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)

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:

Title of each class	Name of each exchange on which registered
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 x 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 x

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 x No ¨

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 x Accelerated filer ¨ Non-accelerated filer ¨

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

Item 17 ¨ Item 18 x

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 x

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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 Mitsubis 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 ou 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

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:

(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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Exchange Rate Information

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 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

- 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 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.

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.

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 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 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.

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.

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.

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.

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.

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.

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 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 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:

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.

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 arm s 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.

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.

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.

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.

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:

Name	Country of Incorporation	Proportion of Ownership Interest (%)	Proportion of Voting Interest (%)
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

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D. Property, Plants and Equipment

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

	2006	2007
	(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
Total	1,929,548	1,977,794
Less accumulated depreciation	755,971	830,283
Premises and equipment net	¥ 1,173,577	¥ 1,147,511

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:

	Area	Book value
	(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.

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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.

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;

- 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 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.

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.

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 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 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
Basic earnings per common share net income available to common shareholders:	(in Yen)	
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.

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 /

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 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 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.

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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.

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 balance	Average rate	Average balance	Average rate	Average balance	Average 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

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

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
Total non-interest expense	¥ 1,129.2	¥ 2,076.1	¥ 2,784.2

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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 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 MUFG 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					Integrated Trust Assets Business Group			
			Overseas							
		Domestic	Other than UNBC	UNBC	Overseas total	Total		Global Markets	Other	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
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

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 securization 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

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
Total foreign	428.7	555.4	898.1
Total	¥ 718.4	¥ 529.7	¥ 1,134.9
Net income (loss):			
Domestic	¥ 110.0	¥ (78.4)	¥ 63.0
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
Total foreign	305.2	441.9	518.3
Total	¥ 415.2	¥ 363.5	¥ 581.3

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

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

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.

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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 (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:

	Manufacturing	Construction	Real estate	Services	Wholesale and retail	Banks and other financial institutions	Communication and information service	Other industries	Total included in Consumer
	(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 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.

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)					

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.

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.

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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 forcasted 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.

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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.

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.

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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	

Tier III capital includable as qualifying capital			
Deductions from total qualifying capital	335.0	424.0	
Total risk-based capital	¥ 13,460.4	¥ 13,349.1	
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.

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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	

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.

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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 year	1-5 years	Over 5 years	Total
	(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.

	2006		2007	
Non-Consolidated VIEs	**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.

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.

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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 1 year	1-3 years	3-5 years	Over 5 years	Total
	(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

Purchase obligations	10	15	17	99	141
Total*	¥ 46,254	¥ 12,431	¥ 5,864	¥ 5,964	¥ 70,513

* 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.

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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 actively quoted	Prices based on models and 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.

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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:

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 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.

Fumiyuki 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 form 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.

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 corp orate auditor of MTFG from April 2001 to September 2005. He served 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 Toyoizumi	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

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 Panning 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

Corporate Auditors	Number of Shares Registered
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 co