independent directors.

Under the Company Law, MUFG and other Japanese companies (excluding companies with management committees established pursuant to the Company Law) are not obliged to establish a nominating or corporate governance committee.

MUFG's directors are elected or dismissed at MUFG's general meeting of shareholders in accordance with the relevant provisions of the Company Law and MUFG's articles of incorporation. MUFG's corporate auditors are also elected or dismissed at MUFG's general meeting of shareholders. A proposal by MUFG's board of directors to elect a corporate auditor needs the consent of its board of corporate auditors. MUFG's board of corporate auditors is empowered to adopt a resolution requesting that MUFG's directors submit a proposal for election of a corporate auditor to MUFG's general meeting of shareholders.

The corporate auditors have the right to state their opinion concerning the election or dismissal of a corporate auditor at MUFG's general meeting of shareholders.

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5. A NYSE-listed U.S. company must obtain shareholder approval with respect to any equity compensation plan.

Under the Company Law, a public company seeking to issue stock acquisition rights (granting the holder thereof the right to acquire from the issuer shares of its stock at a prescribed price) must obtain the approval of its board of directors, not its shareholders.

When stock acquisition rights are issued under terms and conditions that are especially favorable to the recipients thereof, such issuance must be approved by a special resolution of a general meeting of shareholders. Under MUFG's articles of incorporation, the quorum for a special resolution is at least one-third of the total outstanding voting rights, and the approval of at least two-thirds of the voting rights represented at the relevant general meeting of shareholders of MUFG is required to pass a special resolution.

6. A NYSE-listed U.S. company must adopt and disclose Corporate Governance Guidelines and a Code of Business Conduct and Ethics, and it must also disclose any exemptions granted to directors or executives.

Under the Company Law, the Securities and Exchange Law of Japan and applicable stock exchange rules, Japanese companies, including MUFG, are not obliged to adopt and disclose corporate governance guidelines and a code of business conduct and ethics for directors, officers and employees. In order to further enhance its disclosure, MUFG has decided to disclose the details of its corporate governance in its Annual Securities Report and related disclosure reports.

MUFG has also adopted a code of ethics, compliance rules and a compliance manual which it believes are compliant with the requirements for a Code of Ethics as set forth under Section 406 of the Sarbanes-Oxley Act. MUFG has disclosed the relevant sections of its code of ethics, compliance rules and compliance manual as an exhibit to this Annual Report. No exemptions from MUFG's code of ethics, compliance rules and compliance manual have been granted to its directors or executives during that period.

7. A NYSE-listed U.S. company must hold regularly scheduled executive sessions where participants are limited to non-management directors.

Under the Company Law, Japanese corporations are not obliged to hold executive sessions where participants are limited to non-management directors. Such executive sessions are also not required under MUFG's internal corporate governance rules.

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As of March 31, 2007, we had approximately 78,300 employees, compared to approximately 80,000 as of March 31, 2006 and 43,900 as of March 31, 2005. In addition, as of March 31, 2007, we had approximately 43,200 part-time and temporary employees. The following tables show the percentages of our employees in our different business units and geographically, as of March 31, 2007. Most of our employees are members of our employees union, which negotiates on behalf of employees in relation to remuneration and working conditions.

Business unit

| | |
|--|------|
| Bank of Tokyo-Mitsubishi UFJ: | |
| Retail Banking Business Unit | 27% |
| Corporate Banking Business Unit | 13 |
| Global Business Unit | 24 |
| Global Markets Unit | 1 |
| Operations and Systems Unit | 8 |
| Corporate Center / Independent Divisions | 4 |
| Mitsubishi UFJ Trust and Banking Corporation: | |
| Trust-Banking | 6 |
| Trust Assets | 2 |
| Real Estate | 1 |
| Global Markets | 1 |
| Administration and subsidiaries | 3 |
| Mitsubishi UFJ Securities: | |
| Sales Marketing Business Unit | 4 |
| Global Investment Banking Business Unit | 1 |
| Global Markets Business Unit | 1 |
| International Business Unit | 1 |
| Corporate Center and Others | 2 |
| Others | 1 |
| | 100% |

Location

| | |
|--|-----|
| Bank of Tokyo-Mitsubishi UFJ: | |
| Japan | 52% |
| United States | 16 |
| Europe | 2 |
| Asia/Oceania excluding Japan | 6 |
| Other areas | 1 |
| Mitsubishi UFJ Trust and Banking Corporation: | |
| Japan | 13 |
| United States | 0 |
| Europe | 0 |
| Asia/Oceania excluding Japan | 0 |
| Mitsubishi UFJ Securities: | |
| Japan | 8 |
| United States | 0 |
| Europe | 1 |
| Asia/Oceania excluding Japan | 0 |
| Others | 1 |

Table of Contents**E. Share Ownership**

The information required by this item is set forth in Item 6.B. Compensation and Item 7.B. Related Party Transactions.

Item 7. Major Shareholders and Related Party Transactions.**A. Major Shareholders****Common Stock**

As of March 31, 2007, we had 361,059 registered shareholders of our common stock. The ten largest holders of our common stock appearing on the register of shareholders as of March 31, 2007, and the number and the percentage of such shares held by them, were as follows:

| <u>Name</u> | <u>Number of shares held</u> | <u>Percentage of total shares in issue</u> |
|--|----------------------------------|--|
| Japan Trustee Services Bank, Ltd. ⁽¹⁾ | 453,940 | 4.17% |
| The Master Trust Bank of Japan, Ltd. ⁽¹⁾ | 411,318 | 3.78 |
| Hero & Co. ⁽²⁾ | 348,622 | 3.20 |
| Nippon Life Insurance Company | 272,183 | 2.50 |
| Meiji Yasuda Life Insurance Company ⁽³⁾ | 175,000 | 1.61 |
| The Chase Manhattan Bank, N.A. London | 174,831 | 1.60 |
| Japan Trustee Services Bank, Ltd. (Trust account 4) ⁽¹⁾ | 167,042 | 1.53 |
| State Street Bank and Trust Company 505103 | 159,871 | 1.47 |
| Meiji Yasuda Life Insurance Company | 137,796 | 1.26 |
| State Street Bank and Trust Company | 135,184 | 1.24 |
| Total | 2,435,788 | 22.42% |

(1) Includes the shares held in trust accounts, which do not disclose the names of beneficiaries.

(2) An owner of record for our American depository shares.

(3) These shares are those held in a pension trust account with Master Trust Bank of Japan, Ltd. for the benefit of retirement plans with voting rights retained by Meiji Yasuda Life Insurance Company.

As of March 31, 2007, 214 shares, representing less than 0.01% of our outstanding common stock, were held by our directors and corporate auditors.

As of March 31, 2007, 1,353,741 shares, representing 12.46% of our outstanding common stock, were owned by 269 U.S. shareholders of record who are resident in the United States, one of whom is the ADR depository's nominee holding 348,622 shares, or 3.20%, of our issued common

stock.

Preferred Stock

The shareholders of our preferred stock, which are non-voting, appearing on the register of shareholders as of March 31, 2007, and the number and the percentage of such shares held by them, were as follows:

First series class 3 preferred stock

| Name | Number of shares held | Percentage of total shares in issue |
|---|--------------------------|--|
| Meiji Yasuda Life Insurance Company | 40,000 | 40% |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 40,000 | 40 |
| Nippon Life Insurance Company | 20,000 | 20 |
| Total | 100,000 | 100% |

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Class 8 preferred stock

| Name | Number of shares held | Percentage of total shares in issue |
|----------------------|--------------------------|--|
| The Norinchukin Bank | 17,700 | 100% |
| Total | 17,700 | 100% |

Class 11 preferred stock

| Name | Number of shares held | Percentage of total shares in issue |
|--|--------------------------|--|
| UFJ Trustee Services PVT. (Bermuda) Limited as the trustee of UFJ International Finance (Bermuda) Trust | 1 | 100% |
| Total | 1 | 100% |

Class 12 preferred stock

| Name | Number of shares held | Percentage of total shares in issue |
|------------------------------|--------------------------|--|
| The Norinchukin Bank | 22,400 | 66.46% |
| Daido Life Insurance Company | 11,300 | 33.53 |
| Total | 33,700 | 100.00% |

B. Related Party Transactions

We and our banking subsidiaries had, and expect to have in the future, banking transactions and other transactions in the ordinary course of business with our related parties. Although for the fiscal year ended March 31, 2007, such transactions included, but were not limited to, call money, loans, electronic data processing, leases and management of properties, those transactions were immaterial and were made at prevailing market rates, terms and conditions and do not involve more than the normal risk of collectibility or present other unfavorable features.

None of our directors or executive officers or corporate auditors, and none of the close members of their respective families, has had any transactions or has any presently proposed transactions that are material or any transactions that are unusual in their nature or conditions, involving goods, services or tangible or intangible assets, to which we were, are or will be a party.

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No loans have been made to our directors or executive officers or corporate auditors other than in the normal course of business, on normal commercial terms and conditions. In addition, since April 2004, no loans have been made to our directors or executive officers or corporate auditors other than as permitted under Section 13(k) of the U.S. Securities Exchange Act and Rule 13k-1 promulgated thereunder.

No family relationship exists among any of our directors or executive officers or corporate auditors. No arrangement or understanding exists between any of our directors, executive officers or corporate auditors and any other person pursuant to which any director, executive officer or corporate auditor was elected to their position at MUFG.

We adopted a stock-based compensation plan for our directors, corporate auditors and executive officers pursuant to the approval of our shareholders effective as of June 28, 2007. We have also elected to discontinue the practice of paying our directors, corporate auditors and executive officers retirement allowances as of June 28, 2007. See Item 6.B. Compensation for additional information on the stock-based compensation plan and retirement allowances for directors and corporate auditors.

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Under the stock-based compensation plan, our directors, corporate auditors and executive officers will be offered stock options to acquire shares of MUFG common stock. Within one year of our annual ordinary general meeting of shareholders, we may sell stock options representing 300 shares to directors and 100 shares to corporate auditors, subject to adjustment due to stock options and other changes, including the 1,000-to-one stock split expected to take effect as of September 30, 2007. The maximum aggregate number of shares that may be issued or transferred upon exercise of stock options sold to executive officers within the one-year period will be determined at a later date. The options are expected to be sold at a price determined by an officer duly authorized by the board of directors based on the fair value of the stock options to be offered. The exercise price is expected to be set at ¥1 per share. The duly authorized officer will also determine the exercise period not exceeding 30 years from the date on which the stock option is issued as well as other terms of the stock options.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information.

A. Consolidated Statements and Other Financial Information

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this Annual Report and in Selected Statistical Data starting on page A-1 of this Annual Report.

Legal Proceedings

From time to time, we are involved in various litigation matters. Although the final resolution of any such matters could have a material effect on our consolidated operating results for a particular reporting period, based on our current knowledge and consultation with legal counsel, we believe the current litigation matters, when ultimately determined, will not materially affect our results of operations or financial position.

Distributions

Our board of directors submits a recommendation for an annual dividend for our shareholders approval at the ordinary general meeting of shareholders customarily held in June of each year. The annual dividend is usually distributed immediately following shareholders approval to holders of record at the end of the preceding fiscal year. In addition to annual dividends, we may make cash distributions by way of interim dividends to shareholders of record as of September 30 of each year as distribution of surplus by resolution of our board of directors. On June 28, 2007, we paid year-end dividends in the amount of ¥6,000 per share of common stock for the fiscal year ended March 31, 2007.

See Item 10.B. Memorandum and Articles of Association for additional information on our dividends policy.

Under the Japanese foreign exchange regulations currently in effect, dividends paid on shares held by non-residents of Japan may be converted into any foreign currency and repatriated abroad. Under the terms of the deposit agreement pursuant to which ADSs are issued, the depositary is required, to the extent that in its judgment it can convert Japanese yen on a reasonable basis into US dollars and transfer the resulting US dollars to the United States, to convert all cash dividends that it receives in respect of deposited shares into US dollars and to distribute the amount received, after deduction of any applicable withholding taxes, to the holders of ADSs. See Item 10.D. Additional Information Exchange Controls Foreign Exchange and Foreign Trade Law.

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Other than as described in this Annual Report, no significant changes have occurred since the date of our consolidated financial statements included in this Annual Report.

Item 9. The Offer and Listing.**A. Offer and Listing Details****Market Price Information**

The following table shows, for the periods indicated, the reported high and low sale prices for shares of our common stock on the Tokyo Stock Exchange, or the TSE, and of the ADSs on the NYSE.

| | Price per share on the TSE | | Price per ADS on the NYSE | |
|-----------------------------------|----------------------------|-----------|---------------------------|-------|
| | High | Low | High | Low |
| | (yen) | | (US\$) | |
| Fiscal year ended March 31, 2003 | 1,060,000 | 438,000 | 8.31 | 3.65 |
| Fiscal year ended March 31, 2004 | 1,080,000 | 351,000 | 10.11 | 2.98 |
| Fiscal year ended March 31, 2005 | 1,230,000 | 800,000 | 10.40 | 7.12 |
| Fiscal year ended March 31, 2006 | | | | |
| First quarter | 954,000 | 873,000 | 8.88 | 8.16 |
| Second quarter | 1,530,000 | 905,000 | 13.05 | 7.95 |
| Third quarter | 1,700,000 | 1,320,000 | 14.48 | 11.67 |
| Fourth quarter | 1,810,000 | 1,460,000 | 15.54 | 12.80 |
| Fiscal year ending March 31, 2007 | | | | |
| First quarter | 1,950,000 | 1,370,000 | 16.75 | 12.15 |
| Second quarter | 1,660,000 | 1,410,000 | 14.37 | 12.17 |
| Third quarter | 1,600,000 | 1,360,000 | 13.24 | 11.73 |
| Fourth quarter | 1,550,000 | 1,260,000 | 12.85 | 11.01 |
| March | 1,470,000 | 1,260,000 | 12.14 | 11.01 |
| Fiscal year ending March 31, 2008 | | | | |
| April | 1,380,000 | 1,250,000 | 11.72 | 10.42 |
| May | 1,430,000 | 1,240,000 | 11.72 | 10.41 |
| June | 1,430,000 | 1,340,000 | 11.69 | 10.70 |
| July | 1,390,000 | 1,270,000 | 11.48 | 10.60 |
| August | 1,240,000 | 1,020,000 | 10.33 | 9.03 |
| September (through September 18) | 1,120,000 | 990,000 | 9.49 | 8.60 |

B. Plan of Distribution

Not applicable.

C. Markets

The primary market for our common stock is the Tokyo Stock Exchange. Our common stock is also listed on the Nagoya and Osaka Securities Exchange in Japan. ADSs, each representing one one-thousandth of a share of common stock, are quoted on the NYSE under the symbol, MTU.

D. Selling Shareholders

Not applicable.

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E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information.

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Our Corporate Purpose

Article 2 of our articles of incorporation provides that our corporate purpose is to carry on the following businesses:

administration of management of banks, trust banks, specialized securities companies, insurance companies or other companies which we may own as our subsidiaries under the Japanese Banking Law; and

any other businesses incidental to the foregoing businesses mentioned in the preceding clause.

Board of Directors

For discussion of the provisions of our articles of incorporation as they apply to our directors, see Item 6.C. Directors, Senior Management and Employees Board Practices.

Common Stock

We summarize below the material provisions of our articles of incorporation, our share handling regulations and the Company Law (Law No. 86 of 2005, also known as the Companies Act) as they relate to a type of joint stock company known as *kabushiki kaisha*, within which we fall. Because it is a summary, this discussion should be read together with our articles of incorporation and share handling regulations, which have been filed as exhibits to this Annual Report.

General

A joint stock company is a legal entity incorporated under the Company Law. The investment and rights of the shareholders of a joint stock company are represented by shares of stock in the company and shareholders' liability is limited to the amount of the subscription for the shares.

Our authorized common share capital as of June 28, 2007 was comprised of 33,000,000 shares of common stock with no par value. On May 23, 2007, our board of directors adopted a resolution on a stock split (the "stock split") pursuant to which each of our ordinary and preferred shares will, effective as of September 30, 2007, be split into 1,000 shares of the same class of securities, subject to approval by our shareholders. Our shareholders approved the stock split on June 27 and 28, 2007. Following the effectiveness of the stock split, our authorized common share capital will be comprised of 33,000,000,000 shares of common stock with no par value.

As of March 31, 2007, a total of 10,861,643.79 shares of common stock (including 652,968 shares of common stock held by us and our consolidated subsidiaries as treasury stock) had been issued. Each of the shares issued and outstanding was fully paid and non-assessable. As of June 28, 2007, we were authorized to issue

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1,076,901 (after the stock split becomes effective, 1,076,901,000) shares of preferred stock, including 120,000 (after the stock split becomes effective, 120,000,000) class 3 preferred shares, 400,000 (after the stock split becomes effective, 400,000,000) shares of each of the first to fourth series of class 5 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 5 preferred shares does not exceed 400,000 (after the stock split becomes effective, 400,000,000) shares), 200,000 (after the stock split becomes effective, 200,000,000) shares of each of the first to fourth series of class 6 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 6 preferred shares does not exceed 200,000 (after the stock split becomes effective, 200,000,000) shares), 200,000 (after the stock split becomes effective, 200,000,000) shares of each of the first to fourth series of class 7 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 7 preferred shares does not exceed 200,000 (after the stock split becomes effective, 200,000,000) shares), 27,000 (after the stock split becomes effective, 27,000,000) class 8 preferred shares, one (after the stock split becomes effective, 1,000) class 11 preferred share and 129,900 (after the stock split becomes effective, 129,900,000) class 12 preferred shares. As of March 31, 2007, we had 100,000 class 3 preferred shares, 17,700 class 8 preferred shares, one class 11 preferred share and 33,700 class 12 preferred shares issued and outstanding. On February 14, 2007, 22,800 class 12 preferred shares were converted into 28,643 shares of common stock. On February 19, 2007, 45,400 class 12 preferred shares were converted into 57,035 shares of common stock. On March 13, 2007, 11,300 class 12 preferred shares were converted into 14,195 shares of common stock.

We may issue shares from our authorized but unissued share capital following a resolution to that effect by our board of directors. An increase in our authorized share capital is only possible by amendment of our articles of incorporation, which generally requires shareholders' special approval.

Under the Company Law and our articles of incorporation, shares are transferable by delivery of share certificates. Our articles of incorporation also provide that we will not issue share certificates for shares which do not constitute a whole unit, where a whole unit is comprised of 100 shares. In order to assert shareholders' rights against us, a shareholder must have its name and address registered on our register of shareholders, in accordance with the Company Law and our share handling regulations. The registered holder of deposited shares underlying the ADSs is the depository for the ADSs, or its nominee. Accordingly, holders of ADSs will not be able to assert shareholders' rights other than as provided in the agreement among us, the depository and the holders of the ADSs.

A holder of shares may choose, at its discretion, to participate in the central clearing system for share certificates under the Law Concerning Central Securities Depository and Book-Entry Transfer of Stock Certificates and Other Securities of Japan. Participating shareholders must deposit certificates representing the shares to be included in this clearing system with the Japan Securities Depository Center, Inc. If a holder is not a participating institution in the Japan Securities Depository Center, it must participate through a participating institution, such as a securities company or bank having a clearing account with the Japan Securities Depository Center. All shares deposited with the Japan Securities Depository Center will be registered in the name of the Japan Securities Depository Center on our register of shareholders. Each participating shareholder will in turn be registered on our register of beneficial shareholders and be treated in the same way as shareholders registered on our register of shareholders. Delivery of share certificates is not required to transfer deposited shares. Entry of the share transfer in the books maintained by the Japan Securities Depository Center for participating institutions, or in the books maintained by a participating institution for its customers, has the same effect as delivery of share certificates. This central clearing system is intended to reduce paperwork required in connection with transfers of shares. Beneficial owners may at any time withdraw their shares from deposit and receive share certificates.

A law to establish a new central clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares was promulgated in June 2004 and the relevant part of the law will come into effect within five years of the date of the promulgation. On the effective date, a new central clearing system will be established and the shares of all Japanese companies listed on any Japanese stock exchange will be subject to the new central clearing system. On the same day, all existing share certificates for such shares will

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become null and void, and companies will not be required to collect those share certificates from shareholders. The transfer of such shares will be effected through entry in the books maintained under the new central clearing system.

Dividends

Dividends are distributed in proportion to the number of shares owned by each shareholder on the record date for the dividend. Dividends for each financial period may be distributed following shareholders' approval at a general meeting of shareholders.

Payment of dividends on common stock is subject to the preferential dividend rights of holders of preferred stock.

Under the Banking Law and our articles of incorporation, our financial accounts are closed on March 31 of each year, and dividends, if any, are paid to shareholders of record as of March 31 following shareholders' approval at a general meeting of shareholders. In addition to year-end dividends, our board of directors may by resolution declare an interim cash dividend to shareholders of record as of September 30 of each year. Under the Company Law, distribution of dividends will take the form of distribution of surplus (as defined below). We will be permitted to make distributions of surplus to our shareholders any number of times per fiscal year pursuant to resolutions of our general meetings of shareholders, subject to certain limitations described below. Distributions of surplus are in principle required to be authorized by a resolution of a general meeting of shareholders. Distributions of surplus would, however, be permitted to be made pursuant to a resolution of our board of directors if:

- (a) our articles of incorporation so provide (our articles of incorporation currently contain no such provisions);
- (b) the normal term of office of our directors is one year; and
- (c) certain conditions concerning our non-consolidated annual financial statements and certain documents for the latest fiscal year as required by an ordinance of the Ministry of Justice are satisfied.

In an exception to the above rule, even if the requirements described in (a) through (c) are not met, we are permitted to make distributions of surplus in cash to our shareholders by resolutions of the board of directors once per fiscal year as mentioned above concerning interim cash dividend.

Under the Company Law, distributions of surplus may be made in cash or in kind in proportion to the number of shares of common stock held by each shareholder. A resolution of a general meeting of shareholders or our board of directors authorizing a distribution of surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of surplus is to be made in kind, we may, pursuant to a resolution of a general meeting of shareholders or (as the case may be) our board of directors, grant to our shareholders the right to require us to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of surplus must be approved by a special resolution of a general meeting of shareholders (see the description of a special resolution in [Voting Rights](#)).

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Under the Company Law, we may make distribution of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the distributable amount (as defined below) as of the effective date of such distribution of surplus. The amount of surplus (the surplus) at any given time shall be the amount of our assets and the book value of our treasury stock after subtracting the amounts of items (1) through (5) below as they appear on our non-consolidated balance sheet as of the end of our last fiscal year, and after reflecting the changes in our surplus after the end of our last fiscal year, by adding the amounts of items (6), (7) and (8) below and/or subtracting the amounts of items (9), (10) and (11) below:

- (1) our liabilities;

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- (2) our stated capital;
- (3) our additional paid-in capital;
- (4) our accumulated legal reserve;
- (5) other amounts as are set out in an ordinance of the Ministry of Justice;
- (6) (if we transferred our treasury stock after the end of the last fiscal year) the transfer price of our treasury stock after subtracting the book value thereof;
- (7) (if we decreased our stated capital after the end of the last fiscal year) the amount of decrease in our stated capital (excluding the amount transferred to additional paid-in capital or legal reserve);
- (8) (if we decreased our additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of decrease in our additional paid-in capital or legal reserve (excluding the amount transferred to stated capital);
- (9) (if we cancelled our treasury stock after the end of the last fiscal year) the book value of the cancelled treasury stock;
- (10) (if we distributed surplus to shareholders after the end of the last fiscal year) the amount of the assets distributed to shareholders by way of such distribution of surplus; and
- (11) other amounts as are set out in an ordinance of the Ministry of Justice.

A distributable amount (the distributable amount) at any given time shall be the aggregate amount of (a) the surplus, (b) the amount of profit as recorded for the period after the end of our last fiscal year until the date of an extraordinary settlement of account (if any) as is set out in an ordinance of the Ministry of Justice and (c) the transfer price of our treasury stock in the same period, after subtracting the amounts of the following items:

- (1) the book value of our treasury stock;
- (2) (if we transferred our treasury stock after the end of the last fiscal year) the transfer price of our treasury stock;
- (3) the losses recorded for the period after the end of our last fiscal year until the date of an extraordinary settlement of account (if any) as set out in an ordinance of the Ministry of Justice; and
- (4) other amounts as set out in an ordinance of the Ministry of Justice.

In Japan, the ex-dividend date and the record date for any dividends precede the date of determination of the amount of the dividend to be paid. The market price of shares generally becomes ex-dividend on the third business day prior to the record date. Under our articles of incorporation, we are not obligated to pay any dividends which are left unclaimed for a period of five years after the date on which they first became payable.

Capital and Reserves

Under the Company Law, we may reduce our additional paid-in capital or legal reserve (without limitation as to the amount of such reduction) as mentioned previously, generally by resolution of a general meeting of shareholders and, if so resolved in the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. We may also reduce our stated capital generally by special resolution of a general meeting of shareholder and, if so resolved in the same resolution, such reduction may account for the whole or any part of the amount of such reduction as additional paid-in capital or legal reserve. Conversely, we may reduce our surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case by resolution of a general meeting of shareholders.

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Stock Splits

Stock splits of our outstanding stock may be effected at any time by resolution of the board of directors. When a stock split is to be effected, we may increase the authorized share capital to cover the number of shares to be increased by the stock split by amending our articles of incorporation by resolution of the board of directors without approval by special resolution of the general meeting of shareholders, unless more than one class of stock is issued and outstanding. In general, shareholders will not be required to exchange stock certificates for new stock certificates, but certificates representing the additional stock resulting from the stock split will be issued to shareholders. We must give public notice of the stock split, specifying a record date at least two weeks prior to the record date.

On May 23, 2007, our board of directors adopted a resolution on a stock split pursuant to which each of ordinary and preferred shares will, effective as of September 30, 2007, be split into 1,000 shares of the same class of securities, subject to approval by our shareholders. Our shareholders approved the stock split on June 27 and 28, 2007. Pursuant to the resolution, shareholders are required to submit their stock certificates. Our articles of incorporation were amended to increase the authorized share capital to cover the number of shares to be increased by the stock split, which amendment will become effective simultaneously with the effectiveness of the stock split.

Unit Share (tan-gen kabu) System

We are scheduled to adopt the unit share system, where 100 shares of ordinary and preferred shares shall each constitute a unit, as the amendment of our articles of incorporation to provide for such system has been approved at the shareholders' meetings on June 27 and 28, 2007. Our articles of incorporation provide that we will not, as a general rule, issue certificates representing a number of shares less than a unit. Consequently, any fraction of a unit for which no share certificate is issued will not be transferable.

Under the unit share system, each unit of shares is entitled to one voting right. A holder of less than one unit of shares has no voting right. Our articles of incorporation provide that the holders of shares constituting less than a full unit will not have shareholder rights except for those specified in the Company Law or an ordinance of the Ministry of Justice, including rights (i) to receive dividends, (ii) to receive cash or other assets in case of consolidation or split of shares, stock-for-stock exchange or stock-for-stock transfer, corporate split or merger or (iii) to be allotted rights to subscribe for free for new shares and stock acquisition rights when such rights are granted to shareholders. Shareholders may require us to purchase shares constituting less than a unit at the current market price. In addition, holders of shares constituting less than a unit may require us to sell them such number of shares, which, when combined with the number of shares already held by such holder, shall constitute a whole unit of share; provided that we will be obliged to comply with such request only when we own a sufficient number of shares to accommodate the desired sale and purchase. The board of directors may reduce the number of shares constituting a unit or cease to use the unit share system by amendments to the articles of incorporation without shareholders' approval even though amendments to the articles of incorporation generally require a special resolution of the general meeting of shareholders.

General Meeting of Shareholders

The ordinary general meeting of our shareholders is usually held in June of each year in Tokyo. In addition, we may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' advance notice to shareholders who are entitled to vote at the relevant general meeting of shareholders. The record date for ordinary general meetings of our shareholders is March 31.

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Any shareholder holding at least 300 voting rights or 1% of the total number of voting rights for six consecutive months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a written request to a director at least eight weeks prior to the date of the meeting. The number of minimum voting rights, minimum percentage and time period necessary for exercising the minority shareholders rights described above may be decreased or shortened if our articles of incorporation so provide. Our articles of incorporation currently contain no such provisions.

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Voting Rights

A holder of shares of our common stock is generally entitled to one voting right for each unit of common shares held. The common shares identified below are not entitled to voting rights even when such shares constitute a whole unit, and such common shares are not considered when determining whether a quorum exists for a shareholders' meeting:

treasury shares;

shares held by a company in which we, we and our subsidiaries or our subsidiaries own 25% or more of the total voting rights; and

shares issued after the record date as a result of conversion of convertible stock, exercise of stock acquisition rights, and fractional shareholders becoming a shareholder of a whole unit share.

On the other hand, holders of certain class of preferred shares shall be entitled to a voting right for each unit of preferred shares held under certain conditions provided for by relevant laws or regulations and our articles of incorporation. For example, when a proposal to pay the full amount of preferential dividends on any class of preferred shares in compliance with the terms of such preferred shares is not included in the agenda of the relevant shareholders' meeting. See Preferred Stock.

Under our articles of incorporation, except as otherwise provided by law or by other provisions of our articles of incorporation, a resolution can be adopted at a shareholders' meeting by the holders of a majority of the voting rights represented at the meeting. The Company Law and our articles of incorporation require a quorum of not less than one-third of the total number of voting rights for election of our directors and corporate auditors.

The Company Law and our articles of incorporation provide that a quorum of not less than one-third of outstanding voting rights, excluding those owned by our subsidiaries and affiliates of which we own, directly or indirectly, 25 percent or more, must be present at a shareholders' meeting to approve specified corporate actions, such as:

the amendment of our articles of incorporation, except in some limited cases;

the repurchase of our own stock from a specific shareholder other than our subsidiary;

the consolidation of shares;

the offering to persons other than shareholders of stock at a specially favorable price, or of stock acquisition rights or bonds or notes with stock acquisition rights with specially favorable conditions;

the removal of a director who was elected by cumulative voting or corporate auditor;

the exemption from liability of a director or corporate auditor, with certain exceptions;

a reduction in stated capital with certain exceptions in which a shareholders' resolution is not required;

a distribution of in-kind dividends which meets certain requirements;

the transfer of the whole or an important part of our business, except in some limited circumstances;

the acquisition of the whole business of another company, except in some limited circumstances;

a dissolution, merger or consolidation, except for certain types of mergers;

a stock-for-stock exchange (*kabushiki-kokan*) or stock-for-stock transfer (*kabushiki-iten*), except in some limited circumstances; and

a corporate split, except in some limited circumstances.

A special resolution representing at least two-thirds of the voting rights represented at the meeting is required to approve these actions.

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Our articles of incorporation do not include any provision that grants shareholders cumulative voting rights at elections of directors or corporate auditors.

Subscription Rights

Holders of our shares have no preemptive rights under our articles of incorporation. Under the Company Law, however, our board of directors may determine that shareholders be given subscription rights in connection with a particular issue of new shares. In this case, these subscription rights must be given on uniform terms to all shareholders, and if a specified record date is set, it must be announced in a public notice at least two weeks prior to the record date. A notification to each individual shareholder must also be given at least two weeks prior to the subscription date.

Under the Company Law, rights to subscribe for new shares may not be transferred; however, we may allot stock acquisition rights to shareholders without consideration, and such rights will be transferable.

Stock Acquisition Rights

We may issue stock acquisition rights (*shinkabu yoyakuken*), which in the United States are often in the form of warrants, or bonds with stock acquisition rights that cannot be detached (*shinkabu yoyakuken-tsuki shasai*), which in the United States are often in the form of convertible bonds or bonds with non-detachable warrants. Except where the issuance would be on specially favorable conditions, the issuance of stock acquisition rights or bonds with stock acquisition rights may be authorized by a resolution of our board of directors. Upon exercise of the stock acquisition rights, the holder of such rights may acquire shares by paying the applicable exercise price or, if so determined by a resolution of our board of directors, by making a substitute payment, such as having the convertible bonds redeemed for no cash in lieu of the exercise price.

Liquidation Rights

Upon our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and preferred distributions to holders of shares of our preferred stock will be distributed among the holders of our common stock in proportion to the number of shares they own.

Transfer Agent

MUTB is the transfer agent for our common stock. The office of MUTB for this purpose is located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan. MUTB maintains our register of shareholders and our register of lost share certificates, and records transfers of ownership upon presentation of share certificates.

Reports to Shareholders

We furnish to our shareholders notices, in Japanese, of shareholders meetings, annual business reports, including our financial statements, and notices of resolutions adopted at our shareholders meetings.

Record Dates

As stated above, March 31 is the record date for the payment of annual dividends, if any, and the determination of shareholders entitled to vote at ordinary general meetings of our shareholders. September 30 is the record date for the payment of interim dividends, if any. In addition, by a resolution of our board of directors and after giving at least two weeks prior public notice, we may at any time set a record date in order to determine the shareholders who are entitled to the rights pertaining to our shares.

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Repurchase of Our Shares

We may repurchase our own shares:

through the Tokyo Stock Exchange or other stock exchanges on which our shares are listed, if authorized by a resolution of a general meeting of shareholders or our board of directors;

by way of a tender offer, if authorized by a resolution of a general meeting of shareholders or our board of directors;

from a specific party, if authorized by a special resolution of a general meeting of shareholders and we give notice thereof to shareholders prior to such general meeting, in general;

from all shareholders of a specific class of shares offering to sell their shares, if authorized by a resolution of a general meeting of shareholders or our board of directors and we give a public notice or notice thereof to all of the shareholders (if we repurchase any class of preferred shares, notices to all shareholders of the relevant class of preferred shares.); or

from our subsidiaries, if authorized by a resolution of the board of directors.

When the repurchase is made by us from a specific party, as authorized by a special resolution of a general meeting of shareholders, any shareholder may make a demand to a director, five days or more prior to the relevant shareholders' meeting, that we also repurchase the shares held by that shareholder. However, no such right will be available if the shares have a market price, and if the purchase price does not exceed the then market price calculated in a manner set forth in an ordinance of the Ministry of Justice.

Repurchase of our own shares described above must satisfy various specified requirements. In general, the same restrictions on the distributable amount as described in the seventh paragraph under "Common Stock Dividends" are applicable to the repurchase of our own shares, so the total amount of the repurchase price may not exceed the distributable amount.

We may hold our own shares so repurchased without restrictions. In addition, we may cancel or dispose of our repurchased shares by a resolution of our board of directors. As of March 31, 2007, we (excluding our subsidiaries) owned 651,793 treasury shares.

Preferred Stock

The following is a summary of information concerning the shares of our preferred stock, including brief summaries of the relevant provisions of our articles of incorporation, the share handling regulations and the Company Law as currently in effect. The detailed rights of our preferred shares are set out in our articles of incorporation and the resolutions of our board of directors relating to the issuance of the relevant stock.

General

As of March 31, 2007, we were authorized under our articles of incorporation to issue nine classes of preferred stock totaling 1,306,601 shares of preferred stock, including 120,000 class 3 preferred shares, 400,000 shares of each of the first to fourth series of class 5 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 5 preferred shares does not exceed 400,000 shares), 200,000 shares of each of the first to fourth series of class 6 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 6 preferred shares does not exceed 200,000 shares), 200,000 shares of each of the first to fourth series of class 7 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 7 preferred shares does not exceed 200,000 shares) 27,000 class 8 preferred shares, 79,700 class 9 preferred shares, 150,000 class 10 preferred shares, one class 11 preferred share and 129,900 class 12 preferred shares. Following the amendment of our articles of incorporation, as of June 28, 2007, we were authorized to issue seven classes of preferred stock

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totaling 1,076,901 (after the stock split becomes effective, 1,076,901,000) shares of preferred stock, including 120,000 (after the stock split becomes effective, 120,000,000) class 3 preferred shares, 400,000 (after the stock split becomes effective, 400,000,000) shares of each of the first to fourth series of class 5 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 5 preferred shares does not exceed 400,000 (after the stock split becomes effective, 400,000,000) shares), 200,000 (after the stock split becomes effective, 200,000,000) shares of each of the first to fourth series of class 6 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 6 preferred shares does not exceed 200,000 (after the stock split becomes effective, 200,000,000) shares), 200,000 (after the stock split becomes effective, 200,000,000) shares of each of the first to fourth series of class 7 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 7 preferred shares does not exceed 200,000 (after the stock split becomes effective, 200,000,000) shares), 27,000 (after the stock split becomes effective, 270,000,000) class 8 preferred shares, one (after the stock split becomes effective, 1,000) class 11 preferred share and 129,900 (after the stock split becomes effective, 129,900,000) class 12 preferred shares. Our preferred shares have equal preference over shares of common stock in respect of dividend entitlements and distribution of assets upon our liquidation. However, holders of preferred shares are not entitled to vote at general meetings of shareholders, subject to the exceptions provided under our articles of incorporation. As of March 31, 2007, 100,000 shares of class 3 preferred shares, 17,700 class 8 preferred shares, one class 11 preferred share and 33,700 class 12 preferred shares had been outstanding, but there were no class 5 through 7, 9 and 10 preferred shares outstanding. On February 14, 2007, 22,800 class 12 preferred shares were converted into 28,643 shares of common stock. On February 19, 2007, 45,400 class 12 preferred shares were converted into 57,035 shares of common stock. On March 13, 2007, 11,300 class 12 preferred shares were converted into 14,195 shares of common stock. We may, at any time, following necessary authorization as described in the first paragraph under Repurchase of Our Shares, purchase and cancel, at fair value, any shares of preferred stock outstanding out of the distributable amount.

Class 3, first to fourth series of class 5 and first to fourth series of class 6 preferred shareholders are not entitled to request acquisition of their preferred shares in exchange for our common stock but we may acquire class 3, first to fourth series of class 5 and first to fourth series of class 6 preferred shares at our discretion pursuant to the terms and conditions provided by our articles of incorporation and the resolution of our board of directors. We may acquire shares of class 3 preferred shares at ¥2,500,000 (after the stock split becomes effective, ¥2,500) per share, in whole or in part, on or after February 18, 2010. The provisions for acquisition of first to fourth series of class 5 and first to fourth series of class 6 preferred shares will be determined by the board of directors at the time of issuance of such preferred shares. When issued, any holder of first to fourth series of class 6 and first to fourth series of class 7 preferred shares may request acquisition of such preferred shares in exchange for our common stock during the period determined by resolution of the board of directors adopted at the time of issuance of such preferred shares. Any first to fourth series of class 6 preferred shares or first to fourth series of class 7 preferred shares for which no request for acquisition in exchange for common stock is made during such period will be mandatorily acquired on the day immediately following the last day of such period (the Mandatory Acquisition Date) in the number obtained by dividing an amount equivalent to the subscription price per each relevant preferred share by the average daily closing price of our common stock as reported by the Tokyo Stock Exchange for the 30 trading days commencing on the 45th trading day prior to the Mandatory Acquisition Date. Any holder of class 8, 11 and 12 preferred shares may request acquisition of the relevant preferred shares in exchange for our common stock during the period as provided for in Attachments 1 through 3 of our articles of incorporation. Any class 8, 11 and 12 preferred shares for which no request for acquisition in exchange for common stock is made during such period will be mandatorily acquired on the Mandatory Acquisition Date in the number obtained by dividing an amount equivalent to the subscription price per each relevant preferred share by the average daily closing price of our common stock as reported by the Tokyo Stock Exchange for the 30 trading days commencing on the 45th trading day prior to the Mandatory Acquisition Date.

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Preferred Dividends

In priority to the payment of dividends to holders of our common stock, the amount of preferred dividends payable each fiscal year for each class of our preferred stock is set forth below.

class 3 preferred shares: ¥60,000 per share as set by the resolution of our board of directors dated January 27, 2005 (after the stock split becomes effective, ¥60 per share) pursuant to our articles of incorporation

first to fourth series of class 5 preferred shares: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥250,000 (after the stock split becomes effective, ¥250) per share

first to fourth series of class 6 preferred shares: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥125,000 (after the stock split becomes effective, ¥125) per share

first to fourth series of class 7 preferred shares: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥125,000 (after the stock split becomes effective, ¥125) per share

class 8 preferred shares: ¥15,900 (after the stock split becomes effective, ¥15.9) per share

class 11 preferred shares: ¥5,300 (after the stock split becomes effective, ¥5.30) per share

class 12 preferred shares: ¥11,500 (after the stock split becomes effective, ¥11.5) per share

In the event that our board of directors decides to pay an interim dividend to holders of record of our common stock as of September 30 of any year, we will, in priority to the payment of that interim dividend, pay a preferred interim dividend in the amount specified in our articles of incorporation to holders of record of our preferred stock as of September 30 of the same time. The amount of any preferred interim dividend will be deducted from the preferred dividend payable on the relevant class of our preferred stock for the same fiscal year.

No preferred dividend will be paid on any of our preferred stock converted into our common stock for the period from the date following the record date for the preferred dividend or preferred interim dividend last preceding the relevant conversion date to the relevant conversion date, but the common stock issued upon conversion will be entitled to receive any dividend payable to holders of record of common stock upon the next succeeding record date for common stock dividends.

No payment of dividends on our preferred stock or any other shares can be made unless we have a sufficient distributable amount and a resolution to distribute such distributable amount is obtained at the relevant ordinary general meeting of shareholders, in the case of annual preferred dividends, or at the board of directors, in the case of preferred interim dividends.

Dividends on our preferred stock are non-cumulative. If the full amount of any dividend is not declared on our preferred stock in respect of any fiscal year, holders of our preferred stock do not have any right to receive dividends in respect of the deficiency in any subsequent fiscal year, and we will have no obligation to pay the deficiency or to pay any interest regardless of whether or not dividends are paid in respect of any subsequent fiscal year. The holders of our preferred stock are not entitled to any further dividends or other participation in or distribution of our profits.

Liquidation Rights

In the event of our voluntary or involuntary liquidation, record holders of our preferred stock are entitled, equally in rank as among themselves, to receive before any distribution out of our residual assets is made to holders of our common stock, a distribution out of our residual assets of:

¥2,500,000 (after the stock split becomes effective, ¥2,500) per share of class 3 preferred shares,

¥2,500,000 (after the stock split becomes effective, ¥2,500) per share of first to fourth series of class 5 preferred shares,

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¥2,500,000 (after the stock split becomes effective, ¥2,500) per share of first to fourth series of class 6 preferred shares,

¥2,500,000 (after the stock split becomes effective, ¥2,500) per share of first to fourth series of class 7 preferred shares,

¥3,000,000 (after the stock split becomes effective, ¥3,000) per share of class 8 preferred shares,

¥1,000,000 (after the stock split becomes effective, ¥1,000) per share of class 11 preferred shares, and

¥1,000,000 (after the stock split becomes effective, ¥1,000) per share of class 12 preferred shares.

The holders of our preferred stock are not entitled to any further dividends or other participation in or distribution of our residual assets upon our liquidation.

Voting Rights

No holder of our preferred stock has the right to receive notice of, or to vote at, a general meeting of shareholders, except as otherwise specifically provided under our articles of incorporation or other applicable law. Under our articles of incorporation, holders of our preferred stock will be entitled to receive notice of, and have one voting right per unit of preferred shares at, our general meetings of shareholders:

from the commencement of our ordinary general meeting of shareholders if an agenda for approval to declare a preferred dividend is not submitted to such meeting; or

from the close of any ordinary general meeting of shareholders if a proposed resolution to declare a preferred dividend is not approved at such meeting.

In each case, holders of our preferred stock will be entitled to receive notice of and vote at the relevant general meetings of shareholders unless and until such time as a resolution of an ordinary general meeting of shareholders declaring a preferred dividend is passed.

American Depositary Shares

The Bank of New York will issue the American depositary receipts, or ADRs. Each ADR will represent ownership interests in American depositary shares, or ADSs. Each ADS represents one thousandth of a share of our common stock until September 30, 2007, when, subject to the effectiveness of the stock split of our common stock, each ADS will represent one share of our common stock. Each ADS is held by BTMU, acting as custodian, at its principal office in Tokyo, on behalf of The Bank of New York, acting as depositary. Each ADS will also represent securities, cash or other property deposited with The Bank of New York but not distributed to ADS holders. The Bank of New York's corporate trust office is located at 101 Barclay Street, New York, New York 10286 and its principal executive office is located at One Wall Street, New York, New York 10286. For a detailed discussion of the stock split of our common stock, see Item 5.A. Operating and Financial Review and Prospects Operating Results Recent Developments.

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

The Bank of New York will actually be the registered holder of the common stock, so you will have to rely on it to exercise your rights as a shareholder. Our obligations and the obligations of The Bank of New York are set out in a deposit agreement among us, The Bank of New York and you, as an ADS holder. The deposit agreement and the ADSs are governed by New York law.

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The following is a summary of the material terms of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the form of ADR.

Share Dividends and Other Distributions

The Bank of New York has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares of common stock or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

Cash. The Bank of New York will convert any cash dividend or other cash distribution we pay on our common stock into US dollars, if it can do so on a reasonable basis and can transfer the US dollars to the United States. If that is not possible or if any approval from the Japanese government is needed and cannot be obtained, the deposit agreement allows The Bank of New York to distribute the Japanese yen only to those ADS holders to whom it is possible to do so. The Bank of New York will hold the Japanese yen it cannot convert for the account of the ADS holders who have not been paid. It will not invest the Japanese yen and it will not be liable for any interest.

Before making a distribution, any withholding taxes that must be paid under Japanese law will be deducted. See *Taxation Japanese Taxation*. The Bank of New York will distribute only whole US dollars and cents and will round fractional cents to the nearest whole cent. If the relevant exchange rates fluctuate during a time when The Bank of New York cannot convert the Japanese currency, you may lose some or all of the value of the distribution.

Shares. The Bank of New York may distribute new ADSs representing any shares we may distribute as a dividend or free distribution, if we furnish The Bank of New York promptly with satisfactory evidence that it is legal to do so. The Bank of New York will only distribute whole ADSs. It will sell shares which would require it to issue a fractional ADS and distribute the net proceeds in the same way as it distributes cash dividends. If The Bank of New York does not distribute additional ADSs, each ADS will also represent the new shares.

Rights to receive additional shares. If we offer holders of our common stock any rights to subscribe for additional shares of common stock or any other rights, The Bank of New York may, after consultation with us, make those rights available to you. We must first instruct The Bank of New York to do so and furnish it with satisfactory evidence that it is legal to do so. If we do not furnish this evidence and/or do not give these instructions, and The Bank of New York decides that it is practical to sell the rights, The Bank of New York will sell the rights and distribute the proceeds in the same way as it distributes cash dividends. The Bank of New York may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

If The Bank of New York makes rights available to you, upon instruction from you it will exercise the rights and purchase the shares on your behalf. The Bank of New York will then deposit the shares and issue ADSs to you. It will only exercise the rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after the exercise of the rights. For example, you may not be able to trade the ADSs freely in the United States. In this case, The Bank of New York may issue the ADSs under a separate restricted deposit agreement which will contain the same provisions as the deposit agreement, except for changes needed to put the restrictions in place. The Bank of New York will not offer you rights unless those rights and the securities to which the rights relate are either exempt from

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registration or have been registered under the U.S. Securities Act with respect to a distribution to you. We will have no obligation to register under the Securities Act those rights or the securities to which they relate.

Other distributions. The Bank of New York will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, The Bank of New York has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the

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same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property.

The Bank of New York is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us or The Bank of New York to make them available to you.

Deposit, Withdrawal and Cancellation

The Bank of New York will issue ADSs if you or your broker deposits shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York will register the appropriate number of ADSs in the names you request and will deliver the ADSs at its corporate trust office to the persons you request.

In certain circumstances, subject to the provisions of the deposit agreement, The Bank of New York may issue ADSs before the deposit of the underlying shares. This is called a pre-release of ADSs. A pre-release is closed out as soon as the underlying shares are delivered to the depositary. The depositary may receive ADSs instead of the shares to close out a pre-release. The depositary may pre-release ADSs only on the following conditions:

Before or at the time of the pre-release, the person to whom the pre-release is made must represent to the depositary in writing that it or its customer, as the case may be, owns the shares to be deposited;

The pre-release must be fully collateralized with cash or collateral that the depositary considers appropriate;

The depositary must be able to close out the pre-release on not more than five business days' notice.

The pre-release will be subject to whatever indemnities and credit regulations that the depositary considers appropriate. In addition, the depositary will limit the number of ADSs that may be outstanding at any time as a result of a pre-release.

You may turn in your ADSs at the Corporate Trust Office of The Bank of New York's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York will deliver (1) the underlying shares to an account designated by you and (2) any other deposited securities underlying the ADS at the office of the custodian. Or, at your request, risk and expense, The Bank of New York will deliver the deposited securities at its Corporate Trust Office.

The ADSs may only be presented for cancellation and release of the underlying shares of common stock or other deposited securities in multiples of 1,000 ADSs. Holders of ADRs evidencing less than 1,000 ADSs will not be entitled to delivery of any underlying shares or other deposited securities unless such ADRs, together with other ADRs presented by the same holder at the same time, represent in the aggregate at

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least 1,000 ADSs. If any ADSs are surrendered but not cancelled pursuant to the preceding sentence, The Bank of New York will execute and deliver an ADR or ADRs evidencing the balance of ADSs not so cancelled to the person or persons surrendering the same.

Following the effectiveness of the stock split and the adoption of the unit share system on September 30, 2007, the ADSs may only be presented for cancellation and release of the underlying shares of common stock or other deposited securities in multiples of 100 ADSs. Holders of ADRs evidencing less than 100 ADSs will not be entitled to delivery of any underlying shares or other deposited securities unless ADRs, together with other ADRs

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presented by the same holder at the same time, represent in the aggregate at least 100 ADSs. If any ADSs are surrendered but not cancelled pursuant to the preceding sentence, The Bank of New York will execute and deliver an ADR or ADRs evidencing the balance of ADSs not so cancelled to the person or persons surrendering the same.

Voting Rights

If you are an ADS holder on a record date fixed by The Bank of New York, you may instruct The Bank of New York to vote the shares underlying your ADSs at a meeting of our shareholders in accordance with the procedures set forth in the deposit agreement.

The Bank of New York will notify you of the upcoming meeting and arrange to deliver our voting materials to you. The notice shall contain (a) such information as is contained in such notice of meeting, (b) a statement that as of the close of business on a specified record date you will be entitled, subject to any applicable provision of Japanese law and our Articles of Incorporation, to instruct The Bank of New York as to the exercise of the voting rights, if any, pertaining to the amount of shares or other deposited securities represented by your ADSs, and (c) a brief statement as to the manner in which such instructions may be given, including an express indication that instructions may be given to The Bank of New York to give a discretionary proxy to a person designated by us. Upon your written request, received on or before the date established by The Bank of New York for such purpose, The Bank of New York shall endeavor in so far as practicable to vote or cause to be voted the amount of shares or other deposited securities represented by your ADSs in accordance with the instructions set forth in your request. So long as Japanese law provides that votes may only be cast with respect to one or more whole shares or other deposited securities, The Bank of New York will aggregate voting instructions to the extent such instructions are the same and vote such whole shares or other deposited securities in accordance with your instructions. If, after aggregation of all instructions to vote received by The Bank of New York, any portion of the aggregated instructions constitutes instructions with respect to less than a whole share or other deposited securities, The Bank of New York will not vote or cause to be voted the shares or other deposited securities to which such portion of the instructions apply. The Bank of New York will not vote or attempt to exercise the right to vote that attaches to the shares or other deposited securities, other than in accordance with the instructions of the ADS holders. If no instructions are received by The Bank of New York from you with respect to any of the deposited securities represented by your ADSs on or before the date established by The Bank of New York for such purpose, The Bank of New York shall deem you to have instructed The Bank of New York to give a discretionary proxy to a person designated by us with respect to such deposited securities and The Bank of New York shall give a discretionary proxy to a person designated by us to vote such deposited securities, provided that no such instruction shall be given with respect to any matter as to which we inform The Bank of New York (and we have agreed to provide such information as promptly as practicable in writing) that (1) we do not wish such proxy given, (2) substantial opposition exists or (3) such matter materially and adversely affects the rights of holders of shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct The Bank of New York to vote your shares. In addition, The Bank of New York is not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions as long as it has acted in good faith. This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.

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Fees and Expenses

| <u>ADR holders must pay:</u> | <u>For:</u> |
|--|--|
| \$5.00 (or less) per 100 ADSs (or portion thereof) | Each issuance of an ADS, including as a result of a distribution of shares or rights or other property |
| \$0.02 (or less) per ADSs | Each cancellation of an ADS, including if the agreement terminates |
| Registration or transfer fees | To the extent permitted by securities exchange on which the ADSs may be listed for trading any cash payment |
| Expenses of The Bank of New York | Transfer and registration of shares on the share register of the foreign registrar from your name to the name of The Bank of New York or its agent when you deposit or withdraw shares |
| Taxes and other governmental charges The Bank of New York or BTMU, as custodian, have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes | Conversion of foreign currency to US dollars cable, telex and facsimile transmission expenses |
| | As necessary |

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities underlying your ADSs. The Bank of New York may refuse to transfer your ADSs or allow you to withdraw the deposited securities underlying your ADSs until those taxes or other charges are paid. It may apply payments owed to you or sell deposited securities underlying your ADSs to pay any taxes owed and you will remain liable for any deficiency. If it sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any property remaining after it has paid the taxes.

Reclassifications, Recapitalizations and Mergers

If we:

reclassify, split up or consolidate any of our shares or the deposited securities,

recapitalize, reorganize, merge, liquidate, consolidate or sell all or substantially all of our assets or take any similar action, or

distribute securities on the shares that are not distributed to you,

then,

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- (1) the cash, shares or other securities received by The Bank of New York will become deposited securities and each ADS will automatically represent its equal share of the new deposited securities unless additional ADSs are issued; and
- (2) The Bank of New York may, and will if we request, issue new ADSs or ask you to surrender your outstanding ADSs in exchange for new ADSs, identifying the new deposited securities.

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Amendment and Termination

We may agree with The Bank of New York to amend the deposit agreement and the ADSs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses, or prejudices an important right of ADS holders, it will only become effective three months after The Bank of New York notifies you of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADS, to agree to the amendment and to be bound by the ADSs and the deposit agreement as amended. However, no amendment will impair your right to receive the deposited securities in exchange for your ADSs.

The Bank of New York will terminate the deposit agreement if we ask it to do so, in which case it must notify you at least 30 days before termination. The Bank of New York may also terminate the deposit agreement if The Bank of New York has told us that it would like to resign and we have not appointed a new depository bank within 60 days.

If any ADSs remain outstanding after termination, The Bank of New York will stop registering the transfers of ADSs, will stop distributing dividends to ADS holders and will not give any further notices or do anything else under the deposit agreement other than:

- (1) collect dividends and distributions on the deposited securities,
- (2) sell rights and other property offered to holders of deposited securities, and
- (3) deliver shares and other deposited securities in exchange for ADSs surrendered to The Bank of New York.

At any time after one year following termination, The Bank of New York may sell any remaining deposited securities. After that, The Bank of New York will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. The Bank of New York's only obligations will be to account for the money and other cash and with respect to indemnification and to retain depository documents. After termination, our only obligations will be with respect to indemnification and to pay certain amounts to The Bank of New York.

Limitations on Obligations and Liability to ADS Holders

The deposit agreement expressly limits our obligations and the obligations of The Bank of New York. It also limits our liability and the liability of The Bank of New York. We and The Bank of New York:

are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;

are not liable if either is prevented or delayed by law, any provision of our Articles of Incorporation or circumstances beyond their control from performing their obligations under the deposit agreement;

are not liable if either exercises or fails to exercise discretion permitted under the deposit agreement;

have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other party unless indemnified to their satisfaction; and

may rely upon any advice of or information from legal counsel, accountants, any person depositing shares, any ADS holder or any other person believed in good faith to be competent to give them that advice or information.

In the deposit agreement, we and The Bank of New York agree to indemnify each other for liabilities arising out of acts performed or omitted by the other party in accordance with the deposit agreement.

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Requirements for Depositary Actions

Before The Bank of New York will issue or register transfer of an ADS, make a distribution on an ADS, or permit withdrawal of shares, it may require:

payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities,

production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary, and

compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The Bank of New York may refuse to deliver, transfer, or register transfers of ADSs generally when its transfer books are closed, when our transfer books are closed or at any time if it or we think it advisable to do so.

You have the right to cancel your ADSs and withdraw the underlying shares at any time except:

when temporary delays arise because: (1) The Bank of New York has closed its transfer books or we have closed our transfer books; (2) the transfer of shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on the shares;

when you or other ADS holders seeking to withdraw shares owe money to pay fees, taxes and similar charges; or

when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Reports and Other Communications

The Bank of New York will make available for your inspection at its corporate trust office any reports and communications, including any proxy soliciting material, that it receives from us, if those reports and communications are both (a) received by The Bank of New York as the holder of the deposited securities and (b) made generally available by us to the holders of the deposited securities. If we ask it to, The Bank of New York will also send you copies of those reports it receives from us.

Inspection of Transfer Books

The Bank of New York will keep books for the registration and transfer of ADSs, which will be open for your inspection at all reasonable times. You will only have the right to inspect those books if the inspection is for the purpose of communicating with other owners of ADSs in connection with our business or a matter related to the deposit agreement or the ADSs.

C. Material Contracts

Except as described elsewhere in this Annual Report, all contracts entered into by us in the past two years preceding the filing of this Annual Report were entered into in the ordinary course of business.

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D. Exchange Controls

Foreign Exchange and Foreign Trade Law

The Foreign Exchange and Foreign Trade Law of Japan and the cabinet orders and ministerial ordinances incidental thereto, collectively known as the Foreign Exchange Law, set forth, among other matters, the regulations relating to the receipt by non-residents of Japan of payment with respect to shares to be issued by us and the acquisition and holding of shares by non-residents of Japan and foreign investors, both as defined below. It also applies in some cases to the acquisition and holding of our shares or ADSs representing such shares acquired and held by non-residents of Japan and by foreign investors. Generally, the Foreign Exchange Law currently in effect does not affect the right of a non-resident of Japan to purchase or sell an ADR outside Japan for non-Japanese currency.

Non-residents of Japan are defined as individuals who are not resident in Japan and corporations whose principal offices are located outside Japan. Generally, the branches and offices of non-resident corporations which are located in Japan are regarded as residents of Japan while the branches and offices of Japanese corporations located outside Japan are regarded as non-residents of Japan.

Foreign investors are defined as:

individuals not resident in Japan;

corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan;

corporations of which 50% or more of the shares are held by individuals not resident of Japan and corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan; and

corporations, a majority of officers (or a majority of officers having the power of representation) of which are non-resident individuals.

Dividends and Proceeds of Sales

Under the Foreign Exchange Law, dividends paid on, and the proceeds of sales in Japan of, shares held by non-residents of Japan may in general be converted into any foreign currency and repatriated abroad. The acquisition of our shares by non-residents by way of a stock split is not subject to any notification or reporting requirements.

Acquisition of Shares

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In general, a non-resident who acquires shares from a resident of Japan is not subject to any prior filing requirement, although the Foreign Exchange Law empowers the Minister of Finance of Japan to require a prior approval for any such acquisition in certain limited circumstances.

If a foreign investor acquires our shares, and, together with parties who have a special relationship with that foreign investor, holds 10% or more of our issued shares as a result of such acquisition, the foreign investor must file a report of such acquisition with the Minister of Finance and any other competent Minister within 15 days from and including the date of such acquisition. In certain limited circumstances, however, a prior notification of such acquisition must be filed with the Minister of Finance and any other competent Minister, who may modify or prohibit the proposed acquisition.

Deposit and Withdrawal under American Depositary Facility

The deposit of shares with us, in our capacity as custodian and agent for the depositary, in Tokyo, the issuance of ADSs by the depositary to a non-resident of Japan in respect of the deposit and the withdrawal of the underlying shares upon the surrender of the ADSs are not subject to any of the formalities or restrictions referred

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to above. However, where as a result of a deposit or withdrawal the aggregate number of shares held by the depositary, including shares deposited with us as custodian for the depositary, or the holder surrendering ADSs, as the case may be, would be 10% or more of the total outstanding shares, a report will be required, and in specified circumstances, a prior notification may be required, as noted above.

Reporting of Substantial Shareholdings

The Securities and Exchange Law of Japan requires any person who has become, beneficially and solely or jointly, a holder of more than 5% of the total issued shares of capital stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan to file with the director of a competent finance bureau within 5 business days a report concerning such shareholdings.

A similar report must also be filed in respect of any subsequent change of 1% or more in any such holding ratio or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, share issuable to such person upon exchange of exchangeable securities, conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by such holder and the issuer's total issued shares of capital stock. Copies of such report must also be furnished to the issuer of such shares and all Japanese stock exchanges on which the shares are listed or (in the case of shares traded over-the-counter) the Japan Securities Dealers Association.

E. Taxation

Japanese Taxation

The following sets forth the material Japanese tax consequences to owners of shares or ADSs who are non-resident individuals or non-Japanese corporations without a permanent establishment in Japan to which the relevant income is attributable, which we refer to as non-resident holders in this section. The statements regarding Japanese tax laws below are based on the laws in force and as interpreted by the Japanese taxation authorities as at the date of this Annual Report and are subject to changes in the applicable Japanese laws, double taxation treaties, conventions or agreements or interpretations thereof occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor, and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of shares or ADSs, including specifically the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident and any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

For the purpose of Japanese tax law and the Tax Convention (as defined below), a U.S. holder of ADSs will be treated as the owner of the shares underlying the ADSs evidenced by the ADRs.

Generally, a non-resident holder of shares or ADSs is subject to Japanese withholding tax on dividends paid by us. In the absence of any applicable tax treaty, convention or agreement reducing the maximum rate of withholding tax, the rate of Japanese withholding tax applicable to dividends paid by us to non-resident holders is 7% for dividends to be paid on or before March 31, 2009 pursuant to Japanese tax law. After such date, the maximum withholding rate for U.S. holders (as defined below), which is generally set at 10% of the gross amount distributed, shall be applicable pursuant to the Tax Convention (as defined below).

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On March 30, 2004, the Convention between the Government of the United States of America and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the Tax Convention), has become effective to replace its predecessor, which was signed on March 8, 1971 (the Prior Treaty). The Tax Convention establishes the maximum rate of Japanese withholding tax which may be imposed on dividends paid to a United States resident not having a permanent establishment in Japan. Under the Tax Convention, the maximum withholding rate for U.S. holders (as defined below) is generally set at 10% of the

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gross amount distributed. However, the maximum rate is 5% of the gross amount distributed if the recipient is a corporation and owns directly or indirectly, on the date on which entitlement to the dividends is determined, at least 10% of the voting shares of the paying corporation. Furthermore, the amount distributed shall not be taxed if the recipient is (i) a pension fund which is a United States resident, provided that such dividends are not derived from the carrying on of a business, directly or indirectly, by such pension fund or (ii) a parent company with a controlling interest in the paying company and satisfies certain other requirements. U.S. holders (as defined below) are urged to consult their own tax advisors with respect to their eligibility for benefits under the Prior Treaty and the Tax Convention.

Japanese tax law provides in general that if the Japanese statutory rate is lower than the maximum rate applicable under tax treaties, conventions or agreements, the Japanese statutory rate shall be applicable. The rate of Japanese withholding tax applicable to dividends paid by us to non-resident holders is 7% for dividends to be paid on or before March 31, 2009 and 15% thereafter, except for dividends paid to any individual non-resident holder who holds 5% or more of our issued shares for which the applicable rate is 20%.

Non-resident holders of shares who are entitled to a reduced rate of Japanese withholding tax on payments of dividends on the shares or ADSs by us are required to submit an Application Form for the Income Tax Convention regarding Relief from Japanese Income Tax on Dividends in advance through us to the relevant tax authority before the payment of dividends. A standing proxy for non-resident holders may provide this application service for the non-resident holders. Non-resident holders who do not submit an application in advance will generally be entitled to claim a refund from the relevant Japanese tax authority of withholding taxes withheld in excess of the rate of an applicable tax treaty.

Gains derived from the sale or other disposition of shares or ADSs within or outside Japan by a non-resident holder are not, in general, subject to Japanese income or corporation taxes or other Japanese taxes.

Any deposits or withdrawals of shares by a non-resident holder in exchange for ADSs are not subject to Japanese income or corporation tax.

Japanese inheritance and gift taxes, at progressive rates, may be payable by an individual who has acquired shares or ADSs as legatee, heir or donee, even if none of the individual, the decedent or the donor is a Japanese resident.

U.S. Taxation

The following sets forth the material United States federal income tax consequences of the ownership of shares and ADSs by a U.S. holder, as defined below. This summary is based on United States federal income tax laws, including the United States Internal Revenue Code of 1986, or the Code, its legislative history, existing and proposed Treasury regulations thereunder, published rulings and court decisions, and on the Tax Convention, all of which are subject to change, possibly with retroactive effect.

The following summary is not a complete analysis or description of all potential United States federal income tax consequences to a particular U.S. holder. It does not address all United States federal income tax considerations that may be relevant to all categories of potential purchasers, certain of which (such as banks or other financial institutions, insurance companies, dealers in securities, tax-exempt entities, non-U.S. persons, persons holding a share or an ADS as part of a straddle, hedge, conversion or integrated transaction, holders whose functional currency is not the US dollar, holders liable for alternative minimum tax and holders of 10% or more of our voting shares) are subject to special tax treatment. This summary does not address any foreign, state, local or other tax consequences of investments in our shares or ADSs.

This summary addresses only shares or ADSs that are held as capital assets within the meaning of Section 1221 of the Code.

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As used herein, a "U.S. holder" is a beneficial owner of shares or ADSs, as the case may be, that is, for U.S. federal income tax purposes:

a citizen or resident of the United States,

a corporation or other entity taxable as a corporation created or organized under the laws of the United States or any political subdivision thereof,

an estate, the income of which is subject to U.S. federal income tax regardless of its source, or

a trust

the administration of which is subject to the supervision of a court within the United States and the control of one or more United States persons as described in Section 7701(a)(30) of the Code; or

that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

An "Eligible U.S. holder" is a U.S. holder that:

is a resident of the United States for purposes of the Prior Treaty or the Tax Convention, as applicable from time to time,

does not maintain a permanent establishment or fixed base in Japan to which the shares or ADSs are attributable and through which the U.S. holder carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services), and

is otherwise eligible for benefits under the Prior Treaty or the Tax Convention, as applicable, with respect to income and gain derived in connection with the shares or ADSs.

A "Non-U.S. holder" is any beneficial holder of shares or ADSs that is not a U.S. holder.

If a partnership holds shares or ADSs, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding shares or ADSs, you should consult your tax advisor.

We urge U.S. holders to consult their own tax advisors concerning the United States federal, state and local and other tax consequences to them of the purchase, ownership and disposition of shares or ADSs.

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This summary is based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with their respective terms. For United States federal income tax purposes, holders of ADSs will be treated as the owners of the shares represented by the ADSs. The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADSs. Accordingly, the discussion on the creditability of Japanese taxes described below could be affected by future actions that may be taken by the U.S. Treasury.

Special adverse United States federal income tax rules apply if a U.S. holder holds shares or ADSs of a company that is treated as a passive foreign investment company (a PFIC) for any taxable year during which the U.S. holder held shares or ADSs. Based upon proposed Treasury regulations and upon certain management estimates, we do not expect MUFG to be a PFIC for United States federal income tax purposes in the current year or in future years. However, there can be no assurance that the described proposed regulations will be finalized in their current form, and the determination of whether MUFG is a PFIC is based upon, among other things, the composition of our income and assets and the value of our assets from time to time. U.S. holders should consult their own tax advisors as to the potential application of the PFIC rules to their ownership and disposition of shares or ADSs.

Table of Contents***Taxation of Dividends***

U.S. holders will include the gross amount of any distribution received with respect to shares or ADSs (before reduction for Japanese withholding taxes), to the extent paid out of the current or accumulated earnings and profits (as determined for United States federal income tax purposes) of MUFG, as ordinary income in their gross income. The amount of distribution of property other than cash will be the fair market value of such property on the date of the distribution. Dividends received by a U.S. holder will not be eligible for the dividends-received deduction allowed to United States corporations in respect of dividends received from other United States corporations. To the extent that an amount received by a U.S. holder exceeds such holder's allocable share of our current earnings and profits, such excess will be applied first to reduce such holder's tax basis in its shares or ADSs, thereby increasing the amount of gain or decreasing the amount of loss recognized on a subsequent disposition of the shares or ADSs. Then, to the extent such distribution exceeds such U.S. holder's tax basis, such excess will be treated as capital gain. The amount of the dividend will be the US dollar value of the Japanese yen payments received. This value will be determined at the spot Japanese yen/US dollar rate on the date the dividend is received by the depository in the case of U.S. holders of ADSs, or by the shareholder in the case of U.S. holders of shares, regardless of whether the dividend payment is in fact converted into US dollars at that time. If the Japanese yen received as a dividend are not converted into US dollars on the date of receipt, a U.S. holder will have basis in such Japanese yen equal to their US dollar value on the date of receipt, and any foreign currency gains or losses resulting from the conversion of the Japanese yen will generally be treated as U.S. source ordinary income or loss.

Subject to certain limitations, the Japanese tax withheld will be creditable against the U.S. holder's United States federal income tax liability or may be claimed as a deduction from the U.S. holder's federal adjusted gross income provided that the U.S. holder elects to deduct all foreign taxes paid on the same taxable year. For foreign tax credit limitation purposes, the dividend will be income from sources outside the United States. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends we pay will constitute passive income or, in the case of certain U.S. holders, financial services income. The rules governing U.S. foreign tax credits are very complex and U.S. holders should consult their tax advisors regarding the availability of foreign tax credits under their particular circumstances.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (the Act) affects the taxation of dividends. The Act eliminates the tax rate difference between qualified dividends and capital gains for United States individual investors. Qualified dividends include dividends received from both domestic corporations and qualified foreign corporations. Qualified foreign corporations include those corporations eligible for the benefits of a comprehensive income tax treaty with the U.S.; both the Prior Treaty and the Tax Convention are such treaties. Dividends received by U.S. investors from a foreign corporation that was a PFIC in either the taxable year of the distribution or the preceding taxable year are not qualified dividends. We believe that MUFG is a qualified foreign corporation and that dividends received by U.S. investors with respect to shares or ADSs of MUFG will be qualified dividends. Note that these provisions do not affect dividends received by Non-U.S. holders.

Taxation of Capital Gains

Upon a sale or other disposition of shares or ADSs, a U.S. holder will recognize gain or loss in an amount equal to the difference between the US dollar value of the amount realized and the U.S. holder's tax basis, determined in US dollars, in such shares or ADSs. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the U.S. holder's holding period for such shares or ADSs exceeds one year. A U.S. holder's adjusted tax basis in its shares or ADSs will generally be the cost to the holder of such shares or ADSs. Any such gain or loss realized by a U.S. holder upon disposal of the shares or ADSs will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Any deposits and/or withdrawals of shares made with respect to ADSs are not subject to United States federal income tax.

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Information Reporting and Backup Withholding

Dividends paid on shares or ADSs to a U.S. holder, or proceeds from a U.S. holder's sale or other disposition of shares or ADS, may be subject to information reporting requirements. Those dividends or proceeds from sale or disposition may also be subject to backup withholding unless the U.S. holder:

is a corporation or comes within some other categories of exempt recipients, and, when required, demonstrates this fact, or

provides a correct taxpayer identification number on a properly completed U.S. Internal Revenue Service Form W-9 or substitute form, certifies that the U.S. holder is not subject to backup withholding, and otherwise complies with applicable requirements of the backup withholding rules.

Any amount withheld under these rules will be creditable against the U.S. holder's United States federal income tax liability or refundable to the extent that it exceeds such liability if the U.S. holder provides the required information to the Internal Revenue Service. If a U.S. holder is required to and does not provide a correct taxpayer identification number, the U.S. holder may be subject to penalties imposed by the Internal Revenue Service. All holders should consult their tax advisors as to their qualification for the exemption from backup withholding and the procedure for obtaining an exemption.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We file periodic reports and other information with the SEC. You may read and copy any document that we file with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information on the operation of its public reference rooms. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC (<http://www.sec.gov>). You may also inspect our SEC reports and other information at the New York Stock Exchange, Inc., 11 Wall Street, New York, New York 10005. Some of this information may also be found on our website at <http://www.mufg.jp>.

I. Subsidiary Information

Please refer to discussion under Item 4.C. Information on the Company Organizational Structure.

Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.

Numerous changes in MUFG's business environment have occurred as a result of deregulation and globalization of the financial industry, and the advancement of information technology. MUFG aims to be a global and comprehensive financial group encompassing leading commercial and trust banks, and securities firms in Japan. Risk management plays an increasingly important role as the risks faced by financial groups such as MUFG increase in scope and variety.

MUFG identifies various risks arising from businesses based on uniform criteria, and implements integrated risk management to ensure a stronger financial condition and to maximize shareholder value. Based on this policy, MUFG identifies, measures, controls and monitors a wide variety of risks so as to achieve a stable balance between earnings and risks. We undertake risk management to create an appropriate capital structure and to achieve optimal allocation of resources.

Table of Contents**Risk Classification**

At the holding company level, MUFG broadly classifies and defines risk categories faced by the Group. Group companies perform more detailed risk management based on their respective operations.

| Type of Risk | Definition |
|------------------------|--|
| Credit Risk | The risk of financial loss in credit assets (including off-balance sheet instruments) caused by deterioration in the credit conditions of counterparties. This category includes country risk. |
| Market Risk | Market risk is the risk of financial loss where the value of our assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices and foreign exchange rates. Market liquidity risk is the risk of financial loss caused by the inability to secure market transactions at the required volume or price levels as a result of market turbulence or lack of trading liquidity. |
| Liquidity Risk | The risk of incurring loss if a poor financial position at a group company hampers the ability to meet funding requirements or necessitates fund procurement at interest rates markedly higher than normal. |
| Operational Risk | The risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. |
| Operations Risk | The risk of incurring loss that might be caused by negligence of correct operational processing, or by incidents or misconduct by either officers or staff, as well as risks similar to this risk. |
| Information Asset Risk | The risk of loss caused by loss, alteration, falsification or leakage of information, or by destruction, disruption, errors or misuse of information systems, as well as risks similar to this risk. |
| Reputation Risk | The risk of loss due to deterioration in reputation as a consequence of the spread of rumors among customers or in the market, or as a consequence of inadequate response to the circumstance by MUFG, as well as risks similar to this risk. |

Risk Management System

MUFG has adopted an integrated risk management system and promotes close cooperation among the holding company and group companies. The holding company and the major subsidiaries (which include The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, and Mitsubishi UFJ Securities Co., Ltd., or MUS) each appoint Chief Risk Management Officers and establish independent risk management divisions. At Risk Management Committees, our management members discuss and dynamically manage various types of risks from both qualitative and quantitative perspectives. The Board of Directors determines risk management policies for various types of risk based on the discussions held by these committees.

The holding company seeks to enhance groupwide risk identification; to integrate and improve the Group's risk management system and related methods; to maintain asset quality; and to eliminate concentrations of specific risks. Groupwide risk management policy is determined at the holding company level and each group company implements and improves its own risk management system. BTMU and MUTB have deliberated plans to upgrade risk management systems in line with the requirements for major banks stipulated by the Financial Services Agency of Japan and have been constructing advanced risk management systems.

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Business Continuity Management

Based on a clear critical response rationale and associated decision-making criteria, MUFG has developed systems to ensure that operations are not interrupted or can be restored to normal quickly in the event of a natural disaster or system failure so as to minimize any disruption to customers and markets. A crisis management team within the holding company is the central coordinating body in the event of any emergency. Based on information collected from crisis management personnel at the major subsidiaries, this central body would assess the overall impact of a crisis on the Group's business and establish task forces that could implement all countermeasures to restore full operations. MUFG has business continuity plans to maintain continuous operational viability in the event of natural disasters, system failures and other types of emergencies. Regular training drills are conducted to upgrade the practical effectiveness of these systems.

Implementation of Basel II

The Basel Committee on Banking Supervision of the Bank for International Settlements, or BIS, sets capital adequacy standards for all internationally active banks to ensure minimum levels of capital. The Basel Committee worked over recent years to revise the 1988 Accord and, in June 2004, the Committee released International Convergence of Capital Measurement and Capital Standards: A Revised Framework. This new framework, called Basel II, has been applied to Japanese banks since March 31, 2007. Basel II is based on three pillars: (1) minimum capital requirements, (2) the self-regulation of financial institutions based on supervisory review process, and (3) market discipline through the disclosure of information. The goal of Basel II is to have these three pillars mutually reinforce each other to ensure the effectiveness of regulations. Basel II is thus a more comprehensive regulatory framework for ensuring the soundness and stability of the international banking system. In addition, with respect to credit risk and operational risk, Basel II provides more risk-sensitive approaches and a range of options for measuring risks and determining the capital requirements. As a result, Basel II also reflects the nature of risks at each bank more closely. Based on the principles of Basel II, MUFG adopted the Foundation Internal Ratings-Based Approach to calculate its capital requirements for credit risk. The Standardised Approach is used for some subsidiaries that are considered to be immaterial to the overall MUFG capital requirements and a few subsidiaries have adopted a phased rollout of the IRB approach. MUFG adopted the Standardised Approach to calculate its capital requirements for operational risk. As for market risk, MUFG adopted the Internal Models Approach mainly to calculate general market risk and adopted the Standardised Method to calculate specific risk.

Credit Risk Management

Credit risk is the risk of losses due to deterioration in the financial condition of a borrower.

MUFG has established risk management systems to maintain asset quality, manage credit risk exposure and achieve earnings commensurate with risk.

Our major banking subsidiaries apply a uniform credit rating system for asset evaluation and assessment as well as the quantitative measurement of credit risk. This system also underpins management of loan pricing and credit portfolios.

Our major banking subsidiaries continually seek to upgrade credit portfolio management, or CPM, expertise to achieve improved risk-adjusted return, based on the Group's credit portfolio status and flexible response capability to economic and other external changes.

Credit Risk Management System

The credit portfolios of our major banking subsidiaries are monitored and assessed on a regular basis to maintain and improve asset quality. Uniform credit ratings as well as an asset evaluation and assessment system are used to ensure timely and proper evaluation of all credit risks. Under the MUFG credit risk management

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framework, each major banking subsidiary manages its respective credit risk on a consolidated and global basis, while the holding company oversees and manages credit risk on an overall group-wide basis. The holding company also convenes regular committee meetings to monitor credit risk management at major banking subsidiaries and to issue guidance where necessary.

At each major banking subsidiary, we have in place a system of checks and balances in which a credit administration section that is independent of the business promotion sections screens individual transactions and manages the extensions of credit. At the management level, regular meetings of credit and investment management committee and related deliberative bodies ensure full discussion of important matters related to credit risk management. Besides such checks and balances and internal oversight systems, credit examination functions also undertake credit testing and evaluation to ensure appropriate credit risk management. The following diagram summarizes the credit risk management framework for the major banking subsidiaries:

Credit Rating System

Our major banking subsidiaries introduced a unified criteria, an integrated credit rating system to evaluate credit risk. This rating system underpins credit risk management across MUFG. The system classifies borrowers into 15 grades using probability of default rates as a common criterion, an approach that conforms to Basel II and is also consistent with the borrower grades used in asset evaluation and assessment. We believe this credit rating system is an objective framework that also incorporates timely market factors such as share prices and external ratings where appropriate.

Country risk is evaluated and managed under a separate system. Our major banking subsidiaries assign uniform ratings for countries. These ratings are reviewed periodically to take into account relevant political and economic factors, including foreign currency availability.

The following table sets forth our borrower grades:

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Definition of MUFG Borrower Rating

| Borrower rating | Definition |
|------------------------|---|
| 1-2 | Borrower capacity to meet financial obligations deemed high and stable |
| 3-5 | Borrower capacity to meet financial obligations deemed free of problems |
| 6-8 | Borrower capacity to meet short-term financial obligations deemed free of problems |
| 9 | Borrower capacity to meet financial obligations deemed slightly insufficient |
| 10-12 | Close monitoring of borrower required due to one or more of following conditions: |
| | [1] Borrower who has problems meeting financial obligations (e.g. principal repayments or interest payments in arrears) |
| | [2] Borrower whose business performance is poor or unsteady, or in an unfavorable financial condition |
| | [3] Borrower who has problems with loan conditions (e.g. interest rates have been reduced or deferred) |
| 10 | Causes for concern identified in borrower's business management necessitate ongoing monitoring, despite only minor problems or significant ongoing improvement |
| 11 | Emergence of serious causes for concern in borrower's business management signal need for caution in debt repayment due to major problems or requiring protracted resolution |
| 12 | Borrower applicable to the definition of rating 10 or 11 and holds restructured loan, or borrower with loan contractually past due 90 days or more due to particular reasons, such as an inheritance-related issue |
| 13 | Borrower where losses are expected due to major debt repayment problems (that is, although not yet bankrupt, borrower deemed likely to become bankrupt due to financial difficulties and failure to make significant progress with restructuring plans) |
| 14 | Although not legally or officially bankrupt, borrower in virtual bankruptcy due to serious financial difficulties, without any realistic prospect of business recovery |
| 15 | Borrower legally or officially bankrupt and subject to specific procedures, such as legal liquidation/business suspension/winding up of business/private liquidation |

Asset Evaluation and Assessment System

The asset evaluation and assessment system classifies assets according to the probability of collection and the risk of any impairment in value, based on the borrower grades consistent with the borrower ratings and status of collateral or guarantees. The system enables MUFG to conduct write-offs and allocate allowances against any credits in a timely and adequate manner.

Quantitative Analysis of Credit Risk

MUFG manages credit risk using a quantitative model to measure risks based on data such as credit amount, probability of default and estimated recovery rates. This model also takes into account the correlation between borrowers.

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Loan Portfolio Management

MUFG aims to achieve and maintain levels of earnings commensurate with credit risk exposure. Products are priced to take into account expected losses, based on internal credit ratings.

Our major banking subsidiaries assess and monitor loan amounts and credit exposure by credit rating, industry and region. Portfolios are appropriately managed to limit concentrations of risk in specific categories by establishing large exposure guideline.

To manage country risk, our major banking subsidiaries have established specific credit ceilings by country. These ceilings are reviewed when there is any material change in a country's credit standing, in addition to regular review.

Continuous CPM Improvement

Reflecting the growth in global markets for securitized products and credit derivatives, our major banking subsidiaries actively seek to supplement conventional credit portfolio management, or CPM, techniques with advanced methods based on the use of such market-based instruments.

Through credit risk quantification and portfolio management, MUFG aims to improve the risk-return profile of the Group's credit portfolio using financial markets to rebalance credit portfolios in a dynamic and active manner, based on an accurate assessment of credit risk. The following diagram summarizes our CPM framework:

Risk Management of Strategic Equity Portfolio

Strategic equity investment risk is the risk of loss caused by a decline in the prices of equity investments of MUFG.

Our major banking subsidiaries use quantitative analysis to manage the risks associated with the portfolio of equities held for strategic purposes. According to internal calculations, the market value of our strategically-held listed stocks as of March 31, 2007 was subject to a variation of approximately ¥4.2 billion per point of movement in the TOPIX index.

MUFG seeks to manage and reduce strategic equity portfolio risk based on such types of simulation. The aim is to keep this risk at appropriate levels compared with Tier I capital while generating returns commensurate with the degree of risk exposure.

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Market Risk Management

Market risk is the risk that the value of our assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices, or foreign exchange rates.

Management of market risk at MUFG aims to control related risk exposure across the Group while ensuring that earnings are commensurate with levels of risk.

Market Risk Management System

MUFG has adopted an integrated system to manage market risk from its trading and non-trading activities. The holding company monitors group-wide market risk, while each of the major subsidiaries manages its market risks on a consolidated and global basis.

At each of the major subsidiaries, checks and balances are maintained through a system in which back and middle offices operate independently from front offices. In addition, separate Asset-Liability Management, or ALM, Committee, ALM Council and Risk Management Meetings are held at each of the major subsidiaries every month to deliberate important matters related to market risk and control.

The major subsidiaries have established quantitative limits relating to market risk based on their allocated economic capital. In addition, in order to keep losses within predetermined limits, the major subsidiaries have also set limits for the maximum amount of losses arising from market activities. The following diagram summarizes the market risk management system of each major subsidiary:

Management System of the Major Subsidiaries

Market Risk Management and Control

At the holding company and the major subsidiaries, market risk exposure is reported to the Chief Risk Management Officers on a daily basis. At the holding company, the Chief Risk Management Officer monitors market risk exposure across the Group as well as the major subsidiaries control over their quantitative limits for market risk and losses. Meanwhile, the Chief Risk Management Officers at the major subsidiaries monitor their own market risk exposure and their control over their quantitative limits for market risk and losses. In addition, various analyses on risk profiles, including stress testing, are conducted and reported to the Executive Committees and the Corporate Risk Management Committees on a regular basis.

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At the business unit levels in the major subsidiaries, the market risks on their marketable assets and liabilities, such as interest rate risk and foreign exchange rate risk, are controlled by entering into various hedging transactions using marketable securities and derivatives. For a detailed discussion of the financial instruments employed as part of our risk management strategy, see note 25 to our consolidated financial statements.

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Activities in the trading business are performed in accordance with the predetermined rules and procedures. The internal auditors as well as independent accounting auditors regularly verify the appropriateness of the management controls over these activities and the risk evaluation models adopted.

Market Risk Measurement Model

Market risks consist of general risks and specific risks. General market risks result from changes in entire markets, while specific risks relate to changes in the prices of individual stocks and bonds which are independent of the overall direction of the market.

To measure general market risks, MUFU uses the VaR method which estimates changes in the market value of portfolios within a certain period by statistically analyzing past market data. Since the daily variation in market risk is significantly greater than that in other types of risk, MUFU measures and manages market risk using VaR on a daily basis.

Market risk for trading and non-trading activities is measured using a uniform market risk measurement model. The principle model used for these activities is historical simulation (HS) model (holding period, 10 days; confidence interval, 99%; and observation period, 701 business days). The HS model calculates VaR amounts by estimating the profit and loss on the current portfolio by applying actual fluctuations in market rates and prices over a fixed period in the past. This method is capable of capturing certain statistically infrequent movements, such as a fat tail, and accounts for the characteristics of financial instruments with non-linear behavior. The holding company and banking subsidiaries also use the HS model to calculate Basel II regulatory capital adequacy ratios. MUFU has notified the Financial Services Agency of its use as the internal market risk model, and received approval for its use of the model in March 2007.

In calculating VaR using the HS method, MUFU has implemented an integrated market risk measurement system throughout the Group. The major subsidiaries calculate their VaR based on the risk and market data prepared by the information systems of their front offices and other departments. The major subsidiaries provides this risk data to the holding company, which calculates overall VaR taking into account the diversification effect among all portfolios of the major subsidiaries.

For the purpose of internally evaluating capital adequacy on an economic capital basis in terms of market risk, we use this market risk measurement model to calculate risk amounts based on a holding period of one year and a confidence interval of 99%.

Monitoring and managing our sensitivity to interest rate fluctuations is the key to managing market risk in MUFU's non-trading activities. The major banking subsidiaries take the following approach to measuring risks concerning core deposits, loan prepayments and early deposit withdrawals.

To measure interest rate risk relating to deposits without contract-based fixed maturities, the amount of core deposits is calculated through a statistical analysis based on deposit balance trend data and the outlook for interest rates on deposits, business decisions, and other factors. The amount of core deposit is categorized into various groups of maturity terms of up to five years (2.5 years on average) to recognize interest risk. The calculation assumptions and methods to determine the amount of core deposits and maturity term categorization are regularly reviewed.

Meanwhile, deposits and loans with contract-based maturities are sometimes cancelled or repaid before their maturity dates. To measure interest rate risk for these deposits and loans, MUFJ reflects these early termination events mainly by applying early termination rates calculated based on a statistical analysis of historical repayment and cancellation data together with historical market interest rate data.

Table of Contents**Summaries of Market Risks (Fiscal Year Ended March 2007)****Trading activities**

The aggregate VaR for MUFG's total trading activities as of March 31, 2007 was ¥16.04 billion, comprising interest-rate risk exposure of ¥4.68 billion, foreign exchange risk exposure of ¥5.98 billion, and equity-related risk exposure of ¥8.77 billion. Compared with the VaR as of March 31, 2006, MUFG experienced a large increase in market risk during the fiscal year in review, particularly its exposure to foreign exchange and equity-related risk.

MUFG's average daily VaR for the fiscal year ended March 2007 was ¥6.40 billion, rising from the daily VaR of ¥4.13 billion for the period between January and March 2006. This primarily reflected an increase in interest-rate risk and equity-related risk.

Due to the nature of trading operations which involves frequent changes in trading positions, market risk varied substantially during the fiscal year depending on our trading positions. The following tables set forth the VaR related to our trading activities by risk category for the periods indicated:

| | | Billions of Yen | | | |
|------------------------|--------------------|-----------------|---------|---------|--------------|
| April 1, 2005 | September 30, 2005 | Average | Maximum | Minimum | Sep 30, 2005 |
| MTFG | | ¥ 7.69 | ¥ 15.39 | ¥ 2.53 | ¥ 4.11 |
| Interest rate | | 7.76 | 15.14 | 2.17 | 4.04 |
| Yen | | 6.99 | 14.39 | 1.24 | 3.36 |
| Dollars | | 0.70 | 1.77 | 0.25 | 0.50 |
| Foreign Exchange | | 1.16 | 2.46 | 0.20 | 0.94 |
| Equities | | 0.55 | 4.04 | 0.23 | 0.25 |
| Commodities | | 0.11 | 0.25 | 0.01 | 0.12 |
| Diversification Effect | | (1.89) | | | (1.24) |
| UFJ Bank | | 2.5 | 3.2 | 1.5 | 1.8 |
| UFJ Trust Bank | | | | | |

| | | Billions of Yen | | | |
|----------------------------------|-------------------|-----------------|---------|---------|--------------|
| October 1, 2005 | December 31, 2005 | Average | Maximum | Minimum | Dec 31, 2005 |
| MUFG (excluding UFJ Bank) | | ¥ 3.53 | ¥ 5.36 | ¥ 2.25 | ¥ 2.29 |
| Interest rate | | 2.60 | 4.11 | 2.00 | 2.11 |
| Yen | | 1.69 | 3.48 | 1.02 | 1.38 |
| Dollars | | 0.71 | 1.20 | 0.39 | 1.03 |
| Foreign Exchange | | 2.71 | 4.62 | 0.99 | 1.86 |

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| | | | | |
|------------------------|--------|------|------|--------|
| Equities | 0.42 | 1.07 | 0.27 | 0.27 |
| Commodities | 0.19 | 0.36 | 0.12 | 0.13 |
| Diversification Effect | (2.38) | | | (2.08) |
| UFJ Bank | 1.2 | 1.9 | 0.6 | 0.7 |

Billions of Yen

| January 1, 2006 | March 31, 2006 | Average | Maximum | Minimum | Mar 31, 2006 |
|------------------------|----------------|---------|---------|---------|-----------------|
| MUFG | | ¥ 4.13 | ¥ 5.40 | ¥ 3.45 | ¥ 3.81 |
| Interest rate | | 3.64 | 5.71 | 2.63 | 3.65 |
| Yen | | 2.72 | 5.51 | 1.71 | 2.51 |
| Dollars | | 0.90 | 1.75 | 0.49 | 1.35 |
| Foreign Exchange | | 1.83 | 3.72 | 0.74 | 0.74 |
| Equities | | 0.50 | 2.10 | 0.24 | 0.45 |
| Commodities | | 0.12 | 0.16 | 0.07 | 0.07 |
| Diversification Effect | | (1.97) | | | (1.10) |

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| | | Billions of Yen | | | |
|------------------------|----------------|-----------------|---------|---------|--------------|
| April 1, 2006 | March 31, 2007 | Average | Maximum | Minimum | Mar 31, 2007 |
| MUFG | | ¥ 6.40 | ¥ 20.80 | ¥ 2.79 | ¥ 16.04 |
| Interest rate | | 4.60 | 8.48 | 2.78 | 4.68 |
| Yen | | 2.55 | 5.13 | 1.10 | 2.37 |
| Dollars | | 1.25 | 3.27 | 0.43 | 1.32 |
| Foreign Exchange | | 2.03 | 5.98 | 0.46 | 5.98 |
| Equities | | 1.52 | 14.64 | 0.24 | 8.77 |
| Commodities | | 0.11 | 0.34 | 0.04 | 0.16 |
| Diversification Effect | | 1.85 | | | 3.55 |

Assumption for VaR calculations:

| | |
|----------------|---------------------------------------|
| MTFG/MUFG | Historical simulation method |
| | Holding period: 10 days |
| | Confidence interval: 99% |
| | Observation period: 701 business days |
| UFJ Bank | Historical simulation method |
| | Holding period: 1 day |
| | Confidence interval: 99% |
| | Observation period: 750 trading days |
| UFJ Trust Bank | Variance-covariance method |
| | Holding period: 1 day |
| | Confidence interval: 99% |
| | Observation period: 2 years |

Note: The maximum and minimum VaR overall and for various risk categories were taken from different days. A simple summation of VaR by risk category is not equal to total VaR due to the effect of diversification.

In addition, the VaR for MUFG's total trading activities in the fiscal year ended March 31, 2006 are divided into separate periods to reflect the mergers of the holding companies and of the trust banks in October 2005 as well as the merger of the two commercial banks in January 2006. The former Mitsubishi Tokyo Financial Group (MTFG) and UFJ Group used different risk measurement methods, and the pre-merger figures are based on these respective approaches. Hence, valid year-on-year VaR comparisons can only be made between MUFG and surviving entities from MTFG.

The average daily VaR by quarter in the fiscal year ended March 31, 2007 was as follows:

| <u>Quarter</u> | <u>Billions of Yen</u> |
|-------------------------|--------------------------|
| | <u>Daily average VaR</u> |
| April - June 2006 | ¥ 5.28 |
| July - September 2006 | 5.36 |
| October - December 2006 | 5.16 |
| January - March 2007 | 9.87 |

The quantitative market risk figures from trading activities tend to fluctuate widely due to the market sensitive nature of trading business. During the fiscal year ended March 31, 2007, the revenue from our trading activities has been relatively stable, keeping positive numbers in 221 days out of 259 trading days in the period. During the same period, there were 80 days with positive revenue exceeding ¥1 billion and 5 days with negative revenue exceeding minus ¥1 billion.

Table of Contents**Non-trading Activities**

The Aggregate VaR for MUFG's total non-trading activities as of March 31, 2007, excluding market risks related to our strategic equity portfolio and measured using the same standards as trading activities, was ¥199.6 billion. Market risks related to interest rates equaled ¥174.8 billion and equities-related risks equaled ¥94.7 billion. Compared to the VaR for MUFG at March 31, 2006, the decrease in overall market risk was ¥12.4 billion. Market risks related to interest-rate risk decreased by ¥13.6 billion. Equities-related risks decreased by ¥4.9 billion.

Based on a simple sum of figures across market risk categories, interest rate risks accounted for approximately 65% of our total non-trading activity market risks. The following table shows the VaR related to our non-trading activities by risk category for the fiscal year ended March 31, 2007:

| | | Billions of Yen | | | |
|------------------|----------------|-----------------|---------|---------|--------------|
| April 1, 2006 | March 31, 2007 | Average | Maximum | Minimum | Mar 31, 2007 |
| Interest rate | | ¥ 168.5 | ¥ 185.8 | ¥ 142.4 | ¥ 174.8 |
| Yen | | 106.9 | 127.7 | 80.1 | 115.8 |
| Dollars | | 94.8 | 106.6 | 79.0 | 88.3 |
| Foreign Exchange | | 19.1 | 25.7 | 13.8 | 17.8 |
| Equities | | 97.1 | 111.7 | 62.9 | 94.7 |
| Total | | 197.1 | 220.3 | 176.6 | 199.6 |

Assumption for VaR calculations:

Historical simulation method

Holding period: 10 days

Confidence interval: 99%

Observation period: 701 business days

Note: The maximum and minimum VaR overall for each category and in total were taken from different days. The equities-related risk figures do not include market risk exposure from our strategic equity portfolio. A simple summation of VaR by risk category is not equal to total VaR due to the effect of diversification.

The average daily interest rate VaR by quarter in the fiscal year ended March 31, 2007 was as follows.

| Quarter | Billions of Yen |
|---------|-------------------|
| | Daily average VaR |
| | |

| | | |
|-------------------------|---|--------|
| April - June 2006 | ¥ | 188.00 |
| July - September 2006 | | 192.81 |
| October - December 2006 | | 198.97 |
| January - March 2007 | | 208.75 |

Comparing the proportion of each currency's interest rate VaR to the total interest rate VaR as of March 31, 2007 against that of March 31, 2006, there were a 3 percentage point increase in Japanese yen from 49 % to 52 % and a 4 percentage point decrease in US dollar from 43% to 39%, and Euro stays at the same level at 8 %.

Backtesting

We conduct backtesting in which a VaR is compared with actual realized and unrealized losses on a daily basis to verify the accuracy of our VaR measurement model. We also conduct additional backtesting using other methods, including testing VaR against hypothetical losses and testing VaR by such changing various parameters as confidence intervals and observation periods, used in the model.

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Actual losses never exceeded VaR in the fiscal year ended March 2007. This means that MUFG's VaR model provided reasonably accurate measurements of market risk during the fiscal year.

Stress Testing

MUFG has adopted an HS-VaR model, which calculates a VaR as a statistically possible amount of losses in a fixed confidence interval based on historical market volatility. However, the HS-VaR model is not designed to capture certain abnormal market fluctuations. In order to complement this weakness of the model, MUFG conducts portfolio stress testing to measure potential losses using a variety of scenarios.

The holding company and the major subsidiaries conduct stress testing on a daily, monthly and quarterly basis to monitor their overall portfolio risk by applying various scenarios. For example, the holding company tests estimate potential losses resulting from scenarios reflecting the market conditions at the time of testing, scenarios based on extreme historic market conditions, such as Black Monday or the 1994 bond sell-off, and scenarios involving the largest fluctuations in markets over a specific period in the past.

Daily stress testing at the holding company estimates maximum potential losses in each market on the current trading portfolio based on the worst ten-day historical volatility recorded during the VaR observation period of 701 days. As of March 31, 2007, the maximum predicted losses at the Group level on this basis were ¥19.1 billion for trading activities and ¥249.7 billion for non-trading activities, compared to ¥4.5 billion and ¥246.3 billion, respectively, as of March 31, 2006.

Liquidity Risk Management

Liquidity risk is the risk of incurring losses if a poor financial position hampers the ability to meet funding requirements, or necessitates fund procurement at interest rates markedly higher than normal.

The major subsidiaries maintain appropriate liquidity in both Japanese yen and foreign currencies by managing their funding sources and mechanism, such as liquidity gap, liquidity-supplying products such as commitment lines, and buffer assets.

MUFG has established a group-wide system for managing liquidity risk by categorizing the risk in the following three stages: Normal, With-Concern, and Critical. The front offices and risk management offices of the major subsidiaries and the holding company exchange information and data on liquidity risk even at the Normal stage. At higher alert stages, we centralize information about liquidity risk and discuss issues relating to group-wide liquidity control actions among group companies, if necessary. We have also established a system for liaison and consultation on funding in preparation for contingency, such as natural disasters, wars and terrorist attacks. The holding company and the major subsidiaries conduct group-wide contingency preparedness drills on a regular basis to ensure smooth implementation in the event of an emergency.

Operational Risk Management

Operational risk refers to the risk of loss caused by either internal control issues, such as inadequate operational processes or misconduct, system failures, or external factors such as a natural disaster. The term includes a broad range of risks that could lead to losses, including operations risk, information asset risk, reputation risk, legal risk, and tangible asset risk. These risks that comprise operational risk are referred to as sub-category risks.

MUFG's Board of Directors has approved the MUFG Operational Risk Management Policy as a group-wide policy for managing operational risk. This policy sets forth the core principles regarding operational risk management, including the definition of operational risk, and the risk management system and processes. The policy also requires the Board of Directors and the Executive Committee to formulate fundamental principles of

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operational risk management and establish and maintain an appropriate risk management system. The Chief Risk Management Officer is responsible for recognizing, evaluating, and appropriately managing operational risk in accordance with the fundamental principles formulated by the Board of Directors and the Executive Committee. A division in charge of operational risk management must be established that is independent of business promotion sections to manage overall operational risk in a comprehensive manner. These fundamental principles have also been approved by the Boards of Directors of the major subsidiaries, providing a consistent framework for operational risk management of MUFG Group. The diagram below sets forth the operational management system of each major banking subsidiary;

Management System of the Major Banking Subsidiaries

As set forth in the following diagram, MUFG has established a risk management framework for loss data collection, control self assessment (CSA), and measurement of operational risk in order to appropriately identify, recognize, evaluate, measure, control, monitor and report operational risk.

MUFG has also established group-wide reporting guidelines with respect to loss data collection and its monitoring. MUFG focuses its efforts on ensuring accurate assessment of the status of operational risk losses and the implementation of appropriate countermeasures, while maintaining databases of internal and external loss events.

The following diagram summarizes our operational risk management framework:

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Risk Management Framework

Operations Risk Management

Operations risk refers to the risk of loss that is attributable to the actions of executives or employees, whether accidental or the result of neglect or deliberate misconduct. MUFG companies offer a wide range of financial services, ranging from commercial banking products such as deposits, exchange services and loans to trust and related services covering pensions, securities, real estate and securitization, as well as transfer agent services. Cognizant of the potentially significant impact that operations risk-related events could have in terms of both economic losses and damage to MUFG's reputation, our banking subsidiaries are developing management systems to create and apply appropriate operations risk-related controls.

Specific ongoing measures to reduce operations risk include the development of databases to manage, analyze and prevent the recurrence of related loss events; efforts to tighten controls over administrative procedures and related operating authority, while striving to improve human resources management; investments in systems to improve the efficiency of administrative operations; and programs to expand and upgrade internal auditing and operational guidance systems.

Senior management receives regular reports on the status of MUFG businesses from an operations risk management perspective. MUFG works to promote the sharing within the Group of information and expertise concerning any operational incidents and the measures implemented to prevent any recurrence.

Efforts to upgrade the management of operations risk continue with the aim of providing MUFG customers with a variety of high-quality services.

Information Asset Risk Management

Information asset risk refers to the risk of loss caused by loss, alteration, falsification or leakage of information, or by destruction, disruption, errors or misuse of information systems, as well as risks similar to this risk. In order to ensure proper handling of information and prevent loss or leakage of information, the major banking subsidiaries are developing systems to manage and reduce such risks through the appointment of managers with specific responsibilities for information security issues, the establishment of internal procedures, training courses designed for all staff and the implementation of measures to ensure stable IT systems control.

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MUFG has also formulated the Personal Information Protection Policy as the basis for ongoing programs to protect the confidentiality of personal information.

Systems planning, development and operations include appropriate design and extensive testing phases to ensure that systems are designed to help prevent failures while providing sufficient safeguards for the security of personal information. The status of the development of any mission-critical IT systems is reported regularly to senior management. MUFG has developed disaster countermeasures systems and has also been investing in duplication of the Group's IT infrastructure to minimize damage in the event of any system failure. Emergency drills are conducted to help increase staff preparedness.

With the aim of preventing any recurrence, MUFG also works to promote sharing of information within the Group related to the causes of any loss or leakage of information, or system failure.

Compliance

Basic Policy

The MUFG Group's policy is to strictly observe laws, regulations and internal rules, and conduct its business in a fair, trustworthy and highly transparent manner based on the Group's management philosophy of obtaining the trust and confidence of society as a whole. Furthermore, we have established an ethical framework and code of conduct as the basic ethical guidelines for the Group's directors and employees. We have expressed our commitment to building a corporate culture in which we act with integrity and fairness in conformity with these guidelines.

Recently, some of our group companies and we have received administrative orders from government authorities in Japan and abroad. We view these actions with the deepest concern. In response, MUFG is working to ensure an appropriate compliance structure across the MUFG Group. We will make every effort to restore trust in the Group by maintaining sound and appropriate business management, through such means as establishing sales practices which better take into account the interests of our customers.

Ethical Framework

We, the directors and employees of MUFG, will comply with this Ethical Framework and Code of Conduct as the basis of our daily work, seeking to put into practice the management philosophy of our global comprehensive financial group and to build a corporate culture in which **we act with integrity and fairness.**

1. Establishment of trust

We will remain keenly aware of the Group's social responsibilities and public mission and will exercise care and responsibility in the handling of customer and other information.

By conducting sound and appropriate business operations and disclosing corporate information in a timely and appropriate manner we will seek to establish enduring public trust in the Group.

2. Putting customers first

We will always consider our customers, and through close communication will endeavor to satisfy them and gain their support by providing financial services that best meet their needs.

3. Strict observance of laws, regulations and internal rules

We will strictly observe applicable laws, regulations and internal rules, and will conduct our business in a fair and trustworthy manner that conforms to societal norms. As a global comprehensive financial group we will also respect internationally accepted standards.

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4. Respect for human rights and the environment

We will respect the character and individuality of others, work to maintain harmony with society, and place due importance on the protection of the global environment that belongs to all mankind.

5. Disavowal of anti-social elements

We will stand resolutely against any anti-social elements that threaten public order and safety.

Compliance Framework

Management and coordination of compliance-related matters are the responsibility of separate compliance management divisions established at the holding company and the major subsidiaries. Each compliance management division formulates compliance programs and organizes training courses to promote compliance, and regularly reports to each company's Board of Directors and Executive Committee on the status of compliance activities.

The holding company and each major subsidiary have also established voluntary committees, such as an Internal Audit and Compliance Committee where members from outside the Group account for a majority, and a Compliance Committee. Through these measures, we have established a structure for deliberating key issues related to compliance. Additionally, Group CCO (Chief Compliance Officer) Committee was established within the holding company in April 2007 to reinforce the holding company's business administration functions with respect to group companies.

CCO of Holding Company

The director responsible for compliance at the holding company has been named the chief compliance officer, or CCO, of the holding company. The CCOs of the major subsidiaries have been appointed as the deputy CCOs of the holding company to assist the chief CCO. This system promotes the rapid reporting of compliance-related information to the holding company and also strengthens the ability of the CCO of the holding company to provide compliance-related guidance, advice, and instructions to MUFG Group companies.

Establishment of Group CCO Committee

A Group CCO Committee was established under the Executive Committee of the holding company. The committee consists of the CCO of the holding company as the committee chairman and the CCOs of the major subsidiaries.

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By enhancing the exchange of compliance-related information among the MUFG Group companies, the committee strives to strengthen the Group's incident prevention controls more proactively respond to problematic situations. The committee also aims to continuously improve compliance systems throughout the Group.

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The following diagram summarizes our compliance framework:

Internal Reporting System and Accounting Auditing Hotline

The holding company and the major subsidiaries have established internal reporting systems that aim to identify compliance issues early so that any problems can be quickly rectified. This system includes an independent external compliance hotline.

In addition to these internal reporting systems, the holding company has also established an accounting auditing hotline that provides a means to report any problems related to MUFG accounting.

Accounting Auditing Hotline

MUFG has set up an accounting auditing hotline to be used to make reports related to instances of improper practices (violations of laws and regulations) and inappropriate practices, or of practices raising questions about such impropriety or inappropriateness, regarding accounting and internal control or audits related to accounting in Group companies. The reporting process works as follows, and may be carried out via letter or e-mail:

Hokusei Law Office

Address: Kojimachi 4-3-4, Chiyoda-ku, Tokyo

e-mail: MUFG-accounting-audit-hotline@hokusei-law.com

When reporting information please pay attention to the following:

Please include the name of the company concerned, and provide detailed information with respect to the matter. Without detailed factual information there is a limit to how much our investigations can achieve.

Anonymous information will be accepted.

No information regarding the identity of the informant will be passed on to third parties without the approval of the informant him- or herself. However, this excludes instances where disclosure is legally mandated, or to the extent that the information is necessary for surveys or reports, when data may be passed on following the removal of the informant's name.

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Please submit reports in either Japanese or English.

If the informant wishes, we will endeavor to report back to the informant on the response taken within a reasonable period of time following the receipt of specific information, but cannot promise to do so in all instances.

Internal Audit

The Role of Internal Audit

Internal audit functions within MUFG seek to provide independent verification of the adequacy and effectiveness of internal control systems. This includes monitoring the status of risk management and compliance systems, which are critical to the maintenance of sound and appropriate business operations. Internal audit results are reported to senior management. An additional role for internal audit is to make suggestions to help improve or rectify any issues or specific problems that are identified.

Group Internal Audit Framework

The board of directors at the holding company level has instituted MUFG's internal audit policy to define the policy, function and organizational position of internal audits. Separate divisions have been created within the holding company and the major group subsidiaries (the Internal Audit Division at the holding company, the Internal Audit & Credit Examination Division at BTMU and the Audit Division at MUTB, and the Internal Audit Division and Inspections Division at MUS) to conduct internal audits based on this policy. These divisions perform the core internal audit functions of the Group. Through close cooperation and collaboration between the divisions in each of the four companies, these internal audit divisions provide coverage for the entire group and also support the board of directors in monitoring and overseeing all MUFG operations.

The boards of directors of BTMU, MUTB and MUS have also formulated separate internal audit policies consistent with MUFG's internal audit policy. This arrangement ensures that a consistent and integrated internal audit framework applies to all MUFG operations, including subsidiaries of the major group subsidiaries.

In addition to having primary responsibility for initiating and preparing plans and proposals related to internal audits of the entire group, the Internal Audit Division at the holding company monitors, and as necessary, guides, advises and administers the internal audit divisions of subsidiaries and affiliated companies. The internal audit divisions within the major subsidiaries conduct audits of the respective head office and branch operations of these companies. In addition, each of these three divisions undertakes direct audits of their respective subsidiaries, and monitors and oversees the separate internal audit functions established within them. This helps to evaluate and verify the adequacy and effectiveness of internal controls within MUFG on a consolidated basis.

Implementing Efficient and Effective Internal Audits

To ensure that internal audit processes use available resources with optimal efficiency and effectiveness, the internal audit divisions implement risk-focused internal audits in which the nature and magnitude of the associated risks are considered in determining audit priorities and the frequency and depth of internal audit activities. The internal audit divisions ensure that audit personnel attend key meetings, collect important internal control documents and access databases to facilitate efficient off-site monitoring.

Measures to Enhance Internal Audit Independence and Supervision by the Boards of Directors

To strengthen the respective boards of directors' monitoring and supervision of operational execution status and to enhance the independence of the internal audit divisions, the holding company, BTMU, MUTB and MUS have established internal audit and compliance committees that are chaired by external directors. These committees receive direct reports from the internal audit divisions on important internal audit-related matters,

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including the results of all internal audits and internal auditing plans requiring board approval. The deliberations of the audit committees concerning such matters are then reported to the respective boards of directors. This structure enhances the independence of internal audit functions from functions responsible for business execution.

Item 12. Description of Securities Other than Equity Securities.

Not applicable.

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications of the Rights of Security Holders and Use of Proceeds.

None.

Item 15. Controls and Procedures.

Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of our management, including the Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the U.S. Securities Exchange Act of 1934, as of the end of the period covered by this Annual Report.

Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2007.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) under the U.S. Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed by, or under the supervision of, MUFG's principal executive and principal financial officers, and effected by MUFG's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP and includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of MUFG;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of MUFG are being made only in accordance with authorizations of management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of MUFG's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management evaluated the effectiveness of our internal control over financial reporting as of March 31, 2007 based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the evaluation, management has concluded that MUFG maintained effective internal control over financial reporting as of March 31, 2007.

Management's assessment of the effectiveness of our internal control over financial reporting as of March 31, 2007 has been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in its report, presented on page 166.

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Changes in Internal Control Over Financial Reporting

For the fiscal year ended March 31, 2006, our management recognized that there were material weaknesses in our internal control over financial reporting with respect to the process of the conversion from Japanese GAAP to US GAAP. During the fiscal year ended March 31, 2007, we adopted and implemented significant remedial measures designed to strengthen our internal control over financial reporting by allocating additional resources to, conducting further risk assessments for and increasing the level of review and oversight over, our US GAAP financial reporting. As a result of these measures, the material weaknesses described above were remediated as of March 31, 2007.

During the period covered by this Annual Report, the above-mentioned changes were the changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

Since our merger with the UFJ group, we have been integrating some of our operations with UFJ group's operations and plan to commence the integration of BTMU's existing systems into a new common IT system in the first half of 2008, while integrating MUTB's existing systems from 2006 through 2008.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Mitsubishi UFJ Financial Group, Inc.

(Kabushiki Kaisha Mitsubishi UFJ Financial Group):

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Mitsubishi UFJ Financial Group, Inc. (Kabushiki Kaisha Mitsubishi UFJ Financial Group) (MUFG) and subsidiaries (together, the MUFG Group) maintained effective internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The MUFG Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the MUFG Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

The MUFG Group's internal control over financial reporting is a process designed by, or under the supervision of, the MUFG Group's principal executive and principal financial officers, or persons performing similar functions, and effected by the MUFG Group's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The MUFG Group's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the MUFG Group; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the MUFG Group are being made only in accordance with authorizations of management and directors of the MUFG Group; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the MUFG Group's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the MUFG Group maintained effective internal control over financial reporting as of March 31, 2007, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the

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Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the MUFG Group maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of the MUFG Group as of March 31, 2006 and 2007, and the related consolidated statements of income, changes in equity from nonowner sources, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2007 (all expressed in Japanese Yen) and our report dated September 20, 2007 expressed an unqualified opinion on those financial statements and included explanatory paragraphs relating to i) the merger with UFJ Holdings, Inc., ii) the restatement discussed in Notes 6, 7, 12, 13, 26, 27, 31 and 32 to the consolidated financial statements, and iii) the changes in methods of accounting for a) variable interest entities, b) conditional asset retirement obligations, c) pension and other postretirement plans, and d) stock-based compensation all described in Note 1 to the consolidated financial statements.

/s/ Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tokyo, Japan

September 20, 2007

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Item 16A. Audit Committee Financial Expert.

Our board of corporate auditors has determined that Mr. Tsutomu Takasuka is an audit committee financial expert as defined in Item 16A of Form 20-F. Mr. Takasuka, a corporate auditor, has spent most of his business career auditing Japanese corporations as a certified public accountant and has been a professor at Bunkyo Gakuin University since April 2004. Mr. Takasuka is an outside corporate auditor under Japanese law. See Item 6.C. Directors, Senior Management and Employees Board Practices Summary of Significant Differences in Corporate Governance Practices between MUFG and U.S. Companies listed on the New York Stock Exchange.

Item 16B. Code of Ethics.

We have adopted a code of ethics, which constitutes internal rules named ethical framework and code of conduct, compliance rules and a compliance manual, each of which applies to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions.

Our compliance rules set forth the necessity of adherence to our ethical framework and code of conduct by our directors, executive officers and employees. These rules also set forth the roles and responsibilities of our employees, compliance officers, Compliance Division and others in the event of a breach of the compliance rules.

Our compliance manual was created to identify, and to promote compliance by our directors, executive officers and employees with, the relevant laws and regulations in conjunction with our ethical framework and code of conduct and compliance rules. This manual also sets forth the procedures regarding the handling of conflicts of interest for our directors and the promotion of conduct that meets our ethical framework and code of conduct and compliance rules for employees.

A copy of the sections of our ethical framework and code of conduct, compliance rules, compliance manual, and rules of employment relating to the code of ethics (as defined in paragraph (b) of Item 16B. of Form 20-F) is attached as Exhibit (11) to this Annual Report. Though there were some minor changes to the code of ethics due to the assignment of a Chief Compliance Officer in November 2006 and some additional changes to further clarify the role and function of the Chief Compliance Officer and related committees in April 2007, the contents are materially unchanged from the previous code of ethics. For a detailed discussion of our current compliance structure, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk Compliance. No waivers of the ethical framework and code of conduct, compliance rules, compliance manual and rules of employment have been granted to our principal executive officer, principal financial officer, principal accounting officer, directors and corporate auditors, during the fiscal year ended March 31, 2007.

Item 16C. Principal Accountant Fees and Services.

Fees and Services of Deloitte Touche Tohmatsu

The aggregate fees billed by Deloitte Touche Tohmatsu, our independent auditor, for the fiscal years ended March 31, 2006 and 2007 are presented in the following table:

| | <u>2006</u> | <u>2007</u> |
|--------------------|-------------------|-------------------|
| | (in millions) | |
| Audit fees | ¥ 3,666 | ¥ 5,153 |
| Audit-related fees | 570 | 646 |
| Tax fees | 202 | 212 |
| All other fees | 314 | 161 |
| | <u> </u> | <u> </u> |
| Total | ¥ 4,752 | ¥ 6,172 |
| | <u> </u> | <u> </u> |

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The description of our fees billed for each categories described above is as follows:

Audit fees Audit fees are primarily for annual audit of our financial statements, review of our semi-annual condensed financial statements, statutory audit of our financial statements, audits of our subsidiary financial statements and attestation services relating to the implementation of Section 404 of the Sarbanes-Oxley Act. Audit fees for the fiscal year ended March 31, 2007 increased mainly due to attestation services relating to the implementation of Section 404 of the Sarbanes-Oxley Act.

Audit-related fees Audit-related fees primarily include accounting consultations, agreed upon procedures on internal controls, employee benefit plan audit and advisory services relating to the implementation of Section 404 of the Sarbanes-Oxley Act.

Tax fees Tax fees relate primarily to tax compliance, including assistance with preparation of tax return filings, tax advisory and tax planning services.

All other fees All other fees primarily include agreed upon procedures related to advice on operational risk management, and to operational audits of our overseas branches.

Pre-Approval Policies and Procedures for Services by Deloitte Touche Tohmatsu

Our board of corporate auditors performs the pre-approval function required by applicable SEC rules and regulations. Effective May 1, 2003, our board of corporate auditors has established pre-approval policies and procedures that MUFG and its subsidiaries must follow before engaging Deloitte Touche Tohmatsu to perform audit and permitted non-audit services.

When MUFG or a subsidiary intends to engage Deloitte Touche Tohmatsu to perform audit and permitted non-audit services, it must make an application for pre-approval on either a periodic or case-by-case basis.

Periodic application is an application for pre-approval made each fiscal year for services that are expected to be provided by Deloitte Touche Tohmatsu during the next fiscal year.

Case-by-case application is an application for pre-approval made on a case-by-case basis for services to be provided by Deloitte Touche Tohmatsu that are not otherwise covered by the relevant periodic application.

Pre-approval is resolved in principle by our board of corporate auditors prior to engagement, although if necessary a full-time corporate auditor may consider any case-by-case application for pre-approval on behalf of the board of corporate auditors prior to the next scheduled board meeting. Such decisions made individually by a full-time corporate auditor are reported to and ratified by the board of corporate auditors as appropriate at the next scheduled board meeting.

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For the fiscal year ended March 31, 2006, approximately 0.4% of total tax fees and 0.6% of total all other fees were approved by the board of corporate auditors pursuant to Regulation S-X 2-01(c)(7)(ii)(c). For the fiscal year ended March 31, 2007, under 0.1% of total tax fees and under 0.1% of total all other fees were approved by the board of corporate auditors pursuant to Regulation S-X 2-01(c)(7)(ii)(c).

Item 16D. Exemptions From the Listing Standards for Audit Committees.

In reliance upon the general exemption contained in Rule 10A-3(c)(3) under the U.S. Securities Exchange Act of 1934, MUFG does not have an audit committee. Rule 10A-3 provides an exemption from the NYSE's listing standards relating to audit committees for foreign companies like MUFG that have a board of corporate auditors established pursuant to applicable Japanese law and its articles of incorporation. MUFG's reliance on Rule 10A-3(c)(3) does not, in its opinion, materially adversely affect the ability of its board of corporate auditors to act independently and to satisfy the other requirements of Rule 10A-3.

Table of Contents**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

Issuer Purchases of Common Shares:

| | Total Number of Shares Purchased | Average Price Paid per Share (¥) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|-----------------------------------|---|---|---|---|
| April 1 to April 30, 2006 | 998.42 | 1,847,239.54 | | |
| May 1 to May 31, 2006 | 187,816.10 | 1,530,307.12 | 187,562.00 | 188,623.00 |
| June 1 to June 30, 2006 | 120.69 | 1,504,824.76 | | |
| July 1 to July 31, 2006 | 204.36 | 1,579,482.29 | | |
| August 1 to August 31, 2006 | 313.80 | 1,601,678.14 | | |
| September 1 to September 30, 2006 | 208.78 | 1,552,084.01 | | |
| October 1 to October 31, 2006 | 212.24 | 1,522,379.85 | | |
| November 1 to November 30, 2006 | 126.66 | 1,442,720.67 | | |
| December 1 to December 31, 2006 | 267.74 | 1,484,127.89 | | |
| January 1 to January 31, 2007 | 201.35 | 1,508,933.70 | | |
| February 1 to February 28, 2007 | 154.18 | 1,472,146.84 | | |
| March 1 to March 31, 2007 | 111.11 | 1,406,675.37 | | |
| Total | 190,735.43 | 1,531,870.55 | 187,562.00 | 188,623.00 |

We have not made any purchases of our shares other than the above for the fiscal year ended March 31, 2007.

Notes:

1. A total of 3,173.43 shares were purchased other than through a publicly announced plan or program during the fiscal year ended March 31, 2007, due to our purchase of fractional shares from registered holders of fractional shares at the current market price of those shares.
2. During the fiscal year ended March 31, 2007, the following share repurchase plans or programs were publicly announced.

| Name of plan | Date of announcement | Amount/Shares | |
|--|---------------------------------|----------------------|------------------------|
| | | Approved | Expiration date |
| Repurchase of own shares through ToSTNeT-2 | May 22, 2006 | Up to 188,623 shares | May 26, 2006 |
| | | Up to ¥315 billion | |

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In lieu of responding to this item, we have responded to Item 18 of this Annual Report.

Item 18. Financial Statements.

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this Annual Report.

Item 19. Exhibits.

| Exhibit | Description |
|---------|---|
| 1(a) | Articles of Incorporation of Mitsubishi UFJ Financial Group, Inc., as amended on June 28, 2007. (English Translation) |
| 1(b) | Board of Directors Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 29, 2006. (English Translation)* |
| 1(c) | Corporation Meetings Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on July 31, 2006. (English Translation)* |
| 1(d) | Share Handling Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 29, 2006. (English Translation)* |
| 2(a) | Form of stock certificates.* |
| 2(b) | Form of American Depositary Receipt.* |
| 2(c) | Form of Deposit Agreement, amended and restated as of December 22, 2004, among Mitsubishi Tokyo Financial Group, Inc. (subsequently renamed Mitsubishi UFJ Financial Group, Inc.), The Bank of New York and the holders from time to time of American Depositary Receipts issued thereunder.* |
| 4(a) | Integration Agreement, dated February 18, 2005, and the amendment thereto, dated April 20, 2005, among Mitsubishi Tokyo Financial Group, Inc., The Bank of Tokyo-Mitsubishi, Ltd., The Mitsubishi Trust and Banking Corporation, Mitsubishi Securities Co., Ltd., UFJ Holdings, Inc., UFJ Bank Limited, UFJ Trust Bank Limited and UFJ Tsubasa Securities Co., Ltd. (English Translation)** |
| 4(b) | Merger Agreement, dated April 20, 2005, between Mitsubishi Tokyo Financial Group, Inc., and UFJ Holdings, Inc. (English Translation)*** |
| 4(c) | Share Exchange Agreement, dated March 28, 2007, between Mitsubishi UFJ Financial Group, Inc., and Mitsubishi UFJ Securities Co, Ltd. (English Translation)**** |
| 8 | Subsidiaries of the Company see Item 4.C. Information on the Company Organizational Structure. |
| 11 | Ethical framework and code of conduct, compliance rules, compliance manual of Mitsubishi UFJ Financial Group, Inc. applicable to its directors and managing officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. (English translation of relevant sections) |
| 12 | Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)). |
| 13 | Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350). |
| 15 | Consent of Auditors. |

* Incorporated by reference to our annual report on Form 20-F (File No. 333-98061-99) filed on September 28, 2006.

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- ** Incorporated by reference to Annex A to the final Prospectus filed pursuant to Rule 424(b)(3) and relating to the Registration Statement on Form F-4 (Reg. No. 333-123136).
- *** Incorporated by reference to Annex B to the final Prospectus filed pursuant to Rule 424(b)(3) and relating to the Registration Statement on Form F-4 (Reg. No. 333-123136).
- **** Incorporated by reference to Annex A to the final Prospectus filed pursuant to Rule 424(b)(3) and relating to the Registration Statement on Form F-4 (Reg. No. 333-138106).

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SELECTED STATISTICAL DATA

Due to close integration of our foreign and domestic activities, it is difficult to make a precise determination of the assets, liabilities, income and expenses of our foreign operations. The foreign operations as presented include the business conducted by overseas subsidiaries and branches, and the international business conducted by the several international banking related divisions headquartered in Japan. Our management believes that the results appropriately represent our domestic and foreign activities.

On October 1, 2005, Mitsubishi Tokyo Financial Group, Inc., or MTFG, merged with UFJ Holdings, Inc., or UFJ Holdings, with MTFG being the surviving entity. Upon consummation of the merger, MTFG changed its name to Mitsubishi UFJ Financial Group, Inc., or MUFG. The merger was accounted for under the purchase method of accounting, and the assets and liabilities of UFJ Holdings and its subsidiaries were recorded at fair value as of October 1, 2005. Therefore, numbers as of and for the fiscal years ended March 31, 2003, 2004 and 2005 reflect the financial position and results of MTFG and its subsidiaries, or the MTFG Group, only. Numbers as of March 31, 2006 reflect the financial position of MUFG and its subsidiaries, or the MUFG Group, while numbers for the fiscal year ended March 31, 2006 comprised the results of the MTFG Group for the six months ended September 30, 2005 and the results of the MUFG Group from October 1, 2005 to March 31, 2006. Numbers as of March 31, 2007 and for the fiscal year ended March 31, 2007 reflect the financial position and results of the MUFG Group. See note 2 to our consolidated financial statements for more information.

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Table of Contents**I. Distribution of Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential***Average Balance Sheets, Interest and Average Rates*

The following table shows our average balances, interest and average interest rates for the fiscal years ended March 31, 2005, 2006 and 2007. Average balances are generally based on a daily average while a month-end average is used for certain average balances when it is not practicable to obtain applicable daily averages. The average balances determined by such methods are considered to be representative of our operations.

| | Fiscal years ended March 31, | | | | | | | | |
|--|------------------------------|--------------------|-----------------|--------------------|--------------------|-----------------|--------------------|--------------------|-----------------|
| | 2005 | | | 2006 | | | 2007 | | |
| | Average balance | Interest income | Average rate | Average balance | Interest income | Average rate | Average balance | Interest income | Average rate |
| (in millions, except percentages) | | | | | | | | | |
| Assets: | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Interest-earning deposits in other banks: | | | | | | | | | |
| Domestic | ¥ 311,260 | ¥ 6,113 | 1.96% | ¥ 465,293 | ¥ 6,559 | 1.41% | ¥ 696,025 | ¥ 17,250 | 2.48% |
| Foreign | 3,032,139 | 60,150 | 1.98 | 4,269,326 | 140,013 | 3.28 | 5,561,241 | 233,784 | 4.20 |
| Total | 3,343,399 | 66,263 | 1.98 | 4,734,619 | 146,572 | 3.10 | 6,257,266 | 251,034 | 4.01 |
| Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions: | | | | | | | | | |
| Domestic | 3,578,564 | 3,284 | 0.09 | 4,369,464 | 10,399 | 0.24 | 5,253,790 | 21,681 | 0.41 |
| Foreign | 2,476,391 | 48,694 | 1.97 | 3,016,957 | 73,190 | 2.43 | 3,863,096 | 140,792 | 3.64 |
| Total | 6,054,955 | 51,978 | 0.86 | 7,386,421 | 83,589 | 1.13 | 9,116,886 | 162,473 | 1.78 |
| Trading account assets: | | | | | | | | | |
| Domestic | 5,177,032 | 25,780 | 0.50 | 5,374,674 | 41,808 | 0.78 | 6,133,100 | 58,151 | 0.95 |
| Foreign | 687,253 | 5,049 | 0.73 | 1,931,499 | 15,596 | 0.81 | 2,056,877 | 41,767 | 2.03 |
| Total | 5,864,285 | 30,829 | 0.53 | 7,306,173 | 57,404 | 0.79 | 8,189,977 | 99,918 | 1.22 |
| Investment securities ⁽¹⁾ : | | | | | | | | | |
| Domestic | 25,977,919 | 125,080 | 0.48 | 34,280,534 | 182,490 | 0.53 | 39,170,309 | 305,411 | 0.78 |
| Foreign | 7,261,113 | 245,486 | 3.38 | 8,760,844 | 332,580 | 3.80 | 10,474,119 | 449,390 | 4.29 |
| Total | 33,239,032 | 370,566 | 1.11 | 43,041,378 | 515,070 | 1.20 | 49,644,428 | 754,801 | 1.52 |
| Loans ⁽²⁾ : | | | | | | | | | |
| Domestic | 41,379,763 | 577,078 | 1.39 | 60,452,898 | 1,118,072 | 1.85 | 78,942,886 | 1,721,442 | 2.18 |

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| | | | | | | | | | |
|--|----------------------|------------------|-------------|----------------------|------------------|-------------|----------------------|------------------|-------------|
| Foreign | 9,400,709 | 341,987 | 3.64 | 12,463,840 | 609,975 | 4.89 | 16,615,898 | 926,061 | 5.57 |
| Total | 50,780,472 | 919,065 | 1.81 | 72,916,738 | 1,728,047 | 2.37 | 95,558,784 | 2,647,503 | 2.77 |
| Total interest-earning assets: | | | | | | | | | |
| Domestic | 76,424,538 | 737,335 | 0.96 | 104,942,863 | 1,359,328 | 1.30 | 130,196,110 | 2,123,935 | 1.63 |
| Foreign | 22,857,605 | 701,366 | 3.07 | 30,442,466 | 1,171,354 | 3.85 | 38,571,231 | 1,791,794 | 4.65 |
| Total | 99,282,143 | 1,438,701 | 1.45 | 135,385,329 | 2,530,682 | 1.87 | 168,767,341 | 3,915,729 | 2.32 |
| Non-interest-earning assets: | | | | | | | | | |
| Cash and due from banks | 4,652,675 | | | 7,672,359 | | | 3,308,678 | | |
| Other non-interest-earning assets | 7,516,846 | | | 17,259,898 | | | 14,639,864 | | |
| Allowance for credit losses | (846,055) | | | (1,178,954) | | | (1,054,890) | | |
| Total non-interest-earning assets | 11,323,466 | | | 23,753,303 | | | 16,893,652 | | |
| Total assets from discontinued operations | | | | | | | | | |
| | 223,797 | | | 209,137 | | | 22,040 | | |
| Total assets | ¥ 110,829,406 | | | ¥ 159,347,769 | | | ¥ 185,683,033 | | |

Notes:

- (1) Tax-exempt income of tax-exempt investment securities has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.
- (2) Average balances on loans outstanding include all nonaccrual and restructured loans. See III. Loan Portfolio. The amortized portion of net loan origination fees (costs) is included in interest income on loans, representing an adjustment to the yields with insignificant impact.

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Fiscal years ended March 31,

| | 2005 | | | 2006 | | | 2007 | | |
|--|-------------------|----------------|-------------|--------------------|----------------|-------------|--------------------|------------------|-------------|
| | Average | Interest | Average | Average | Interest | Average | Average | Interest | Average |
| | balance | expense | rate | balance | expense | rate | balance | expense | rate |
| (in millions, except percentages) | | | | | | | | | |
| Liabilities and shareholders equity: | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Deposits: | | | | | | | | | |
| Domestic | ¥ 53,201,971 | ¥ 74,960 | 0.14% | ¥ 70,349,797 | ¥ 131,127 | 0.19% | ¥ 90,667,366 | ¥ 290,589 | 0.32% |
| Foreign | 9,625,636 | 144,783 | 1.50 | 11,868,158 | 318,271 | 2.68 | 14,510,114 | 545,310 | 3.76 |
| Total | 62,827,607 | 219,743 | 0.35 | 82,217,955 | 449,398 | 0.55 | 105,177,480 | 835,899 | 0.79 |
| Debentures Domestic | 68,296 | 351 | 0.51 | | | | | | |
| Call money, funds purchased, and payables under repurchase agreements and securities lending transactions: | | | | | | | | | |
| Domestic | 7,565,432 | 31,005 | 0.41 | 8,185,487 | 87,839 | 1.07 | 10,880,404 | 131,616 | 1.21 |
| Foreign | 3,143,399 | 50,187 | 1.60 | 3,239,643 | 81,124 | 2.50 | 3,795,292 | 152,536 | 4.02 |
| Total | 10,708,831 | 81,192 | 0.76 | 11,425,130 | 168,963 | 1.48 | 14,675,696 | 284,152 | 1.94 |
| Due to trust account Domestic | 1,349,118 | 3,887 | 0.29 | 2,099,745 | 5,091 | 0.24 | 1,981,427 | 5,863 | 0.30 |
| Other short-term borrowings and trading account liabilities: | | | | | | | | | |
| Domestic | 10,410,410 | 29,826 | 0.29 | 10,810,548 | 45,625 | 0.42 | 9,135,721 | 73,643 | 0.81 |
| Foreign | 1,318,950 | 24,215 | 1.84 | 1,822,046 | 58,329 | 3.20 | 2,416,109 | 101,602 | 4.21 |
| Total | 11,729,360 | 54,041 | 0.46 | 12,632,594 | 103,954 | 0.82 | 11,551,830 | 175,245 | 1.52 |
| Long-term debt: | | | | | | | | | |
| Domestic | 4,600,095 | 91,519 | 1.99 | 7,343,305 | 100,626 | 1.37 | 9,667,805 | 160,412 | 1.66 |
| Foreign | 943,511 | 18,873 | 2.00 | 2,401,456 | 54,037 | 2.25 | 3,741,775 | 124,392 | 3.32 |
| Total | 5,543,606 | 110,392 | 1.99 | 9,744,761 | 154,663 | 1.59 | 13,409,580 | 284,804 | 2.12 |
| Total interest-bearing liabilities: | | | | | | | | | |
| Domestic | 77,195,322 | 231,548 | 0.30 | 98,788,882 | 370,308 | 0.37 | 122,332,723 | 662,123 | 0.54 |
| Foreign | 15,031,496 | 238,058 | 1.58 | 19,331,303 | 511,761 | 2.65 | 24,463,290 | 923,840 | 3.78 |
| Total | 92,226,818 | 469,606 | 0.51 | 118,120,185 | 882,069 | 0.75 | 146,796,013 | 1,585,963 | 1.08 |
| Non-interest-bearing liabilities | 14,510,485 | | | 33,967,457 | | | 29,045,972 | | |
| Total liabilities from discontinued operations | 212,059 | | | 153,217 | | | 17,644 | | |
| Total shareholders equity | 3,880,044 | | | 7,106,910 | | | 9,823,404 | | |

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| | | | | | | |
|---|----------------------|--------------|----------------------|--------------|----------------------|--------------|
| Total liabilities and shareholders equity | ¥ 110,829,406 | | ¥ 159,347,769 | | ¥ 185,683,033 | |
| Net interest income and interest rate spread | ¥ 969,095 | 0.94% | ¥ 1,648,613 | 1.12% | ¥ 2,329,766 | 1.24% |
| Net interest income as a percentage of total interest-earning assets | | 0.98% | | 1.22% | | 1.38% |

The percentage of total average assets attributable to foreign activities was 23.7%, 22.5% and 23.6%, respectively, for the fiscal years ended March 31, 2005, 2006 and 2007.

The percentage of total average liabilities attributable to foreign activities was 24.6%, 23.2% and 24.2%, respectively, for the fiscal years ended March 31, 2005, 2006 and 2007.

Table of Contents**Analysis of Net Interest Income**

The following table shows changes in our net interest income between changes in volume and changes in rate for the fiscal year ended March 31, 2006 compared to the fiscal year ended March 31, 2005 and the fiscal year ended March 31, 2007 compared to the fiscal year ended March 31, 2006.

| | Fiscal year ended March 31, 2005 versus | | | Fiscal year ended March 31, 2006 versus | | |
|--|--|----------------|-----------------------|--|----------------|----------------|
| | fiscal year ended March 31, 2006 | | | fiscal year ended March 31, 2007 | | |
| | Increase (decrease) | | | Increase | | |
| | due to changes in | | | due to changes in | | |
| Volume ⁽¹⁾ | Rate ⁽¹⁾ | Net change | Volume ⁽¹⁾ | Rate ⁽¹⁾ | Net change | |
| (in millions) | | | | | | |
| Interest income: | | | | | | |
| Interest-earning deposits in other banks: | | | | | | |
| Domestic | ¥ 2,171 | ¥ (1,725) | ¥ 446 | ¥ 4,228 | ¥ 6,463 | ¥ 10,691 |
| Foreign | 30,706 | 49,157 | 79,863 | 48,551 | 45,220 | 93,771 |
| Total | 32,877 | 47,432 | 80,309 | 52,779 | 51,683 | 104,462 |
| Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions: | | | | | | |
| Domestic | 867 | 6,248 | 7,115 | 2,439 | 8,843 | 11,282 |
| Foreign | 11,829 | 12,667 | 24,496 | 24,221 | 43,381 | 67,602 |
| Total | 12,696 | 18,915 | 31,611 | 26,660 | 52,224 | 78,884 |
| Trading account assets: | | | | | | |
| Domestic | 1,019 | 15,009 | 16,028 | 6,406 | 9,937 | 16,343 |
| Foreign | 10,000 | 547 | 10,547 | 1,075 | 25,096 | 26,171 |
| Total | 11,019 | 15,556 | 26,575 | 7,481 | 35,033 | 42,514 |
| Investment securities ⁽²⁾ : | | | | | | |
| Domestic | 43,150 | 14,260 | 57,410 | 28,871 | 94,050 | 122,921 |
| Foreign | 54,609 | 32,485 | 87,094 | 70,123 | 46,687 | 116,810 |
| Total | 97,759 | 46,745 | 144,504 | 98,994 | 140,737 | 239,731 |
| Loans: | | | | | | |
| Domestic | 316,800 | 224,194 | 540,994 | 380,590 | 222,780 | 603,370 |
| Foreign | 130,114 | 137,874 | 267,988 | 223,111 | 92,975 | 316,086 |
| Total | 446,914 | 362,068 | 808,982 | 603,701 | 315,755 | 919,456 |

| | | | | | | |
|-------------------------------|------------------|------------------|--------------------|------------------|------------------|--------------------|
| Total interest income: | | | | | | |
| Domestic | 364,007 | 257,986 | 621,993 | 422,534 | 342,073 | 764,607 |
| Foreign | 237,258 | 232,730 | 469,988 | 367,081 | 253,359 | 620,440 |
| Total | ¥ 601,265 | ¥ 490,716 | ¥ 1,091,981 | ¥ 789,615 | ¥ 595,432 | ¥ 1,385,047 |

Notes:

- (1) Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.
- (2) Tax-exempt income of tax-exempt investment securities has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.

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| | Fiscal year ended March 31, 2005 | | | Fiscal year ended March 31, 2006 | | |
|--|----------------------------------|------------------|-----------------------|----------------------------------|------------------|------------------|
| | versus | | | versus | | |
| | fiscal year ended March 31, 2006 | | | fiscal year ended March 31, 2007 | | |
| | Increase (decrease) | | | Increase (decrease) | | |
| due to changes in | | | due to changes in | | | |
| Volume ⁽¹⁾ | Rate ⁽¹⁾ | Net change | Volume ⁽¹⁾ | Rate ⁽¹⁾ | Net change | |
| (in millions) | | | | | | |
| Interest expense: | | | | | | |
| Deposits: | | | | | | |
| Domestic | ¥ 28,058 | ¥ 28,109 | ¥ 56,167 | ¥ 45,675 | ¥ 113,787 | ¥ 159,462 |
| Foreign | 39,787 | 133,701 | 173,488 | 80,995 | 146,044 | 227,039 |
| Total | 67,845 | 161,810 | 229,655 | 126,670 | 259,831 | 386,501 |
| Debentures Domestic | (351) | | (351) | | | |
| Call money, funds purchased, and payables under repurchase agreements and securities lending transactions: | | | | | | |
| Domestic | 2,739 | 54,095 | 56,834 | 31,573 | 12,204 | 43,777 |
| Foreign | 1,581 | 29,356 | 30,937 | 15,773 | 55,639 | 71,412 |
| Total | 4,320 | 83,451 | 87,771 | 47,346 | 67,843 | 115,189 |
| Due to trust account Domestic | 1,820 | (616) | 1,204 | (287) | 1,059 | 772 |
| Other short-term borrowings and trading account liabilities: | | | | | | |
| Domestic | 1,187 | 14,612 | 15,799 | (7,068) | 35,086 | 28,018 |
| Foreign | 11,565 | 22,549 | 34,114 | 22,058 | 21,215 | 43,273 |
| Total | 12,752 | 37,161 | 49,913 | 14,990 | 56,301 | 71,291 |
| Long-term debt: | | | | | | |
| Domestic | 37,590 | (28,483) | 9,107 | 35,884 | 23,902 | 59,786 |
| Foreign | 32,534 | 2,630 | 35,164 | 37,920 | 32,435 | 70,355 |
| Total | 70,124 | (25,853) | 44,271 | 73,804 | 56,337 | 130,141 |
| Total interest expense: | | | | | | |
| Domestic | 71,043 | 67,717 | 138,760 | 105,777 | 186,038 | 291,815 |
| Foreign | 85,467 | 188,236 | 273,703 | 156,746 | 255,333 | 412,079 |
| Total | ¥ 156,510 | ¥ 255,953 | ¥ 412,463 | ¥ 262,523 | ¥ 441,371 | ¥ 703,894 |
| Net interest income: | | | | | | |
| Domestic | ¥ 292,964 | ¥ 190,269 | ¥ 483,233 | ¥ 316,757 | ¥ 156,035 | ¥ 472,792 |
| Foreign | 151,791 | 44,494 | 196,285 | 210,335 | (1,974) | 208,361 |

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| | | | | | | |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total | ¥ 444,755 | ¥ 234,763 | ¥ 679,518 | ¥ 527,092 | ¥ 154,061 | ¥ 681,153 |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|

Note:

- (1) Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.

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Table of Contents**II. Investment Portfolio**

The following table shows information as to the value of our investment securities available for sale and being held to maturity at March 31, 2005, 2006 and 2007:

| | At March 31, | | | | | | | | |
|--|---------------------|-------------------------|--|---------------------|-------------------------|--|---------------------|-------------------------|--|
| | 2005 | | | 2006 | | | 2007 | | |
| | Amortized cost | Estimated fair value | Net unrealized gains (losses) | Amortized cost | Estimated fair value | Net unrealized gains (losses) | Amortized cost | Estimated fair value | Net unrealized gains (losses) |
| | (in millions) | | | | | | | | |
| Securities available for sale: | | | | | | | | | |
| Domestic: | | | | | | | | | |
| Japanese national government and Japanese government agency bonds ⁽¹⁾ | | | | | | | | | |
| | ¥ 13,926,439 | ¥ 13,984,903 | ¥ 58,464 | ¥ 23,912,143 | ¥ 23,915,449 | ¥ 3,306 | ¥ 20,939,737 | ¥ 20,980,858 | ¥ 41,121 |
| Corporate bonds ⁽¹⁾ | 1,578,732 | 1,586,198 | 7,466 | 4,538,955 | 4,566,635 | 27,680 | 4,583,458 | 4,666,221 | 82,763 |
| Marketable equity securities | 2,182,825 | 3,782,435 | 1,599,610 | 4,548,901 | 8,171,512 | 3,622,611 | 4,430,995 | 8,301,479 | 3,870,484 |
| Other securities ⁽¹⁾ | 619,507 | 622,752 | 3,245 | 785,723 | 785,572 | (151) | 820,836 | 823,259 | 2,423 |
| Total domestic | 18,307,503 | 19,976,288 | 1,668,785 | 33,785,722 | 37,439,168 | 3,653,446 | 30,775,026 | 34,771,817 | 3,996,791 |
| Foreign: | | | | | | | | | |
| U.S. Treasury and other U.S. government agencies bonds | | | | | | | | | |
| | 909,464 | 898,813 | (10,651) | 1,040,708 | 1,045,140 | 4,432 | 2,080,476 | 2,094,353 | 13,877 |
| Other governments and official institutions bonds ⁽¹⁾ | 1,471,351 | 1,506,640 | 35,289 | 1,076,330 | 1,095,995 | 19,665 | 1,388,746 | 1,443,758 | 55,012 |
| Mortgage-backed securities ⁽¹⁾ | 2,144,946 | 2,150,043 | 5,097 | 2,624,901 | 2,690,634 | 65,733 | 2,654,875 | 2,720,421 | 65,546 |
| Other securities ⁽¹⁾ | 1,963,798 | 2,026,152 | 62,354 | 3,062,456 | 3,214,972 | 152,516 | 4,400,437 | 4,649,433 | 248,996 |
| Total foreign | 6,489,559 | 6,581,648 | 92,089 | 7,804,395 | 8,046,741 | 242,346 | 10,524,534 | 10,907,965 | 383,431 |
| Total | ¥ 24,797,062 | ¥ 26,557,936 | ¥ 1,760,874 | ¥ 41,590,117 | ¥ 45,485,909 | ¥ 3,895,792 | ¥ 41,299,560 | ¥ 45,679,782 | ¥ 4,380,222 |
| Securities being held to maturity: | | | | | | | | | |
| Domestic: | | | | | | | | | |
| Japanese national government and Japanese government agency bonds | | | | | | | | | |
| | ¥ 2,038,450 | ¥ 2,056,528 | ¥ 18,078 | ¥ 2,281,211 | ¥ 2,265,653 | ¥ (15,558) | ¥ 2,809,445 | ¥ 2,808,716 | ¥ (729) |
| Other securities | 92,363 | 96,067 | 3,704 | 109,716 | 110,614 | 898 | 164,291 | 165,477 | 1,186 |
| Total domestic | 2,130,813 | 2,152,595 | 21,782 | 2,390,927 | 2,376,267 | (14,660) | 2,973,736 | 2,974,193 | 457 |
| Foreign: | | | | | | | | | |
| | 14,134 | 14,209 | 75 | 15,154 | 15,467 | 313 | 7,451 | 7,842 | 391 |

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U.S. Treasury and other U.S.

government agencies bonds

Other governments and official

institutions bonds

Other securities

Total foreign

Total

| | | | | | | | | | |
|--|-------------|-------------|----------|-------------|-------------|------------|-------------|-------------|---------|
| | 9,846 | 9,957 | 111 | 5,079 | 4,992 | (87) | 6,691 | 6,663 | (28) |
| | 36,523 | 36,824 | 301 | 54,914 | 55,031 | 117 | 45,221 | 45,862 | 641 |
| | 60,503 | 60,990 | 487 | 75,147 | 75,490 | 343 | 59,363 | 60,367 | 1,004 |
| | ¥ 2,191,316 | ¥ 2,213,585 | ¥ 22,269 | ¥ 2,466,074 | ¥ 2,451,757 | ¥ (14,317) | ¥ 3,033,099 | ¥ 3,034,560 | ¥ 1,461 |

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Note:
 (1) Amortized costs, estimated fair values and net unrealized gains on securities available for sale at March 31, 2005 and 2006 have been restated as follows:

| | 2005 | | | | | | 2006 | | | | | |
|---|------------------------|----------------------|----------------------|----------------|----------------------|----------------------|------------------------|----------------------|----------------------|----------------|----------------------|-------------------------------|
| | As previously reported | | | As restated | | | As previously reported | | | As restated | | |
| | Amortized cost | Estimated fair value | Net unrealized gains | Amortized cost | Estimated fair value | Net unrealized gains | Amortized cost | Estimated fair value | Net unrealized gains | Amortized cost | Estimated fair value | Net unrealized gains (losses) |
| Securities available for sale: | | | | | | | | | | | | |
| Domestic: | | | | | | | | | | | | |
| Japanese national government and Japanese government agency bonds | ¥ 13,888,039 | ¥ 13,946,412 | ¥ 58,373 | ¥ 13,926,439 | ¥ 13,984,903 | ¥ 58,464 | ¥ 23,890,095 | ¥ 23,893,620 | ¥ 3,525 | ¥ 23,912,143 | ¥ 23,915,449 | ¥ 3,306 |
| Corporate bonds | 1,717,312 | 1,725,628 | 8,316 | 1,578,732 | 1,586,198 | 7,466 | 4,674,585 | 4,701,834 | 27,249 | 4,538,955 | 4,566,635 | 27,680 |
| Other securities | 519,327 | 521,813 | 2,486 | 619,507 | 622,752 | 3,245 | 671,549 | 671,603 | 54 | 785,723 | 785,572 | (151) |
| Foreign: | | | | | | | | | | | | |
| Other governments and official institutions bonds | 1,463,311 | 1,498,627 | 35,316 | 1,471,351 | 1,506,640 | 35,289 | 1,067,327 | 1,086,497 | 19,170 | 1,076,330 | 1,095,995 | 19,665 |
| Mortgage-backed securities | 2,106,233 | 2,111,164 | 4,931 | 2,144,946 | 2,150,043 | 5,097 | 2,568,924 | 2,633,772 | 64,848 | 2,624,901 | 2,690,634 | 65,733 |
| Other securities | 2,010,551 | 2,073,044 | 62,493 | 1,963,798 | 2,026,152 | 62,354 | 3,128,028 | 3,281,931 | 153,903 | 3,062,456 | 3,214,972 | 152,516 |

Nonmarketable equity securities presented in Other investment securities in the consolidated financial statements were primarily carried at costs of ¥341,744 million, ¥794,305 million and ¥623,430 million, at March 31, 2005, 2006 and 2007, respectively. The corresponding estimated fair values at those dates were not readily determinable. Investment securities held by certain subsidiaries subject to specialized industry accounting principles in the AICPA Audit and Accounting Guide Investment Companies presented in Other investment securities were carried at fair value of ¥68,664 million and ¥47,529 million at March 31, 2006 and 2007, respectively. In addition, in September 2004, we purchased ¥700,000 million in preferred shares issued by UFJ Bank. These preferred shares were carried at cost on our consolidated balance sheet at March 31, 2005. The estimated fair value of the investment was not readily determinable at March 31, 2005. As a result of the merger, these preferred shares were converted into common shares of BTMU and, accordingly, were eliminated in our consolidated balance sheet at March 31, 2006.

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The following table presents the book values, maturities and weighted average yields of investment securities available for sale and being held to maturity, excluding equity securities, at March 31, 2007. Weighted average yields are calculated based on amortized cost. Yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such calculation would not be material:

| | Maturities | | Maturities | | Maturities | | Maturities | | Total | |
|---|---------------------|--------------|---------------------|--------------|--------------------|--------------|--------------------|--------------|---------------------|--------------|
| | within | | but within | | but within | | after | | | |
| | one year | | five years | | ten years | | ten years | | | |
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| (in millions, except percentages) | | | | | | | | | | |
| Securities available for sale: | | | | | | | | | | |
| Domestic: | | | | | | | | | | |
| Japanese national government and Japanese government agency bonds | | | | | | | | | | |
| | ¥ 9,470,321 | 0.16% | ¥ 6,972,124 | 0.96% | ¥ 2,164,839 | 1.44% | ¥ 2,373,574 | 1.41% | ¥ 20,980,858 | 0.70% |
| Corporate bonds | 557,345 | 0.75 | 3,182,556 | 0.90 | 887,500 | 1.11 | 38,820 | 1.35 | 4,666,221 | 0.93 |
| Other securities | 264,344 | 0.60 | 326,223 | 1.01 | 185,637 | 1.06 | 47,055 | 1.31 | 823,259 | 0.91 |
| Total domestic | 10,292,010 | 0.21 | 10,480,903 | 0.94 | 3,237,976 | 1.33 | 2,459,449 | 1.40 | 26,470,338 | 0.75 |
| Foreign: | | | | | | | | | | |
| U.S. Treasury and other U.S. government agencies bonds | | | | | | | | | | |
| | 379,532 | 4.56 | 1,431,758 | 4.72 | 281,220 | 4.50 | 1,843 | 9.08 | 2,094,353 | 4.66 |
| Other governments and official institutions bonds | 359,554 | 3.14 | 520,750 | 3.53 | 482,796 | 3.97 | 80,658 | 3.70 | 1,443,758 | 3.59 |
| Mortgage-backed securities | 64 | 4.76 | 1,970 | 4.94 | 233,336 | 4.71 | 2,485,051 | 5.38 | 2,720,421 | 5.32 |
| Other securities | 127,188 | 3.42 | 1,091,832 | 3.68 | 1,043,334 | 4.83 | 2,038,048 | 5.38 | 4,300,402 | 4.75 |
| Total foreign | 866,338 | 3.80 | 3,046,310 | 4.14 | 2,040,686 | 4.56 | 4,605,600 | 5.35 | 10,558,934 | 4.72 |
| Total | ¥ 11,158,348 | 0.49% | ¥ 13,527,213 | 1.67% | ¥ 5,278,662 | 2.59% | ¥ 7,065,049 | 3.98% | ¥ 37,029,272 | 1.89% |
| Securities being held to maturity: | | | | | | | | | | |
| Domestic: | | | | | | | | | | |
| Japanese national government and Japanese government agency bonds | | | | | | | | | | |
| | ¥ 499,709 | 0.30% | ¥ 2,238,087 | 0.82% | ¥ 27,263 | 1.29% | ¥ 44,386 | 1.28% | ¥ 2,809,445 | 0.74% |
| Other securities | 14,123 | 1.22 | 145,635 | 1.48 | 3,536 | 1.39 | 997 | 2.21 | 164,291 | 1.46 |
| Total domestic | 513,832 | 0.32 | 2,383,722 | 0.86 | 30,799 | 1.30 | 45,383 | 1.30 | 2,973,736 | 0.78 |
| Foreign: | | | | | | | | | | |
| U.S. Treasury and other U.S. government agencies bonds | | | | | | | | | | |
| | 3,047 | 2.13 | | | | | 4,404 | 6.74 | 7,451 | 4.86 |
| Other governments and official institutions bonds | 788 | 6.60 | 5,903 | 5.86 | | | | | 6,691 | 5.95 |
| Other securities | 13,601 | 4.69 | 11,573 | 4.89 | 20,047 | 1.77 | | | 45,221 | 3.45 |
| Total foreign | 17,436 | 4.33 | 17,476 | 5.22 | 20,047 | 1.77 | 4,404 | 6.74 | 59,363 | 3.90 |

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| | | | | | | | | | | | | | | | |
|-------|---|---------|-------|---|-----------|-------|---|--------|-------|---|--------|-------|---|-----------|-------|
| Total | ¥ | 531,268 | 0.45% | ¥ | 2,401,198 | 0.89% | ¥ | 50,846 | 1.48% | ¥ | 49,787 | 1.78% | ¥ | 3,033,099 | 0.84% |
|-------|---|---------|-------|---|-----------|-------|---|--------|-------|---|--------|-------|---|-----------|-------|

Excluding U.S. Treasury and other U.S. government agencies bonds and Japanese national government bonds, the following table sets forth the securities of individual issuers held in our investment securities portfolio which exceeded 10% of our consolidated total shareholders equity at March 31, 2007.

| | Amortized | Estimated |
|---|-------------|---------------|
| | cost | fair value |
| | | (in millions) |
| Mortgage-backed securities issued by U.S. Federal National Mortgage Association | ¥ 1,692,632 | ¥ 1,739,396 |

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The following table shows our loans outstanding, before deduction of allowance for credit losses, by domicile and type of industry of borrower at March 31 of each of the five fiscal years ended March 31, 2007. Classification of loans by industry is based on the industry segment loan classification as defined by the Bank of Japan for regulatory reporting purposes and is not necessarily based on use of proceeds:

| | At March 31, | | | | |
|---|---------------------|--------------------------|--------------------------|---------------------------|---------------------------|
| | 2003 ⁽⁴⁾ | 2004 ⁽⁴⁾ | 2005 ⁽⁴⁾ | 2006 ⁽⁵⁾ | 2007 |
| | (in millions) | | | | |
| Domestic: | | | | | |
| Manufacturing | ¥ 6,034,347 | ¥ 6,000,095 | ¥ 6,475,361 | ¥ 10,749,411 | ¥ 10,973,586 |
| Construction | 1,277,407 | 1,010,439 | 974,060 | 1,980,255 | 1,830,752 |
| Real estate | 4,298,146 | 4,585,299 | 5,266,553 | 8,624,737 | 7,924,203 |
| Services | 4,953,830 | 4,344,833 | 3,621,673 | 6,599,337 | 6,921,165 |
| Wholesale and retail | 5,458,337 | 4,998,952 | 5,228,318 | 9,760,781 | 9,404,231 |
| Banks and other financial institutions ⁽¹⁾ | 3,502,621 | 3,745,586 | 3,691,908 | 5,555,572 | 4,395,778 |
| Communication and information services | 1,516,020 | 874,564 | 784,301 | 1,185,821 | 1,132,086 |
| Other industries | 3,858,233 | 6,169,456 | 6,783,275 | 11,764,455 | 10,411,332 |
| Consumer | 7,520,907 | 8,039,797 ⁽³⁾ | 8,162,062 ⁽³⁾ | 23,727,793 ⁽³⁾ | 24,455,346 ⁽³⁾ |
| Total domestic | 38,419,848 | 39,769,021 | 40,987,511 | 79,948,162 | 77,448,479 |
| Foreign: | | | | | |
| Governments and official institutions | 235,093 | 183,117 | 212,750 | 332,213 | 374,157 |
| Banks and other financial institutions ⁽¹⁾ | 928,059 | 1,043,904 | 917,409 | 1,101,152 | 1,529,447 |
| Commercial and industrial | 7,477,320 | 6,273,755 | 7,527,695 | 11,776,784 | 13,498,030 |
| Other | 1,269,675 | 1,116,459 | 1,277,329 | 2,337,237 | 2,523,644 |
| Total foreign | 9,910,147 | 8,617,235 | 9,935,183 | 15,547,386 | 17,925,278 |
| Total | 48,329,995 | 48,386,256 | 50,922,694 | 95,495,548 | 95,373,757 |
| Unearned income, unamortized premiums net and deferred loan fees net | (40,999) | (28,538) | (18,678) | 11,287 | (50,913) |
| Total⁽²⁾ | ¥ 48,288,996 | ¥ 48,357,718 | ¥ 50,904,016 | ¥ 95,506,835 | ¥ 95,322,844 |

Notes:

- (1) Loans to the so-called non-bank finance companies are generally included in the Banks and other financial institutions category. Non-bank finance companies are primarily engaged in consumer lending, factoring and credit card businesses.
- (2) The above table includes loans held for sale of ¥3,965 million, ¥12,893 million, ¥36,424 million, ¥41,904 million and ¥113,580 million at March 31, 2003, 2004, 2005, 2006 and 2007, respectively.
- (3) Domestic loans within the consumer category in the above table include loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. During the fiscal year ended March 31, 2004, BTM's credit administration system was upgraded and became able to present a precise breakdown of the balance of such consumer loans by the type of proprietor business. This breakdown at March 31, 2004, 2005, 2006 and 2007 is presented below:

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| | Manufacturing | Construction | Real estate | Services | Wholesale and retail | Banks and other financial institutions | Communication and information services | Other industries | Total included in Consumer |
|----------------|----------------------|---------------------|------------------------|-----------------|-------------------------------------|---|---|-----------------------------|---|
| | (in millions) | | | | | | | | |
| March 31, 2004 | ¥28,229 | ¥19,283 | ¥738,377 | ¥230,730 | ¥52,253 | ¥1,200 | ¥4,121 | ¥10,620 | ¥1,084,813 |
| March 31, 2005 | ¥23,023 | ¥16,157 | ¥542,969 | ¥193,417 | ¥39,806 | ¥1,126 | ¥3,681 | ¥ 7,782 | ¥ 827,961 |
| March 31, 2006 | ¥17,212 | ¥13,925 | ¥425,929 | ¥160,805 | ¥30,937 | ¥ 947 | ¥2,968 | ¥ 6,257 | ¥ 658,980 |
| March 31, 2007 | ¥14,662 | ¥12,281 | ¥367,290 | ¥132,893 | ¥26,104 | ¥ 677 | ¥2,407 | ¥ 5,411 | ¥ 561,725 |

Since the system upgrade was effective during the fiscal year ended March 31, 2004, no equivalent information is obtainable at March 31, 2003.

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(4) Classification of loans by industry at March 31, 2003, 2004 and 2005 have been restated as follows:

| | At March 31, | | | | | |
|---------------------------|------------------------|-------------|------------------------|-------------|------------------------|-------------|
| | 2003 | | 2004 | | 2005 | |
| | As previously reported | As restated | As previously reported | As restated | As previously reported | As restated |
| | (in millions) | | | | | |
| Foreign : | | | | | | |
| Commercial and industrial | ¥ 8,240,484 | ¥ 7,477,320 | ¥ 7,073,373 | ¥ 6,273,755 | ¥ 8,521,650 | ¥ 7,527,695 |
| Other | 506,511 | 1,269,675 | 316,841 | 1,116,459 | 283,374 | 1,277,329 |

(5) Classification of loans by industry at March 31, 2006 has been restated as follows:

| | At March 31, 2006 | |
|--|------------------------|---------------------|
| | As previously reported | As restated |
| | (in millions) | |
| Domestic : | | |
| Manufacturing | ¥ 10,796,610 | ¥ 10,749,411 |
| Construction | 1,968,386 | 1,980,255 |
| Real estate | 8,616,597 | 8,624,737 |
| Services | 6,154,336 | 6,599,337 |
| Wholesale and retail | 9,532,843 | 9,760,781 |
| Banks and other financial institutions | 5,798,109 | 5,555,572 |
| Communication and information services | 1,182,493 | 1,185,821 |
| Other industries | 12,170,995 | 11,764,455 |
| Consumer | 23,727,793 | 23,727,793 |
| Total domestic | 79,948,162 | 79,948,162 |
| Foreign : | | |
| Governments and official institutions | 325,037 | 332,213 |
| Banks and other financial institutions | 1,152,596 | 1,101,152 |
| Commercial and industrial | 13,403,032 | 11,776,784 |
| Other | 666,721 | 2,337,237 |
| Total foreign | 15,547,386 | 15,547,386 |
| Total | 95,495,548 | 95,495,548 |
| Unearned income, unamortized premiums-net and deferred loan fees-net | 11,287 | 11,287 |
| Total | ¥ 95,506,835 | ¥ 95,506,835 |

Table of Contents***Maturities and Sensitivities of Loans to Changes in Interest Rates***

The following table shows the maturities of our loan portfolio at March 31, 2007:

| | Maturity | | | Total |
|--|-------------------------|--------------------------|------------------------|---------------------|
| | One year or less | One to five years | Over five years | |
| (in millions) | | | | |
| Domestic: | | | | |
| Manufacturing | ¥ 7,380,051 | ¥ 3,109,645 | ¥ 483,890 | ¥ 10,973,586 |
| Construction | 1,114,449 | 615,500 | 100,803 | 1,830,752 |
| Real estate | 2,448,568 | 3,432,848 | 2,042,787 | 7,924,203 |
| Services | 3,145,882 | 2,820,438 | 954,845 | 6,921,165 |
| Wholesale and retail | 6,415,674 | 2,468,782 | 519,775 | 9,404,231 |
| Banks and other financial institutions | 2,471,288 | 1,842,455 | 82,035 | 4,395,778 |
| Communication and information services | 621,308 | 432,311 | 78,467 | 1,132,086 |
| Other industries | 7,209,990 | 2,012,726 | 1,188,616 | 10,411,332 |
| Consumer | 3,150,300 | 4,350,788 | 16,954,258 | 24,455,346 |
| Total Domestic | 33,957,510 | 21,085,493 | 22,405,476 | 77,448,479 |
| Foreign | 8,646,101 | 5,489,324 | 3,789,853 | 17,925,278 |
| Total | ¥ 42,603,611 | ¥ 26,574,817 | ¥ 26,195,329 | ¥ 95,373,757 |

The above loans due after one year which had predetermined interest rates and floating or adjustable interest rates at March 31, 2007 are shown below.

| | Domestic | Foreign | Total |
|-----------------------------|---------------------|--------------------|---------------------|
| (in millions) | | | |
| Predetermined rate | ¥ 19,361,366 | ¥ 1,629,346 | ¥ 20,990,712 |
| Floating or adjustable rate | 24,129,603 | 7,649,831 | 31,779,434 |
| Total | ¥ 43,490,969 | ¥ 9,279,177 | ¥ 52,770,146 |

Nonaccrual, Past Due and Restructured Loans

We generally discontinue accrual of interest income on loans when substantial doubt exists as to the full and timely collection of either principal or interest, or when principal or interest is contractually past due one month or more with respect to loans of banking subsidiaries, including BTMU and MUTB, and 90 days or more with respect to loans of certain foreign banking subsidiaries.

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The following table shows the distribution of our nonaccrual loans, restructured loans and accruing loans which are contractually past due 90 days or more as to principal or interest payments at March 31 of each of the five fiscal years ended March 31, 2007, based on the domicile and type of industry of the borrowers:

| | At March 31, | | | | |
|---|--------------------|------------------------|------------------------|------------------------|------------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | (in millions) | | | | |
| Nonaccrual loans: | | | | | |
| Domestic: | | | | | |
| Manufacturing | ¥ 111,107 | ¥ 175,691 | ¥ 113,884 | ¥ 126,923 | ¥ 81,054 |
| Construction | 149,918 | 59,031 | 47,764 | 37,635 | 44,494 |
| Real estate | 266,408 | 154,776 | 121,962 | 162,833 | 121,071 |
| Services | 87,492 | 72,951 | 169,602 | 60,685 | 133,171 |
| Wholesale and retail | 224,468 | 108,516 | 85,659 | 128,602 | 132,308 |
| Banks and other financial institutions | 17,794 | 21,367 | 4,346 | 15,778 | 16,698 |
| Communication and information services | 14,081 | 5,128 | 11,829 | 12,794 | 31,905 |
| Other industries | 53,922 | 39,783 | 22,324 | 29,219 | 139,968 |
| Consumer | 150,989 | 141,844 ⁽¹⁾ | 119,229 ⁽¹⁾ | 360,717 ⁽¹⁾ | 333,843 ⁽¹⁾ |
| Total domestic | 1,076,179 | 779,087 | 696,599 | 935,186 | 1,034,512 |
| Foreign: | | | | | |
| Governments and official institutions | 1,747 | 877 | 466 | 52 | 47 |
| Banks and other financial institutions | 8,387 | 87,162 | 45,091 | 38,796 | 3,730 |
| Commercial and industrial | 271,090 | 153,387 | 54,913 | 30,387 | 46,536 |
| Other | 56,156 | 62,521 | 23,835 | 5,413 | 1,519 |
| Total foreign | 337,380 | 303,947 | 124,305 | 74,648 | 51,832 |
| Total | ¥ 1,413,559 | ¥ 1,083,034 | ¥ 820,904 | ¥ 1,009,834 | ¥ 1,086,344 |
| Restructured loans: | | | | | |
| Domestic | ¥ 1,212,832 | ¥ 577,348 | ¥ 431,036 | ¥ 937,160 | ¥ 548,569 |
| Foreign | 106,236 | 55,015 | 23,153 | 74,676 | 42,117 |
| Total | ¥ 1,319,068 | ¥ 632,363 | ¥ 454,189 | ¥ 1,011,836 | ¥ 590,686 |
| Accruing loans contractually past due 90 days or more: | | | | | |
| Domestic | ¥ 17,533 | ¥ 14,696 | ¥ 9,232 | ¥ 21,896 | ¥ 20,649 |
| Foreign | 2,866 | 900 | 879 | 1,112 | 1,821 |
| Total | ¥ 20,399 | ¥ 15,596 | ¥ 10,111 | ¥ 23,008 | ¥ 22,470 |
| Total | ¥ 2,753,026 | ¥ 1,730,993 | ¥ 1,285,204 | ¥ 2,044,678 | ¥ 1,699,500 |

Note:

(1)

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Domestic nonaccrual loans within the consumer category in the above table include loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. During the fiscal year ended March 31, 2004, BTM's credit administration system was upgraded and became able to present a precise breakdown of the balance of such consumer loans by the type of proprietor business. This breakdown at March 31, 2004, 2005, 2006 and 2007 is presented below:

| | <u>Manufacturing</u> | <u>Construction</u> | <u>Real estate</u> | <u>Services</u> | <u>Wholesale and retail</u> | <u>Banks and other financial institutions</u> | <u>Communication and information services</u> | <u>Other industries</u> | <u>Total included in Consumer</u> |
|----------------|----------------------|---------------------|------------------------|-----------------|---------------------------------|---|---|-----------------------------|---|
| (in millions) | | | | | | | | | |
| March 31, 2004 | ¥ 1,566 | ¥ 877 | ¥ 52,271 | ¥ 14,203 | ¥ 5,765 | ¥ 21 | ¥ 264 | ¥ | ¥ 74,967 |
| March 31, 2005 | ¥ 1,345 | ¥ 986 | ¥ 43,334 | ¥ 13,692 | ¥ 3,185 | ¥ 18 | ¥ 219 | ¥ 378 | ¥ 63,157 |
| March 31, 2006 | ¥ 1,132 | ¥ 771 | ¥ 27,870 | ¥ 9,654 | ¥ 1,614 | ¥ 16 | ¥ 240 | ¥ 304 | ¥ 41,601 |
| March 31, 2007 | ¥ 1,152 | ¥ 533 | ¥ 21,610 | ¥ 7,293 | ¥ 1,036 | ¥ 14 | ¥ 130 | ¥ 256 | ¥ 32,024 |

Since the system upgrade was effective during the fiscal year ended March 31, 2004, no equivalent information is obtainable at March 31, 2003.

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Gross interest income which would have been accrued at the original terms on domestic nonaccrual and restructured loans outstanding during the fiscal year ended March 31, 2007 was approximately ¥88.5 billion, of which ¥63.6 billion was included in the results of operations for the fiscal year. Gross interest income which would have been accrued at the original terms on foreign nonaccrual and restructured loans outstanding for the fiscal year ended March 31, 2007 was approximately ¥5.4 billion, of which ¥4.5 billion was included in the results of operations for the fiscal year.

Foreign Loans Outstanding

We had no cross-border outstandings to borrowers in any foreign country which in total exceeded 0.75% of consolidated total assets at March 31, 2005, 2006 and 2007. Cross-border outstandings are defined, for this purpose, as loans (including accrued interest), acceptances, interest-earning deposits with other banks, other interest-earning investments and any other monetary assets denominated in Japanese yen or other non-local currencies. Material local currency loans outstanding which are neither hedged nor funded by local currency borrowings are included in cross-border outstandings.

Guarantees of outstandings of borrowers of other countries are considered to be outstandings of the guarantor. Loans made to, or deposits placed with, a branch of a foreign bank located outside the foreign bank's home country are considered to be loans to, or deposits with, the foreign bank. Outstandings of a country do not include principal or interest amounts of which are supported by written, legally enforceable guarantees by guarantors of other countries or the amounts of outstandings to the extent that they are secured by tangible, liquid collateral held and realizable by BTMU, MUTB and their subsidiaries outside the country in which they operate.

In addition to credit risk, cross-border outstandings are subject to country risk that as a result of political or economic conditions in a country, borrowers may be unable or unwilling to pay principal and interest according to contractual terms. Other risks related to cross-border outstandings include the possibility of insufficient foreign exchange and restrictions on its availability.

In order to manage country risk, we establish various risk management measures internally. Among other things, we first regularly monitor economic conditions and other factors globally and assess country risk in each country where we have cross-border exposure. For purposes of monitoring and controlling the amount of credit exposed to country risk, we set a country limit, the maximum amount of credit exposure for an individual country, in consideration of the level of country risk and our ability to bear such potential risk. We also determine our credit policy for each country in accordance with our country risk level and our business plan with regard to the country. Assessment of country risk, establishment of country limits, and determination of country credit policies are subject to review and approval by our senior management and are updated periodically.

Loan Concentrations

At March 31, 2007, there were no concentrations of loans to a single industry group of borrowers, as defined by the Bank of Japan industry segment loan classifications, which exceeded 10% of our consolidated total loans, except for loans in a category disclosed in the table of loans outstanding above.

Credit Risk Management

We have a credit rating system, under which borrowers and transactions are graded on a worldwide basis. We calculate probability of default by statistical means and manage our credit portfolio based on this credit rating system. For a detailed description of this system and other elements of our risk management structure, see Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk - Credit Risk Management.

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Table of Contents**IV. Summary of Loan Loss Experience**

The following table shows an analysis of our loan loss experience by type of borrowers business for each of the five fiscal years ended March 31, 2007:

| | Fiscal years ended March 31, | | | | |
|--|-----------------------------------|-----------------------|-----------------------|-----------------------|------------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | (in millions, except percentages) | | | | |
| Allowance for credit losses at beginning of fiscal year | ¥ 1,735,180 | ¥ 1,360,136 | ¥ 888,120 | ¥ 739,872 | ¥ 1,012,227 |
| Additions resulting from the merger with UFJ Holdings ⁽¹⁾ | | | | 287,516 | |
| Provision (credit) for credit losses | 437,972 | (114,364) | 108,338 | 110,167 | 358,603 |
| Charge-offs: | | | | | |
| Domestic: | | | | | |
| Manufacturing | 75,278 | 18,644 | 81,370 | 17,222 | 27,040 |
| Construction | 60,837 | 35,612 | 10,634 | 6,798 | 18,901 |
| Real estate | 332,414 | 119,005 | 43,983 | 15,076 | 12,778 |
| Services | 87,573 | 17,647 | 11,711 | 41,427 | 26,274 |
| Wholesale and retail | 109,257 | 44,282 | 26,822 | 15,009 | 43,158 |
| Banks and other financial institutions | 20,817 | 1,516 | 8,920 | 701 | 1,790 |
| Communication and information services | 5,002 | 2,256 | 1,312 | 2,621 | 16,322 |
| Other industries | 23,090 | 6,040 | 6,404 | 2,644 | 5,396 |
| Consumer | 39,594 | 49,162 ⁽³⁾ | 26,343 ⁽³⁾ | 52,033 ⁽³⁾ | 137,543 ⁽³⁾ |
| Total domestic | 753,862 | 294,164 | 217,499 | 153,531 | 289,202 |
| Total foreign | 139,776 | 83,682 | 80,440 | 11,202 | 13,912 |
| Total | 893,638 | 377,846 | 297,939 | 164,733 | 303,114 |
| Recoveries: | | | | | |
| Domestic | 57,790 | 17,299 | 22,063 | 11,356 | 35,466 |
| Foreign | 21,037 | 23,671 | 15,254 | 17,242 | 4,953 |
| Total | 78,827 | 40,970 | 37,317 | 28,598 | 40,419 |
| Net charge-offs | 814,811 | 336,876 | 260,622 | 136,135 | 262,695 |
| Others ⁽²⁾ | 1,795 | (20,776) | 4,036 | 10,807 | 4,318 |
| Allowance for credit losses at end of fiscal year | ¥ 1,360,136 | ¥ 888,120 | ¥ 739,872 | ¥ 1,012,227 | ¥ 1,112,453 |
| Allowance for credit losses applicable to foreign activities: | | | | | |
| Balance at beginning of fiscal year | ¥ 244,650 | ¥ 263,929 | ¥ 245,835 | ¥ 91,701 | ¥ 123,080 |
| Balance at end of fiscal year | ¥ 263,929 | ¥ 245,835 | ¥ 91,701 | ¥ 123,080 | ¥ 109,654 |
| Provision (credit) for credit losses | ¥ 151,783 | ¥ 55,541 | ¥ (91,903) | ¥ 587 | ¥ (8,516) |

| | | | | | |
|---|-------|-------|-------|-------|-------|
| Ratio of net charge-offs during the fiscal year to average loans outstanding during the fiscal year | 1.64% | 0.69% | 0.51% | 0.19% | 0.27% |
|---|-------|-------|-------|-------|-------|

Notes:

- (1) Additions resulting from the merger with UFJ Holdings represent the valuation allowance for acquired loans outside the scope of SOP 03-3. The allowance for credit losses on loans within the scope of SOP 03-3 was not carried over.
- (2) Others primarily include foreign exchange translation and discontinued operations adjustments.

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- (3) Charge-offs of domestic loans within the consumer category in the above table include charge-offs of loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. During the fiscal year ended March 31, 2004, BTM's credit administration system was upgraded and became able to present a precise breakdown of charge-offs of such consumer loans by the type of proprietor business. This breakdown for the fiscal years ended March 31, 2004, 2005, 2006 and 2007 is presented below:

| | Manufacturing | | Construction | Real estate | Services | Wholesale and retail | Banks and other financial institutions | Communication and information services | Other industries | Total included in Consumer |
|----------------|---------------|-----|--------------|-------------|----------|----------------------|--|--|------------------|----------------------------|
| | (in millions) | | | | | | | | | |
| March 31, 2004 | ¥ 39 | ¥ | ¥ 9,481 | ¥ 2,270 | ¥ 486 | ¥ | ¥ | ¥ | ¥ 108 | ¥ 12,384 |
| March 31, 2005 | ¥ | ¥ | ¥ 450 | ¥ 137 | ¥ | ¥ | ¥ | ¥ | ¥ 64 | ¥ 651 |
| March 31, 2006 | ¥ 19 | ¥ | ¥ 1,835 | ¥ 295 | ¥ 388 | ¥ | ¥ | ¥ | ¥ | ¥ 2,537 |
| March 31, 2007 | ¥ 3 | ¥ 1 | ¥ 67 | ¥ | ¥ 11 | ¥ | ¥ | ¥ | ¥ | ¥ 82 |

Since the system upgrade was effective during the fiscal year ended March 31, 2004, no equivalent information is obtainable for the fiscal year ended March 31, 2003.

The following table shows an allocation of our allowance for credit losses at March 31 of each of the five fiscal years ended March 31, 2007:

| At March 31, | | | | | | | | | | |
|--|-----------|--------------------------------------|-----------|--------------------------------------|----------|--------------------------------------|-----------|--------------------------------------|-----------|--------|
| 2003 ⁽²⁾ | | 2004 ⁽²⁾ | | 2005 ⁽²⁾ | | 2006 ⁽³⁾ | | 2007 | | |
| % of loans in each category to total | | % of loans in each category to total | | % of loans in each category to total | | % of loans in each category to total | | % of loans in each category to total | | |
| Amount | loans | Amount | loans | Amount | loans | Amount | loans | Amount | loans | |
| (in millions, except percentages) | | | | | | | | | | |
| Domestic: | | | | | | | | | | |
| Manufacturing | ¥ 141,549 | 12.49% | ¥ 124,262 | 12.40% | ¥ 90,319 | 12.72% | ¥ 130,655 | 11.26% | ¥ 108,216 | 11.50% |
| Construction | 139,662 | 2.64 | 31,908 | 2.09 | 44,604 | 1.91 | 28,082 | 2.07 | 40,943 | 1.92 |
| Real estate | 231,686 | 8.89 | 111,629 | 9.48 | 89,882 | 10.34 | 98,054 | 9.03 | 83,009 | 8.31 |
| Services | 129,678 | 10.25 | 82,236 | 8.98 | 143,957 | 7.11 | 70,938 | 6.91 | 122,233 | 7.26 |
| Wholesale and retail | 198,053 | 11.29 | 103,577 | 10.33 | 93,619 | 10.27 | 132,380 | 10.22 | 129,546 | 9.86 |
| Banks and other financial institutions | 51,204 | 7.25 | 33,944 | 7.74 | 22,225 | 7.25 | 51,493 | 5.82 | 73,921 | 4.61 |
| Communication and information services | 19,385 | 3.14 | 6,395 | 1.81 | 13,586 | 1.54 | 16,958 | 1.24 | 33,685 | 1.19 |

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| | | | | | | | | | | |
|--|--------------------|----------------|-----------------------|----------------|-----------------------|----------------|------------------------|----------------|------------------------|----------------|
| Other industries | 62,433 | 7.98 | 44,574 | 12.75 | 60,878 | 13.32 | 115,904 | 12.32 | 175,957 | 10.92 |
| Consumer | 99,247 | 15.56 | 85,232 ⁽¹⁾ | 16.62 | 80,484 ⁽¹⁾ | 16.03 | 237,005 ⁽¹⁾ | 24.85 | 228,252 ⁽¹⁾ | 25.64 |
| Foreign: | | | | | | | | | | |
| Governments and official institutions | 2,298 | 0.49 | 1,428 | 0.38 | 193 | 0.42 | 1,227 | 0.35 | 420 | 0.39 |
| Banks and other financial institutions | 6,366 | 1.92 | 60,064 | 2.16 | 10,840 | 1.80 | 13,680 | 1.15 | 3,668 | 1.60 |
| Commercial and industrial | 216,058 | 15.47 | 148,887 | 12.96 | 70,101 | 14.78 | 104,443 | 12.33 | 103,259 | 14.15 |
| Other | 39,207 | 2.63 | 35,456 | 2.30 | 10,567 | 2.51 | 3,730 | 2.45 | 2,307 | 2.65 |
| Unallocated | 23,310 | | 18,528 | | 8,617 | | 7,678 | | 7,037 | |
| Total | ¥ 1,360,136 | 100.00% | ¥ 888,120 | 100.00% | ¥ 739,872 | 100.00% | ¥ 1,012,227 | 100.00% | ¥ 1,112,453 | 100.00% |
| Allowance as a percentage of loans | 2.82% | | 1.84% | | 1.45% | | 1.06% | | 1.17% | |
| Allowance as a percentage of nonaccrual and restructured loans and accruing loans contractually past due 90 days or more | 49.41% | | 51.31% | | 57.57% | | 49.51% | | 65.46% | |

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Note:

- (1) The credit loss allowance for domestic loans within the consumer category in the above table include the credit loss allowance for loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. During the fiscal year ended March 31, 2004, BTM's credit administration system was upgraded and became able to present a precise breakdown of the balance of the credit loss allowance for such consumer loans by the type of proprietor business. This breakdown at March 31, 2004, 2005, 2006 and 2007 is presented below:

| | Manufacturing | | Construction | Real estate | Services | Wholesale and retail | Banks and financial institutions | Communication and information services | Other industries | Total included in Consumer |
|----------------|---------------|-------|--------------|-------------|----------|----------------------|----------------------------------|--|------------------|----------------------------|
| | (in millions) | | | | | | | | | |
| March 31, 2004 | ¥ 292 | ¥ 196 | ¥ 7,671 | ¥ 2,371 | ¥ 554 | ¥ 13 | ¥ 42 | ¥ 104 | ¥ 11,243 | |
| March 31, 2005 | ¥ 211 | ¥ 146 | ¥ 4,962 | ¥ 1,769 | ¥ 363 | ¥ 12 | ¥ 35 | ¥ 70 | ¥ 7,568 | |
| March 31, 2006 | ¥ 79 | ¥ 60 | ¥ 1,893 | ¥ 715 | ¥ 139 | ¥ 7 | ¥ 13 | ¥ 26 | ¥ 2,932 | |
| March 31, 2007 | ¥ 87 | ¥ 73 | ¥ 2,174 | ¥ 787 | ¥ 155 | ¥ 4 | ¥ 14 | ¥ 32 | ¥ 3,326 | |

Since the system upgrade was effective during the fiscal year ended March 31, 2004, no equivalent information is obtainable at March 31, 2003.

- (2) Percentage of loans in each category to total loans at March 31, 2003, 2004 and 2005 have been restated as follows:

| | At March 31, | | | | | |
|---------------------------|------------------------|-------------|------------------------|-------------|------------------------|-------------|
| | 2003 | | 2004 | | 2005 | |
| | As previously reported | As restated | As previously reported | As restated | As previously reported | As restated |
| Foreign: | | | | | | |
| Commercial and industrial | 17.05% | 15.47% | 14.62% | 12.96% | 16.73% | 14.78% |
| Other | 1.05 | 2.63 | 0.64 | 2.30 | 0.56 | 2.51 |

- (3) Percentage of loans in each category to total loans at March 31, 2006 has been restated as follows:

| | At March 31, | |
|---------------|------------------------|-------------|
| | 2006 | |
| | As previously reported | As restated |
| Domestic: | | |
| Manufacturing | 11.31% | 11.26% |

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| | | |
|--|---------|---------|
| Construction | 2.06 | 2.07 |
| Real estate | 9.02 | 9.03 |
| Services | 6.44 | 6.91 |
| Wholesale and retail | 9.98 | 10.22 |
| Banks and other financial institutions | 6.07 | 5.82 |
| Communication and information services | 1.24 | 1.24 |
| Other industries | 12.74 | 12.32 |
| Consumer | 24.85 | 24.85 |
| Foreign: | | |
| Governments and official institutions | 0.34 | 0.35 |
| Banks and other financial institutions | 1.21 | 1.15 |
| Commercial and industrial | 14.04 | 12.33 |
| Other | 0.70 | 2.45 |
| Unallocated | | |
| | | |
| Total | 100.00% | 100.00% |

While the allowance for credit losses contains amounts allocated to components of specifically identified loans as well as a group on portfolio of loans, the allowance for credit losses is available for credit losses in the entire loan portfolio and the allocations shown above are not intended to be restricted to the specific loan category. Accordingly, as the evaluation of credit risks changes, allocations of the allowance will be changed to reflect current conditions and various other factors.

Table of Contents**V. Deposits**

The following table shows the average amount of, and the average rate paid on, the following deposit categories for the fiscal years ended March 31, 2005, 2006 and 2007:

| | Fiscal years ended March 31, | | | | | |
|--|------------------------------|---------|---------------------|---------|----------------------|---------|
| | 2005 | | 2006 | | 2007 | |
| | Average | Average | Average | Average | Average | Average |
| | amount | rate | amount | rate | amount | rate |
| (in millions, except percentages) | | | | | | |
| Domestic offices: | | | | | | |
| Non-interest-bearing demand deposits | ¥ 4,887,253 | % | ¥ 13,194,012 | % | ¥ 15,847,384 | % |
| Interest-bearing demand deposits | 25,048,645 | 0.02 | 32,965,194 | 0.03 | 43,943,651 | 0.13 |
| Deposits at notice | 1,376,466 | 0.74 | 1,649,625 | 1.44 | 2,447,318 | 2.71 |
| Time deposits | 24,048,365 | 0.25 | 32,137,422 | 0.30 | 39,121,506 | 0.39 |
| Certificates of deposit | 2,728,495 | 0.02 | 3,597,556 | 0.02 | 5,154,891 | 0.27 |
| Foreign offices, principally from banks located in foreign countries: | | | | | | |
| Non-interest-bearing demand deposits | 2,613,352 | | 2,847,005 | | 2,509,494 | |
| Interest-bearing deposits, principally time deposits and certificates of deposit | 9,625,636 | 1.50 | 11,868,158 | 2.68 | 14,510,114 | 3.76 |
| Total | ¥ 70,328,212 | | ¥ 98,258,972 | | ¥ 123,534,358 | |

Deposits at notice represent interest-bearing demand deposits which require the depositor to give two or more days notice in advance of withdrawal.

The average amounts of total deposits by foreign depositors included in domestic offices for the fiscal years ended March 31, 2005, 2006 and 2007 were ¥705,937 million, ¥634,514 million and ¥523,819 million, respectively.

At March 31, 2007, the balance and remaining maturities of time deposits and certificates of deposit issued by domestic offices in amounts of ¥10 million (approximately US\$85 thousand at the Federal Reserve Bank of New York's noon buying rate on March 30, 2007) or more and total foreign deposits issued in amounts of US\$100,000 or more are shown in the following table.

| | Time deposits | Certificates of deposit | Total |
|----------------------|---------------|-------------------------|--------------|
| | (in millions) | | |
| Domestic offices: | | | |
| Three months or less | ¥ 7,208,716 | ¥ 4,084,932 | ¥ 11,293,648 |

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| | | | |
|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Over three months through six months | 4,255,990 | 527,391 | 4,783,381 |
| Over six months through twelve months | 3,562,920 | 80,568 | 3,643,488 |
| Over twelve months | 4,395,119 | 49,286 | 4,444,405 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | ¥ 19,422,745 | ¥ 4,742,177 | ¥ 24,164,922 |
| | <u> </u> | <u> </u> | <u> </u> |
| Foreign offices | | | ¥ 10,797,947 |
| | | | <u> </u> |

Note:

The balance of foreign deposits issued in amounts of US\$100,000 or more at March 31, 2006 has been restated from ¥8,252,109 million to ¥9,206,913 million.

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Table of Contents**VI. Short-Term Borrowings**

The following table shows certain additional information with respect to our short-term borrowings for the fiscal years ended March 31, 2005, 2006 and 2007:

| | Fiscal years ended March 31, | | |
|--|-----------------------------------|-------------|-------------|
| | 2005 | 2006 | 2007 |
| | (in millions, except percentages) | | |
| Call money, funds purchased, and payables under repurchase agreements and securities lending transactions: | | | |
| Average balance outstanding during the fiscal year | ¥10,708,831 | ¥11,425,130 | ¥14,675,696 |
| Maximum balance outstanding at any month-end during the fiscal year | 11,923,247 | 13,502,158 | 17,890,479 |
| Balance at end of fiscal year | 7,057,526 | 11,384,527 | 15,893,355 |
| Weighted average interest rate during the fiscal year | 0.76% | 1.48% | 1.94% |
| Weighted average interest rate on balance at end of fiscal year | 1.11% | 1.33% | 2.30% |
| Due to trust account: | | | |
| Average balance outstanding during the fiscal year | ¥ 1,349,118 | ¥ 2,099,745 | ¥ 1,981,427 |
| Maximum balance outstanding at any month-end during the fiscal year | 1,411,055 | 3,438,160 | 2,229,225 |
| Balance at end of fiscal year | 1,231,050 | 2,427,932 | 1,539,973 |
| Weighted average interest rate during the fiscal year | 0.29% | 0.24% | 0.30% |
| Weighted average interest rate on balance at end of fiscal year | 0.28% | 0.19% | 0.44% |
| Other short-term borrowings: | | | |
| Average balance outstanding during the fiscal year | ¥ 9,413,280 | ¥11,828,663 | ¥ 7,566,200 |
| Maximum balance outstanding at any month-end during the fiscal year | 12,380,021 | 16,059,642 | 8,549,745 |
| Balance at end of fiscal year | 10,724,775 | 10,534,378 | 5,734,473 |
| Weighted average interest rate during the fiscal year | 0.24% | 0.54% | 1.44% |
| Weighted average interest rate on balance at end of fiscal year | 0.24% | 0.68% | 2.17% |

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Mitsubishi UFJ Financial Group, Inc.

(Kabushiki Kaisha Mitsubishi UFJ Financial Group):

We have audited the accompanying consolidated balance sheets of Mitsubishi UFJ Financial Group, Inc. (Kabushiki Kaisha Mitsubishi UFJ Financial Group) (MUFG) and subsidiaries (together, the MUFG Group) as of March 31, 2006 and 2007, and the related consolidated statements of income, changes in equity from nonowner sources, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2007 (all expressed in Japanese Yen). These financial statements are the responsibility of MUFG's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the MUFG Group as of March 31, 2006 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, on October 1, 2005, Mitsubishi Tokyo Financial Group, Inc. merged with UFJ Holdings, Inc. and was renamed MUFG.

As discussed in the respective footnotes to the consolidated financial statements, certain disclosures in Notes 6, 7, 12, 13, 26, 27, 31 and 32 have been restated.

As discussed in Note 1 to the consolidated financial statements, MUFG changed its method of accounting for variable interest entities in the fiscal year ended March 31, 2005, its method of accounting for conditional asset retirement obligations in the fiscal year ended March 31, 2006, and its methods of accounting for pension and other postretirement plans and stock-based compensation in the fiscal year ended March 31, 2007.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the MUFG Group's internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 20, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the MUFG Group's internal control over financial reporting and an unqualified opinion on the effectiveness of the MUFG Group's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tokyo, Japan

September 20, 2007

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****MARCH 31, 2006 AND 2007**

| | 2006 | 2007 |
|--|----------------------|----------------------|
| | (in millions) | |
| ASSETS | | |
| Cash and due from banks (Note 12) | ¥ 6,235,278 | ¥ 2,847,469 |
| Interest-earning deposits in other banks (Note 12) | 6,240,654 | 6,056,598 |
| Call loans and funds sold (Note 15) | 2,026,293 | 1,990,116 |
| Receivables under resale agreements | 1,379,985 | 4,556,543 |
| Receivables under securities borrowing transactions | 5,142,074 | 6,320,179 |
| Trading account assets (including assets pledged that secured parties are permitted to sell or repledge of ¥3,970,820 million in 2006 and ¥4,319,209 million in 2007) (Notes 5 and 12) | 10,728,023 | 10,446,080 |
| Investment securities (Notes 6 and 12): | | |
| Securities available for sale carried at estimated fair value (including assets pledged that secured parties are permitted to sell or repledge of ¥3,525,681 million in 2006 and ¥5,911,684 million in 2007) | 45,485,909 | 45,679,782 |
| Securities being held to maturity carried at amortized cost (including assets pledged that secured parties are permitted to sell or repledge of ¥286,049 million in 2006 and ¥751,931 million in 2007) (estimated fair value of ¥2,451,757 million in 2006 and ¥3,034,560 million in 2007) | 2,466,074 | 3,033,099 |
| Other investment securities | 862,969 | 670,959 |
| Total investment securities | 48,814,952 | 49,383,840 |
| Loans, net of unearned income, unamortized premiums and deferred loan fees (including assets pledged that secured parties are permitted to sell or repledge of ¥3,020,451 million in 2006 and ¥3,723,906 million in 2007) (Notes 7 and 12) | 95,506,835 | 95,322,844 |
| Allowance for credit losses (Notes 7 and 8) | (1,012,227) | (1,112,453) |
| Net loans | 94,494,608 | 94,210,391 |
| Premises and equipment net (Note 9) | 1,173,577 | 1,147,511 |
| Accrued interest | 241,331 | 371,523 |
| Customers acceptance liability | 94,719 | 68,754 |
| Intangible assets net (Notes 2, 10 and 18) | 1,504,495 | 1,265,080 |
| Goodwill (Notes 2 and 10) | 1,843,948 | 1,844,809 |
| Deferred tax assets (Notes 11 and 18) | 1,211,431 | 556,158 |
| Other assets (including assets pledged that secured parties are permitted to sell or repledge of ¥5,904 million in 2006) (Notes 7, 12, 18 and 19) | 4,963,566 | 5,135,425 |
| Assets of discontinued operations to be disposed or sold (Note 3) | 124,513 | 2,435 |
| Total assets | ¥ 186,219,447 | ¥ 186,202,911 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Deposits (Notes 12 and 13): | | |
| Domestic offices: | | |
| Non-interest-bearing | ¥ 20,079,575 | ¥ 17,037,891 |
| Interest-bearing | 89,985,274 | 91,677,030 |
| Overseas offices: | | |
| Non-interest-bearing | 3,263,873 | 2,532,088 |
| Interest-bearing | 13,311,209 | 15,340,000 |
| Total deposits | 126,639,931 | 126,587,009 |

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| | | |
|---|----------------------|----------------------|
| Call money and funds purchased (Notes 12 and 15) | 2,273,754 | 2,544,637 |
| Payables under repurchase agreements (Note 12) | 5,289,754 | 8,211,210 |
| Payables under securities lending transactions (Note 12) | 3,821,019 | 5,137,508 |
| Due to trust account (Note 16) | 2,427,932 | 1,539,973 |
| Other short-term borrowings (Notes 12 and 17) | 10,534,378 | 5,734,473 |
| Trading account liabilities (Note 5) | 3,022,151 | 2,625,761 |
| Obligations to return securities received as collateral | 3,946,381 | 3,652,864 |
| Bank acceptances outstanding | 94,719 | 68,754 |
| Accrued interest | 172,129 | 257,411 |
| Long-term debt (Notes 12 and 17) | 13,889,525 | 14,389,930 |
| Other liabilities (Notes 11, 18 and 19) | 4,320,859 | 5,019,523 |
| Liabilities of discontinued operations to be extinguished or assumed (Note 3) | 118,762 | 546 |
| Total liabilities | 176,551,294 | 175,769,599 |
| Commitments and contingent liabilities (Notes 26 and 28) | | |
| Shareholders' equity (Note 23): | | |
| Capital stock (Notes 20 and 21): | | |
| Preferred stock - aggregate liquidation preference of ¥965,701 million in 2006 and ¥336,801 million in 2007, with no stated value | 247,100 | 247,100 |
| Common stock - authorized, 33,000,000 shares; issued, 10,247,852 shares in 2006 and 10,861,644 shares in 2007, with no stated value | 1,084,708 | 1,084,708 |
| Capital surplus (Note 21) | 5,566,894 | 5,834,529 |
| Retained earnings (Notes 22 and 36): | | |
| Appropriated for legal reserve | 239,571 | 239,571 |
| Unappropriated | 1,424,634 | 1,636,803 |
| Accumulated other changes in equity from nonowner sources, net of taxes | 1,880,215 | 2,392,136 |
| Treasury stock, at cost - 506,509 common shares in 2006 and 652,968 common shares in 2007 | (774,969) | (1,001,535) |
| Total shareholders' equity | 9,668,153 | 10,433,312 |
| Total liabilities and shareholders' equity | ¥ 186,219,447 | ¥ 186,202,911 |

See the accompanying notes to Consolidated Financial Statements.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****FOR THE FISCAL YEARS ENDED MARCH 31, 2005, 2006 AND 2007**

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|------------------|------------------|------------------|
| | (in millions) | | |
| Interest income: | | | |
| Loans, including fees (Note 7) | ¥ 919,065 | ¥ 1,728,047 | ¥ 2,647,503 |
| Deposits in other banks | 66,263 | 146,572 | 251,034 |
| Investment securities: | | | |
| Interest | 330,386 | 463,602 | 641,705 |
| Dividends | 40,180 | 51,468 | 113,096 |
| Trading account assets | 30,829 | 57,404 | 99,918 |
| Call loans and funds sold | 6,398 | 19,271 | 26,546 |
| Receivables under resale agreements and securities borrowing transactions | 45,580 | 64,318 | 135,927 |
| Total | <u>1,438,701</u> | <u>2,530,682</u> | <u>3,915,729</u> |
| Interest expense: | | | |
| Deposits | 219,743 | 449,398 | 835,899 |
| Debentures (Note 14) | 351 | | |
| Call money and funds purchased | 7,111 | 7,445 | 27,870 |
| Payables under repurchase agreements and securities lending transactions | 74,081 | 161,518 | 256,282 |
| Due to trust account | 3,887 | 5,091 | 5,863 |
| Other short-term borrowings and trading account liabilities | 54,041 | 103,954 | 175,245 |
| Long-term debt | 110,392 | 154,663 | 284,804 |
| Total | <u>469,606</u> | <u>882,069</u> | <u>1,585,963</u> |
| Net interest income | <u>969,095</u> | <u>1,648,613</u> | <u>2,329,766</u> |
| Provision for credit losses (Notes 7 and 8) | <u>108,338</u> | <u>110,167</u> | <u>358,603</u> |
| Net interest income after provision for credit losses | <u>860,757</u> | <u>1,538,446</u> | <u>1,971,163</u> |
| Non-interest income: | | | |
| Fees and commissions (Note 29) | 641,091 | 1,033,275 | 1,407,193 |
| Foreign exchange losses net (Note 5) | (47,164) | (322,355) | (162,005) |
| Trading account profits net (Note 5) | 62,052 | 16,423 | 404,813 |
| Investment securities gains net (Note 6) | 198,006 | 89,861 | 238,277 |
| Equity in earnings (losses) of equity method investees | 26,272 | 22,258 | (56,879) |
| Government grant for transfer of substitutional portion of Employees Pension Fund Plans (Note 18) | | 103,001 | |
| Gains on sales of loans (Note 7) | 608 | 34,831 | 23,093 |
| Other non-interest income | 105,945 | 90,058 | 93,444 |
| Total | <u>986,810</u> | <u>1,067,352</u> | <u>1,947,936</u> |
| Non-interest expense: | | | |
| Salaries and employee benefits (Note 18) | 473,136 | 746,372 | 862,401 |
| Occupancy expenses net (Notes 9 and 28) | 97,229 | 146,885 | 179,342 |
| Fees and commission expenses | 87,190 | 218,428 | 237,979 |
| Outsourcing expenses, including data processing | 87,914 | 168,007 | 267,921 |
| Depreciation of premises and equipment (Note 9) | 47,048 | 81,282 | 118,940 |

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| | | | |
|---|------------------|------------------|------------------|
| Amortization of intangible assets (Note 10) | 69,300 | 179,543 | 264,930 |
| Impairment of intangible assets (Note 10) | 2,216 | 251 | 184,760 |
| Insurance premiums, including deposit insurance | 56,952 | 89,697 | 112,773 |
| Minority interest in income of consolidated subsidiaries | 36,701 | 157,222 | 16,915 |
| Communications | 27,402 | 44,420 | 62,209 |
| Taxes and public charges | 32,107 | 58,349 | 79,683 |
| Provision for repayment of excess interest (Note 28) | 62 | 12,898 | 106,245 |
| Other non-interest expenses | 111,916 | 172,771 | 290,070 |
| Total | 1,129,173 | 2,076,125 | 2,784,168 |
| Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle | 718,394 | 529,673 | 1,134,931 |
| Income tax expense (Note 11) | 303,755 | 165,473 | 552,826 |
| Income from continuing operations before cumulative effect of a change in accounting principle | 414,639 | 364,200 | 582,105 |
| Income (loss) from discontinued operations net (Note 3) | 1,493 | 8,973 | (817) |
| Cumulative effect of a change in accounting principle, net of tax (Note 1) | (977) | (9,662) | |
| Net income | ¥ 415,155 | ¥ 363,511 | ¥ 581,288 |
| Income allocable to preferred shareholders: | | | |
| Cash dividends paid | ¥ 6,837 | ¥ 5,386 | ¥ 13,629 |
| Beneficial conversion feature (Note 20) | | 201,283 | 267,432 |
| Net income available to common shareholders | ¥ 408,318 | ¥ 156,842 | ¥ 300,227 |
| | | | (in Yen) |
| Earnings per share (Notes 22, 24 and 36): | | | |
| Basic earnings per common share income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle | ¥ 62,637.96 | ¥ 19,398.62 | ¥ 29,944.47 |
| Basic earnings per common share net income available to common shareholders | 62,717.21 | 19,313.78 | 29,863.20 |
| Diluted earnings per common share income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle | 62,397.57 | 19,036.71 | 29,763.44 |
| Diluted earnings per common share net income available to common shareholders | 62,476.76 | 18,951.87 | 29,682.17 |

See the accompanying notes to Consolidated Financial Statements.

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FROM NONOWNER SOURCES

FOR THE FISCAL YEARS ENDED MARCH 31, 2005, 2006 AND 2007

| | Gains (Losses) | | Gains (Losses) |
|--|------------------|------------------|------------------|
| | before income | Income tax | net of income |
| | tax expense | (expense) | tax expense |
| | (benefit) | benefit | (benefit) |
| | (in millions) | | |
| Fiscal year ended March 31, 2005: | | | |
| Net income | | | ¥ 415,155 |
| Other changes in equity from nonowner sources: | | | |
| Net unrealized holding gains on investment securities available for sale | ¥ 258,757 | ¥ (105,199) | 153,558 |
| Reclassification adjustment for gains included in net income | (251,898) | 102,597 | (149,301) |
| Total | 6,859 | (2,602) | 4,257 |
| Net unrealized gains on derivatives qualifying for cash flow hedges | 328 | (126) | 202 |
| Reclassification adjustment for gains included in net income | (847) | 324 | (523) |
| Total | (519) | 198 | (321) |
| Minimum pension liability adjustments | 18,379 | (6,830) | 11,549 |
| Foreign currency translation adjustments | (6,091) | (6,933) | (13,024) |
| Reclassification adjustment for losses included in net income | 9,980 | (578) | 9,402 |
| Total | 3,889 | (7,511) | (3,622) |
| Total changes in equity from nonowner sources | | | ¥ 427,018 |
| Fiscal year ended March 31, 2006: | | | |
| Net income | | | ¥ 363,511 |
| Other changes in equity from nonowner sources: | | | |
| Net unrealized holding gains on investment securities available for sale | ¥ 2,226,284 | ¥ (905,855) | 1,320,429 |
| Reclassification adjustment for gains included in net income | (72,705) | 28,657 | (44,048) |
| Total | 2,153,579 | (877,198) | 1,276,381 |
| Net unrealized losses on derivatives qualifying for cash flow hedges | (2,342) | 896 | (1,446) |

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| | | | |
|--|----------------|------------------|--------------------|
| Reclassification adjustment for gains included in net income | (441) | 169 | (272) |
| Total | (2,783) | 1,065 | (1,718) |
| Minimum pension liability adjustments | 218,905 | (92,890) | 126,015 |
| Foreign currency translation adjustments | 97,545 | (5,634) | 91,911 |
| Reclassification adjustment for gains included in net income | (7,804) | (1,152) | (8,956) |
| Total | 89,741 | (6,786) | 82,955 |
| Total changes in equity from nonowner sources | | | ¥ 1,847,144 |
| Fiscal year ended March 31, 2007: | | | |
| Net income | | | ¥ 581,288 |
| Other changes in equity from nonowner sources: | | | |
| Net unrealized holding gains on investment securities available for sale | ¥ 764,721 | ¥ (308,419) | 456,302 |
| Reclassification adjustment for gains included in net income | (247,921) | 100,767 | (147,154) |
| Total | 516,800 | (207,652) | 309,148 |
| Net unrealized losses on derivatives qualifying for cash flow hedges | (3,161) | 1,214 | (1,947) |
| Reclassification adjustment for losses included in net income | 2,762 | (1,056) | 1,706 |
| Total | (399) | 158 | (241) |
| Minimum pension liability adjustments | (2,563) | 1,019 | (1,544) |
| Foreign currency translation adjustments | 32,537 | (626) | 31,911 |
| Reclassification adjustment for gains included in net income | (6,420) | 283 | (6,137) |
| Total | 26,117 | (343) | 25,774 |
| Total changes in equity from nonowner sources | | | ¥ 914,425 |

See the accompanying notes to Consolidated Financial Statements.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY****FOR THE FISCAL YEARS ENDED MARCH 31, 2005, 2006 AND 2007**

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|-------------------|-------------------|-------------------|
| | (in millions) | | |
| Preferred stock (Note 20): | | | |
| Balance at beginning of fiscal year | ¥ 137,100 | ¥ 247,100 | ¥ 247,100 |
| Conversion of Class 2 preferred stock to common stock | (15,000) | | |
| Issuance of new shares of Class 3 preferred stock | 125,000 | | |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of fiscal year | ¥ 247,100 | ¥ 247,100 | ¥ 247,100 |
| | <u> </u> | <u> </u> | <u> </u> |
| Common stock (Note 21): | | | |
| Balance at beginning of fiscal year | ¥ 1,069,708 | ¥ 1,084,708 | ¥ 1,084,708 |
| Issuance of new shares of common stock by conversion of Class 2 preferred stock | 15,000 | | |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of fiscal year | ¥ 1,084,708 | ¥ 1,084,708 | ¥ 1,084,708 |
| | <u> </u> | <u> </u> | <u> </u> |
| Capital surplus (Note 21): | | | |
| Balance at beginning of fiscal year | ¥ 1,057,900 | ¥ 1,080,463 | ¥ 5,566,894 |
| Issuance of new shares of Class 3 preferred stock (Note 20) | 123,951 | | |
| Issuance of new shares of common stock in exchange for the shares of Diamond Computer Service Co., Ltd. (Note 4) | 20,974 | | |
| Redemption of Class 1 preferred stock (Note 20) | (122,100) | (122,100) | |
| Merger with UFJ Holdings, Inc. (Note 2) | | 4,403,225 | |
| Amortization of beneficial conversion feature of preferred stock (Note 20) | | 201,283 | 267,432 |
| Gains (losses) on sales of shares of treasury stock, net of taxes | (219) | 2,677 | (1,048) |
| Stock-based compensation expense of UnionBanCal corporation (Note 33) | | | 3,257 |
| Impact of SFAS No.123R implementation of UnionBanCal corporation (Note 33) | | | (1,468) |
| Other net | (43) | 1,346 | (538) |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of fiscal year | ¥ 1,080,463 | ¥ 5,566,894 | ¥ 5,834,529 |
| | <u> </u> | <u> </u> | <u> </u> |
| Retained earnings appropriated for legal reserve (Note 22): | | | |
| Balance at beginning of fiscal year | ¥ 239,571 | ¥ 239,571 | ¥ 239,571 |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of fiscal year | ¥ 239,571 | ¥ 239,571 | ¥ 239,571 |
| | <u> </u> | <u> </u> | <u> </u> |
| Unappropriated retained earnings (Note 22): | | | |
| Balance at beginning of fiscal year | ¥ 958,416 | ¥ 1,327,894 | ¥ 1,424,634 |
| Net income | 415,155 | 363,511 | 581,288 |
| Cash dividends: | | | |
| Common share ¥6,000.00 in 2005, ¥9,000.00 in 2006 and ¥9,000.00 in 2007 per share | (38,840) | (58,855) | (89,526) |
| Preferred share (Class 1) ¥82,500.00 in 2005 and ¥41,250.00 in 2006 per share | (6,716) | (1,679) | |
| Preferred share (Class 2) ¥8,100.00 in 2005 per share | (121) | | |
| Preferred share (Class 3) ¥37,069.00 in 2006 and ¥60,000.00 in 2007 per share | | (3,707) | (6,000) |
| Preferred share (Class 8) ¥23,850.00 in 2007 per share | | | (570) |
| Preferred share (Class 9) ¥18,600.00 in 2007 per share | | | (1,482) |
| Preferred share (Class 10) ¥19,400.00 in 2007 per share | | | (2,910) |
| Preferred share (Class 12) ¥17,250.00 in 2007 per share | | | (2,667) |

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| | | | |
|--|-------------------|-------------------|-------------------|
| Amortization of beneficial conversion feature of preferred stock (Note 20) | | (201,283) | (267,432) |
| Impact of SFAS No.123R implementation of UnionBanCal Corporation (Note 33) | | | 1,468 |
| Deferred compensation-restricted stock awards of UnionBanCal Corporation (Note 33) | | (1,247) | |
| | | <u> </u> | <u> </u> |
| Balance at end of fiscal year (Note 36) | ¥ 1,327,894 | ¥ 1,424,634 | ¥ 1,636,803 |
| | | <u> </u> | <u> </u> |
| Accumulated other changes in equity from nonowner sources, net of taxes: | | | |
| Net unrealized gains on investment securities available for sale (Note 6): | | | |
| Balance at beginning of fiscal year | ¥ 725,862 | ¥ 730,119 | ¥ 2,006,500 |
| Net change during the fiscal year | 4,257 | 1,276,381 | 309,148 |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of fiscal year | ¥ 730,119 | ¥ 2,006,500 | ¥ 2,315,648 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net unrealized gains (losses) on derivatives qualifying for cash flow hedges (Note 25): | | | |
| Balance at beginning of fiscal year | ¥ 1,371 | ¥ 1,050 | ¥ (668) |
| Net change during the fiscal year | (321) | (1,718) | (241) |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of fiscal year | ¥ 1,050 | ¥ (668) | ¥ (909) |
| | <u> </u> | <u> </u> | <u> </u> |
| Minimum pension liability adjustments (Note 18): | | | |
| Balance at beginning of fiscal year | ¥ (142,028) | ¥ (130,479) | ¥ (4,464) |
| Net change during the fiscal year | 11,549 | 126,015 | (1,544) |
| Adjustments to initially apply SFAS No. 158 | | | 6,008 |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of fiscal year | ¥ (130,479) | ¥ (4,464) | ¥ |
| | <u> </u> | <u> </u> | <u> </u> |
| Pension liability adjustments (Note 18): | | | |
| Adjustments to initially apply SFAS No. 158 | ¥ | ¥ | ¥ 172,776 |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of fiscal year | ¥ | ¥ | ¥ 172,776 |
| | <u> </u> | <u> </u> | <u> </u> |
| Foreign currency translation adjustments: | | | |
| Balance at beginning of fiscal year | ¥ (200,486) | ¥ (204,108) | ¥ (121,153) |
| Net change during the fiscal year | (3,622) | 82,955 | 25,774 |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of fiscal year | ¥ (204,108) | ¥ (121,153) | ¥ (95,379) |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of fiscal year | ¥ 396,582 | ¥ 1,880,215 | ¥ 2,392,136 |
| | <u> </u> | <u> </u> | <u> </u> |
| Treasury stock: | | | |
| Balance at beginning of fiscal year | ¥ (2,443) | ¥ (3,221) | ¥ (774,969) |
| Purchases of shares of treasury stock (Note 21) | (921) | (775,242) | (292,200) |
| Sales of shares of treasury stock | 836 | 4,243 | 65,627 |
| Increase resulting from merger with UFJ Holdings, Inc. | | (868) | |
| Net decrease (increase) resulting from changes in voting interests in its consolidated subsidiaries and affiliated companies | (693) | 119 | 7 |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of fiscal year | ¥ (3,221) | ¥ (774,969) | ¥ (1,001,535) |
| | <u> </u> | <u> </u> | <u> </u> |
| Total shareholders' equity | ¥ 4,373,097 | ¥ 9,668,153 | ¥ 10,433,312 |
| | <u> </u> | <u> </u> | <u> </u> |

See the accompanying notes to Consolidated Financial Statements.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE FISCAL YEARS ENDED MARCH 31, 2005, 2006 AND 2007**

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|--------------------|------------------|--------------------|
| | (in millions) | | |
| Cash flows from operating activities: | | | |
| Net income | ¥ 415,155 | ¥ 363,511 | ¥ 581,288 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Loss (income) from discontinued operations net (Note 3) | (1,493) | (8,973) | 817 |
| Depreciation and amortization | 116,348 | 260,825 | 383,870 |
| Impairment of intangible assets (Note 10) | 2,216 | 251 | 184,760 |
| Provision for credit losses | 108,338 | 110,167 | 358,603 |
| Government grant for transfer of substitutional portion of Employees Pension Fund plans (Note 18) | | (103,001) | |
| Investment securities gains net | (198,006) | (89,861) | (238,277) |
| Foreign exchange losses (gains) net | 75,287 | 222,977 | (3,908) |
| Equity in losses (earnings) of equity method investees | (26,272) | (22,258) | 56,879 |
| Provision for deferred income tax expense | 234,555 | 67,261 | 434,993 |
| Decrease (increase) in trading account assets, excluding foreign exchange contracts | (586,923) | 958,487 | (280,834) |
| Increase (decrease) in trading account liabilities, excluding foreign exchange contracts | 76,059 | (1,267,996) | (395,668) |
| Decrease in accrued interest receivable and other receivables | 2,623 | 15,616 | 157,769 |
| Increase (decrease) in accrued interest payable and other payables | 12,198 | (29,197) | 127,769 |
| Net increase (decrease) in accrued income taxes and decrease (increase) in income tax receivables | (24,775) | (163,365) | 116,933 |
| Increase in allowance for repayment of excess interest (Note 28) | | 9,733 | 92,741 |
| Other net | 2,253 | 29,909 | (14,723) |
| | <u>207,563</u> | <u>354,086</u> | <u>1,563,012</u> |
| Cash flows from investing activities: | | | |
| Proceeds from sales of investment securities available for sale | 38,786,642 | 47,801,160 | 36,262,585 |
| Proceeds from maturities of investment securities available for sale | 34,964,164 | 35,712,110 | 28,187,867 |
| Purchases of investment securities available for sale | (72,931,671) | (79,944,570) | (63,170,653) |
| Proceeds from maturities of investment securities being held to maturity | 61,741 | 42,264 | 47,334 |
| Purchases of investment securities being held to maturity | (1,004,347) | (241,001) | (623,171) |
| Proceeds from sales of other investment securities | 24,865 | 132,838 | 255,743 |
| Purchases of preferred stock investment in UFJ Bank Limited (Note 6) | (700,000) | | |
| Purchases of common stock investment in ACOM Co., LTD. (Note 4) | (137,877) | | |
| Purchases of other investment securities | (218,728) | (53,240) | (119,626) |
| Net decrease (increase) in loans | (177,347) | (1,231,764) | 410,203 |
| Net decrease (increase) in interest-earning deposits in other banks | (873,275) | (500,026) | 462,314 |
| Net decrease (increase) in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions | 582,119 | 876,349 | (3,912,447) |
| Proceeds from sales of premises and equipment | 16,365 | 43,255 | 23,728 |
| Capital expenditures for premises and equipment | (44,015) | (82,390) | (119,024) |
| Cash acquired by the merger with UFJ Holdings, Inc. net (Note 2) | | 5,509,837 | |
| Cash acquired due to increase of consolidated subsidiaries | | 203,363 | |
| Purchases of intangible assets | (79,233) | (111,800) | (184,205) |
| Other net | (91,251) | 98,877 | (12,721) |
| | <u>(1,821,848)</u> | <u>8,255,262</u> | <u>(2,492,073)</u> |
| Cash flows from financing activities: | | | |
| Net increase (decrease) in deposits | 1,081,464 | 696,735 | (889,962) |
| Decrease in debentures (Note 14) | (265,957) | | |

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| | | | |
|--|--------------------|--------------------|--------------------|
| Net increase (decrease) in call money, funds purchased, and payables under repurchase agreements and securities lending transactions | (2,457,990) | (168,928) | 4,016,307 |
| Net decrease in due to trust account | (149,219) | (702,246) | (886,416) |
| Net increase (decrease) in other short-term borrowings | 3,820,971 | (6,628,777) | (4,847,764) |
| Proceeds from issuance of long-term debt | 1,438,251 | 3,314,680 | 3,254,073 |
| Repayment of long-term debt | (894,480) | (2,122,116) | (2,661,783) |
| Proceeds from issuance of new shares of preferred stock, net of stock issue expenses | 248,951 | | |
| Proceeds from sales of preferred stock issued by a subsidiary | | 108,250 | |
| Payments for redemption of preferred stock | (122,100) | (122,100) | |
| Payments for redemption of preferred stock issued by a subsidiary | | | (120,000) |
| Proceeds from sales of treasury stock | 1,164 | 7,832 | 64,041 |
| Payments to acquire treasury stock (Note 21) | (921) | (775,242) | (292,182) |
| Dividends paid | (45,648) | (64,220) | (103,047) |
| Dividends paid to minority interests | (11,490) | (62,435) | (23,584) |
| Other net | 86,396 | (82,154) | (5,764) |
| | <u>2,729,392</u> | <u>(6,600,721)</u> | <u>(2,496,081)</u> |
| Net cash provided by (used in) financing activities | 2,729,392 | (6,600,721) | (2,496,081) |
| Effect of exchange rate changes on cash and cash equivalents | (6,637) | 20,283 | 25,458 |
| | <u>1,108,470</u> | <u>2,028,910</u> | <u>(3,399,684)</u> |
| Net increase (decrease) in cash and cash equivalents | 1,108,470 | 2,028,910 | (3,399,684) |
| Cash and cash equivalents at beginning of fiscal year (including cash and cash equivalents identified as discontinued operations of ¥10,752 million in 2005, ¥13,939 million in 2006 and ¥14,069 million in 2007) | 3,111,967 | 4,220,437 | 6,249,347 |
| | <u>¥ 4,220,437</u> | <u>¥ 6,249,347</u> | <u>¥ 2,849,663</u> |
| Cash and cash equivalents at end of fiscal year (including cash and cash equivalents identified as discontinued operations of ¥13,939 million in 2005, ¥14,069 million in 2006 and ¥2,194 million in 2007) | ¥ 4,220,437 | ¥ 6,249,347 | ¥ 2,849,663 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the fiscal year for: | | | |
| Interest | ¥ 453,532 | ¥ 913,783 | ¥ 1,547,702 |
| Income taxes, net of refunds | 95,477 | 254,588 | 3,864 |
| Non-cash investing activities: | | | |
| Issuance of new shares of common stock in exchange for the shares of Diamond Computer Service Co., Ltd. (Note 4) | 20,974 | | |
| Obtaining assets by entering into capital lease | 8,232 | 27,158 | 35,942 |
| Merger with UFJ Holdings, Inc. by stock-for-stock exchanges (Note 2): | | | |
| Non-cash assets acquired at fair value | | 78,619,706 | |
| Liabilities assumed at fair value | | 79,804,419 | |
| | <u>Net</u> | <u>(1,184,713)</u> | <u></u> |
| Non-cash financing activities: | | | |
| Stocks issued in connection with the merger with UFJ Holdings, Inc. (Note 2) | | 4,403,225 | |

See the accompanying notes to Consolidated Financial Statements.

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Mitsubishi UFJ Financial Group, Inc. (MUFG) and its subsidiaries (together, the MUFG Group) conduct domestic and international financial business through The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU), Mitsubishi UFJ Trust and Banking Corporation (MUTB) and Mitsubishi UFJ Securities Co., Ltd. (MUS), the principal subsidiaries of MUFG. BTMU is a major commercial banking institution, providing a broad range of financial services from its network of branches, offices and subsidiaries in Japan and around the world. MUTB is a trust banking subsidiary whose primary business encompasses banking, asset management and administration, fiduciary and agency services, and real estate services. MUS provides securities and investment banking services, such as mergers and acquisitions, derivatives, corporate advisory and securitizations. See Note 30 for more information by business segment.

On October 1, 2005, Mitsubishi Tokyo Financial Group, Inc. (MTFG), the parent company of The Bank of Tokyo-Mitsubishi, Ltd. (BTM), Mitsubishi Trust and Banking Corporation (Mitsubishi Trust) and Mitsubishi Securities Co., Ltd. (Mitsubishi Securities), merged with UFJ Holdings, Inc. (UFJ Holdings), the parent company of UFJ Bank Limited (UFJ Bank), UFJ Trust Bank Limited (UFJ Trust) and UFJ Tsubasa Securities Co., Ltd. (UFJ Tsubasa Securities), with MTFG being the surviving entity and MTFG renamed MUFG. The merger was accounted for under the purchase method of accounting, and the assets and liabilities of UFJ Holdings and its subsidiaries (the UFJ Holdings Group) were recorded at fair value as of October 1, 2005. The results of operations of the UFJ Holdings Group have been included in the accompanying consolidated financial statements since October 1, 2005. Unless otherwise mentioned, numbers for the fiscal years ended March 31, 2005 reflect the results of MTFG and its subsidiaries (the MTFG Group) only. Numbers as of March 31, 2006 reflect the financial position of the MUFG Group while numbers for the fiscal year ended March 31, 2006 comprised the results of the MTFG Group for the six months ended September 30, 2005 and the results of the MUFG Group from October 1, 2005 to March 31, 2006. Numbers as of March 31, 2007 and for the fiscal year ended March 31, 2007 reflect the financial position and results of the MUFG Group. See Note 2 for further discussion of the merger.

Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which MUFG is incorporated and principally operates. The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (US GAAP). In certain respects, the accompanying consolidated financial statements reflect adjustments which are not included in the consolidated financial statements issued by MUFG and certain of its subsidiaries in accordance with applicable statutory requirements and accounting practices in their respective countries of incorporation. The major adjustments include those relating to (1) investment securities, (2) derivative financial instruments, (3) allowance for credit losses, (4) income taxes, (5) consolidation, (6) premises and equipment, (7) transfer of financial assets, (8) accrued severance indemnities and pension liabilities, (9) goodwill and other intangible assets and (10) lease transactions.

Fiscal periods of certain subsidiaries, which end on or after December 31, and MUFG's fiscal year, which ends on March 31, have been treated as coterminous. For the fiscal years ended March 31, 2005, 2006 and 2007, the effect of recording intervening events for the three-month periods

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ended March 31 on MUFG's proportionate equity in net income of subsidiaries with fiscal periods ended on December 31, would have resulted in a decrease

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of ¥0.94 billion, an increase of ¥8.63 billion and a decrease of ¥0.20 billion, respectively, to net income. No intervening events occurred during each of the three-month periods ended March 31, 2005, 2006 and 2007 which, if recorded, would have had effects of more than 1% of consolidated total assets, loans, total liabilities, deposits or total shareholders' equity as of March 31, 2005, 2006 and 2007.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term primarily relate to the allowance for credit losses on loans and off-balance-sheet credit instruments, deferred tax assets, financial instruments with no available market prices, goodwill, investment securities and accrued severance indemnities and pension liabilities.

Summary of Significant Accounting Policies

Significant accounting policies applied in the accompanying consolidated financial statements are summarized below:

Consolidation The consolidated financial statements include the accounts of MUFG and its subsidiaries over which control is exercised through either majority ownership of voting stock and/or other means, including, but not limited to, the possession of the power to direct or cause the direction of the management and policies of entities. In situations in which the MUFG Group has less than 100% but greater than 50% of ownership in entities, such entities are consolidated and minority interests are also recorded in Other liabilities. Intercompany items have been eliminated. Investments in affiliated companies (companies over which the MUFG Group has the ability to exercise significant influence) are accounted for by the equity method of accounting and are reported in Other assets. The MUFG Group's equity interests in the earnings of these equity investees and gains or losses realized on disposition of such investments are reported in Equity in earnings (losses) of equity method investees.

Variable interest entities are consolidated when the MUFG Group has a variable interest that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected returns, or both. See *Accounting Changes - Variable Interest Entities* and Note 27.

Assets that the MUFG Group holds in an agency, fiduciary or trust capacity are not assets of the MUFG Group and, accordingly, are not included in the accompanying consolidated balance sheets.

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Cash Flows For the purposes of reporting cash flows, cash and cash equivalents are defined as those amounts included in the consolidated balance sheets under the caption Cash and due from banks with original maturities of 90 days or less. Cash flows from qualified hedging activities are classified in the same category as the items being hedged.

Translation of Foreign Currency Financial Statements and Foreign Currency Transactions Financial statements of overseas entities are translated into Japanese yen using the respective fiscal year-end exchange rates for assets and liabilities. Income and expense items are translated at average rates of exchange for the respective fiscal periods.

Except for overseas entities located in highly inflationary economies, foreign currency translation gains and losses related to the financial statements of overseas entities of the MUFG Group, net of related income tax

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

effects, are credited or charged directly to Foreign currency translation adjustments, a component of accumulated other changes in equity from nonowner sources. Tax effects of gains and losses on foreign currency translation of financial statements of overseas entities are not recognized unless it is apparent that the temporary differences will reverse in the foreseeable future. If applicable, foreign exchange translation gains and losses pertaining to entities located in highly inflationary economies are recorded in Foreign exchange gains (losses) net, as appropriate. For these entities, premises and equipment and the related depreciation and amortization thereof are translated at exchange rates prevailing at dates of acquisition.

Foreign currency denominated assets and liabilities are translated into the functional currencies of the individual entities included in consolidation at the respective fiscal year-end foreign exchange rates. Foreign currency denominated income and expenses are translated using average rates of exchange for the respective fiscal periods. Gains and losses from such translation are included in Foreign exchange gains (losses) net, as appropriate.

Repurchase Agreements, Securities Lending and Other Secured Financing Transactions Securities sold with agreements to repurchase (repurchase agreements), securities purchased with agreements to resell (resale agreements) and securities lending and borrowing transactions are accounted for as sales of securities with related off-balance-sheet forward repurchase commitments or purchases of securities with related off-balance-sheet forward resale commitments, if they meet the relevant conditions for the surrender of control as provided by Statement of Financial Accounting Standards (SFAS) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125. If the conditions are not met, the transactions are treated as secured financing or lending.

Collateral For secured lending transactions, including resale agreements, securities borrowing transactions, commercial lending and derivative transactions, the MUFG Group, as a secured party, generally has the right to require the counterparties to provide collateral, including letters of credit, cash, securities and other financial assets. For most securities lending transactions, the MUFG Group maintains strict levels of collateralization governed by daily mark-to-market analysis. Financial assets pledged as collateral are generally negotiable financial instruments and are permitted to be sold or repledged by secured parties. If the MUFG Group sells these financial assets received as collateral, it recognizes the proceeds from the sale and its obligation to return the collateral. For secured borrowing transactions, principally repurchase agreements and securities lending transactions and derivative transactions, where the secured party has the right to sell or repledge financial assets pledged as collateral, the MUFG Group separately discloses those financial assets pledged as collateral in the consolidated balance sheets.

Trading Account Securities Securities and money market instruments held in anticipation of short-term market movements and for resale to customers are included in Trading account assets, and short trading positions of these instruments are included in Trading account liabilities. Trading positions are carried at fair value on the consolidated balance sheets and recorded on a trade date basis. Changes in the fair value of trading positions are recognized currently in Trading account profits net, as appropriate.

Investment Securities Debt securities for which the MUFG Group has both the positive intent and ability to hold to maturity are classified as Securities being held to maturity and carried at amortized cost. Debt securities that the MUFG Group may not hold to maturity and marketable equity securities, other than those classified as Trading account securities, are classified as Securities available for sale, and are carried at their fair values, with unrealized gains and losses reported on a net-of-tax basis within accumulated other changes in equity from nonowner sources, which is a component of shareholders' equity. Other investment securities include nonmarketable equity securities carried at their acquisition

costs, and also securities held by subsidiaries that are

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investment companies. Such securities held by those subsidiaries are not within the scope of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and are subject to the specialized industry accounting principles in the *AICPA Audit and Accounting Guide Investment Companies* (the *AICPA Guide*) applicable for those subsidiaries. Securities of those subsidiaries are carried at their fair values.

Individual debt and equity securities are written down to fair value with the resulting losses charged to operations when, in the opinion of management, a decline in estimated fair value below the cost of such securities is other than temporary. Such impairment loss is included in Investment securities gains net in the consolidated statements of income. In determining other than temporary declines in fair value to be recognized as an impairment loss on investment securities, the MUFG Group generally considers factors such as the financial condition of the issuer, the extent of decline in fair value, and the length of time that the decline in fair value below cost has existed. See Note 6 for a further discussion of other than temporary impairment. Interest and dividends on investment securities are reported in Interest income. Dividends are recognized when the shareholders' right to receive the dividend is established. Gains and losses on disposition of investment securities are computed using the average cost method and are recognized on the trade date.

Derivative Financial Instruments The MUFG Group engages in derivative activities involving swaps, forwards, futures, options, and other types of derivative contracts. Derivatives are used in trading activities to generate trading revenues and fee income for its own account and to respond to the customers' financial needs. Derivatives are also used to manage its market risk exposures to fluctuations in interest and foreign exchange rates, equity and commodity prices, and counterparty credit risk.

Derivatives entered into for trading purposes are carried at fair value and are reported as Trading account assets or Trading account liabilities. Fair values are estimated based on market or broker-dealer quotes when available. Valuation models such as present value and pricing models are applied to current market information to estimate fair values when such quotes are not available. The MUFG Group defers trade date gains or losses on derivatives where the fair values of those derivatives are not obtained from a quoted market price, supported by comparison to other observable market transactions, or based upon a valuation technique incorporating observable market data. The fair values of derivative contracts executed with the same counterparty under legally enforceable master netting agreements are presented on a net basis. Changes in the fair value of such contracts are recognized currently in Foreign exchange losses net with respect to foreign exchange contracts and in Trading account profits net with respect to interest rate contracts and other types of contracts.

Embedded features that are not clearly and closely related to the host contracts and meet the definition of derivatives are separated from the host contracts and measured at fair value unless the contracts embedding the derivatives are measured at fair value in their entirety.

Derivatives are also used to manage exposures to fluctuations in interest and foreign exchange rates arising from mismatches of asset and liability positions. Certain of those derivatives are designated by the MUFG Group and qualify for hedge accounting. A derivative is designated as a hedging instrument at the inception of each such hedge relationship and the MUFG Group documents, for such individual hedging relationships, the risk management objective and strategy, including identifying the item being hedged, identifying the specific risk being hedged and the method used to assess the hedge's effectiveness. In order for a hedging relationship to qualify for hedge accounting, the changes in the fair value of the derivative instruments must be highly effective in achieving offsetting changes in fair values or variable cash flows of the hedged items attributable to the risk being hedged. Any ineffectiveness, which arises during the hedging relationship, is recognized in Non-interest income or expense in the period in which it arises. All qualifying hedging derivatives are valued at fair value and included in Other

assets or Other liabilities. For fair value hedges of interest-bearing assets or liabilities, the

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change in the fair value of the hedged item and the hedging instruments is recognized in net interest income to the extent that it is effective. For all other fair value hedges, the change in the fair value of the hedged item and change in fair value of the derivative are recognized in non-interest income or expense. For cash flow hedges, the unrealized changes in fair value to the extent effective are recognized in accumulated other changes in equity from nonowner sources. Amounts realized on cash flow hedges related to variable rate loans are recognized in net interest income in the period when the cash flow from the hedged item is realized. The fair value of cash flow hedges related to forecasted transactions, if any, is recognized in non-interest income or expense in the period when the forecasted transaction occurs. Any difference that arises from gains or losses on hedging derivatives offsetting corresponding gains or losses on the hedged items, and gains and losses on derivatives attributable to the risks excluded from the assessment of hedge effectiveness are currently recognized in non-interest income or expense. Derivatives that do not qualify for hedge accounting are considered trading positions and are accounted for as such.

Loans Loans originated by the MUFG Group (originated loans) are carried at the principal amount outstanding, adjusted for unearned income and deferred net nonrefundable loan fees and costs. Originated loans held and intended for dispositions or sales in secondary markets are transferred to the held-for-sale classification and carried at the lower of cost or estimated fair value generally on an individual loan basis. Loan origination fees, net of certain direct origination costs, are deferred and recognized over the contractual life of the loan as an adjustment of yield using the method that approximates the interest method. Interest income on loans that are not impaired is accrued and credited to interest income as it is earned. Unearned income and discounts or premiums on purchased loans are deferred and recognized over the contractual lives of the loans using a method that approximates the interest method when such purchased loans are outside the scope of Statement of Position (SOP) 03-3 issued by the American Institute of Certified Public Accountants (AICPA), Accounting for Certain Loans or Debt Securities Acquired in a Transfer, as described below.

Originated loans are considered impaired when, based on current information and events, it is probable that the MUFG Group will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Originated loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

Originated loans are generally placed on nonaccrual status when substantial doubt exists as to the full and timely collection of either principal or interest, or when principal or interest is contractually past due one month or more with respect to loans of domestic banking subsidiaries, including BTMU and MUTB, and 90 days or more with respect to loans of certain foreign banking subsidiaries. A nonaccrual loan may be restored to an accrual status when interest and principal payments become current and management expects that the borrower will make future contractual payments as scheduled. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income. Cash receipts on nonaccrual loans, for which the ultimate collectibility of principal is uncertain, are applied as principal reductions; otherwise, such collections are credited to income. The MUFG Group does not capitalize any accrued interest in the principal balances of impaired loans at each balance sheet date.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In accordance with SOP 03-3 adopted by the MUFG Group on April 1, 2005, impaired loans acquired for which it is probable that the MUFG Group will be unable to collect all contractual receivables are initially recorded at the present value of amounts expected to be received, and the related valuation allowances are not carried over or created initially. Accretable yield is limited to the excess of the investor's estimate of undiscounted cash flows over the investor's initial investment in the loan, and subsequent increases in cash flows expected to be collected are recognized prospectively through adjustment of the loan's yield over its remaining life after reduction of any remaining allowance for credit losses for the loan established after its acquisition, if any, while any decrease in such cash flows below those initially expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition are recognized as impairments.

Loan Securitization The MUFG Group securitizes and services commercial and industrial loans in the normal course of business. The MUFG Group accounts for a transfer of loans in a securitization transaction as a sale if it meets relevant conditions for the surrender of control in accordance with SFAS No. 140. Otherwise, the transfer is accounted for as a collateralized borrowing transaction. Interests in loans sold through a securitization accounted for as a sale may be retained in the form of subordinated tranches or beneficial interests. These retained interests are primarily recorded in Securities available for sale. The previous carrying amount of the loans involved in the transfer is allocated between the loans sold and the retained interests based on their relative fair values at the date of the securitization. Since quoted market prices are generally not available, the MUFG Group usually estimates fair value of these retained interests based on the present value of future expected cash flows by using modeling techniques that involve management's best estimates of key assumptions, which may include default rates, recovery rates, and discount rates. Retained interests that can contractually be prepaid or otherwise settled in such a way that the MUFG Group would not recover substantially all of its investment are accounted for as investment securities available for sale.

Allowance for Credit Losses The MUFG Group maintains an allowance for credit losses to absorb probable losses inherent in the loan portfolio. Actual credit losses (amounts deemed uncollectible, in whole or in part), net of recoveries, are deducted from the allowance for credit losses, as net charge-offs, generally based on detailed loan reviews and a credit assessment by management at each balance sheet date. The MUFG Group generally applies its charge-off policy to all loans in its portfolio regardless of the type of borrower. A provision for credit losses, which is a charge against earnings, is added to bring the allowance to a level which, in management's opinion, is adequate to absorb probable losses inherent in the credit portfolio.

A key element relating to the policies and discipline used in determining the allowance for credit losses is the credit classification and the related borrower categorization process. The categorization is based on conditions that may affect the ability of borrowers to service their debt, taking into consideration current financial information, historical payment experience, credit documentation, public information, analyses of relevant industry segments and current trends. In determining the appropriate level of the allowance, the MUFG Group evaluates the probable loss by category of loan based on its type and characteristics.

The allowance for credit losses for non-homogeneous loans consists of an allocated allowance for specifically identified problem loans, an allocated allowance for country risk exposure, a formula allowance and an unallocated allowance. An allocated allowance is also established for large groups of smaller-balance homogeneous loans. Non-homogeneous loans such as commercial loans are evaluated individually and the allowance for such loans is comprised of specific, country risk, formula and unallocated allowances.

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The credit loss allowance for individual customers represents the impairment allowance determined in accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan. The MUFG Group measures the impairment of a loan, with the exception of large groups of smaller-balance homogeneous loans

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

that are collectively evaluated for impairment, based on the present value of expected future cash flows discounted at the loan's effective interest rate, or on the loan's observable market price, or based on the fair value of the collateral if the loan is collateral dependent, when it is probable that the MUFG Group will be unable to collect all amounts due according to the contractual terms of the loan agreement. For certain subsidiaries, some impaired loans are aggregated for the purpose of measuring impairment using historical loss factors. Generally, the MUFG Group's impaired loans include nonaccrual loans, restructured loans and other loans specifically identified as impaired.

The credit loss allowance for country risk exposure is a country-specific allowance for substandard, special mention and unclassified loans. The allowance is established to supplement the formula allowance for these loans, based on an estimate of probable losses relating to the exposure to countries that are identified by management to have a high degree of transfer risk. The measure is generally based on a function of default probability and the recovery ratio with reference to external credit ratings. For the allowance for specifically identified cross-border problem loans, the MUFG Group incorporates transfer risk in its determination of related allowance for credit losses.

The formula allowance is calculated for groups of loans collectively evaluated for impairments that cannot be attributed to specific loans by applying loss factors to outstanding substandard, special mention and unclassified loans. The evaluation of inherent loss for these loans involves a high degree of uncertainty, subjectivity and judgment. In determining the formula allowance, the MUFG Group, therefore, relies on a statistical analysis that incorporates historical loss factor percentages of total loans outstanding. Corresponding to the periodic impairment identification and self-assessment process, the estimation of the formula allowance is back-tested by comparing the allowance with the actual results subsequent to the balance sheet date. The results of such back-testing are evaluated by management to determine whether the manner and level of formula allowance need to be changed in subsequent years.

The unallocated allowance represents an estimate of additional losses inherent in the loan portfolio and is composed of attribution factors, which are based upon management's evaluation of various conditions that are not directly or indirectly measured in the determination of the allocated allowance. The conditions evaluated in connection with the unallocated allowance may include existing general economic and business conditions affecting the key lending areas of the MUFG Group, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, specific industry conditions within portfolio segments, recent loss experience in particular segments of the portfolio, duration of the current business cycle, bank regulatory examination results and findings of the MUFG Group's internal credit examiners.

The credit loss allowance for large groups of smaller-balance homogeneous loans is focused on loss experience for the pool rather than on a detailed analysis of individual loans. The allowance is determined primarily based on probable net charge-offs and the probability of insolvency based on the number of delinquencies.

Allowance for Off-Balance-Sheet Credit Instruments The MUFG Group maintains an allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, guarantees, standby letters of credit and other financial instruments. The allowance is recorded as a liability in Other liabilities and includes the specific allowance for specifically identified credit exposure and the allocated formula allowance. With regard to the specific allowance for specifically identified credit exposure and allocated formula allowance, the MUFG Group adopts the same methodology used in determining the allowance for loan credit losses. Potential credit losses related to derivatives are considered in the fair valuation of the derivatives.

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Net changes in the allowance for off-balance-sheet credit instruments are accounted for as Other non-interest expenses.

Premises and Equipment Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to operations over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Depreciation of premises and equipment is computed under the declining-balance method with respect to premises and equipment of BTMU, MUTB and certain other subsidiaries, and under the straight-line method with respect to premises and equipment of other subsidiaries, at rates principally based on the following estimated useful lives:

| | <u>Years</u> |
|-------------------------|--------------|
| Buildings | 15 to 50 |
| Equipment and furniture | 2 to 20 |
| Leasehold improvements | 3 to 39 |

Maintenance, repairs and minor improvements are charged to operations as incurred. Major improvements are capitalized. Net gains or losses on dispositions of premises and equipment are included in Other non-interest income or expense, as appropriate.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount to future undiscounted net cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets are grouped with other assets and liabilities at the lowest level with independent and identifiable cash flows. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less estimated cost to sell.

Asset retirement obligations related to restoration of certain leased properties upon lease termination are recorded in Other liabilities with a corresponding increase in leasehold improvements. The amounts represent the present value of expected future cash flows associated with returning such leased properties to their original condition. The difference between the gross and present value of expected future cash flows is accreted over the life of the related leases as a non-interest expense.

Goodwill The MUFJ Group reports the excess of the cost of investments in subsidiaries over its share of the fair value of net assets at the date of acquisition as Goodwill. Goodwill related to investments in equity method investees is included in Other assets as a part of the carrying amount of investments in equity method investees.

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Goodwill arising from a business combination is not amortized but is subject to an annual impairment test. Goodwill is recorded at a designated reporting unit level for the purpose of assessing impairment. A reporting unit is an operating segment, or an identified business unit one level below an operating segment. An impairment loss is recognized to the extent that the carrying amount of goodwill exceeds its implied fair value.

Intangible assets Intangible assets consist of software, core deposit intangibles, customer relationships, trade names and other intangible assets. These are amortized over their estimated useful lives unless they have

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

indefinite useful lives. Amortization of intangible assets is computed in a manner that best reflects the economic benefits of the intangible assets as follows:

| | Useful lives | |
|--------------------------|--------------|---------------------|
| | (years) | Amortization method |
| Software | 2 to 10 | Straight-line |
| Core deposit intangibles | 4 to 18 | Declining-balance |
| Customer relationships | 7 to 30 | Declining-balance |
| Trade names | 12 to 20 | Straight-line |

Intangible assets having indefinite useful lives, primarily certain customer relationships, are not amortized but are subject to annual impairment tests. An impairment exists if the carrying value of an indefinite-lived intangible asset exceeds its fair value. For other intangible assets subject to amortization, an impairment is recognized if the carrying amount is not recoverable and the carrying amount exceeds the fair value of the intangible asset.

The MUFG Group capitalizes certain costs associated with the acquisition or development of internal-use software. Costs subject to capitalization are salaries and employee benefits for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of time spent directly on the project. Once the software is ready for its intended use, the MUFG Group begins to amortize capitalized costs on a straight-line basis.

Accrued Severance and Pension Liabilities The MUFG Group has defined benefit pension plans and other postretirement benefit plans, including severance indemnities plans. The liabilities related to these plans are computed and recognized based on actuarial computations. Unrecognized net actuarial gains and losses that arise from differences between actual experiences and assumptions are generally amortized over the average remaining service period of participating employees if it exceeds the corridor, which is defined as the greater of 10% of plan assets or the projected benefit obligation. Prior to the adoption of SFAS No.158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R), an excess of the accumulated benefit obligation over the plan assets was recognized in the consolidated balance sheets as the minimum liability, and a corresponding intangible asset was recognized up to the amount equal to the total of unrecognized prior service cost and unrecognized net obligation at transition. To the extent that the minimum liability exceeds the intangible asset, it was recognized in accumulated other changes in equity from nonowner sources. The costs of the plans, based on actuarial computations of current and future employee benefits, were charged to Salaries and employee benefits.

The MUFG Group adopted the recognition provisions of SFAS No. 158 as of March 31, 2007. See *Accounting Changes Defined Benefit Pension and Other Postretirement Plans* and Note 18 for further information.

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Long-Term Debt Premiums, discounts and issuance costs of long-term debt are amortized based on the method that approximates the interest method over the terms of the long-term debt.

Obligations under Guarantees The MUFG Group provides customers with a variety of guarantees and similar arrangements, including standby letters of credit, financial and performance guarantees, credit protections, and liquidity facilities. The MUFG Group recognizes guarantee fee income over the guarantee period based on the contractual terms of the guarantee contracts. It is the MUFG Group's dominant business practice to receive a guarantee fee at the inception of the guarantee, which approximates market value of the guarantee and is initially recorded as a liability, which is then recognized as guarantee fee income ratably over the guarantee period.

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Allowance for repayment of excess interest The MUFJ Group maintains an allowance for repayment of excess interest, under SFAS No. 5, Accounting for Contingencies, based on an analysis of past experience of reimbursement of excess interest, borrowers' profile and recent trend of borrowers' demand for reimbursement. The allowance is recorded as a liability in Other liabilities.

Fees and Commissions Revenue recognition of major components of fees and commissions is as follows:

Fees on funds transfer and collection services and fees from investment banking services are generally recognized as revenue when the related services are performed.

Fees from trade-related financing services are recognized over the period of the financing.

Trust fees are recognized on an accrual basis, generally based on the volume of trust assets under management and/or the operating performance for the accounting period of each trust account. With respect to trust accounts with guarantee of trust principal, trust fees are determined based on the profits earned by individual trust account during the trust accounting period, less deductions, including provision for reserve, impairment for individual investments and dividends paid to beneficiary certificate holders. The trust fees for these trust accounts are accrued based on the amounts expected to be earned during the accounting period of each trust account.

Annual fees and royalty and other service charges related to credit card business are recorded on a straight-line basis as services are provided.

Interchange income from credit card business is recognized as billed.

Fees on guarantees are generally recognized over the contractual periods of the respective guarantees. Amounts initially recorded as a liability corresponding to the obligations at fair value are generally recognized as revenue over the terms of the guarantees as the MUFJ Group is deemed to be released from the risk under guarantees.

Service charges on deposit accounts, and fees and commissions from other services are generally recognized over the period that the service is provided.

Income Taxes The provision for income taxes is determined using the asset and liability method of accounting for income taxes. Under this method, deferred income taxes reflect the net tax effects of (1) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (2) operating loss and tax credit carryforwards. A valuation allowance is recognized for any portion of the deferred tax assets where it is considered more likely than not that it will not be realized. The provision for deferred taxes is based on the change in the net deferred tax asset or liability during the fiscal year.

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Free Distributions of Common Shares As permitted by the Commercial Code of Japan (the Code) and as revised under the Company Law, Japanese companies, upon approval by the Board of Directors, may make a free distribution of shares, in the form of a stock split as defined, to shareholders. In accordance with generally accepted accounting practice in Japan, such distribution does not give rise to any change in capital stock or capital surplus accounts. Common shares distributed are recorded as shares issued on the distribution date. See Note 21.

Earnings per Common Share Basic earnings per share (EPS) excludes dilutive effects of potential common shares and is computed by dividing income available to common stock shareholders by the weighted average number of common shares outstanding for the period, while diluted EPS gives effect to all dilutive potential common shares that were outstanding during the period. See Note 24 for the computation of basic and diluted EPS.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Treasury Stock The MUFG Group presents its treasury stock, including shares of MUFG owned by its subsidiaries and affiliated companies, as a reduction of shareholders' equity on the consolidated balance sheets at cost and accounts for treasury stock transactions under an average cost method. Gains (losses) on sales of the treasury stock are charged to capital surplus.

Comprehensive Income (Loss) The MUFG Group's comprehensive income (loss) includes net income and other changes in equity from nonowner sources. All changes in unrealized gains and losses on investment securities available for sale, unrealized gains and losses on derivatives qualifying for cash flow hedges, minimum pension liability adjustments and foreign currency translation adjustments constitute the MUFG Group's changes in equity from nonowner sources and are presented, with related income tax effects, in the consolidated statements of changes in equity from nonowner sources.

Stock-Based Compensation Certain subsidiaries of MUFG have stock-based compensation plans, which are described more fully in Note 33. For the fiscal years ended March 31, 2005 and 2006, as allowed under SFAS No. 123, Accounting for Stock-Based Compensation, compensation expense was recognized using the intrinsic value-based method of valuing stock options prescribed in Accounting Principles Board Opinions (APB) No. 25, Accounting for Stock Issued to Employees and related interpretations. Under the intrinsic value-based method, compensation expense was measured as the amount by which the quoted market price of these subsidiaries' stock at the date of grant exceeded the stock option exercise price. On April 1, 2006, the MUFG Group adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). See *Accounting Changes - Share-Based Payment* and Note 33 for further information.

Had the employee stock-based compensation plans been accounted for under the fair value method of SFAS No. 123, the MUFG Group's compensation expense, net income, and net income per share would have been the pro forma amounts indicated in the following table:

| | For the fiscal years ended March 31, | |
|---|---|-------------|
| | 2005 | 2006 |
| | (in millions) | |
| Reported net income | ¥ 415,155 | ¥ 363,511 |
| Add: Stock-based employee compensation expense (included in reported net income, net of tax) | 16 | 322 |
| Less: Stock-based employee compensation expense (determined under fair value based method for all awards, net of tax) | (1,677) | (1,688) |
| Pro forma net income, after stock-based employee compensation expense | ¥ 413,494 | ¥ 362,145 |
| | (in Yen) | |
| Basic earnings per common share - net income available to common shareholders: | | |
| Reported | ¥ 62,717.21 | ¥ 19,313.78 |
| Pro forma | 62,462.09 | 19,145.56 |

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Diluted earnings per common share net income available to common shareholders:

| | | |
|-----------|-----------|-----------|
| Reported | 62,476.76 | 18,951.87 |
| Pro forma | 62,221.87 | 18,783.65 |

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reclassifications

Certain reclassifications and format changes have been made to the consolidated financial statements for the fiscal years ended March 31, 2005 and 2006 to conform to the presentation for the fiscal year ended March 31, 2007.

These reclassifications and format changes include 1) the presentation of Outsourcing expenses, including data processing, Depreciation of premises and equipment, Impairment of intangible assets, Taxes and public charges and Provision for repayment of excess interest as separate line items in the consolidated statements of income, and 2) the presentation of Impairment of intangible assets, Equity in losses (earnings) of equity method investees, Increase in allowance for repayment of excess interest and Purchases of intangible assets as separate line items in the consolidated statements of cash flows.

These reclassifications and format changes did not result in a change in previously reported net income, shareholders' equity or total assets.

Accounting Changes

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

In December 2003, the FASB issued FIN No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN No. 46R). FIN No. 46R modified FIN No. 46 in certain respects, including the scope exception, the definition of VIEs, and other factors that effect the determination of VIEs and primary beneficiaries that must consolidate VIEs. FIN No. 46R, as written, applies to VIEs created before February 1, 2003 no later than the end of the first reporting period that ends after March 15, 2004, and to all special purpose entities no later than the first reporting period that ends after December 15, 2003. Subsequent to the issuance of FIN No. 46R, the Chief Accountant of the U.S. Securities and Exchange Commission (SEC) stated the SEC staff's position in a letter to the AICPA dated March 3, 2004, that the SEC staff did not object to the conclusion that FIN No. 46R should not be required to be applied at a date earlier than the original FIN No. 46 and that foreign private issuers would be required to apply FIN No. 46R at various dates depending on the entity's year-end and the frequency of interim reporting. In accordance with the letter, the MUFG Group adopted FIN No. 46R on April 1, 2004, except for certain investment companies, for which the effective date of FIN No. 46R was deferred. Under FIN No. 46R, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE is recognized as a cumulative effect of a change in accounting principle. The cumulative effect of the change in accounting principle was to decrease net income by ¥977 million for the fiscal year ended March 31, 2005. See Note 27 for further discussion of VIEs in which the MUFG Group holds variable interests.

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Accounting for Conditional Asset Retirement Obligations In March 2005, the FASB issued FIN No. 47, *Accounting for Conditional Asset Retirement Obligations* an interpretation of FASB Statement No. 143. FIN No. 47 clarifies that the term *conditional asset retirement obligation* as used in SFAS No. 143, *Accounting for Asset Retirement Obligations* refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control

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of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. Effective March 31, 2006, the MUFG Group adopted FIN No. 47 to existing asset retirement obligations associated with commitments to return property subject to operating leases to its original condition upon lease termination. The cumulative effect of the change in accounting principle was to decrease net income by ¥9,662 million. This adjustment represents the cumulative depreciation and accretion that would have been recognized through the date of adoption of FIN No. 47 had the statement applied to the MUFG Group's existing asset retirement obligations at the time they were initially incurred.

Had the asset retirement obligations been accounted for under FIN No. 47 at the inception of operating leases requiring restoration, the MUFG Group's net income and net income per share would have been the pro forma amounts indicated in the following table:

| | For the fiscal years ended March 31, | |
|---|---|-------------|
| | 2005 | 2006 |
| | (in millions) | |
| Reported net income | ¥ 415,155 | ¥ 363,511 |
| Cumulative effect of a change in accounting principle related to adoption of FIN No. 47, net of taxes: | | |
| Reported | | 9,662 |
| Pro forma | 667 | 516 |
| Pro forma net income, after cumulative effect of a change in accounting principle related to adoption of FIN No. 47, net of taxes | ¥ 414,488 | ¥ 372,657 |
| | (in Yen) | |
| Basic earnings per common share net income available to common shareholders: | | |
| Reported | ¥ 62,717.21 | ¥ 19,313.78 |
| Pro forma | 62,717.11 | 19,314.91 |
| Diluted earnings per common share net income available to common shareholders: | | |
| Reported | 62,476.76 | 18,951.87 |
| Pro forma | 62,476.66 | 18,953.00 |

Share-Based Payment In December 2004, the FASB issued SFAS No. 123R. SFAS No. 123R replaces SFAS No. 123, and supersedes APB No. 25. In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107, which provides interpretive guidance on SFAS No. 123R. SFAS No. 123 preferred a fair-value-based method of accounting for share-based payment transactions with employees, but it permitted the option of continuing to apply the intrinsic-value-based measurement method in APB No. 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. SFAS No. 123R eliminates the alternative to use the intrinsic value method of accounting and requires entities to recognize the costs of share-based payment transactions with employees

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based on the grant-date fair value of those awards over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123R is effective as of the beginning of the fiscal year or interim period beginning after June 15, 2005. The MUFG Group adopted SFAS No. 123R on April 1, 2006 under the modified prospective method, which resulted in a decrease in income from continuing operations before income tax expense of ¥1,969 million and a decrease in income from continuing operations, net of taxes, of ¥1,026 million for the fiscal

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year ended March 31, 2007, which includes estimated forfeitures for restricted stock and the amortization of compensation costs related to unvested stock options. The corresponding impact to both basic and diluted earnings per share was a reduction of ¥102.08 per share for the fiscal year ended March 31, 2007. The adoption of SFAS No. 123R did not have a material impact on the MUFG Group's cash flows. See Note 33 for a further discussion of the adoption of SFAS No. 123R and stock-based compensation plans.

Exchanges of Nonmonetary Assets In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, an amendment of APB Opinion No. 29. The guidance in APB No. 29, *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier adoption permitted. The MUFG Group adopted SFAS No. 153 on April 1, 2006, which did not have a material impact on its financial position and results of operations.

Accounting Changes and Error Corrections In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 replaces APB No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principles. SFAS No. 154 also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, with earlier adoption permitted. The MUFG Group adopted SFAS No. 154 on April 1, 2006, which did not have a material impact on its financial position and results of operations.

The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments In November 2005, the FASB staff issued an FASB Staff Position (FSP) on SFAS No. 115 and SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP is applicable for certain investments such as debt and equity securities that are within the scope of SFAS No. 115 and equity securities that are not subject to the scope of SFAS No. 115 and No. 124 and not accounted for under the equity method pursuant to APB No. 18, *The Equity Method of Accounting for Investments in Common Stock*, and related interpretations. This FSP nullifies the requirements of paragraphs 10-18 of the FASB Emerging Issues Task Force (the EITF) Issue 03-1 and supersedes EITF Topic No. D-44, *Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value*. This FSP carries forward the requirements of paragraphs 8 and 9 of EITF Issue 03-1 with respect to cost-method investments, and carries forward the disclosure requirements included in paragraphs 21 and 22 of EITF Issue 03-1. Also, the guidance in this FSP amends SFAS No. 115, SFAS No. 124 and APB No. 18. The guidance in this FSP shall be applied to reporting periods beginning after December 15, 2005, with earlier application permitted. The MUFG Group adopted the FSP on April 1, 2006, which did not have a material impact on its financial position and results of operations.

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

In June 2003, BTMU submitted to the government an application to transfer the obligation to pay benefits for future employee service related to the substitutional portion and the application was approved in August 2003. In August 2004, BTMU made another application for transfer to the government of the remaining substitutional portion and the application was approved in November 2004. The substitutional obligation and related plan assets were transferred to a government agency in March 2005 and BTMU was released from paying the substitutional portion of the benefits to its employees. The completion of the transfer to the Japanese Government of the substitutional portion of the employee pension plan constituted a settlement of such plan. However, since there remains a defined benefit plan and the settlement occurred subsequent to December 31, 2004 (the measurement date of such plan), the MUFG Group recognized net gains of ¥34,965 million as a result of the transfer / settlement for the fiscal year ended March 31, 2006. See Note 18 for further discussion.

Effects of Prior Year Misstatements on Current Year Financial Statements In September 2006, the SEC staff issued SAB No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 provides guidance on quantifying and evaluating the materiality of unrecorded misstatements. It requires the use of both the iron curtain and rollover approaches in quantifying and evaluating the materiality of a misstatement. Under the iron curtain approach, the error is quantified as the cumulative amount by which the current year balance sheet is misstated. The rollover approach quantifies the error as the amount by which the current year income statement is misstated. If either approach results in a material misstatement, financial statement adjustments are required. SAB No. 108 is effective for financial statements issued for fiscal years ending after November 15, 2006. Early adoption is encouraged in interim periods which are part of a fiscal year ending after November 15, 2006. The MUFG Group adopted SAB No. 108 as of March 31, 2007, which did not have a material impact on its financial position and results of operations.

Defined Benefit Pension and Other Postretirement Plans In September 2006, the FASB issued SFAS No. 158. SFAS No. 158 requires entities to recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement plans in its consolidated statement of financial position and recognize changes in the funded status of defined benefit pension and other postretirement plans in the year in which the changes occur in comprehensive income. SFAS No. 158 clarifies that defined benefit assets and obligations should be measured as of the date of the entity's fiscal year-end statement of financial positions. SFAS No. 158 also requires additional disclosure information related to certain effects on the net periodic benefit costs and credits, and transition assets or obligations. The requirement to recognize the funded status as of the date of the statement of financial position is effective for fiscal years ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the statement of financial position is effective for fiscal years ending after December 15, 2008. The MUFG Group adopted the recognition provisions of SFAS No. 158 as of March 31, 2007. The adoption of SFAS No. 158, which had no impact on how the MUFG

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Group determines its net periodic benefit costs, did have the effect of increasing shareholders' equity by ¥178,784 million, net of taxes, which was recorded in accumulated other changes in equity from nonowner sources.

Recently Issued Accounting Pronouncements

Accounting for Certain Hybrid Financial Instruments In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*. SFAS No. 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140 and resolves issues addressed in SFAS No. 133 Implementation Issue D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133. SFAS No. 155 establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. SFAS No. 155 also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The MUFG Group has not completed the study of what effect SFAS No. 155 will have on its financial position and results of operations.

Accounting for Servicing of Financial Assets In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*. SFAS No. 156 amends SFAS No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract, and requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS No. 156 permits an entity to choose either the amortization method or the fair value measurement method for each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for the fiscal year beginning after September 15, 2006. Earlier adoption is permitted. The MUFG Group has not completed the study of what effect SFAS No. 156 will have on its financial position and results of operations.

Determining the Variability to Be Considered in Applying FIN No. 46R In April 2006, the FASB staff issued an FSP on FIN No. 46R-6,

Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R). This FSP states that the variability to be considered in applying FIN No. 46R shall be based on an analysis of the design of the entity as outlined in the following two steps: (a) analyze the nature of the risks in the entity, (b) determine the purpose for which the entity was created and determine the variability (created by the risks identified in step (a)) the entity is designed to create and pass along to its interest holders. For the purposes of this FSP, interest holders include all potential variable interest holders (including contractual, ownership, or other pecuniary interests in the entity). After determining the variability to be considered, the reporting enterprise can determine which interests are designed to absorb that variability. The FSP should be applied prospectively to all entities (including newly created entities) with which an enterprise first becomes involved, and to all entities previously required to be analyzed under FIN No. 46R when a reconsideration event has occurred beginning the first day of the first reporting period beginning after June 15, 2006. Early application is permitted for periods for which financial statements have not yet been issued. Retrospective application to the date of the initial application

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of FIN No. 46R is permitted but not required. If retrospective application is elected, it must be completed no later than the end of the first annual reporting period ending after July 15, 2006. The MUFG Group has not completed the study of what effect the FSP will have on its financial position and results of operations.

Uncertainty in Income Taxes In June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes*. FIN No. 48 requires recognition of a tax benefit to the extent of management's best estimate of the impact of a tax position, provided it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The MUFG Group will adopt the provisions of FIN No. 48 on April 1, 2007. The impact of adopting FIN No. 48 is not expected to be significant on its financial position and results of operations.

Leveraged Leases In July, 2006, the FASB issued an FSP on SFAS No. 13, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*. This FSP requires if, during the lease term, the projected timing of the income tax cash flows generated by a leveraged lease is revised, the rate of return and the allocation of income shall be recalculated from the inception of the lease. At adoption, the cumulative effect of applying the provisions of this FSP shall be reported as an adjustment to the beginning balance of retained earnings as of the beginning of the period in which this FSP is adopted. This FSP shall be applied to fiscal years beginning after December 15, 2006. The MUFG Group will adopt the provisions of this FSP on April 1, 2007. The MUFG Group estimates that the cumulative effect of adopting this FSP will be to reduce the beginning balance of retained earnings by approximately ¥6 billion, net of taxes. The reduction to retained earnings at adoption will be recognized in interest income over the remaining terms of the affected leases as tax benefits are realized.

Fair Value Measurements In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS No. 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under SFAS No. 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. The MUFG Group has not completed the study of what effect SFAS No. 157 will have on its financial position and results of operations.

Fair Value Option for Financial Assets and Financial Liabilities In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No 115*. SFAS No. 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities and certain other items at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting

periods must be recognized in current earnings. SFAS No. 159 is effective for

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

fiscal years beginning after November 15, 2007. Early adoption is permitted subject to certain conditions. The MUFG Group has not completed the study of what effect SFAS No. 159 will have on its financial position and results of operations.

Investment Company Accounting In June 2007, the AICPA issued SOP 07-1, Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies. SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Guide. The statement also addresses whether the specialized industry accounting principles of the AICPA Guide should be retained by a parent company in consolidation or by an investor that has the ability to exercise significant influence over the investment company and applies the equity method of accounting to its investment in the entity. SOP 07-1 is effective for fiscal years beginning on or after December 15, 2007, with earlier application encouraged. In addition, in May 2007, the FASB issued an FSP FIN No. 46R-7, Application of FIN No. 46R to Investment Companies, which amends FIN No. 46R to make permanent the temporary deferral of the application of FIN No. 46R to entities within the scope of the revised audit guide under SOP 07-1. The MUFG Group has not completed the study of what effect SOP 07-1 and FSP FIN No. 46R-7 will have on its financial position and results of operations.

2. BUSINESS COMBINATION

Merger with UFJ Holdings

Pursuant to the merger agreement dated April 20, 2005 between MTFG and UFJ Holdings and their respective subsidiaries, MTFG merged with UFJ Holdings on October 1, 2005 and was renamed MUFG. Therefore, the results of the UFJ Holdings Group operations have been included in the consolidated financial statements subsequent to October 1, 2005.

The UFJ Holdings Group was one of Japan's leading providers of financial services with a competitive domestic position in the Nagoya and Osaka areas, as well as a client base of small and medium-sized enterprises and retail customers which complements MTFG's subsidiaries. These anticipated synergies contributed to a purchase price that resulted in the recognition of goodwill.

As a result of the merger, MUFG is expected to be a leading comprehensive financial group that is competitive on both a domestic and global basis, providing a broad range of financial products and services to customers with increasingly diverse and sophisticated needs.

As provided for by the merger agreement, MTFG remained as the surviving entity of the merger. Each outstanding share of common stock of UFJ Holdings was converted into 0.62 shares of common stock of MUFG. Each outstanding share of Preferred Stock (Class II, IV, V, VI and VII) of UFJ was converted into one share of Preferred Stock (Class 8, 9, 10, 11 and 12, respectively) of MUFG.

Purchase Price Allocation

The merger was accounted for under the purchase method of accounting in accordance with SFAS No. 141, *Business Combinations*. The purchase price of the UFJ Holdings Group amounted to ¥4,406,146 million as described below, of which ¥4,403,225 million was recorded in capital surplus relating to merger with the UFJ Holdings Group, and direct acquisition costs of ¥2,921 million were included in the purchase price.

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| | (in millions, except number of shares, exchange ratio and per share amount) |
|---|--|
| Convertible preferred stock | ¥ 1,310,365 ⁽¹⁾ |
| Outstanding common stock of UFJ Holdings | 5,183,379 ⁽²⁾ |
| Exchange ratio | 0.62 |
| MUFG common stock issued | 3,213,695 |
| Average closing market price of MTFG common stock | 962,500 |
| | ¥ 3,093,181 ⁽³⁾ |
| Less costs of registration and issuance | (321) |
| Direct acquisition costs | 2,921 |
| Total purchase price | ¥ 4,406,146 |

Notes:

- (1) The estimated fair value of the convertible preferred stock is derived from the present value of the cash dividends and principal payment streams as well as any beneficial conversion features valued using a binomial option model.
- (2) Treasury stock and parent's common stock owned by subsidiaries and affiliated companies are excluded from the total number of shares issued by UFJ Holdings.
- (3) The estimated fair value of MUFG common stock is based on the average closing market price of MTFG common stock for the period commencing two trading days prior to and ending two trading days after the merger ratio was agreed to and announced on February 18, 2005.

The purchase price of the UFJ Holdings Group was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of October 1, 2005, as summarized below:

| | (in millions) |
|---|---------------|
| Total purchase price | ¥ 4,406,146 |
| Less (add): | |
| Shareholders' equity of the UFJ Holdings Group | 2,530,834 |
| The UFJ Holdings Group's goodwill and other intangible assets | (2,927,411) |
| Estimated adjustments to reflect assets acquired at fair value: | |
| Investment securities | 317,340 |
| Net loans | 464,053 |
| Premises and equipment | 28,919 |

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| | |
|---|-------------|
| Intangible assets | 1,264,310 |
| Deferred tax assets | 1,434,066 |
| Others | (29,892) |
| Estimated adjustments to reflect liabilities assumed at fair value: | |
| Long-term debt | (604,920) |
| Deferred tax liabilities | (6,077) |
| Others | 201,794 |
| | <hr/> |
| Total fair value of net assets acquired | 2,673,016 |
| | <hr/> |
| Goodwill | ¥ 1,733,130 |
| | <hr/> |

See Note 10 for the amount of goodwill by reportable segment.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Condensed statement of net assets acquired*

The following condensed statement of net assets acquired reflects the fair value of the assets and liabilities of the UFJ Holdings Group as of October 1, 2005:

| | (in millions) |
|--|----------------------|
| Assets: | |
| Cash and due from banks | ¥ 5,590,859 |
| Interest-earning deposits in other banks | 901,936 |
| Call loans and funds sold | 192,152 |
| Receivables under resale agreements | 1,732,212 |
| Receivables under securities borrowing transactions | 1,882,198 |
| Trading account assets | 4,021,283 |
| Investment securities | 21,236,870 |
| Net loans | 41,838,613 |
| Premises and equipment | 590,729 |
| Customers acceptance liability | 42,752 |
| Intangible assets | 1,264,310 |
| Goodwill | 1,733,130 |
| Deferred tax assets | 1,461,499 |
| Others | 1,722,022 |
| Total assets | ¥ 84,210,565 |
| Liabilities: | |
| Deposits | ¥ 53,344,596 |
| Call money and funds purchased | 1,691,824 |
| Payables under repurchase agreements | 3,401,945 |
| Payables under securities lending transactions | 910,654 |
| Due to trust account and other short-term borrowings | 7,949,811 |
| Trading account liabilities | 2,277,787 |
| Bank acceptances outstanding | 42,752 |
| Long-term debt | 6,360,339 |
| Deferred tax liabilities | 67,189 |
| Others | 3,757,522 |
| Total liabilities | 79,804,419 |
| Net assets acquired including goodwill | ¥ 4,406,146 |

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Intangible assets acquired*

The estimated useful lives of the intangible assets at October 1, 2005 were as follows:

| | <u>Fair value</u> | <u>Weighted average life</u> |
|---|--------------------|----------------------------------|
| | (in millions) | (in years) |
| Intangible assets subject to amortization: | | |
| Core deposit intangibles | ¥ 576,100 | 18 |
| Customer relationships | 340,401 | 20 |
| Software | 160,826 | 5 |
| Trade names | 33,655 | 19 |
| Other | 820 | 8 |
| Sub-total | <u>1,111,802</u> | <u>17</u> |
| Intangible assets not subject to amortization: | | |
| Indefinite-lived customer relationships | 126,427 | |
| Indefinite-lived trade names | 17,682 | |
| Other | 8,399 | |
| Sub-total | <u>152,508</u> | |
| Total | <u>¥ 1,264,310</u> | |

Unaudited pro forma combined condensed statements of income

The following unaudited pro forma combined condensed statements of income present the results of operations had the merger taken place at the beginning of each period:

For the fiscal years ended March 31,

2005

2006

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(in millions, except per share data

| | and number of shares) | |
|---|-----------------------|-------------|
| Statements of income data: | | |
| Net interest income | ¥ 1,928,330 | ¥ 2,112,189 |
| Provision for credit losses | 200,204 | 185,884 |
| Non-interest income | 2,207,435 | 1,577,976 |
| Non-interest expense | 2,436,371 | 2,750,620 |
| | <hr/> | <hr/> |
| Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle | 1,499,190 | 753,661 |
| | <hr/> | <hr/> |
| Income from discontinued operations net | 1,493 | 8,973 |
| Cumulative effect of a change in accounting principles, net of tax | 1,965 | (9,662) |
| Income tax expense | 417,093 | 195,723 |
| | <hr/> | <hr/> |
| Net income | ¥ 1,085,555 | ¥ 557,249 |
| | <hr/> | <hr/> |
| Amounts per share: | | |
| Basic earnings per common share net income available to common shareholders | ¥ 107,277.91 | ¥ 29,739.48 |
| Diluted earnings per common share net income available to common shareholders | 98,032.62 | 27,624.29 |
| Weighted average common shares outstanding (in thousands) | 9,679 | 11,311 |
| Weighted average diluted common shares outstanding (in thousands) | 10,989 | 12,585 |

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. DISCONTINUED OPERATIONS**

During the fiscal year ended March 31, 2006, UnionBanCal Corporation (UNBC), a U.S. subsidiary of BTMU whose results were reported as a separate business segment, signed a definitive agreement to sell its international correspondent banking operations to Wachovia Bank, N.A., effective October 6, 2005, and the principal legal closing of the transaction took place on the same day, with UNBC receiving ¥25,220 million in cash from Wachovia Bank, N.A. At the principal closing, no loans or other assets were acquired by Wachovia Bank, N.A., and no liabilities were assumed. UNBC continued to operate the international business over a transition period of several months. All of UNBC's offices designated for disposal were closed as of June 30, 2006. The remaining assets included deposits with banks awaiting approval for repatriation of capital and unremitted profits and loans that are maturing in 2008. During the fiscal year ended March 31, 2007, UNBC received an additional ¥466 million as a contingent purchase price payment. The remaining liabilities primarily consisted of accrued expenses, which will be settled when due.

The MUFG Group accounted for these transactions as discontinued operations in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* and presented the results of discontinued operations as a separate line item in the consolidated statements of income. In addition, assets to be disposed or sold, accounted for at the lower of cost or fair value, and liabilities to be extinguished or assumed in connection with discontinued operations were presented as separate assets and liabilities, respectively, in the consolidated balance sheets.

Interest expense was attributed to discontinued operations based on average net assets. The amount of interest expense allocated to discontinued operations for the fiscal years ended March 31, 2005, 2006 and 2007 was ¥87 million, ¥1,708 million and ¥209 million, respectively.

The severance reserve balances at March 31, 2006 and 2007 were ¥2,562 million and ¥238 million, respectively. The decrease of ¥2,324 million from March 31, 2006 primarily related to cash payments to employees.

At March 31, 2006 and 2007, the assets and liabilities identified as discontinued operations were comprised of the following:

| | <u>2006</u> | <u>2007</u> |
|---|-------------------|-------------------|
| | (in millions) | |
| Assets: | | |
| Cash and due from banks | ¥ 14,069 | ¥ 2,194 |
| Interest-earning deposits in other banks | 16,384 | |
| Loans, net of allowance for credit losses | 85,492 | 159 |
| Customers' acceptance liability | 5,031 | 45 |
| Other | 3,537 | 37 |
| | <u> </u> | <u> </u> |

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| | | |
|--|-----------|---------|
| Assets of discontinued operations to be disposed or sold | ¥ 124,513 | ¥ 2,435 |
| Liabilities: | | |
| Deposits - Overseas offices: | | |
| Non-interest bearing | ¥ 52,772 | ¥ |
| Interest-bearing | 54,515 | |
| Total deposits | 107,287 | |
| Bank acceptances outstanding | 5,031 | 45 |
| Other | 6,444 | 501 |
| Liabilities of discontinued operations to be extinguished or assumed | ¥ 118,762 | ¥ 546 |

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of income from discontinued operations for the fiscal years ended March 31, 2005, 2006 and 2007 were as follows:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|-------------|----------------------|-------------|
| | | (in millions) | |
| Total revenue | ¥ 12,202 | ¥ 14,141 | ¥ 1,604 |
| Income (loss) from discontinued operations | ¥ 3,936 | ¥ (2,563) | ¥ (2,451) |
| Gains on disposal | | 25,220 | 466 |
| Minority interest in income (loss) of consolidated subsidiaries | 941 | 5,607 | (434) |
| Income tax expense (benefit) | 1,502 | 8,077 | (734) |
| Income (loss) from discontinued operations net | ¥ 1,493 | ¥ 8,973 | ¥ (817) |

4. INVESTMENTS IN ACOM AND DCS***ACOM CO., LTD.***

In April 2004, MUFG acquired an additional 12.9% of the common shares of ACOM CO., LTD. (ACOM), a consumer finance company in Japan, resulting in an aggregate ownership interest of 15.1% in ACOM. Prior to the acquisition, the MUFG Group held 2.2% of the common shares of ACOM and accounted for the investment as available-for-sale securities. As a result of the additional investment and a change in the MUFG Group's relationship with ACOM, including an increase in the MUFG Group's representation on ACOM's board of directors, the MUFG Group obtained the ability to exercise significant influence over the operations of ACOM and accounted for such investment under the equity method for the fiscal year ended March 31, 2005. The equity method was applied in a manner consistent with the accounting for a step-by-step acquisition of a subsidiary in accordance with APB No. 18.

Diamond Computer Service Co., Ltd.

During the fiscal year ended March 31, 2005, MUFG acquired 100% of Diamond Computer Service Co., Ltd. (DCS), a former equity method investee of BTMU, which provides data processing and IT development services, through a share exchange. 26,205 shares of MUFG's common stock were issued in exchange for all of the outstanding shares of DCS's common stock based on the exchange ratio of 0.00135 shares of MUFG's common stock for each share of DCS's common stock. Following the completion of the exchange offer, in accordance with a business alliance between DCS and a third party, MUFG sold 60% of its shares of DCS to the third party. As a result, DCS became an equity method investee at March 31, 2005.

5. TRADING ACCOUNT ASSETS AND LIABILITIES

The following table shows trading account assets and liabilities, carried at estimated fair value, at March 31, 2006 and 2007. For trading derivative contracts executed under legally enforceable master netting agreements, related assets and liabilities are bilaterally offset and reported net by each counterparty.

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | <u>2006</u> | <u>2007</u> |
|--|-----------------------------|-----------------------------|
| | (in millions) | |
| Trading account assets: | | |
| Trading securities: | | |
| Japanese government, prefectural and municipal bonds | ¥ 3,981,830 | ¥ 3,379,723 |
| Commercial paper | 2,034,471 | 1,560,914 |
| Equity securities, foreign governments bonds and other securities | 2,054,167 | 3,627,000 |
| | <u> </u> | <u> </u> |
| Total | 8,070,468 | 8,567,637 |
| | <u> </u> | <u> </u> |
| Trading derivative assets: | | |
| Interest rate contracts: | | |
| Forwards and futures | 12,262 | 15,333 |
| Swaps and swap-related products | 3,551,856 | 2,659,600 |
| Options purchased | 128,782 | 126,956 |
| | <u> </u> | <u> </u> |
| Total | 3,692,900 | 2,801,889 |
| | <u> </u> | <u> </u> |
| Foreign exchange contracts: | | |
| Forwards and futures | 594,448 | 774,458 |
| Swaps | 388,002 | 439,078 |
| Options purchased | 275,689 | 328,473 |
| | <u> </u> | <u> </u> |
| Total | 1,258,139 | 1,542,009 |
| | <u> </u> | <u> </u> |
| Other contracts, mainly equity and credit-related contracts | 236,186 | 260,742 |
| Offsetting of derivatives with the same counterparty under master netting agreements | (2,529,670) | (2,726,197) |
| | <u> </u> | <u> </u> |
| Total | ¥ 10,728,023 | ¥ 10,446,080 |
| | <u> </u> | <u> </u> |
| Trading account liabilities: | | |
| Trading securities sold, not yet purchased | | |
| | ¥ 159,607 | ¥ 839,908 |
| Trading derivative liabilities: | | |
| Interest rate contracts: | | |
| Forwards and futures | 12,605 | 17,714 |
| Swaps and swap-related products | 3,733,132 | 2,629,454 |
| Options written | 116,582 | 111,319 |
| | <u> </u> | <u> </u> |
| Total | 3,862,319 | 2,758,487 |
| | <u> </u> | <u> </u> |
| Foreign exchange contracts: | | |
| Forwards and futures | 500,985 | 658,117 |
| Swaps | 337,285 | 379,125 |
| Options written | 423,082 | 533,260 |
| | <u> </u> | <u> </u> |

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| | | |
|--|-------------------|-------------------|
| Total | 1,261,352 | 1,570,502 |
| | <u> </u> | <u> </u> |
| Other contracts, mainly equity and credit-related contracts | 268,543 | 183,061 |
| Offsetting of derivatives with the same counterparty under master netting agreements | (2,529,670) | (2,726,197) |
| | <u> </u> | <u> </u> |
| Total | ¥ 3,022,151 | ¥ 2,625,761 |
| | <u> </u> | <u> </u> |

See Note 32 for the methodologies and assumptions used to estimate fair values.

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The MUFG Group performs trading activities through market-making, sales and arbitrage, while maintaining risk levels within appropriate limits in accordance with its risk management policy. Net trading gains (losses) for the fiscal years ended March 31, 2005, 2006 and 2007 were comprised of the following:

| | 2005 | 2006 | 2007 |
|---|-----------|---------------|-----------|
| | ¥ | ¥ | ¥ |
| | | (in millions) | |
| Interest rate and other derivative contracts | 6,415 | (347,089) | 212,778 |
| Trading account securities, excluding derivatives | 55,637 | 363,512 | 192,035 |
| Trading account profits net | 62,052 | 16,423 | 404,813 |
| Foreign exchange derivative contracts | (65,595) | 39,461 | 26,861 |
| Net trading gains (losses) | ¥ (3,543) | ¥ 55,884 | ¥ 431,674 |

6. INVESTMENT SECURITIES

The amortized costs and estimated fair values of investment securities available for sale and being held to maturity at March 31, 2006 and 2007 were as follows:

| | 2006 | | | | 2007 | | | |
|--|---------------|------------|------------|--------------|--------------|------------|------------|--------------|
| | Gross | | Gross | | Gross | | Gross | |
| | Amortized | unrealized | unrealized | Estimated | Amortized | unrealized | unrealized | Estimated |
| | cost | gains | losses | value | cost | gains | losses | value |
| | (in millions) | | | | | | | |
| Securities available for sale: | | | | | | | | |
| Debt securities: | | | | | | | | |
| Japanese national government and Japanese government agency bonds ⁽¹⁾ | ¥ 23,912,143 | ¥ 5,747 | ¥ 2,441 | ¥ 23,915,449 | ¥ 20,939,737 | ¥ 49,152 | ¥ 8,031 | ¥ 20,980,858 |
| Japanese prefectural and municipal bonds | 250,296 | 458 | 199 | 250,555 | 238,039 | 1,803 | 173 | 239,669 |
| Foreign governments and official institutions bonds ⁽¹⁾ | 2,117,038 | 34,783 | 10,686 | 2,141,135 | 3,469,222 | 78,535 | 9,646 | 3,538,111 |
| Corporate bonds ⁽¹⁾ | 6,569,851 | 106,394 | 13,376 | 6,662,869 | 6,060,236 | 169,997 | 4,208 | 6,226,025 |
| Mortgage-backed securities ⁽¹⁾ | 2,727,484 | 84,551 | 18,749 | 2,793,286 | 2,728,015 | 80,026 | 14,208 | 2,793,833 |
| Other debt securities ⁽¹⁾ | 1,160,417 | 17,360 | 1,936 | 1,175,841 | 3,186,722 | 67,780 | 3,726 | 3,250,776 |

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| | | | | | | | | |
|--|---------------------|--------------------|-----------------|---------------------|---------------------|--------------------|-----------------|---------------------|
| Marketable equity securities | 4,852,888 | 3,701,247 | 7,361 | 8,546,774 | 4,677,589 | 3,979,849 | 6,928 | 8,650,510 |
| Total | ¥ 41,590,117 | ¥ 3,950,540 | ¥ 54,748 | ¥ 45,485,909 | ¥ 41,299,560 | ¥ 4,427,142 | ¥ 46,920 | ¥ 45,679,782 |
| Securities being held to maturity: Debt securities: | | | | | | | | |
| Japanese national government and Japanese | | | | | | | | |
| government agency bonds | ¥ 2,281,211 | ¥ 773 | ¥ 16,331 | ¥ 2,265,653 | ¥ 2,809,445 | ¥ 6,418 | ¥ 7,147 | ¥ 2,808,716 |
| Japanese prefectural and municipal bonds | 85,878 | 1,233 | 289 | 86,822 | 78,276 | 921 | 7 | 79,190 |
| Foreign governments and official institutions bonds | 20,233 | 322 | 96 | 20,459 | 14,142 | 402 | 39 | 14,505 |
| Corporate bonds | 57,368 | 121 | 35 | 57,454 | 127,576 | 937 | 30 | 128,483 |
| Other debt securities | 21,384 | 14 | 29 | 21,369 | 3,660 | 8 | 2 | 3,666 |
| Total | ¥ 2,466,074 | ¥ 2,463 | ¥ 16,780 | ¥ 2,451,757 | ¥ 3,033,099 | ¥ 8,686 | ¥ 7,225 | ¥ 3,034,560 |

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Note:

(1) Amortized costs and estimated fair values of investment securities available for sale at March 31, 2006 have been restated as follows:

| | As previously reported | | | | As restated | | | |
|---|------------------------|------------------------------|-------------------------------|-------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| (in millions) | | | | | | | | |
| Securities available for sale: | | | | | | | | |
| Debt Securities: | | | | | | | | |
| Japanese national government and Japanese government agency bonds | ¥ 23,890,095 | ¥ 5,747 | ¥ 2,222 | ¥ 23,893,620 | ¥ 23,912,143 | ¥ 5,747 | ¥ 2,441 | ¥ 23,915,449 |
| Foreign governments and official institutions bonds | 2,108,035 | 34,284 | 10,682 | 2,131,637 | 2,117,038 | 34,783 | 10,686 | 2,141,135 |
| Corporate bonds | 6,990,122 | 114,092 | 14,218 | 7,089,996 | 6,569,851 | 106,394 | 13,376 | 6,662,869 |
| Mortgage-backed securities | 2,666,587 | 83,614 | 18,745 | 2,731,456 | 2,727,484 | 84,551 | 18,749 | 2,793,286 |
| Other debt securities | 832,094 | 11,098 | 1,321 | 841,871 | 1,160,417 | 17,360 | 1,936 | 1,175,841 |

Investment securities other than securities available for sale or being held to maturity (i.e., nonmarketable equity securities presented in Other investment securities) were primarily carried at cost of ¥794,305 million and ¥623,430 million, at March 31, 2006 and 2007, respectively, because their fair values were not readily determinable. The MUFG Group periodically monitors the status of each investee including the credit ratings and changes in the MUFG Group's share of net assets in the investees as compared with its shares at the time of investment, or utilizes commonly accepted valuation models for certain nonmarketable equity securities issued by public companies which are convertible to marketable common stock in the future, to determine if impairment losses, if any, are to be recognized on these nonmarketable securities. The impairment of cost-method investments is not estimated when valuation models are not applicable if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. Investment securities held by certain subsidiaries subject to specialized industry accounting principles in the AICPA Guide presented in Other investment securities were carried at fair value of ¥68,664 million and ¥47,529 million at March 31, 2006 and 2007, respectively.

See Note 32 for the methodologies and assumptions used to estimate the fair values.

The amortized cost and estimated fair values of debt securities being held to maturity and the estimated fair values of debt securities available for sale at March 31, 2007 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties. Securities not due at a single maturity date and securities embedded with call or prepayment options, such as mortgage-backed securities, are included in the table below based on their original final maturities.

| | <u>Held-to-maturity</u> | | <u>Available-for-sale</u> |
|----------------------------------|-------------------------|--------------------|---------------------------|
| | <u>Amortized</u> | <u>Estimated</u> | <u>Estimated</u> |
| | <u>cost</u> | <u>fair value</u> | <u>fair value</u> |
| | (in millions) | | |
| Due in one year or less | ¥ 531,268 | ¥ 531,133 | ¥ 11,158,348 |
| Due from one year to five years | 2,401,198 | 2,403,141 | 13,527,213 |
| Due from five years to ten years | 50,846 | 51,406 | 5,278,662 |
| Due after ten years | 49,787 | 48,880 | 7,065,049 |
| Total | ¥ 3,033,099 | ¥ 3,034,560 | ¥ 37,029,272 |

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the fiscal years ended March 31, 2005, 2006 and 2007, gross realized gains on sales of investment securities available for sale were ¥429,583 million, ¥476,646 million and ¥360,406 million, respectively, and gross realized losses on sales of investment securities available for sale were ¥138,737 million, ¥124,278 million and ¥66,190 million, respectively.

For the fiscal years ended March 31, 2005, 2006 and 2007, losses resulting from write-downs of investment securities to reflect the decline in value considered to be other than temporary were ¥106,929 million, ¥337,501 million and ¥162,959 million respectively, which were included in Investment securities gains net in the consolidated statements of income. The losses of ¥337,501 million for the fiscal year ended March 31, 2006 included losses of ¥194,561 million from Japanese national government bonds classified as available for sale.

The following table shows the unrealized gross losses and estimated fair values of investment securities available for sale and being held to maturity at March 31, 2006 and 2007 by length of time that individual securities in each category have been in a continuous loss position:

| | Less than 12 months | | 12 months or more | | Total | | Number of securities |
|--|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
| | Estimated fair value | Unrealized losses | Estimated fair value | Unrealized losses | Estimated fair value | Unrealized losses | |
| (in millions) | | | | | | | |
| At March 31, 2006: | | | | | | | |
| Securities available for sale: | | | | | | | |
| Debt securities: | | | | | | | |
| Japanese national government and Japanese government agency bonds ⁽¹⁾ | ¥ 440,193 | ¥ 2,441 | ¥ | ¥ | ¥ 440,193 | ¥ 2,441 | 58 |
| Japanese prefectural and municipal bonds | 8,874 | 199 | | | 8,874 | 199 | 20 |
| Foreign governments and official institutions bonds ⁽¹⁾ | 701,164 | 9,642 | 46,502 | 1,044 | 747,666 | 10,686 | 205 |
| Corporate bonds ⁽¹⁾ | 750,390 | 13,376 | | | 750,390 | 13,376 | 466 |
| Mortgage-backed securities ⁽¹⁾ | 535,081 | 6,887 | 321,353 | 11,862 | 856,434 | 18,749 | 332 |
| Other debt securities ⁽¹⁾ | 410,125 | 1,344 | 19,144 | 592 | 429,269 | 1,936 | 353 |
| Marketable equity securities ⁽¹⁾ | 127,798 | 7,299 | 100 | 62 | 127,898 | 7,361 | 143 |
| Total | ¥ 2,973,625 | ¥ 41,188 | ¥ 387,099 | ¥ 13,560 | ¥ 3,360,724 | ¥ 54,748 | 1,577 |
| Securities being held to maturity: | | | | | | | |
| Debt securities: | | | | | | | |
| Japanese national government and Japanese government agency bonds | ¥ 2,146,344 | ¥ 16,331 | ¥ | ¥ | ¥ 2,146,344 | ¥ 16,331 | 19 |
| Japanese prefectural and municipal bonds | 25,206 | 289 | | | 25,206 | 289 | 72 |
| Foreign governments and official institutions bonds | 14,654 | 96 | | | 14,654 | 96 | 20 |
| Corporate bonds | 10,545 | 35 | | | 10,545 | 35 | 23 |
| Other debt securities | 13,350 | 29 | | | 13,350 | 29 | 30 |
| Total | ¥ 2,210,099 | ¥ 16,780 | ¥ | ¥ | ¥ 2,210,099 | ¥ 16,780 | 164 |

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | Less than 12 months | | 12 months or more | | Total | | Number of securities |
|---|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
| | Estimated fair value | Unrealized losses | Estimated fair value | Unrealized losses | Estimated fair value | Unrealized losses | |
| At March 31, 2007: | | | | | | | |
| | (in millions) | | | | | | |
| Securities available for sale: | | | | | | | |
| Debt securities: | | | | | | | |
| Japanese national government and Japanese government agency bonds | ¥ 7,450,507 | ¥ 8,031 | ¥ | ¥ | ¥ 7,450,507 | ¥ 8,031 | 51 |
| Japanese prefectural and municipal bonds | 19,118 | 173 | | | 19,118 | 173 | 8 |
| Foreign governments and official institutions bonds | 1,046,605 | 8,766 | 74,270 | 880 | 1,120,875 | 9,646 | 243 |
| Corporate bonds | 553,876 | 4,208 | | | 553,876 | 4,208 | 2,516 |
| Mortgage-backed securities | 281,103 | 1,354 | 436,003 | 12,854 | 717,106 | 14,208 | 343 |
| Other debt securities | 273,935 | 3,372 | 28,579 | 354 | 302,514 | 3,726 | 86 |
| Marketable equity securities | 95,056 | 6,928 | | | 95,056 | 6,928 | 65 |
| Total | ¥ 9,720,200 | ¥ 32,832 | ¥ 538,852 | ¥ 14,088 | ¥ 10,259,052 | ¥ 46,920 | 3,312 |
| Securities being held to maturity: | | | | | | | |
| Debt securities: | | | | | | | |
| Japanese national government and Japanese government agency bonds | ¥ 613,971 | ¥ 756 | ¥ 1,236,032 | ¥ 6,391 | ¥ 1,850,003 | ¥ 7,147 | 36 |
| Japanese prefectural and municipal bonds | 11,207 | 7 | | | 11,207 | 7 | 31 |
| Foreign governments and official institutions bonds | | | 749 | 39 | 749 | 39 | 1 |
| Corporate bonds | 22,319 | 23 | 2,715 | 7 | 25,034 | 30 | 32 |
| Other debt securities | 353 | 2 | | | 353 | 2 | 3 |
| Total | ¥ 647,850 | ¥ 788 | ¥ 1,239,496 | ¥ 6,437 | ¥ 1,887,346 | ¥ 7,225 | 103 |

Note:

- (1) Unrealized gross losses and estimated fair values of investment securities available for sale at March 31, 2006 by length of time that individual securities in each category have been in a continuous loss position have been restated as follows:

| | Less than 12 months | | 12 months or more | | Total | | Number of securities |
|--------------------------------|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
| | Estimated fair value | Unrealized losses | Estimated fair value | Unrealized losses | Estimated fair value | Unrealized losses | |
| | | | | | | | |
| | (in millions) | | | | | | |
| Securities available for sale: | | | | | | | |
| Debt Securities: | | | | | | | |

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As previously reported

| | | | | | | | |
|---|-----------|---------|---------|--------|-----------|---------|-----|
| Japanese national government and Japanese government agency bonds | ¥ 418,364 | ¥ 2,222 | ¥ | ¥ | ¥ 418,364 | ¥ 2,222 | 50 |
| Foreign governments and official institutions bonds | 700,593 | 9,638 | 46,502 | 1,044 | 747,095 | 10,682 | 204 |
| Corporate bonds | 904,160 | 14,218 | | | 904,160 | 14,218 | 577 |
| Mortgage-backed securities | 526,075 | 6,883 | 321,353 | 11,862 | 847,428 | 18,745 | 329 |
| Other debt securities | 287,761 | 729 | 19,144 | 592 | 306,905 | 1,321 | 254 |
| Marketable equity securities | 123,488 | 7,299 | 100 | 62 | 123,588 | 7,361 | 146 |

As restated

| | | | | | | | |
|---|-----------|---------|---------|--------|-----------|---------|-----|
| Japanese national government and Japanese government agency bonds | ¥ 440,193 | ¥ 2,441 | ¥ | ¥ | ¥ 440,193 | ¥ 2,441 | 58 |
| Foreign governments and official institutions bonds | 701,164 | 9,642 | 46,502 | 1,044 | 747,666 | 10,686 | 205 |
| Corporate bonds | 750,390 | 13,376 | | | 750,390 | 13,376 | 466 |
| Mortgage-backed securities | 535,081 | 6,887 | 321,353 | 11,862 | 856,434 | 18,749 | 332 |
| Other debt securities | 410,125 | 1,344 | 19,144 | 592 | 429,269 | 1,936 | 353 |
| Marketable equity securities | 127,798 | 7,299 | 100 | 62 | 127,898 | 7,361 | 143 |

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The MUFG Group has determined that unrealized losses on investments at March 31, 2006 and 2007 are temporary based on its ability and positive intent to hold the investments for a period of time sufficient to allow for any anticipated recovery and the results of its review conducted to identify and evaluate investments that have indications of possible impairments. Impairment is evaluated considering various factors, and their relative significance varies from case to case. The MUFG Group's review includes, but is not limited to, consideration of the following factors:

The length of time that fair value of the investment has been below cost The MUFG Group generally deems a continued decline of fair value below cost for six months or more to be other than temporary. Certain securities held by BTMU, MUTB and certain other subsidiaries, which primarily consist of debt securities issued by the Japanese national government and generally considered to be of minimal credit risk, were determined not to be impaired in some cases, on the basis of the respective subsidiary's ability and positive intent to hold such securities to maturity. Certain securities held by UNBC, which primarily consist of debt securities backed by the full faith and credit of the U.S. government and corporate asset-backed and debt securities, were determined not to be impaired in some cases, on the basis of a cash flow analysis of such securities and/or UNBC's ability to hold such securities to maturity.

As shown in the table above, there were no material unrealized losses that have been in a continuous loss position for 12 months or more, except for unrealized losses on certain foreign governments and official institutions bonds, mortgage-backed securities and other debt securities held by UNBC at March 31, 2007. Foreign governments and official institutions bonds in an unrealized loss position for 12 months or more were issued by one of the several Government-Sponsored Enterprises (GSEs). These securities were issued with a stated interest rate and mature in less than five years. All of the unrealized losses on these securities resulted from rising interest rates subsequent to purchase. Unrealized losses will decline as interest rates fall below the purchased yield and as the securities approach maturity. Since UNBC has the ability and positive intent to hold the securities until recovery of the carrying value, which could be maturity, the unrealized loss is considered temporary. Mortgage-backed securities in an unrealized loss position for 12 months or more are primarily securities guaranteed by a GSE. These securities are collateralized by residential mortgage loans and may be prepaid at par prior to maturity. All of the unrealized losses on the mortgage-backed securities resulted from rising interest rates subsequent to purchase. Because the likelihood of credit loss is remote, the securities are excluded from the periodic evaluation of other-than-temporary impairment. Other debt securities in an unrealized loss position for 12 months or more primarily consisted of collateralized loan obligations held by UNBC. Unrealized losses on such securities arise from rising interest rates, widening credit spreads, credit quality of the underlying collateral, and the market's opinion of the performance of the fund managers. Based on the cash flow analysis set out above, such unrealized losses are determined to be temporary in nature.

The extent to which the fair value of investments has been below cost as of the end of the reporting period The MUFG Group's investment portfolio is exposed to volatile equity prices affected by many factors including investors' perspectives as to future economic factors and the issuers' performance, as well as cyclical market price fluctuation due to changes in market interest rates, foreign exchange rates, and changes in credit spreads etc. In view of the diversity and volume of equity investments as well as the fact that the majority of investments in debt securities are in high-grade fixed-rate bonds, including sovereign bonds, the MUFG Group generally deems the decline in fair value below cost of 20% or more as an indicator of an other than temporary decline in fair value.

The financial condition and near-term prospects of the issuer The MUFG Group considers the financial condition and near-term prospects of the issuer primarily based on the credit standing of the issuers as determined by its credit rating system.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Banks Shareholdings Purchase Corporation***

Under a Japanese law forbidding banks from holding marketable equity securities in excess of their Tier I capital after September 30, 2006, the Banks Shareholdings Purchase Corporation (BSPC) was established in January 2002 in order to soften the impact on the stock market of sales of cross-shareholdings. BSPC began accepting share offers from financial institutions on February 15, 2002. It has been funded by financial institutions, including BTMU and MUTB, which made initial contributions of ¥2,000 million (preferred contributions). BSPC will be disbanded when it sells all shares that it purchased from financial institutions, or by March 31, 2017, at the latest.

BSPC has two accounts to purchase stock from financial institutions; the General Account and the Special Account. In the General Account, each selling financial institution funds the amount of purchase by BSPC without guarantees by the Japanese government, and the financial institution will assume any gains or losses on sales by BSPC of the stocks. In the Special Account, each selling financial institution was required to make contributions of 8% of the selling prices to BSPC for purchases made prior to the effective date of the amendment to the above-mentioned law to fund any future losses (subordinated contributions). Effective in August 2003, the requirement for subordinated contributions was eliminated under the amendment to the legislation. The purchase amount in the Special Account is funded by borrowings guaranteed by the Japanese government with a limit of ¥2.0 trillion. The cumulative net loss on sales of stocks in the Special Account, which will not be determined and finalized before the liquidation of BSPC, will be compensated first by the subordinated contributions, and then by the preferred contributions. If there is a remaining loss, the government, as a guarantor, will be liable for the loss. On the other hand, if there is a cumulative net asset at the time of the liquidation, the asset is first used to repay the preferred contributions and then to repay the subordinated contributions. If any net assets remain after repayment of subordinated contributions, such net assets will be paid out and the amounts will be determined based on the amounts of both contributions. Any remaining net assets in excess of double the amount of the contributions will belong to the Japanese government.

At the establishment of BSPC in January 2002, BTMU and MUTB collectively paid ¥2,000 million to BSPC as preferred contributions. At the time of the sales, BTMU and MUTB made subordinated contributions to the Special Account of ¥1,652 million and ¥183 million for the fiscal years ended March 31, 2002 and 2003, respectively. For the fiscal year ended March 31, 2003, the MUFG Group evaluated its preferred contributions of ¥2,000 million and subordinated contributions of ¥1,835 million for impairment, and recognized an impairment loss of ¥3,835 million. On October 1, 2005, the MUFG Group acquired, at fair value, the preferred and subordinated contributions of the UFJ Holdings Group to BSPC for ¥4,000 million and ¥10,616 million, respectively.

The MUFG Group sold marketable equity securities to BSPC with aggregate market values of ¥112,400 million, ¥3,537 million and nil, respectively, during the fiscal years ended March 31, 2005, 2006 and 2007. Also, BTMU and MUTB made loans to BSPC to fund its purchases of marketable equity securities. Such loans to BSPC, which are guaranteed by the Japanese government, amounted to ¥141,727 million, ¥25,300 million and ¥273,100 million at March 31, 2005, 2006 and 2007, respectively.

The MUFG Group accounts for the transfers of marketable equity securities to the General Account, if any, as secured borrowings. With respect to the transfers of marketable equity securities to the Special Account with the requirement of subordinated contributions, if the fair value of the securities sold to the Special Account is greater than 10% of the fair value of all securities held by the Special Account, the MUFG Group accounts for the subordinated contributions as a partial retained interest in the sale. For all periods presented, the MUFG Group had no sales of

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securities whose fair value was greater than 10% of the fair value of all securities held by the Special Account. For the fiscal years ended March 31, 2005, 2006 and 2007, the MUFG Group recognized

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

gains of ¥62,226 million, ¥769 million and nil, respectively, on the sales of marketable equity securities to the Special Account. In September 2006, BSPC ceased purchasing marketable equity securities from banks.

Preferred Stock Investment in UFJ Bank

In August 2004, four companies in the MTFG Group concluded a basic agreement with four companies in the UFJ Holdings Group, regarding the management integration of the two groups. In September 2004, MTFG purchased preferred shares issued by UFJ Bank of ¥700,000 million. These preferred shares were carried at cost on the MTFG Group's consolidated balance sheet at March 31, 2005. The estimated fair value of the investment was not readily determinable at March 31, 2005. As a result of the merger, these preferred shares were converted into common shares of BTMU and, accordingly, were eliminated in the MUFG Group's consolidated balance sheet at March 31, 2006.

Debt-for-equity Swap

The MUFG Group restructured certain debt by entering into debt-for-equity swap transactions. As a result of these debt-for-equity swap transactions, the MUFG Group's loans to some borrowers, under standard terms available to similarly situated corporate borrowers, were effectively converted into equity interests in the borrowers, often in the form of preferred shares. The aggregate carrying amounts of debt swapped for equity, net of allowance, for the fiscal years ended March 31, 2005, 2006 and 2007 were ¥76,836 million, ¥240 million and nil, respectively. Such loans were often identified as impaired and, accordingly, the debt-for-equity swap transactions did not materially affect the MUFG Group's results of operations for the fiscal years ended March 31, 2005, 2006 and 2007.

Equity interests acquired through a debt-for-equity swap transaction are accounted for as other investments and carried at cost on the consolidated balance sheets, and reviewed for impairment periodically. Due to regulatory and legal reasons, cash often changes hands between the parties to the debt-for-equity swap transactions. In such cases, the debt-for-equity swap is classified as a cash transaction in the consolidated statements of cash flows as a repayment of loans and purchases of other investment securities.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. LOANS**

Loans at March 31, 2006 and 2007, by domicile and type of industry of borrowers are summarized below:

Classification of loans by industry is based on the industry segment loan classification as defined by the Bank of Japan.

| | 2006⁽³⁾ | 2007 |
|--|---------------------------|---------------------|
| | (in millions) | |
| Domestic: | | |
| Manufacturing | ¥ 10,749,411 | ¥ 10,973,586 |
| Construction | 1,980,255 | 1,830,752 |
| Real estate | 8,624,737 | 7,924,203 |
| Services | 6,599,337 | 6,921,165 |
| Wholesale and retail | 9,760,781 | 9,404,231 |
| Banks and other financial institutions | 5,555,572 | 4,395,778 |
| Communication and information services | 1,185,821 | 1,132,086 |
| Other industries | 11,764,455 | 10,411,332 |
| Consumer ⁽²⁾ | 23,727,793 | 24,455,346 |
| Total domestic | 79,948,162 | 77,448,479 |
| Foreign: | | |
| Governments and official institutions | 332,213 | 374,157 |
| Banks and other financial institutions | 1,101,152 | 1,529,447 |
| Commercial and industrial | 11,776,784 | 13,498,030 |
| Other | 2,337,237 | 2,523,644 |
| Total foreign | 15,547,386 | 17,925,278 |
| Unearned income, unamortized premiums net and deferred loan fees net | 11,287 | (50,913) |
| Total⁽¹⁾ | ¥ 95,506,835 | ¥ 95,322,844 |

Notes:

- (1) The above table includes loans held for sale of ¥41,904 million and ¥113,580 million at March 31, 2006 and 2007, respectively.
- (2) Domestic loans within the consumer category in the above table include loans to individuals who utilize loan proceeds to finance their proprietor activities and not for their personal financing needs. During the fiscal year ended March 31, 2004, BTM's credit administration system was upgraded and became able to present a precise breakdown of the balance of such consumer loans by the type of proprietor business. This breakdown at March 31, 2006 and 2007 is presented below:

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| | Manufacturing | Construction | Real estate | Services | Wholesale and retail | Banks and other financial institutions | Communication and information services | Other industries | Total included in Consumer |
|----------------|----------------------|---------------------|--------------------|-----------------|-----------------------------|---|---|-------------------------|-----------------------------------|
| | (in millions) | | | | | | | | |
| March 31, 2006 | ¥ 17,212 | ¥ 13,925 | ¥ 425,929 | ¥ 160,805 | ¥ 30,937 | ¥ 947 | ¥ 2,968 | ¥ 6,257 | ¥ 658,980 |
| March 31, 2007 | ¥ 14,662 | ¥ 12,281 | ¥ 367,290 | ¥ 132,893 | ¥ 26,104 | ¥ 677 | ¥ 2,407 | ¥ 5,411 | ¥ 561,725 |

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(3) Classification of loans by industry at March 31, 2006 has been restated as follows:

| | As previously reported | As restated |
|--|------------------------------|---------------------|
| (in millions) | | |
| Domestic : | | |
| Manufacturing | ¥ 10,796,610 | ¥ 10,749,411 |
| Construction | 1,968,386 | 1,980,255 |
| Real estate | 8,616,597 | 8,624,737 |
| Services | 6,154,336 | 6,599,337 |
| Wholesale and retail | 9,532,843 | 9,760,781 |
| Banks and other financial institutions | 5,798,109 | 5,555,572 |
| Communication and information services | 1,182,493 | 1,185,821 |
| Other industries | 12,170,995 | 11,764,455 |
| Consumer | 23,727,793 | 23,727,793 |
| Total domestic | 79,948,162 | 79,948,162 |
| Foreign : | | |
| Governments and official institutions | 325,037 | 332,213 |
| Banks and other financial institutions | 1,152,596 | 1,101,152 |
| Commercial and industrial | 13,403,032 | 11,776,784 |
| Other | 666,721 | 2,337,237 |
| Total foreign | 15,547,386 | 15,547,386 |
| Unearned income, unamortized premiums-net and deferred loan fees-net . . | 11,287 | 11,287 |
| Total | ¥ 95,506,835 | ¥ 95,506,835 |

Substantially all domestic loans are made under agreements which, as is customary in Japan, provide that a bank may, under certain conditions, require the borrower to provide collateral (or additional collateral) or guarantees with respect to the loans, and that the bank may treat any collateral, whether furnished as security for loans or otherwise, as collateral for all indebtedness to the bank. At March 31, 2006 and 2007, such collateralized loans originated by the MUFG Group, which were principally collateralized by real estate, marketable securities and accounts receivable, amounted to ¥28,204,615 million and ¥27,703,501 million, respectively, which represented 35% and 36%, respectively, of the total domestic loans at March 31, 2006 and 2007.

Note:

The amount of collateralized loans and its percentage to the total domestic loans at March 31, 2006 have been restated from ¥11,346,054 million and 14% to ¥28,204,615 million and 35%, respectively.

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Nonaccrual and restructured loans were ¥2,021,670 million and ¥1,677,030 million at March 31, 2006 and 2007, respectively. Had interest on these loans been accrued pursuant to the original terms, gross interest income on such loans for the fiscal years ended March 31, 2006 and 2007 would have been approximately ¥70.2 billion and ¥93.9 billion, respectively, of which approximately ¥46.9 billion and ¥68.1 billion, respectively, were included in interest income on loans in the accompanying consolidated statements of income. Accruing loans contractually past due 90 days or more were ¥23,008 million and ¥22,470 million at March 31, 2006 and 2007, respectively.

The MUFG Group provided commitments to extend credit to customers with restructured loans. The amounts of such commitments were ¥5,361 million and ¥20,473 million at March 31, 2006 and 2007, respectively. See Note 26 for further discussion of commitments to extend credit.

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The MUFG Group's impaired loans primarily include nonaccrual loans and restructured loans. A summary of the recorded balances of impaired loans and related impairment allowance at March 31, 2006 and 2007 is shown below:

| | 2006 | | 2007 | |
|--|-----------------------------|-------------------------|-----------------------------|-------------------------|
| | Recorded loan balance | Impairment allowance | Recorded loan balance | Impairment allowance |
| | (in millions) | | | |
| Requiring an impairment allowance | ¥ 1,205,628 | ¥ 441,444 | ¥ 1,118,929 | ¥ 569,685 |
| Not requiring an impairment allowance ⁽¹⁾ | 253,996 | | 263,031 | |
| Total⁽²⁾ | ¥ 1,459,624 | ¥ 441,444 | ¥ 1,381,960 | ¥ 569,685 |

Notes:

- (1) These loans do not require an allowance for credit losses under SFAS No. 114 since the fair values of the impaired loans equal or exceed the recorded investments in the loans.
- (2) In addition to impaired loans presented in the above table, there were loans held for sale that were impaired of ¥222 million and ¥755 million at March 31, 2006 and 2007, respectively.

The average recorded investments in impaired loans were approximately ¥1,486 billion, ¥1,244 billion and ¥1,395 billion, respectively, for the fiscal years ended March 31, 2005, 2006 and 2007.

For the fiscal years ended March 31, 2005, 2006 and 2007, the MUFG Group recognized interest income of approximately ¥30.9 billion, ¥25.8 billion and ¥36.0 billion, respectively, on impaired loans. Interest income on nonaccrual loans was recognized on a cash basis when ultimate collectibility of principal was certain; otherwise, cash receipts were applied as principal reductions. Interest income on accruing impaired loans, including restructured loans, was recognized on an accrual basis to the extent that the collectibility of interest income was reasonably certain based on management's assessment.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Loans Acquired in a Transfer***

In accordance with SOP 03-3, the following table sets forth information primarily about loans of the UFJ Holdings Group acquired in connection with the merger, for which it is probable, at acquisition, that the MUFG Group will be unable to collect all contractually required payments receivable.

| | 2006⁽¹⁾ | 2007 |
|--|---------------------------|-------------|
| | (in millions) | |
| Loans acquired during the fiscal year: | | |
| Contractually required payments receivable at acquisitions | ¥ 3,616,943 | ¥ 41,986 |
| Cash flows expected to be collected at acquisitions | 1,506,748 | 4,195 |
| Fair value of loans at acquisitions | 1,397,219 | 3,266 |
| Accretable yield for loans within the scope of SOP 03-3: | | |
| Balance at beginning of fiscal year | ¥ | ¥ 260,959 |
| Additions | 109,529 | 929 |
| Accretion | (37,272) | (103,127) |
| Disposals | (270) | (939) |
| Reclassifications from nonaccretable difference | 188,972 | 26,626 |
| Balance at end of fiscal year | ¥ 260,959 | ¥ 184,448 |
| Loans within the scope of SOP 03-3: | | |
| Outstanding balance, beginning of fiscal year | ¥ | ¥ 2,139,043 |
| Outstanding balance, end of fiscal year | 2,139,043 | 1,224,057 |
| Carrying amount, beginning of fiscal year | | 898,764 |
| Carrying amount, end of fiscal year | 898,764 | 455,906 |
| Nonaccruing loans within the scope of SOP 03-3: | | |
| Carrying amount at acquisition date during fiscal year | ¥ 490,775 | ¥ 786 |
| Carrying amount at end of fiscal year | 311,627 | 158,065 |
| Provisions within the scope of SOP 03-3: | | |
| Balance of allowance for loan losses at beginning of fiscal year | ¥ | ¥ 27,175 |
| Additional provisions during fiscal year | 33,528 | 50,369 |
| Reductions of allowance during fiscal year | | 20,326 |
| Balance of allowance for loan losses at end of fiscal year | 27,175 | 12,391 |

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The MUFG Group considered prepayments in the determination of contractual cash flows and cash flows expected to be collected based on historical results.

Note:

(1) The balances and components of loans acquired in a transfer for the fiscal year ended March 31, 2006 have been restated as follows:

| | As previously reported | As restated |
|--|---------------------------|----------------|
| (in millions) | | |
| Loans acquired during the fiscal year: | | |
| Contractually required payments receivable at acquisitions | ¥ 3,506,033 | ¥ 3,616,943 |
| Cash flows expected to be collected at acquisitions | 1,505,303 | 1,506,748 |
| Fair value of loans at acquisitions | 1,395,774 | 1,397,219 |
| Accretable yield for loans within the scope of SOP 03-3: | | |
| Balance at beginning of fiscal year | ¥ | ¥ |
| Additions | 109,529 | 109,529 |
| Accretion | (206,321) | (37,272) |
| Disposals | (34,765) | (270) |
| Reclassifications from nonaccretable difference | 258,686 | 188,972 |
| Balance at ending of fiscal year | ¥ 127,129 | ¥ 260,959 |
| Loans within the scope of SOP 03-3: | | |
| Outstanding balance, beginning of fiscal year | ¥ | ¥ |
| Outstanding balance, end of fiscal year | 2,029,191 | 2,139,043 |
| Carrying amount, beginning of fiscal year | | |
| Carrying amount, end of fiscal year | 897,657 | 898,764 |
| Nonacruing loans within the scope of SOP 03-3: | | |
| Carrying amount at acquisition date during fiscal year | ¥ 489,330 | ¥ 490,775 |
| Carrying amount at end of fiscal year | 310,521 | 311,627 |
| Provisions within the scope of SOP 03-3: | | |
| Balance of allowance for loan losses at beginning of fiscal year | ¥ | ¥ |
| Additional provisions during fiscal year | 27,010 | 33,528 |
| Reductions of allowance during fiscal year | | |
| Balance of allowance for loan losses at end of fiscal year | 27,010 | 27,175 |

Lease Receivable

As part of its financing activities, the MUFG Group enters into leasing arrangements with customers. The MUFG Group's leasing operations are performed through leasing subsidiaries and consist principally of direct financing leases involving various types of data processing equipment, office equipment and transportation equipment.

As of March 31, 2006 and 2007, the components of the investment in direct financing leases were as follows:

| | 2006 ⁽¹⁾ | 2007 |
|--|---------------------|-----------|
| | (in millions) | |
| Minimum lease payment receivable | ¥ 948,019 | ¥ 982,689 |
| Estimated residual values of leased property | 42,415 | 41,949 |
| Less unearned income | (72,372) | (73,637) |
| Net investment in direct financing leases | ¥ 918,062 | ¥ 951,001 |

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Note:

(1) The balances and components of the investment in direct financing leases at March 31, 2006 have been restated as follows:

| | As previously reported | As restated |
|--|---------------------------|-------------|
| (in millions) | | |
| Minimum lease payment receivable | ¥ 1,085,897 | ¥ 948,019 |
| Estimated residual values of leased property | 42,183 | 42,415 |
| Less unearned income | (72,377) | (72,372) |
| | <hr/> | <hr/> |
| Net investment in direct financing leases | ¥ 1,055,703 | ¥ 918,062 |
| | <hr/> | <hr/> |

Future minimum lease payment receivables under noncancelable leasing agreements as of March 31, 2007 were as follows:

| | Direct financing leases |
|---|-------------------------------|
| (in millions) | |
| Fiscal year ending March 31: | |
| 2008 | ¥ 302,996 |
| 2009 | 241,122 |
| 2010 | 184,569 |
| 2011 | 116,597 |
| 2012 | 70,056 |
| 2013 and thereafter | 67,349 |
| | <hr/> |
| Total minimum lease payment receivables | ¥ 982,689 |
| | <hr/> |

Government-led Loan Restructuring Program

Under the legislation enacted by the Japanese Diet in June 1996, which incorporates the restructuring program for the loans of seven failed housing-loan companies (the *Jusen*), the Deposit Insurance Corporation (*DIC*) established a Housing Loan Administration Corporation (*HLAC*) to collect and dispose of the loans of the liquidated *Jusen*. In 1999, HLAC merged with the Resolution and Collection Bank Limited to create the Resolution and Collection Corporation (*RCC*), which is wholly owned by the DIC.

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Financial institutions, including the MUFG Group, waived the repayment of substantial amounts of the loans to the Jusen and transferred the remaining balances to HLAC. Financial institutions were requested to make loans to HLAC to finance its collection activities, and in the fiscal year ended March 31, 1997, the MUFG Group made loans of ¥407,078 million with an original maturity term of 15 years. The 15-year term loans to HLAC, which are guaranteed by the DIC under the legislation and the loan agreements, mature in 2011 and earn interest at TIBOR (Tokyo Interbank Offered Rate) plus 0.125%. On October 1, 2005, the MUFG Group acquired, at fair value, loans of the UFJ Holdings Group to HLAC in connection with the merger with UFJ Holdings. During the fiscal years ended March 31, 2006 and 2007, certain of these loans were repaid before maturity. At March 31, 2006 and 2007, outstanding loans to HLAC were ¥265,213 million and ¥232,174 million, respectively.

Under this restructuring program, a Financial Stabilization Fund (the Special Fund) was established within the DIC, and the Bank of Japan and other financial institutions established another fund (the New Fund). These funds are principally invested in Japanese government bonds. The MUFG Group made non-interest-earning deposits of ¥176,089 million with the Special Fund and the New Fund in the fiscal year ended March 31, 1997. The deposit balances as of March 31, 2006 and 2007, which are included in Other Assets,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

were ¥351,705 million and ¥358,344 million, respectively, reflecting a present value discount and subsequent amortization of the discount during the period until the expected maturity date. The non-interest-earning deposits with these funds are expected to mature in 15 years from the deposit dates, which coincides with the planned operational lifespan of HLAC.

It is uncertain what losses (so-called stage two loss), if any, may ultimately be incurred by the RCC through the collection of the Jusen loans during the 15-year term. If any such losses ultimately occur, the Japanese government will be liable for half of such losses, and the investment income to be earned by the Special Fund during the 15 years is to be used to cover the remaining half of the losses. The investment income to be earned by the New Fund during the 15 years is to be used to compensate for a portion of the public funds used for the Jusen restructuring.

At this time management believes all loans and deposits will be collectible according to their respective terms.

Sales of Loans

The MUFG Group originates various types of loans to corporate and individual customers in Japan and overseas in the normal course of its business. The Financial Services Agency of Japan (the FSA) announced in October 2002 that it will strive to reduce the aggregate ratio of nonperforming loans to total loans of major Japanese banks, including MUFG's domestic banking subsidiaries, by approximately half by March 31, 2005. Pursuant to the FSA's policy and in order to improve its loan quality, BTMU and MUTB actively disposed of nonperforming loans. Most of such nonperforming loans were disposed of by sales to third party purchasers without any continuing involvement. Management of BTMU and MUTB generally decide on approvals for disposals after significant sales terms, including prices, are negotiated. As such, loans are disposed of by sales shortly after the loans are transferred to the held-for-sale classification. The excess of the proceeds from the sales of loans over their carrying amounts were ¥15,417 million, ¥47,083 million and ¥31,243 million for the fiscal years ended March 31, 2005, 2006 and 2007, respectively. Such excess is reported in the consolidated statements of income as reduction in Provision for credit losses to the extent of the existing Allowance for credit losses on sold loans and remaining excess as Gains on sales of loans.

Loan Securitization

The MUFG Group had no significant transfers of loans in securitization transactions accounted for as sales for the fiscal years ended March 31, 2006 and 2007, and did not retain any significant interests associated with loans transferred in securitizations at March 31, 2007. The MUFG Group securitized mortgage loans in the fiscal year ended March 31, 2005. After securitizations of mortgage loans, the MUFG Group provides servicing and advancing lines for the loans transferred to the trust. As a result of the securitization, the MUFG Group received proceeds of ¥8,620 million and recognized gains of ¥154 million for the fiscal year ended March 31, 2005. The MUFG Group did not possess any retained interests associated with the securitizations at March 31, 2005.

Related Party Loans

In some cases, the banking subsidiaries of MUFG make loans to related parties, including their directors and executive officers, in the course of their normal commercial banking business. At March 31, 2006 and 2007, outstanding loans to such related parties were not significant.

In the opinion of management, these related party loans were made on substantially the same terms, including interest rates and collateral requirements, as those terms prevailing at the date these loans were made. For the fiscal years ended March 31, 2005, 2006 and 2007, there were no loans to related parties that were

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charged-off. Additionally, at March 31, 2006 and 2007, there were no loans to related parties that were impaired.

8. ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses for the fiscal years ended March 31, 2005, 2006 and 2007 are shown below:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|------------------|----------------------|--------------------|
| | | (in millions) | |
| Balance at beginning of fiscal year | ¥ 888,120 | ¥ 739,872 | ¥ 1,012,227 |
| Additions resulting from the merger with UFJ Holdings ⁽¹⁾ | | 287,516 | |
| Provision for credit losses | 108,338 | 110,167 | 358,603 |
| Charge-offs | 297,939 | 164,733 | 303,114 |
| Less Recoveries | 37,317 | 28,598 | 40,419 |
| | <u>260,622</u> | <u>136,135</u> | <u>262,695</u> |
| Net charge-offs | | | |
| Others ⁽²⁾ | 4,036 | 10,807 | 4,318 |
| | <u>¥ 739,872</u> | <u>¥ 1,012,227</u> | <u>¥ 1,112,453</u> |
| Balance at end of fiscal year | | | |

Notes:

- (1) Additions resulting from the merger with UFJ Holdings represent the allowance for credit losses for acquired loans outside the scope of SOP 03-3. The allowance for credit losses on loans within the scope of SOP 03-3 was not carried over.
- (2) Others principally include foreign exchange translation and discontinued operations adjustments.

As explained in Note 7, nonperforming loans were actively disposed of by sales during recent years. The allocated allowance for credit losses for such loans was removed from the allowance for credit losses and transferred to the valuation allowance for loans held for sale upon a decision to sell. Net charge-offs in the above table include the decrease in the allowance for credit losses due to loan disposal activity amounting to ¥25.1 billion, ¥25.9 billion and ¥4.6 billion for the fiscal years ended March 31, 2005, 2006 and 2007, respectively.

9. PREMISES AND EQUIPMENT

Premises and equipment at March 31, 2006 and 2007 consisted of the following:

| | <u>2006</u> | <u>2007</u> |
|-------------------------------|--------------------|--------------------|
| | (in millions) | |
| Land | ¥ 471,184 | ¥ 449,283 |
| Buildings | 576,899 | 551,188 |
| Equipment and furniture | 565,857 | 618,513 |
| Leasehold improvements | 308,905 | 346,254 |
| Construction in progress | 6,703 | 12,556 |
| | <u>1,929,548</u> | <u>1,977,794</u> |
| Total | 1,929,548 | 1,977,794 |
| Less accumulated depreciation | 755,971 | 830,283 |
| | <u>¥ 1,173,577</u> | <u>¥ 1,147,511</u> |
| Premises and equipment net | ¥ 1,173,577 | ¥ 1,147,511 |

Premises and equipment include capitalized leases, principally related to data processing equipment, which amounted to ¥117,283 million and ¥131,709 million at March 31, 2006 and 2007, respectively. Accumulated depreciation on such capitalized leases at March 31, 2006 and 2007 amounted to ¥42,515 million and ¥62,319 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In March 1999, BTMU sold a 50% undivided interest in its head office building and land (including structure and equipment) for ¥91,500 million and a 50% undivided interest in its main office building and land (including structure and equipment) for ¥9,100 million to a real estate company. At the same time, BTMU entered an agreement to lease back the 50% undivided interest in the buildings sold from the buyer over a period of 7 years. BTMU has accounted for these transactions as financing arrangements, and recorded the total proceeds of ¥100,600 million as a financing obligation.

In August 2005, BTMU bought back a 50% undivided interest in these office buildings and land for ¥111,597 million. The buy back resulted in an extinguishment of debt of ¥103,731 million, which included the finance obligation for the 50% of any improvements that was paid by the real estate company, and loss on extinguishment of liabilities of ¥7,866 million. The repurchase was undertaken to increase the stability and flexibility of the property as the office buildings and land are expected to function as a significant piece of the infrastructure for BTMU.

Before the merger, UFJ Bank entered into sales agreements to sell its buildings and land and, under separate agreements, leased those properties back for their business operations, including bank branches. UFJ Bank either provided nonrecourse financings to the buyers for the sales proceeds or invested in the equities of the buyers. As a result, UFJ Bank was considered to have continuing involvement with the properties. For accounting and reporting purposes, these transactions were accounted for under the financing method with the sales proceeds recognized as a financing obligation. The properties were reported on the consolidated balance sheets and depreciated. Upon the merger with UFJ Holdings at October 1, 2005, the MUFG Group recorded the properties at fair value. The financing obligation at March 31, 2006 and 2007 were ¥81,003 million and ¥46,270 million, respectively.

For the fiscal years ended March 31, 2005, 2006 and 2007, the MUFG Group recognized ¥1,591 million, ¥7,201 million and ¥12,602 million, respectively, of impairment losses for long-lived assets, primarily real estate which was either formerly used for its banking operations and is no longer used or real estate that is being used where recovery of carrying amount is doubtful. In addition, ¥2,612 million, ¥1,941 million and ¥319 million of impairment losses were recognized for real estate held for sale for the fiscal years ended March 31, 2005, 2006 and 2007, respectively. These losses are included in Other non-interest expenses. In computing the amount of impairment losses, fair value was determined primarily based on market prices, if available, or the estimated price based on an appraisal.

10. GOODWILL AND OTHER INTANGIBLE ASSETS

The MUFG Group applied SFAS No. 142 which requires that goodwill be tested for impairment at least annually. Further, SFAS No. 142 requires that intangible assets with finite useful lives continue to be amortized over their useful lives while intangible assets with indefinite lives are subject to impairment testing at least annually.

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The table below presents the changes in the carrying amount of goodwill by business segment during the fiscal years ended March 31, 2006 and 2007:

| | Integrated Retail Banking Business Group | Integrated Corporate Banking Business Group | | | | | Integrated Trust Business Group | Global Markets | Total |
|---|--|---|--------------------|----------|-------------------|-------------|--|-------------------|-------------|
| | | Overseas | | | | | | | |
| | | Domestic | Other than UNBC | UNBC | Overseas Total | Total | | | |
| (in millions) | | | | | | | | | |
| Fiscal year ended March 31, 2006: | | | | | | | | | |
| Balance at March 31, 2005 | ¥ | ¥ 15,078 | ¥ | ¥ 56,021 | ¥ 56,021 | ¥ 71,099 | ¥ 14,735 | ¥ | ¥ 85,834 |
| Goodwill acquired during the fiscal year | 741,006 | 837,608 | 148,613 | 14,313 | 162,926 | 1,000,534 | 7,792 | 2,300 | 1,751,632 |
| Foreign currency translation adjustments and other | | (128) | | 6,610 | 6,610 | 6,482 | | | 6,482 |
| Balance at March 31, 2006 | ¥ 741,006 | ¥ 852,558 | ¥ 148,613 | ¥ 76,944 | ¥ 225,557 | ¥ 1,078,115 | ¥ 22,527 | ¥ 2,300 | ¥ 1,843,948 |
| Fiscal year ended March 31, 2007: | | | | | | | | | |
| Balance at March 31, 2006 | ¥ 741,006 | ¥ 852,558 | ¥ 148,613 | ¥ 76,944 | ¥ 225,557 | ¥ 1,078,115 | ¥ 22,527 | ¥ 2,300 | ¥ 1,843,948 |
| Goodwill acquired during the fiscal year | | 5,111 | | 12,021 | 12,021 | 17,132 | | | 17,132 |
| Reduction due to elimination of valuation allowance for deferred tax assets | (9,010) | (2,458) | (548) | | (548) | (3,006) | | | (12,016) |
| Foreign currency translation adjustments and other | (5,790) | (786) | | 2,321 | 2,321 | 1,535 | | | (4,255) |
| Balance at March 31, 2007 | ¥ 726,206 | ¥ 854,425 | ¥ 148,065 | ¥ 91,286 | ¥ 239,351 | ¥ 1,093,776 | ¥ 22,527 | ¥ 2,300 | ¥ 1,844,809 |

Notes:

- (1) See Note 30 for the business segment information of the MUFG Group.
- (2) See Note 2 for the goodwill acquired in connection with the merger with UFJ Holdings.

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The table below presents the gross carrying amount, accumulated amortization and net carrying amount, in total and by major class of intangible assets at March 31, 2006 and 2007:

| | 2006 | | | 2007 | | |
|--|--------------------|------------------|--------------------|--------------------|------------------|--------------------|
| | Gross | | Net | Gross | | Net |
| | carrying | Accumulated | carrying | carrying | Accumulated | carrying |
| | amount | amortization | amount | amount | amortization | amount |
| (in millions) | | | | | | |
| Intangible assets subject to amortization: | | | | | | |
| Software | ¥ 856,988 | ¥ 404,629 | ¥ 452,359 | ¥ 922,271 | ¥ 407,592 | ¥ 514,679 |
| Core deposit intangibles | 589,035 | 49,439 | 539,596 | 599,907 | 134,191 | 465,716 |
| Customer relationships | 341,863 | 24,409 | 317,454 | 238,763 | 44,838 | 193,925 |
| Trade names | 33,990 | 890 | 33,100 | 32,982 | 2,539 | 30,443 |
| Other | 12,832 | 8,395 | 4,437 | 6,247 | 2,559 | 3,688 |
| Total | ¥ 1,834,708 | ¥ 487,762 | 1,346,946 | ¥ 1,800,170 | ¥ 591,719 | 1,208,451 |
| Intangible assets recorded in connection with the additional minimum pension liabilities under SFAS No. 87 (See Note 18) | | | 1,985 | | | |
| Intangible assets not subject to amortization: | | | | | | |
| Indefinite-lived customer relationships | | | 126,427 | | | 39,400 |
| Indefinite-lived trade names | | | 17,682 | | | 6,400 |
| Other | | | 11,455 | | | 10,829 |
| Total | | | 155,564 | | | 56,629 |
| Total | | | ¥ 1,504,495 | | | ¥ 1,265,080 |

Intangible assets subject to amortization acquired during the fiscal year ended March 31, 2007 amounted to ¥217,689 million, which primarily consisted of ¥205,891 million of software and ¥10,759 million of core deposit intangibles. The weighted average amortization periods for these assets are 5 years and 6 years, respectively. There is no significant residual value estimated for these assets. Intangible assets not subject to amortization acquired during the fiscal year ended March 31, 2007 amounted to ¥96 million.

For the fiscal years ended March 31, 2005, 2006 and 2007, the MUFG Group recognized ¥2,216 million, ¥251 million and ¥184,760 million, respectively, of impairment losses for intangible assets whose carrying amount exceeded their fair value. In computing the amount of impairment losses, fair value was determined primarily based on market prices, if available, the estimated value based on appraisal, or the discounted expected future cash flows.

The losses for the fiscal years ended March 31, 2005 and 2006 primarily consisted of leasehold and telephone subscription rights not subject to amortization. The losses for the fiscal year ended March 31, 2007 included losses of ¥183,959 million from customer relationships and trade names, which were both subject to and not subject to amortization, under the Integrated Retail Banking Business Group. These intangible assets were initially valued based on discounted expected future cash flows. The future cash flows were negatively revised due to the adverse change in the business environment for consumer finance companies attributable to an ensuing action toward legal revisions of consumer lending law to lower the interest rate permissible on consumer loans and, accordingly, the MUFG Group reevaluated these intangible assets and recognized impairment losses.

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The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

| | <u>(in millions)</u> |
|------------------------------|----------------------|
| Fiscal year ending March 31: | |
| 2008 | ¥ 242,347 |
| 2009 | 215,972 |
| 2010 | 164,737 |
| 2011 | 135,793 |
| 2012 | 104,403 |

11. INCOME TAXES

The detail of current and deferred income tax expense (benefit) for the fiscal years ended March 31, 2005, 2006 and 2007 was as follows:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|----------------------|---------------|----------------|
| | <u>(in millions)</u> | | |
| Current: | | | |
| Domestic | ¥ 12,209 | ¥ 41,279 | ¥ 67,470 |
| Foreign | 56,991 | 56,933 | 50,363 |
| Total | <u>69,200</u> | <u>98,212</u> | <u>117,833</u> |
| Deferred: | | | |
| Domestic | 227,100 | 70,942 | 430,577 |
| Foreign | 7,455 | (3,681) | 4,416 |
| Total | <u>234,555</u> | <u>67,261</u> | <u>434,993</u> |
| Income tax expense from continuing operations | 303,755 | 165,473 | 552,826 |
| Income tax expense (benefit) from discontinued operations | 1,502 | 8,077 | (734) |
| Income tax benefit from cumulative effect of a change in accounting principle | | (6,605) | |
| Income tax expense (benefit) reported in shareholders' equity relating to: | | | |
| Investment securities available for sale | 2,602 | 877,198 | 207,652 |
| Derivatives qualifying for cash flow hedges | (198) | (1,065) | (158) |
| Minimum pension liability adjustments | 6,830 | 92,890 | (1,019) |
| Foreign currency translation adjustments | 7,511 | 6,786 | 343 |

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| | | | |
|-------|-----------|-------------|-----------|
| Total | 16,745 | 975,809 | 206,818 |
| Total | ¥ 322,002 | ¥ 1,142,754 | ¥ 758,910 |

Income taxes in Japan applicable to the MUFG Group are imposed by the national, prefectural and municipal governments, and in the aggregate resulted in a normal effective statutory rate of approximately 40.6% for the fiscal years ended March 31, 2005, 2006 and 2007. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Consolidated Corporate Tax

In March 2003, MUFG's application to file its tax returns under the consolidated corporate-tax system was approved by the Japanese tax authorities, and the consolidated corporate-tax system became effective for the fiscal year ended March 31, 2003. The consolidated corporate-tax system allows companies to base tax payments on the combined profits or losses of a parent company and its wholly owned domestic subsidiaries.

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In February 2005, MUFG's application to suspend the consolidated corporate-tax system was approved by the Japanese tax authorities. For the fiscal year ended March 31, 2005, the MUFG Group filed its tax returns under the consolidated corporate-tax system. Due to the suspension of the consolidated corporate-tax system, deferred income taxes had been calculated separately based on temporary differences as of March 31, 2005 and future taxable income at each company.

Merger

Under the Japanese corporate tax law, the merger between MTFG and UFJ Holdings as well as those between their principal subsidiaries, including banks, trust banks, and securities companies, were treated as a tax qualified merger, and the tax bases of assets and liabilities and the operating loss carryforwards of UFJ Holdings and its principal subsidiaries were carried forward in the combined entities' income tax returns. As a result, the tax items comprising MUFG's deferred tax assets and liabilities significantly increased at March 31, 2006 compared to March 31, 2005.

A reconciliation of the effective income tax rate reflected in the accompanying consolidated statements of income to the combined normal effective statutory tax rate for the fiscal years ended March 31, 2005, 2006 and 2007 is as follows:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|-------------------|-------------------|-------------------|
| Combined normal effective statutory tax rate | 40.6% | 40.6% | 40.6% |
| Increase (decrease) in taxes resulting from: | | | |
| Nondeductible expenses | 0.4 | 0.7 | 0.2 |
| Dividends from foreign subsidiaries | 1.1 | 1.6 | 0.9 |
| Foreign tax credit and payments | 1.6 | 1.4 | 0.8 |
| Lower tax rates applicable to income of subsidiaries | (0.8) | (6.9) | (0.5) |
| Minority interests | 1.6 | 9.5 | 0.6 |
| Change in valuation allowance | (2.6) | 0.2 | 7.2 |
| Realization of previously unrecognized tax effects of subsidiaries | (0.1) | (16.5) | |
| Nontaxable dividends received | (1.2) | (1.7) | (1.4) |
| Tax expense on capital transactions by a subsidiary | | 4.4 | |
| Other net | 1.7 | (2.1) | 0.3 |
| | <u> </u> | <u> </u> | <u> </u> |
| Effective income tax rate | <u>42.3%</u> | <u>31.2%</u> | <u>48.7%</u> |

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Deferred tax assets and liabilities are computed for each tax jurisdiction using currently enacted tax rates applicable to periods when the temporary differences are expected to reverse. The tax effects of the items comprising the MUFG Group's net deferred tax assets at March 31, 2006 and 2007 were as follows:

| | <u>2006</u> | <u>2007</u> |
|---|--------------------|------------------|
| | (in millions) | |
| Deferred tax assets: | | |
| Allowance for credit losses | ¥ 693,399 | ¥ 643,011 |
| Operating loss carryforwards | 1,641,837 | 1,347,053 |
| Loans | 121,111 | 64,676 |
| Accrued severance indemnities and pension plans | 55,552 | |
| Accrued liabilities and other | 352,261 | 417,365 |
| Sale-and-leaseback transactions | 49,253 | 48,018 |
| Derivative financial instruments | 202,346 | 135,907 |
| Valuation allowance ⁽¹⁾ | (431,619) | (509,463) |
| | <u>2,684,140</u> | <u>2,146,567</u> |
| Total deferred tax assets | | |
| Deferred tax liabilities: | | |
| Investment securities | 1,048,356 | 1,298,266 |
| Intangible assets | 430,550 | 296,744 |
| Lease transactions | 67,702 | 63,489 |
| Accrued severance indemnities and pension plans | | 96,225 |
| Other | 87,205 | 76,234 |
| | <u>1,633,813</u> | <u>1,830,958</u> |
| Total deferred tax liabilities | | |
| Net deferred tax assets | <u>¥ 1,050,327</u> | <u>¥ 315,609</u> |

Note:

- (1) At March 31, 2006 and 2007, ¥337 billion and ¥317 billion, respectively, of the valuation allowance related to gross deferred tax assets was attributable to the merger with UFJ Holdings. Future recognition of the tax attributes associated with these gross deferred tax assets would result in MUFG's share of tax benefits being allocated first to reduce goodwill, second to reduce other noncurrent intangible assets acquired, and then to reduce income tax expenses. For the fiscal year ended March 31, 2007, the tax benefit of ¥12 billion attributed to the merger was recognized by eliminating the valuation allowance and was applied to reduce goodwill.

The valuation allowance was provided primarily against deferred tax assets recorded at the MUFG Group's domestic subsidiaries with operating loss carryforwards. The amount of the valuation allowance is determined based on a review of future taxable income (exclusive of reversing temporary differences and carryforwards) and future reversals of existing taxable temporary differences. Future taxable income is developed from forecasted operating results, based on recent historical trends and approved business plans, the eligible carryforward periods and other relevant factors. For certain subsidiaries where strong negative evidence exists, such as the existence of significant amounts of operating loss

carryforwards, cumulative losses and the expiration of unused operating loss carryforwards in recent years, a valuation allowance was recognized against the deferred tax assets as of March 31, 2006 and 2007 to the extent that it is more likely than not that they will not be realized. The net changes in the valuation allowance for deferred tax assets were an increase of ¥318,664 million and ¥77,844 million for the fiscal years ended March 31, 2006 and 2007, respectively. The increase for the fiscal year ended March 31, 2006 primarily reflected an increase in the number of subsidiaries for which a valuation allowance was recognized against the deferred tax assets as a result of the merger with UFJ Holdings. The increase for the fiscal year ended March 31, 2007 primarily reflected the addition of valuation allowances for certain companies including a subsidiary in the consumer finance business due to the decline of their forecasted operating results and estimated future taxable income, and an increase in their deductible temporary differences.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At March 31, 2007, the MUFG Group had operating loss carryforwards of ¥3,296,801 million and tax credit carryforwards of ¥1,216 million for tax purposes. Such carryforwards, if not utilized, are scheduled to expire as follows:

| | Operating loss carryforwards | Tax credit carryforwards |
|------------------------------|------------------------------------|-----------------------------|
| (in millions) | | |
| Fiscal year ending March 31: | | |
| 2008 | ¥ 785 | ¥ |
| 2009 | 54,805 | |
| 2010 | 1,556,343 | |
| 2011 | 209,074 | |
| 2012 | 1,076,385 | |
| 2013 | 297,226 | |
| 2014 and thereafter | 64,357 | 549 |
| No definite expiration date | 37,826 | 667 |
| Total | ¥ 3,296,801 | ¥ 1,216 |

Income taxes are not provided on undistributed earnings of foreign subsidiaries, which are considered to be indefinitely reinvested in the operations of such subsidiaries. At March 31, 2007, such undistributed earnings of foreign subsidiaries amounted to approximately ¥366 billion. Determination of the amount of unrecognized deferred tax liabilities with respect to these undistributed earnings is not practicable because of the complexity associated with its hypothetical calculation including foreign withholding taxes and foreign tax credits. MUFG has neither plans nor the intention to dispose of investments in foreign subsidiaries and, accordingly, does not expect to record capital gains or losses, or otherwise monetize its foreign subsidiaries' undistributed earnings.

Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle for the fiscal years ended March 31, 2005, 2006 and 2007 was as follows:

| | 2005 | 2006 | 2007 |
|-----------------|------------------|------------------|--------------------|
| (in millions) | | | |
| Domestic income | ¥ 555,980 | ¥ 346,567 | ¥ 920,235 |
| Foreign income | 162,414 | 183,106 | 214,696 |
| Total | ¥ 718,394 | ¥ 529,673 | ¥ 1,134,931 |

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. PLEDGED ASSETS AND COLLATERAL***Pledged Assets*

At March 31, 2007, assets mortgaged, pledged, or otherwise subject to lien were as follows:

| | <u>(in millions)</u> |
|----------------------------|----------------------|
| Trading account securities | ¥ 4,417,700 |
| Investment securities | 7,697,995 |
| Loans | 4,625,336 |
| Other | 144,651 |
| Total | ¥ 16,885,682 |

The above pledged assets were classified by type of liabilities to which they related as follows:

| | <u>(in millions)</u> |
|--|----------------------|
| Deposits | ¥ 325,993 |
| Call money and funds purchased | 1,184,869 |
| Payables under repurchase agreements and securities lending transactions | 9,745,768 |
| Other short-term borrowings and long-term debt | 5,629,052 |
| Total | ¥ 16,885,682 |

In addition, at March 31, 2007, certain investment securities, principally Japanese national government and Japanese government agency bonds, and other assets aggregating ¥10,965,000 million were pledged as collateral for acting as a collection agent of public funds, for settlement of exchange at the Bank of Japan and Tokyo Bankers Association, for derivative transactions and for certain other purposes.

Under a Japanese law, Japanese banks are required to maintain certain minimum reserves on deposit with the Bank of Japan based on the amount of deposit balances and certain other factors. There are similar reserve deposit requirements for foreign offices engaged in banking businesses in foreign countries. At March 31, 2006 and 2007, the reserve funds maintained by the MUFG Group, which are included in Cash and due from banks and Interest-earning deposits in other banks, were ¥4,265,954 million and ¥1,059,151 million, respectively. Average reserves during the fiscal years ended March 31, 2006 and 2007 were ¥5,300,571 million and ¥1,651,564 million, respectively.

Collateral

The MUFG Group accepts and provides financial assets as collateral for transactions, principally commercial loans, repurchase agreements and securities lending transactions, call money, and derivatives. Financial assets eligible for such collateral include, among others, marketable equity securities, trade and notes receivable and certificates of deposit.

Secured parties, including creditors and counterparties to certain transactions with the MUFG Group, may sell or repledge financial assets provided as collateral. Certain contracts, however, may not be specific about the secured party's right to sell or repledge collateral under the applicable statutes and, therefore, whether or not the secured party is permitted to sell or repledge collateral would differ depending on the interpretations of specific provisions of the existing statutes, contract or certain market practices. If the MUFG Group determines, based on available information, that a financial asset provided as collateral might not be sold or repledged by the secured parties, such collateral is not separately reported in the consolidated balance sheets. If a secured party is

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

permitted to sell or repledge financial assets provided as collateral by contract or custom under the existing statutes, the MUFG Group reports such pledged financial assets separately on the face of the consolidated balance sheets. At March 31, 2007, the MUFG Group pledged ¥13,002 billion of assets that may not be sold or repledged by the secured parties.

Certain banking subsidiaries accept collateral for commercial loans and certain banking transactions under a standardized agreement with customers, which provides that these banking subsidiaries may require the customers to provide collateral or guarantees with respect to the loans and other banking transactions. Financial assets pledged as collateral are generally negotiable and transferable instruments, and such negotiability and transferability is authorized by applicable legislation. In principle, Japanese legislation permits these banking subsidiaries to repledge financial assets accepted as collateral unless otherwise prohibited by contract or relevant statutes. Nevertheless, the MUFG Group did not sell or repledge nor does it plan to sell or repledge such collateral accepted in connection with commercial loans before a debtor's default or other credit events specified in the agreements as it is not customary within the banking industry in Japan to dispose of collateral before a debtor's default and other specified credit events. Derivative agreements commonly used in the marketplace do not prohibit a secured party's disposition of financial assets received as collateral, and in resale agreements and securities borrowing transactions, securities accepted as collateral may be sold or repledged by the secured parties. At March 31, 2006 and 2007, the fair value of the collateral accepted by the MUFG Group that is permitted to be sold or repledged was approximately ¥13,336 billion and ¥19,454 billion, respectively, of which approximately ¥5,688 billion and ¥7,105 billion, respectively, was sold or repledged. The amount includes the collateral that may be repledged under the current Japanese legislation but the MUFG Group does not dispose of before the counterparties' default in accordance with the customary practice within the Japanese banking industry.

Note:

The fair value of the collateral accepted by the MUFG Group that is permitted to be sold or repledged at March 31, 2006 has been restated from the amounts previously reported as follows:

| | <u>2006</u> | |
|---|----------------------|--------------------|
| | <u>As previously</u> | |
| | <u>reported</u> | <u>As restated</u> |
| | <u>(in billions)</u> | |
| Fair value of the accepted collateral that is permitted to be sold or repledged | ¥ 13,160 | ¥ 13,336 |
| of which, sold or repledged | ¥ 4,503 | ¥ 5,688 |

13. DEPOSITS

The balances of time deposits, including certificates of deposit (CDs), issued in amounts of ¥10 million (approximately US\$85 thousand at the Federal Reserve Bank of New York's noon buying rate on March 30, 2007) or more with respect to domestic deposits and issued in amounts of US\$100,000 or more with respect to foreign deposits were ¥22,752,025 million and ¥9,206,913 million, respectively, at March 31, 2006, and ¥24,164,922 million and ¥10,797,947 million, respectively, at March 31, 2007.

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The maturity information at March 31, 2007 for domestic and foreign time deposits, including CDs, is summarized as follows:

| | Domestic | Foreign |
|--|----------------------|---------------------|
| | (in millions) | |
| Due in one year or less | ¥ 32,971,883 | ¥ 11,115,361 |
| Due after one year through two years | 4,769,338 | 56,173 |
| Due after two years through three years | 3,960,804 | 101,371 |
| Due after three years through four years | 1,437,374 | 11,285 |
| Due after four years through five years | 1,065,606 | 103,055 |
| Due after five years | 141,639 | 35,340 |
| Total | ¥ 44,346,644 | ¥ 11,422,585 |

Note:

The balance of foreign deposits issued in amounts of US\$100,000 or more at March 31, 2006 has been restated from ¥8,252,109 million to ¥9,206,913 million.

14. DEBENTURES

In Japan, certain banks, including BTM, were authorized to issue discount and coupon debentures in the domestic market under applicable banking laws. The Bank of Tokyo, Ltd., which merged with The Mitsubishi Bank, Limited to create BTM, was authorized to issue such debentures and, after the merger in 1996, BTM was also permitted to issue discount and coupon debentures in the domestic market through March 2002 under the Law concerning the Merger and Conversion of Financial Institutions of Japan.

All of the remaining debentures of ¥265,957 million at March 31, 2004 matured in the fiscal year ended March 31, 2005.

15. CALL LOANS AND FUNDS SOLD, AND CALL MONEY AND FUNDS PURCHASED

A summary of funds transactions for the fiscal years ended March 31, 2005, 2006 and 2007 is as follows:

| 2005 | 2006 | 2007 |
|-------------|-------------|-------------|
|-------------|-------------|-------------|

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(in millions, except percentages)

| | | | |
|--|------------------|------------------|------------------|
| Average balance during the fiscal year: | | | |
| Call money and funds purchased | ¥ 2,230,340 | ¥ 2,566,249 | ¥ 2,787,474 |
| Call loans and funds sold | 827,111 | 1,313,166 | 971,791 |
| Net funds purchased position | ¥ 1,403,229 | ¥ 1,253,083 | ¥ 1,815,683 |
| Call money and funds purchased: | | | |
| Outstanding at end of fiscal year: | | | |
| Amount | ¥ 1,521,057 | ¥ 2,273,754 | ¥ 2,544,637 |
| Principal range of maturities | 1 day to 30 days | 1 day to 30 days | 1 day to 30 days |
| Weighted average interest rate | 0.40% | 0.51% | 2.33% |
| Maximum balance at any month-end during the fiscal year | ¥ 3,048,831 | ¥ 3,623,400 | ¥ 3,078,633 |
| Weighted average interest rate paid during the fiscal year | 0.32% | 0.29% | 1.00% |

Average balances are generally based on a daily average while a month-end average is used for certain average balances when it is not practicable to obtain applicable daily averages.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16. DUE TO TRUST ACCOUNT**

MUTB holds assets on behalf of its customers in an agent, fiduciary or trust capacity. Such trust account assets are not the MUFG Group's proprietary assets and are managed and accounted for separately.

However, excess cash funds of individual trust accounts are often placed with MUTB which manages the funds together with its own funds in its proprietary account. Due to trust account reflects a temporary placement of the excess funds from individual trust accounts and, in view of the MUFG Group's funding, due to trust account is similar to short-term funding, including demand deposits and other overnight funds purchased. The balance changes in response to the day-to-day changes in the excess funds placed by the trust accounts. A summary of due to trust account transactions for the fiscal years ended March 31, 2005, 2006 and 2007 is as follows:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|-----------------------------------|-------------|-------------|
| | (in millions, except percentages) | | |
| Average balance outstanding during the fiscal year | ¥ 1,349,118 | ¥ 2,099,745 | ¥ 1,981,427 |
| Maximum balance at any month-end during the fiscal year | 1,411,055 | 3,438,160 | 2,229,225 |
| Weighted average interest rate during the fiscal year | 0.29% | 0.24% | 0.30% |

17. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

At March 31, 2006 and 2007, the MUFG Group had unused lines of credit for short-term financing amounting to ¥11,280,010 million and ¥8,567,233 million, respectively. The amounts principally consist of the lines of collateralized intraday overdrafts without interest charges and collateralized overnight loans on bills at the official discount rate granted by the Bank of Japan, which are used to cover shortages in the Bank of Japan account and to meet liquidity needs. The MUFG Group may borrow from the Bank of Japan on demand up to the total amount of collateral eligible for credit extension.

Other short-term borrowings at March 31, 2006 and 2007 were comprised of the following:

| | <u>2006</u> | <u>2007</u> |
|--|-----------------------------------|-------------|
| | (in millions, except percentages) | |
| Domestic offices: | | |
| Loans on notes and acceptances transferred with recourse (rediscount) ⁽¹⁾ | ¥ 7,208,579 | ¥ |
| Commercial paper | 1,145,931 | 1,485,748 |

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| | | |
|---|-------------------|-------------------|
| Borrowings from financial institutions | 424,575 | 271,885 |
| Other ⁽¹⁾ | 188,948 | 1,985,781 |
| | <u> </u> | <u> </u> |
| Total domestic offices | 8,968,033 | 3,743,414 |
| | <u> </u> | <u> </u> |
| Foreign offices: | | |
| Commercial paper | 1,273,869 | 1,658,420 |
| Other | 292,509 | 332,779 |
| | <u> </u> | <u> </u> |
| Total foreign offices | 1,566,378 | 1,991,199 |
| | <u> </u> | <u> </u> |
| Total | 10,534,411 | 5,734,613 |
| Less unamortized discount | 33 | 140 |
| | <u> </u> | <u> </u> |
| Other short-term borrowings net | ¥ 10,534,378 | ¥ 5,734,473 |
| | <u> </u> | <u> </u> |
| Weighted average interest rate on outstanding balance at end of fiscal year | 0.68% | 2.17% |

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Note:

- (1) During the fiscal year ended March 31, 2007, the form of transaction with Bank of Japan was changed to electronic lending arrangement from purchase of bills. Such electronic lending arrangement with the Bank of Japan is included in Other in the amount of ¥1,911,000 million at March 31, 2007.

A summary of other short-term borrowing transactions for the fiscal years ended March 31, 2005, 2006 and 2007 is as follows:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|-----------------------------------|--------------|-------------|
| | (in millions, except percentages) | | |
| Average balance outstanding during the fiscal year | ¥ 9,413,280 | ¥ 11,828,663 | ¥ 7,566,200 |
| Maximum balance at any month-end during the fiscal year | 12,380,021 | 16,059,642 | 8,549,745 |
| Weighted average interest rate during the fiscal year | 0.24% | 0.54% | 1.44% |

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Long-term debt (with original maturities of more than one year) at March 31, 2006 and 2007 was comprised of the following:

| | 2006 | 2007 |
|--|------------------|------------------|
| | (in millions) | |
| MUFG: | | |
| Obligations under capital leases | ¥ 7 | ¥ |
| Unsubordinated debt: | | |
| Fixed rate bonds, payable in Japanese yen, due 2007-2011, principally 0.31%-1.21% | 650,000 | 641,600 |
| Floating rate bonds, payable in Japanese yen, due 2008, principally 2.18% | 50,000 | 25,000 |
| Subordinated debt: | | |
| Floating rate borrowing, payable in United States dollars, no stated maturity, principally 6.25% | 587 | 590 |
| Floating rate borrowing, payable in Euro, no stated maturity, principally 4.75%-5.17% | 714 | 1,574 |
| Floating rate borrowing, payable in Great Britain pound, no stated maturity, principally 6.20% | 695 | 695 |
| Floating rate borrowing, payable in Japanese yen, no stated maturity, principally 2.42%-3.29% | 25,836 | 23,808 |
| Total | 727,144 | 693,267 |
| BTMU: | | |
| Obligations under capital leases | ¥ 175,107 | ¥ 154,004 |
| Obligation under sale-and-leaseback transactions | 81,003 | 46,270 |
| Unsubordinated debt: | | |
| Insurance companies and other institutions, maturing serially through 2008-2012, principally 3.13%-3.67% | 36,048 | 38,000 |
| Fixed rate bonds, payable in Great Britain pound, due 2006, principally 3.15% | 2,002 | |
| Fixed rate bonds, payable in Japanese yen, due 2007-2022, principally 0.15%-2.69% | 2,649,092 | 2,085,078 |
| Fixed rate borrowings, payable in Japanese yen, due 2007-2031, principally 0.00%-7.30% | 36,842 | 28,841 |
| Fixed rate borrowings, payable in Philippine peso, due 2009, principally 8.82% | 580 | 591 |
| Fixed rate borrowings, payable in Thai baht, due 2007-2013, principally 4.10%-5.65% | 3,684 | 6,056 |
| Fixed rate borrowings, payable in United States dollars, due 2009-2018, principally 0.64%-7.49% | 18,856 | 13,813 |
| Adjustable rate borrowings, payable in United States dollars, due 2007-2011, principally 4.24%-4.72% | 2,057 | 1,023 |
| Floating rate borrowings, payable in Thai baht, due 2007-2009, principally 4.48%-4.88% | 420 | 420 |
| Floating rate borrowings, payable in United States dollars, due 2007-2008, principally 5.33% | 84,570 | 82,635 |
| Total | 2,833,731 | 2,256,457 |
| Subordinated debt: | | |
| Insurance companies and other institutions, due 2010, principally 1.08% | 5,000 | 3,000 |
| Fixed rate bonds, payable in Japanese yen, due 2010-2020, principally 1.13%-7.74% | 519,822 | 625,532 |
| Fixed rate bonds, payable in United States dollars, due 2010-2011, principally 7.40%-8.40% | 495,290 | 490,165 |
| Fixed rate borrowings, payable in Japanese yen, due 2007-2035, principally 0.14%-6.20% | 585,285 | 571,576 |
| Fixed rate borrowings, payable in United States dollars, due 2008-2013, principally 6.76%-8.98% | 580,304 | 434,057 |
| Adjustable rate borrowings, payable in United States dollars, due 2006, principally 2.90% | 293 | |
| Adjustable rate bonds, payable in Japanese yen, due 2012, principally 1.46% | 31,700 | 1,000 |
| Adjustable rate borrowings, payable in Japanese yen, due 2007-2021, principally 0.69%-2.02% | 206,500 | 197,800 |
| Floating rate bonds, payable in Japanese yen, due 2013, principally 1.32% | 11,000 | 11,000 |
| Floating rate bonds, payable in Euro, due 2015, principally 3.50% | 142,810 | 157,330 |
| Floating rate bonds, payable in Japanese yen, due 2011-2013, principally 0.71%-1.27% | 81,000 | |
| Floating rate borrowings, payable in Japanese yen, due 2007-2028, principally 0.51%-4.03% | 1,619,369 | 1,368,512 |
| Floating rate borrowings, payable in United States dollars, due 2008-2017, principally 5.80%-8.98% | 376,844 | 647,858 |
| Floating rate borrowings, payable in Euro, due 2015-2017, principally 4.08%-5.17% | 227,068 | 332,753 |
| Floating rate borrowings, payable in Great Britain pounds, due 2017, principally 6.13%-6.20% | 194,653 | 194,653 |
| Total | 4,871,285 | 5,035,236 |
| | 2,045,116 | 3,124,432 |

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Obligations under loan securitization transaction accounted for as secured borrowings, due 2007-2043, principally 0.53%-5.66%

| | | |
|--|------------|------------|
| Total | 10,006,242 | 10,616,399 |
| MUTB: | | |
| Obligations under capital leases | ¥ 1,596 | ¥ 954 |
| Unsubordinated debt: | | |
| Insurance companies and other institutions, maturing serially through 2007-2016, principally 0.25%-5.33% | 62,329 | 77,066 |
| Subordinated debt: | | |
| Fixed rate borrowings, payable in Japanese yen, due 2007-2017, principally 1.25%-4.00% | 110,658 | 114,516 |
| Adjustable rate borrowings, payable in Japanese yen, no stated maturity, principally 3.15% | 2,900 | 1,400 |
| Adjustable rate borrowings, payable in Japanese yen, due 2012-2020, principally 1.56%-4.00% | 49,000 | 26,300 |
| Floating rate borrowings, payable in Japanese yen, due 2006, principally 0.91% | 10,000 | |
| Perpetual bonds, payable in Japanese yen, principally 1.15%-2.17% | 107,100 | 94,700 |
| Fixed rate bonds, payable in Japanese yen, due 2007-2014, principally 0.92%-4.00% | 59,367 | 59,189 |
| Adjustable rate bonds, payable in Japanese yen, due 2012-2016, principally 0.85%-2.45% | 182,700 | 144,700 |
| Obligations under loan securitization transaction accounted for as secured borrowings, due 2007-2015, principally 0.78%-7.8% | 124,945 | 158,971 |
| Total | 710,595 | 677,796 |

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | 2006 | 2007 |
|--|---------------------|---------------------|
| | (in millions) | |
| Other subsidiaries: | | |
| Unsubordinated debt: | | |
| Insurance companies and other institutions, due 2007-2013, principally 0.62%-11.62% | ¥ 442,021 | ¥ 272,814 |
| 0.25% convertible bond due 2014, payable in Japanese yen ⁽²⁾ | 45,422 | 49,657 |
| Fixed rate bonds and notes, payable in United States dollars, due 2007-2036, principally 0.50%-8.22% | 48,508 | 25,108 |
| Fixed rate bonds and notes, payable in Japanese yen, due 2007-2026, principally 0.00%-7.50% | 671,731 | 502,975 |
| Fixed rate bonds and notes, payable in Euro, due 2008-2012, principally 1.55%-6.25% | 949 | 358 |
| Fixed rate bonds and notes, payable in Indonesian rupiah, due 2007, principally 19.00% | 576 | 665 |
| Fixed rate bonds and notes, payable in Thai baht, due 2007-2010, principally 0.75%-1.36% | | 769 |
| Adjustable rate bonds and notes, payable in United States dollars, due 2011-2012, principally 4.78%-6.37% | 3,294 | 4,430 |
| Floating rate bonds and notes, payable in United States dollars, due 2007-2036, principally 0.00%-10.00% | 65,745 | 26,077 |
| Floating rate bonds and notes, payable in Japanese yen, due 2007-2037, principally 0.00%-20.00% | 495,390 | 861,763 |
| Floating rate bonds and notes, payable in Euro, due 2009-2014, 0.00%-4.08% | 99 | 2,009 |
| Floating rate bonds and notes, payable in Thai baht, due 2006-2010, principally 0.09%-1.36% | 964 | |
| Floating rate bonds and notes, payable in Hong Kong dollars, due 2007-2010, principally 0.75%-5.83% | 714 | 4,415 |
| Floating rate bonds and notes, payable in Brazil real, due 2009-2010, principally 5.37% | | 442 |
| Floating rate bonds and notes, payable in Indonesian rupiah, due 2007-2008, principally 5.33%-11.67% | | 3,240 |
| Floating rate bonds and notes, payable in China yuen, due 2011, principally 8.00% | | 1,158 |
| Obligations under capital leases and other miscellaneous debt | 34,395 | 34,554 |
| Other institutions, due 2007-2035, principally 0.66%-3.58% | 37,343 | 13,194 |
| Total | 1,847,151 | 1,803,628 |
| Subordinated debt: | | |
| Insurance companies and other institutions, due 2008-2015, principally 0.98%-2.70% | 19,462 | 19,004 |
| Fixed rate bonds and notes, payable in United States dollars, due 2007-2016, principally 5.25%-10.30% | 50,693 | 140,829 |
| Fixed rate bonds and notes, payable in Japanese yen, due 2009-2017, principally 0.94%-1.97% | 24,263 | 35,118 |
| Floating rate bonds and notes, payable in United States dollars, due 2009-2010, principally 4.70%-5.90% | 11,852 | 1,770 |
| Floating rate bonds and notes, payable in Japanese yen, due 2007-2010, principally 0.69%-1.14% | 173,774 | 170,253 |
| Other miscellaneous debt | 153 | 154 |
| Total | 280,197 | 367,128 |
| Obligations under loan securitization transaction accounted for as secured borrowings, due 2009, principally 2.44% | 318,196 | 231,712 |
| Total | 2,445,544 | 2,402,468 |
| Total | ¥ 13,889,525 | ¥ 14,389,930 |

Notes:

- (1) Adjustable rate debts are debts where interest rates are reset in accordance with the terms of the debt agreements, and floating rate debts are debts where interest rates are repriced in accordance with movements of market indices.
- (2) 0.25% convertible bond due 2014 was convertible into common stock of MUS. On May 25, 2007, it was redeemed by MUS.

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BTMU, MUTB and certain other subsidiaries entered into interest rate and currency swaps for certain debt in order to manage exposure to interest rate and currency exchange rate movements. As a result of these swap arrangements, the effective interest rates may differ from the coupon rates reflected in the above table. The interest rates for the adjustable and floating rate debt shown in the above table are those in effect at March 31, 2006 and 2007. Certain interest rates are determined by formulas and may be subject to certain minimum and maximum rates. Floating and adjustable rate debt agreements may provide for interest rate floors to prevent negative interest payments (i.e., receipts).

Certain debt agreements permit BTMU, MUTB and some other subsidiaries to redeem the related debt, in whole or in part, prior to maturity at the option of the issuer on terms specified in the respective agreements.

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is a summary of maturities of long-term debt subsequent to March 31, 2007:

| | <u>MUFG</u> | <u>BTMU</u> | <u>MUTB</u> | <u>Other subsidiaries</u> | <u>Total</u> |
|------------------------------|------------------|---------------------|------------------|-------------------------------|---------------------|
| | (in millions) | | | | |
| Fiscal year ending March 31: | | | | | |
| 2008 | ¥ 75,000 | ¥ 1,390,450 | ¥ 15,484 | ¥ 630,602 | ¥ 2,111,536 |
| 2009 | 198,200 | 1,401,136 | 54,640 | 352,978 | 2,006,954 |
| 2010 | 114,800 | 976,847 | 25,330 | 330,924 | 1,447,901 |
| 2011 | 198,600 | 1,312,110 | 87,340 | 271,721 | 1,869,771 |
| 2012 | 80,000 | 1,053,191 | 57,566 | 121,468 | 1,312,225 |
| 2013 and thereafter | 26,667 | 4,482,665 | 437,436 | 694,775 | 5,641,543 |
| Total | ¥ 693,267 | ¥ 10,616,399 | ¥ 677,796 | ¥ 2,402,468 | ¥ 14,389,930 |

18. SEVERANCE INDEMNITIES AND PENSION PLANS**Defined Benefit Pension Plans**

The MUFG Group has funded contributory or non-contributory defined benefit pension plans (pension benefits), which cover substantially all of their employees and provide for lifetime annuity payments commencing at age 65 based on eligible compensation at the time of severance, rank, years of service and other factors.

On January 1, 2006, BTMU integrated BTM's contributory Corporate Defined Benefit Pension plan (CDBP) and UFJ Bank's non-contributory CDBP plan and established a new non-contributory CDBP plan. The integration resulted in the change of the amounts of benefits earned based on employees' services rendered in prior fiscal periods. The plan amendment did not have a significant impact on the MUFG Group's results of operations and financial position. MUS and its domestic subsidiaries also have their own CDBP plans.

Until January 1, 2006, BTM's contributory CDBP was referred to as Employees' Pension Fund plans (EPF's), which were contributory defined benefit pension plans established under the Japanese Welfare Pension Insurance Law (JWPIIL). These plans were composed of (a) substitutional portion based on the pay-related part of the old-age pension benefits prescribed by JWPIIL (similar to social security benefits in the United States) and (b) a corporate portion based on a contributory defined benefit pension arrangement established on a discretionary basis. BTMU and its domestic subsidiaries with EPF plans and their employees were exempted from contributions to Japanese Pension Insurance (JPI) that would otherwise be required if they had not elected to fund the substitutional portion of the benefit through an EPF arrangement. The EPF plans, in

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turn, had paid both the corporate and substitutional pension benefits to retired beneficiaries out of their plan assets. Benefits of the substitutional portion were based on a standard remuneration schedule as determined by the JWPIL, but the benefits of the corporate portion were based on a formula determined by each employer/EPF plan. Pension benefits and plan assets applicable to the substitutional portion were included in the corporate portion in the determination of net periodic costs and funded status.

In June 2001, JWPIL was amended to permit each employer/EPF plan to separate the substitutional portion from the EPF plan and transfer the obligation and related assets to the government. The separation process occurred in several phases.

In June 2003, BTMU submitted to the government an application to transfer the obligation to pay benefits for future employee service related to the substitutional portion and the application was approved in August 2003. In August 2004, BTMU made another application for transfer to the government of the remaining

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

substitutional portion and the application was approved in November 2004. To complete the separation process, the substitutional obligation and related plan assets were transferred to a government agency on March 28, 2005.

In accordance with EITF 03-2, the details of which are discussed in Note 1 *Accounting Changes*, BTMU recognized (1) the difference of ¥103,001 million between the accumulated benefit obligations settled and the assets transferred to the Japanese Government as a government grant for transfer of the substitutional portion of the EPF plan, (2) the proportionate amount of the net unrealized loss of ¥69,257 million for the substitutional portion as settlement loss, and (3) the difference of ¥1,221 million between the projected benefit obligations and the accumulated benefit obligations related to the substitutional portion, as gain on derecognition of previously accrued salary progression for the fiscal year ended March 31, 2006.

The remaining portion of the EPF plan (that is, the corporate portion) was transferred to the BTM's contributory CDBP plan after the separation process was completed.

In addition to the CDBP, BTMU and MUTB have closed Tax-Qualified Pension Plans (closed TQPPs), which are non-contributory defined benefit pension plans that provide benefits to certain retired employees, excluding directors in Japan, based on eligible compensation at the time of severance, years of service and other factors.

The MUFG Group also offers qualified and nonqualified defined benefit pension plans in foreign offices and subsidiaries for their employees. The qualified plans are non-contributory defined pension plans, which provide benefits upon retirement based on years of service and average compensation and cover substantially all of the employees of such foreign offices and subsidiaries. With respect to the offices and subsidiaries in the United States of America, the qualified plans are funded on a current basis in compliance with the requirement of the Employee Retirement Income Security Act of the United States of America. The nonqualified plans are non-contributory defined benefit pension plans, under which certain employees earn pay and interest credits on compensation amounts above the maximum stipulated by applicable laws under the qualified plans.

Contributory defined benefit pension plans. MUTB established a new contributory defined benefit pension plan by integrating the defined benefit pension plans of both Mitsubishi Trust and UFJ Trust on March 31, 2007, which is comprised of substitutional portion and corporate portion. The plan amendment did not have a significant impact on the MUFG Group's results of operations and financial position.

In addition to the contributory defined benefit pension plan, MUTB has closed TQPPs, which are funded contributory defined benefit pension plans, providing benefits to certain retired employees, excluding directors in Japan, based on eligible compensation at the time of severance, years of service and other factors.

Severance Indemnities Plans

The MUFG Group has severance indemnities plans (SIP s) under which their employees in Japan, other than those who are directors, are entitled, under most circumstances, upon mandatory retirement at normal retirement age or earlier termination of employment, to lump-sum severance indemnities based on eligible compensation at the time of severance, rank, years of service and other factors. Under SIPs, benefit payments in the form of a lump-sum cash payment with no option to receive annuity payments, upon mandatory retirement at normal retirement age or earlier termination of employment, are provided. When a benefit is paid in a single payment to a benefit payee under the plans, the payment represents final relief of the obligation.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Other Postretirement Plans***

The MUFG Group's foreign offices and subsidiaries, primarily in the United States of America, provide their employees with certain postretirement medical and life insurance benefits (other benefits). Plan assets are generally invested in government securities, corporate bonds and mutual funds.

Defined Contribution Plans

The MUFG Group maintains several qualified defined contribution plans in its domestic and foreign offices and subsidiaries, all of which are administered in accordance with applicable local laws and regulations. Each office and subsidiary matches eligible employee contributions up to a certain percentage of benefits-eligible compensation per pay period, subject to plan and legal limits. Terms of the plan, including matching percentage and vesting periods, are individually determined by each office and subsidiary.

The cost of these defined contribution plans charged to operations for the fiscal years ended March 31, 2005, 2006 and 2007 were ¥3,500 million, ¥4,473 million and ¥4,928 million, respectively.

Adopting SFAS No. 158

The MUFG Group adopted the recognition provision of SFAS No. 158 at March 31, 2007. The MUFG Group recognized the overfunded status or underfunded status of all plans as prepaid benefit cost or accrued benefit cost on the consolidated balance sheet at March 31, 2007 with an adjustment to accumulated other changes in equity from nonowner sources, net of taxes. SFAS No. 158 did not change how net periodic benefit costs are determined.

The following table presents the incremental effect of applying SFAS No. 158 on individual line items on the consolidated balance sheet at March 31, 2007:

| Before application of SFAS No. 158 | Effect of adjustment Increase/(Decrease) | After application of SFAS No. 158 |
|---|---|--|
| <hr/> | <hr/> | <hr/> |

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| | (in millions) | | |
|---|---------------|------------|---------------|
| Intangible assets net | ¥ 1,266,188 | ¥ (1,108) | ¥ 1,265,080 |
| Deferred tax assets | ¥ 636,246 | ¥ (80,088) | ¥ 556,158 |
| Other assets | ¥ 4,851,683 | ¥ 283,742 | ¥ 5,135,425 |
| Total assets | ¥ 186,000,365 | ¥ 202,546 | ¥ 186,202,911 |
| Other liabilities | ¥ 4,995,761 | ¥ 23,762 | ¥ 5,019,523 |
| Total liabilities | ¥ 175,745,837 | ¥ 23,762 | ¥ 175,769,599 |
| Accumulated other changes in equity from nonowner sources, net of taxes | ¥ 2,213,352 | ¥ 178,784 | ¥ 2,392,136 |
| Total shareholders equity | ¥ 10,254,528 | ¥ 178,784 | ¥ 10,433,312 |

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table presents recognized amounts in accumulated other changes in equity from nonowner sources of the MUFG Group at March 31, 2007:

| | Domestic subsidiaries | Foreign offices and subsidiaries | | Total |
|-------------------------------|-----------------------------|-------------------------------------|-------------------|----------------------------|
| | Pension benefits and SIP | Pension benefits | Other benefits | |
| | | (in millions) | | |
| Net actuarial loss (gain) | ¥ (235,527) | ¥ 31,124 | ¥ 5,858 | ¥ (198,545) |
| Prior service cost | (89,946) | 161 | (686) | (90,471) |
| Net obligation at transition | 545 | | 1,455 | 2,000 |
| Pension liability adjustments | ¥ (324,928) | ¥ 31,285 | ¥ 6,627 | ¥ (287,016) ⁽¹⁾ |

Note:

(1) Amount recognized in accumulated other changes in equity from nonowner sources, net of taxes, is ¥168,847 million.

The following table presents the expected amounts that will be amortized from accumulated other changes in equity from nonowner sources as components of net periodic benefit cost, before taxes, for the fiscal year ending March 31, 2008:

| | Domestic subsidiaries | Foreign offices and subsidiaries | | Total |
|------------------------------|-----------------------------|-------------------------------------|-------------------|-----------|
| | Pension benefits and SIP | Pension benefits | Other benefits | |
| | | (in millions) | | |
| Net actuarial loss (gain) | ¥ (4,679) | ¥ 2,707 | ¥ 367 | ¥ (1,605) |
| Prior service cost | (7,446) | 130 | (24) | (7,340) |
| Net obligation at transition | 493 | | 243 | 736 |
| Total | ¥ (11,632) | ¥ 2,837 | ¥ 586 | ¥ (8,209) |

Domestic Subsidiaries

Net periodic cost of pension benefits and SIPs for the fiscal years ended March 31, 2005, 2006 and 2007 included the following components:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|-----------------|-----------------|----------------|
| | | (in millions) | |
| Service cost benefits earned during the fiscal year | ¥ 21,474 | ¥ 27,545 | ¥ 41,123 |
| Interest costs on projected benefit obligation | 21,997 | 25,319 | 36,203 |
| Expected return on plan assets | (31,206) | (37,916) | (71,015) |
| Amortization of net obligation at transition | 2,498 | 2,157 | 2,184 |
| Amortization of prior service cost | (1,047) | (1,091) | (4,197) |
| Amortization of net actuarial loss (gain) | 21,742 | 15,700 | (1,172) |
| Loss (Gain) on settlements | 3,047 | 68,940 | (3,569) |
| Gain on derecognition of previously accrued salary progression | | (1,221) | |
| | <u>¥ 38,505</u> | <u>¥ 99,433</u> | <u>¥ (443)</u> |

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the assumptions used in computing the present value of the projected benefit obligations and the net periodic benefit cost:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|-------------|----------------------|-------------|
| Weighted-average assumptions used: | | | |
| Discount rates in determining expense | 2.10% | 2.17% ⁽¹⁾ | 2.12% |
| Discount rates in determining benefit obligation | 2.19 | 2.12 | 2.27 |
| Rates of increase in future compensation level for determining expense | 3.12 | 3.29 ₍₁₎ | 2.95 |
| Rates of increase in future compensation level for determining benefit obligation | 3.21 | 2.95 | 2.98 |
| Expected rates of return on plan assets | 3.45 | 3.37 ₍₁₎ | 3.36 |

Note:

- (1) Weighted-average assumptions used in determining expenses for the fiscal year ended March 31, 2006 in the above table are for the MTFG Group only. These assumptions used for the UFJ Holdings Group, related to expenses recognized since October 1, 2005, were as follows:

| | <u>2006</u> |
|--|-------------|
| Discount rates in determining expense | 2.13% |
| Rates of increase in future compensation level for determining expense | 4.60 |
| Expected rates of return on plan assets | 2.75 |

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth the combined funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2006 and 2007 for the plans of BTMU, MUTB and other domestic subsidiaries. BTMU and some of its domestic subsidiaries have measured plan assets and benefit obligations at December 31 for the purpose of financial statements, whereas MUTB has used March 31 for the measurement date. Accordingly, funded status and amounts recognized in the table below shows the combined amounts of those presented in the consolidated financial statements of these subsidiaries.

| | 2006 | | | 2007 | | |
|--|--|-------------------------------------|-------------|--|-------------------------------------|-------------|
| | Non-contributory pension benefits and SIP | Contributory pension benefits | Total | Non-contributory pension benefits and SIP | Contributory pension benefits | Total |
| (in millions) | | | | | | |
| Change in benefit obligation: | | | | | | |
| Benefit obligation at beginning of fiscal year | ¥ 173,652 | ¥ 905,802 | ¥ 1,079,454 | ¥ 1,359,293 ⁽¹⁾ | ¥ 385,715 ⁽¹⁾ | ¥ 1,745,008 |
| Service cost | 13,613 | 13,932 | 27,545 | 35,122 | 6,001 | 41,123 |
| Interest cost | 7,461 | 17,858 | 25,319 | 27,973 | 8,230 | 36,203 |
| Plan participants' contributions | | 1,777 | 1,777 | | 1,194 | 1,194 |
| Amendments | (8,786) | | (8,786) | (25,104) | | (25,104) |
| Acquisitions in connection with the merger with UFJ Holdings | 717,336 | 132,754 | 850,090 | | | |
| Actuarial loss (gain) | 3,382 | 14,124 | 17,506 | (16,088) | (31,024) | (47,112) |
| Benefits paid | (11,322) | (24,462) | (35,784) | (45,705) | (11,895) | (57,600) |
| Separation | | (198,528) | (198,528) | | | |
| Lump-sum payment | (13,585) | | (13,585) | (11,177) | | (11,177) |
| Benefit obligation at end of fiscal year | 881,751 ⁽¹⁾ | 863,257 ⁽¹⁾ | 1,745,008 | 1,324,314 | 358,221 | 1,682,535 |
| Change in plan assets: | | | | | | |
| Fair value of plan assets at beginning of fiscal year | 125,622 | 820,819 | 946,441 | 1,541,597 ⁽¹⁾ | 570,567 ⁽¹⁾ | 2,112,164 |
| Actual return on plan assets | 136,762 | 229,787 | 366,549 | 180,136 | 58,746 | 238,882 |
| Acquisitions in connection with the merger with UFJ Holdings | 753,336 | 137,875 | 891,211 | | | |
| Employer contributions | 13,820 | 22,456 | 36,276 | 48,436 | 13,195 | 61,631 |
| Plan participants' contributions | | 1,777 | 1,777 | | 1,194 | 1,194 |
| Benefits paid | (11,322) | (24,462) | (35,784) | (45,705) | (11,895) | (57,600) |
| Separation | | (94,306) | (94,306) | | | |
| Fair value of plan assets at end of fiscal year | 1,018,218 ⁽¹⁾ | 1,093,946 ⁽¹⁾ | 2,112,164 | 1,724,464 | 631,807 | 2,356,271 |
| Reconciliation of funded status: | | | | | | |
| Funded status | 136,467 | 230,689 | 367,156 | 400,150 | 273,586 | 673,736 |
| Reclassification ⁽¹⁾ | 45,837 | (45,837) | | | | |
| Contributions to or benefits paid from plan assets during three months ended March 31, 2006 and 2007 | 13,157 | | 13,157 | 13,290 | | 13,290 |
| Unrecognized net actuarial loss (gain) | (4,634) | (54,103) | (58,737) | (2) | (2) | (2) |
| Unrecognized prior service cost | (30,322) | (4,271) | (34,593) | (2) | (2) | (2) |
| Unrecognized net obligation at transition | 665 | 2,061 | 2,726 | (2) | (2) | (2) |

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| | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Net amount recognized | ¥ 161,170 | ¥ 128,539 | ¥ 289,709 | ¥ 413,440 | ¥ 273,586 | ¥ 687,026 |
| Amounts recognized in the consolidated balance sheets: | | | | | | |
| Prepaid benefit cost | ¥ 206,452 | ¥ 136,618 | ¥ 343,070 | ¥ 452,245 | ¥ 273,586 | ¥ 725,831 |
| Accrued benefit cost | (48,954) | (8,079) | (57,033) | (38,805) | | (38,805) |
| Intangible assets | 1,760 | | 1,760 | | | |
| Accumulated other changes in equity from nonowner sources under SFAS No. 87 | 1,912 | | 1,912 | | | |
| Net amount recognized | ¥ 161,170 | ¥ 128,539 | ¥ 289,709 | ¥ 413,440 | ¥ 273,586 | ¥ 687,026 |

Notes:

- (1) Due to the integration of pension plans of BTM and UFJ Bank of January 1, 2006, BTM's contributory pension plan was changed into a non-contributory pension plan established by a new bank.
- (2) Under SFAS No. 158, unrecognized net actuarial loss, unrecognized prior service cost and unrecognized net obligation at transition are now recorded as accumulated other changes in equity from nonowner sources.

The aggregated accumulated benefit obligations of these plans were ¥1,674,805 million and ¥1,663,030 million at March 31, 2006 and 2007, respectively.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for the plans of BTMU, MUTB and other domestic subsidiaries with accumulated benefit obligations in excess of plan assets were ¥166,624 million, ¥157,673 million and ¥121,092 million, respectively, at March 31, 2006 and ¥95,241 million, ¥92,647million and ¥57,509 million, respectively, at March 31, 2007.

In accordance with BTMU's, MUTB's and other domestic subsidiaries' employment practices, certain early-terminated employees are entitled to special lump-sum termination benefits. The amounts charged to operations for such early termination benefits for the fiscal years ended March 31, 2005, 2006 and 2007 were ¥10,081 million, ¥13,916 million and ¥13,137 million, respectively.

BTMU*Asset allocation*

The weighted-average asset allocations of BTMU and its domestic subsidiaries' plan assets for the pension benefits and SIPs were as follows:

| Asset category | Asset ratio at December 31, | | |
|---|---|-------------------------------|--------------------------|
| | 2005 | | 2006 |
| | Non-contributory pension benefits and SIP | Contributory pension benefits | Pension benefits and SIP |
| Pension fund | 63.48% | 80.76% | 66.30% |
| Japanese equity securities ⁽¹⁾ | 22.09 | 21.36 | 14.41 |
| Japanese debt securities ⁽²⁾ | 19.83 | 28.29 | 26.00 |
| Non-Japanese equity securities | 13.17 | 12.65 | 13.25 |
| Non-Japanese debt securities | 6.33 | 7.12 | 7.21 |
| General account of life insurance companies ⁽³⁾ | 1.17 | 10.97 | 5.05 |
| Short-term assets | 0.89 | 0.37 | 0.35 |
| Real estate | | | 0.03 |
| Employee retirement benefit trust, primarily Japanese equity securities | 36.52 | 19.24 | 33.70 |
| Total | 100.00% | 100.00% | 100.00% |

Notes:

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- (1) Japanese equity securities include the MUFG Group's common stock in the amounts of ¥6,208 million (0.92% of plan assets) to the non-contributory pension benefits and SIPs and ¥3,481 million (0.67% of plan assets) to the contributory pension benefits at December 31, 2005 and ¥6,966 million (0.43% of plan assets) to the pension benefits and SIPs at December 31, 2006.
- (2) Japanese debt securities include the MUFG Group's debt securities in the amounts of ¥635 million (0.09% of plan assets) to the non-contributory pension benefits and SIPs and ¥1,644 million (0.31% of plan assets) to the contributory pension benefits at December 31, 2005 and ¥3,494 million (0.21% of plan assets) to the pension benefits and SIPs at December 31, 2006.
- (3) General account of life insurance companies is a contract with life insurance companies that guarantees a return of approximately 1.22% (from April 2005 to March 2006) and 1.23% (from April 2006 to March 2007), which is mainly invested in assets with low market risk such as Japanese debt securities. In terms of pension plan asset allocation, BTMU regards the general account in the same category as Japanese debt securities, because it is generally believed that there is a high degree of correlation between their performances. BTMU carefully monitors life insurance companies by credit rating and other assessments.

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Investment policies*

BTMU's target asset allocation of plan assets for the pension benefits at December 31, 2006 was as follows:

| <u>Asset category</u> | <u>Target asset allocation</u> |
|--------------------------------|--|
| Japanese equity securities | 21.0% |
| Japanese debt securities | 51.0 |
| Non-Japanese equity securities | 19.0 |
| Non-Japanese debt securities | 9.0 |
| Total | 100.0% |

BTMU's investment policy for the plan assets is to achieve assured benefits and stable contributions through proper risk control and return maximization. BTMU attaches a great deal of importance to the long-term performance of the plan assets to achieve assured benefits. BTMU fixes the long-term asset allocation, which will be maintained for approximately five years, for efficient long-term investment return. The long-term asset allocation is based on optimal portfolios, which are estimated by expected return and risk according to each asset category, while considering BTMU's risk tolerance.

As a general rule, BTMU reviews its investment policies for the plan assets approximately every five years. Additionally, a review is made in the following situations: large fluctuations in pension plan liabilities caused by modifications of pension plans, or changes in the market environment. BTMU carefully examines investment in alternative assets, such as derivatives or hedge funds, while considering BTMU's investment administration structure. BTMU controls risk on the plan assets by standard deviation analysis. Additionally, BTMU requires and checks that investment companies track errors in each asset category within a designated range.

BTMU believes that the purpose of an employee retirement benefit trust investment is to achieve assured benefits by contribution of assets to the trust. Employee retirement benefit trust assets are invested primarily in Japanese equity securities. This asset allocation will be held for the medium term, but it is undecided whether it will be held in the long term.

BTMU's SIP consists of an employee retirement benefit trust. The trust's purpose and basic policy is the same as the employee retirement benefit trust described above. BTMU's TQPPs have been closed and there are no more new beneficiaries. Therefore, to achieve assured benefits, the plan assets for closed TQPPs are invested in assets with low market risk.

Basis and procedure for estimating long-term return of each asset category

BTMU estimates the expected rate of return on the plan assets using a forward-looking building block approach. In this approach, the rate of return for each category of the plan assets is derived from both long-term historical performance and forward-looking return expectations based on future prospects of the economy and capital markets. The expected rate of return on the plan assets is 3.21%, which is the average of the expected rates of return weighted by assets allocation.

The expected rate of return on the employee retirement benefit trust which consists of SIP part and CDBP part is estimated as 1.01% based on the expected dividend yield on Japanese equity securities. Expected capital return is not taken into account, because the long-term asset allocation has not been determined.

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Cash flows*

BTMU expects to contribute approximately ¥41.5 billion to the plan assets for the pension benefits for the fiscal year ending March 31, 2008 based upon its current funded status and expected asset return assumptions.

Estimated future benefit payments

The following table presents benefit payments expected to be paid, which include the effect of expected future service for the fiscal years indicated:

| | Expected benefits | |
|------------------------------|--------------------------|---------|
| | <u>(in millions)</u> | |
| Fiscal year ending March 31: | | |
| 2008 | ¥ | 60,866 |
| 2009 | | 62,445 |
| 2010 | | 63,818 |
| 2011 | | 64,648 |
| 2012 | | 65,357 |
| Thereafter (2013-2017) | | 340,587 |

MUTB*Asset allocation*

The weighted-average asset allocations of MUTB's plan assets for the pension benefits and SIP were as follows:

| Asset category | Asset ratio at March 31, | |
|----------------|-------------------------------------|-------------|
| | <u>2006</u> | <u>2007</u> |

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| | | |
|---|---------------|---------------|
| Japanese equity securities ⁽¹⁾ | 58.3% | 60.4% |
| Japanese debt securities ⁽²⁾ | 10.3 | 10.6 |
| Non-Japanese equity securities | 7.6 | 8.6 |
| Non-Japanese debt securities | 9.1 | 9.3 |
| Real estate | 1.0 | 0.9 |
| Others ⁽³⁾ | 13.7 | 10.2 |
| Total | 100.0% | 100.0% |

Notes:

- (1) Japanese equity securities include the MUFG Group's common stock in the amounts of ¥7,547 million (1.19% of plan assets) and ¥5,844 million (0.84% of plan assets) at March 31, 2006 and 2007, respectively.
- (2) Japanese debt securities include the MUFG Group's debt securities in the amounts of ¥90 million (0.01% of plan assets) and ¥42 million (0.01% of plan assets) at March 31, 2006 and 2007, respectively.
- (3) Others mainly include short term deposits, short term money market products and short term investment products.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Investment policies*

MUTB's target asset allocation of plan assets for the pension benefits and SIP was as follows:

| <u>Asset category</u> | <u>Target asset allocation</u> |
|--------------------------------|--------------------------------|
| Japanese equity securities | 56.6% |
| Japanese debt securities | 13.5 |
| Non-Japanese equity securities | 7.0 |
| Non-Japanese debt securities | 10.5 |
| Others | 12.4 |
| Total | 100.0% |

The investment policy for the plan assets is based on an asset liability strategy which is intended to maintain adequate liquidity for benefit payments and achieve long-term returns. MUTB does not rebalance the plan assets periodically. MUTB rebalances the asset allocation of pension plan assets only when it is necessary to adjust the gap between the actual return and the short-term return target.

The plan assets are well diversified to reduce exposure to risks and the diversification of countries and currencies are taken into account in investing in foreign assets. Furthermore, MUTB's investment strategy is intended to avoid speculative investments, such as investing in derivative instruments.

Basis and procedure for estimating long-term return of each asset category

The expected rate of return on plan assets is based on a building-block methodology, which calculates the total rate of return of the plan assets by aggregating the weighted rate of return from each asset category.

MUTB determined the expected rate of return for each asset category as below:

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Japanese equity securities: the rate for Japanese debt securities plus a premium for the risk associated with Japanese equity securities

Japanese debt securities: economic growth rate of Japan

Non-Japanese equity securities: the rate for non-Japanese debt securities plus a premium for the risk associated with non-Japanese equity securities

Non-Japanese debt securities: global economic growth rate

Others: the rate for Japanese debt securities minus interest rate spread

Cash flows

MUTB expects to contribute approximately ¥6.7 billion to the plan assets for the pension benefits for the fiscal year ending March 31, 2008 based upon its current funded status and expected asset return assumptions.

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Estimated future benefit payments*

The following table presents benefit payments expected to be paid for the pension benefits, which include the effect of expected future service for the fiscal years indicated:

| | <u>Expected benefits</u> | |
|------------------------------|--------------------------|--------|
| | (in millions) | |
| Fiscal year ending March 31: | | |
| 2008 | ¥ | 14,318 |
| 2009 | | 14,783 |
| 2010 | | 15,170 |
| 2011 | | 15,599 |
| 2012 | | 15,941 |
| Thereafter (2013-2017) | | 86,030 |

MUS*Asset allocation*

The weighted-average asset allocation of the MUS's plan assets for the pension benefits was as follows:

| <u>Asset Category</u> | <u>Asset ratio at March 31,</u> | |
|----------------------------|---------------------------------|-------------|
| | <u>2006</u> | <u>2007</u> |
| Japanese equity securities | 33.1% | 43.4% |
| Japanese debt securities | 34.5 | 23.3 |
| Others ⁽¹⁾ | 32.4 | 33.3 |
| Total | 100.0% | 100.0% |

Note:

(1) Others mainly include investment pension trusts, which primarily invest into non-Japanese debt and equity securities.

Investment policies

MUS's investment policy for the plan assets is to achieve a stable increase in the plan assets in the medium and long terms. Investment policies are determined by each third-party asset management company based on discretionary investment management agreements, and MUS does not designate specific target allocation of plan assets. However, when the performance is unfavorable due to negative change in the market environment or other factors, MUS would review the asset allocation of plan assets appropriately, such as increasing the ratio of debt securities with relatively low risk.

Basis and procedure for estimating long-term return of each asset category

MUS determines the expected long-term rate of return on plan assets based on its analysis of historical performance of the plan assets and current financial market condition with special attention to long-term interest rate.

Cash flows

MUS expects to contribute approximately ¥4.6 billion to the plan assets for the pension benefits for the fiscal year ending March 31, 2008 based upon its current funded status and expected asset return assumptions.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Estimated future benefit payments*

The following table presents benefit payments expected to be paid, which include the effect of expected future service for the fiscal years indicated:

| | Expected benefits | |
|------------------------------|--------------------------|--------|
| | <u>(in millions)</u> | |
| Fiscal year ending March 31: | | |
| 2008 | ¥ | 1,790 |
| 2009 | | 1,880 |
| 2010 | | 1,947 |
| 2011 | | 2,004 |
| 2012 | | 2,021 |
| Thereafter (2013-2017) | | 11,381 |

Foreign Offices and Subsidiaries

The MUFG Group's foreign offices and subsidiaries maintain pension benefits and/or other benefits. Amounts related to these benefits were retroactively adjusted to include offices and subsidiaries located in other than the United States of America.

Net periodic costs of the pension benefits and other benefits of foreign offices and subsidiaries for the fiscal years ended March 31, 2005, 2006 and 2007 include the following components:

| | <u>2005</u> | | <u>2006</u> | | <u>2007</u> | |
|---|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | <u>Pension</u> | <u>Other</u> | <u>Pension</u> | <u>Other</u> | <u>Pension</u> | <u>Other</u> |
| | <u>benefits</u> | <u>benefits</u> | <u>benefits</u> | <u>benefits</u> | <u>benefits</u> | <u>benefits</u> |
| | (in millions) | | | | | |
| Service cost benefits earned during the fiscal year | ¥ 5,738 | ¥ 758 | ¥ 7,170 | ¥ 799 | ¥ 7,956 | ¥ 969 |
| Interest costs on projected benefit obligation | 7,478 | 1,182 | 8,942 | 1,080 | 10,706 | 1,234 |
| Expected return on plan assets | (10,534) | (975) | (12,639) | (1,146) | (16,195) | (1,353) |
| Amortization of net obligation at transition | 5 | 284 | 4 | 224 | 5 | 237 |
| Amortization of prior service cost | 121 | (68) | 179 | (85) | 221 | (89) |
| Amortization of net actuarial loss | 1,902 | 625 | 4,525 | 328 | 3,797 | 530 |

| | | | | | | |
|---------------------------|---------|---------|---------|---------|---------|---------|
| Net periodic benefit cost | ¥ 4,710 | ¥ 1,806 | ¥ 8,181 | ¥ 1,200 | ¥ 6,490 | ¥ 1,528 |
|---------------------------|---------|---------|---------|---------|---------|---------|

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the assumptions used in computing the present value of the projected benefit obligations and the net periodic benefit cost:

| | 2005 | | 2006 | | 2007 | |
|---|------------------|----------------|------------------|----------------|------------------|----------------|
| | Pension benefits | Other benefits | Pension benefits | Other benefits | Pension benefits | Other benefits |
| Weighted-average assumptions used: | | | | | | |
| Discount rates in determining expense | 6.19% | 6.25% | 5.71% | 5.76% | 5.42% | 5.15% |
| Discount rates in determining benefit obligation | 5.71 | 5.76 | 5.42 | 5.15 | 5.87 | 6.02 |
| Rates of increase in future compensation level for determining expense | 4.57 | | 4.47 | | 4.63 | |
| Rates of increase in future compensation level for determining benefit obligation | 4.47 | | 4.63 | | 4.64 | |
| Expected rates of return on plan assets | 8.19 | 8.25 | 8.19 | 8.25 | 8.13 | 8.25 |

The following tables present the assumed weighted-average other benefits cost trend rates for foreign offices and subsidiaries, which are used to measure the expected cost of benefits at year-end, and the effect of a one-percentage-point change in the assumed medical benefits cost trend rate:

| | UNBC | | Other than UNBC | |
|---|--------------------------|-------|--------------------------|-------|
| | Years ended December 31, | | Years ended December 31, | |
| | 2005 | 2006 | 2005 | 2006 |
| Initial trend rate | 8.93% | 8.06% | 8.00% | 7.00% |
| Ultimate trend rate | 5.00% | 5.00% | 5.50% | 5.00% |
| Year the rate reaches the ultimate trend rate | 2011 | 2011 | 2009 | 2009 |

| | UNBC | | Other than UNBC | |
|---|-----------------|-----------------|-----------------|-----------------|
| | One-percentage- | One-percentage- | One-percentage- | One-percentage- |
| | point increase | point decrease | point increase | point decrease |
| | | | | |
| | (in millions) | | | |
| Effect on total of service and interest cost components | ¥ 305 | ¥ (250) | ¥ 69 | ¥ (56) |

| | | | | |
|---|-------|---------|-----|-------|
| Effect on postretirement benefit obligation | 2,481 | (2,096) | 598 | (498) |
|---|-------|---------|-----|-------|

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth the funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2006 and 2007 for the pension benefits and other benefits of foreign offices and subsidiaries:

| | 2006 | | 2007 | |
|---|------------------|----------------|------------------|----------------|
| | Pension benefits | Other benefits | Pension benefits | Other benefits |
| (in millions) | | | | |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of fiscal year | ¥ 151,006 | ¥ 18,154 | ¥ 198,640 | ¥ 22,400 |
| Service cost | 7,170 | 799 | 7,956 | 969 |
| Interest cost | 8,942 | 1,080 | 10,706 | 1,234 |
| Plan participants' contributions | 21 | 288 | 8 | 304 |
| Amendments | (92) | (201) | 33 | |
| Divestitures | (141) | (45) | | |
| Actuarial loss (gain) | 17,477 | 1,258 | (5,336) | 788 |
| Benefits paid | (4,026) | (1,398) | (5,191) | (1,533) |
| Translation adjustments | 18,283 | 2,465 | 7,978 | 447 |
| Benefit obligation at end of fiscal year | 198,640 | 22,400 | 214,794 | 24,609 |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of fiscal year | 141,738 | 12,776 | 197,327 | 16,194 |
| Actual return on plan assets | 14,762 | 756 | 29,517 | 2,312 |
| Employer contributions | 26,639 | 1,958 | 14,894 | 2,136 |
| Plan participants' contributions | 21 | 288 | 8 | 304 |
| Benefits paid | (4,026) | (1,398) | (5,191) | (1,533) |
| Translation adjustments | 18,193 | 1,814 | 7,469 | 218 |
| Fair value of plan assets at end of fiscal year | 197,327 | 16,194 | 244,024 | 19,631 |
| Reconciliation of funded status: | | | | |
| Funded status | (1,313) | (6,206) | 29,230 | (4,978) |
| Unrecognized net actuarial loss | 54,306 | 6,362 | (1) | (1) |
| Unrecognized prior service cost | 244 | (771) | (1) | (1) |
| Unrecognized net obligation at transition | 5 | 1,683 | (1) | (1) |
| Net amount recognized | ¥ 53,242 | ¥ 1,068 | ¥ 29,230 | ¥ (4,978) |
| Amounts recognized in the consolidated balance sheets: | | | | |
| Prepaid benefit cost | ¥ 65,538 | ¥ 4,055 | ¥ 48,989 | ¥ |
| Accrued benefit cost | (22,773) | (2,987) | (19,759) | (4,978) |
| Intangible assets | 225 | | | |
| | 10,252 | | | |

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Accumulated other changes in equity from nonowner sources under SFAS No.

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| | | | | |
|-----------------------|----------|---------|----------|-----------|
| | _____ | _____ | _____ | _____ |
| Net amount recognized | ¥ 53,242 | ¥ 1,068 | ¥ 29,230 | ¥ (4,978) |
| | _____ | _____ | _____ | _____ |

Note:

- (1) Under SFAS No. 158, unrecognized net actuarial loss, unrecognized prior service cost and unrecognized net obligation at transition are now recorded as accumulated other changes in equity from nonowner sources.

The aggregated accumulated benefit obligations of these plans were ¥180,908 million and ¥194,400 million, respectively, at March 31, 2006 and 2007.

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for the plans of foreign offices and subsidiaries with accumulated benefit obligations in excess of plan assets were ¥54,216 million, ¥53,614 million and ¥34,488 million, respectively at March 31, 2006 and ¥59,487 million, ¥58,651 million and ¥39,927 million, respectively at March 31, 2007.

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Asset allocation*

The weighted-average asset allocations for plan assets of foreign offices and subsidiaries were as follows:

| <u>Asset category</u> | <u>Asset ratio at December 31,</u> | | | |
|-----------------------|------------------------------------|-----------------------|-------------------------|-----------------------|
| | <u>2005</u> | | <u>2006</u> | |
| | <u>Pension benefits</u> | <u>Other benefits</u> | <u>Pension benefits</u> | <u>Other benefits</u> |
| Equity securities | 68.56% | 52.00% | 65.71% | 55.00% |
| Debt securities | 29.02 | 22.00 | 27.28 | 22.00 |
| Insurance contracts | | 26.00 | | 23.00 |
| Real estate | 0.28 | | 4.56 | |
| Other | 2.14 | | 2.45 | |
| Total | 100.00% | 100.00% | 100.00% | 100.00% |

Investment policies

Target weighted-average asset allocation for plan assets of foreign offices and subsidiaries is as follows:

| <u>Asset category</u> | <u>Target asset allocation</u> |
|-----------------------|--------------------------------|
| Equity securities | 65.3% |
| Debt securities | 27.7 |
| Real estate | 4.6 |
| Other | 2.4 |
| Total | 100.0% |

The investment objective for plan assets of foreign offices and subsidiaries is to maximize total return within reasonable and prudent levels of risk. The plan asset allocation strategies are the principal determinant in achieving expected investment returns on the plan assets. Actual asset allocations may fluctuate within acceptable ranges due to market value variability. If market fluctuations cause an asset category to fall outside of its strategic asset allocation range, the portfolio will be rebalanced as appropriate. Performance of each plan asset category is compared against established indices and peer groups to evaluate whether the risk associated with the portfolio is appropriate for the level of return.

Basis and procedure for estimating long-term return of each asset category

Foreign offices and subsidiaries periodically reconsider the expected long-term rate of return for their plan assets. They evaluate the investment return volatility of different asset categories and compare the liability structure of their pension and other benefits to those of other companies, while considering their funding policy to maintain a funded status sufficient to meet participants' benefit obligations, and reduce long-term funding requirements and pension costs. Based on this information, foreign offices and subsidiaries update the expected long-term rate of return.

Cash flows

Foreign offices and subsidiaries, in aggregate, expect to contribute approximately ¥9.4 billion to the plan assets for the pension benefits and ¥2.4 billion to the plan assets for the other benefits for the fiscal year ending March 31, 2008 based upon their current funded status and expected asset return assumptions.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Estimated future benefit payments*

The following table presents benefit payments, in aggregate, expected to be paid, which include the effect of expected future service for the fiscal years indicated:

| | Pension benefits | Other benefits |
|------------------------------|-----------------------------|---------------------------|
| | (in millions) | |
| Fiscal year ending March 31: | | |
| 2008 | ¥ 5,429 | ¥ 1,537 |
| 2009 | 5,970 | 1,648 |
| 2010 | 6,590 | 1,743 |
| 2011 | 7,182 | 1,849 |
| 2012 | 7,848 | 1,951 |
| Thereafter (2013-2017) | 51,688 | 11,054 |

19. OTHER ASSETS AND LIABILITIES

Major components of other assets and liabilities at March 31, 2006 and 2007 were as follows:

| | 2006 | 2007 |
|---|----------------------|--------------------|
| | (in millions) | |
| Other assets: | | |
| Accounts receivable: | | |
| Receivables from brokers, dealers and customers for securities transactions | ¥ 872,531 | ¥ 653,200 |
| Other | 919,627 | 814,319 |
| Investments in equity method investees | 602,400 | 523,708 |
| Non-interest-earning deposits with the Special Fund and the New Fund (See Note 7) | 351,705 | 358,344 |
| Prepaid benefit cost | 412,663 | 774,820 |
| Other | 1,804,640 | 2,011,034 |
| Total | ¥ 4,963,566 | ¥ 5,135,425 |
| Other liabilities: | | |
| Accounts payable: | | |
| Payables to brokers, dealers and customers for securities transactions | ¥ 578,212 | ¥ 1,058,741 |

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| | | |
|--|-------------|-------------|
| Other | 939,797 | 971,221 |
| Deferred tax liabilities | 161,104 | 240,549 |
| Allowance for off-balance-sheet credit instruments | 102,298 | 84,966 |
| Accrued benefit cost | 82,793 | 63,542 |
| Minority interests | 1,066,992 | 884,982 |
| Guarantees and indemnifications | 95,851 | 88,369 |
| Accrued and other liabilities | 1,293,812 | 1,627,153 |
| | <hr/> | <hr/> |
| Total | ¥ 4,320,859 | ¥ 5,019,523 |
| | <hr/> | <hr/> |

Investments in equity method investees include marketable equity securities carried at ¥312,342 million and ¥240,281 million, respectively, at March 31, 2006 and 2007. Corresponding aggregated market values were ¥389,852 million and ¥306,938 million, respectively.

The MUFG Group periodically evaluates whether a loss in value of investments in equity method investees is other than temporary. As a result of evaluations, the MUFG Group did not record impairment losses for the fiscal year ended March 31, 2005. The MUFG Group recognized other than temporary declines in the value of an investment and recorded impairment losses related to certain affiliated companies of ¥14,985 million and ¥11,387 million for the fiscal years ended March 31, 2006 and 2007, respectively. The impairment losses are included in Equity in earnings (losses) of equity method investees in the consolidated statements of income.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****20. PREFERRED STOCK**

Pursuant to the Articles of Incorporation, MUFG was authorized to issue 120,000 shares of Class 3 Preferred Stock, 400,000 shares of Class 5 Preferred Stock, 200,000 shares of Class 6 Preferred Stock, 200,000 shares of Class 7 Preferred Stock, 27,000 shares of Class 8 Preferred Stock, 79,700 shares of Class 9 Preferred Stock⁽¹⁾, 150,000 shares of Class 10 Preferred Stock⁽¹⁾, 1 share of Class 11 Preferred Stock and 129,900 shares of Class 12 Preferred Stock, without par value.

All classes of preferred stock to be issued are non-voting and have preference over common stock for the payment of dividends and the distribution of assets in the event of a liquidation or dissolution of MUFG. They are all non-cumulative and non-participating with respect to dividend payments. Shareholders of Class 3, Class 8, Class 11 and Class 12 Preferred Stock receive a liquidation distribution at ¥2,500,000, ¥3,000,000, ¥1,000,000 and ¥1,000,000 per share, respectively, and do not have the right to participate in any further liquidation distributions.

Note:

(1) On June 28, 2007, MUFG's Articles of Incorporation was amended to delete authorization to issue Class 9 and 10 Preferred Stock.

The number of preferred stock issued and outstanding at March 31, 2005, 2006 and 2007 was as follows:

| | Outstanding at | | Outstanding at | | Outstanding at |
|------------------|--------------------|----------------|----------------|------------------|----------------|
| | March 31, 2005 | Net change | March 31, 2006 | Net change | March 31, 2007 |
| | (number of shares) | | | | |
| Preferred stock: | | | | | |
| Class 1 | 40,700 | (40,700) | | | |
| Class 3 | 100,000 | | 100,000 | | 100,000 |
| Class 8 | | 27,000 | 27,000 | (9,300) | 17,700 |
| Class 9 | | 79,700 | 79,700 | (79,700) | |
| Class 10 | | 150,000 | 150,000 | (150,000) | |
| Class 11 | | 1 | 1 | | 1 |
| Class 12 | | 175,300 | 175,300 | (141,600) | 33,700 |
| Total | 140,700 | 391,301 | 532,001 | (380,600) | 151,401 |

None of Class 5, 6 and 7 Preferred Stock has been issued.

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The aggregate liquidation preference of preferred stock issued and outstanding at March 31, 2005, 2006 and 2007 was as follows:

| | Aggregate amount at | | Aggregate amount at | | Aggregate amount at |
|------------------|---------------------|------------------|---------------------|--------------------|---------------------|
| | March 31, 2005 | Net change | March 31, 2006 | Net change | March 31, 2007 |
| | (in millions) | | | | |
| Preferred stock: | | | | | |
| Class 1 | ¥ 122,100 | ¥ (122,100) | ¥ | ¥ | ¥ |
| Class 3 | 250,000 | | 250,000 | | 250,000 |
| Class 8 | | 81,000 | 81,000 | (27,900) | 53,100 |
| Class 9 | | 159,400 | 159,400 | (159,400) | |
| Class 10 | | 300,000 | 300,000 | (300,000) | |
| Class 11 | | 1 | 1 | | 1 |
| Class 12 | | 175,300 | 175,300 | (141,600) | 33,700 |
| Total | ¥ 372,100 | ¥ 593,601 | ¥ 965,701 | ¥ (628,900) | ¥ 336,801 |

Preferred stock included in Capital stock on the consolidated balance sheets at March 31, 2005, 2006 and 2007 was ¥247,100 million, which consisted of ¥122,100 million of Class 1 and ¥125,000 million of Class 3 Preferred Stock.

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The portion of proceeds from the sale of shares that is designated as capital stock is determined by resolution of the Board of Directors of MUFG, however, at least 50% of the issue price of newly issued shares is required to be designated as capital stock under the Code and the Company Law. Proceeds in excess of amounts designated as capital stock are designated as capital surplus. Preferred Stock Classes 8 through 12 were issued in exchange for UFJ Holdings preferred stock and recorded in Capital surplus.

On April 2, 2001, MUFG issued 81,400 shares of Class 1 Preferred Stock at an aggregate issue price of ¥244,200 million. ¥122,100 million was included in Preferred stock and the remaining amount was included in Capital surplus, net of stock issue expenses. MUFG redeemed 40,700 shares during the fiscal year ended March 31, 2005 and the remaining 40,700 shares during the fiscal year ended March 31, 2006. At each redemption, Capital surplus decreased by ¥122,100 million, totaling ¥244,200 million, as provided in the Commercial Code of Japan and the Articles of Incorporation of MUFG.

On February 17, 2005, MUFG issued 100,000 shares of Class 3 Preferred Stock at ¥2.5 million per share,

the aggregate amount of the issue price being ¥250.0 billion.

On October 3, 2005, MUFG issued 200,000 shares of Class 8 Preferred Stock, 150,000 shares of Class 9 Preferred Stock, 150,000 shares of Class 10 Preferred Stock, 1 share of Class 11 Preferred Stock and 200,000 shares of Class 12 Preferred Stock in exchange for Class II, IV, V, VI and VII Preferred Stock of UFJ Holdings at an exchange ratio of 1 share of MUFG's Class 8, 9, 10, 11 and 12 Preferred Stock for each share of UFJ Holdings Class II, IV, V, VI and VII Preferred Stock, respectively.

On October 4, 2005, 69,300 shares of Class 8 Preferred Stock and 57,850 shares of Class 9 Preferred Stock were converted into 122,763.51 and 127,096.45 shares of common stock, respectively, for the repayment of public funds.

On December 6, 2005, 51,900 shares of Class 8 Preferred Stock and 24,700 shares of Class 12 Preferred Stock were converted into 91,939.77 and 31,030.15 shares of common stock, respectively, for the repayment of public funds.

On February 28, 2006, 51,800 shares of Class 8 Preferred Stock and 12,450 shares of Class 9 Preferred Stock were converted into 91,762.63 and 22,733.70 shares of common stock, respectively, for the repayment of public funds.

On April 27, 2006, 45,400 shares of Class 12 Preferred Stock were converted into 57,035.18 shares of common stock.

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On May 23, 2006, 9,300 shares of Class 8 Preferred Stock and 89,357 shares of Class 10 Preferred Stock originally issued by UFJ Holdings and held by the RCC were exchanged for 179,639 shares of common stock. The aggregate face amounts of the preferred stock exchanged were ¥27,900 million and ¥178,714 million, respectively. Subsequent to the exchanges, MUFG purchased 179,639 shares of common stock and an additional 7,923 shares of common stock as treasury stock for an aggregate amount of ¥286,970 million.

On June 8, 2006, 79,700 shares of Class 9 Preferred Stock, 60,643 shares of Class 10 Preferred Stock and 16,700 shares of Class 12 Preferred Stock were exchanged for 277,245 shares of common stock. The aggregate face amounts of the preferred stock exchanged were ¥159,400 million, ¥121,286 million and ¥16,700 million, respectively. Subsequent to the exchanges, these shares of common stock were sold in the open market. As a result, MUFG completed the repayment of all public funds received by the MUFG Group in accordance with the Law Concerning Emergency Measures for the Early Strengthening of Financial Functions.

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On June 29, 2006, 9,300 shares of Class 8 Preferred Stock, 79,700 shares of Class 9 Preferred Stock, 150,000 shares of Class 10 Preferred Stock and 16,700 shares of Class 12 Preferred Stock, which had been recorded as treasury stock, were retired.

On February 14, 2007, 22,800 shares of Class 12 Preferred Stock were exchanged for 28,643 shares of common stock.

On February 19, 2007, 45,400 shares of Class 12 Preferred Stock were exchanged for 57,035 shares of common stock.

On March 13, 2007, 11,300 shares of Class 12 Preferred Stock were exchanged for 14,195 shares of common stock.

On March 29, 2007, 79,500 shares of Class 12 Preferred Stock, which had been recorded as treasury stock, were retired.

Preferred Stock Issued as of March 31, 2007

Class 3 Preferred Stock

Class 3 Preferred Stock is redeemable at the option of MUFJ. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥250,000 per share), and redemption terms, including a redemption price.

Class 3 Preferred Stock was issued by means of a third party allocation to Meiji Yasuda Life Insurance Company, Tokio Marine & Nichido Fire Insurance Co., Ltd. and Nippon Life Insurance Company. The preferred stock does not have voting rights at any general meetings of shareholders, unless otherwise provided by applicable laws and regulations. Preferred dividends are set to be ¥60,000 per share annually, except that the preferred dividend on the Class 3 Preferred Stock for the fiscal year ended March 31, 2005 was ¥7,069 per share.

Class 8 Preferred Stock

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Class 8 preferred stockholders are entitled to receive annual non-cumulative dividends of ¥15,900 per share with priority over common stockholders.

Class 8 Preferred Stock is convertible into fully paid shares of MUFG common stock at the election of holders from and including the day of establishment of MUFG to and including July 31, 2008, except during certain excluded periods, at an initial conversion price of ¥1,693,500 per share of common stock, subject to anti-dilution adjustments. The conversion price is subject to reset annually on August 1 from 2006 to 2007 to the average market price of the common stock for the 30 trading day period beginning 45 trading days prior to each reset date, multiplied by 1.025, but not less than ¥1,693,500 per share. All Class 8 Preferred Stock outstanding on August 1, 2008 will be mandatorily converted into shares of common stock at a conversion ratio of ¥3,000,000 divided by the higher of the average market price of the common stock for the 30 trading day period beginning 45 trading days prior to August 1, 2008 or ¥1,209,700.

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Class 11 Preferred Stock

Class 11 preferred stockholders are entitled to receive annual non-cumulative dividends of ¥5,300 per share with priority over common stockholders.

Class 11 Preferred Stock is convertible into fully paid shares of MUFG common stock at the election of holders from and including the day of establishment of MUFG to and including July 31, 2014, except during certain excluded periods, at an initial conversion price of ¥918,700 per share of common stock, subject to anti-dilution adjustments. The conversion price was subject to reset annually on July 15 from 2006 to 2013 to the average market price of the common stock for the 30 trading day period beginning 45 trading days prior to each reset date, if the average market price were less than the conversion price prior to the reset, but not less than ¥918,700 per share. All Class 11 Preferred Stock outstanding on August 1, 2014 will be mandatorily converted into shares of common stock at a conversion ratio of ¥1,000,000 divided by the higher of the average market price of the common stock for the 30 trading day period beginning 45 trading days prior to August 1, 2014 or ¥802,600.

Class 12 Preferred Stock

Class 12 preferred stockholders are entitled to receive annual non-cumulative dividends of ¥11,500 per share with priority over common stockholders.

Class 12 Preferred Stock is convertible into fully paid shares of MUFG common stock at the election of holders from and including the day of establishment of MUFG to and including July 31, 2009, except during certain excluded periods, at an initial conversion price of ¥796,000 per share of common stock, subject to anti-dilution adjustments. The conversion price was subject to reset annually on June 15 from 2006 to 2008 to the average market price of the common stock for the 30 trading day period beginning 45 trading days prior to each reset date, if the average market price were less than the conversion price prior to the reset, but not less than ¥796,000 per share. All Class 12 Preferred Stock outstanding on August 1, 2009 will be mandatorily converted into shares of common stock at a conversion ratio of ¥1,000,000 divided by the higher of the average market price of the common stock for the 30 trading day period beginning 45 trading days prior to August 1, 2009 or ¥795,200.

Beneficial Conversion Feature

Convertible preferred stock contains a beneficial conversion feature if the effective conversion price (either initially or after being reset) for a share of common stock upon conversion is less than the market price of a share of common stock when the preferred stock was issued. MUFG accounts for the beneficial conversion features of its preferred stock under the recognition and measurement principles of EITF Issue No. 98-5,

Accounting for Convertible Securities with Beneficial Conversions Features or Contingently Adjustable Conversion Ratios and EITF Issue No. 00-27, Application of EITF Issue No. 98-5 to Certain Convertible Instruments.

Beneficial conversion feature discounts are measured as the excess of the market price of a share of common stock when the preferred stock is issued over the initial or reset preferred stock conversion price per share of common stock. Beneficial conversion feature discounts are charged to capital surplus when recognized and amortized to retained earnings as non-cash preferred dividends using the effective yield method. Initial beneficial conversion feature discounts are amortized over the period from the issuance date of the preferred stock to the mandatory conversion date. Contingent beneficial conversion feature discounts are recognized when the reset conversion price is determinable and amortized over the period from the conversion price reset date to the mandatory conversion date. Any remaining unamortized beneficial conversion feature discount when preferred stock is converted at the option of the holder before the mandatory conversion date is immediately charged to retained earnings as a non-cash preferred dividend.

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The changes in the unamortized discount arising from beneficial conversion features of the preferred stock during the fiscal years ended March 31, 2006 and 2007 were as follows:

| | Class 8 ⁽¹⁾ | Class 9 | Class 10 | Class 11 ⁽²⁾ | Class 12 ⁽³⁾ | Total |
|---|------------------------|-----------------|------------------|-------------------------|-------------------------|------------------|
| | (in millions) | | | | | |
| Fiscal year ended | | | | | | |
| March 31, 2006: | | | | | | |
| Balance at March 31, 2005 | | | | | | |
| Addition on initial conversion price/ratio reset | ¥ 102,702 | ¥ 139,267 | ¥ 138,780 | ¥ 1 | ¥ 104,693 | ¥ 485,443 |
| Amortization to retained earnings | (2,261) | (8,166) | (15,338) | | (8,480) | (34,245) |
| Charged to retained earnings on conversion of preferred stock | (88,838) | (65,270) | | | (12,930) | (167,038) |
| Balance at March 31, 2006 | ¥ 11,603 | ¥ 65,831 | ¥ 123,442 | ¥ 1 | ¥ 83,283 | ¥ 284,160 |
| Fiscal year ended | | | | | | |
| March 31, 2007: | | | | | | |
| Balance at March 31, 2006 | ¥ 11,603 | ¥ 65,831 | ¥ 123,442 | ¥ 1 | ¥ 83,283 | ¥ 284,160 |
| Amortization to retained earnings | (3,382) | (2,892) | (5,431) | | (12,312) | (24,017) |
| Charged to retained earnings on conversion of preferred stock | (3,731) | (62,939) | (118,011) | | (58,734) | (243,415) |
| Balance at March 31, 2007 | ¥ 4,490 | ¥ | ¥ | ¥ 1 | ¥ 12,237 | ¥ 16,728 |

Notes:

- (1) An aggregate initial beneficial conversion feature discount of ¥102,702 million is being amortized through August 1, 2008.
- (2) An aggregate initial beneficial conversion feature discount of ¥1 million is being amortized through August 1, 2014.
- (3) An aggregate initial beneficial conversion feature discount of ¥104,693 million is being amortized through August 1, 2009.

Stock Split

The stock split (including required amendment to MUFG's Articles of Incorporation) was approved at MUFG's Board of Directors meeting on May 23, 2007, the general meeting of holders of class shares with respect to preferred shares on June 27, 2007, and the General Meeting of Shareholders on June 28, 2007. The stock split will be effective as of September 30, 2007 and related changes will be made as follows:

MUFG will be authorized to issue 120,000,000 shares of Class 3 Preferred Stock, 400,000,000 shares of Class 5 Preferred Stock, 200,000,000 shares of Class 6 Preferred Stock, 200,000,000 shares of Class 7 Preferred Stock, 27,000,000 shares of Class 8 Preferred Stock, 1,000 shares of Class 11 Preferred Stock and 129,900,000 shares of Class 12 Preferred Stock, without par value.

The liquidation distribution of Class 3, Class 8, Class 11 and Class 12 Preferred Stock will be changed to ¥2,500, ¥3,000, ¥1,000 and ¥1,000 per share, respectively.

Class 3 preferred stockholders will be entitled to receive annual non-cumulative dividends of ¥60 per share with priority over common stockholders.

Class 8 preferred stockholders will be entitled to receive annual non-cumulative dividends of ¥15.90 per share with priority over common stockholders. In addition, all Class 8 Preferred Stock outstanding on August 1, 2008 will be mandatorily converted into shares of common stock at a conversion ratio of ¥3,000 divided by the higher of the average market price of the common stock for the 30 trading day period beginning 45 trading days prior to August 1, 2008 or ¥1,209.70.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Class 11 preferred stockholders will be entitled to receive annual non-cumulative dividends of ¥5.30 per share with priority over common stockholders. In addition, all Class 11 Preferred Stock outstanding on August 1, 2014 will be mandatorily converted into shares of common stock at a conversion ratio of ¥1,000 divided by the higher of the average market price of the common stock for the 30 trading day period beginning 45 trading days prior to August 1, 2014 or ¥802.60.

Class 12 preferred stockholders will be entitled to receive annual non-cumulative dividends of ¥11.50 per share with priority over common stockholders. In addition, all Class 12 Preferred Stock outstanding on August 1, 2009 will be mandatorily converted into shares of common stock at a conversion ratio of ¥1,000 divided by the higher of the average market price of the common stock for the 30 trading day period beginning 45 trading days prior to August 1, 2009 or ¥795.20.

21. COMMON STOCK AND CAPITAL SURPLUS

The changes in the number of issued shares of common stock during the fiscal years ended March 31, 2005, 2006 and 2007 were as follows:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|------------------|-------------------|-------------------|
| | | (shares) | |
| Balance at beginning of fiscal year | 6,476,100 | 6,545,353 | 10,247,852 |
| Issuance of new shares of common stock by merger | | 3,215,172 | |
| Issuance of new shares of common stock in exchange for the shares of Diamond Computer Service Co., Ltd. (Note 4) | 26,205 | | |
| Issuance of new shares of common stock by conversion of Class 2 Preferred Stock | 43,048 | | |
| Issuance of new shares of common stock by conversion of Class 8 Preferred Stock | | 306,466 | 16,474 |
| Issuance of new shares of common stock by conversion of Class 9 Preferred Stock | | 149,831 | 145,532 |
| Issuance of new shares of common stock by conversion of Class 10 Preferred Stock | | | 273,899 |
| Issuance of new shares of common stock by conversion of Class 12 Preferred Stock | | 31,030 | 177,887 |
| Balance at end of fiscal year | <u>6,545,353</u> | <u>10,247,852</u> | <u>10,861,644</u> |

On May 1, 2006, a new company law (the Company Law) became effective. The Company Law reformed and replaced the Code with various revisions that, for the most part, are applicable to events or transactions occurring on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006.

Under the Code and the Company Law, issuances of common stock, including conversions of bonds and notes, are required to be credited to the common stock account for at least 50% of the proceeds and to the legal capital surplus account (legal capital surplus) for the remaining amounts.

The Code and the Company Law permit Japanese companies, upon approval by the Board of Directors, to issue shares in the form of a stock split, as defined in the Code (see Note 1). Also, the Code prior to April 1, 1991 permitted Japanese companies to issue free share distributions. BTMU and MUTB from time to time made free share distributions. These free distributions usually ranged from 5% to 10% of outstanding common stock and publicly-owned corporations in the United States issuing shares in similar transactions would be required to account for them as stock dividends as of the shareholders' record date by reducing retained earnings and increasing the appropriate capital accounts by an amount equal to the fair value of the shares issued. The application of such United States accounting practice to the cumulative free distributions made by BTMU and

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MUTB at March 31, 2007, would have increased capital accounts by ¥1,910,106 million with a corresponding decrease in unappropriated retained earnings. MUFG did not issue shares in the form of a stock split in any of three fiscal years ended March 31, 2007.

The Code permits, upon approval of the Board of Directors, the transfer of amounts from the legal capital surplus to the capital stock account. The Company Law permits that common stock, legal reserve, additional paid-in capital, and other capital surplus and retained earnings can be transferred among these accounts under certain conditions upon the approval of a shareholders' meeting.

Treasury Stock

The Code, as amended effective on October 1, 2001 (the Code Amendments), and the Company Law permit Japanese companies to effect purchases of their own shares pursuant to a resolution by the shareholders at an annual general meeting until the conclusion of the following ordinary general meeting of shareholders, and to hold such shares as its treasury shares indefinitely regardless of purpose. However, the Code and the Company Law require the amount of treasury stock purchased be within the amount of retained earnings available for dividends. Disposition of treasury stock is subject to the approval of the Board of Directors and is to follow the procedures similar to a public offering of shares for subscription. Prior to the amendment, in principle, reacquisition of treasury shares was prohibited with the exception of reacquisition for retirement and certain limited purposes, as specified by the Code. Any treasury shares were required to be disposed of in the near term.

UFJ Holdings was a recipient of public funds from the RCC, a Japanese government entity. These public funds were injected in the form of a preferred stock investment and UFJ preferred stock was exchanged as part of the merger for newly issued preferred stock of MUFG.

Related to the repayment of public funds received, the RCC converted certain preferred stock held into common stock. Subsequent to the conversions, the RCC sold these shares of common stock in the open market. Primarily in response to the sales by the RCC, MUFG repurchased a total of ¥1,047,882 million its common stock from the market on October 5, 2005, December 7, 2005, March 1, 2006 and May 24, 2006.

Parent Company Shares Held by Subsidiaries and Affiliated Companies

At March 31, 2007, certain subsidiaries and affiliated companies owned shares of common stock of MUFG. Such shares are included in treasury stock in the consolidated balance sheets and deducted from the MUFG Group's shareholders' equity.

22. RETAINED EARNINGS, LEGAL RESERVE AND DIVIDENDS

In addition to the Code and the Company Law, Japanese banks, including BTMU and MUTB, are required to comply with the Banking Law of Japan (the Banking Law).

Legal Reserve Set Aside as Appropriation of Retained Earnings and Legal Capital Surplus

Under the Code Amendments and the Company Law

The Code Amendments and the Company Law provide that an amount at least equal to 10% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated and set aside as a legal reserve until the aggregate amount of legal reserve set aside as an appropriation of retained earnings and the legal capital surplus equals 25% of stated capital as defined in the Code.

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Prior to the Code Amendments, the Code provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of common stock. The retained earnings so appropriated may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to capital stock by resolution of the Board of Directors.

Under the Banking Law

In line with the Code Amendments, on June 29, 2001, amendments to the Banking Law (the Banking Law Amendments) were promulgated and became effective on October 1, 2001. The Banking Law Amendments provide that an amount at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each fiscal period shall be appropriated and set aside as a legal reserve until the aggregate amount of legal reserve set aside as appropriation of retained earnings and the legal capital surplus equals 100% of stated capital as defined in the Code.

Prior to the Banking Law Amendments, the Banking Law provided that an amount at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 100% of stated capital as defined in the Code. The retained earnings so appropriated may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to capital stock by resolution of the Board of Directors.

Transfer of Legal Reserve

Under the Code Amendments

Under the Code Amendments, Japanese companies, including MUFG, were permitted, pursuant to a resolution by the shareholders at a general meeting, to make legal reserve set aside as appropriation of retained earnings and legal capital surplus available for dividends until the aggregate amount of the legal reserve and legal capital surplus equals 25% of stated capital as defined in the Code, which were formerly permitted only to reduce deficit and to transfer to stated capital as defined in the Code.

Under the Banking Law Amendments Effective October 1, 2001

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Effective October 1, 2001, under the Banking Law Amendments, Japanese banks, including BTMU and MUTB, were permitted, pursuant to a resolution by the shareholders at a general meeting, to make legal reserve set aside as an appropriation of retained earnings and legal capital surplus available for dividends until the aggregate amount of the legal reserve and legal capital surplus equals 100% of stated capital as defined in the Code.

Enactments of the Company Law and the Amendments of Banking Law Effective May 1, 2006

Effective May 1, 2006, under the Company Law, Japanese companies, including MUFG, BTMU and MUTB, are permitted, primarily pursuant to a resolution by the shareholders at a general meeting, to transfer legal capital surplus and legal reserve to stated capital and/or retained earnings without limitations of thresholds, thereby effectively removing the thresholds provided for in the Code and Banking Law Amendments at the company's discretion.

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unappropriated Retained Earnings and Dividends

Under the Code and the Company Law, the amount available for dividends is based on the amount recorded in MUFG's general books of account maintained in accordance with accounting principles generally accepted in Japan (Japanese GAAP). The adjustments included in the accompanying consolidated financial statements but not recorded in MUFG's general books of account as explained in Note 1 have no effect on the determination of retained earnings available for dividends under the Code and the Company Law. In addition to the provision that requires an appropriation for legal reserve as described above, the Code, the Company Law and the Banking Law impose certain limitations on the amount available for dividends. Under the Banking Law, MUFG, BTMU and MUTB have to meet the minimum capital adequacy requirements and distributions of retained earnings of MUFG, BTMU and MUTB, which are otherwise distributable to shareholders, are restricted in order to maintain the minimum 4.0% Tier I capital for capital adequacy purpose.

MUFG was established on April 2, 2001 with common stock of ¥924,400 million, preferred stock of ¥222,100 million, legal capital surplus of ¥2,838,693 million and no retained earnings in accordance with the Code and Japanese GAAP.

On October 1, 2005, MUFG started with common stock and preferred stock of ¥1,383,052 million, legal capital surplus of ¥3,577,570 million and retained earnings of ¥757,458 million in accordance with the Code and Japanese GAAP.

MUFG's amount available for dividends, at March 31, 2007, was ¥3,488,003 million, which is based on the amount recorded in MUFG's general books of account under Japanese GAAP.

Annual dividends, including those for preferred stock, are approved by the shareholders at an annual general meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, a semi-annual interim dividend payment may be made by resolution of the Board of Directors, subject to limitations imposed by the Code, the Company Law and the Banking Law.

In the accompanying consolidated statements of shareholders' equity, dividends and appropriations to legal reserve shown for each fiscal year represent dividends approved and paid during the fiscal year and the related appropriation to legal reserve.

23. REGULATORY CAPITAL REQUIREMENTS

Japan

MUFG, BTMU, MUTB and MUS are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which they operate. Failure to meet minimum capital requirements will initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on MUFG's consolidated financial statements.

In Japan, MUFG, BTMU, and MUTB are subject to regulatory capital requirements promulgated by the FSA in accordance with the provisions of the Banking Law and related regulations. A banking institution is subject to the minimum capital requirements both on a consolidated basis and a stand-alone basis, and is required to maintain the minimum capital irrespective of whether it operates independently or as a subsidiary under the control of another company. When a bank holding company manages operations of its banking subsidiaries, it is required to maintain the minimum capital adequacy ratio on a consolidated basis in the same manner as its subsidiary banks. The FSA provides two sets of capital adequacy guidelines. One is a set of guidelines applicable to Japanese banks and bank holding companies with foreign offices conducting international operations, as

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

defined, and the other is applicable to Japanese banks and bank holding companies that are not engaged in international operations.

Under the capital adequacy guidelines applicable to a Japanese banking institution with international operations conducted by foreign offices, a minimum capital ratio of 8.0% is required.

The Basel Committee on Banking Supervision of the Bank for International Settlements (BIS) sets capital adequacy standards for all internationally active banks to ensure minimum level of capitals.

The Basel Committee worked over recent years to revise the 1988 Accord, and in June 2004, International Convergence of Capital Measurement and Capital Standards: A Revised Framework called Basel II was released. Basel II has been applied to Japanese banks and bank holding companies as of March 31, 2007. MUFG calculated capital ratios as of March 31, 2007 in accordance with Basel II.

Basel II is based on three pillars : (1) minimum capital requirements, (2) the self-regulation of financial institutions based on supervisory review process, and (3) market discipline through the disclosure of information. The framework of the 1988 Accord, Basel I, is improved and expanded to be included in minimum capital requirements as the first pillar of Basel II.

As for the denominator of the capital ratio, retaining the Basel I Framework, Basel II provides more risk-sensitive approaches and a range of options for determining the risk-weighted assets.

Credit Risk

The revised Framework provides options for determining the risk-weighted assets for credit risk to allow banks to select approaches that are most appropriate for their level of risk assessment while the Basel I Framework provided a sole measurement approach. Banks choose one of three approaches: Standardized Approach , Foundation Internal Ratings-Based Approach (FIRB) or Advanced Internal Ratings-Based Approach (AIRB) .

Market Risk

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In the Amendment to the Capital Accord to incorporate market risks of the year 1996, a choice between two methodologies the Standardized Methodology and Internal Models Approach is permitted. Combination of Internal Models Approach and the Standardized Methodology is also allowed under certain conditions. This is unchanged in Basel II.

Operational Risk

Operational risk, which is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, is newly added in Basel II. Basel II presents three methods for calculating operational risk capital charges: (i) the Basic Indicator Approach; (ii) the Standardized Approach; or (iii) Advanced Measurement Approaches (AMA). Banks adopt one of the three approaches to determine the risk-weighted assets for operational risk.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Banks need to obtain approval from their supervisors prior to adopting the following approaches to calculate capital requirements for each risk:

the Internal Ratings-Based (IRB) Approach for credit risk

the Internal Models Approach for market risk

the Standardized Approach and AMA for operational risk

On the other hand, as for the numerator of the capital ratio, Basel II takes over in principle the eligible regulatory capital stipulated in Basel I.

Capital is classified into three tiers, referred to as Tier I, Tier II and Tier III capital and deductions from capital.

Tier I capital generally consists of shareholders' equity items, including common stock, preferred stock, capital surplus, minority interests and retained earnings, less any recorded goodwill and other items such as treasury stock. Tier II capital generally consists of general reserves for credit losses up to 1.25% of risk-weighted assets, 45% of the unrealized gains on investment securities available for sale, 45% of the land revaluation excess, the balance of perpetual subordinated debt and the balance of subordinated term debt with an original maturity of over five years subject to some limitations, up to 50% of Tier I capital. Preferred stock is includable in Tier I capital unless the preferred stock has a fixed maturity, in which case, such preferred stock will be a component of Tier II capital. Tier III capital generally consists of short-term subordinated debt with an original maturity of at least two years, subject to certain limitations. At least 50% of a bank's capital base must be maintained in the form of Tier I capital.

Deductions include a bank's holdings of capital issued by other banks, or deposit-taking institutions and investments in subsidiaries engaged in banking and financial activities which are not consolidated in accordance with Japanese GAAP.

Due to a change in credit risk measurement by adopting Basel II, general provisions for credit losses can be included in Tier II capital according to the proportion of credit risk-weighted assets subject to the Standardized Approach only. Under the IRB approach, the capital is adjusted by the amount of the difference between total eligible provisions and total expected losses calculated within the IRB approach. Under certain conditions, banks are also required to deduct from regulatory capital securitization exposure, any increase in equity capital resulting from a securitization transaction and expected losses on equity exposures under the Probability of Default/Loss Given Default approach.

If a banking institution is not engaged in international operations conducted by foreign offices, it is subject to another set of capital adequacy requirements with a minimum capital ratio of 4.0%. Such guidelines incorporate measures of risk under the risk-weighted approach similar to

the guidelines applicable to banking institutions with international operations. Qualifying capital is classified into Tier I and Tier II capital.

The Banking Law and related regulations require that one of three categories be assigned to banks and bank holding companies, based on its risk-adjusted capital adequacy ratio if the bank fails to meet the minimum target capital adequacy ratio. These categories indicate capital deterioration, which may be subject to certain prompt corrective action by the FSA.

MUFG, BTMU and MUTB have international operations conducted by foreign offices, as defined, and are subject to the 8.0% capital adequacy requirement.

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The MUFG Group's proprietary assets do not include trust assets under management and administration in a capacity of agent or fiduciary and, accordingly trust account assets are generally not included in the capital measure. However, guarantees for trust principal are counted as off-balance-sheet items requiring a capital charge in accordance with the capital adequacy guidelines.

In Basel II, most major subsidiaries of MUFG adopted FIRB to calculate capital requirements for credit risk. MUFG adopted the Standardized Approach to calculate capital requirements for operational risk. As for market risk, MUFG adopted the Internal Models Approach mainly to calculate general market risk and adopted the Standardized Methodology to calculate specific risk.

Under Basel I, MUFG calculated the risk-weighted assets for credit risk, and adopted the Internal Models Approach mainly to calculate general market risk and the Standardized Methodology to calculate specific risk.

The risk-adjusted capital amounts and ratios of MUFG, BTMU and MUTB presented in the following table are based on amounts calculated in accordance with Japanese GAAP as required by the FSA:

| | Actual | | For capital adequacy purposes | |
|---|--------------|--------|-------------------------------|-------|
| | Amount | Ratio | Amount | Ratio |
| (in millions, except percentages) | | | | |
| Consolidated: | | | | |
| At March 31, 2006: | | | | |
| Total capital (to risk-weighted assets): | | | | |
| MUFG | ¥ 13,460,397 | 12.20% | ¥ 8,823,415 | 8.00% |
| BTMU | 11,921,426 | 12.48 | 7,641,656 | 8.00 |
| MUTB | 1,766,970 | 13.06 | 1,082,714 | 8.00 |
| Tier I capital (to risk-weighted assets): | | | | |
| MUFG | 7,501,681 | 6.80 | 4,411,707 | 4.00 |
| BTMU | 6,735,315 | 7.05 | 3,820,828 | 4.00 |
| MUTB | 1,191,301 | 8.80 | 541,357 | 4.00 |
| At March 31, 2007: | | | | |
| Total capital (to risk-weighted assets): | | | | |
| MUFG | ¥ 13,349,105 | 12.59% | ¥ 8,483,861 | 8.00% |
| BTMU | 11,606,586 | 12.83 | 7,236,545 | 8.00 |
| MUTB | 1,847,826 | 13.20 | 1,119,578 | 8.00 |
| Tier I capital (to risk-weighted assets): | | | | |
| MUFG | 8,054,872 | 7.60 | 4,241,931 | 4.00 |
| BTMU | 6,975,584 | 7.71 | 3,618,272 | 4.00 |
| MUTB | 1,175,558 | 8.40 | 559,789 | 4.00 |

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Stand-alone:

At March 31, 2006:

Total capital (to risk-weighted assets):

| | | | | |
|------|--------------|--------|-------------|-------|
| BTMU | ¥ 11,170,768 | 13.29% | ¥ 6,725,417 | 8.00% |
| MUTB | 1,720,201 | 12.65 | 1,087,552 | 8.00 |

Tier I capital (to risk-weighted assets):

| | | | | |
|------|-----------|------|-----------|------|
| BTMU | 6,282,137 | 7.47 | 3,362,708 | 4.00 |
| MUTB | 1,142,115 | 8.40 | 543,776 | 4.00 |

At March 31, 2007:

Total capital (to risk-weighted assets):

| | | | | |
|------|--------------|--------|-------------|-------|
| BTMU | ¥ 10,682,663 | 13.22% | ¥ 6,466,553 | 8.00% |
| MUTB | 1,805,197 | 12.86 | 1,123,308 | 8.00 |

Tier I capital (to risk-weighted assets):

| | | | | |
|------|-----------|------|-----------|------|
| BTMU | 6,428,565 | 7.95 | 3,233,277 | 4.00 |
| MUTB | 1,125,255 | 8.01 | 561,654 | 4.00 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note:

Numbers at March 31, 2006 are calculated according to Basel I since Basel II became effective in Japan at March 31, 2007.

MUS and other securities subsidiaries in Japan and overseas are also subject to regulatory capital requirements of the countries or jurisdictions in which they operate. In Japan, the Securities and Exchange Law and related ordinance require securities firms to maintain a minimum capital ratio of 120% calculated as a percentage of capital accounts less certain fixed assets, as determined in accordance with Japanese GAAP, against amounts equivalent to market, counterparty credit and operations risks. Specific guidelines are issued as a ministerial ordinance which details the definition of essential components of the capital ratios, including capital, deductible fixed asset items and risks, and related measures. Failure to maintain a minimum capital ratio will trigger mandatory regulatory actions. A capital ratio of less than 140% will call for regulatory reporting and a capital ratio of less than 100% may lead to a suspension of all or part of the business for a period of time and cancellation of a license.

At March 31, 2006 and 2007, MUS's capital accounts less certain fixed assets of ¥680,368 million and ¥689,484 million, were 564.1% and 456.6% of the total amounts equivalent to market, counterparty credit and operations risks.

Management believes, as of March 31, 2007, that MUFG, BTMU, MUTB and other regulated securities subsidiaries met all capital adequacy requirements to which they are subject.

United States of America

In the United States of America, UNBC and its banking subsidiary Union Bank of California, N.A. (UBOC), BTMU's largest subsidiaries operating outside Japan, are subject to various regulatory capital requirements administered by U.S. Federal banking agencies, including minimum capital requirements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, UNBC and UBOC must meet specific capital guidelines that involve quantitative measures of UNBC's and UBOC's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. regulatory accounting practices. UNBC's and UBOC's capital amounts and UBOC's prompt corrective action classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require UNBC and UBOC to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to quarterly average assets (as defined).

Although Basel II is not yet effective in the U.S., the U.S. banking and thrift agencies published in July 2007 an interagency notice regarding the implementation of Basel II in the U.S. The agencies agreed to resolve major outstanding issues and lead to finalization of a rule implementing

the advanced approaches for computing large banks' risk-based capital requirements. The agencies also agreed to proceed promptly to issue a proposed rule that would provide all non-core banks with the option to adopt a standardized approach.

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The figures on the tables below are calculated according to Basel I as Basel II is not yet effective in the U.S. UNBC's and the UBOC's actual capital amounts and ratios are presented as follows:

| | Actual | | For capital adequacy purposes | |
|---|----------|--------|-------------------------------|-------|
| | Amount | Ratio | Amount | Ratio |
| (in millions, except percentages) | | | | |
| UNBC: | | | | |
| At December 31, 2005: | | | | |
| Total capital (to risk-weighted assets) | \$ 5,055 | 11.10% | \$ 3,643 | 8.00% |
| Tier I capital (to risk-weighted assets) | 4,178 | 9.17 | 1,822 | 4.00 |
| Tier I capital (to quarterly average assets) ⁽¹⁾ | 4,178 | 8.39 | 1,992 | 4.00 |
| At December 31, 2006: | | | | |
| Total capital (to risk-weighted assets) | \$ 5,843 | 11.71% | \$ 3,992 | 8.00% |
| Tier I capital (to risk-weighted assets) | 4,334 | 8.68 | 1,996 | 4.00 |
| Tier I capital (to quarterly average assets) ⁽¹⁾ | 4,334 | 8.44 | 2,054 | 4.00 |

Note:

(1) Excludes certain intangible assets.

| | Actual | | For capital adequacy purposes | | Ratios OCC requires to be well capitalized | |
|---|----------|--------|-------------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| (in millions, except percentages) | | | | | | |
| UBOC: | | | | | | |
| At December 31, 2005: | | | | | | |
| Total capital (to risk-weighted assets) | \$ 4,749 | 10.59% | \$ 3,588 | 8.00% | \$ 4,485 | 10.00% |
| Tier I capital (to risk-weighted assets) | 4,315 | 9.62 | 1,794 | 4.00 | 2,691 | 6.00 |
| Tier I capital (to quarterly average assets) ⁽¹⁾ | 4,315 | 8.78 | 1,965 | 4.00 | 2,456 | 5.00 |
| At December 31, 2006: | | | | | | |
| Total capital (to risk-weighted assets) | \$ 5,280 | 10.69% | \$ 3,951 | 8.00% | \$ 4,939 | 10.00% |
| Tier I capital (to risk-weighted assets) | 4,179 | 8.46 | 1,975 | 4.00 | 2,963 | 6.00 |
| Tier I capital (to quarterly average assets) ⁽¹⁾ | 4,179 | 8.25 | 2,027 | 4.00 | 2,534 | 5.00 |

Note:

(1) Excludes certain intangible assets.

Management believes, as of December 31, 2006, that UNBC and UBOC met all capital adequacy requirements to which they are subject.

As of December 31, 2005 and 2006, the most recent notification from the U.S. Office of the Comptroller of the Currency (OCC) categorized UBOC as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, UBOC must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed UBOC s category.

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Reconciliations of net income and weighted average number of common shares outstanding used for the computation of basic earnings per common share to the adjusted amounts for the computation of diluted earnings per common share for the fiscal years ended March 31, 2005, 2006 and 2007 are as follows:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|------------------|-----------------------|------------------|
| | | (in millions) | |
| Income (Numerator): | | | |
| Income from continuing operations before cumulative effect of a change in accounting principle | ¥ 414,639 | ¥ 364,200 | ¥ 582,105 |
| Income (loss) from discontinued operations net | 1,493 | 8,973 | (817) |
| Cumulative effect of a change in accounting principle, net of tax | (977) | (9,662) | |
| Net income | <u>415,155</u> | <u>363,511</u> | <u>581,288</u> |
| Income allocable to preferred shareholders: | | | |
| Cash dividends paid | (6,837) | (5,386) | (13,629) |
| Beneficial conversion feature | | (201,283) | (267,432) |
| Net income available to common shareholders | <u>408,318</u> | <u>156,842</u> | <u>300,227</u> |
| Effect of dilutive instruments: | | | |
| Convertible preferred stock | 121 | | |
| Convertible debt MUS | (418) | (981) | (985) |
| Stock options MUS | (5) | (8) | |
| Stock options UNBC | (894) | (1,081) | (835) |
| Convertible preferred stock UFJ NICOS Co., Ltd. | | (869) | |
| Net income available to common shareholders and assumed conversions | <u>¥ 407,122</u> | <u>¥ 153,903</u> | <u>¥ 298,407</u> |
| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| | | (thousands of shares) | |
| Shares (Denominator): | | | |
| Weighted average common shares outstanding | 6,510 | 8,121 | 10,053 |
| Effect of dilutive instruments: | | | |
| Convertible preferred stock | 6 | | |
| Weighted average common shares for diluted computation | <u>6,516</u> | <u>8,121</u> | <u>10,053</u> |

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| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|--------------------|--------------------|--------------------|
| | (in yen) | | |
| Earnings per common share: | | | |
| Basic earnings per common share: | | | |
| Income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle | ¥ 62,637.96 | ¥ 19,398.62 | ¥ 29,944.47 |
| Income (loss) from discontinued operations | 229.32 | 1,104.95 | (81.27) |
| Income available to common shareholders before cumulative effect of a change in accounting principle | 62,867.28 | 20,503.57 | 29,863.20 |
| Cumulative effect of a change in accounting principle | (150.07) | (1,189.79) | |
| Net income available to common shareholders | <u>¥ 62,717.21</u> | <u>¥ 19,313.78</u> | <u>¥ 29,863.20</u> |
| Diluted earnings per common share: | | | |
| Income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle | ¥ 62,397.57 | ¥ 19,036.71 | ¥ 29,763.44 |
| Income (loss) from discontinued operations | 229.12 | 1,104.95 | (81.27) |
| Income available to common shareholders before cumulative effect of a change in accounting principle | 62,626.69 | 20,141.66 | 29,682.17 |
| Cumulative effect of a change in accounting principle. | (149.93) | (1,189.79) | |
| Net income available to common shareholders | <u>¥ 62,476.76</u> | <u>¥ 18,951.87</u> | <u>¥ 29,682.17</u> |

For the fiscal year ended March 31, 2005, Class 2 Preferred Stock, ¹/₄% Convertible Bonds due 2014 issued by MUS and stock options issued by MUS and UNBC that could potentially dilute earnings per common share in the future were included in the computation of diluted earnings per common share. Certain stock options issued by MUS and UNBC were not included in the computation of diluted earnings per common share due to their antidilutive effects.

For the fiscal year ended March 31, 2006, Class 11 Preferred Stock, convertible preferred stock issued by UFJ NICOS Co., Ltd. (UFJ NICOS), ¹/₄% Convertible Bonds due 2014 issued by MUS and stock options issued by MUS and UNBC that could potentially dilute earnings per common share in the future were included in the computation of diluted earnings per common share. Class 8, Class 9, Class 10, and Class 12 Preferred Stock, convertible preferred stock issued by The Senshu Bank, Ltd., and certain stock options issued by MUS and UNBC could potentially dilute earnings per common share but were not included in the computation of diluted earnings per common share due to their antidilutive effects.

For the fiscal year ended March 31, 2007, Class 11 Preferred Stock, ¹/₄% Convertible Bonds due 2014 issued by MUS and stock options issued by MUS and UNBC that could potentially dilute earnings per common share in the future were included in the computation of diluted earnings

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per common share. Class 8, Class 9, Class 10, and Class 12 Preferred Stock, convertible preferred stock issued by The Senshu Bank, Ltd. and UFJ NICOS and certain stock options issued by UNBC and MU Hands-on Capital Ltd. could potentially dilute earnings per common share but were not included in the computation of diluted earnings per common share due to their antidilutive effects.

In computing the number of the potentially dilutive common shares for the fiscal year ended March 31, 2005, Class 2 Preferred Stock has been based on the conversion price at the date of conversion of the Class 2 Preferred Stock into common stock (i.e., ¥971,415.0). For the fiscal years ended March 31, 2006 and 2007, Class 11 Preferred Stock has been based on the conversion price at March 31, 2007 (i.e., ¥918,700.0).

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25. DERIVATIVE FINANCIAL INSTRUMENTS

The MUFG Group uses various derivative financial instruments both for trading purposes and for purposes other than trading (primarily risk management purposes) in the normal course of business to meet the financial needs of its customers, as a source of revenue and to manage its exposures to a variety of risks. The MUFG Group is a party to derivatives, including swaps, forwards, options and other types of derivatives, dealing primarily with market risk associated with interest rate, foreign currency, equity and commodity prices, and credit risk associated with counterparty's nonperformance of transactions.

Market risk is the possibility that future changes in market indices make the financial instruments less valuable. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract, which may exceed the value of underlying collateral. To reduce credit risk, the MUFG Group may require collateral or guaranties based on a case-by-case assessment of creditworthiness of each customer and evaluation of the instrument. The MUFG Group also uses master netting agreements in order to mitigate overall counterparty credit risk.

Trading Activities

The MUFG Group's trading activities include dealing and other activities measured at fair value with gains and losses recognized currently in earnings. As part of its trading activities, the MUFG Group offers a variety of derivative financial instruments and debt instruments for managing interest rate and foreign exchange risk to its domestic and foreign corporate and financial institution customers. The MUFG Group also enters into other types of derivative transactions, including equity and credit-related contracts, for its own account.

Risk Management Activities

As part of its risk management activities, the MUFG Group uses certain derivative financial instruments to manage its interest rate and currency exposures. The MUFG Group maintains an overall interest rate risk management strategy that incorporates the use of interest rate contracts to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The MUFG Group's goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net interest income. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities appreciate or depreciate in market value. Gains or losses on the derivative instruments that are linked to the hedged fixed-rate assets and liabilities are expected to substantially offset this unrealized appreciation or depreciation. Interest income and interest expense on hedged variable-rate assets and liabilities, respectively, increase or decrease as a result of interest rate fluctuations. Gains and losses on the derivative instruments that are linked to these hedged assets and liabilities are expected to substantially offset this variability in earnings.

The MUFG Group enters into interest rate swaps and other contracts as part of its interest rate risk management strategy primarily to alter the interest rate sensitivity of its loans, investment securities and deposit liabilities. The MUFG Group's principal objectives in risk management include asset and liability management. Asset and liability management is viewed as one of the methods for the MUFG Group to manage its interest rate exposures on interest-bearing assets and liabilities. Interest rate contracts, which are generally non-leveraged generic interest rate and basis swaps, options and futures, allow the MUFG Group to effectively manage its interest rate risk position. Option contracts primarily consist of caps, floors, swaptions and options on index futures. Futures contracts used for asset and liability management activities are primarily index futures providing for cash payments based upon the movement of an underlying rate index. The MUFG Group enters into forward exchange contracts, currency swaps and other contracts in response to currency exposures resulting from on-balance-sheet assets and liabilities denominated in foreign currencies in order to limit the net foreign exchange position by currency to an appropriate level.

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The risk management activities reduce the MUFG Group's risk exposures economically, however, derivatives used for risk management activities often fail to meet certain conditions to qualify for hedge accounting and the MUFG Group accounts for such derivatives as trading positions.

For the fiscal years ended March 31, 2006 and 2007, except for derivative transactions conducted by certain foreign subsidiaries, the MUFG Group accounted for derivatives held for risk management purposes as trading positions and measured them at fair value.

Embedded Derivatives

Features embedded in other non-derivative hybrid contracts are separated from the host contracts and measured at fair value when they are not clearly and closely related to the host contracts and meet the definition of a derivative. The change in the fair value of such an embedded derivative is recognized currently in earnings, unless it qualifies as a hedge. The fair value of the embedded derivative is presented in the consolidated balance sheets. The MUFG Group accounts for credit-linked notes as host contracts with embedded derivatives and measures the entire contracts at fair value.

UNBC

Derivative positions are integral components of UNBC's designated asset and liability management activities. UNBC uses interest rate derivatives to manage the sensitivity of UNBC's net interest income to changes in interest rates. These instruments are used to manage interest rate risk relating to specified groups of assets and liabilities, primarily LIBOR-based commercial loans, certificates of deposit, medium-term notes and subordinated debt.

Cash Flow Hedges

Hedging Strategies for Variable Rate Loans and Certificates of Deposit and Other Time Deposits

UNBC engages in several types of cash flow hedging strategies for which the hedged transactions are forecasted future loan interest payments, and the hedged risk is the variability in those payments due to changes in the designated benchmark rate, e.g., U.S. dollar LIBOR. In these strategies, the hedging instruments are matched with groups of variable rate loans such that the tenor of the variable rate loans and that of the hedging instrument are identical. Cash flow hedging strategies include the utilization of purchased floor, cap, collar and corridor options and interest rate swaps. At December 31, 2006, the weighted average remaining life of the currently active (excluding any forward positions) cash

flow hedges was approximately 1.7 years.

UNBC uses purchased interest rate floors to hedge the variable cash flows associated with 1-month LIBOR or 3-month LIBOR indexed loans. Payments received under the floor contract offset the decline in loan interest income caused by the relevant LIBOR index falling below the floor's strike rate.

UNBC uses interest rate floor corridors to hedge the variable cash flows associated with 1-month LIBOR or 3-month LIBOR indexed loans. Net payments to be received under the floor corridor contracts offset the decline in loan interest income caused by the relevant LIBOR index falling below the corridor's upper strike rate, but only to the extent the index falls to the lower strike rate. The corridor will not provide protection from declines in the relevant LIBOR index to the extent it falls below the corridor's lower strike rate.

UNBC uses interest rate collars to hedge the variable cash flows associated with 1-month LIBOR or 3-month LIBOR indexed loans. Net payments to be received under the collar contract offset the decline in loan

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interest income caused by the relevant LIBOR index falling below the collar's floor strike rate while net payments to be paid will reduce the increase in loan interest income caused by the LIBOR index rising above the collar's cap strike rate.

UNBC uses interest rate swaps to hedge the variable cash flows associated with 1-month LIBOR or 3-month LIBOR indexed loans. Payments to be received (or paid) under the swap contract will offset the fluctuations in loan interest income caused by changes in the relevant LIBOR index. As such, these instruments hedge all fluctuations in the loans' interest income caused by changes in the relevant LIBOR index.

UNBC uses purchased interest rate caps to hedge the variable interest cash flows associated with the forecasted issuance and rollover of short-term, fixed rate CDs. In these hedging relationships, UNBC hedges the LIBOR component of the CD rates, which is 3-month LIBOR, based on the CDs' original term to maturity, which reflects their repricing frequency. Net payments to be received under the cap contract offset the increase in interest expense caused by the relevant LIBOR index rising above the cap's strike rate.

UNBC uses interest rate cap corridors to hedge the variable cash flows associated with the forecasted issuance and rollover of short-term, fixed rate CDs. In these hedging relationships, UNBC hedges the LIBOR component of the CD rates, either 1-month LIBOR, 3-month LIBOR, or 6-month LIBOR, based on the original term to maturity of the CDs, which reflects their repricing frequency. Net payments to be received under the cap corridor contract offset the increase in deposit interest expense caused by the relevant LIBOR index rising above the corridor's lower strike rate, but only to the extent the index rises to the upper strike rate. The corridor will not provide protection from increases in the relevant LIBOR index to the extent it rises above the corridor's upper strike rate.

Hedging transactions are structured at inception so that the notional amounts of the hedge are matched with an equal principal amount of loans or CDs, the index and repricing frequencies of the hedge match those of the loans or CDs, and the period in which the designated hedged cash flows occurs is equal to the term of the hedge. As such, most of the ineffectiveness in the hedging relationship results from the mismatch between the timing of reset dates on the hedge versus those of the loans or CDs. For the year ended December 31, 2006, UNBC recognized a net gain of ¥12 million due to ineffectiveness, which is recognized in other noninterest expense, compared to a net loss of ¥195 million for the year ended December 31, 2004 and a net loss of ¥11 million for the year ended December 31, 2005.

For cash flow hedges, based upon amounts included in accumulated other changes in equity from nonowner sources at March 31, 2007, the MUFG Group expects to realize approximately ¥3 billion in net interest income for the fiscal year ending March 31, 2008. This amount could differ from amounts actually realized due to changes in interest rates and the addition of other hedges subsequent to March 31, 2007.

Fair Value Hedges

Economic Hedging Strategy for MarketPath Certificates of Deposit

UNBC engages in an economic hedging strategy in which interest bearing CDs issued to customers, which are tied to the changes in the Standard and Poor's 500 index, are exchanged for a fixed rate of interest. UNBC accounts for the embedded derivative in the CDs at fair value. A total return swap that encompasses the value of a series of options that had individually hedged each CD is valued at fair value. The change in fair value of the embedded derivative and hedging instrument are recognized as interest expense.

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Hedging Strategy for Medium-Term Notes

UNBC engages in an interest rate hedging strategy in which an interest rate swap is associated with a specified interest bearing liability, UNBC's five-year, medium-term debt issuance, in order to convert the liability from a fixed rate to a floating rate instrument. This strategy mitigates the changes in fair value of the hedged liability caused by changes in the designated benchmark interest rate, U.S. dollar LIBOR.

The fair value hedging transaction for the medium-term notes was structured at inception to mirror all of the provisions of the medium-term notes, which allows UNBC to assume that no ineffectiveness exists.

Hedging Strategy for Subordinated Debt

UNBC engages in an interest rate hedging strategy in which an interest rate swap is associated with a specified interest bearing liability, UNBC's ten-year, subordinated debt issuance, in order to convert the liability from a fixed rate to a floating rate instrument. This strategy mitigates the changes in fair value of the hedged liability caused by changes in the designated benchmark interest rate, U.S. dollar LIBOR.

The fair value hedging transaction for the subordinated debt was structured at inception to mirror all of the provisions of the subordinated debt, which allows UNBC to assume that no ineffectiveness exists.

Other

UNBC uses To-Be-Announced (TBA) contracts to fix the price and yield of anticipated purchases or sales of mortgage-backed securities that will be delivered at an agreed upon date. This strategy hedges the risk of variability in the cash flows to be paid or received upon settlement of the TBA contract.

26. OBLIGATIONS UNDER GUARANTEES AND OTHER OFF-BALANCE-SHEET INSTRUMENTS

Obligations under Guarantees

The MUFG Group provides customers with a variety of guarantees and similar arrangements, including standby letters of credit, financial and performance guarantees, credit protections, liquidity facilities, other off-balance-sheet credit-related supports and similar instruments, in order to meet the customers' financial and business needs. The table below summarizes the contractual or notional amounts with regard to obligations under guarantees and similar arrangements at March 31, 2006 and 2007. The contractual or notional amounts of these instruments represent the maximum potential amounts of future payments without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

For certain types of derivatives, such as written interest rate options and written currency options, the maximum potential future payments are unlimited. Accordingly, it is impracticable to estimate the maximum potential amount of future payments. As such, the notional amounts of the related contracts, other than the maximum potential payments, are included in the table.

The MUFG Group mitigates credit risk exposure resulting from guarantees by utilizing various techniques, including collateralization in the form of cash, securities, and real properties based on management's credit assessment of the guaranteed parties and the related credit profile. In order to manage the credit risk exposure, the MUFG Group also enters into sub-participation contracts with third parties who will fund a portion of the credit facility and bear its share of the loss to be incurred in the event that the borrower fails to fulfill its obligations. The following table includes unfunded commitments of ¥166.9 billion and ¥178.9 billion at March 31, 2006 and 2007, respectively, which are participated out to third parties. The contractual or notional

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amounts summarized in the following table do not necessarily bear any direct relationship to the future actual credit exposure, primarily because of those risk management techniques.

| | Maximum potential/ Contractual or Notional amount | Amount by expiration period | | | | |
|--|---|-----------------------------|----------------|----------------|----------------|----------------|
| | | Less than | 1-2 | 2-3 | 3-5 | Over |
| | | 1 year | years | years | years | 5 years |
| (in billions) | | | | | | |
| At March 31, 2006: | ¥ 5,706 | ¥ 2,346 | ¥ 417 | ¥ 403 | ¥ 710 | ¥ 1,830 |
| Standby letters of credit and financial guarantees | 1,900 | 1,238 | 243 | 175 | 192 | 52 |
| Performance guarantees | 29,645 | 15,034 | 4,101 | 2,818 | 4,318 | 3,374 |
| Derivative instruments | 2,456 | 333 | 1,233 | 651 | 222 | 17 |
| Guarantees for the repayment of trust principal | 4,286 | 3,478 | 26 | 28 | 82 | 672 |
| Liabilities of trust accounts | 648 | 637 | | | | 11 |
| Other ⁽¹⁾ | | | | | | |
| Total | ¥ 44,641 | ¥ 23,066 | ¥ 6,020 | ¥ 4,075 | ¥ 5,524 | ¥ 5,956 |

| | Maximum potential/ Contractual or Notional amount | Amount by expiration period | | | | |
|--|---|-----------------------------|----------------|----------------|----------------|----------------|
| | | Less than | 1-2 | 2-3 | 3-5 | Over |
| | | 1 year | years | years | years | 5 years |
| (in billions) | | | | | | |
| At March 31, 2007: | ¥ 5,646 | ¥ 2,346 | ¥ 478 | ¥ 423 | ¥ 761 | ¥ 1,638 |
| Standby letters of credit and financial guarantees | 2,208 | 1,371 | 357 | 226 | 179 | 75 |
| Performance guarantees | 42,353 | 24,327 | 4,985 | 3,874 | 6,262 | 2,905 |
| Derivative instruments | 1,921 | 308 | 1,279 | 178 | 111 | 45 |
| Guarantees for the repayment of trust principal | 3,722 | 2,776 | 29 | 24 | 90 | 803 |
| Liabilities of trust accounts | 820 | 814 | | | 1 | 5 |
| Other | | | | | | |
| Total | ¥ 56,670 | ¥ 31,942 | ¥ 7,128 | ¥ 4,725 | ¥ 7,404 | ¥ 5,471 |

Note:

(1) The contractual or notional amounts of obligations under guarantees and similar arrangements at March 31, 2006 have been restated as follows:

| | Maximum potential/ Contractual or Notional amount | | Amount by expiration period | |
|-------|--|------------------------|--|------------------------|
| | | | Less than 1 year | |
| | As previously reported | As restated | As previously reported | As restated |
| | (in billions) | | | |
| Other | ¥ 243 | ¥ 648 | ¥ 232 | ¥ 637 |

Nature of guarantee contracts

Standby letters of credit and financial guarantees generally include an obligation of an issuer or a designated third party to guarantee the performance of the customer to the beneficiary under the terms of contracts such as lending contracts and other similar financial transactions. The MUFG Group is required to make payments to the guaranteed parties in the events that the customers fail to fulfill the obligations under the contracts. The guarantees whose contractual maturities are over 5 years are mainly comprised of guarantees of housing loans.

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Performance guarantees are the contracts that contingently require the MUFG Group to make payments to the guaranteed party based on another party's failure to perform under an obligating agreement, except financial obligation. For example, performance guarantees include guarantees of completion of construction projects.

Derivative instruments that are deemed to be included within the definition of guarantees as prescribed in FIN No. 45 include certain written options and credit default swaps. In order for the MUFG Group to determine if those derivative instruments meet the definition of guarantees as prescribed in FIN No. 45, the MUFG Group has to track whether the counterparties are actually exposed to the losses that will result from the adverse change in the underlyings. Accordingly, the MUFG Group has disclosed information on all credit default swaps and certain written options for which there is a possibility of meeting the definition of guarantees as prescribed in FIN No. 45, regardless of whether the counterparties have assets or liabilities related to the underlyings of the derivatives.

Guarantees for the repayment of trust principal include guarantees which the MUFG Group provides for the repayment of principal of certain types of trust products, including certain jointly operated designated money in trusts and loan trusts. The MUFG Group manages and administers trust assets in a capacity of agent or fiduciary on behalf of its customers and trust assets are segregated from the assets of the MUFG Group, which keeps separate records for the trust activities. The MUFG Group, in principle, does not assume any risks associated with the trust assets under management, however, as permitted by applicable laws, the MUFG Group provides guarantees for the repayment of principal of such trust products. At March 31, 2006 and 2007, the contract amounts of such guarantees for repayment of trust principal were ¥2,456 billion and ¥1,921 billion, respectively. The accounting methods used for the segregated records of trust activities are different from financial accounting principles and practices. However, the MUFG Group follows an approach similar to those used for its own assets to identify an impairment of an asset included in the trusts with guaranteed principal, with inherent variations peculiar to trust accounting. Amounts of loans deemed to be impaired are written off directly and are charged to the trust account profits earned during the trust accounting period. Write-downs of securities are also directly charged to the trust account profits. The amounts of trust assets written-off in the segregated records were ¥398 million and ¥118 million, for the fiscal years ended March 31, 2006 and 2007, respectively. These amounts were reflected in the segregated records as deductions before net profits earned by trust accounts for the accounting period. In addition, a part of trust account profits is set aside as a reserve to absorb losses in the trust asset portfolios in the segregated records in accordance with relevant legislation concerning the trust business and/or trust agreements. Statutory reserves for loan trusts are established at a rate of 4.0% of the trust fees up to the amounts of 0.5% of the trust principal in accordance with the legislation. Reserves for jointly operated designated money in trusts are established at a rate of 0.3% of the balance of loans and other assets in the trust account assets in accordance with the related trust agreement. The amounts of such reserves set aside in the segregated records were ¥6,423 million and ¥2,888 million at March 31, 2006 and 2007, respectively. The MUFG Group is required to provide an allowance for off-balance-sheet instruments on such guarantees in the financial statements only when aggregate losses on trust assets are judged to exceed the reserve and the profit earned by the trust account, and the principal is deemed to be impaired. Management believes that the MUFG Group will not incur any losses on the guarantees.

Liabilities of trust accounts represent the trustee's potential responsibility for temporary payments to creditors of liabilities of trust accounts making use of funds of the MUFG Group, unless there are the certain agreements with trust creditors that have provisions limiting the MUFG Group's responsibility as a trustee to the trust account assets. A trust may incur external liabilities to obtain certain services during the terms of the trust arrangement. While, in principle, any liabilities of a trust are payable by the trust account and its beneficiaries, a trustee's responsibility may be interpreted to encompass temporary payments for the trust account liabilities when the trust account does not maintain sufficient liquidity available for such liabilities unless the agreement with trust creditors does not limit the trustee's responsibility to the trust account assets. At March 31, 2006 and 2007, there were liabilities of ¥4,286 billion and ¥3,722 billion, respectively, in the segregated records of trust accounts including the amounts related to liabilities with provisions limiting trustee responsibility. Liabilities of

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trust accounts principally included obligations to return collateral under security lending transactions. The MUFG Group has experienced no significant losses on such responsibilities and its exposure to the risk associated with the temporary payments is judged to be remote because trust account liabilities are covered by the corresponding trust account assets generally; the MUFG Group continuously monitors the liabilities of trust accounts and assesses the trust account's ability to perform its obligations to prevent any unfavorable outcomes; and the MUFG Group claims its recourse for its temporary payments against the trust account assets and the beneficiaries.

Other includes contingent consideration agreements and security lending indemnifications. Contingent consideration agreements provide guarantees on additional payments to acquired insurance agencies' shareholders based on the agencies' future performance in excess of established revenue and/or earnings before interest, taxes, depreciation and amortization thresholds. Security lending indemnifications are the indemnifications for institutional customers of securities lending transactions against counterparty default. All lending transactions are collateralized, primarily by cash.

Carrying amount

At March 31, 2006 and 2007, the carrying amounts of the liabilities related to guarantees and similar instruments set forth above were ¥657,573 million and ¥763,234 million, respectively, which are included in Other liabilities and Trading account liabilities. In addition, Other liabilities also include an allowance for off-balance-sheet instruments of ¥73,148 million and ¥51,406 million, respectively, related to these transactions.

Other Off-balance-sheet Instruments

In addition to obligations under guarantees set forth above, the MUFG Group issues other off-balance-sheet instruments for purposes other than trading. Such off-balance-sheet instruments consist of lending-related commitments, including commitments to extend credit and commercial letters of credit that the MUFG Group provides to meet the financing needs of its customers. Once the MUFG Group issues these financial instruments, the MUFG Group is required to extend credit to or make certain payments to the customers or beneficiaries specified pursuant to the underlying contracts unless otherwise provided in the contracts. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At March 31, 2007, approximately 79% of these commitments will expire within one year, 19% from one year to five years and 2% after five years. The table below summarizes the contractual amounts with regard to these commitments at March 31, 2006 and 2007:

| | 2006 | 2007 |
|---|---------------|----------|
| | (in billions) | |
| Commitments to extend credit ⁽¹⁾ | ¥ 58,474 | ¥ 62,146 |
| Commercial letters of credit | 819 | 842 |

Note:

(1) The contractual amounts of commitments to extended credit at March 31, 2006 have been restated from ¥58,363 billion to ¥58,474 billion.

Commitments to extend credit, which generally have fixed expiration dates or other termination clauses, are legally binding agreements to lend to customers. Commitments are different from guarantees in that the commitments are generally revocable or have provisions that enable the MUFG Group to avoid payments in the event of violations of any conditions of the contracts and certain deterioration of the potential borrowers financial condition. Commitments to extend credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements.

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Commercial letters of credit, used for facilitating trade transactions, are generally secured by underlying goods. The MUFG Group continually monitors the type and amount of collateral and other security, and requires counterparties to provide additional collateral or guarantors as necessary.

Commitments to make investments are legally binding contracts to make additional contributions to corporate recovery or private equity investment funds in accordance with limited partnership agreements. Some of these funds, in which the MUFG Group has significant variable interests, are described in Note 27.

Concentration of Credit Risk

Although the MUFG Group's portfolio of financial instruments, including on-balance-sheet instruments, is widely diversified along industry and geographic lines, a significant portion of the transactions with off-balance-sheet risk are entered into with other financial institutions.

27. VARIABLE INTEREST ENTITIES

In the normal course of its business, the MUFG Group has financial interests in various entities which may be deemed to be variable interest entities such as asset-backed commercial paper conduits, securitization conduits of client properties, various investment funds and special purpose entities created for structured financing.

The following table presents, by type of VIE, the total assets of consolidated and non-consolidated VIEs and the maximum exposure to non-consolidated VIEs at March 31, 2006 and 2007:

| Consolidated VIEs | 2006 | 2007 |
|---|----------------------|--------------------|
| | (in millions) | |
| Asset-backed commercial paper conduits | ¥ 4,922,025 | ¥ 6,235,044 |
| Securitization conduits of client properties | 3,251 | 2,625 |
| Investment funds | 1,556,908 | 1,964,846 |
| Special purpose entities created for structured financing | 20,079 | 26,942 |
| Repackaged instruments | 190,408 | 155,971 |
| Others | 524,508 | 410,560 |
| Total | ¥ 7,217,179 | ¥ 8,795,988 |

| Non-Consolidated VIEs | 2006 ⁽¹⁾ | | 2007 | |
|---|----------------------|--------------------|----------------------|---------------------|
| | Maximum | | Maximum | |
| | Assets | exposure | Assets | exposure |
| | (in millions) | | | |
| Asset-backed commercial paper conduits | ¥ 19,090,946 | ¥ 2,005,911 | ¥ 39,357,613 | ¥ 2,826,007 |
| Securitization conduits of client properties | 2,585,489 | 835,356 | 3,013,154 | 924,708 |
| Investment funds | 66,907,640 | 1,811,719 | 67,224,180 | 2,083,964 |
| Special purpose entities created for structured financing | 23,124,432 | 1,734,124 | 26,111,556 | 2,127,030 |
| Repackaged instruments | 120,316,571 | 1,645,600 | 116,842,810 | 2,602,834 |
| Others | 9,222,187 | 1,336,784 | 11,532,032 | 1,512,566 |
| Total | ¥ 241,247,265 | ¥ 9,369,494 | ¥ 264,081,345 | ¥ 12,077,109 |

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Note:

(1) The total assets of non-consolidated VIEs and the maximum exposure to non-consolidated VIEs at March 31, 2006 have been restated as follows:

| | As previously reported | | As restated | |
|---|------------------------|--------------------|----------------------|--------------------|
| | Assets | Maximum exposure | Assets | Maximum exposure |
| (in millions) | | | | |
| Asset-backed commercial paper conduits | ¥ 18,945,233 | ¥ 1,926,164 | ¥ 19,090,946 | ¥ 2,005,911 |
| Securitization conduits of client properties | 2,539,689 | 822,556 | 2,585,489 | 835,356 |
| Investment funds | 61,263,030 | 1,766,131 | 66,907,640 | 1,811,719 |
| Special purpose entities created for structured financing | 22,692,746 | 1,695,641 | 23,124,432 | 1,734,124 |
| Repackaged instruments | 120,316,571 | 1,645,600 | 120,316,571 | 1,645,600 |
| Others | 5,419,392 | 881,331 | 9,222,187 | 1,336,784 |
| Total | ¥ 231,176,661 | ¥ 8,737,423 | ¥ 241,247,265 | ¥ 9,369,494 |

The assets of certain consolidated asset-backed commercial paper conduits include variable interests in the VIEs of which the consolidated asset-backed commercial paper conduits are not the primary beneficiaries. The maximum exposure to these non-consolidated VIEs was ¥1,389,839 million and ¥2,153,742 million and the total assets of these non-consolidated VIEs were ¥13,065,251 million and ¥27,847,289 million at March 31, 2006 and 2007, respectively. The table above includes these amounts.

The following table presents the carrying amount of consolidated assets that corresponds to VIEs' obligations at March 31, 2006 and 2007:

| | 2006 | 2007 |
|------------------------|--------------------|--------------------|
| (in millions) | | |
| Cash | ¥ 177,011 | ¥ 250,338 |
| Trading account assets | 1,290,404 | 1,750,372 |
| Investment securities | 293,055 | 478,836 |
| Loans | 5,060,478 | 6,047,324 |
| Others | 396,231 | 269,118 |
| Total | ¥ 7,217,179 | ¥ 8,795,988 |

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In addition, certain transfers of financial assets that did not qualify for sale accounting were made to variable interest entities. The transferred assets, primarily consisting of performing loans, continued to be carried as assets of the MUFG Group. Such assets amounted to ¥2,798,538 million and ¥4,462,331 million at March 31, 2006 and 2007, respectively.

A portion of the assets of consolidated VIEs presented in the table above were derived from transactions between consolidated VIEs and the MUFG Group, the primary beneficiary, and were eliminated as intercompany transactions. The eliminated amounts were ¥127,999 million of Cash, ¥2,225 million of Trading account assets, ¥2,900 million of Investment securities, ¥199,979 million of Loans and ¥8,488 million of other assets at March 31, 2006, and ¥143,483 million of Cash, ¥3,595 million of Trading account assets, ¥8,155 million of Investment securities, ¥242,481 million of Loans and ¥6,252 million of other assets at March 31, 2007.

In general, the creditors or beneficial interest holders of consolidated VIEs have recourse only to the assets of those VIEs and do not have recourse to other assets of the MUFG Group, except where the MUFG Group provides credit support as in the case of certain asset-backed commercial paper conduits.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Asset-backed Commercial Paper Conduits

The MUFG Group administers several multi-seller finance entities (primarily commercial paper conduits) that purchase financial assets, primarily pools of receivables, from third-party customers. The assets purchased by these conduits are generally funded by issuing commercial paper to and/or by borrowings from the MUFG Group or third parties. While customers basically continue to provide servicing for the transferred trade receivables, the MUFG Group underwrites, distributes, makes a market in commercial paper issued by the conduits, and also provides liquidity and credit support facilities to the entities.

Securitization Conduits of Client Properties

The MUFG Group administers several conduits that acquire client assets, primarily real estate, from third-party customers (property sellers) with the property sellers continuing to use the acquired real estate through lease-back agreements. The equity of the conduits is provided by the property sellers but such equity holders have no ability to make decisions about the activities of the conduits. Thus, the MUFG Group considers those conduits to be VIEs. The assets acquired by these conduits are generally funded by borrowings from the MUFG Group or third parties.

Investment Funds

The MUFG Group holds investments and loans in various investment funds that collectively invest in equity and debt securities including listed Japanese securities and investment grade bonds, and, to a limited extent, securities and other interests issued by companies including in a start-up or restructuring stage. Such investment funds are managed by investment advisory companies or fund management companies that make investment decisions and administer the funds.

The MUFG Group not only manages the composition of investment trust funds but also plays a major role in composing venture capital funds. The MUFG Group generally does not have significant variable interests through composing these types of funds.

Special Purpose Entities Created for Structured Financing

The MUFG Group extends non-recourse asset-backed loans to special purpose entities, which hold beneficial interests in real properties, to provide financing for special purpose projects including real estate development and natural resource development managed by third parties.

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The MUFG Group generally acts as a member of a lending group and does not have any equity investment in the entities, which is typically provided by project owners. For most of these financings, the equity provided by the project owners is of sufficient level to absorb expected losses, while expected returns to the owners are arranged to be the most significant among all returns. Accordingly, the MUFG Group determined that the MUFG Group is not the primary beneficiary of most of these entities. However, in transactions with entities whose investments at risk are exceptionally thin where the MUFG Group provides most of the financing, the MUFG Group is ultimately required to consolidate this type of entity.

Repackaged Instruments

The MUFG Group has two types of relationships with special purpose entities that repackage financial instruments to create new financial instruments.

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The MUFG Group provides repackaged instruments with features that meet customers' needs and preferences through special purpose entities. The MUFG Group purchases financial instruments such as bonds and transfers them to special purpose entities which then issue new instruments. The special purpose entities may enter into derivative transactions including interest rate and currency swaps with the MUFG Group or other financial institutions to modify the cash flows of the underlying financial instruments. The MUFG Group underwrites and markets the new instruments issued by the special purpose entities to its customers.

The MUFG Group also invests in repackaged instruments arranged and issued by third parties.

Financing Vehicle

The MUFG Group has established several wholly owned funding vehicles to enhance the flexibility of its capital management. Management has determined that the MUFG Group does not have significant variable interests in these conduits which would require disclosure or consolidation.

Trust Arrangements

The MUFG Group offers a variety of asset management and administration services under trust arrangements including securities investment trusts, pension trusts and trusts used as securitization vehicles. Although in limited cases the MUFG Group may assume risks through guarantees or certain protections as provided in the agreements or relevant legislation, the MUFG Group has determined that it will not absorb a majority of expected losses in connection with such trust arrangements. In a typical trust arrangement, however, the MUFG Group manages and administers assets on behalf of the customers in an agency, fiduciary and trust capacity and does not assume risks associated with the entrusted assets. Customers receive and absorb expected returns and losses on the performance and operations of trust assets under management of the MUFG Group. Accordingly, the MUFG Group determined that it is generally not a primary beneficiary to any trust arrangements under management as its interests in the trust arrangements are insignificant in most cases.

Other Type of VIEs

The MUFG Group is also a party to other types of VIEs including special purpose entities created to hold assets on behalf of the MUFG Group as an intermediary.

The MUFG Group identified borrowers that were determined to be VIEs due to an insufficient level of equity. The MUFG Group determined that the MUFG Group is not the primary beneficiary of most of these borrowers because of its limited exposure as a lender to such borrowers.

Such borrowers engage in diverse business activities of various sizes in industries such as manufacturing, distribution, construction and real estate development, independently from the MUFG Group.

28. COMMITMENTS AND CONTINGENT LIABILITIES

Lease Commitments

The MUFG Group leases certain technology systems, office space and equipment under noncancelable agreements expiring through the fiscal year 2046.

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Future minimum rental commitments for noncancelable leases at March 31, 2007 were as follows:

| | Capitalized leases | Operating leases |
|---|-----------------------|---------------------|
| | (in millions) | |
| Fiscal year ending March 31: | | |
| 2008 | ¥ 56,258 | ¥ 45,140 |
| 2009 | 77,587 | 38,951 |
| 2010 | 28,718 | 34,602 |
| 2011 | 20,051 | 25,463 |
| 2012 | 9,316 | 22,150 |
| 2013 and thereafter | 5,643 | 46,603 |
| Total minimum lease payments | 197,573 | ¥ 212,909 |
| Amount representing interest | (7,813) | |
| Present value of minimum lease payments | ¥ 189,760 | |

Total rental expense for the fiscal years ended March 31, 2005, 2006 and 2007 was ¥50,064 million, ¥85,605 million and ¥112,055 million, respectively.

Civil Suit Brought by The Sumitomo Trust & Banking Co., Ltd.

On May 21, 2004, UFJ Holdings, UFJ Bank, UFJ Trust (collectively, the UFJ Companies) and The Sumitomo Trust & Banking Co., Ltd. (Sumitomo Trust) entered into a basic agreement to integrate and jointly operate their respective trust and custody businesses. On July 13, 2004, however, the UFJ Companies informed Sumitomo Trust of their decision to terminate this basic agreement.

In response, on July 16, 2004, Sumitomo Trust filed with the Tokyo District Court a motion for a preliminary injunction to restrain the UFJ Companies from entering into discussions with, and providing information to, any third party with regards to a transfer of UFJ Trust Bank s operations. The Supreme Court of Japan dismissed the motion for provisional relief on August 30, 2004.

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On October 28, 2004, Sumitomo Trust filed a lawsuit in the Tokyo District Court against the UFJ Companies claiming that, under the basic agreement, it had exclusive rights to hold good-faith negotiations with the UFJ Companies regarding the integration of their respective trust and custody businesses. Sumitomo Trust made an additional claim against the UFJ Companies for damages in the amount of ¥100 billion on March 8, 2005.

On February 13, 2006, the Tokyo District Court rendered a judgment denying Sumitomo Trust's claim for damages. On February 24, 2006, Sumitomo Trust appealed the Tokyo District Court's ruling to the Tokyo High Court, seeking to overturn the dismissal of the damages claim for ¥100 billion and claiming additional damages of ¥10 billion against the UFJ Companies.

On November 21, 2006, MUFG announced that, following the recommendation of the Tokyo High Court, MUFG agreed to pay ¥2.5 billion in settlement money to Sumitomo Trust as the main element of an agreed settlement of the lawsuit. As a result, the lawsuit between the MUFG Group and Sumitomo Trust was conclusively resolved.

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Repayment of excess interest***

In Japan, the maximum interest rates charged by consumer finance companies are set by two laws: a maximum permissible interest rate under the Investment Deposit and Interest Rate Law and a lower limit under the Interest Rate Restriction Law. Under the current system, consumer finance companies that satisfy certain conditions can charge interest rates exceeding the limits stipulated by the Interest Rate Restriction Law. Accordingly, MUFG's consumer finance subsidiaries and an equity method investee have offered loans at interest rates above the Interest Rate Restriction Law.

During the past year, the Supreme Court of Japan passed decisions concerning interest exceeding the limits stipulated by the Interest Rate Restriction Law, and the necessary requirements related to such excess interest were interpreted in a manner more favorable to borrowers and more strictly than previously for consumer finance companies.

Accordingly, the business environment for consumer finance companies in Japan has been altered in favor of borrowers, and borrowers' demands for reimbursement of excess interest have significantly increased during the fiscal year ended March 31, 2007. As a result, consumer finance subsidiaries have increased their allowance for repayment of excess interest, which were included in Other liabilities, from ¥9,733 million as of March 31, 2006 to ¥102,474 million as of March 31, 2007. Also, an equity method investee has increased its allowance during the fiscal year ended March 31, 2007, which had a negative impact of ¥77,552 million on Equity in earnings (losses) of equity method investees in the consolidated statement of income.

The MUFG Group is involved in various litigation matters. Management, based upon their current knowledge and the results of consultation with counsel, makes appropriate levels of litigation reserve. Management believes that the amounts of the MUFG Group's liabilities, when ultimately determined, will not have a material adverse effect on the MUFG Group's results of operations and financial position.

29. FEES AND COMMISSIONS INCOME

Details of fees and commissions income for the fiscal years ended March 31, 2005, 2006 and 2007 were as follows:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|---------------|-------------|-------------|
| | (in millions) | | |
| Trust fees | ¥ 102,789 | ¥ 121,350 | ¥ 146,045 |
| Fees on funds transfer and service charges for collections | 60,144 | 105,485 | 151,293 |
| Fees and commissions on international business | 45,103 | 62,235 | 70,175 |

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| | | | |
|--|-------------------|-------------------|-------------------|
| Fees and commissions on credit card business | 62,210 | 110,127 | 164,240 |
| Service charges on deposits | 36,500 | 35,930 | 37,457 |
| Fees and commissions on securities business | 104,519 | 145,137 | 136,596 |
| Fees on real estate business | 31,436 | 45,829 | 60,154 |
| Insurance commissions | 36,000 | 48,508 | 52,209 |
| Fees and commissions on stock transfer agency services | 20,119 | 39,389 | 73,715 |
| Guarantee fees | 19,400 | 53,040 | 88,254 |
| Fees on investment funds business | 11,684 | 65,919 | 129,712 |
| Other fees and commissions | 111,187 | 200,326 | 297,343 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | ¥ 641,091 | ¥ 1,033,275 | ¥ 1,407,193 |
| | <u> </u> | <u> </u> | <u> </u> |

Trust fees consist primarily of fees earned by fiduciary asset management and administration services for corporate pension plans, investment funds, etc. Fees on funds transfer and service charges for collection are earned by providing settlement services such as domestic fund remittances and domestic collection services. Fees

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and commissions on international business primarily consist of fees from international fund transfer and collection services, and trade-related financing services. Fees and commissions on credit card business are composed of interchange income, annual fees, royalty and other service charges from franchisees. Service charges on deposits are fees charged for deposits such as checking account deposits. Fees and commissions on securities business include underwriting, brokerage and advisory services and arrangement fees on securitizations. Fees on real estate business primarily consist of fees from real estate agent services. Insurance commissions are earned by acting as agent for insurance companies to sell insurance products. Fees and commissions on stock transfer agency services consist of fees earned primarily by stock title transfers and agency services for the calculation and payment of dividends. Guarantee fees are earned by providing guarantees on residential mortgage loans. Fees on investment funds business primarily consist of management fees for investment funds. Other fees and commissions include various arrangement fees and agent fees excluding the fees mentioned above.

30. BUSINESS SEGMENTS

The business segment information, set forth below, is derived from the internal management reporting system used by management to measure the performance of the MUFG Group's business segments. Unlike financial accounting, there is no authoritative body of guidance for management accounting. The business segment information, set forth below, is based on the financial information prepared in accordance with Japanese GAAP as adjusted in accordance with internal management accounting rules and practices. Accordingly, the format and information is not consistent with the consolidated financial statements prepared on the basis of US GAAP. A reconciliation is provided for the total amounts of segments' total operating profit with income from continuing operations before income tax expense and cumulative effect of a change in accounting principle under US GAAP.

See Note 31 for financial information relating to the MUFG Group's operations by geographic area. The geographic financial information is consistent with the basis of the accompanying consolidated financial statement.

Effective April 1, 2005, the MUFG Group changed the classification of its business segments and included UNBC as a part of the Integrated Corporate Banking Business Group. The MUFG Group has also introduced a unified core deposit concept when measuring the performance of each business segment and made minor changes in its management accounting method. The unified core deposit concept takes into account that a portion of the Japanese yen short-term deposits to the MUFG Group can be deemed as a long-term source of funding from an interest risk management perspective and, therefore, the interest rate spread gained from the long-term funds should be allocated to the relevant business segments.

Effective October 1, 2005, the MUFG Group changed the name of the Treasury business segment to Global Markets, in line with the name of the business segment in the MUFG Group's subsidiary banks. The operations that constitute Global Markets have not been changed.

The following is a brief explanation of the MUFG Group's business segments.

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Integrated Retail Banking Business Group Covers all domestic retail businesses, including commercial banking, trust banking and securities businesses. This business group integrates the retail business of BTMU, MUTB, MUS and other subsidiaries as well as retail product development, promotion and marketing in a single management structure. At the same time, the business group has developed and implemented MUFG Plaza, a one-stop, comprehensive financial services concept that provides integrated banking, trust and securities services.

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Integrated Corporate Banking Business Group Covers all domestic and overseas corporate businesses, including commercial banking, investment banking, trust banking and securities businesses as well as UNBC. UNBC consists of BTMU's subsidiaries in California, UnionBanCal Corporation and Union Bank of California, N.A. Through the integration of these business lines, diverse financial products and services are provided to its corporate clients. The business group has clarified strategic domains, sales channels and methods to match the different growth stages and financial needs of its corporate customers. Regarding UNBC, as of March 31, 2007, BTMU owned approximately 65% of UnionBanCal Corporation, a public company listed on the New York Stock Exchange. UnionBanCal is a U.S. commercial bank holding company. Union Bank of California, N.A., UnionBanCal's bank subsidiary, is one of the largest commercial banks in California based on total assets and total deposits. UNBC provides a wide range of financial services to consumers, small businesses, middle market companies and major corporations, primarily in California, Oregon and Washington but also nationally and internationally.

Integrated Trust Assets Business Group Covers asset management and administration services for products such as pension trusts and security trusts by integrating the trust banking expertise of MUTB and the global network of BTMU. The business group provides a full range of services to corporate and other pension funds, including stable and secure pension fund management and administration, advice on pension schemes, and payment of benefits to scheme members.

Global Markets Consists of the treasury operations of BTMU and MUTB. Global Markets also conducts asset liability management and liquidity management and provides various financial operations such as money markets and foreign exchange operations and securities investments.

Other Consists mainly of the corporate center of MUFG, BTMU and MUTB. The elimination of duplicated amounts of net revenue among business segments is also reflected in Other.

Regarding the Integrated Corporate Banking Business Group, the Integrated Trust Assets Business Group, and Other, the presentation set forth below for the fiscal years ended March 31, 2005 and 2006 has been reclassified to conform to the new presentation for the fiscal year ended March 31, 2007, including minor reclassification of subsidiaries within the above business segments.

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Effective April 1, 2006, there was a change in the managerial accounting method applied to trust fees, which mainly affected the Integrated Trust Assets Business Group, resulting in a ¥7.8 billion increase in net revenue and operating profit for the fiscal year ended March 31, 2007 compared to the fiscal year ended March 31, 2006.

| | Integrated | | | | | | | | | |
|--|--|-----------|--------------------|---------|-------------------|-----------|--|-------------------|-----------|-----------|
| | Corporate Banking Business Group | | | | | | | | | |
| | Integrated Retail Banking Business Group | Overseas | | | | Total | Integrated Trust Assets Business Group | Global Markets | Other | Total |
| | | Domestic | Other than UNBC | UNBC | Overseas total | | | | | |
| (in billions) | | | | | | | | | | |
| Fiscal year ended March 31, 2005: | | | | | | | | | | |
| Net revenue | ¥ 454.8 | ¥ 664.7 | ¥ 165.7 | ¥ 274.9 | ¥ 440.6 | ¥ 1,105.3 | ¥ 59.9 | ¥ 285.0 | ¥ (8.7) | ¥ 1,896.3 |
| BTMU and MUTB: | 317.4 | 562.0 | 113.3 | | 113.3 | 675.3 | 43.8 | 280.8 | (14.7) | 1,302.6 |
| Net interest income | 209.7 | 306.1 | 56.7 | | 56.7 | 362.8 | 0.4 | 231.8 | (8.5) | 796.2 |
| Net fees | 79.2 | 157.1 | 36.8 | | 36.8 | 193.9 | 43.3 | 15.8 | 7.3 | 339.5 |
| Other | 28.5 | 98.8 | 19.8 | | 19.8 | 118.6 | 0.1 | 33.2 | (13.5) | 166.9 |
| Other than BTMU and MUTB* | 137.4 | 102.7 | 52.4 | 274.9 | 327.3 | 430.0 | 16.1 | 4.2 | 6.0 | 593.7 |
| Operating expenses | 323.7 | 251.6 | 118.2 | 158.8 | 277.0 | 528.6 | 46.6 | 38.9 | 91.3 | 1,029.1 |
| Operating profit (loss) | ¥ 131.1 | ¥ 413.1 | ¥ 47.5 | ¥ 116.1 | ¥ 163.6 | ¥ 576.7 | ¥ 13.3 | ¥ 246.1 | ¥ (100.0) | ¥ 867.2 |
| Fiscal year ended March 31, 2006: | | | | | | | | | | |
| Net revenue | ¥ 887.5 | ¥ 1,093.1 | ¥ 237.0 | ¥ 350.3 | ¥ 587.3 | ¥ 1,680.4 | ¥ 126.7 | ¥ 315.7 | ¥ (41.3) | ¥ 2,969.0 |
| BTMU and MUTB: | 518.4 | 903.4 | 165.5 | | 165.5 | 1,068.9 | 63.0 | 310.7 | (63.9) | 1,897.1 |
| Net interest income | 330.6 | 416.8 | 88.7 | | 88.7 | 505.5 | 1.9 | 257.4 | 32.9 | 1,128.3 |
| Net fees | 137.1 | 298.3 | 49.3 | | 49.3 | 347.6 | 61.3 | (3.1) | (22.5) | 520.4 |
| Other | 50.7 | 188.3 | 27.5 | | 27.5 | 215.8 | (0.2) | 56.4 | (74.3) | 248.4 |
| Other than BTMU and MUTB* | 369.1 | 189.7 | 71.5 | 350.3 | 421.8 | 611.5 | 63.7 | 5.0 | 22.6 | 1,071.9 |
| Operating expenses | 576.9 | 410.1 | 155.7 | 202.3 | 358.0 | 768.1 | 78.6 | 43.8 | 135.4 | 1,602.8 |
| Operating profit (loss) | ¥ 310.6 | ¥ 683.0 | ¥ 81.3 | ¥ 148.0 | ¥ 229.3 | ¥ 912.3 | ¥ 48.1 | ¥ 271.9 | ¥ (176.7) | ¥ 1,366.2 |
| Fiscal year ended March 31, 2007: | | | | | | | | | | |
| Net revenue | ¥ 1,245.6 | ¥ 1,360.0 | ¥ 307.9 | ¥ 324.3 | ¥ 632.2 | ¥ 1,992.2 | ¥ 197.8 | ¥ 301.4 | ¥ 8.2 | ¥ 3,745.2 |
| BTMU and MUTB: | 686.8 | 1,140.0 | 217.4 | | 217.4 | 1,357.4 | 84.1 | 296.9 | (29.1) | 2,396.1 |
| Net interest income | 487.3 | 511.9 | 132.3 | | 132.3 | 644.2 | (1.3) | 278.1 | (28.3) | 1,380.0 |
| Net fees | 169.5 | 404.7 | 54.0 | | 54.0 | 458.7 | 83.9 | (10.9) | (23.4) | 677.8 |
| Other | 30.0 | 223.4 | 31.1 | | 31.1 | 254.5 | 1.5 | 29.7 | 22.6 | 338.3 |
| Other than BTMU and MUTB* | 558.8 | 220.0 | 90.5 | 324.3 | 414.8 | 634.8 | 113.7 | 4.5 | 37.3 | 1,349.1 |
| Operating expenses | 833.5 | 567.8 | 174.4 | 200.8 | 375.2 | 943.0 | 107.1 | 48.3 | 176.7 | 2,108.6 |
| Operating profit (loss) | ¥ 412.1 | ¥ 792.2 | ¥ 133.5 | ¥ 123.5 | ¥ 257.0 | ¥ 1,049.2 | ¥ 90.7 | ¥ 253.1 | ¥ (168.5) | ¥ 1,636.6 |

* Includes MUFG and its subsidiaries other than BTMU and MUTB.

Reconciliation

As set forth above, the measurement bases and the income and expenses items covered are very different between the internal management reporting system and the accompanying consolidated statements of income. Therefore, it is impracticable to present reconciliations of the business segments' total information, other than operating profit, to corresponding items in the accompanying consolidated statements of income.

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A reconciliation of the operating profit under the internal management reporting system for the fiscal years ended March 31, 2005, 2006 and 2007 above to income from continuing operations before income tax expense and cumulative effect of a change in accounting principle shown on the consolidated statements of income is as follows:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|-------------------|----------------------|-------------------|
| | | (in billions) | |
| Operating profit: | ¥ 867 | ¥ 1,366 | ¥ 1,637 |
| Trust fees adjusted for credit losses of trust assets | (3) | (1) | |
| Provision for credit losses | (108) | (110) | (359) |
| Trading account gains (losses) net | (65) | (210) | 199 |
| Equity investment securities gains (losses) net | 175 | 160 | (11) |
| Debt investment securities gains (losses) net | (8) | (11) | 234 |
| Foreign exchange losses net | (120) | (501) | (223) |
| Equity in earnings (losses) of equity method investees | 26 | 22 | (57) |
| Impairment of intangible assets | (2) | | (185) |
| Minority interest in income of consolidated subsidiaries | (37) | (157) | (17) |
| Other net | (7) | (28) | (83) |
| | <u> </u> | <u> </u> | <u> </u> |
| Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle | ¥ 718 | ¥ 530 | ¥ 1,135 |
| | <u> </u> | <u> </u> | <u> </u> |

31. FOREIGN ACTIVITIES

Foreign operations include the business conducted by overseas offices, as well as international business conducted from domestic offices, principally several international banking-related divisions of BTMU's and MUTB's Head Office in Tokyo, and involve various transactions with debtors and customers residing outside Japan. Close integration of the MUFG Group's foreign and domestic activities makes precise estimates of the amounts of assets, liabilities, income and expenses attributable to foreign operations difficult and necessarily subjective. Assets, income and expenses attributable to foreign operations are allocated to geographical areas based on the domicile of the debtors and customers.

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Generally, interest rates with respect to funds borrowed and loaned between domestic and foreign operations are based on prevailing money market rates appropriate for the transactions. In general, the MUFG Group has allocated all direct expenses and a proportionate share of general and administrative expenses to income derived from foreign loans and other transactions by the MUFG Group's foreign operations. The following table sets forth estimated total assets at March 31, 2005, 2006 and 2007, and estimated total revenue, total expense, income from continuing operations before income tax expense and cumulative effect of a change in accounting principle and net income for the respective fiscal years then ended:

| | Domestic | | Foreign | | | | Total |
|--|-------------|-------------|-----------|---------------------------------|-------------------------------|-------------|-------|
| | Japan | America | Europe | Asia/Oceania excluding Japan | Other areas ⁽¹⁾ | | |
| (in millions) | | | | | | | |
| Fiscal year ended March 31, 2005: | | | | | | | |
| Total revenue ⁽²⁾ | ¥ 1,610,078 | ¥ 487,691 | ¥ 153,145 | ¥ 96,761 | ¥ 77,836 | ¥ 2,425,511 | |
| Total expense ⁽³⁾ | 1,320,404 | 251,026 | 103,542 | 12,030 | 20,115 | 1,707,117 | |
| Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle | 289,674 | 236,665 | 49,603 | 84,731 | 57,721 | 718,394 | |
| Net income | 109,960 | 180,520 | 24,242 | 61,742 | 38,691 | 415,155 | |
| Total assets at end of fiscal year | 84,416,835 | 12,331,408 | 5,971,590 | 3,467,959 | 2,234,308 | 108,422,100 | |
| Fiscal year ended March 31, 2006⁽⁴⁾: | | | | | | | |
| Total revenue ⁽²⁾ | ¥ 2,168,643 | ¥ 907,397 | ¥ 221,134 | ¥ 179,293 | ¥ 121,567 | ¥ 3,598,034 | |
| Total expense ⁽³⁾ | 2,194,354 | 539,505 | 167,519 | 113,831 | 53,152 | 3,068,361 | |
| Income (loss) from continuing operations before income tax expense and cumulative effect of a change in accounting principle | (25,711) | 367,892 | 53,615 | 65,462 | 68,415 | 529,673 | |
| Net income (loss) | (78,430) | 285,301 | 44,405 | 56,576 | 55,659 | 363,511 | |
| Total assets at end of fiscal year | 152,047,224 | 16,651,510 | 9,483,190 | 5,242,047 | 2,795,476 | 186,219,447 | |
| Fiscal year ended March 31, 2007: | | | | | | | |
| Total revenue ⁽²⁾ | ¥ 3,667,946 | ¥ 1,191,629 | ¥ 540,653 | ¥ 270,158 | ¥ 193,279 | ¥ 5,863,665 | |
| Total expense ⁽³⁾ | 3,431,105 | 728,720 | 286,173 | 186,650 | 96,086 | 4,728,734 | |
| Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle | 236,841 | 462,909 | 254,480 | 83,508 | 97,193 | 1,134,931 | |
| Net income | 63,027 | 248,884 | 169,174 | 44,204 | 55,999 | 581,288 | |

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| | | | | | | |
|------------------------------------|-------------|------------|------------|-----------|-----------|-------------|
| Total assets at end of fiscal year | 143,106,520 | 19,215,047 | 12,672,389 | 6,671,657 | 4,537,298 | 186,202,911 |
|------------------------------------|-------------|------------|------------|-----------|-----------|-------------|

Notes:

- (1) Other areas primarily include Canada, Latin America and the Caribbean.
- (2) Total revenue is comprised of Interest income and Non-interest income.
- (3) Total expense is comprised of Interest expense, Provision for credit losses and Non-interest expense.

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(4) The estimated total assets at March 31, 2006 and total revenue, total expense, income from continuing operations before income tax expense and cumulative effect of a change in accounting principle and net income for the fiscal year ended March 31, 2006 have been restated as follows:

| | Domestic | | Foreign | | | Total |
|--|-------------|--------------------------|-----------|------------------------------|-------------|-------------|
| | Japan | United States of America | Europe | Asia/Oceania excluding Japan | Other areas | |
| (in millions) | | | | | | |
| As previously reported | | | | | | |
| Fiscal year ended March 31, 2006: | | | | | | |
| Total revenue | ¥ 2,520,008 | ¥ 594,532 | ¥ 194,340 | ¥ 176,080 | ¥ 113,074 | ¥ 3,598,034 |
| Total expenses | 2,194,354 | 539,505 | 167,519 | 113,831 | 53,152 | 3,068,361 |
| Income from continuing operations before income tax expense and cumulative effect of a change in accounting principle | 325,654 | 55,027 | 26,821 | 62,249 | 59,922 | 529,673 |
| Net income | 197,372 | 39,719 | 23,372 | 54,053 | 48,995 | 363,511 |
| Total assets at end of fiscal year | 152,047,224 | 16,651,510 | 9,483,190 | 5,242,047 | 2,795,476 | 186,219,447 |
| As restated | | | | | | |
| Fiscal year ended March 31, 2006: | | | | | | |
| Total revenue | ¥ 2,168,643 | ¥ 907,397 | ¥ 221,134 | ¥ 179,293 | ¥ 121,567 | ¥ 3,598,034 |
| Total expenses | 2,194,354 | 539,505 | 167,519 | 113,831 | 53,152 | 3,068,361 |
| Income (loss) from continuing operations before income tax expense and cumulative effect of a change in accounting principle | (25,711) | 367,892 | 53,615 | 65,462 | 68,415 | 529,673 |
| Net income (loss) | (78,430) | 285,301 | 44,405 | 56,576 | 55,659 | 363,511 |
| Total assets at end of fiscal year | 152,047,224 | 16,651,510 | 9,483,190 | 5,242,047 | 2,795,476 | 186,219,447 |

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is an analysis of certain asset and liability accounts related to foreign activities at March 31, 2006 and 2007:

| | 2006 | 2007 |
|---|--------------------|---------------------|
| | (in millions) | |
| Cash and due from banks | ¥ 590,369 | ¥ 607,183 |
| Interest-earning deposits in other banks | 4,421,545 | 4,606,268 |
| Total | ¥ 5,011,914 | ¥ 5,213,451 |
| Trading account assets | ¥ 2,191,940 | ¥ 2,787,193 |
| Investment securities | ¥ 8,141,650 | ¥ 11,154,795 |
| Loans net of unearned income, unamortized premiums and deferred loan fees | ¥ 15,523,569 | ¥ 17,861,327 |
| Deposits, principally time deposits and certificates of deposit by foreign banks | ¥ 15,938,882 | ¥ 17,470,230 |
| Funds borrowed: | | |
| Call money, funds purchased, and payables under repurchase agreements and securities lending transactions | ¥ 921,746 | ¥ 5,673,050 |
| Other short-term borrowings | 1,566,373 | 1,991,199 |
| Long-term debt | 3,459,450 | 3,721,089 |
| Total | ¥ 5,947,569 | ¥ 11,385,338 |
| Trading account liabilities | ¥ 1,306,223 | ¥ 1,015,794 |

At March 31, 2006 and 2007, the MUFG Group had no cross-border outstandings, as defined in the Securities Act Industry Guide 3 in any foreign country, which exceeded 0.75% of consolidated total assets.

32. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices, when available, are used to estimate fair values of financial instruments. However, quoted market prices are not available for a substantial portion of financial instruments and, therefore, fair values for such financial instruments are estimated using discounted cash flow models or other valuation techniques. Although management uses its best judgment in estimating fair values of financial instruments, estimation methodologies and assumptions used to estimate fair values are inherently subjective. Accordingly, the estimates presented herein are not necessarily indicative of net realizable or liquidation values. The use of different estimation methodologies and/or market assumptions may

have a significant effect on the estimated fair values.

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is a summary of carrying amounts and estimated fair values of financial instruments at March 31, 2006 and 2007:

| | 2006 | | 2007 | |
|---|--------------------|-------------------------|--------------------|-------------------------|
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| (in billions) | | | | |
| Financial assets: | | | | |
| Cash, due from banks, call loans and funds sold, and receivables under resale agreements and securities borrowing transactions | ¥ 21,024 | ¥ 21,024 | ¥ 21,771 | ¥ 21,771 |
| Trading account assets, excluding derivatives | 8,070 | 8,070 | 8,568 | 8,568 |
| Investment securities | 48,604 | 48,985 | 49,182 | 49,483 |
| Loans, net of allowance for credit losses ⁽¹⁾ | 94,495 | 94,891 | 94,210 | 94,611 |
| Other financial assets | 4,640 | 4,640 | 4,996 | 4,996 |
| Derivative financial instruments: | | | | |
| Trading activities | 2,658 | 2,658 | 1,878 | 1,878 |
| Activities qualifying for hedges | | | 3 | 3 |
| Financial liabilities: | | | | |
| Non-interest-bearing deposits, call money and funds purchased, and payables under repurchase agreements and securities lending transactions | ¥ 34,728 | ¥ 34,728 | ¥ 35,463 | ¥ 35,463 |
| Interest-bearing deposits | 103,296 | 103,173 | 107,017 | 106,904 |
| Trading account liabilities, excluding derivatives | 160 | 160 | 840 | 840 |
| Obligations to return securities received as collateral | 3,946 | 3,946 | 3,653 | 3,653 |
| Due to trust account | 2,428 | 2,428 | 1,540 | 1,540 |
| Other short-term borrowings | 10,534 | 10,534 | 5,734 | 5,734 |
| Long-term debt ⁽¹⁾ | 13,890 | 13,932 | 14,390 | 14,397 |
| Other financial liabilities | 3,100 | 3,100 | 3,990 | 3,990 |
| Derivative financial instruments: | | | | |
| Trading activities | 2,863 | 2,863 | 1,786 | 1,786 |
| Activities qualifying for hedges | 5 | 5 | 2 | 2 |

Note :

(1) Estimated fair value of loans, net of allowance for credit losses and long-term debt at March 31, 2006 have been restated as follows:

| | As previously reported | As restated |
|---|------------------------------|----------------|
| Loan, net of allowance for possible credit losses | ¥ 94,837 | ¥ 94,891 |
| Long-term debt | 13,847 | 13,932 |

The methodologies and assumptions used to estimate the fair value of the financial instruments are summarized below:

Cash, due from banks, call loans and funds sold, and receivables under resale agreements and securities borrowing transactions For cash, due from banks including interest-earning deposits, call loans and funds sold, and receivables under resale agreements and securities borrowing transactions, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature and limited credit risk.

Trading account securities Trading account securities and short trading positions of securities are carried at fair value, which is principally based on quoted market prices, when available. If the quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Investment securities The fair values of investment securities, where quoted market prices or secondary market prices are available, are equal to such market prices. For investment securities, when quoted market prices or secondary market prices are not available, the fair values are estimated using quoted market prices for similar securities or based on appraised value as deemed appropriate by management. The fair values of investment securities other than those classified as available for sale or being held to maturity (i.e., nonmarketable equity securities) are not readily determinable as they do not have quoted market prices or secondary market prices available. The fair values of certain nonmarketable equity securities, such as preferred stock convertible to marketable common stock in the future, issued by public companies are determined by utilizing commonly accepted valuation models, such as option pricing models. It is not practicable for the MUFG Group to estimate the fair value of other nonmarketable securities issued by nonpublic companies for which a quoted market price is not available. For these securities, the MUFG Group is unable to estimate fair value without incurring undue cost because they comprise investments in numerous unlisted companies and each investment represents an insignificant percentage relative to each company. Therefore, the above summary does not include the carrying amounts of such investment securities. The amounts not included in the above summary are ¥211 billion and ¥202 billion at March 31, 2006 and 2007, respectively.

Loans The fair values of loans are estimated for groups with similar characteristics, including type of loan, credit quality and remaining maturity. In incorporating the credit risk factor, management concluded that the allowance for credit losses adequately adjusts the related book values for credit risk. For floating- or adjustable-rate loans, which mature or are repriced within a short period of time, the carrying values are considered to be a reasonable estimate of fair values. For fixed-rate loans, market prices are not generally available and the fair values are estimated by discounting the estimated future cash flows based on the contracted maturity of the loans. The discount rates are based on the current market rates corresponding to the applicable maturity. Where quoted market prices or estimated fair values are available, primarily for loans to refinancing countries, loans held for dispositions or sales and certain other foreign loans, the fair values are based on such market prices and estimated fair values, including secondary market prices. For nonperforming loans, the fair values are generally determined on an individual basis by discounting the estimated future cash flows and may be based on the appraisal value of underlying collateral as appropriate.

Other financial assets The estimated fair values of other financial assets, which primarily include accrued interest receivable, customers acceptance liabilities and accounts receivable, approximate their carrying amounts. The above summary does not include the carrying amounts of investments in equity method investees amounting to ¥602 billion and ¥524 billion at March 31, 2006 and 2007, respectively.

Derivative financial instruments The estimated fair values of derivative financial instruments are the amounts the MUFG Group would receive or pay to terminate the contracts at the balance-sheet date, taking into account the current unrealized gains or losses on open contracts. They are based on market or dealer quotes when available. Valuation models such as present value and option pricing models are applied to current market information to estimate fair values when such quotes are not available.

Non-interest-bearing deposits, call money and funds purchased, payables under repurchase agreements and securities lending transactions, and obligations to return securities received as collateral The fair values of non-interest-bearing deposits are equal to the amounts payable on demand. For call money and funds purchased, payables under repurchase agreements and securities lending transactions and obligations to return securities received as collateral, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature and limited credit risk.

Interest bearing deposits The fair values of demand deposits, deposits at notice, and certificates of deposit maturing within a short period of time are the amounts payable on demand. Fair values of time deposits

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and certificates of deposit maturing after a short period of time are estimated by discounting the estimated cash flows using the rates currently offered for deposits of similar remaining maturities or the applicable current market rates.

Due to trust account For due to trust account, which represents a temporary placement of excess funds from individual trust accounts managed by the trust banking subsidiary in their fiduciary and trust capacity, the carrying amount is a reasonable estimate of the fair value since its nature is similar to short-term funding, including demand deposits and other overnight funds purchased, in a manner that the balance changes in response to the day-to-day changes in excess funds placed by the trust accounts.

Other short-term borrowings For most other short-term borrowings, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature. For certain borrowings, fair values are estimated by discounting the estimated future cash flows using applicable current market interest rates or comparable rates for similar instruments, which represent the MUFG Group's cost to raise funds with a similar remaining maturity.

Long-term debt For certain unsubordinated and subordinated debt, the fair values are estimated based on quoted market prices of the instruments. The fair values of other long-term debt are estimated using a discounted cash flow model based on rates applicable to the MUFG Group for debt with similar terms and remaining maturities.

Other financial liabilities The estimated fair values of other financial liabilities, which primarily include accrued interest payable, bank acceptances, accounts payable and obligations under standby letters of credit and guarantees, approximate their carrying amounts. The fair values of obligations under standby letters of credit and guarantees are based on fees received or receivable by the MUFG Group.

The fair values of certain off-balance-sheet financial instruments held for purposes other than trading, including commitments to extend credit and commercial letters of credit, are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the credit quality. The aggregate fair value of such instruments at March 31, 2006 and 2007 was not material.

The fair value estimates presented herein are based on pertinent information available to management at March 31, 2006 and 2007. These amounts have not been comprehensively revalued since that date and, therefore, current estimates of fair values may have changed significantly from the amounts presented herein.

33. STOCK-BASED COMPENSATION

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The following describes stock-based compensation plans of MUS and UNBC and the impact of the adoption of SFAS No. 123R.

MUS

Under the Code and the Company Law, companies are permitted to purchase their own shares in the market in order to implement a stock option plan when approved by the shareholders.

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Pursuant to resolutions approved at the general shareholders' meetings, MUS offers stock option plans which provide directors, executive officers, eligible employees and certain other persons with options to purchase shares (at the respective exercise prices stipulated in each plan) as follows:

| Date of approval at the shareholders' meeting | Exercise period | Shares |
|---|--------------------------------------|------------------|
| June 29, 2000 | July 1, 2002 to June 30, 2005 | 2,057,000 |
| June 28, 2001 | July 1, 2003 to June 30, 2006 | 2,272,000 |
| June 29, 2005 ⁽¹⁾ | September 20, 2005 to March 31, 2006 | 1,992,060 |
| Total | | 6,321,060 |

Note:

- (1) In connection with the merger of MTFG with UFJ Holdings, MUS converted all outstanding UFJ Tsubasa Securities employee stock-based awards at the merger date, and those awards became exercisable for or based upon MUS common stock. The number of awards converted and the exercise prices of those awards were adjusted to take into account the merger exchange ratio of 0.42 for the securities companies.

The plans provide for the granting of stock options having an exercise price not less than the market value of MUS's common stock on the date of grant. The following table presents the stock option transactions for the fiscal years ended March 31, 2005, 2006 and 2007:

| | 2005 | | 2006 | | 2007 | |
|---|------------------|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | Number of shares | Weighted-average exercise price | Number of shares | Weighted-average exercise price | Number of shares | Weighted-average exercise price |
| Options outstanding, beginning of fiscal year | 3,153,000 | ¥ 1,260 | 2,827,000 | ¥ 1,311 | 310,000 | ¥ 812 |
| UFJ Tsubasa Securities Conversion | | | 1,992,060 | 1,412 | | |
| Exercised | (326,000) | 812 | (2,437,140) | 1,266 | (202,000) | 812 |
| Forfeited | | | (2,071,920) | 1,244 | (108,000) | 812 |
| Options outstanding, end of fiscal year | <u>2,827,000</u> | ¥ 1,311 | <u>310,000</u> | ¥ 812 | <u>¥</u> | |
| Options exercisable, end of fiscal year | <u>2,827,000</u> | ¥ 1,311 | <u>310,000</u> | ¥ 812 | <u>¥</u> | |

MUS has not granted or modified any stock options after April 1, 2006, the effective date of SFAS No. 123R.

UNBC

UNBC has two management stock plans. The Year 2000 UnionBanCal Corporation Management Stock Plan, as amended (the 2000 Stock Plan), and the UnionBanCal Corporation Management Stock Plan, restated effective June 1, 1997 (the 1997 Stock Plan), have 20.0 million and 6.6 million shares, respectively, of UNBC's common stock authorized to be awarded to key employees, outside directors and consultants of UNBC at the discretion of the Executive Compensation and Benefits Committee of the Board of Directors (the Committee). Employees on rotational assignment from BTMU are not eligible for stock awards.

The Committee determines the term of each stock option grant, up to a maximum of ten years from the date of grant. The exercise price of the options issued under the stock plans may not be less than the fair market value on the date the option is granted. Beginning in 2006, the value of options is recognized as compensation expense

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over the vesting period during which the employees are required to provide service. Prior to January 1, 2006, UNBC's unrecognized compensation expense for nonvested restricted stock reduced retained earnings. The adoption of SFAS No. 123R resulted in an increase of unappropriated retained earnings and a decrease of capital surplus by ¥1,468 million, respectively, in the consolidated financial statements. The value of the restricted stock at the date of grant is recognized as compensation expense over its vesting period with a corresponding credit adjustment to capital surplus. All cancelled or forfeited options and restricted stock become available for future grants. SFAS No. 123R requires the cash flows resulting from the tax benefits of tax deductions in excess of the compensation cost recognized for share-based compensation awards (i.e., excess tax benefits) to be classified as financing cash flows. The ¥1,406 million of the excess tax benefits and ¥ 6,736 million of the exercise of stock options are classified as other cash inflows from financing activities in the consolidated statement of cash flows for the fiscal year ended March 31, 2007.

Under the 2000 Stock Plan, UNBC grants stock options and restricted stock and issues shares of common stock upon vesting of performance shares and restricted stock units that are settled in common stock. Under the 1997 Stock Plan, UNBC issues shares of common stock upon exercise of outstanding stock options. UNBC issues new shares of common stock for all awards under the stock plans. At December 31, 2004, 2005 and 2006, a total of 2,937,629 shares, 5,445,979 shares and 3,825,635 shares, respectively, were available for future grants under the 2000 Stock Plan as stock options, restricted stock or shares of common stock issued upon vesting of performance shares and restricted stock units settled in common stock. The remaining shares under the 1997 Stock Plan are not available for future grants.

In the first quarter of 2006, the Committee determined that performance share awards granted in 2006 were to be redeemed in shares.

Stock Options

Under the 2000 Stock Plan, UNBC granted options to various key employees, including policy-making officers, and to non-employee directors for selected years. Under both stock plans, options granted to employees vest pro-rata on each anniversary of the grant date and become fully exercisable three years from the grant date, provided that the employee has completed the specified continuous service requirement. The options vest earlier if the employee dies, is permanently disabled, or retires under certain grant, age, and service conditions or terminates employment under certain conditions. Options granted to non-employee directors are fully vested on the grant date and exercisable 33 1/3 percent on each anniversary under the 1997 Stock Plan, and are fully vested and exercisable on the grant date under the 2000 Stock Plan.

The following is a summary of stock option transactions under the stock plans.

| For the year ended December 31, 2006 | | | |
|--------------------------------------|------------------------------------|---|--|
| Number of shares | Weighted-average exercise price | Weighted-average remaining contractual term | Aggregate intrinsic value (in thousands) |
| _____ | _____ | _____ | _____ |

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| | | | | | |
|---|------------------|----|-------|------|------------|
| Options outstanding, beginning of the period ⁽¹⁾ | 8,696,589 | \$ | 45.26 | | |
| Granted | 1,106,240 | | 69.85 | | |
| Exercised | (1,409,727) | | 40.24 | | |
| Forfeited | (66,861) | | 62.96 | | |
| | <u>8,326,241</u> | \$ | 49.24 | 5.44 | \$ 110,012 |
| Options exercisable, end of the period | <u>5,910,252</u> | \$ | 43.72 | 5.12 | \$ 104,090 |

(1) Options not expected to vest are included in options outstanding. Amounts are not material.

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Because the Black-Scholes option pricing model uses tranches based on expected terms that result in ranges of input assumptions, such ranges are disclosed below. Expected volatilities are based on historical data and implied volatilities from traded options on UNBC's stock, and other factors. UNBC uses historical data to estimate option exercise and employee terminations within the valuation model. The expected term of an option granted is derived from the output of the option valuation model, which is based on historical data and represents the period of time that the option granted is expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant based on the expected term.

| | For the years ended December 31, | | |
|---|---|-------------|--------------|
| | 2004 | 2005 | 2006 |
| Weighted-average fair value per share | \$ 16.55 | \$ 13.38 | \$ 12.31 |
| Risk-free interest rates (a range for 1 to 7 year tenors) | 2.8% | 3.4 - 4.3% | 4.3 - 5.05% |
| Expected volatility | 40.0% | 27.0% | 16.6 - 22.9% |
| Weighted-average expected volatility | 40.0% | 27.0% | 19.4% |
| Expected term (in years) | 5.0 | 4.4 | 3.4 - 5.4 |
| Expected dividend yield | 2.4% | 2.7% | 2.7% |

The total intrinsic value of options exercised during 2004, 2005 and 2006 was \$41.5 million, \$50.4 million and \$37.9 million, respectively.

UNBC recognized \$22.4 million of compensation cost for share-based payment arrangements related to stock option awards with \$8.4 million of corresponding tax benefit during the year ended December 31, 2006. As of December 31, 2006, the total unrecognized compensation cost related to nonvested stock option awards was \$15.9 million and the weighted-average period over which the cost is expected to be recognized was 0.9 year.

Restricted Stock

In general, restricted shares are granted under the 2000 Stock Plan to key employees, and in 2005, to non-employee directors. The awards of restricted stock granted to employees vest pro-rata on each anniversary of the grant date and become fully vested four years from the grant date, provided that the employee has completed the specified continuous service requirement. They vest earlier if the employee dies, is permanently and totally disabled, retires under certain grant, age, and service conditions or terminates employment under certain conditions. The awards of restricted stock granted to existing non-employee directors in 2005 vested in full in July 2006. Restricted stockholders have the right to vote their restricted shares and receive dividends.

The following is a summary of UNBC's nonvested restricted stock awards.

| | For the year ended December 31, 2006 | |
|--|---|---|
| | Number of shares | Weighted-average grant date fair value |
| Nonvested restricted awards, beginning of the period | 397,957 | \$ 64.06 |
| Granted | 594,029 | 62.07 |
| Vested | (136,669) | 64.23 |
| Forfeited | (15,314) | 66.31 |
| Nonvested restricted awards, end of the period | <u>840,003</u> | <u>\$ 62.59</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The total fair value of the restricted stock awards vested was \$0.2 million during 2004, \$1.5 million during 2005 and \$8.8 million during 2006.

UNBC recognized \$14.4 million of compensation cost for share-based payment arrangements related to restricted stock awards with \$5.4 million of corresponding tax benefit during the year ended December 31, 2006. At December 31, 2006, the total unrecognized compensation cost related to nonvested restricted awards was \$40.5 million, and the weighted-average period over which it is expected to be recognized was 1.8 years.

Restricted Stock Units

In July 2006, UNBC granted 12,150 restricted stock units to non-employee directors with a weighted average grant date fair value of \$63.65 per share. These restricted stock units consist of a regular grant, and in the case of new non-employee directors, a regular grant and an initial grant. In general, the regular grant vests in full on the first anniversary of the grant date, and the initial grant vests in three equal installments on each of the first three anniversaries of the grant date. At grant date, it was estimated that 7 percent of the shares would forfeit by the vesting date. During 2006, UNBC recognized \$0.3 million of compensation cost with a corresponding \$0.1 million in tax benefits related to this year's grants. The restricted stock unit participants do not have voting or other stockholder rights. However, the participants' stock unit accounts receive dividend equivalents, reflecting the aggregate dividends earned based on the total number of restricted stock units outstanding, in the form of additional restricted stock units. Participants may elect to defer the delivery of vested shares of common stock at predetermined dates as defined in the plan agreements. UNBC will issue new shares under the 2000 Stock Plan upon vesting of these grants, which are redeemable only in shares.

Performance Share Plan

Effective January 1, 1997, UNBC established a Performance Share Plan. At the discretion of the Committee, eligible participants may earn performance share awards to be redeemed in cash and/or shares three years after the date of grant. Performance shares are linked to stockholder value in two ways: (1) the market price of UNBC's common stock; and (2) return on equity, a performance measure closely linked to value creation. Eligible participants generally receive grants of performance shares annually. The plan was amended in 2004 increasing the total number of shares that can be granted under the plan to 2.6 million shares. There were 2,252,183 performance shares, 2,193,383 performance shares, and 2,132,333 performance shares remaining for future awards as of December 31, 2004, 2005 and 2006, respectively. UNBC granted 88,500 shares in 2004, 78,000 shares in 2005 and 62,100 shares in 2006. All performance shares granted prior to 2006 are redeemable in cash and are therefore being accounted for as liabilities. No performance shares were forfeited in 2004, 19,200 performance shares were forfeited in 2005 and 1,050 performance shares were forfeited in 2006. The value of a performance share under the liability method is equal to the average month-end closing price of UNBC's common stock for the final six months of the performance period. All cancelled or forfeited performance shares become available for future grants. At December 31, 2005 and 2006, UNBC's liability for the cash settlement of the performance shares was \$15.7 million and \$11.7 million, respectively.

Under the Performance Share Plan, UNBC granted 62,100 units with a weighted-average grant date fair value of \$69.96 per share during the year ended December 31, 2006. These units will be settled in stock at the vesting date of December 31, 2008. At grant date, it was estimated that 6 percent of the shares would forfeit by the vesting date. In 2006, UNBC recognized \$2.8 million of compensation cost with a corresponding

\$1.1 million in tax benefits related to this year's grants. UNBC will issue new shares under the 2000 Stock Plan upon vesting of these grants that are redeemable in shares.

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****34. PARENT COMPANY ONLY FINANCIAL INFORMATION**

Distributions of retained earnings of BTMU and MUTB are restricted in order to meet the minimum capital adequacy requirements under the Banking Law. Also, retained earnings of these banking subsidiaries are restricted, except for ¥1,788,548 million, in accordance with the statutory reserve requirements under the Company Law at March 31, 2007 (see Notes 22 and 23).

The following table presents the parent company only financial information of MUFG.

Condensed Balance Sheets

| | 2006 | 2007 |
|---|---------------------|---------------------|
| | (in millions) | |
| Assets: | | |
| Cash and interest-earning deposits with banks | ¥ 38,410 | ¥ 42,225 |
| Investments in subsidiaries and affiliated companies | 10,958,180 | 11,527,338 |
| Other assets | 217,185 | 112,151 |
| Total assets | ¥ 11,213,775 | ¥ 11,681,714 |
| Liabilities and shareholders' equity: | | |
| Short-term borrowings from a subsidiary | ¥ 44,400 | ¥ 57,380 |
| Long-term debt from subsidiaries and affiliated companies | 784,090 | 504,619 |
| Long-term debt | 700,000 | 666,600 |
| Other liabilities | 17,132 | 19,803 |
| Total liabilities | 1,545,622 | 1,248,402 |
| Total shareholders' equity | 9,668,153 | 10,433,312 |
| Total liabilities and shareholders' equity | ¥ 11,213,775 | ¥ 11,681,714 |

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Condensed Statements of Income*

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|------------------|------------------|------------------|
| | (in millions) | | |
| Income: | | | |
| Dividends from subsidiaries and affiliated companies | ¥ 214,948 | ¥ 1,015,637 | ¥ 500,776 |
| Management fees from subsidiaries | 7,630 | 11,674 | 11,749 |
| Interest income | 2 | 1 | 228 |
| Other income | 319 | 16,329 | 506 |
| Total income | <u>222,899</u> | <u>1,043,641</u> | <u>513,259</u> |
| Expense: | | | |
| Operating expenses | 5,922 | 9,675 | 9,592 |
| Interest expense to subsidiaries and affiliated companies | 6,021 | 13,905 | 15,008 |
| Interest expense | 511 | 3,486 | 6,719 |
| Other expense | 335 | 5,273 | 3,294 |
| Total expense | <u>12,789</u> | <u>32,339</u> | <u>34,613</u> |
| Equity in undistributed net income (loss) of subsidiaries and affiliated companies | 208,087 | (643,016) | 105,074 |
| Income before income tax expense | 418,197 | 368,286 | 583,720 |
| Income tax expense | 3,042 | 4,775 | 2,432 |
| Net income | <u>¥ 415,155</u> | <u>¥ 363,511</u> | <u>¥ 581,288</u> |

Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Condensed Statements of Cash Flows*

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|--------------------|------------------|------------------|
| | (in millions) | | |
| Operating activities: | | | |
| Net income | ¥ 415,155 | ¥ 363,511 | ¥ 581,288 |
| Adjustments and other | (234,278) | 480,264 | 5,268 |
| Net cash provided by operating activities | 180,877 | 843,775 | 586,556 |
| Investing activities: | | | |
| Proceeds from sales of stock investment in an affiliated company | 14,836 | 14,251 | |
| Purchases of preferred stock investment in UFJ Bank Limited | (700,000) | | |
| Purchases of equity investments in subsidiaries and an affiliated company | (390,552) | (228,498) | |
| Net decrease (increase) in interest-earning deposits with banks | (5,706) | 25,488 | (4,683) |
| Proceeds from capital repayment by a subsidiary | | | 52,085 |
| Other net | (5,105) | 41,467 | 571 |
| Net cash provided by (used in) investing activities | (1,086,527) | (147,292) | 47,973 |
| Financing activities: | | | |
| Net increase (decrease) in short-term borrowings from a subsidiary | 322,100 | (323,600) | 12,980 |
| Proceeds from issuance of long-term debt to a subsidiary and affiliated companies | 300,000 | 230,800 | 1,415 |
| Proceeds from issuance of long-term debt | 200,000 | 450,000 | |
| Repayment of long-term debt | | | (25,000) |
| Repayment of long-term debt to subsidiaries and an affiliated company | | (84,046) | (289,429) |
| Proceeds from sales of treasury stock | 90 | 4,933 | 62,984 |
| Proceeds from issuance of new shares of preferred stock, net of stock issue expenses | 249,472 | | |
| Payments for redemption of preferred stock | (122,100) | (122,100) | |
| Payments to acquire treasury stock | (921) | (775,242) | (292,182) |
| Dividends paid | (45,649) | (64,220) | (103,060) |
| Other net | 1,666 | (11,395) | (3,105) |
| Net cash provided by (used in) financing activities | 904,658 | (694,870) | (635,397) |
| Net increase (decrease) in cash and cash equivalents | (992) | 1,613 | (868) |
| Cash and cash equivalents at beginning of fiscal year | 4,271 | 3,279 | 4,892 |
| Cash and cash equivalents at end of fiscal year | ¥ 3,279 | ¥ 4,892 | ¥ 4,024 |

ESTABLISHMENT OF SPECIAL PURPOSE COMPANIES FOR ISSUANCE OF NON-DILUTIVE PREFERRED SECURITIES

In February 2006, MUFG established MUFG Capital Finance 1 Limited, MUFG Capital Finance 2 Limited and MUFG Capital Finance 3 Limited, wholly owned funding vehicles in the Cayman Islands, for the issuance of preferred securities to enhance the flexibility of its capital management.

On March 17, 2006, MUFG Capital Finance 1 Limited, MUFG Capital Finance 2 Limited and MUFG Capital Finance 3 Limited issued \$2,300,000,000 in 6.346% non-cumulative preferred securities, 750,000,000 in 4.850% non-cumulative preferred securities and ¥120,000,000,000 in 2.680% non-cumulative preferred securities (collectively, the Preferred Securities), respectively. Total net proceeds before expenses were approximately \$4.17 billion. All of the ordinary shares of MUFG Capital Finance 1 Limited, MUFG Capital

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Finance 2 Limited and MUFG Capital Finance 3 Limited are owned by MUFG. MUFG fully and unconditionally guarantees the payment of dividends and payments on liquidation or redemption of the obligations under the Preferred Securities.

The Preferred Securities entitle holders to receive a non-cumulative preferential cash dividend starting on July 25, 2006 and on January 25 and July 25 of each year thereafter. The finance subsidiaries will not be obligated to pay dividends on the Preferred Securities upon the occurrence of certain events relating to the financial condition of MUFG. From July 25, 2016, dividends on the Preferred Securities will be re-calculated at a floating rate per annum.

The dollar-denominated and euro-denominated preferred securities are subject to redemption on any dividend payment date on or after July 25, 2016, the yen-denominated preferred securities are subject to redemption on any dividend payment date on or after July 25, 2011 and the Preferred Securities are subject to redemption in whole (but not in part) at any time upon the occurrence of specified events, in each case at the option of each of the finance subsidiaries and subject to necessary government approvals.

The Preferred Securities are non-dilutive and not convertible into MUFG's common shares. The Preferred Securities were accounted as part of MUFG's Tier I capital at March 31, 2007 under its capital adequacy requirements.

These funding vehicles are not consolidated in accordance with FIN No. 46R as more fully discussed in Note 27. The funds raised through such funding vehicles are primarily loaned to the MUFG Group and presented as Long-term debt in the consolidated balance sheet at March 31, 2007.

36. EVENTS SINCE MARCH 31, 2007

Approval of Dividends

On June 28, 2007, the shareholders approved the payment of cash dividends to the shareholders of record on March 31, 2007, of ¥30,000 per share of Class 3 Preferred Stock, ¥7,950 per share of Class 8 Preferred Stock, ¥2,650 per share of Class 11 Preferred Stock, ¥5,750 per share of Class 12 Preferred Stock, totaling ¥3,334 million, and ¥6,000 per share of Common stock, totaling ¥61,259 million.

Completion of the Merger of UFJ NICOS and DC Card Co., Ltd

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On April 1, 2007, the merger between UFJ NICOS and DC Card Co., Ltd. (DC Card), two credit card subsidiaries of BTMU, came into effect with UFJ NICOS being the surviving entity. Each share of DC Card s common stock was exchanged for 30 shares of UFJ NICOS s common stock. The new company was named Mitsubishi UFJ NICOS Co., Ltd. (Mitsubishi UFJ NICOS).

Completion of the Merger of Leasing Affiliates

On April 1, 2007, the merger between Diamond Lease Company Limited (Diamond Lease) and UFJ Central Leasing Co., Ltd. (UFJ Central Leasing), two equity method investees of BTMU, came into effect with Diamond Lease being the surviving entity. One share of UFJ Central Leasing s common stock was exchanged for each share of Diamond Lease s common stock. The new company was named Mitsubishi UFJ Lease & Finance Company Limited and remained as an equity method investee of BTMU.

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Ownership Increase in kabu.com Securities

To strengthen the retail online securities business and enhance comprehensive web-based financial services, BTMU implemented a tender offer for 94,000 common shares of kabu.com Securities Co., Ltd. (kabu.com Securities) from March 20, 2007 to April 18, 2007, at ¥240,000 per share. As a result, the MUFG Group's ownership in kabu.com Securities was increased to 40.36%. The tender offer purchase consideration was ¥22,560 million and the total funds required for purchase was ¥22,663 million.

In addition, on June 24, 2007, directors and an employee from the MUFG Group were approved as directors at the general meeting of shareholders of kabu.com Securities, and directors dispatched from the MUFG Group, including those appointed on June 24, 2007, constitute a majority on the board of directors of kabu.com Securities. As a result, kabu.com Securities, a former equity method investee of MUFG, became a consolidated subsidiary of MUFG.

Mitsubishi UFJ Securities Becomes a Wholly-Owned Subsidiary

On March 28, 2007, MUFG and MUS entered into a share exchange agreement relating to the proposed share exchange to make MUS a wholly-owned subsidiary. The purpose of making MUS a wholly-owned subsidiary is, among other factors, to seize the opportunities presented by the deregulation of the Japanese financial markets and further enhance cooperation between group companies. MUFG believes that MUFG will be able to further strengthen MUS's securities and investment banking businesses and maximize synergies among MUFG's banking, trust and securities businesses. The share exchange ratio has been set at 1.02 share of MUFG common stock to one share of MUS common stocks. The share exchange ratio was calculated based on the assumption that the stock split described under *Investment Unit Reduction through Stock Split and Adoption of Unit Share System* below will become effective as planned.

On June 28, 2007, MUS shareholders approved the proposed transaction, and the proposed share exchange is expected to become effective on September 30, 2007.

Administrative Orders from the Financial Services Agency

On June 11, 2007, BTMU received from the FSA administrative orders based on Article 26-1 of the Banking Law (business improvement orders) of Japan, which requires developing and strengthening its compliance structure and related internal control functions in its overseas business and its domestic investment trust sales and related businesses, in order to ensure sound and appropriate business management practices.

In response to the administrative orders, on July 5, 2007, BTMU presented and announced a business improvement plan including developing internal policies, procedures, and manuals. This event is not expected to have a material impact on the MUFG Group's financial position and results of operations.

Business and Capital Alliance between JACCS, Mitsubishi UFJ NICOS, MUFG and BTMU

On June 21, 2007, Mitsubishi UFJ NICOS, BTMU, and JACCS Co., Ltd. (JACCS), one of Japan's leading companies in the installment credit business, announced that they entered into a discussion on a strategic business and capital alliance to leverage the strengths of each company in the consumer finance business area, enhance financial services and strengthen their business competitiveness.

On September 20, 2007, JACCS, Mitsubishi UFJ NICOS, MUFG and BTMU announced that JACCS and Mitsubishi UFJ NICOS signed a basic agreement under which Mitsubishi UFJ NICOS will transfer its installment credit sales business, automobile loan business and automobile leasing business to JACCS on April 1, 2008. At the same time, MUFG, together with BTMU and Mitsubishi UFJ NICOS, have agreed to form a business alliance with JACCS with respect to credit card related operations, settlement operations, installment credit sales and housing loans.

In addition, JACCS and BTMU signed a basic agreement under which BTMU will acquire additional common shares of JACCS by March 31, 2008, in order to strengthen the relationship and to further stabilize its financial base. As a result, it is expected that JACCS will become an equity method investee of BTMU with approximately 20% ownership of JACCS.

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MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Adoption of Stock-Based Compensation Plan

MUFG, BTMU and MUTB elected to introduce a stock-based compensation plan for directors, corporate auditors and executive officers and obtained the necessary shareholder approval at their respective ordinary general meetings held on June 28, 2007 at MUFG and on June 27, 2007 at BTMU and MUTB, while abolishing retirement gratuities program for these officers. Under the stock-based compensation plan, their directors, corporate auditors and executive officers will be offered stock options to acquire common stocks of MUFG. The exercise price will be set at ¥1 per share. In the event of a stock split of MUFG's common stocks on September 30, 2007, the number of MUFG's common stocks to be acquired upon the exercise of a stock option will be adjusted.

Agreement to Make Mitsubishi UFJ NICOS a Wholly-Owned Subsidiary

On September 20, 2007, MUFG and Mitsubishi UFJ NICOS entered into a basic agreement under which MUFG will (1) directly invest ¥120 billion in Mitsubishi UFJ NICOS to acquire common shares of Mitsubishi UFJ NICOS on November 6, 2007, with approximately 75% ownership of Mitsubishi UFJ NICOS held by the MUFG Group, and (2) make Mitsubishi UFJ NICOS a wholly-owned subsidiary through a share exchange on August 1, 2008. The objectives of investment and share exchange are to strengthen the financial base of Mitsubishi UFJ NICOS, clarify the status of Mitsubishi UFJ NICOS as a core company in the MUFG Group, utilize its financial resources effectively, and develop a new credit business strategy due to the changing business environment for consumer finance companies in Japan.

Investment Unit Reduction through Stock Split and Adoption of Unit Share System

MUFG will reduce the minimum investment unit of its common stocks to one-tenth of the current unit effective as of September 30, 2007 through (a) a stock split of common and preferred stocks where each common and preferred stocks will be split into 1,000 common and preferred stocks, respectively, and (b) an adoption of a unit share system under which minimum investment unit will be comprised of 100 common stocks.

The stock split and adoption of unit share system (including required amendment to MUFG's Articles of Incorporation) was approved at MUFG's board of directors' and shareholders' meeting on May 23, 2007 and June 28, 2007, respectively. The stock split and adoption of unit share system will be effective as of September 30, 2007.

In relation to MUFG's ADRs which are traded on the New York Stock Exchange, MUFG will change the ratio of the ADRs in relation to the underlying shares of MUFG's common stock as follows:

Ratio before change: 1,000 ADR = 1 common share

Ratio after change: 1,000 ADR = 1,000 common shares (1:1)

Record date: Friday, September 28, 2007 (U.S. Eastern Standard Time)

First trading date after change: Monday, October 1, 2007 (U.S. Eastern Standard Time)

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Table of Contents**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Concluded)**

The stock split will require restatement of all historical shares and per share data when the stock split becomes effective. Pro forma earnings per share on a post-split basis for the three years ended March 31, 2007 would be as follows:

| | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|-------------|-------------|-------------|
| | (In Yen) | | |
| Basic earnings per common share income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle: | | | |
| As reported | ¥ 62,637.96 | ¥ 19,398.62 | ¥ 29,944.47 |
| Pro forma (unaudited) | 62.64 | 19.40 | 29.94 |
| Basic earnings per common share net income available to common shareholders: | | | |
| As reported | 62,717.21 | 19,313.78 | 29,863.20 |
| Pro forma (unaudited) | 62.72 | 19.31 | 29.86 |
| Diluted earnings per common share income from continuing operations available to common shareholders before cumulative effect of a change in accounting principle: | | | |
| As reported | 62,397.57 | 19,036.71 | 29,763.44 |
| Pro forma (unaudited) | 62.40 | 19.04 | 29.76 |
| Diluted earnings per common share net income available to common shareholders: | | | |
| As reported | 62,476.76 | 18,951.87 | 29,682.17 |
| Pro forma (unaudited) | 62.48 | 18.95 | 29.68 |

* * * * *

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Table of Contents**EXHIBIT INDEX**

| Exhibit | Description |
|---------|---|
| 1(a) | Articles of Incorporation of Mitsubishi UFJ Financial Group, Inc., as amended on June 28, 2007. (English Translation) |
| 1(b) | Board of Directors Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 29, 2006. (English Translation)* |
| 1(c) | Corporation Meetings Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on July 31, 2006. (English Translation)* |
| 1(d) | Share Handling Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 29, 2006. (English Translation)* |
| 2(a) | Form of stock certificates.* |
| 2(b) | Form of American Depositary Receipt.* |
| 2(c) | Form of Deposit Agreement, amended and restated as of December 22, 2004, among Mitsubishi Tokyo Financial Group, Inc. (subsequently renamed Mitsubishi UFJ Financial Group, Inc.), The Bank of New York and the holders from time to time of American Depositary Receipts issued thereunder.* |
| 4(a) | Integration Agreement, dated February 18, 2005, and the amendment thereto, dated April 20, 2005, among Mitsubishi Tokyo Financial Group, Inc., The Bank of Tokyo-Mitsubishi, Ltd., The Mitsubishi Trust and Banking Corporation, Mitsubishi Securities Co., Ltd., UFJ Holdings, Inc., UFJ Bank Limited, UFJ Trust Bank Limited and UFJ Tsubasa Securities Co., Ltd. (English Translation)** |
| 4(b) | Merger Agreement, dated April 20, 2005, between Mitsubishi Tokyo Financial Group, Inc., and UFJ Holdings, Inc. (English Translation)*** |
| 4(c) | Share Exchange Agreement, dated March 28, 2007, between Mitsubishi UFJ Financial Group, Inc., and Mitsubishi UFJ Securities Co, Ltd. (English Translation)**** |
| 8 | Subsidiaries of the Company see Item 4.C. Information on the Company Organizational Structure. |
| 11 | Ethical framework and code of conduct, compliance rules, compliance manual of Mitsubishi UFJ Financial Group, Inc. applicable to its directors and managing officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. (English translation of relevant sections) |
| 12 | Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)). |
| 13 | Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350). |
| 15 | Consent of Auditors. |

* Incorporated by reference to our annual report on Form 20-F (File No. 333-98061-99) filed on September 28, 2006.

** Incorporated by reference to Annex A to the final Prospectus filed pursuant to Rule 424(b)(3) and relating to the Registration Statement on Form F-4 (Reg. No. 333-123136).

*** Incorporated by reference to Annex B to the final Prospectus filed pursuant to Rule 424(b)(3) and relating to the Registration Statement on Form F-4 (Reg. No. 333-123136).

**** Incorporated by reference to Annex A to the final Prospectus filed pursuant to Rule 424(b)(3) and relating to the Registration Statement on Form F-4 (Reg. No. 333-138106).