Item 10. Additional Information.

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Our Corporate Purpose

Article 2 of our articles of incorporation provide that our corporate purpose is to carry on the following businesses:

- administration of management of banks, trust banks, specialized securities companies, insurance companies or other companies which we may own as our subsidiaries under the Japanese Banking Law; and
- any other business incidental to the foregoing businesses mentioned in the preceding clause.

Board of Directors

For discussion of the provisions of our articles of incorporation as they apply to our directors, see “Item 6.C. Directors, Senior Management and Employees—Board Practices.”

Common Stock

We summarize below the material provisions of our articles of incorporation, our share handling regulations and the Company Law (Law No. 86 of 2005) as they relate to joint stock companies, also known as kabushiki kaisha. Because it is a summary, this discussion should be read together with our articles of incorporation and share handling regulations, which have been filed as exhibits to this Annual Report.

General

A joint stock company is a legal entity incorporated under the Company Law. The investment and rights of the shareholders of a joint stock company are represented by shares of stock in the company and shareholders’ liability is limited to the amount of the subscription for the shares.

Our authorized common share capital as of June 29, 2006 was 33,000,000 shares of common stock with no par value. As of March 31, 2006, a total of 10,247,851.61 shares of common stock (including 506,509 shares of common stock held by us and our consolidated subsidiaries as treasury stock) were issued. Each of the shares issued and outstanding was fully paid and non-assessable. As of June 29, 2006, we were authorized to issue 1,306,601 shares of preferred stock, including 120,000 class 3 preferred shares, 400,000 shares of each of the first to fourth series of class 5 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 5 preferred shares does not exceed 400,000 shares), 200,000 shares of each of the first to fourth series of class 6 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 6 preferred shares does not exceed 200,000 shares), 200,000 shares of each of the first to fourth series of class 7 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 7 preferred shares does not exceed 200,000 shares), 27,000 class 8 preferred shares, 79,700 class 9 preferred shares, 150,000 class 10 preferred shares, one class 11 preferred share and 129,900 class 12 preferred shares. As of March 31, 2006, we had 100,000 class 3 preferred shares, 79,700 class 9 preferred shares, 150,000 class 10 preferred shares, one class 11 preferred share and 175,300 class 12 preferred shares issued and outstanding. On April 27, 2006, 45,400 class 12 preferred shares were converted into 57,035.18 shares of common stock. On May 23, 2006, we acquired 9,300 class 8 preferred shares and 89,357 class 10 preferred shares at the request of the shareholder of such preferred shares, and in return issued 16,474 shares and 163,165 shares of common stock, respectively. Furthermore, on June 8, 2006, we acquired 79,700 class 9 preferred shares, 60,643 class 10 preferred shares and 16,700 class 12 preferred shares at the request of the shareholder of such preferred shares, and in return issued 145,532 shares, 110,734 shares and 20,979 shares of common stock, respectively.
We may issue shares from our authorized but unissued share capital following a resolution to that effect by our board of directors. An increase in our authorized share capital is only possible by amendment of our articles of incorporation, which generally requires shareholders’ approval.

Under the Company Law and our articles of incorporation, shares are transferable by delivery of share certificates. In order to assert shareholders’ rights against us, a shareholder must have its name and address registered on our register of shareholders, in accordance with the Company Law. The registered holder of deposited shares underlying the ADSs is the depositary for the ADSs, or its nominee. Accordingly, holders of ADSs will not be able to assert shareholders’ rights other than as provided in the agreement among us, the depositary and the holders of the ADSs.

A holder of shares may choose, at its discretion, to participate in the central clearing system for share certificates under the Law Concerning Central Securities Depository and Book-Entry Transfer of Stock Certificates and Other Securities of Japan. Participating shareholders must deposit certificates representing the shares to be included in this clearing system with the Japan Securities Depository Center, Inc. If a holder is not a participating institution in the Japan Securities Depository Center, it must participate through a participating institution, such as a securities company or bank having a clearing account with the Japan Securities Depository Center. All shares deposited with the Japan Securities Depository Center will be registered in the name of the Japan Securities Depository Center on our register of shareholders. Each participating shareholder will in turn be registered on our register of beneficial shareholders and be treated in the same way as shareholders registered on our register of shareholders. Delivery of share certificates is not required to transfer deposited shares. Entry of the share transfer in the books maintained by the Japan Securities Depository Center for participating institutions, or in the books maintained by a participating institution for its customers, has the same effect as delivery of share certificates. This central clearing system is intended to reduce paperwork required in connection with transfers of shares. Beneficial owners may at any time withdraw their shares from deposit and receive share certificates.

A new law to establish a new central clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares was promulgated in June 2004 and the relevant part of the law will come into effect within five years of the date of the promulgation. On the effective date, a new central clearing system will be established and the shares of all Japanese companies listed on any Japanese stock exchange will be subject to the new central clearing system. On the same day, all existing share certificates for such shares will become null and void, and companies will not be required to collect those share certificates from shareholders. The transfer of such shares will be effected through entry in the books maintained under the new central clearing system.

Dividends

Dividends are distributed in proportion to the number of shares owned by each shareholder on the record date for the dividend. Dividends for each financial period may be distributed following shareholders’ approval at an ordinary general meeting of shareholders.

Payment of dividends on common stock is subject to the preferential dividend rights of holders of preferred stock.

Under the Banking Law and our articles of incorporation, our financial accounts are closed on March 31 of each year, and dividends, if any, are paid to shareholders of record as of March 31 following shareholders’ approval at an ordinary general meeting of shareholders. In addition to year-end dividends, our board of directors may by resolution declare an interim cash dividend to shareholders of record as of September 30 of each year. Under the Company Law, distribution of dividends will take the form of distribution of surplus (as defined below). We will be permitted to make distributions of surplus to our shareholders any number of times per fiscal year pursuant to resolutions of our general meetings of shareholders, subject to certain limitations described below. Distributions of surplus will be required in principle to be authorized by a resolution of a general meeting of shareholders. Distributions of surplus would, however, be permitted to be made pursuant to a resolution of our board of directors if:

(a) our articles of incorporation so provide (our articles of incorporation currently contain no such provisions);
the normal term of office of our directors is one year; and

certain conditions concerning our non-consolidated annual financial statements and certain documents for the latest fiscal year as required by an ordinance of the Ministry of Justice are satisfied.

In an exception to the above rule, even if the requirements described in (a) through (c) are not met, we are permitted to make distributions of surplus in cash to our shareholders by resolutions of the board of directors once per fiscal year as mentioned above concerning the interim cash dividend.

Under the Company Law, distributions of surplus may be made in cash or in kind in proportion to the number of shares of common stock held by each shareholder. A resolution of a general meeting of shareholders or our board of directors authorizing a distribution of surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of surplus is to be made in kind, we may, pursuant to a resolution of a general meeting of shareholders or (as the case may be) our board of directors, grant to our shareholders the right to require us to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of surplus must be approved by a special resolution of a general meeting of shareholders (see the description of a “special resolution” in “—Voting Rights”).

Under the Company Law, we may make distribution of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the distributable amount (as defined below) as of the effective date of such distribution of surplus. The amount of surplus (the “surplus”) at any given time shall be the amount of our assets and the book value of our treasury stock after subtracting the amounts of items (1) through (5) below as they appear on our non-consolidated balance sheet as of the end of our last fiscal year, and after reflecting the changes in our surplus after the end of our last fiscal year, by adding the amounts of items (6), (7) and (8) below and/or subtracting the amounts of items (9), (10) and (11) below:

(1) our liabilities;
(2) our stated capital;
(3) our additional paid-in capital;
(4) our accumulated legal reserve;
(5) other amounts as are set out in an ordinance of the Ministry of Justice;
(6) (if we transferred our treasury stock after the end of the last fiscal year) the transfer price of our treasury stock after subtracting the book value thereof;
(7) (if we decreased our stated capital after the end of the last fiscal year) the amount of decrease in our stated capital (excluding the amount transferred to additional paid-in capital or legal reserve);
(8) (if we decreased our additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of decrease in our additional paid-in capital or legal reserve (excluding the amount transferred to stated capital);
(9) (if we cancelled our treasury stock after the end of the last fiscal year) the book value of the cancelled treasury stock;
(10) (if we distributed surplus to shareholders after the end of the last fiscal year) the amount of the assets distributed to shareholders by way of such distribution of surplus; and
(11) other amounts as are set out in an ordinance of the Ministry of Justice.

A distributable amount (the “distributable amount”) at any given time shall be the aggregate amount of (a) the surplus, (b) the amount of profit as recorded for the period after the end of our last fiscal year until the date of an extraordinary settlement of account (if any) as is set out in an ordinance of the Ministry of Justice and (c) the transfer price of our treasury stock in the same period, after subtracting the amounts of the following items:

(1) the book value of our treasury stock;
(2) (if we transferred our treasury stock after the end of the last fiscal year) the transfer price of our treasury stock;

(3) the losses recorded for the period after the end of our last fiscal year until the date of an extraordinary settlement of account (if any) as are set out in an ordinance of the Ministry of Justice; and

(4) other amounts as are set out in an ordinance of the Ministry of Justice.

In Japan, the “ex-dividend” date and the record date for any dividends precede the date of determination of the amount of the dividend to be paid. The market price of shares generally becomes ex-dividend on the third business day prior to the record date. Under our articles of incorporation, we are not obligated to pay any dividends which are left unclaimed for a period of five years after the date on which they first became payable.

**Capital and Reserves**

Under the Company Law, we may reduce our additional paid-in capital or legal reserve (without limitation as to the amount of such reduction) as mentioned in the preceding paragraph, generally by resolution of a general meeting of shareholders and, if so resolved in the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. We may also reduce our stated capital generally by special resolution of a general meeting of shareholder and, if so resolved in the same resolution, may account for the whole or any part of the amount of such reduction as additional paid-in capital or legal reserve. Conversely, we may reduce our surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case by resolution of a general meeting of shareholders.

**Stock Splits**

Stock splits of our outstanding stock may be effected at any time by resolution of the board of directors. When a stock split is to be effected, we may increase the amount of the authorized share capital to cover the stock split by amending our articles of incorporation by resolution of the board of directors without approval by special resolution of the general meeting of shareholders, unless more than one class of stock is issued and outstanding. Shareholders will not be required to exchange stock certificates for new stock certificates, but certificates representing the additional stock resulting from the stock split will be issued to shareholders. We must give public notice of the stock split, specifying a record date at least two weeks prior to the record date.

**Fractional Shares**

The Company Law abolished the fractional share system. We may adopt a unit share system by amending our articles of incorporation as described in the first paragraph under “—Unit Share (tan-gen kabu) System,” but we continue to use the fractional share system pursuant to the Law regarding Development etc. of Relative Law Accompanying the Enforcement of the Company Law. Fractional shares will carry no voting rights, but the holders of fractional shares will have the right to receive dividends and interim dividends, if any, on their fractional shares. No certificates for fractional shares will be issued and therefore fractional shares will not normally be transferable. However, the registered holders of fractional shares may at any time require us to purchase the fractional shares at the shares’ current market price. Also, registered holders of fractional shares may require us to sell them a number of fractional shares, of which number, when combined with the number already held by such holder, shall become one share; provided that such request is met only when we own the necessary number of our shares.

**Unit Share (tan-gen kabu) System**

Currently, we do not use the unit share (tan-gen kabu) system which was introduced on October 1, 2001. However, we may use the unit share system by amending our articles of incorporation, which requires shareholders’ approval. Under the Company Law, if a unit share system is adopted by us simultaneously with a free allotment of shares and fractions less than one share to all classes of shareholders and fractional shareholders, the relevant amendment to our articles of incorporation may be authorized by a special resolution
of the general meeting of shareholders without the approval of class shareholders, provided that, among other things, following such amendment, the number of shares comprising a unit shall be the number obtained by (a) dividing the aggregate number of allotted shares and fractions less than one share by the number of shares outstanding immediately prior to the effective date of such free allotment, and (b) adding one. Under the unit share system, a company may provide in its articles of incorporation that a unit comprises a specified number of shares that may not exceed 1,000 shares. The number of shares comprising a unit may vary for different classes of stock. A company may provide in its articles of incorporation that the company will not, as a general rule, issue certificates representing a number of shares less than a unit, in which case any fraction of a unit for which no share certificate is issued will not be transferable. Under the unit share system, one unit of shares has one voting right. A holder of less than one unit of shares has no voting right. If the articles of incorporation so provide, the holders of shares constituting less than a full unit will not have shareholder rights except for those specified in the Company Law or an ordinance of the Ministry of Justice. If the unit share system is adopted, shareholders may require the company to purchase shares constituting less than a unit at the current market price. The board of directors may reduce the number of shares constituting a unit or cease to use the unit share system by amendments to the articles of incorporation without shareholders’ approval even though amendments to the articles of incorporation generally require a special resolution of the general meeting of shareholders.

General Meeting of Shareholders

The ordinary general meeting of our shareholders is usually held in June of each year in Tokyo. In addition, we may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks’ advance notice to shareholders. The record date for ordinary general meetings of our shareholders is March 31.

Any shareholder holding at least 300 voting rights or 1% of the total number of voting rights for six consecutive months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a written request to a director at least eight weeks prior to the date of the meeting. The number of minimum voting rights, minimum percentage and time period necessary for exercising the minority shareholders rights described above may be decreased or shortened if our articles of incorporation so provide.

Voting Rights

A shareholder generally has one voting right for each whole share. The common shares stated below are not entitled to voting rights and such common shares are not counted in the number of shares when determining whether a quorum exists:

• treasury shares;
• shares held by a company in which we, we and our subsidiaries or our subsidiaries owns 25% or more of the total voting rights; and
• shares issued after the record date as a result of conversion of convertible stock, exercise of stock acquisition rights, conversion of convertible stock and fractional shareholders becoming a shareholder of a whole share.

On the other hand, holders of certain class of shares shall be entitled to voting rights at the ratio of one voting right for one preferred share under certain conditions provided for by relevant laws or regulations, or our articles of incorporation. For example, when a proposal to pay the full amount of preferential dividends on any class of preferred shares in compliance with the terms of such preferred shares is not included in the agenda of the relevant shareholders meeting. See “—Preferred Stock.”

Under our articles of incorporation, except as otherwise provided by law or by other provisions of our articles of incorporation, a resolution can be adopted at a shareholders’ meeting by the holders of a majority of the voting rights represented at the meeting. The Company Law and our articles of incorporation require a quorum of not less than one-third of the total number of voting rights for election of our directors and corporate auditors.
The Company Law and our articles of incorporation provide that a quorum of not less than one-third of outstanding voting rights, excluding those owned by our subsidiaries and affiliates of which we own, directly or indirectly, 25 percent or more, must be present at a shareholders’ meeting to approve specified corporate actions, such as:

- the amendment of our articles of incorporation, except in some limited cases;
- the repurchase of our own stock from a specific shareholder other than our subsidiary;
- the consolidation of shares;
- the offering to persons other than shareholders of stock at a specially favorable price, or of stock acquisition rights or bonds or notes with stock acquisition rights with specially favorable conditions;
- the removal of a director who was elected by cumulative voting or corporate auditor;
- the exemption from liability of a director or corporate auditor, with certain exceptions;
- a reduction in stated capital with certain exceptions in which a shareholders’ resolution is not required;
- a distribution of in-kind dividends which meets certain requirements;
- the transfer of the whole or an important part of our business;
- the acquisition of the whole business of another company, except in some limited circumstances;
- a dissolution, merger or consolidation, except for certain types of mergers;
- a stock-for-stock exchange (kabushiki-kokan) or stock-for-stock transfer (kabushiki-iten), except in some limited circumstances; and
- a corporate split, except in some limited circumstances.

A special resolution representing at least two-thirds of the voting rights represented at the meeting is required to approve these actions.

There is no cumulative voting for the election of directors or corporate auditors.

Subscription Rights

Holders of shares have no preemptive rights under our articles of incorporation. Under the Company Law, however, our board of directors may determine that shareholders be given subscription rights in connection with a particular issue of new shares. In this case, these subscription rights must be given on uniform terms to all shareholders, and if a specified record date is set, it must be announced in a public notice at least two weeks prior to the record date. A notification to each individual shareholder must also be given at least two weeks prior to the subscription date.

Under the Company Law, rights to subscribe for new shares may not be transferred; however, we may allot stock acquisition rights to shareholders without consideration, and such rights will be transferable.

Stock Acquisition Rights

We may issue stock acquisition rights (shinkabu yoyakukun), which in the United States are often in the form of warrants, or bonds with stock acquisition rights that cannot be detached (shinkabu yoyakukun-tsuki shasai), which in the United States are often in the form of convertible bonds or bonds with non-detachable warrants. Except where the issuance would be on “specially favorable” conditions, the issuance of stock acquisition rights or bonds with stock acquisition rights may be authorized by a resolution of our board of directors. Upon exercise of the stock acquisition rights, the holder of such rights may acquire shares by paying the applicable exercise price or, if so determined by a resolution of our board of directors, by making a substitute payment, such as having the convertible bonds redeemed for no cash in lieu of the exercise price.
Liquidation Rights

Upon our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and preferred distributions to holders of shares of our preferred stock will be distributed among the holders of our common stock in proportion to the number of shares they own.

Transfer Agent

MUTB is the transfer agent for our common stock. The office of MUTB for this purpose is located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan. MUTB maintains our register of shareholders and our register of lost share certificates, and records transfers of ownership upon presentation of share certificates.

Reports to Shareholders

We furnish to our shareholders notices, in Japanese, of shareholders’ meetings, annual business reports, including our financial statements, and notices of resolutions adopted at our shareholders’ meetings.

Record Dates

As stated above, March 31 is the record date for the payment of annual dividends, if any, and the determination of shareholders entitled to vote at ordinary general meetings of our shareholders. September 30 is the record date for the payment of interim dividends, if any. In addition, by a resolution of our board of directors and after giving at least two weeks’ prior public notice, we may at any time set a record date in order to determine the shareholders who are entitled to the rights pertaining to our shares.

Repurchase of Our Shares

We may repurchase our own shares:

- through the Tokyo Stock Exchange or other stock exchanges on which our shares are listed, if authorized by a resolution of a general meeting of shareholders or our board of directors;
- by way of a tender offer, if authorized by a resolution of a general meeting of shareholders or our board of directors;
- from a specific party, if authorized by a special resolution of a general meeting of shareholders and we give notices to shareholders prior to such general meeting, in general;
- from all shareholders of a specific class of shares offering to sell their shares, if authorized by a resolution of a general meeting of shareholders or our board of directors and we give a public notice or notices to all of the shareholders (if we repurchase any class of preferred shares, notices to all shareholders of the relevant class of preferred shares.); or
- from our subsidiaries, if authorized by a resolution of the board of directors.

When the repurchase is made by us from a specific party, as authorized by a special resolution of a general meeting of shareholders, any shareholder may make a demand to a director, five days or more prior to the relevant shareholders’ meeting, that we also repurchase the shares held by that shareholder. However, no such right will be available if the shares have a market price, and if the purchase price does not exceed the then market price calculated in a manner set forth in an ordinance of the Ministry of Justice.

Repurchase of our own shares described above must satisfy various specified requirements. In general, the same restriction on the distributable amount as described in the seventh paragraph under “—Common Stock—Dividends.” are applicable to the repurchase of our own shares, so the total amount of the repurchase price may not exceed the distributable amount.

We may hold our own shares so repurchased without restrictions. In addition, we may cancel or dispose of our repurchased shares by a resolution of our board of directors. As of March 31, 2006, we (excluding our subsidiaries) owned 503,124 treasury shares.
Preferred Stock

The following is a summary of information concerning the shares of our preferred stock, including brief summaries of the relevant provisions of our articles of incorporation, the share handling regulations and the Company Law as currently in effect. The detailed rights of our preferred shares are set out in our articles of incorporation and the resolutions of our board of directors relating to the issuance of the relevant stock.

General

As of March 31, 2006, we were authorized under our articles of incorporation to issue nine classes of preferred stock totaling 1,620,008 shares of preferred stock, including 120,000 class 3 preferred shares, 400,000 class 5 preferred shares, 200,000 class 6 preferred shares, 200,000 class 7 preferred shares, 200,000 class 8 preferred shares, 150,000 class 9 preferred shares, 150,000 class 10 preferred shares, 8 class 11 preferred shares and 200,000 class 12 preferred shares. Following the amendment of our articles of incorporation, as of June 29, 2006, we were authorized to issue nine classes of preferred stock totaling 1,306,601 shares of preferred stock, including 120,000 class 3 preferred shares, 400,000 shares of each of the first to fourth series of class 5 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 5 preferred shares does not exceed 400,000 shares), 200,000 shares of each of the first to fourth series of class 6 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 5 preferred shares does not exceed 200,000 shares), 200,000 shares of each of the first to fourth series of class 7 preferred shares (provided the aggregate number of shares authorized to be issued with respect to the four series of class 7 preferred shares does not exceed 200,000 shares), 27,000 class 8 preferred shares, 79,700 class 9 preferred shares, 150,000 class 10 preferred shares, one class 11 preferred share and 129,900 class 12 preferred shares. Our preferred shares have equal preference over shares of common stock in respect of dividend entitlements and distribution upon our liquidation, but holders of the preferred shares are not entitled to vote at general meetings of shareholders, subject to the exceptions provided under our articles of incorporation. As of March 31, 2006, 100,000 shares of class 3 preferred shares, 27,000 class 8 preferred shares, 79,700 class 9 preferred shares, 150,000 class 10 preferred shares, one class 11 preferred share and 129,900 class 12 preferred shares were outstanding, but there were no class 5 through 7 preferred shares outstanding. On April 27, 2006, 45,400 class 12 preferred shares were converted into 57,035.18 shares of common stock. On May 23, 2006, we acquired 9,300 class 8 preferred shares and 89,357 class 10 preferred shares at the request of the shareholder of such preferred shares, and in return issued 16,474 shares and 163,165 shares of common stock, respectively. Furthermore, on June 8, 2006, we acquired 79,700 class 9 preferred shares, 60,643 class 10 preferred shares and 16,700 class 12 preferred shares at the request of the shareholder of such preferred shares, and in return issued 145,532 shares, 110,734 shares and 20,979 shares of common stock, respectively. We may, at any time, following necessary authorization as described in the first paragraph under “Repurchase of Our Shares,” purchase and cancel, at fair value, any shares of preferred stock outstanding out of the distributable amount.

Class 3 and class 5 preferred shareholders are not entitled to request acquisition of their preferred shares in exchange for our common stock but we may acquire class 3 and class 5 preferred shares at our discretion pursuant to the terms and conditions provided by our articles of incorporation and the resolution of our board of directors. We may acquire shares of class 3 preferred shares at ¥2,500,000 per share, in whole or in part, on or after February 18, 2010. The provisions for acquisition of class 5 preferred shares will be determined by the board of directors at the time of issuance of class 5 preferred shares. When issued, any holder of class 6 and class 7 preferred shares may request acquisition of such preferred shares in exchange for our common stock during the period determined by resolution of the board of directors adopted at the time of issuance of such preferred shares. Any class 6 preferred shares or class 7 preferred shares for which no request for acquisition in exchange for common stock is made during such period will be mandatorily acquired on the day immediately following the last day of such period (the “Mandatory Acquisition Date”) in the number obtained by dividing an amount equivalent to the subscription price per each relevant preferred share by the average daily closing price of our common stock as reported by the Tokyo Stock Exchange for the 30 trading days commencing on the 45th trading day prior to the Mandatory Acquisition Date. Any holder of class 8 preferred shares through class 12 preferred
shares may request acquisition of the relevant preferred shares in exchange for our common stock during the period as provided for in Attachments 1 through 5 of our Articles of Incorporation. Any of class 8 preferred shares through class 12 preferred shares for which no request for acquisition in exchange for common stock is made during such period will be mandatorily acquired on the Mandatory Acquisition Date in the number obtained by dividing an amount equivalent to the subscription price per each relevant preferred share by the average daily closing price of our common stock as reported by the Tokyo Stock Exchange for the 30 trading days commencing on the 45th trading day prior to the Mandatory Acquisition Date.

Preferred Dividends

In priority to the payment of dividends to holders of our common stock, the amount of preferred dividends payable each fiscal year for each class of our preferred stock is set forth below.

• class 3 preferred shares: ¥60,000 per share as set by the resolution of our board of directors dated January 27, 2005 pursuant to our articles of incorporation
• class 5 preferred shares: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥250,000 per share
• class 6 preferred shares: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥125,000 per share
• class 7 preferred shares: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥125,000 per share
• class 8 preferred shares: ¥15,900 per share
• class 9 preferred shares: ¥18,600 per share
• class 10 preferred shares: ¥19,400 per share
• class 11 preferred shares: ¥5,300 per share
• class 12 preferred shares: ¥11,500 per share

In the event that our board of directors decides to pay an interim dividend to record holders of our common stock as of September 30 of any year, we will, in priority to the payment of that interim dividend, pay a preferred interim dividend in the amount specified in our Articles of Incorporation to record holders of our preferred stock as of September 30 of the same time. The amount of any preferred interim dividend will be deducted from the preferred dividend payable on the relevant class of our preferred stock for the same fiscal year.

No preferred dividend will be paid on any of our preferred stock converted into our common stock for the period from the date following the record date for the preferred dividend or preferred interim dividend last preceding the relevant conversion date to the relevant conversion date, but the common stock issued upon conversion will be entitled to receive any dividend payable to holders of record of common stock upon the next succeeding record date for common stock dividends.

No payment of dividends on our preferred stock or any other shares can be made unless we have a sufficient distributable amount and a resolution to distribute such distributable amount is obtained at the relevant ordinary general meeting of shareholders, in the case of annual preferred dividends, or at the board of directors, in the case of preferred interim dividends.

Dividends on our preferred stock are non-cumulative. If the full amount of any dividend is not declared on our preferred stock in respect of any fiscal year, holders of our preferred stock do not have any right to receive dividends in respect of the deficiency in any subsequent fiscal year, and we will have no obligation to pay the deficiency or to pay any interest regardless of whether or not dividends are paid in respect of any subsequent fiscal year. The holders of our preferred stock are not entitled to any further dividends or other participation in or distribution of our profits.
**Liquidation Rights**

In the event of our voluntary or involuntary liquidation, record holders of our preferred stock are entitled, equally in rank as among themselves, to receive before any distribution out of our residual assets is made to holders of our common stock, a distribution out of our residual assets of:

- ¥2,500,000 per share of class 3 preferred shares,
- ¥2,500,000 per share of class 5 preferred shares,
- ¥2,500,000 per share of class 6 preferred shares,
- ¥2,500,000 per share of class 7 preferred shares,
- ¥3,000,000 per share of class 8 preferred shares,
- ¥2,000,000 per share of class 9 preferred shares,
- ¥2,000,000 per share of class 10 preferred shares,
- ¥1,000,000 per share of class 11 preferred shares, and
- ¥1,000,000 per share of class 12 preferred shares.

The holders of our preferred stock are not entitled to any further dividends or other participation in or distribution of our residual assets upon our liquidation.

**Voting Rights**

No holder of our preferred stock has the right to receive notice of, or to vote at, a general meeting of shareholders, except as otherwise specifically provided under our articles of incorporation or other applicable law. Under our articles of incorporation, holders of our preferred stock will be entitled to receive notice of, and have one voting right per preferred share at, our general meetings of shareholders:

- from the commencement of our ordinary general meeting of shareholders if an agenda for approval to declare a preferred dividend is not submitted to such meeting; or
- from the close of any ordinary general meeting of shareholders if a proposed resolution to declare a preferred dividend is not approved at such meeting.

In each case, holders of our preferred stock will be entitled to receive notice of and vote at the relevant general meetings of shareholders unless and until such time as a resolution of an ordinary general meeting of shareholders declaring a preferred dividend is passed.

**American Depositary Shares**

The Bank of New York will issue the American depositary receipts, or ADRs. Each ADR will represent ownership interests in American depositary shares, or ADSs. Each ADS represents one thousandth of a share of our common stock. Each ADS is held by BTMU, acting as custodian, at its principal office in Tokyo, on behalf of The Bank of New York, acting as depository. Each ADS will also represent securities, cash or other property deposited with The Bank of New York but not distributed to ADS holders. The Bank of New York’s corporate trust office is located at 101 Barclay Street, New York, New York 10286 and its principal executive office is located at One Wall Street, New York, New York 10286.

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.
The Bank of New York will actually be the registered holder of the common stock, so you will have to rely on it to exercise your rights as a shareholder. Our obligations and the obligations of The Bank of New York are set out in a deposit agreement among us, The Bank of New York and you, as an ADS holder. The deposit agreement and the ADSs are governed by New York law.

The following is a summary of the material terms of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the form of ADR.

**Share Dividends and Other Distributions**

The Bank of New York has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares of common stock or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

**Cash.** The Bank of New York will convert any cash dividend or other cash distribution we pay on our common stock into US dollars, if it can do so on a reasonable basis and can transfer the US dollars to the United States. If that is not possible or if any approval from the Japanese government is needed and cannot be obtained, the deposit agreement allows The Bank of New York to distribute the yen only to those ADS holders to whom it is possible to do so. The Bank of New York will hold the yen it cannot convert for the account of the ADS holders who have not been paid. It will not invest the yen and it will not be liable for any interest.

Before making a distribution, any withholding taxes that must be paid under Japanese law will be deducted. See “—Taxation—Japanese Taxation.” The Bank of New York will distribute only whole US dollars and cents and will round fractional cents to the nearest whole cent. If the relevant exchange rates fluctuate during a time when The Bank of New York cannot convert the Japanese currency, you may lose some or all of the value of the distribution.

**Shares.** The Bank of New York may distribute new ADSs representing any shares we may distribute as a dividend or free distribution, if we furnish The Bank of New York promptly with satisfactory evidence that it is legal to do so. The Bank of New York will only distribute whole ADSs. It will sell shares which would require it to issue a fractional ADS and distribute the net proceeds in the same way as it distributes cash dividends. If The Bank of New York does not distribute additional ADSs, each ADS will also represent the new shares.

**Rights to receive additional shares.** If we offer holders of our common stock any rights to subscribe for additional shares of common stock or any other rights, The Bank of New York may, after consultation with us, make those rights available to you. We must first instruct The Bank of New York to do so and furnish it with satisfactory evidence that it is legal to do so. If we do not furnish this evidence and/or do not give these instructions, and The Bank of New York decides that it is practical to sell the rights, The Bank of New York will sell the rights and distribute the proceeds in the same way as it distributes cash dividends. The Bank of New York may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

If The Bank of New York makes rights available to you, upon instruction from you it will exercise the rights and purchase the shares on your behalf. The Bank of New York will then deposit the shares and issue ADSs to you. It will only exercise the rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after the exercise of the rights. For example, you may not be able to trade the ADSs freely in the United States. In this case, The Bank of New York may issue the ADSs under a separate restricted deposit agreement which will contain the same provisions as the deposit agreement, except for changes needed to put the restrictions in place. The Bank of New York will not offer you rights unless those rights and the securities to which the rights relate
are either exempt from registration or have been registered under the U.S. Securities Act with respect to a
distribution to you. We will have no obligation to register under the Securities Act those rights or the securities to
which they relate.

Other distributions. The Bank of New York will send to you anything else we distribute on deposited
securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, The
Bank of New York has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the
same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also
represent the newly distributed property.

The Bank of New York is not responsible if it decides that it is unlawful or impractical to make a
distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other
securities under the Securities Act. We also have no obligation to take any other action to permit the distribution
of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the distributions
we make on our shares or any value for them if it is illegal or impractical for us or The Bank of New York to
make them available to you.

Deposit, Withdrawal and Cancellation

The Bank of New York will issue ADSs if you or your broker deposits shares or evidence of rights to
receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as
stamp taxes or stock transfer taxes or fees, The Bank of New York will register the appropriate number of ADSs
in the names you request and will deliver the ADSs at its corporate trust office to the persons you request.

In certain circumstances, subject to the provisions of the deposit agreement, The Bank of New York may
issue ADSs before the deposit of the underlying shares. This is called a pre-release of ADSs. A pre-release is
closed out as soon as the underlying shares are delivered to the depositary. The depositary may receive ADSs
instead of the shares to close out a pre-release. The depositary may pre-release ADSs only on the following
conditions:

• Before or at the time of the pre-release, the person to whom the pre-release is made must represent to
  the depositary in writing that it or its customer, as the case may be, owns the shares to be deposited;
• The pre-release must be fully collateralized with cash or collateral that the depositary considers
  appropriate;
• The depositary must be able to close out the pre-release on not more than five business days’ notice.

The pre-release will be subject to whatever indemnities and credit regulations that the depositary considers
appropriate. In addition, the depositary will limit the number of ADSs that may be outstanding at any time as a
result of a pre-release.

You may turn in your ADSs at the Corporate Trust Office of The Bank of New York’s office. Upon
payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees,
The Bank of New York will deliver (1) the underlying shares to an account designated by you and (2) any other
deposited securities underlying the ADS at the office of the custodian. Or, at your request, risk and expense, The
Bank of New York will deliver the deposited securities at its Corporate Trust Office.

The ADSs may only be presented for cancellation and release of the underlying shares of common stock or
other deposited securities in multiples of 1,000 ADSs. Holders of ADRs evidencing less than 1,000 ADSs will
not be entitled to delivery of any underlying shares or other deposited securities unless such ADRs, together with
other ADRs presented by the same holder at the same time, represent in the aggregate at least 1,000 ADSs. If any
ADSs are surrendered but not cancelled pursuant to the preceding sentence, The Bank of New York will execute
and deliver an ADR or ADRs evidencing the balance of ADSs not so cancelled to the person or persons
surrendering the same.
**Voting Rights**

If you are an ADS holder on a record date fixed by The Bank of New York, you may instruct The Bank of New York to vote the shares underlying your ADSs at a meeting of our shareholders in accordance with the procedures set forth in the deposit agreement.

The Bank of New York will notify you of the upcoming meeting and arrange to deliver our voting materials to you. The notice shall contain (a) such information as is contained in such notice of meeting, (b) a statement that as of the close of business on a specified record date you will be entitled, subject to any applicable provision of Japanese law and our Articles of Incorporation, to instruct The Bank of New York as to the exercise of the voting rights, if any, pertaining to the amount of shares or other deposited securities represented by your ADSs, and (c) a brief statement as to the manner in which such instructions may be given, including an express indication that instructions may be given to The Bank of New York to give a discretionary proxy to a person designated by us. Upon your written request, received on or before the date established by The Bank of New York for such purpose, The Bank of New York shall endeavor in so far as practicable to vote or cause to be voted the amount of shares or other deposited securities represented by your ADSs in accordance with the instructions set forth in your request. So long as Japanese law provides that votes may only be cast with respect to one or more whole shares or other deposited securities, The Bank of New York will aggregate voting instructions to the extent such instructions are the same and vote such whole shares or other deposited securities in accordance with your instructions. If, after aggregation of all instructions to vote received by The Bank of New York, any portion of the aggregated instructions constitutes instructions with respect to less than a whole share or other deposited securities, The Bank of New York will not vote or cause to be voted the shares or other deposited securities to which such portion of the instructions apply. The Bank of New York will not vote or attempt to exercise the right to vote that attaches to the shares or other deposited securities, other than in accordance with the instructions of the ADS holders. If no instructions are received by The Bank of New York from you with respect to any of the deposited securities represented by your ADSs on or before the date established by The Bank of New York for such purpose, The Bank of New York shall deem you to have instructed The Bank of New York to give a discretionary proxy to a person designated by us to vote such deposited securities, provided that no such instruction shall be given with respect to any matter as to which we inform The Bank of New York (and we have agreed to provide such information as promptly as practicable in writing) that (1) we do not wish such proxy given, (2) substantial opposition exists or (3) such matter materially and adversely affects the rights of holders of shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct The Bank of New York to vote your shares. In addition, The Bank of New York is not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions as long as it has acted in good faith. This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.
**Fees and Expenses**

**ADR holders must pay:**

<table>
<thead>
<tr>
<th>Fee Description</th>
<th>For:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5.00 (or less) per 100 ADSs (or portion thereof)</td>
<td>Each issuance of an ADS, including as a result of a distribution of shares or rights or other property</td>
</tr>
<tr>
<td></td>
<td>Each cancellation of an ADS, including if the agreement terminates</td>
</tr>
<tr>
<td>$0.02 (or less) per ADSs</td>
<td>To the extent permitted by securities exchange on which the ADSs may be listed for trading any cash payment</td>
</tr>
<tr>
<td>Registration or transfer fees</td>
<td>Transfer and registration of shares on the share register of the foreign registrar from your name to the name of The Bank of New York or its agent when you deposit or withdraw shares</td>
</tr>
<tr>
<td>Expenses of The Bank of New York</td>
<td>Conversion of foreign currency to US dollars cable, telex and facsimile transmission expenses</td>
</tr>
<tr>
<td>Taxes and other governmental charges</td>
<td>As necessary</td>
</tr>
</tbody>
</table>

**Payment of Taxes**

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities underlying your ADSs. The Bank of New York may refuse to transfer your ADSs or allow you to withdraw the deposited securities underlying your ADSs until those taxes or other charges are paid. It may apply payments owed to you or sell deposited securities underlying your ADSs to pay any taxes owed and you will remain liable for any deficiency. If it sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any property remaining after it has paid the taxes.

**Reclassifications, Recapitalizations and Mergers**

If we:

- reclassify, split up or consolidate any of our shares or the deposited securities,
- recapitalize, reorganize, merge, liquidate, consolidate or sell all or substantially all of our assets or take any similar action, or
- distribute securities on the shares that are not distributed to you,

then,

1. the cash, shares or other securities received by The Bank of New York will become deposited securities and each ADS will automatically represent its equal share of the new deposited securities unless additional ADSs are issued; and
2. The Bank of New York may, and will if we request, issue new ADSs or ask you to surrender your outstanding ADSs in exchange for new ADSs, identifying the new deposited securities.

**Amendment and Termination**

We may agree with The Bank of New York to amend the deposit agreement and the ADSs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such
expenses, or prejudices an important right of ADS holders, it will only become effective three months after The Bank of New York notifies you of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADS, to agree to the amendment and to be bound by the ADSs and the deposit agreement as amended. However, no amendment will impair your right to receive the deposited securities in exchange for your ADSs.

The Bank of New York will terminate the deposit agreement if we ask it to do so, in which case it must notify you at least 30 days before termination. The Bank of New York may also terminate the deposit agreement if The Bank of New York has told us that it would like to resign and we have not appointed a new depositary bank within 60 days.

If any ADSs remain outstanding after termination, The Bank of New York will stop registering the transfers of ADSs, will stop distributing dividends to ADS holders and will not give any further notices or do anything else under the deposit agreement other than:

1. collect dividends and distributions on the deposited securities,
2. sell rights and other property offered to holders of deposited securities, and
3. deliver shares and other deposited securities in exchange for ADSs surrendered to The Bank of New York.

At any time after one year following termination, The Bank of New York may sell any remaining deposited securities. After that, The Bank of New York will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. The Bank of New York’s only obligations will be to account for the money and other cash and with respect to indemnification and to retain depositary documents. After termination, our only obligations will be with respect to indemnification and to pay certain amounts to The Bank of New York.

Limitations on Obligations and Liability to ADS Holders

The deposit agreement expressly limits our obligations and the obligations of The Bank of New York. It also limits our liability and the liability of The Bank of New York. We and The Bank of New York:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if either is prevented or delayed by law, any provision of our Articles of Incorporation or circumstances beyond their control from performing their obligations under the deposit agreement;
- are not liable if either exercises or fails to exercise discretion permitted under the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other party unless indemnified to their satisfaction; and
- may rely upon any advice of or information from legal counsel, accountants, any person depositing shares, any ADS holder or any other person believed in good faith to be competent to give them that advice or information.

In the deposit agreement, we and The Bank of New York agree to indemnify each other for liabilities arising out of acts performed or omitted by the other party in accordance with the deposit agreement.

Requirements for Depositary Actions

Before The Bank of New York will issue or register transfer of an ADS, make a distribution on an ADS, or permit withdrawal of shares, it may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities,
• production of satisfactory proof of the identity and genuineness of any signature or other information it
deems necessary, and

• compliance with regulations it may establish, from time to time, consistent with the deposit agreement,
including presentation of transfer documents.

The Bank of New York may refuse to deliver, transfer, or register transfers of ADSs generally when its
transfer books are closed, when our transfer books are closed or at any time if it or we think it advisable to do so.

You have the right to cancel your ADSs and withdraw the underlying shares at any time except:
• when temporary delays arise because: (1) The Bank of New York has closed its transfer books or we
have closed our transfer books; (2) the transfer of shares is blocked to permit voting at a shareholders’
meeting; or (3) we are paying a dividend on the shares;
• when you or other ADS holders seeking to withdraw shares owe money to pay fees, taxes and similar
charges; or
• when it is necessary to prohibit withdrawals in order to comply with any laws or governmental
regulations that apply to ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Reports and Other Communications

The Bank of New York will make available for your inspection at its corporate trust office any reports and
communications, including any proxy soliciting material, that it receives from us, if those reports and
communications are both (a) received by The Bank of New York as the holder of the deposited securities and
(b) made generally available by us to the holders of the deposited securities. If we ask it to, The Bank of New
York will also send you copies of those reports it receives from us.

Inspection of Transfer Books

The Bank of New York will keep books for the registration and transfer of ADSs, which will be open for
your inspection at all reasonable times. You will only have the right to inspect those books if the inspection is for
the purpose of communicating with other owners of ADSs in connection with our business or a matter related to
the deposit agreement or the ADSs.

C. Material Contracts

Other than as described in this Annual Report, all contracts entered into by us since our establishment on
April 2, 2001 were entered into in the ordinary course of business.

D. Exchange Controls

Foreign Exchange and Foreign Trade Law

The Foreign Exchange and Foreign Trade Law of Japan and the cabinet orders and ministerial ordinances
incidental thereto, collectively known as the Foreign Exchange Law, set forth, among other matters, the
regulations relating to the receipt by non-residents of Japan of payment with respect to shares to be issued by us
and the acquisition and holding of shares by non-residents of Japan and foreign investors, both as defined below.
It also applies in some cases to the acquisition and holding of our shares or ADSs representing such shares
acquired and held by non-residents of Japan and by foreign investors. Generally, the Foreign Exchange Law
currently in effect does not affect the right of a non-resident of Japan to purchase or sell an ADR outside Japan
for non-Japanese currency.
“Non-residents of Japan” are defined as individuals who are not resident in Japan and corporations whose principal offices are located outside Japan. Generally, the branches and offices of non-resident corporations which are located in Japan are regarded as residents of Japan while the branches and offices of Japanese corporations located outside Japan are regarded as non-residents of Japan.

“Foreign investors” are defined as:

- individuals not resident in Japan;
- corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan;
- corporations of which 50% or more of the shares are held by individuals not resident of Japan and corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan; and
- corporations, a majority of officers (or a majority of officers having the power of representation) of which are non-resident individuals.

**Dividends and Proceeds of Sales**

Under the Foreign Exchange Law, dividends paid on, and the proceeds of sales in Japan of, shares held by non-residents of Japan may in general be converted into any foreign currency and repatriated abroad. The acquisition of our shares by non-residents by way of a stock split is not subject to any notification or reporting requirements.

**Acquisition of Shares**

In general, a non-resident who acquires shares from a resident of Japan is not subject to any prior filing requirement, although the Foreign Exchange Law empowers the Minister of Finance of Japan to require a prior approval for any such acquisition in certain limited circumstances.

If a foreign investor acquires our shares, and, together with parties who have a special relationship with that foreign investor, holds 10% or more of our issued shares as a result of such acquisition, the foreign investor must file a report of such acquisition with the Minister of Finance and any other competent Minister within 15 days from and including the date of such acquisition. In certain limited circumstances, however, a prior notification of such acquisition must be filed with the Minister of Finance and any other competent Minister, who may modify or prohibit the proposed acquisition.

**Deposit and Withdrawal under American Depositary Facility**

The deposit of shares with us, in our capacity as custodian and agent for the depositary, in Tokyo, the issuance of ADSs by the depositary to a non-resident of Japan in respect of the deposit and the withdrawal of the underlying shares upon the surrender of the ADSs are not subject to any of the formalities or restrictions referred to above. However, where as a result of a deposit or withdrawal the aggregate number of shares held by the depositary, including shares deposited with us as custodian for the depositary, or the holder surrendering ADSs, as the case may be, would be 10% or more of the total outstanding shares, a report will be required, and in specified circumstances, a prior notification may be required, as noted above.

**Reporting of Substantial Shareholdings**

The Securities and Exchange Law of Japan requires any person who has become, beneficially and solely or jointly, a holder of more than 5% of the total issued shares of capital stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan to file with the director of a competent finance bureau within 5 business days a report concerning such shareholdings.
A similar report must also be filed in respect of any subsequent change of 1% or more in any such holding ratio or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, share issuable to such person upon exchange of exchangeable securities, conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by such holder and the issuer’s total issued shares of capital stock. Copies of such report must also be furnished to the issuer of such shares and all Japanese stock exchanges on which the shares are listed or (in the case of shares traded over-the-counter) the Japan Securities Dealers Association.

E. Taxation

Japanese Taxation

The following sets forth the material Japanese tax consequences to owners of shares or ADSs who are non-resident individuals or non-Japanese corporations without a permanent establishment in Japan to which the relevant income is attributable, which we refer to as “non-resident holders” in this section. The statements regarding Japanese tax laws below are based on the laws in force and as interpreted by the Japanese taxation authorities as at the date of this Annual Report and are subject to changes in the applicable Japanese laws, double taxation treaties, conventions or agreements thereof occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor, and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of shares or ADSs, including specifically the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident and any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

For the purpose of Japanese tax law and the Tax Convention (as defined below), a U.S. holder of ADSs will be treated as the owner of the shares underlying the ADSs evidenced by the ADRs.

Generally, a non-resident holder of shares or ADSs is subject to Japanese withholding tax on dividends paid by us. In the absence of any applicable tax treaty, convention or agreement reducing the maximum rate of withholding tax, the rate of Japanese withholding tax applicable to dividends paid by us to non-resident holders is 7% for dividends to be paid on or before March 31, 2008 pursuant to Japanese tax law. After such date, the maximum withholding rate for U.S. holders (as defined below), which is generally set at 10% of the gross amount distributed, shall be applicable pursuant to the Tax Convention (as defined below).

On March 30, 2004, the Convention between the Government of the United States of America and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the “Tax Convention”), has been signed to replace its predecessor, which was signed on March 8, 1971 (the “Prior Treaty”). The Tax Convention establishes the maximum rate of Japanese withholding tax which may be imposed on dividends paid to a United States resident not having a permanent establishment in Japan. Under the Tax Convention, the maximum withholding rate for U.S. holders (as defined below) is generally set at 10% of the gross amount distributed. However, the maximum rate is 5% of the gross amount distributed if the recipient is a corporation and owns directly or indirectly, on the date on which entitlement to the dividends is determined, at least 10% of the voting shares of the paying corporation. Furthermore, the amount distributed shall not be taxed if the recipient is (i) a pension fund which is a United States resident, provided that such dividends are not derived from the carrying on of a business, directly or indirectly, by such pension fund or (ii) a parent company with a controlling interest in the paying company. In situations where an Eligible U.S. holder (as defined below) would be entitled to greater benefits under the Prior Treaty than under the Tax Convention, at the election of such Eligible U.S. holder, the Prior Treaty shall continue to have effect for a period of twelve months after the relevant provisions of the Tax Convention would otherwise have gone into effect. U.S. holders (as defined below) are urged to consult their own tax advisors with respect to their eligibility for benefits under the Prior Treaty and the Tax Convention.

Japanese tax law provides in general that if the Japanese statutory rate is lower than the maximum rate applicable under tax treaties, conventions or agreements, the Japanese statutory rate shall be applicable. The rate
of Japanese withholding tax applicable to dividends paid by us to non-resident holders is 7% for dividends to be paid on or before March 31, 2008 and 15% thereafter, except for dividends paid to any individual non-resident holder who holds 5% or more of our issued shares for which the applicable rate is 20%.

Non-resident holders of shares who are entitled to a reduced rate of Japanese withholding tax on payments of dividends on the shares or ADSs by us are required to submit an Application Form for the Income Tax Convention regarding Relief from Japanese Income Tax on Dividends in advance through us to the relevant tax authority before the payment of dividends. A standing proxy for non-resident holders may provide this application service for the non-resident holders. Non-resident holders who do not submit an application in advance will generally be entitled to claim a refund from the relevant Japanese tax authority of withholding taxes withheld in excess of the rate of an applicable tax treaty.

Gains derived from the sale or other disposition of shares or ADSs within or outside Japan by a non-resident holder are not, in general, subject to Japanese income or corporation taxes or other Japanese taxes.

Any deposits or withdrawals of shares by a non-resident holder in exchange for ADSs are not subject to Japanese income or corporation tax.

Japanese inheritance and gift taxes, at progressive rates, may be payable by an individual who has acquired shares or ADSs as legatee, heir or donee, even if none of the individual, the decedent or the donor is a Japanese resident.

U.S. Taxation

The following sets forth the material United States federal income tax consequences of the ownership of shares and ADSs by a U.S. holder, as defined below. This summary is based on United States federal income tax laws, including the United States Internal Revenue Code of 1986, or the Code, its legislative history, existing and proposed Treasury regulations thereunder, published rulings and court decisions, and on the Tax Convention, all of which are subject to change, possibly with retroactive effect.

The following summary is not a complete analysis or description of all potential United States federal income tax consequences to a particular U.S. holder. It does not address all United States federal income tax considerations that may be relevant to all categories of potential purchasers, certain of which (such as banks or other financial institutions, insurance companies, dealers in securities, tax-exempt entities, non-U.S. persons, persons holding a share or an ADS as part of a “straddle,” “hedge,” conversion or integrated transaction, holders whose “functional currency” is not the US dollar, holders liable for alternative minimum tax and holders of 10% or more of our voting shares) are subject to special tax treatment. This summary does not address any foreign, state, local or other tax consequences of investments in our shares or ADSs.

This summary addresses only shares or ADSs that are held as capital assets within the meaning of Section 1221 of the Code.

As used herein, a “U.S. holder” is a beneficial owner of shares or ADSs, as the case may be, that is, for U.S. federal income tax purposes:

- a citizen or resident of the United States,
- a corporation or other entity taxable as a corporation created or organized under the laws of the United States or any political subdivision thereof,
- an estate, the income of which is subject to U.S. federal income tax regardless of its source, or
- a trust
  - the administration of which is subject to the supervision of a court within the United States and the control of one or more United States persons as described in Section 7701(a)(30) of the Code; or
- that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.
An “Eligible U.S. holder” is a U.S. holder that:

- is a resident of the United States for purposes of the Prior Treaty or the Tax Convention, as applicable from time to time,
- does not maintain a permanent establishment or fixed base in Japan to which the shares or ADSs are attributable and through which the U.S. holder carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services), and
- is otherwise eligible for benefits under the Prior Treaty or the Tax Convention, as applicable, with respect to income and gain derived in connection with the shares or ADSs.

A “Non-U.S. holder” is any beneficial holder of shares or ADSs that is not a U.S. holder.

If a partnership holds shares or ADSs, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding shares or ADSs, you should consult your tax advisor.

We urge U.S. holders to consult their own tax advisors concerning the United States federal, state and local and other tax consequences to them of the purchase, ownership and disposition of shares or ADSs.

This summary is based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with their respective terms. For United States federal income tax purposes, holders of ADSs will be treated as the owners of the shares represented by the ADSs. The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADSs. Accordingly, the discussion on the creditability of Japanese taxes described below could be affected by future actions that may be taken by the U.S. Treasury.

Special adverse United States federal income tax rules apply if a U.S. holder holds shares or ADSs of a company that is treated as a “passive foreign investment company” (a “PFIC”) for any taxable year during which the U.S. holder held shares or ADSs. Based upon proposed Treasury regulations which are not yet in effect but are proposed to become effective for taxable years beginning after December 31, 1994 or, for electing taxpayers, for taxable years beginning after December 31, 1986, and upon certain management estimates, we do not expect MUFG to be a PFIC for United States federal income tax purposes in the current year or in future years. However, there can be no assurance that the described proposed regulations will be finalized in their current form, and the determination of whether MUFG is a PFIC is based upon, among other things, the composition of our income and assets and the value of our assets from time to time. U.S. holders should consult their own tax advisors as to the potential application of the PFIC rules to their ownership and disposition of shares or ADSs.

**Taxation of Dividends**

U.S. holders will include the gross amount of any distribution received with respect to shares or ADSs (before reduction for Japanese withholding taxes), to the extent paid out of the current or accumulated earnings and profits (as determined for United States federal income tax purposes) of MUFG, as ordinary income in their gross income. The amount of distribution of property other than cash will be the fair market value of such property on the date of the distribution. Dividends received by a U.S. holder will not be eligible for the “dividends-received deduction” allowed to United States corporations in respect of dividends received from other United States corporations. To the extent that an amount received by a U.S. holder exceeds such holder’s allocable share of our current earnings and profits, such excess will be applied first to reduce such holder’s tax basis in its shares or ADSs, thereby increasing the amount of gain or decreasing the amount of loss recognized on a subsequent disposition of the shares or ADSs. Then, to the extent such distribution exceeds such U.S. holder’s tax basis, such excess will be treated as capital gain. The amount of the dividend will be the US dollar value of the Japanese yen payments received. This value will be determined at the spot Japanese yen/US dollar rate on the
date the dividend is received by the depositary in the case of U.S. holders of ADSs, or by the shareholder in the case of U.S. holders of shares, regardless of whether the dividend payment is in fact converted into US dollars at that time. If the Japanese yen received as a dividend are not converted into US dollars on the date of receipt, a U.S. holder will have basis in such Japanese yen equal to their US dollar value on the date of receipt, and any foreign currency gains or losses resulting from the conversion of the Japanese yen will generally be treated as U.S. source ordinary income or loss.

Subject to certain limitations, the Japanese tax withheld will be creditable against the U.S. holder’s United States federal income tax liability or may be claimed as a deduction from the U.S. holder’s federal adjusted gross income provided that the U.S. holder elects to deduct all foreign taxes paid on the same taxable year. For foreign tax credit limitation purposes, the dividend will be income from sources outside the United States. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends we pay will constitute “passive income” or, in the case of certain U.S. holders, “financial services income.” The rules governing U.S. foreign tax credits are very complex and U.S. holders should consult their tax advisors regarding the availability of foreign tax credits under their particular circumstances.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (the “Act”) affects the taxation of dividends. The Act eliminates the tax rate difference between “qualified dividends” and capital gains for United States individual investors. Qualified dividends include dividends received from both domestic corporations and “qualified foreign corporations.” Qualified foreign corporations include those corporations eligible for the benefits of a comprehensive income tax treaty with the U.S.; both the Prior Treaty and the Tax Convention are such treaties. Dividends received by U.S. investors from a foreign corporation that was a PFIC in either the taxable year of the distribution or the preceding taxable year are not qualified dividends. We believe that MUFG is a qualified foreign corporation and that dividends received by U.S. investors with respect to shares or ADSs of MUFG will be qualified dividends. Note that these provisions do not affect dividends received by Non-U.S. holders.

**Taxation of Capital Gains**

Upon a sale or other disposition of shares or ADSs, a U.S. holder will recognize gain or loss in an amount equal to the difference between the US dollar value of the amount realized and the U.S. holder’s tax basis, determined in US dollars, in such shares or ADSs. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the U.S. holder’s holding period for such shares or ADSs exceeds one year. A U.S. holder’s adjusted tax basis in its shares or ADSs will generally be the cost to the holder of such shares or ADSs. Any such gain or loss realized by a U.S. holder upon disposal of the shares or ADSs will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Any deposits and/or withdrawals of shares made with respect to ADSs are not subject to United States federal income tax.

**Information Reporting and Backup Withholding**

Dividends paid on shares or ADSs to a U.S. holder, or proceeds from a U.S. holder’s sale or other disposition of shares or ADS, may be subject to information reporting requirements. Those dividends or proceeds from sale or disposition may also be subject to backup withholding unless the U.S. holder:

- is a corporation or comes within some other categories of exempt recipients, and, when required, demonstrates this fact, or
- provides a correct taxpayer identification number on a properly completed U.S. Internal Revenue Service Form W-9 or substitute form, certifies that the U.S. holder is not subject to backup withholding, and otherwise complies with applicable requirements of the backup withholding rules.

Any amount withheld under these rules will be creditable against the U.S. holder’s United States federal income tax liability or refundable to the extent that it exceeds such liability if the U.S. holder provides the
required information to the Internal Revenue Service. If a U.S. holder is required to and does not provide a
correct taxpayer identification number, the U.S. holder may be subject to penalties imposed by the Internal
Revenue Service. All holders should consult their tax advisors as to their qualification for the exemption from
backup withholding and the procedure for obtaining an exemption.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We file periodic reports and other information with the SEC. You may read and copy any document that we
file with the SEC at the SEC’s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call
the SEC at (800) SEC-0330 for further information on the operation of its public reference rooms. The SEC also
maintains a web site that contains reports, proxy and information statements and other information regarding
registrants that file electronically with the SEC (http://www.sec.gov). You may also inspect our SEC reports and
other information at the New York Stock Exchange, Inc., 11 Wall Street, New York, New York 10005. Some of
this information may also be found on our website at http://www.mufg.jp.

I. Subsidiary Information

Please refer to discussion under “Item 4.C. Information on the Company—Organizational Structure.”

Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.

Numerous changes in MUFG’s business environment have resulted from the deregulation and globalization
of finance, and the advancement of information technology. MUFG aims to be a global and comprehensive
financial group encompassing leading Japanese players in commercial and trust banking, and securities. Risk
management plays an increasingly important role as the risks faced by financial groups such as MUFG increase
in scope and variety.

MUFG identifies various risks arising from businesses based on uniform criteria, and implements integrated
risk management to ensure a stronger financial condition and to maximize shareholder value. Based on this
policy, MUFG identifies, measures, controls and monitors a wide variety of risks so as to achieve a stable
balance between earnings and risks. We enforce the risk management to create an appropriate capital structure
and to achieve optimal allocation of resources.
Risk Classification

At the holding company level, MUFG broadly classifies and defines risk factors faced by the group. Group companies perform more detailed risk management based on their respective operations.

<table>
<thead>
<tr>
<th>Type of Risk</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Risk</td>
<td>The risk of financial losses in credit assets (including off-balance sheet instruments) caused by deterioration in the credit conditions of our counterparty. This category includes country risk.</td>
</tr>
<tr>
<td>Market Risk</td>
<td>Market risk is the risk of financial losses where the value of our assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices or foreign exchange rates. Market liquidity risk is the risk of financial losses caused by the inability to secure market transactions at the required volume or price levels as the result of market turbulence or a lack of trading liquidity.</td>
</tr>
<tr>
<td>Liquidity Risk</td>
<td>The risk of incurring losses if a poor financial position at a group company hampers the ability to meet funding requirements, or necessitates fund procurement at interest rates markedly higher than normal.</td>
</tr>
<tr>
<td>Operational Risk</td>
<td>The risk of losses resulting from inadequate or failed internal processes, people or systems, or caused by external events.</td>
</tr>
<tr>
<td>• Operations Risk</td>
<td>The risk of losses caused by accidents, or by neglect or deliberate misconduct on the part of executives or employees.</td>
</tr>
<tr>
<td>• Information Asset</td>
<td>The risk of losses caused by the loss, alteration, falsification, wrongful use or unauthorized disclosure of information, or to the destruction, interruption, malfunction or improper use of information systems.</td>
</tr>
</tbody>
</table>

Risk Management System

MUFG has adopted an integrated risk management framework and promotes close cooperation among the holding company and group companies. The holding company and major group companies each appoint chief risk management officers and establish independent risk management divisions. At risk management committees, our management members discuss and dynamically manage various types of risks from both qualitative and quantitative perspectives. The Board of Directors determines risk management policies for various types of risk based on the discussions held by these committees.

The holding company seeks to enhance group-wide risk identification; to integrate and improve the group’s risk management framework and related methods; to maintain asset quality; and to eliminate concentrations of specific risks. Group-wide risk management policy is determined at the holding company level, and each group company implements and improves its own risk management framework. BTMU and MUTB have deliberated plans to upgrade risk management systems in line with the requirements for major banks stipulated by the Financial Services Agency of Japan (FSA) and have been constructing advanced risk management systems compliant with the Basel II framework.

Business Continuity Management

Based on a clear critical response rationale and associated decision-making criteria, MUFG has developed systems to ensure that operations are not interrupted or can be restored to normal quickly in the event of a natural disaster or system failure, to minimize any disruption to customers and markets. A crisis management team within the holding company is the central coordinating body in the event of any emergency. Based on information collected from crisis management personnel at the major subsidiaries, this central body would assess
the overall impact of a crisis on the group’s business and establish task forces that could implement all
countermeasures to restore full operations. MUFG has business continuity plans to maintain continuous
operational viability in the event of natural disasters, system failures and other types of emergencies. Regular
training drills are conducted to upgrade the practical effectiveness of these systems.

Credit Risk Management

Credit risk is the risk of losses due to deterioration in the financial condition of a borrower.

MUFG has established risk management systems to maintain asset quality, manage credit risk exposure and
achieve earnings commensurate with risk.

Our major subsidiary banks apply a uniform credit rating system for asset evaluation and assessment as well
as the quantitative measurement of credit risk. This system also underpins management of loan pricing and credit
portfolios.

Our major subsidiary banks continually seek to upgrade credit portfolio management (CPM) expertise to
achieve improved risk-adjusted return, based on the group’s credit portfolio status and flexible response
capability to economic and other external changes.

Credit Risk Management System

The credit portfolios of our major subsidiary banks are monitored and assessed on a regular basis to
maintain and improve asset quality. Uniform credit ratings as well as asset evaluation and assessment systems are
used to ensure timely and proper evaluation of all credit risks. Under the MUFG credit risk management
framework, each major subsidiary bank manages its respective credit risk on a consolidated and global basis,
while the holding company oversees and manages credit risk on an overall group-wide basis. The holding
company also convenes regular committee meetings to monitor credit risk management at major subsidiary banks
and to issue guidance where necessary.

At each major subsidiary bank, we have in place a system of checks and balances in which a credit
administration section that is independent of the business promotion sections screens individual transactions and
manages the extensions of credit. At the management level, regular meetings of credit and investment
management committees and related deliberative bodies ensure full discussion of important matters related to
credit risk management. Besides such checks and balances and internal oversight systems, credit examination
functions also undertake credit testing and evaluation to ensure appropriate credit risk management.

Management Framework for Major Subsidiary Banks

<table>
<thead>
<tr>
<th>Credit administration functions</th>
<th>Credit screening and management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business promotion functions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Monitoring by MUFG Credit &amp; Investment Management Committee</td>
</tr>
<tr>
<td>Board of Directors/Executive Committee Credit &amp; Investment Management Committee / related deliberative bodies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Monitoring by MUFG Credit &amp; Investment Management Committee</td>
</tr>
<tr>
<td>Regular report</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Credit risk management functions</td>
</tr>
<tr>
<td></td>
<td>Quantitative risk monitoring</td>
</tr>
<tr>
<td></td>
<td>Credit testing and evaluation</td>
</tr>
<tr>
<td></td>
<td>Credit examination functions</td>
</tr>
<tr>
<td></td>
<td>Discussion of important matters</td>
</tr>
<tr>
<td></td>
<td>Transaction report</td>
</tr>
</tbody>
</table>

140
Credit Rating System

Our major subsidiary banks introduced a unified criteria, an integrated credit rating system to evaluate credit risk. This rating system underpins credit risk management across MUFG. The system classifies borrowers into 15 grades using probability of default rates as a common criterion, an approach that conforms to Basel II and is also consistent with the borrower grades used in asset evaluation and assessment. We believe this credit rating system is an objective framework that also incorporates timely market factors such as share prices and external ratings where appropriate.

Country risk is evaluated and managed under a separate system. Our major subsidiary banks assign uniform ratings for countries. These ratings are reviewed periodically to take into account relevant political and economic factors, including foreign currency availability.

Definition of MUFG Borrower rating

<table>
<thead>
<tr>
<th>Borrower rating</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>Borrower capacity to meet financial obligations deemed high and stable</td>
</tr>
<tr>
<td>3-5</td>
<td>Borrower capacity to meet financial obligations deemed free of problems</td>
</tr>
<tr>
<td>6-8</td>
<td>Borrower capacity to meet short-term financial obligations deemed free of problems</td>
</tr>
<tr>
<td>9</td>
<td>Borrower capacity to meet financial obligations deemed slightly insufficient</td>
</tr>
<tr>
<td>10-12</td>
<td>Close monitoring of borrower required due to one or more of following conditions:</td>
</tr>
<tr>
<td></td>
<td>[1] Borrower who has problems meeting financial obligations (e.g. principal repayments or interest payments in arrears)</td>
</tr>
<tr>
<td></td>
<td>[2] Borrower whose business performance is poor or unsteady, or in an unfavorable financial condition</td>
</tr>
<tr>
<td></td>
<td>[3] Borrower who has problems with loan conditions (e.g. interest rates have been reduced or deferred)</td>
</tr>
<tr>
<td>10</td>
<td>Causes for concern identified in borrower’s business management necessitate ongoing monitoring, despite only minor problems or significant ongoing improvement</td>
</tr>
<tr>
<td>11</td>
<td>Emergence of serious causes for concern in borrower’s business management signal need for caution in debt repayment due to major problems or requiring protracted resolution</td>
</tr>
<tr>
<td>12</td>
<td>Borrower applicable to the definition of rating 10 or 11 and holds restructured loan, or borrower with loan contractually past due 90 days or more due to particular reasons, such as an inheritance-related issue</td>
</tr>
<tr>
<td>13</td>
<td>Borrower where losses are expected due to major debt repayment problems (that is, although not yet bankrupt, borrower deemed likely to become bankrupt due to financial difficulties and failure to make significant progress with restructuring plans)</td>
</tr>
<tr>
<td>14</td>
<td>Although not legally or officially bankrupt, borrower in virtual bankruptcy due to serious financial difficulties, without any realistic prospect of business recovery</td>
</tr>
<tr>
<td>15</td>
<td>Borrower legally or officially bankrupt and subject to specific procedures, such as legal liquidation/business suspension/winding up of business/private liquidation</td>
</tr>
</tbody>
</table>

Asset Evaluation and Assessment System

The asset evaluation and assessment system classifies assets according to the probability of collection and the risk of any impairment in value, based on the borrower grades consistent with the borrower ratings and status of collateral or guarantees. The system enables MUFG to conduct write-offs and allocate allowances against any credits in a timely and adequate manner.

Quantitative Analysis of Credit Risk

MUFG manages credit risk using a quantitative model to measure risks based on data such as credit amount, probability of default and estimated recovery rates. This model also takes into account the correlation between borrowers.
**Portfolio Management**

MUFG aims to achieve and maintain levels of earnings commensurate with credit risk exposure. Products are priced to take into account expected losses, based on internal credit ratings.

Our major subsidiary banks assess and monitor loan amounts and credit exposure by credit rating, industry and region. Portfolios are appropriately managed to limit concentrations of risk in specific categories by establishing large exposure guideline.

To manage country risk, our major subsidiary banks have established specific credit ceilings by country. These ceilings are reviewed when there is any material change in a country’s credit standing, in addition to regular review.

**Continuous CPM Improvement**

Reflecting the growth in global markets for securitized products and credit derivatives, our major subsidiary banks actively seek to supplement conventional CPM techniques with advanced methods based on the use of such market-based instruments.

Through credit risk quantification and portfolio management, MUFG aims to improve the risk-return profile of the group’s credit portfolio using financial markets to rebalance credit portfolios in a dynamic and active manner, based on an accurate assessment of credit risk.

**Credit Portfolio Management (CPM) Framework**

<table>
<thead>
<tr>
<th>Objective credit rating system</th>
<th>Implementation of Basel II</th>
<th>Risk quantification</th>
<th>Asset evaluation and assessment</th>
<th>Portfolio management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Quantitative monitoring of credit risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Portfolio risk concentration checks</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Market-based advanced CPM</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Risk-based earnings management</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Risk-based pricing management</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Appropriate write-offs and allowance</td>
</tr>
</tbody>
</table>

**Risk Management of Strategic Equity Portfolio**

Strategic equity investment risk is the risk of losses caused by a decline in the prices of equity investments of MUFG.

Our major subsidiary banks use quantitative analysis to manage the risks associated with the portfolio of equities held for strategic purposes. According to internal calculations, the market value of our strategically-held listed stocks as of March 31, 2006 was subject to a variation of approximately ¥4.0 billion per point of movement in the TOPIX index.

MUFG seeks to manage and reduce strategic equity portfolio risk based on such types of simulation. The aim is to keep this risk at appropriate levels compared with Tier I capital while generating returns commensurate with the degree of risk exposure.
Market Risk Management

Market risk is the risk that the value of our assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices, or foreign exchange rates.

Management of market risk at MUFG aims to control related risk exposure across the group while ensuring that earnings are commensurate with levels of risk.

Market Risk Management System

Through its market risk management system, MUFG monitors overall market risk and coordinates important matters at the holding company level, while major subsidiaries manage the market risks related to their own trading and non-trading activities on a global consolidated basis.

At each of the major subsidiaries, checks and balances are maintained through a system in which back and middle offices operate independently from front offices. In addition, ALM Committee, ALM Council Meetings and Risk Management Meetings are held at BTMU, MUTB and MUS, respectively, every month to review important matters related to market risk and control.

Major subsidiaries have established quantitative limits relating to market risk based on their allocated economic capital. In addition, in order to keep losses within predetermined limits, major subsidiaries have established stop-loss rules which set limits for the maximum amount of losses arising from market activities.

Management System at Major Subsidiaries

Market Risk Management and Control

At the holding company, VaR and other indicators of market risk exposure across the group, as well as major subsidiaries’ control over their quantitative limits for market risk and stop loss are monitored, and reported to the chief risk management officer on a daily basis. Various risk profiles are analyzed and evaluated through stress tests and other means, and findings are reported to the executive committee and the corporate risk management committee of the holding company.

The major subsidiaries set the quantitative limits for market risk and stop loss and their middle offices monitor these limits on a daily basis. The middle office of the holding company monitors our major subsidiaries’ control over their limits and reports to its chief risk management officer on a daily basis as well. We also monitor total loss levels on a consolidated basis.
In addition, with respect to the operation of each of the business units, each of the major subsidiaries manages the market risks relating to our assets and liabilities, such as interest rate risk and exchange rate risk, by entering into various hedging transactions using marketable securities and derivatives, including futures, options and swaps. For a detailed discussion of the financial instruments employed as part of our risk management strategy, see note 25 to our consolidated financial statements.

**Market Risk Measurement Model**

Market risks consist of general risks and specific risks. General market risks result from changes in entire markets, while specific risks relate to changes in the prices of individual stocks and bonds which are independent of the overall direction of the market.

To measure general market risks, MUFG uses the VaR method which estimates changes in the market value of portfolios within a certain period by statistically analyzing past market data. MUFG uses VaR to monitor market risks quantitatively on a daily basis, taking into account risk diversification effects among all of our portfolios.

MUFG uses a historical simulation (HS) model in VaR risk calculation. Our VaR is based on 10-day holding period, with a 99% confidence interval based on an observation period consisting of the preceding 701 business days. The HS model assumes that historical changes in market value are representative of future changes and involves fewer assumptions about the distribution of portfolio losses than parameter-based methodologies. Accordingly, it is capable of capturing certain statistically infrequent movements, e.g., a fat tail and accounts for the characteristics of instruments with non-linear behavior.

The internal market risk model used by the holding company and the major subsidiaries has been verified by external auditors as meeting the qualitative and quantitative criteria set forth in Section B of the January 1996 Amendment to the Capital Accord to Incorporate Market Risks and the Japanese Banking Law. We use the historical simulation model to calculate our capital adequacy ratios.

MUFG also conducts stress testing and backtesting. Some market situations are extremely difficult to predict and some events are statistically very infrequent. Stress testing uses scenarios that estimate the amount of loss likely to be incurred by a portfolio in such situations or as a result of such events. Backtesting is a method that verifies the reliability of risk-calculation models by retrospectively comparing estimates of risk with the gains and losses produced by actual market movements.

**Summaries of Market Risks (Fiscal Year Ended March 2006)**

**Trading activities**

The VaR for MUFG’s total trading activities in the fiscal year ended March 31, 2006 are divided into three separate periods to reflect the merger of the holding companies and trust banks in October 2005 and the merger of the two commercial banks in January 2006. The former MTFG and UFJ group companies used different risk measurement methods, and the pre-merger figures are based on these respective approaches. Hence, valid year-on-year VaR comparisons can only be made between MUFG and surviving entities from MTFG.

The total amount of VaR for MUFG as of March 31, 2006 was ¥3.81 billion, of which the major component was exposure to interest-rate risk (¥3.65 billion). Compared to the VaR for MTFG at March 31, 2005, although overall market risk was lower and yen interest-rate risk exposure was significantly lower, exposures to US dollar interest-rate risk and foreign exchange risk were both higher.

The average daily VaR (MUFG) in January–March 2006 (¥4.13 billion) was slightly higher compared to that of MTFG in the year ended March 2005 (¥3.64 billion). This reflected an increase in interest-rate risk and foreign exchange risk which was partially offset by a decrease in equity-related risk.
### VaR for Trading Activities

<table>
<thead>
<tr>
<th>Period</th>
<th>Billions of Yen</th>
<th>Average</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Mar 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1, 2004—March 31, 2005</td>
<td>MTFG</td>
<td>¥ 3.64</td>
<td>¥12.77</td>
<td>¥1.87</td>
<td>¥ 6.06</td>
</tr>
<tr>
<td></td>
<td>Interest rate</td>
<td>3.08</td>
<td>13.02</td>
<td>1.27</td>
<td>6.83</td>
</tr>
<tr>
<td></td>
<td>Yen</td>
<td>2.36</td>
<td>12.24</td>
<td>0.66</td>
<td>6.47</td>
</tr>
<tr>
<td></td>
<td>Dollars</td>
<td>1.01</td>
<td>2.24</td>
<td>0.45</td>
<td>0.78</td>
</tr>
<tr>
<td></td>
<td>Foreign Exchange</td>
<td>1.49</td>
<td>2.73</td>
<td>0.32</td>
<td>0.38</td>
</tr>
<tr>
<td></td>
<td>Equities</td>
<td>0.79</td>
<td>3.11</td>
<td>0.51</td>
<td>0.51</td>
</tr>
<tr>
<td></td>
<td>Commodities</td>
<td>0.05</td>
<td>0.13</td>
<td>0.02</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td>Diversification Effect</td>
<td>(1.77)</td>
<td>—</td>
<td>—</td>
<td>(1.69)</td>
</tr>
<tr>
<td>UFJ Bank</td>
<td></td>
<td>1.5</td>
<td>3.5</td>
<td>0.5</td>
<td>2.4</td>
</tr>
<tr>
<td>UFJ Trust Bank</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period</th>
<th>Billions of Yen</th>
<th>Average</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Sep 30, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1, 2005—Sep 30, 2005</td>
<td>MTFG</td>
<td>¥ 7.69</td>
<td>¥15.39</td>
<td>¥2.53</td>
<td>¥ 4.11</td>
</tr>
<tr>
<td></td>
<td>Interest rate</td>
<td>7.76</td>
<td>15.14</td>
<td>2.17</td>
<td>4.04</td>
</tr>
<tr>
<td></td>
<td>Dollars</td>
<td>0.70</td>
<td>1.77</td>
<td>0.25</td>
<td>0.50</td>
</tr>
<tr>
<td></td>
<td>Foreign Exchange</td>
<td>1.16</td>
<td>2.46</td>
<td>0.20</td>
<td>0.94</td>
</tr>
<tr>
<td></td>
<td>Equities</td>
<td>0.55</td>
<td>4.04</td>
<td>0.23</td>
<td>0.25</td>
</tr>
<tr>
<td></td>
<td>Commodities</td>
<td>0.11</td>
<td>0.25</td>
<td>0.01</td>
<td>0.12</td>
</tr>
<tr>
<td></td>
<td>Diversification Effect</td>
<td>(1.89)</td>
<td>—</td>
<td>—</td>
<td>(1.24)</td>
</tr>
<tr>
<td>UFJ Bank</td>
<td></td>
<td>2.5</td>
<td>3.2</td>
<td>1.5</td>
<td>1.8</td>
</tr>
<tr>
<td>UFJ Trust Bank</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period</th>
<th>Billions of Yen</th>
<th>Average</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Dec 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 1, 2005—December 31, 2005</td>
<td>MUFG (excluding UFJ Bank)</td>
<td>¥ 3.53</td>
<td>¥ 5.36</td>
<td>¥ 2.25</td>
<td>¥ 2.29</td>
</tr>
<tr>
<td></td>
<td>Interest rate</td>
<td>2.60</td>
<td>4.11</td>
<td>2.00</td>
<td>2.11</td>
</tr>
<tr>
<td></td>
<td>Yen</td>
<td>1.69</td>
<td>3.48</td>
<td>1.02</td>
<td>1.38</td>
</tr>
<tr>
<td></td>
<td>Dollars</td>
<td>0.71</td>
<td>1.20</td>
<td>0.39</td>
<td>1.03</td>
</tr>
<tr>
<td></td>
<td>Foreign Exchange</td>
<td>2.71</td>
<td>4.62</td>
<td>0.99</td>
<td>1.86</td>
</tr>
<tr>
<td></td>
<td>Equities</td>
<td>0.42</td>
<td>1.07</td>
<td>0.27</td>
<td>0.27</td>
</tr>
<tr>
<td></td>
<td>Commodities</td>
<td>0.19</td>
<td>0.36</td>
<td>0.12</td>
<td>0.13</td>
</tr>
<tr>
<td></td>
<td>Diversification Effect</td>
<td>(2.38)</td>
<td>—</td>
<td>—</td>
<td>(2.08)</td>
</tr>
<tr>
<td>UFJ Bank</td>
<td></td>
<td>1.2</td>
<td>1.9</td>
<td>0.6</td>
<td>0.7</td>
</tr>
<tr>
<td>UFJ Trust Bank</td>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period</th>
<th>Billions of Yen</th>
<th>Average</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Mar 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1, 2006—March 31, 2006</td>
<td>MUFG</td>
<td>¥ 4.13</td>
<td>¥ 5.40</td>
<td>¥ 3.45</td>
<td>¥ 3.81</td>
</tr>
<tr>
<td></td>
<td>Interest rate</td>
<td>3.64</td>
<td>5.71</td>
<td>2.63</td>
<td>3.65</td>
</tr>
<tr>
<td></td>
<td>Yen</td>
<td>2.72</td>
<td>5.51</td>
<td>1.71</td>
<td>2.51</td>
</tr>
<tr>
<td></td>
<td>Dollars</td>
<td>0.90</td>
<td>1.75</td>
<td>0.49</td>
<td>1.35</td>
</tr>
<tr>
<td></td>
<td>Foreign Exchange</td>
<td>1.83</td>
<td>3.72</td>
<td>0.74</td>
<td>0.74</td>
</tr>
<tr>
<td></td>
<td>Equities</td>
<td>0.50</td>
<td>2.10</td>
<td>0.24</td>
<td>0.45</td>
</tr>
<tr>
<td></td>
<td>Commodities</td>
<td>0.12</td>
<td>0.16</td>
<td>0.07</td>
<td>0.07</td>
</tr>
<tr>
<td></td>
<td>Diversification Effect</td>
<td>(1.97)</td>
<td>—</td>
<td>—</td>
<td>(1.10)</td>
</tr>
</tbody>
</table>
**Assumption for VaR calculations:**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Method</th>
<th>Holding period</th>
<th>Confidence interval</th>
<th>Observation period</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTFG/MUFG</td>
<td>Historical simulation method</td>
<td>10 days</td>
<td>99%</td>
<td>701 business days</td>
</tr>
<tr>
<td>UFJ Bank</td>
<td>Historical simulation method</td>
<td>1 day</td>
<td>99%</td>
<td>750 trading days</td>
</tr>
<tr>
<td>UFJ Trust Bank</td>
<td>Variance-covariance method</td>
<td>1 day</td>
<td>99%</td>
<td>2 years</td>
</tr>
</tbody>
</table>

Note: The maximum and minimum VaR overall and for various risk categories were taken from different days. A simple summation of VaR by risk category is not equal to total VaR due to the effect of diversification.

The average daily VaR by quarter in the fiscal year ended March 31, 2006 was as follows.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Daily average VaR</th>
</tr>
</thead>
<tbody>
<tr>
<td>April—June 2005</td>
<td>¥ 7.94 billion</td>
</tr>
<tr>
<td>July—September 2005</td>
<td>¥ 7.45 billion</td>
</tr>
<tr>
<td>October—December 2005</td>
<td>¥ 3.53 billion</td>
</tr>
<tr>
<td>January—March 2006</td>
<td>¥ 4.13 billion</td>
</tr>
</tbody>
</table>

Note: These figures above were adjusted in order to facilitate the changes caused by the mergers of the holding companies and of the trust banks in October 2005 as well as the merger of the two commercial banks in January 2006.

The quantitative market risk figures from trading activities tend to fluctuate widely due to the market sensitive nature of trading business. During the fiscal year ended March 31, 2006, the revenue from our trading activities has been relatively stable, keeping positive numbers in 227 days out of 259 trading days in the period. During the same period, there were 60 days with positive revenue exceeding ¥1 billion and 4 days with negative revenue exceeding minus ¥1 billion.

**Non-trading Activities**

VaR for MUFG’s total non-trading activities as of March 31, 2006, excluding market risks related to our strategic equity portfolio and measured using the same standard as used for trading activities, was ¥212.0 billion. Market risks related to interest-rate risk equaled ¥188.4 billion. Equities-related risks equaled ¥99.6 billion. Compared to the VaR for MTFG at March 31, 2005, the increase in overall market risk was ¥78.1 billion. Market risks related to interest-rate risk rose by ¥60.4 billion. Equities-related risks rose by ¥44.8 billion.

Based on a simple summation of the figures across risk categories, interest rate risks accounted for approximately 63% of our total non-trading activity market risks, consisting of interest-rate risk, foreign exchange rate risk, equities risk and commodities risk.
The average daily interest rate VaR by quarter in the fiscal year ended March 31, 2006 was as follows.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Daily average VaR</th>
</tr>
</thead>
<tbody>
<tr>
<td>April—June 2005</td>
<td>¥ 151.43 billion</td>
</tr>
<tr>
<td>July—September 2005</td>
<td>¥ 155.40 billion</td>
</tr>
<tr>
<td>October—December 2005</td>
<td>¥ 170.65 billion</td>
</tr>
<tr>
<td>January—March 2006</td>
<td>¥ 219.53 billion</td>
</tr>
</tbody>
</table>

Note: These figures above were adjusted in order to facilitate the changes caused by the mergers of the holding companies and of the trust banks in October 2005 as well as the merger of the two commercial banks in January 2006.

Comparing the proportion of each currency’s interest rate VaR to the total interest rate VaR as of March 31, 2006 against that of March 31, 2005, there were a 9% increase in Japanese yen from 39% to 48%, a decrease in US dollar from 44% to 43%, and also a decrease in Euro from 16% to 8%.

**Backtesting**

We conduct backtesting in which estimated quantitative risks are compared with actual realized and unrealized losses to verify the accuracy of our VaR measurement model. Actual losses never exceeded VaR in our backtesting of trading days in the fiscal year ended March 31, 2006. This means that our VaR model provided reasonably accurate measurements during the fiscal year ended March 31, 2006.

**Stress Testing**

We calculate, on a daily basis, the hypothetical losses of our current positions in each market sector, applying the worst ten-day volatility recorded during the observation period of 701 business days. As of March 31, 2006, the hypothetical losses calculated with this stress scenario were ¥4.5 billion in our trading position and ¥246.3 billion in our non-trading position, compared to ¥4.9 billion and ¥157.6 billion, respectively, as of March 31, 2005.

**Capital Charges for Market Risk**

The market risk regulations stipulated in the Basel Capital Accord require us to include the effects of market risk in calculating capital adequacy ratios. Holding company and both subsidiary banks use an internal model approach to calculate general market risk, and a standardized approach to calculate specific risk. In applying the internal model approach, we are required to meet qualitative and quantitative criteria. Internal and external examinations have demonstrated that our systems have been able to meet these strict requirements.

**Liquidity Risk Management**

Liquidity risk is the risk of incurring losses if a poor financial position at a group company hampers the ability to meet funding requirements, or necessitates fund procurement at interest rates markedly higher than normal.

Major subsidiaries maintain appropriate liquidity in both Japanese yen and foreign currencies. Major subsidiaries manage the daily funding mechanism and the funding sources, such as liquidity gap, liquidity-supplying products such as commitment lines and buffer assets.

In relation to its total liquidity risk, MUFG has established the following categories to assess group-wide liquidity risks: Normal, With-Concern, and Critical. The front offices and risk management offices of our major subsidiaries exchange information and data on cash flows even at the Normal stage. At higher alert stages, we centralize information about liquidity risk and group-wide responses. We have also established a system for liaison and consultation on funding in preparation for emergencies, such as natural disasters, wars and terrorist attacks.
Operational Risk Management

Operational risk is the risk of losses caused by defective internal controls or by external factors.

Operational risk refers to the risk of losses caused either by internal factors (defective, inadequate or erroneous operational systems or processes), systems failure or external factors such as a natural disaster or other major emergency. The term includes a broad range of risks that could lead to losses, including operations risk, information asset risk, legal and compliance risk, and tangible asset risk. As an inherent part of business activities, such risks affect not only financial institutions but also other enterprises. Many examples of these risks have come to light in the media in recent years. The Basel II international capital framework requires banks to charge operational risks to capital, underlining the need to build and develop systems to manage such risk.

For appropriate operational risk identification, assessment and measurement, as well as monitoring and control, we are developing a risk management system that includes loss data collection and monitoring, control self-assessment (CSA), and measurement of operational risk.

Group subsidiaries have established internal standards on loss data collection and monitoring. Efforts are focused on ensuring accurate assessment of the status of operational risk-related losses and the implementation of appropriate countermeasures, while also building up databases on loss events.

MUFG has introduced CSA to promote internal self-improvement for any operational problems or related risks discovered, depending on the gravity of the relevant issue. The CSA approach involves functional representatives identifying problems or risks regarding individual internal processes to enable evaluation of the impact and management status of risk-related issues. Measures to make improvements are then developed to address any significant problems thus identified. In this way, CSA aims to strengthen autonomous risk management capabilities through the work of the functional representatives.

Development of risk quantification methods involves not only actual loss data but constructed data based on assessments of internal and external business environments as well as internal risk control status.

Operations Risk Management

Operations risk refers to the risk of losses that are attributable to the actions of executives or employees, whether accidental or the result of neglect or deliberate misconduct. MUFG companies offer a wide range of financial services, ranging from commercial banking products such as deposits, exchange services and loans to trust and related services covering pensions, securities, real estate and securitization, as well as transfer agent services. Cognizant of the potentially significant impact that operations risk-related events could have in terms both of economic losses and damage to MUFG’s reputation, our major subsidiary banks are developing management systems to create and apply appropriate operations risk-related controls.

Senior management receives regular reports on the status of MUFG businesses from an operations risk management perspective. MUFG works to promote the sharing within the group of information and expertise concerning any operational incidents and the measures implemented to prevent any reoccurrence.

Specific ongoing measures to reduce operations risk include the development of databases to manage, analyze and prevent the reoccurrence of related loss events; efforts to tighten controls over administrative procedures and related operating authority, while striving to improve human resources management; investments in systems to boost the efficiency of administrative operations; and programs to expand and upgrade internal auditing and operational guidance systems. Efforts to upgrade the management of operations risk continue with the aim of providing MUFG customers with a variety of high-quality services.

Information Asset Risk Management

Information asset risk refers to the risk of losses caused by the loss or unauthorized disclosure of information or by systems failure. In order to fulfill proper handling of information and prevent loss or
unauthorized disclosure of information, our major subsidiary banks are developing systems to manage and reduce such risks through the appointment of managers with specific responsibilities for information security issues, the establishment of internal rules and procedures, training courses targeting all staff and the implementation of measures to ensure stable IT systems control. MUFG has also formulated the Personal Information Protection Policy as the basis for ongoing programs to protect the confidentiality of personal information.

Systems planning, development and operations include extensive testing phases to ensure that systems are designed to help prevent failures while providing sufficient safeguards for the security of personal information. The status of the development of any mission-critical IT systems is reported regularly through senior management channels. MUFG has invested in systems for emergency countermeasures and has also built extensive redundancy into the group’s IT infrastructure to minimize damage in the event of any system failure. Emergency drills help to increase staff preparedness. With the aim of preventing any reoccurrence, MUFG also works to promote sharing of information within the group related to the causes of any loss or unauthorized disclosure of information or system failure.

Compliance

*Basic Policy*

An internal code of ethics outlines the behavior expected of executives and employees of MUFG group companies to maintain full legal and regulatory compliance.

*Ethical Framework*

We, the directors and employees of MUFG, will comply with this Ethical Framework and Code of Conduct as the basis of our daily work, seeking to put into practice the management philosophy of our global comprehensive financial group and to build a corporate culture in which we act with integrity and fairness.

1. *Establishment of trust*

We will remain keenly aware of the group’s social responsibilities and public mission and will exercise care and responsibility in the handling of customer and other information.

By conducting sound and appropriate business operations and disclosing corporate information in a timely and appropriate manner we will seek to establish enduring public trust in the group.

2. *Putting customers first*

We will always consider our customers, and through close communication will endeavor to satisfy them and gain their support by providing financial services that best meet their needs.

3. *Strict observance of laws, regulations and internal rules*

We will strictly observe applicable laws, regulations and internal rules, and will conduct our business in a fair and trustworthy manner that conforms to societal norms. As a global comprehensive financial group we will also respect internationally accepted standards.

4. *Respect for human rights and the environment*

We will respect the character and individuality of others, work to maintain harmony with society, and place due importance on the protection of the global environment that belongs to all mankind.

5. *Disavowal of anti-social elements*

We will stand resolutely against any anti-social elements that threaten public order and safety.
**Compliance Framework**

Management and coordination of compliance-related matters is the responsibility of separate compliance management divisions established at the holding company, BTMU, MUTB, and MUS. Each division formulates, revises and oversees implementation of programs to ensure compliance with applicable laws, regulations and internal rules.

Compilation, publication, revision and dissemination of compliance manuals form a major part of these programs. The compliance management divisions also organize training courses and other activities to promote greater internal awareness of compliance-related issues. The board of directors and executive committee of each company receive regular reports concerning the status of compliance activities.

Each of the four companies listed above has also established an internal audit and compliance committee where members from outside MUFG form a majority. To bolster the overall compliance framework, BTMU, MUTB, and MUS have each established a compliance committee as an internal deliberative body to discuss key related matters.

Note: BTMU also has a compliance special committee composed entirely of members from outside MUFG that reports to its audit committee.

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**Internal Reporting System and Accounting Auditing Hotline**

The holding company, BTMU, MUTB, and MUS have established internal reporting systems that aim to identify compliance issues early so that any problems can be quickly rectified. This system includes an independent external compliance hotline.

In addition to these internal reporting systems, the holding company has also established an accounting auditing hotline that provides a means to report any problems related to MUFG accounting.

**Accounting Auditing Hotline**

MUFG has set up an accounting auditing hotline to be used to make reports related to instances of improper practices (violations of laws and regulations) and inappropriate practices, or of practices raising questions about
such impropriety or inappropriateness, regarding accounting and internal control or audits related to accounting in Group companies. The reporting process works as follows, and may be carried out via letter or e-mail.

Hokusei Law Office
Address: Kojimachi 4-3-4, Chiyoda-ku, Tokyo
e-mail: MUFG-accounting-audit-hotline@hokusei-law.com

When reporting information please pay attention to the following:

- Please include the name of the company concerned, and provide detailed information with respect to the matter. Without detailed factual information there is a limit to how much our investigations can achieve.
- Anonymous information will be accepted.
- No information regarding the identity of the informant will be passed on to third parties without the approval of the informant themselves. However, this excludes instances where disclosure is legally mandated, or to the extent that the information is necessary for surveys or reports, when data may be passed on following the removal of the informant’s name.
- Please submit reports in either Japanese or English.
- If the informant wishes, we will endeavor to report back to the informant on the response taken within a reasonable period of time following the receipt of specific information, but cannot promise to do so in all instances.

Internal Audit

The Role of Internal Audit

Internal audit functions within MUFG seek to provide independent verification of the adequacy and effectiveness of internal control systems. This includes monitoring the status of risk management and compliance systems, which are critical to the maintenance of sound and appropriate business operations. Internal audit results are reported to senior management. An additional role for internal audit is to make suggestions to help improve or rectify any issues or specific problems that are identified.

Group Internal Audit Framework

The board of directors at the holding company level has instituted MUFG’s internal audit policy to define the mission, goals, function and organizational position of internal audits. Separate divisions have been created within the holding company and the major group subsidiaries (the Internal Audit Division at the holding company, the Internal Audit & Credit Examination Division at BTMU and the Audit Division at MUTB, and the Internal Audit Division and Inspections Division at MUS) to conduct internal audits based on this policy. These divisions perform the core internal audit functions of the group. Through close cooperation and collaboration between the divisions in each of the four companies, these internal audit divisions provide coverage for the entire group and also support the board of directors in monitoring and overseeing all MUFG operations.

The boards of directors of BTMU, MUTB and MUS have also formulated separate internal audit policies consistent with MUFG’s internal audit policy. This arrangement ensures that a consistent and integrated internal audit framework applies to all MUFG operations, including subsidiaries of the major group subsidiaries.

In addition to having primary responsibility for initiating and preparing plans and proposals related to internal audits of the entire group, the Internal Audit Division at the holding company monitors, and as necessary, guides, advises and administers the internal audit divisions of subsidiaries and affiliated companies. The internal audit divisions within the major subsidiaries conduct audits of the respective head office and branch
operations of these companies. In addition, each of these three divisions undertakes direct audits of their respective subsidiaries, and monitors and oversees the separate internal audit functions established within them. This helps to evaluate and verify the adequacy and effectiveness of internal controls within MUFG on a consolidated basis.

**Implementing Efficient and Effective Internal Audits**

To ensure that internal audit processes use available resources with optimal efficiency and effectiveness, the internal audit divisions implement risk-focused internal audits in which the nature and magnitude of the associated risks are considered in determining audit priorities and the frequency and depth of internal audit activities. The internal audit divisions ensure that audit personnel attend key meetings, collect important internal control documents and access databases to facilitate efficient off-site monitoring.

**Measures to Enhance Internal Audit Independence and Supervision by the Boards of Directors**

To strengthen the respective boards of directors’ monitoring and supervision of operational execution status and to enhance the independence of the internal audit divisions, the holding company, BTMU, MUTB and MUS have established internal audit and compliance committees that are chaired by external directors. These committees receive direct reports from the internal audit divisions on important internal audit-related matters, including the results of all internal audits and internal auditing plans requiring board approval. The deliberations of the audit committees concerning such matters are then reported to the respective boards of directors. This structure enhances the independence of internal audit functions from functions responsible for business execution.

**Item 12. Description of Securities Other than Equity Securities.**

Not applicable.