Capital Injection from Mitsubishi Tokyo Financial Group

Tokyo - UFJ Holdings, Inc. (“UFJ”) (President and CEO: Ryosuke Tamakoshi) announced today that it has concluded a Capital Injection Agreement with Mitsubishi Tokyo Financial Group, Inc. (“MTFG”); (President and CEO: Nobuo Kuroyanagi). Under the agreement, the two Groups have agreed that MTFG will purchase all of the preferred shares to be issued by UFJ Bank Limited (President: Takamune Okihara) totaling 700 billion yen. The payment date has been set on or before September 29, 2004.

The UFJ Group continues to make progress in assisting with the restructuring of its corporate clients with the aim of reducing its Non Performing Loan (“NPL”) ratio to less than 4% during the current fiscal year. These efforts have incurred additional credit-related expenses, however, and, as a result, UFJ Bank is now forecasting an interim loss of 750 billion yen for the current fiscal year.1 With the completion of the capital injection from MTFG, it is expected that UFJ will be able to maintain a minimal capital adequacy ratio of 8% at the end of this month.

The purpose of the capital injection is to strengthen the capital base of UFJ and to realize the goals, and maximize the effectiveness of the management integration, as outlined in the Capital Injection Agreement. In addition, the UFJ and MTFG Groups are also continuing discussions based on the Basic Management Integration Agreement, dated August 12, 2004. The aim of this agreement is to integrate the management of the holding companies, banks, trust banks and securities firms of the two Groups by October 1, 2005.

1. Outline of capital injection

- Issuer: UFJ Bank Limited
- Method of issue: Third party allotment
- Subscriber: MTFG
- Total amount issued: 700 billion yen
- Payment date: On or before 29 September, 2004

Details of UFJ’s new financial projections are outlined in a separate announcement made today.
2. Review Process Methodology

UFJ concluded a basic agreement with MTFG on 11 August, 2004, related to MTFG’s cooperation in strengthening UFJ’s capital base. Since then, UFJ has thoroughly reviewed and considered both the benefits of the overall management integration of the two Groups, and it has reviewed the terms, conditions and benefits of the capital injection, with regard to UFJ’s goal of improving mid- and long-term shareholder value.

UFJ has also received and considered a proposal from Sumitomo Mitsui Financial Group, Inc. (“SMFG”) regarding its interest in pursuing management integration with UFJ, including an agreement to strengthen UFJ’s capital base. To assist with this review process, UFJ has selected Merrill Lynch Japan Securities Co., Ltd. (Merrill Lynch) and J.P. Morgan Securities Asia Pte. Limited (J.P. Morgan), as financial advisors to provide independent, third party advice.

After careful consideration, UFJ has decided to accept a capital injection from MTFG for the following five reasons:

1) Merger ratio considerations

UFJ is working closely with MTFG, and obtaining advice from independent third parties, including its financial advisors, to give careful thought to the merger ratio considerations in connection with the MTFG integration. The Board believes that it is not ready to provide a ratio at this stage, as the merger ratio is to be finalized once the due diligence being performed by each party is completed. However, the UFJ Board strongly believes that an agreement on the merger ratio, which the UFJ Board thinks is fair, after taking advice from its financial advisors, can be reached.

UFJ has also received a management integration proposal from SMFG suggesting a prima facie “1:1” merger ratio. UFJ has also carefully reviewed this proposal, and taken advice from independent third parties, including Merrill Lynch. When compared purely on the basis of the current share price, the merger ratio proposed by SMFG suggests that it is prepared to offer a considerable premium to current valuations. However, the actual merger ratio calculation may vary depending on the assumptions used. UFJ’s Board strongly believes that the merger ratio which it believes can be obtained in the integration with MTFG is likely to be comparable to that proposed by SMFG.

2) Certainty of achieving a successful capital injection

UFJ recognizes the importance of successfully completing the capital injection by the end of September, 2004 as being of utmost importance to the preservation of shareholder value. UFJ has come to the conclusion that there is a strong probability that MTFG will be able to successfully complete the capital injection, based on the solid progress of all the preparatory work necessary to ensure the execution of the capital injection, including the conclusion of the final agreement on the terms for subscription, regulatory approval procedures required overseas and due diligence.

At the same time, UFJ has also received a detailed proposal from SMFG to support UFJ’s capital base by the end of September, 2004. However, the Board is concerned that SMFG may have insufficient time in practice to respond to any unanticipated contingencies.
3) Financial soundness and asset quality

UFJ believes that MTFG is superior to SMFG in terms of financial soundness and the quality of its assets.

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<th>MTFG</th>
<th>SMFG</th>
<th>UFJ</th>
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<tr>
<td><strong>Non performing loans</strong>*</td>
<td>1.29 trillion yen</td>
<td>2.75 trillion yen</td>
<td>4.62 trillion yen</td>
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<td>Non performing loan ratio</td>
<td>2.6%</td>
<td>5.0%</td>
<td>10.2%</td>
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<td><strong>Deferred tax assets (consolidated)</strong></td>
<td>0.65 trillion yen</td>
<td>1.67 trillion yen</td>
<td>1.40 trillion yen</td>
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<td>Deferred tax assets to Tier 1 ratio</td>
<td>16.9%</td>
<td>46.6%</td>
<td>64.1%</td>
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*Based on non-consolidated figures of banks within the Group

1. Non performing loans (“NPLs”)

MTFG’s NPL balance (based on non-consolidated figures of banks within the Group) and NPL ratio stood at 1.29 trillion yen (2.6%) at the end of June, 2004. By contrast, SMFG had a significantly higher NPL balance of 2.75 trillion (5.0%). In the fiscal year ended March, 2004, SMFG recorded a high level of credit-related expenses of 803.4 billion yen. On the other hand, MTFG wrote-back credit-related provisions totaling 131.7 billion. These figures indicate that MTFG has made significantly more progress than SMFG in dealing with their respective NPL problems.

The UFJ Group is endeavoring to lower its NPL ratio below 4% by the end of the current fiscal year. UFJ believes that once the management integration with MTFG is successfully completed, the business will be able to move forward, focusing on its business development plans having put its NPL issues largely behind it.

2. Deferred tax assets

At the end of March 2004, the balance of deferred tax assets (on a consolidated basis) and as a percentage of Tier 1 capital, stood at 0.65 trillion yen (16.9%) for MTFG and 1.67 trillion yen (46.6%) for SMFG. These figures indicate that MTFG is in a superior position from the perspective of the quality of its capital.

4) Early repayment of public funds

UFJ has accepted public funds of 1.4 trillion in the form of preferred shares. On the other hand, MTFG currently has no outstanding public fund obligations. Furthermore, the MTFG group recorded a consolidated income surplus of 1.5 trillion yen at the end of March 2004. Accordingly, the integration with MTFG will enable UFJ to reduce the number of potential outstanding shares through a buyback of preferred shares, thus increasing earnings per share on a fully diluted basis. Furthermore, integration with MTFG will provide the combined Group with a broader range of options to improve shareholder value.

On the other hand, SMFG’s balance of publicly funded preferred shares stands at 1.3 trillion yen. If this total is added to UFJ’s balance of 1.4 trillion yen, it would take a considerable amount of time to repay the total public funds from accumulated surpluses. Furthermore, as the majority of the preferred shares have to be converted by 2008 and 2009, it is likely that a UFJ/SMFG combination would have to raise new capital to buy back shares which would be likely to have a negative impact on shareholder value.
<table>
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<th>Balance of publicly funded preferred shares</th>
<th>MTFG</th>
<th>SMFG</th>
<th>UFJ</th>
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<tr>
<td>1.51 trillion yen</td>
<td>nil</td>
<td>1.30 trillion yen</td>
<td>1.40 trillion yen</td>
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<td>Consolidated Income Surplus/(Deficit)</td>
<td>0.61 trillion yen</td>
<td>(0.76 trillion yen)</td>
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5) Synergy effects of integration

UFJ’s analysis of the potential cost savings obtainable under the alternative scenarios of integrating with either MTFG or SMFG shows that, in both cases, integration would result in significant costs savings. UFJ believes that each scenario would result in a similar level of cost savings resulting from the closure of domestic branches that are no longer required, reductions in head office and branch staff, and also as a result of the integration of the respective computer systems.

UFJ and MTFG will compliment each other well from both a regional and customer viewpoint. The new integrated business will maximize the strength of each Group, deliver a superior range of financial services, including assisting companies to expand internationally through its global network, and provide clients with a broad range of services across Japan’s three major metropolitan areas. Overall, compared with a potential integration with SMFG whose strengths are similar to those of UFJ, the UFJ Board believes that the MTFG integration will have a more positive effect on the Group’s overall profitability.

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