

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2010
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period to
OR
SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report
Commission file number 1-10277

KABUSHIKI KAISHA MITSUBISHI UFJ FINANCIAL GROUP

(Exact name of Registrant as specified in its charter)

MITSUBISHI UFJ FINANCIAL GROUP, INC.

(Translation of Registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

7-1, Marunouchi 2-chome
Chiyoda-ku, Tokyo 100-8330

Japan

(Address of principal executive offices)

Naoki Muramatsu, +81-3-3240-8111, +81-3-3240-7073, address is same as above

(Name, Telephone, Facsimile number and Address of Company Contact Person)

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

Table with 2 columns: Title of each class, Name of each exchange on which registered. Rows include Common stock and American depository shares.

- (1) The listing of the registrant's common stock on the New York Stock Exchange is for technical purposes only and without trading privileges.
Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
\$2,300,000,000 Fixed/Floating Rate Non-Cumulative Preferred Securities of MUFG Capital Finance 1 Limited, and Mitsubishi UFJ Financial Group, Inc.'s
Guarantee thereof
€750,000,000 Fixed/Floating Rate Non-Cumulative Preferred Securities of MUFG Capital Finance 2 Limited, and Mitsubishi UFJ Financial Group, Inc.'s
Guarantee thereof
¥120,000,000,000 Fixed/Floating Rate Non-Cumulative Preferred Securities of MUFG Capital Finance 3 Limited, and Mitsubishi UFJ Financial Group, Inc.'s
Guarantee thereof

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:
At March 31, 2010, (1) 14,148,414,920 shares of common stock (including 21,069,229 shares of common stock held by the registrant and its consolidated subsidiaries as treasury stock), (2) 100,000,000 shares of first series of class 3 preferred stock, (3) 156,000,000 shares of first series of class 5 preferred stock, and (4) 1,000 shares of class 11 preferred stock.

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

Yes [X] No [ ]

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

Yes [ ] No [X]

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

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

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP [X] International Financial Reporting Standards as issued by the International Accounting Standards Board [ ] Other [ ]

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 [ ] Item 18 [ ]

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

Yes [ ] No [X]

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

When we refer in this Annual Report to “MUFG,” “we,” “us,” “our” and the “Group,” we generally mean Mitsubishi UFJ Financial Group, Inc. and its consolidated subsidiaries, but from time to time as the context requires, we mean Mitsubishi UFJ Financial Group, Inc. as an individual legal entity. Similarly, references to “MTFG” and “UFJ Holdings” are to Mitsubishi Tokyo Financial Group, Inc. and to UFJ Holdings, Inc., respectively, as well as to MTFG and UFJ Holdings and their respective consolidated subsidiaries, as the context requires. Unless the context otherwise requires, references in this Annual Report to the financial results or business of the “MTFG group” and the “UFJ group” refer to those of MTFG and UFJ Holdings and their respective consolidated subsidiaries. In addition, our “banking subsidiaries” refers to The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mitsubishi UFJ Trust and Banking Corporation and, as the context requires, their respective consolidated subsidiaries engaged in the banking business. References in this Annual Report to “yen” or “¥” are to Japanese yen and references to “US dollars,” “US dollar,” “dollars,” “US\$” or “\$” are to United States dollars. Our fiscal year ends on March 31 of each year. References to years not specified as being fiscal years are to calendar years.

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

## Forward-Looking Statements

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

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

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

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

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

## PART I

### **Item 1. Identity of Directors, Senior Management and Advisers.**

Not applicable.

### **Item 2. Offer Statistics and Expected Timetable.**

Not applicable.

### **Item 3. Key Information.**

#### **A. Selected Financial Data**

The selected statement of operations data and selected balance sheet data set forth below have been derived from our audited consolidated financial statements. On October 1, 2005, Mitsubishi Tokyo Financial Group, Inc., or MTFG, merged with UFJ Holdings, Inc. with MTFG being the surviving entity. Upon consummation of the merger, MTFG changed its name to Mitsubishi UFJ Financial Group, Inc., or MUFG. The merger was accounted for under the purchase method of accounting, and the assets and liabilities of UFJ Holdings and its subsidiaries were recorded at fair value as of October 1, 2005. Therefore, numbers as of March 31, 2006 reflect the financial position of MUFG while numbers for the fiscal year ended March 31, 2006 comprise the results of MTFG and its subsidiaries for the six months ended September 30, 2005 and the results of MUFG from October 1, 2005 to March 31, 2006. Numbers as of and for the fiscal years ended March 31, 2007, 2008, 2009 and 2010 reflect the financial position and results of MUFG.

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

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

	Fiscal years ended March 31,				
	2006	2007	2008	2009	2010
	(in millions, except per share data and number of shares)				
<b>Statement of operations data:</b>					
Interest income	¥2,530,682	¥ 3,915,729	¥ 4,366,811	¥ 3,895,794	¥ 2,758,504
Interest expense	882,069	1,585,963	2,087,094	1,599,389	774,400
Net interest income	1,648,613	2,329,766	2,279,717	2,296,405	1,984,104
Provision for credit losses	110,167	358,603	385,740	626,947	647,793
Net interest income after provision for credit losses	1,538,446	1,971,163	1,893,977	1,669,458	1,336,311
Non-interest income	1,067,352	1,947,936	1,778,114	175,099	2,453,865
Non-interest expense	1,918,903	2,767,253	3,620,336	3,608,784	2,508,060
Income (loss) from continuing operations before income tax expense (benefit) and cumulative effect of a change in accountings principle	686,895	1,151,846	51,755	(1,764,227)	1,282,116
Income tax expense (benefit)	165,473	552,826	553,045	(259,928)	407,040
Income (loss) from continuing operations	521,422	599,020	(501,290)	(1,504,299)	875,076
Income (loss) from discontinued operations—net	14,580	(1,251)	(2,670)	—	—
Cumulative effect of a change in accounting principle, net of tax <sup>(1)</sup>	(9,662)	—	—	—	—
Net income (loss) before attribution of noncontrolling interests	526,340	597,769	(503,960)	(1,504,299)	875,076
Net income (loss) attributable to noncontrolling interests	162,829	16,481	38,476	(36,259)	15,257
Net income (loss) attributable to Mitsubishi UFJ Financial Group	¥ 363,511	¥ 581,288	¥ (542,436)	¥ (1,468,040)	¥ 859,819
Net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group	¥ 156,842	¥ 300,227	¥ (557,014)	¥ (1,491,593)	¥ 838,141
<b>Amounts per share:</b>					
Basic earnings (loss) per common share—income (loss) from continuing operations available to common shareholders of Mitsubishi UFJ Financial Group before cumulative effect of a change in accounting principle	¥ 18.70	¥ 29.98	¥ (53.79)	¥ (137.84)	¥ 68.01
Basic earnings (loss) per common share—net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group	19.31	29.86	(54.05)	(137.84)	68.01
Diluted earnings (loss) per common share—income (loss) from continuing operations available to common shareholders of Mitsubishi UFJ Financial Group before cumulative effect of a change in accounting principle	18.34	29.80	(53.79)	(137.84)	67.87
Diluted earnings (loss) per common share—net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group	18.95	29.68	(54.05)	(137.84)	67.87
Number of shares used to calculate basic earnings (loss) per common share (in thousands)	8,120,732	10,053,408	10,305,911	10,821,091	12,324,315
Number of shares used to calculate diluted earnings (loss) per common share (in thousands)	8,120,733 <sup>(2)</sup>	10,053,409 <sup>(2)</sup>	10,305,911	10,821,091	12,332,681 <sup>(2)</sup>
Cash dividends per share declared during the fiscal year:					
—Common stock	¥ 9.00	¥ 9.00	¥ 13.00	¥ 14.00	¥ 11.00
	\$ 0.08	\$ 0.08	\$ 0.11	\$ 0.14	\$ 0.12
—Preferred stock (Class 1)	¥ 41.25	—	—	—	—
	\$ 0.37	—	—	—	—
—Preferred stock (Class 3)	¥ 37.07	¥ 60.00	¥ 60.00	¥ 60.00	¥ 60.00
	\$ 0.31	\$ 0.52	\$ 0.51	\$ 0.61	\$ 0.65
—Preferred stock (Class 5)	—	—	—	—	¥ 100.50
	—	—	—	—	\$ 1.10
—Preferred stock (Class 8)	—	¥ 23.85	¥ 15.90	¥ 7.95	—
	—	\$ 0.21	\$ 0.14	\$ 0.07	—
—Preferred stock (Class 9)	—	¥ 18.60	—	—	—
	—	\$ 0.16	—	—	—
—Preferred stock (Class 10)	—	¥ 19.40	—	—	—
	—	\$ 0.17	—	—	—
—Preferred stock (Class 11)	—	¥ 7.95	¥ 5.30	¥ 5.30	¥ 5.30
	—	\$ 0.07	\$ 0.05	\$ 0.05	\$ 0.06
—Preferred stock (Class 12)	—	¥ 17.25	¥ 11.50	¥ 11.50	—
	—	\$ 0.15	\$ 0.10	\$ 0.12	—

	At March 31,				
	2006	2007	2008	2009	2010
	(in millions)				
<b>Balance sheet data:</b>					
Total assets	¥188,749,117	¥188,929,469	¥195,766,083	¥193,499,417	¥200,084,397
Loans, net of allowance for credit losses	94,494,608	94,210,391	97,867,139	99,153,703	90,870,295
Total liabilities <sup>(3)</sup>	178,013,972	177,611,175	186,612,152	187,032,297	190,981,557
Deposits	126,639,931	126,587,009	129,240,128	128,331,052	135,472,496
Long-term debt	13,889,525	14,389,930	13,675,250	13,273,288	14,162,424
Total equity <sup>(3)</sup>	10,735,145	11,318,294	9,153,931	6,467,120	9,102,840
Capital stock <sup>(4)</sup>	1,084,708	1,084,708	1,084,708	1,127,552	1,643,238
<b>Fiscal years ended March 31,</b>					
	2006	2007	2008	2009	2010
	(in millions, except percentages)				
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Other financial data:</b>					
Average balances:					
Interest-earning assets	¥135,385,329	¥168,767,341	¥172,467,323	¥173,242,745	¥175,465,293
Interest-bearing liabilities	118,120,185	146,796,013	156,151,982	156,084,859	158,156,363
Total assets	161,481,516	188,311,147	197,946,692	196,214,390	195,562,072
Total equity <sup>(3)</sup>	7,847,830	10,799,391	10,038,425	8,069,262	7,861,277
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Return on equity and assets:					
Net income (loss) available to common shareholders as a percentage of total average assets	0.10%	0.16%	(0.28)%	(0.76)%	0.43%
Net income (loss) available to common shareholders as a percentage of total average equity <sup>(3)</sup>	2.00%	2.78%	(5.55)%	(18.48)%	10.66%
Dividends per common share as a percentage of basic earnings per common share	46.60%	30.14%	— <sup>(5)</sup>	— <sup>(5)</sup>	16.17%
Total average equity as a percentage of total average assets <sup>(3)</sup>	4.86%	5.73%	5.07%	4.11%	4.02%
Net interest income as a percentage of total average interest-earning assets	1.22%	1.38%	1.32%	1.33%	1.13%
Credit quality data:					
Allowance for credit losses	¥ 1,012,227	¥ 1,112,453	¥ 1,134,940	¥ 1,156,638	¥ 1,315,615
Allowance for credit losses as a percentage of loans	1.06%	1.17%	1.15%	1.15%	1.43%
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	¥ 2,044,678	¥ 1,699,500	¥ 1,679,672	¥ 1,792,597	¥ 2,007,619
Nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more as a percentage of loans	2.14%	1.78%	1.70%	1.79%	2.18%
Allowance for credit losses as a percentage of nonaccrual and restructured loans, and accruing loans contractually past due 90 days or more	49.51%	65.46%	67.57%	64.52%	65.53%
Net loan charge-offs	¥ 136,135	¥ 262,695	¥ 355,892	¥ 576,852	¥ 468,400
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net loan charge-offs as a percentage of average loans	0.19%	0.27%	0.37%	0.58%	0.49%
Average interest rate spread	1.12%	1.24%	1.19%	1.23%	1.08%
Risk-adjusted capital ratio calculated under Japanese GAAP <sup>(6)</sup>	12.20%	12.54%	11.19%	11.77%	14.87%

Notes:

- (1) Effective March 31, 2006, we adopted new accounting guidance regarding conditional asset retirement obligations.
- (2) Includes the common shares potentially issuable by conversion of the Class 11 Preferred Stock.
- (3) Effective April 1, 2009, we adopted new accounting guidance regarding noncontrolling interests in subsidiaries. See “*Noncontrolling Interests*” under “*Accounting Changes*” in Note 1 to our consolidated financial statements included elsewhere in this Annual Report for details. As a result, we have reclassified average balances, as well as year end balances, of “Total liabilities” and “Total equity” in the fiscal years ended March 31, 2006 to 2009. Accordingly “Net income (loss) available to common shareholders as a percentage of total average equity” and “Total average equity as a percentage of total average assets” have been reclassified.
- (4) Amounts include common shares. Redeemable Class 1, 3 and 5 Preferred Stock are excluded.
- (5) Percentages of basic loss per common share have not been presented because such information is not meaningful.
- (6) Risk-adjusted capital ratios have been calculated in accordance with Japanese banking regulations, based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP.

## Exchange Rate Information

The tables below set forth, for each period indicated, the noon buying rate in New York City for cable transfers in Japanese yen as certified for customs purposes by the Federal Reserve Bank of New York, expressed in Japanese yen per US\$1.00. On August 6, 2010, the noon buying rate was ¥85.25 to US\$1.00 and the inverse noon buying rate was US\$1.17 to ¥100.00.

	Year 2010					
	March	April	May	June	July	August <sup>(1)</sup>
High .....	¥93.40	¥94.51	¥94.68	¥92.33	¥88.59	¥86.42
Low .....	¥88.43	¥92.03	¥89.89	¥88.39	¥86.40	¥85.25

Note:

(1) Period from August 1, 2010 to August 6, 2010.

	Fiscal years ended March 31,				
	2006	2007	2008	2009	2010
Average (of month-end rates) .....	¥113.67	¥116.55	¥113.61	¥100.85	¥92.49

### B. Capitalization and Indebtedness

Not applicable.

### C. Reasons for the Offer and Use of Proceeds

Not applicable.

### D. Risk Factors

*Investing in our securities involves a high degree of risk. You should carefully consider the risks described in this section, which is intended to disclose all of the risks that we consider material based on the information currently available to us, as well as all the other information in this Annual Report, including our consolidated financial statements and related notes, “Item 5. Operating and Financial Review and Prospects,” “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk” and “Selected Statistical Data.”*

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

### Risks Related to Our Business

***If the global economy remains weak or deteriorates again, our credit-related losses may increase, and the value of the financial instruments we hold may decrease, resulting in losses.***

We have been, and may continue to be, affected by the weak global economy. Despite some signs of a slow recovery, the global economy remains susceptible to developments in various economic and political areas. For example, the recent sovereign credit crises in some European Union member states and the political instabilities in some parts of Asia have raised serious concerns of another global financial downturn. If the current weakness in the global economy continues or worsens, the availability of credit may remain limited or become further limited, and some of our borrowers may default on their loan obligations to us, increasing our credit losses. Some of our credit derivative transactions may also be negatively affected, including the protection we sold through single name credit default swaps, index and basket credit default swaps, and credit linked notes. The notional amounts of these protections sold as of March 31, 2010 were ¥2.9 trillion, ¥0.9 trillion and ¥0.2 trillion, respectively. In addition, if credit market conditions remain stagnant or worsen, our capital funding structure may need to be adjusted or our funding costs may increase, which could have a material adverse impact on our financial condition and results of operations.

Furthermore, we have incurred losses, and may incur further losses, as a result of changes in the fair value of our financial instruments resulting from deteriorating market conditions. For example, declines in fair value of our investment securities, particularly equity investment securities, resulted in our recording impairment losses of ¥1,543.8 billion, ¥858.9 billion and ¥117.5 billion for each of the three fiscal years ended March 31, 2010. As of March 31, 2010, approximately 40% of our total assets were financial instruments for which we measure fair value on a recurring basis, and less than 1% of our total assets were financial instruments for which we measure fair value on a nonrecurring basis. Generally, in order to establish the fair value of these instruments, we rely on quoted market prices. If the value of these financial instruments declines, a corresponding write-down may be recognized in our consolidated statement of operations. For more information on our valuation method for financial instruments, see “Item 5. Operating and Financial Review and Prospects—Critical Accounting Estimates.”

***We may suffer additional credit-related losses in the future if our borrowers are unable to repay their loans as expected or if the measures we take in reaction to, or in anticipation of, our borrowers’ deteriorating repayment abilities prove inappropriate or insufficient.***

When we lend money or commit to lend money, we incur credit risk, or the risk of losses if our borrowers do not repay their loans. We may incur significant credit losses or have to provide for a significant amount of additional allowance for credit losses if:

- large borrowers become insolvent or must be restructured;
- domestic or global economic conditions, either generally or in particular industries in which large borrowers operate, deteriorate;
- the value of the collateral we hold, such as real estate or securities, declines; or
- we are adversely affected by corporate credibility issues among our borrowers, to an extent that is worse than anticipated.

As a percentage of total loans, nonaccrual and restructured loans and accruing loans contractually past due 90 days or more ranged from 1.70% to 2.18% as of the five recent fiscal year-ends. The percentage increased to 2.18% as of March 31, 2010 compared to the previous year-end mainly due to downgrades in the credit ratings of borrowers in the domestic manufacturing, communication and information services, wholesale and retail, services and other industry segments and the foreign governments and official institutions segment. In particular, as of March 31, 2010, our domestic loans accounted for 78.1% of our total loans outstanding, and the domestic portion of our nonaccrual and restructured loans and accruing loans contractually past due 90 days or more accounted for 85.3% of the total of such loans. If the recession in Japan worsens, our problem loans and credit-related expenses may increase. An increase in problem loans and credit-related expenses would adversely affect our results of operations, weaken our financial condition and erode our capital base. For a discussion of our problem loans, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Financial Condition” and “Selected Statistical Data—Loan Portfolio.”

We may provide additional loans, equity capital or other forms of support to troubled borrowers in order to facilitate their restructuring and revitalization efforts. We may also forbear from exercising some or all of our rights as a creditor against them, and we may forgive loans to them in conjunction with their debt restructuring. These practices may substantially increase our exposure to troubled borrowers and increase our losses. Credit losses may also increase if we elect, or are forced by economic or other considerations, to sell or write off our problem loans at a larger discount, in a larger amount or in a different time or manner, than we may otherwise want.

Although we, from time to time, enter into credit derivative transactions, including credit default swap contracts, to manage our credit risk exposure, such transactions may not provide the protection against credit defaults that we intended due to counterparty defaults or otherwise. The credit default swap contracts could also result in significant losses. As of March 31, 2010, the notional amount of the credit default swaps we sold was



¥3.8 trillion. In addition, negative changes in financial market conditions may restrict the availability and liquidity of credit default swaps. For more information on our credit derivative transactions, see Note 23 to our consolidated financial statements included elsewhere in this Annual Report.

Our loan losses could prove to be materially different from our estimates and could materially exceed our current allowance for credit losses, in which case we may need to provide for additional allowance for credit losses and may also record credit losses beyond our allowance. Our allowance for credit losses in our loan portfolio is based on evaluations about customers' creditworthiness and the value of collateral we hold. Negative changes in economic conditions or our borrowers' repayment abilities could require us to provide for additional allowance. For example, as a result of the weakening of the financial condition of borrowers, especially in the manufacturing, wholesale and retail, and other industry segments, provision for credit losses increased to ¥647.8 billion for the fiscal year ended March 31, 2010 from ¥626.9 billion for the fiscal year ended March 31, 2009. As of March 31, 2010, our allowance for credit losses as a percentage of loans increased to 1.43% compared to 1.15% as of March 31, 2009, since the allowance for credit losses increased due to the credit quality deterioration of borrowers in those segments, whereas our total outstanding loans decreased. The regulatory standards or guidance on establishing allowances may also change, causing us to change some of the evaluations used in determining the allowances. As a result, we may need to provide for additional allowance for credit losses. For a discussion of our allowance policy, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Financial Condition."

***If the Japanese stock market or other global markets decline in the future, we may incur losses on our securities portfolio and our capital ratios will be adversely affected.***

A decline in Japanese stock prices could reduce the value of the Japanese domestic marketable equity securities that we hold, which accounted for 8.3% of our total investment securities portfolio, or 2.2% of our total assets, as of March 31, 2010, a decrease from 10.9% and an increase from 2.0% as of March 31, 2009, respectively. The Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, declined from ¥11,244.40 at April 1, 2010 to ¥9,572.49 at August 9, 2010, mainly reflecting investor sentiment that remains cautious in light of uncertainties surrounding the global financial and capital markets. If stock market prices further decline or do not improve, we may incur additional losses on our securities portfolio. Further declines in the Japanese stock market or other global markets may also materially and adversely affect our capital ratios and financial condition. For a detailed discussion of our holdings of marketable equity securities and the effect of market declines on our capital ratios, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Adequacy" and "Selected Statistical Data—Investment Portfolio."

***Because a large portion of our assets are located in Japan and our business operations are conducted primarily in Japan, we may incur further losses if economic conditions in Japan worsen.***

Our performance is particularly affected by the general economic conditions of Japan where we are headquartered and conduct a significant amount of our business. As of March 31, 2008, 2009 and 2010, 71.8%, 73.9% and 74.5% of our total assets were related to Japanese domestic assets, respectively, including Japanese national government and Japanese government agency bonds which accounted for 45.2%, 69.8% and 75.8% of our total investment securities portfolio. Moreover, approximately three quarters of our total interest and non-interest income related to Japanese domestic income.

During the fiscal year ended March 31, 2010, although there were early signs of a recovery of economic conditions in Japan from the recent global recession that began in the second half of 2008, a number of factors still remain that could thwart the recovery of, or lead to another downturn in the Japanese economy. For example, between April 15, 2010 and July 1, 2010, the Nikkei Stock Average declined from ¥11,273.79 to ¥9,191.60. In addition, Japan's real gross domestic product decreased 2.0 percentage points in the fiscal year ended March 31, 2010, which was a continuing decrease for the second consecutive year. Japan's consumer price index for March 2010 decreased 1.2 percentage points year-on-year, and Japan's unemployment rate for March 2010 rose 0.2 percentage points year-on-year to 5.0%. Japan's economic recovery may be further influenced by increased

uncertainties surrounding the Japanese political environment, particularly after the ruling Democratic Party lost control of the upper house of the Japanese Diet in the national elections in July 2010. Due to the high concentration of our investment portfolio in Japanese national government and Japanese government agency bonds, significant interest rate fluctuations, and resulting price fluctuations in those securities, may adversely affect our capital ratios. In addition, the economic conditions in Japan are affected by changes in the global economy, which also have a direct impact on our foreign operations. If the economic conditions in Japan or globally remain stagnant or deteriorate, we may report losses on our Japanese national government and Japanese government agency bonds as well as Japanese equity securities. For a further discussion of our results of operations on a geographic basis, see “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Geographic Segment Analysis.” Deteriorating or stagnant economic conditions may also result in a decrease in the volume in financial transactions in general, which in turn may reduce our income from fees and commissions. For example, our income from fees and commission decreased to ¥1,139.5 billion for the fiscal year ended March 31, 2010 from ¥1,188.5 billion for the previous fiscal year mainly due to lower transaction volume.

***If our strategic alliance with Morgan Stanley fails, we could suffer financial or reputational loss.***

In an effort to better cope with the rapidly changing global business and regulatory environment, we have recently entered into, and plan to continue to seek opportunities for, arrangements to strengthen our global strategic alliance with Morgan Stanley. In May 2010, we and Morgan Stanley created two joint venture securities companies in Japan, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., or MUMSS, and Morgan Stanley MUFG Securities Co., Ltd., or MSMS. We and Morgan Stanley integrated our respective securities subsidiaries in Japan, Mitsubishi UFJ Securities Co., Ltd., or MUS, and Morgan Stanley Japan Securities Co., Ltd., to establish the two joint venture companies. We hold a 60% economic interest in each of MUMSS and MSMS through Mitsubishi UFJ Securities Holdings Co., Ltd., or MUSHD, an intermediate holding company, and Morgan Stanley indirectly holds a 40% economic interest in each of MUMSS and MSMS. We hold a 60% voting interest through MUSHD and Morgan Stanley indirectly holds a 40% voting interest in MUMSS, while we hold a 49% voting interest through MUSHD and Morgan Stanley indirectly holds a 51% voting interest in MSMS. Because MUS’s business represented our core securities business in Japan prior to the formation of the joint venture companies, and because the joint venture companies will be the primary channel through which our retail and wholesale securities business will be conducted, the failure of the joint venture companies to achieve their intended goals due to unanticipated difficulties in integrating their IT or internal control systems or personnel, or the inability to cross-sell products and services as expected, could negatively affect our retail and wholesale securities business.

In addition, we hold an approximately 20% interest (on a fully diluted basis) in Morgan Stanley. With our current interest in Morgan Stanley, we cannot control its operations and assets or make major decisions without the consent of other shareholders. Thus, Morgan Stanley may make a decision that is inconsistent with our interests. Although we do not control Morgan Stanley, given the magnitude of investment that we have made, if Morgan Stanley encounters financial or other business difficulties, we may suffer a financial loss on our investment or damage to our reputation.

For a more detailed discussion of our joint ventures with, and investment in, Morgan Stanley, see “Item 4.B. Information on the Company—Business Overview” and “Item 5. Operating and Financial Review and Prospects—Recent Developments.”

***Because of our loans to consumers and our shareholdings in companies engaged in consumer lending, changes in the business or regulatory environment for consumer finance companies in Japan may further adversely affect our financial results.***

We have a large loan portfolio in the consumer lending industry as well as large shareholdings in subsidiaries and equity method investees in the consumer finance industry. Our domestic loans to consumers amount to approximately one-fifth of our total outstanding loans.

The Japanese government has been implementing regulatory reforms affecting the consumer lending industry in recent years. In December 2006, the Diet passed legislation to reform the regulations relating to the consumer lending business, including amendments to the Law Concerning Acceptance of Investment, Cash Deposit and Interest Rate, etc., which, effective June 18, 2010, reduced the maximum permissible interest rate from 29.2% per annum to 20% per annum. The regulatory reforms also included amendments to the Law Concerning Lending Business, which, effective June 18, 2010, abolished the so-called “gray-zone interest.” Gray-zone interest refers to interest rates exceeding the limits stipulated by the Interest Rate Restriction Law (between 15% per annum to 20% per annum depending on the amount of principal). Prior to June 18, 2010, gray-zone interest was permitted under certain conditions set forth in the Law Concerning Lending Business. As a result of the regulatory reforms, all interest rates are now subject to the lower limits imposed by the Interest Rate Restriction Law, compelling lending institutions, including our consumer finance subsidiaries and equity method investees, to lower the interest rates they charge borrowers. The new regulations that became effective on June 18, 2010 may also have a further negative impact on the business of consumer finance companies as those new regulations require, among other things, consumer finance companies to review the repayment capability of borrowers before making loans to individual borrowers, thereby limiting the amount of borrowing available to those borrowers.

In addition, as a result of decisions by the Supreme Court of Japan prior to June 18, 2010 imposing stringent requirements under the Law Concerning Lending Business for charging gray-zone interest rates, consumer finance companies have experienced a significant increase in borrowers’ claims for reimbursement of previously collected interest payments in excess of the limits stipulated by the Interest Rate Restriction Law. As of March 31, 2009 and 2010, we had ¥77 billion and ¥84 billion of allowance for repayment of excess interest, respectively. For the fiscal years ended March 31, 2009 and 2010, we recorded provisions for repayment of excess interest of ¥47.9 billion and ¥44.8 billion, respectively. For the same periods, one of our equity method investees engaged in consumer lending had a negative impact of ¥15.8 billion and ¥23.1 billion, respectively, on equity in losses of equity method investees in our consolidated statement of operations.

These developments have adversely affected, and these and any future developments may further adversely affect, the operations and financial condition of our subsidiaries and borrowers which are engaged in consumer lending, which in turn may affect the value of our related shareholdings and loan portfolio. In particular, to further strengthen our consumer finance business as a core business of our group, in August 2008, we increased our interest in our consolidated subsidiary, Mitsubishi UFJ NICOS Co., Ltd., and separately, in October 2008, increased our interest in an equity method investee, ACOM CO., LTD. As a result of these investments, any negative developments in the consumer finance industry may have a greater impact on our consolidated results of operations and financial condition.

***Increases in interest rates could adversely affect the value of our bond portfolio.***

The aggregate estimated fair value of the Japanese government and corporate bonds and foreign bonds, including US Treasury bonds, that we hold has increased in recent fiscal years to 22.9% of our total assets as of March 31, 2010. In particular, the Japanese government and Japanese government agency bonds accounted for 20.2% of our total assets as of March 31, 2010. For a detailed discussion of our bond portfolio, see “Selected Statistical Data—Investment Portfolio.”

The Bank of Japan has been maintaining a very low policy rate (uncollateralized overnight call rate) of 0.10% in an effort to lift the economy out of deflation. Short-term interest rates continue to decline because of the Bank of Japan’s so-called “monetary easing policy.” Interest rates in other major global financial markets, including the United States and the European Union, have remained at historic low levels in recent years. An increase in relevant interest rates, particularly if such increase is unexpected or sudden, may have a significant negative effect on the value of our bond portfolio. See “Operating and Financial Review and Prospects—Business Environment.”

***Fluctuations in foreign currency exchange rates may result in transaction losses on translation of monetary assets and liabilities denominated in foreign currencies as well as foreign currency translation losses with respect to our foreign subsidiaries and equity method investees.***

Fluctuations in foreign currency exchange rates against the Japanese yen create transaction gains or losses on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies. To the extent that our foreign currency-denominated assets and liabilities are not matched in the same currency or appropriately hedged, we could incur losses due to future foreign exchange rate fluctuations. During the fiscal year ended March 31, 2010, the average balance of our foreign interest-bearing assets was ¥47.6 trillion and the average balance of our foreign interest-bearing liabilities was ¥33.7 trillion, representing 27.1% of our average total interest-earning assets and 21.3% of our average total interest-bearing liabilities during the same period. For the fiscal year ended March 31, 2010, net foreign exchange gains, which primarily include transaction gains on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies and net gains on currency derivatives instruments entered into for trading purposes, were ¥216.7 billion, compared to net foreign exchange losses of ¥206.2 billion for the previous fiscal year. In addition, we may incur foreign currency translation losses with respect to our foreign subsidiaries and equity method investees due to fluctuations in foreign currency exchange rates. The average exchange rate for the fiscal year ended March 31, 2010 was ¥92.85 per US\$1.00, compared to the average exchange rate for the fiscal year ended March 31, 2009 of ¥100.54 per US\$1.00. The average exchange rate for the conversion of the US dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2009 was ¥93.57 per US\$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2008 of ¥103.46 per US\$1.00. The change in the average exchange rate of the Japanese yen against the US dollar and other foreign currencies had the effect of decreasing total revenue by ¥181.3 billion, net interest income by ¥67.0 billion and income from continuing operations before income tax expense by ¥78.3 billion, respectively, for the fiscal year ended March 31, 2010. For more information on foreign exchange gains and losses and foreign currency translation gains and losses, see “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Results of Operations.”

***Any adverse changes in the business of Union Bank, an indirect wholly-owned subsidiary in the United States, could significantly affect our results of operations.***

Union Bank, N.A., or Union Bank, is the primary subsidiary of UnionBanCal Corporation, or UNBC, which is an indirect wholly-owned subsidiary. Union Bank has historically contributed to a significant portion of our net income. UNBC reported net income of \$608.1 million and \$269.9 million for the fiscal years ended December 31, 2007 and 2008, and a net loss of \$65.0 million for the fiscal year ended December 31, 2009. Compared to fiscal years prior to the fiscal year ended March 2009, any adverse developments which could arise at Union Bank will have a greater negative impact on our results of operation and financial condition, because Union Bank became, through UNBC, our wholly owned subsidiary in November 2008 compared with approximately 64% ownership in prior years. Moreover, the risks relating to Union Bank have increased as Union Bank has been expanding its business through acquisitions of community banks. In April 2010, Union Bank acquired approximately \$600 million in total assets and assumed more than \$400 million in deposits of Tamalpais Bank, a California-based bank, and acquired approximately \$3.2 billion in total assets and assumed approximately \$2.5 billion in deposits of Frontier Bank, a Washington-based bank, pursuant to its respective purchase and assumption agreements with the US Federal Deposit Insurance Corporation. If Union Bank is unable to achieve the benefits expected from its business strategies, including its business expansion strategy through acquisitions of failing community banks, we will suffer an adverse financial impact. Other factors that have negatively affected, and could continue to negatively affect, Union Bank’s results include adverse economic conditions in California, including the downturn in the real estate and housing industries in California, substantial competition in the California banking market, uncertainty over the US economy, the threat of terrorist attacks, fluctuating oil prices, rising interest rates, negative trends in debt ratings, and additional costs which may arise from enterprise-wide compliance, or failure to comply, with applicable laws and regulations, such as the US Bank Secrecy Act and related amendments under the USA PATRIOT Act.

***We may incur further losses as a result of financial difficulties relating to other financial institutions, both directly and through the effect they may have on the overall banking environment and on their borrowers.***

Some domestic and foreign financial institutions, including banks, non-bank lending and credit institutions, securities companies and insurance companies, have experienced declining asset quality and capital adequacy and other financial problems. This may lead to severe liquidity and solvency problems, which have in the past resulted in the liquidation, government control or restructuring of affected institutions. Many banks, securities companies, insurance companies and other financial institutions, especially US and European institutions, continue to face significant pressure due to declining asset quality as a result of the continuing weakness of the global financial markets and due to legislative and regulatory developments affecting them. Allegations or governmental prosecution of improper trading activities or inappropriate business conduct of a specific financial institution could also negatively affect the public perception of other global financial institutions individually and the global financial industry as a whole. These developments may continue to adversely affect our financial results.

Financial difficulties relating to financial institutions could adversely affect us because we have extended loans, some of which may need to be classified as nonaccrual and restructured loans, to banks, securities companies, insurance companies and other financial institutions that are not our consolidated subsidiaries. Our loans to banks and other financial institutions have been more than 5% of our total loans as of each year-end in the three fiscal years ended March 31, 2010, with the percentage increasing from 7.5% to 7.7% between March 31, 2009 and 2010. We may also be adversely affected because we are a shareholder of some other banks and financial institutions that are not our consolidated subsidiaries, including Japanese regional banks as part of our general equity investment securities portfolio. In addition, we held an approximately 20% interest in Morgan Stanley on a fully diluted basis as of March 31, 2010. We may also be adversely affected because we enter into transactions, such as derivative transactions, in the ordinary course of business, with other banks and financial institutions as counterparties. For example, we enter into credit derivatives with banks, broker-dealers, insurance and other financial institutions for managing credit risk exposures, for facilitating client transactions, and for proprietary trading purpose. The notional amount of the protection we sold through these instruments was ¥4.1 trillion as of March 31, 2010.

In addition, financial difficulties relating to financial institutions could indirectly have an adverse effect on us because:

- we may be requested to participate in providing assistance to support distressed financial institutions that are not our consolidated subsidiaries;
- the government may elect to provide regulatory, tax, funding or other benefits to those financial institutions to strengthen their capital, facilitate their sale or otherwise, which in turn may increase their competitiveness against us;
- deposit insurance premiums could rise if deposit insurance funds prove to be inadequate;
- bankruptcies or government support or control of financial institutions could generally undermine confidence in financial institutions or adversely affect the overall banking environment; and
- negative media coverage of the financial industry, regardless of its accuracy and applicability to us, could affect customer or investor sentiment, harm our reputation and have a materially adverse effect on our business or the price of our securities.

***Our strategy to expand the range of our financial products and services and the geographic scope of our business globally may fail if we are unable to anticipate or manage new or expanded risks that entail such expansion.***

We continue to seek opportunities to expand the range of our products and services beyond our traditional banking and trust businesses, through development and introduction of new products and services or through acquisitions of or investments in financial institutions with products and services that complement our business. For

example, taking advantage of our financial holding company status which enables us to underwrite securities, we are currently seeking to expand our corporate banking operations in the United States. In addition, the sophistication of financial products and management systems has been growing significantly in recent years. As a result, we are exposed to new and increasingly complex risks. Some of the activities that our subsidiaries are expected to engage in, such as derivatives and foreign currency trading, present substantial risks. In some cases, we have only limited experience with the risks related to the expanded range of these products and services. In addition, we may not be able to successfully develop or operate the necessary information systems. As a result, we may not be able to foresee the risks relating to new products and services. As we expand the geographic scope of our business, we will also be exposed to risks that are unique to particular jurisdictions or markets. Our risk management systems may prove to be inadequate and may not work in all cases or to the degree required. The substantial market, credit, compliance and regulatory risks in relation to the expanding scope of our products, services and trading activities or expanding our business beyond our traditional markets, could result in us incurring substantial losses. In addition, our efforts to offer new services and products or penetrate new markets may not succeed if product or market opportunities develop more slowly than expected, if our new services or products are not well accepted among customers, or if the profitability of opportunities is undermined by competitive pressures. For a detailed discussion of our risk management systems, see “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.”

***Unanticipated economic changes in, and measures taken in response to such changes by, emerging market countries could result in additional losses.***

We are increasingly active, through a network of branches and subsidiaries, in emerging market countries, particularly countries in Asia, Latin America, Central and Eastern Europe, and the Middle East, whose economies can be volatile and susceptible to adverse changes and trends in the global financial markets. For example, a decline in the value of local currencies of these countries could negatively affect the creditworthiness of some of our borrowers in these countries. The loans we have made to borrowers and banks in these countries are often denominated in US dollars, Euro or other foreign currencies. These borrowers often do not hedge the loans to protect against fluctuations in the values of local currencies. A devaluation of the local currency would make it more difficult for a borrower earning income in that currency to pay its debts to us and other foreign lenders. In addition, some countries in which we operate may attempt to support the value of their currencies by raising domestic interest rates. If this happens, the borrowers in these countries would have to devote more of their resources to repaying their domestic obligations, which may adversely affect their ability to repay their debts to us and other foreign lenders. The limited credit availability resulting from these conditions may adversely affect economic conditions in some countries. This could cause a further deterioration of the credit quality of borrowers and banks in those countries and cause us to incur further losses. Some emerging market countries may also change their monetary or other economic policies in response to political instabilities or pressures, which are difficult to predict. As of March 31, 2010, based on the domicile of obligors, our assets in Europe, Asia and Oceania (excluding Japan), and other areas (excluding Japan and the United States) were ¥15.8 trillion, ¥8.4 trillion and ¥5.2 trillion, representing 7.9%, 4.2% and 2.6% of our total assets. See “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Financial Condition.”

***Our business may be adversely affected by competitive pressures, which have partly increased due to regulatory changes and recent market changes in the financial industry domestically and globally.***

In recent years, the Japanese financial system has been undergoing significant changes and regulatory barriers to competition have been reduced. In particular, any further reform of the Japanese postal savings system, under which the Japan Post Group companies, including Japan Post Bank Co., Ltd., were established in October 2007, could substantially increase competition within the financial services industry as Japan Post Bank, with the largest deposit base and branch network in Japan, may begin to offer financial services in competition with our business operations generating fee income. In addition, there has been significant consolidation and convergence among financial institutions domestically and globally, and this trend may continue in the future and further increase competition in the market. A number of large commercial banks and other broad-based financial

services firms have merged or formed strategic alliances with, or have acquired, other financial institutions both in Japan and overseas. As a result of the strategic alliance and the joint venture companies that we formed with Morgan Stanley, we may be newly perceived as a competitor by some of the financial institutions with which we had a more cooperative relationship in the past. If we are unable to compete effectively in this more competitive and deregulated business environment, our business, results of operations and financial condition will be adversely affected. For a more detailed discussion of our competition in Japan, see “Item 4.B. Information on the Company—Business Overview—Competition—Japan.”

***Future changes in accounting standards and regulatory requirements could have a negative impact on our business and results of operations.***

Future developments or changes in laws, regulations, policies, standards, voluntary codes of practice and their effects are unpredictable and beyond our control. For example, Japanese and other international organizations that set accounting standards have released proposals to revise accounting standards applicable to retirement benefit obligations. For example, the Accounting Standards Board of Japan has published proposals that, if adopted, would require companies preparing their financial statements in accordance with Japanese GAAP to record as liabilities on balance sheets actuarial losses and unrecognized past service cost, which are currently not recorded as liabilities on balance sheets. The proposed changes, if adopted, could have a significant negative impact on our capital ratios since we calculate our capital ratios in accordance with Japanese banking regulations based on information derived from our financial statements prepared in accordance with Japanese GAAP. For more information, see “—Risks Related to Our Business—We may not be able to maintain our capital ratios above minimum required levels, which could result in the suspension of some or all of our operations.”

In addition, in response to the recent instabilities in financial markets, several international organizations which set accounting standards have released proposals to revise standards on accounting for financial instruments. Accounting standards applicable to financial instruments remain subject to debate and revision by international organizations which set accounting standards. If the current accounting standards change in the future, the reported values of some of our financial instruments may need to be modified, and such modification could have a significant impact on our financial results or financial condition. For more information, see “Item 5. Operating and Financial Review and Prospects—Critical Accounting Estimates.”

We could also be required to incur significant expenses to comply with new standards and regulations. For example, if we adopt a new accounting system in the future, we may be required to incur significant additional costs for establishing and implementing effective internal controls, which may materially and adversely affect our financial condition and results of operations.

In addition, additional regulatory requirements could have an adverse impact on our future business and results of operations. For example, new regulations relating to the consumer lending business which became effective in June 2010 impose, among other things, stricter requirements for consumer finance companies in Japan to review the repayment capabilities of borrowers before lending, thereby limiting the amount of borrowing available to individual borrowers, which in turn may negatively affect our profitability. For more information on regulatory changes in the consumer finance industry, see “—Risks Related to Our Business—Because of our loans to consumers and our shareholdings in companies engaged in consumer lending, changes in the business or regulatory environment for consumer finance companies in Japan may further adversely affect our financial results.”

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

We, through our banking subsidiaries, engage in operations with entities in or affiliated with Iran and Syria, including transactions with entities owned or controlled by the Iranian or Syrian governments, and the banking

subsidiary has a representative office in Iran. The US Department of State has designated Iran, Syria and other countries as “state sponsors of terrorism,” and US law generally prohibits US persons from doing business with such countries. Our activities with counterparties in or affiliated with Iran, Syria and other countries designated as state sponsors of terrorism are conducted in compliance in all material respects with both applicable Japanese and US regulations.

Our operations with entities in Iran consist primarily of loans for petroleum projects and trade financing for general commercial purposes, as well as letters of credit and foreign exchange services. Our operations relating to Syria are primarily foreign exchange services. We do not believe our operations relating to Iran and Syria are material to our business or financial condition. As of March 31, 2010, the loans outstanding to borrowers in or affiliated with Iran were approximately \$48.0 million, which represented less than 0.01% of our total assets, and we did not have any loans outstanding to the financial institutions specifically listed by the US government. We did not have any loans outstanding with entities in or affiliated with Syria, including the financial institutions specifically listed by the US government. In addition, we receive deposits or hold assets on behalf of several individuals resident in Japan who are citizens of countries designated as state sponsors of terrorism.

We are aware of initiatives by US governmental entities and US institutional investors, such as pension funds, to adopt or consider adopting laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with Iran, Syria and other countries identified as state sponsors of terrorism. It is also possible that such initiatives may result in our being unable to gain or retain entities subject to such prohibitions as customers or as investors in our shares. In addition, depending on socio-political developments, our reputation may suffer due to our association with these countries. The above circumstances could have an adverse effect on our business and financial condition. The US government has recently enacted new legislation designed to limit economic and financial transactions with Iran. This or any similar legislative developments initiated by the US government may further restrict our business operations, and our failure to comply may result in regulatory action against us.

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

We, as a holding company, and our Japanese banking subsidiaries are required to maintain risk-weighted capital ratios above the levels specified in the capital adequacy guidelines of the Financial Services Agency of Japan. As of March 31, 2010, our total risk-adjusted capital ratio was 14.87% compared to the minimum risk-adjusted capital ratio required of 8.00%, and our Tier I capital ratio was 10.63% compared to the minimum Tier I capital ratio required of 4.00%. Our capital ratios are calculated in accordance with Japanese banking regulations based on information derived from our financial statements prepared in accordance with Japanese GAAP. In addition, some of our subsidiaries are also subject to the capital adequacy rules of various foreign countries, including the United States where each of MUFG, BTMU, MUTB and UNBC is a financial holding company under the US Bank Holding Company Act. We or our banking subsidiaries may be unable to continue to satisfy the capital adequacy requirements because of:

- increases in credit risk assets and expected losses we or our subsidiaries may incur due to fluctuations in our or our subsidiaries’ loan and securities portfolios as a result of deteriorations in the credit of our borrowers and the issuers of equity and debt securities;
- increases in credit costs we or our subsidiaries may incur as we or our subsidiaries dispose of problem loans or as a result of deteriorations in the credit of our borrowers;
- declines in the value of our or our subsidiaries’ securities portfolio;
- changes in the capital ratio requirements or in the guidelines regarding the calculation of bank holding companies’ or banks’ capital ratios or changes in the regulatory capital requirements for securities firms;
- a reduction in the value of our or our subsidiaries’ deferred tax assets;



- adverse changes in foreign currency exchange rates; or
- other adverse developments discussed in these risk factors.

In December 2009, the Basel Committee on Banking Supervision released proposals designed to strengthen global capital and liquidity regulations. The various proposals, if adopted, could impose stricter capital requirements and new liquidity requirements on global financial institutions such as us. If the proposals, including any new proposals released thereafter, are adopted, the Japanese capital ratio framework is expected to be revised in substantial conformity with them, thereby imposing possibly more stringent requirements on Japanese financial institutions, including us.

If our capital ratios fall below required levels, the Financial Services Agency of Japan could require us to take a variety of corrective actions, including withdrawal from all international operations or suspension of all or part of our business operations. In addition, if the capital ratios of our subsidiaries subject to capital adequacy rules of foreign jurisdictions fall below the required levels, the local regulators could also take action against them that may result in reputational damage or financial losses to us. For a discussion of our capital ratios and the related regulatory guidelines, see “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation” and “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Adequacy.”

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

In accordance with US GAAP, we have accounted for our acquisitions using the purchase method of accounting. We recorded the excess of the purchase price over the fair value of the assets and liabilities of the acquired companies as goodwill. US GAAP requires us to test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired.

The recent global financial crisis and recession led to the decline in our market capitalization and negatively affected the fair value of our reporting units for purposes of our periodic testing of goodwill for impairment. As a result, we recorded ¥893.7 billion, ¥845.8 billion and ¥0.5 billion of goodwill impairment charges for the fiscal years ended March 31, 2008, 2009 and 2010, respectively. As of March 31, 2010, the balance of goodwill was ¥381.5 billion.

We may be required to record additional impairment charges relating to goodwill in future periods if the fair value of any of our reporting units declines below the fair value of related assets net of liabilities. Any additional impairment charges will negatively affect our financial results, and the price of our securities could be adversely affected. For a detailed discussion of the goodwill recorded and our periodic testing of goodwill for impairment, see “Item 5. Operating and Financial Review and Prospects—Critical Accounting Estimates—Accounting for Goodwill and Intangible Assets” and “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Financial Condition—Goodwill.”

### **Risks Related to Owning Our Shares**

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

We are a joint stock company incorporated under the laws of Japan. Almost all of our directors, corporate auditors or other management members reside outside the United States. Many of our assets and the assets of these persons are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for US investors to effect service of process within the United States upon us or these persons or to enforce, against us or these persons, judgments obtained in the US courts predicated upon the civil liability provisions of the US federal or state securities laws.

We believe there is doubt as to the enforceability in Japan, in original actions or in actions brought in Japanese courts to enforce judgments of US courts, of claims predicated solely upon the US federal or state securities laws mainly because the Civil Execution Act of Japan requires Japanese courts to deny requests for the enforcement of judgments of foreign courts if foreign judgments fail to satisfy the requirements prescribed by the Civil Execution Act, including:

- the jurisdiction of the foreign court be recognized under laws, regulations, treaties or conventions;
- proper service of process be made on relevant defendants, or relevant defendants be given appropriate protection if such service is not received;
- the judgment and proceedings of the foreign court not be repugnant to public policy as applied in Japan; and
- there exist reciprocity as to the recognition by a court of the relevant foreign jurisdiction of a final judgment of a Japanese court.

Judgments obtained in the US courts predicated upon the civil liability provisions of the US federal or state securities laws may not satisfy these requirements.

### **Risks Related to Owning Our ADSs**

*As a holder of ADSs, you have fewer rights than a shareholder of record in our shareholder register since you must act through the depositary to exercise these rights.*

The rights of our shareholders under Japanese law to take actions such as voting, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records and exercising appraisal rights are available only to shareholders of record. Because the depositary, through its custodian, is the record holder of the shares underlying the American Depositary Shares, or ADSs, only the depositary can exercise shareholder rights relating to the deposited shares. ADS holders, in their capacity, will not be able to directly bring a derivative action, examine our accounting books and records and exercise appraisal rights. We have appointed The Bank of New York Mellon as depositary, and we have the authority to replace the depositary.

Pursuant to the deposit agreement among us, the depositary and a holder of ADSs, the depositary will make efforts to exercise voting or any other rights associated with shares underlying ADSs in accordance with the instructions given by ADS holders, and to pay to ADS holders dividends and distributions collected from us. However, the depositary can exercise reasonable discretion in carrying out the instructions or making distributions, and is not liable for failure to do so as long as it has acted in good faith. Therefore, ADS holders may not be able to exercise voting or any other rights in the manner that they had intended, or may lose some or all of the value of the dividends or the distributions. Moreover, the depositary agreement that governs the obligations of the depositary may be amended or terminated by us and the depositary without your consent, notice, or any reason. As a result, you may be prevented from having the rights in connection with the deposited shares exercised in the way you had wished or at all.

ADS holders are dependent on the depositary to receive our communications. We send to the depositary all of our communications to ADS holders, including annual reports, notices and voting materials, in Japanese. ADS holders may not receive all of our communications with shareholders of record in our shareholder register in the same manner or on an equal basis. In addition, ADS holders may not be able to exercise their rights as ADS holders due to delays in the depositary transmitting our shareholder communications to ADS holders. For a detailed discussion of the rights of ADS holders and the terms of the deposit agreement, see “Item 10.B. Additional Information—Memorandum and Articles of Association.”

#### **Item 4. Information on the Company.**

##### **A. History and Development of the Company**

###### **Mitsubishi UFJ Financial Group, Inc.**

MUFG is a bank holding company incorporated as a joint stock company (*kabushiki kaisha*) under the Company Law of Japan. We are the holding company for The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, Mitsubishi UFJ Securities Holdings Co., Ltd., or MUSHD, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., or MUMSS, Mitsubishi UFJ NICOS Co., Ltd., or Mitsubishi UFJ NICOS, and other companies engaged in a wide range of financial businesses.

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

On April 1, 2004, we implemented a new integrated business group system, which currently integrates the operations of BTMU, MUTB and MUSHD and MUMSS into the following three areas—Retail, Corporate, and Trust Assets. This new measure was intended to enhance synergies by promoting more effective and efficient collaboration between our subsidiaries.

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

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

On September 30, 2007, MUSHD, which was then called “Mitsubishi UFJ Securities Co., Ltd.,” or MUS, became a wholly owned subsidiary of MUFG through a share exchange transaction.

On August 1, 2008, Mitsubishi UFJ NICOS became a wholly owned subsidiary of MUFG through a share exchange transaction. On the same day, we entered into a share transfer agreement with The Norinchukin Bank, or Norinchukin, under which we sold some of our shares of Mitsubishi UFJ NICOS common stock to Norinchukin. Currently, Mitsubishi UFJ NICOS is a consolidated subsidiary of MUFG.

On October 13, 2008, we made an investment in Morgan Stanley as part of a global strategic alliance. We beneficially own approximately 20% of the common stock of Morgan Stanley (assuming full conversion of the convertible preferred stock of Morgan Stanley we currently own), and are pursuing a variety of business opportunities in Japan and abroad.

On October 21, 2008, we completed a tender offer for outstanding shares of ACOM CO., LTD. common stock, raising our ownership in ACOM to approximately 40%.

On November 4, 2008, BTMU completed the acquisition of all of the shares of common stock of UnionBanCal Corporation, or UNBC, not owned by BTMU and, as a result, UNBC became a wholly owned indirect subsidiary of MUFG.

On April 1, 2010, the former MUS was renamed MUSHD, and a newly created operating subsidiary of MUSHD succeeded to the former MUS’s domestic operations, as a result of a corporate split transaction.

On May 1, 2010, the new operating subsidiary of MUSHD succeeded to the investment banking operations conducted in Japan by Morgan Stanley Japan Securities Co., Ltd., as a joint venture company of Morgan Stanley and us, which was renamed MUMSS.

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

For a discussion of recent developments, see “Item 5. Operating and Financial Review and Prospects—Recent Developments.”

### **The Bank of Tokyo-Mitsubishi UFJ, Ltd.**

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

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

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

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

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

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

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

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

### **Mitsubishi UFJ Trust and Banking Corporation**

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

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

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

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

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

### **Mitsubishi UFJ Securities Holdings Co., Ltd.**

MUSHD is a wholly owned subsidiary of MUFG. MUSHD functions as an intermediate holding company of MUFG's global securities business. MUSHD's registered head office is located at 4-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-6317, Japan, and its telephone number is 81-3-6213-2550. MUSHD is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Company Law. MUSHD has major overseas subsidiaries in London, New York, Hong Kong, Singapore, Shanghai and Geneva.

In April 2010, MUS became an intermediate holding company by spinning off its business operations to a wholly owned operating subsidiary established in December 2009. Upon the consummation of the corporate spin-off transaction, MUS was renamed "Mitsubishi UFJ Securities Holdings Co., Ltd." and the operating subsidiary was renamed "Mitsubishi UFJ Securities Co., Ltd."

MUS was formed through the merger between Mitsubishi Securities Co., Ltd. and UFJ Tsubasa Securities Co., Ltd. on October 1, 2005, with Mitsubishi Securities being the surviving entity. The surviving entity was renamed "Mitsubishi UFJ Securities Co., Ltd." and, in September 2007, became our wholly-owned subsidiary through a share exchange transaction.

Mitsubishi Securities was formed in September 2002 through a merger of Bank of Tokyo-Mitsubishi's securities subsidiaries and affiliate, KOKUSAI Securities Co., Ltd., Tokyo-Mitsubishi Securities Co., Ltd. and Tokyo-Mitsubishi Personal Securities Co., Ltd., and Mitsubishi Trust Bank's securities affiliate, Issei Securities Co., Ltd. In July 2005, MTFG made Mitsubishi Securities a directly-held subsidiary by acquiring all of the shares of Mitsubishi Securities common stock held by Bank of Tokyo-Mitsubishi and Mitsubishi Trust Bank.

### **Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.**

MUMSS is our core securities and investment banking subsidiary. MUMSS was created as one of the two Japanese joint venture securities companies in May 2010 between Morgan Stanley and us as part of our global strategic alliance. MUMSS succeeded to the investment banking operations conducted in Japan by a subsidiary of Morgan Stanley and the wholesale and retail securities businesses conducted in Japan by MUS. MUFG, through MUSHD, holds 60% voting and economic interests in MUMSS. MUMSS's registered head office is located at 5-2 Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan, and its telephone number is 81-3-6213-8500. MUMSS is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Company Law. For more information on our strategic alliance with Morgan Stanley, see “—B. Business Overview” and “Item 5. Operating and Financial Review and Prospects—Recent Developments.”

MUMSS engages in underwriting and brokerage of securities, mergers and acquisitions, derivatives, corporate advisory and securitization operations. In addition to its own independent branches, MUMSS serves individual customers of BTMU and MUTB through a network of MUFG Plazas, which provide individual customers with one-stop access to services and products offered by MUMSS, BTMU and MUTB.

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

### **Mitsubishi UFJ NICOS Co., Ltd.**

Mitsubishi UFJ NICOS is a major credit card company in Japan that issues credit cards, including those issued under the MUFG, NICOS, UFJ and DC brands, and provides a broad range of credit card and other related services for its card members in Japan. Mitsubishi UFJ NICOS is a consolidated subsidiary of MUFG. Mitsubishi UFJ NICOS's registered head office is located at 33-5, Hongo 3-chome, Bunkyo-ku, Tokyo 113-8411, Japan, and its telephone number is 81-3-3811-3111. Mitsubishi UFJ NICOS is a joint stock company (*kabushiki kaisha*) incorporated in Japan under the Company Law.

Mitsubishi UFJ NICOS was formed through the merger, on April 1, 2007, of UFJ NICOS Co., Ltd. and DC Card Co., Ltd. As the surviving entity, UFJ NICOS Co., Ltd. was renamed “Mitsubishi UFJ NICOS Co., Ltd.”

UFJ NICOS was formed through the merger, on October 1, 2005, of Nippon Shinpan Co., Ltd. and UFJ Card Co., Ltd. Originally founded in 1951 and listed on the Tokyo Stock Exchange in 1961, Nippon Shinpan was a leading company in the consumer credit business in Japan. Nippon Shinpan became a subsidiary of MUFG at the time of the merger with UFJ Card.

Prior to the merger between MTFG and UFJ Holdings in October 2005, DC Card was a subsidiary of MTFG while UFJ Card was a subsidiary of UFJ Holdings.

## **B. Business Overview**

We are one of the world's largest and most diversified financial groups with total assets of ¥200 trillion as of March 31, 2010. The Group is comprised of BTMU, MUTB, MUMSS, Mitsubishi UFJ NICOS and other subsidiaries and affiliates, for which we are the holding company. As a bank holding company, we are regulated under the Banking Law of Japan. Our services include commercial banking, trust banking, securities, credit cards, consumer finance, asset management, leasing and many more fields of financial services. The Group has the largest overseas network among the Japanese banks, comprised of offices and subsidiaries, including Union Bank, N.A., or Union Bank, in more than 40 countries.

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

- establish a more diversified financial services group operating across business sectors;
- leverage the flexibility afforded by our organizational structure to expand our business;
- benefit from the collective expertise of BTMU, MUTB, MUMSS and Mitsubishi UFJ NICOS;
- achieve operational efficiencies and economies of scale; and
- enhance the sophistication and comprehensiveness of the Group's risk management expertise.

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

In October 2008, as part of our medium-term strategy to expand our operations in the United States, each of MUFG, BTMU, MUTB and UNBC became a financial holding company under the US Bank Holding Company Act. For more information, see "Item 3.D. Risk Factors—Risks Related to Our Business—We may not be able to maintain our capital ratios above minimum required levels, which could result in the suspension of some or all of our operations" and "Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—United States."

#### *MUFG Management Philosophy*

MUFG's management philosophy serves as the basic policy in conducting its business activities, and provides guidelines for all group activities. It is also the foundation for management decisions, including the formulation of management strategies and management plans, and serves as the core value for all employees. BTMU, MUTB, MUMSS and Mitsubishi UFJ NICOS adopted the MUFG's management philosophy as their own respective management philosophy, and the entire group strives to comply with this philosophy. The details of the MUFG's management philosophy are set forth below:

- We will respond promptly and accurately to the diverse needs of our customers around the world and seek to inspire their trust and confidence;
- We will offer innovative and high-quality financial services by actively pursuing the cultivation of new business areas and developing new technologies;
- We will comply strictly with all laws and regulations and conduct our business in a fair and transparent manner to gain the public's trust and confidence;
- We will seek to inspire the trust of our shareholders by enhancing corporate value through continuous business development and appropriate risk management, and by disclosing corporate information in a timely and appropriate manner;
- We will contribute to progress toward a sustainable society by assisting with development in the areas in which we operate and conducting our business activities with consideration for the environment; and
- We will provide the opportunities and work environment necessary for all employees to enhance their expertise and make full use of their abilities.

We have declared our message to the world as "Quality for You," with management's emphasis on quality. "Quality for You" means that by providing high-quality services, we aspire to help improve the quality of the lives of individual customers, and the quality of each corporate customer. The "You" expresses the basic stance of MUFG that we seek to contribute not only to the development of our individual customers but also

communities and society. We believe that delivering superior quality services, reliability, and global coverage will result in more profound and enduring contributions to society.

### ***Integrated Retail Banking Business Group***

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

*Deposits and retail asset management services.* We offer a full range of bank deposit products including a non-interest-bearing deposit account that is redeemable on demand and intended primarily for payment and settlement functions, and is fully insured without a maximum amount limitation.

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

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

*Investment trusts.* We provide a varied lineup of investment trust products allowing our customers to choose products according to their investment needs through BTMU, MUTB and MUMSS as well as kabu.com Securities, which specializes in online financial services. In the fiscal year ended March 31, 2010, BTMU offered a total of five new investment trusts. As of the end of March 2010, BTMU offered our clients a total of 73 investment trusts. Moreover, BTMU has placed significant importance on ensuring that aftercare is provided to all of our customers who have purchased our investment trust products.

*Insurance.* Since the Japanese government lifted the prohibition against sales of annuity insurance products by banks in October 2002, we have been actively offering insurance products to meet the needs of our customers. Our current lineup of insurance products consists of investment-type individual annuities, foreign currency-denominated insurance annuities and yen-denominated fixed-amount annuity insurance. Additionally, since January 2005, we have been offering single premium term insurance. BTMU has been offering life, medical and cancer insurance since December 2007, care insurance since April 2008 and car insurance since July 2009. As of March 31, 2010, BTMU offers 13 varieties of life insurance products (five life insurance, three medical insurance, three cancer insurance products, one endowment insurance, one educational insurance) at 466 BTMU branches. Professional insurance sales representatives, called "Insurance Planners," have been assigned to each branch where these insurance products are sold in order to ensure that the branch responds to our customers' needs. MUTB also offers whole term life insurance and medical insurance at all of its branches.

*Financial products intermediation services.* Our banking subsidiaries entered the securities industry following the lifting of the ban on securities intermediation by banks in Japan in December 2004, when we started offering financial products intermediation services through BTMU and MUTB and with the former MUS acting as an agent. We have expanded this service through BTMU with three MUFG securities companies (MUMSS, Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd., and kabu.com Securities Co., Ltd.) acting as agents and through MUTB with MUMSS acting as an agent. We offer securities, including publicly offered stocks, foreign and domestic investment trusts, Japanese government bonds, foreign bonds and various other



products. As of March 31, 2010, BTMU employed approximately 440 employees seconded from MUMSS. We seek to optimize the deployment of the securities service personnel within our group in accordance with our initiatives where approximately 180 of the 440 were assigned to branches in Japan as sales representatives, approximately 170 employees were employed in the capacity of Retail Money Desk, or RMD, representatives to assist the branch sales force, and the remaining 90 employees were assigned to the headquarters of BTMU (Financial Instruments Intermediary Service Office).

*Loans.* We offer housing loans, card loans, and other loans to individuals. With respect to housing loans, in addition to housing loans incorporating health insurance for seven major illnesses, BTMU began offering in June 2009 preferential interest rates under its “Environmentally Friendly Support” program to customers who purchase “environment-conscious” houses (e.g., houses with solar electric systems) which meet specific criteria in response to increasing public interest in environmental issues. In September 2009, BTMU launched “housing loans with home mortgage insurance,” which BTMU jointly developed with the Japan Housing Finance Agency, a governmental agency under the Japanese government’s economic stimulus measures, under which the agency indemnifies BTMU for losses from housing loans. Since November 2007, BTMU has been offering a card loan service called “BANQUIC,” for which applications can be accepted through the internet, telephone, TV telephone and mobile phone. A customer who has an account with BTMU can obtain loans through the “BANQUIC” service by having the loan proceeds directly remitted to the customer’s BTMU account. The service is available at BTMU branches and BTMU-affiliated ATMs at convenience stores with no ATM transaction fees. BTMU continues to strive to meet a wide variety of customer needs by enhancing our product offerings and increasing customers’ ease of access to our services.

*Credit cards.* Among our group companies, Mitsubishi UFJ NICOS and BTMU issue credit cards and also offer some preferential services provided by other MUFG group companies (including preferential rates for BTMU housing loans) to holders of “MUFG card” issued by Mitsubishi UFJ NICOS and gold cards issued by BTMU. BTMU has expanded value-added services and benefits for bank-issued credit card holders, including a point program where credit card holders can earn points by using their credit cards and exchange the points earned for cash or other preferential treatment for banking transactions through BTMU.

*Domestic Network.* We offer products and services through a wide range of channels, including branches, ATMs (including convenience store ATMs shared by multiple banks), Mitsubishi-Tokyo UFJ Direct (telephone, internet and mobile phone banking), the Video Counter and postal mail.

We offer integrated financial services combining our banking, trust banking and securities services at MUFG Plazas. These Plazas provide retail customers with integrated and flexible suite of services at one-stop outlets. As of March 31 2010, we provided those services through 47 MUFG Plazas.

To provide exclusive membership services to high net worth individual customers, private banking offices have been established since December 2006 featuring lounges and private rooms where customers can receive wealth management advice and other services in a relaxing and comfortable setting. As of March 31, 2010, we had 28 private banking offices in the Tokyo metropolitan area, Nagoya and Osaka.

To improve customer convenience, BTMU has enhanced its ATM network and ATM related services. BTMU has also ceased to charge ATM transaction fees from customers of BTMU and MUTB for certain transactions. In addition, BTMU has reduced commissions for transactions conducted through ATMs located in convenience stores. Furthermore, BTMU currently shares its ATM network with eight Japanese local banks, AEON Bank, Ltd. and the banks belonging to the Japan Agricultural Cooperatives bank group. BTMU has also ceased to charge ATM transaction fees from customers who use these banks’ ATMs for certain transactions.

“Jibun Bank Corporation” is a partnership between BTMU and KDDI Corporation, a major telecommunications company in Japan. Jibun Bank provides banking services primarily through mobile phone networks. Since the launch of its banking services in July 2008, Jibun Bank has reached one million accounts and ¥154 billion in deposit balance as of March 31, 2010.

*Trust agency operations.* We offer MUTB's trust related products and advisory services through our trust agency system not only for MUTB customers but also for BTMU and MUMSS customers. As of March 31, 2010, BTMU engaged in eight businesses as the trust banking agent for MUTB: testamentary trusts, inheritance management, asset succession planning, inheritance management agency operations, business management financial consulting, lifetime gift trusts, share disposal trusts, and marketable securities administration trusts. MUMSS engaged in three businesses as the trust banking agent for MUTB: testamentary trusts, inheritance management and asset succession planning. In October 2006, BTMU accepted approximately 30 financial consultants (sales managers specializing in inheritance business) from MUTB. Because of Japan's aging society, customer demand for inheritance-related advice is increasing and we aim to significantly strengthen our ability to cross-sell the inheritance products to our existing customers.

### ***Integrated Corporate Banking Business Group***

The Integrated Corporate Banking Business Group covers all domestic and overseas corporate businesses, including commercial banking, investment banking, trust banking and securities businesses as well as UNBC. UNBC is a wholly owned subsidiary of BTMU and a US bank holding company with Union Bank being its primary subsidiary. On December 18, 2008, Union Bank changed its name to the current name from Union Bank of California, N.A. Through the integration of these business lines, diverse financial products and services are provided to our corporate clients, from large corporations to medium-sized and small businesses. The business group has clarified strategic domains, sales channels and methods to match the different growth stages and financial needs of our corporate customers.

#### *Commercial Banking*

We provide various financial solutions, such as loans and fund management, remittance and foreign exchange services, to meet the requirements of SME customers. We also help our customers develop business strategies, such as inheritance-related business transfers and stock listings.

#### *CIB (Corporate and Investment Banking)*

We offer advanced financial solutions mainly to large corporations through corporate and investment banking services. Product specialists globally provide derivatives, securitization, syndicated loans, structured finance, and other services. We also provide investment banking services, such as M&A advisory, bond and equity underwriting, to meet our customers' needs.

#### *Transaction Banking*

We provide online banking services that allow customers to make domestic and overseas remittances electronically. We also provide a global cash pooling/netting service, and the "Treasury Station", a fund management system for a multi-company group. These services are designed particularly for customers who have global business activities.

#### *Trust Banking*

MUTB's experience and know-how in the asset management business, real estate brokerage and appraisal services, and stock transfer agency service also enable us to offer services tailored to the financial strategies of each client, including securitization of real estate, receivables and other assets.

#### *Global Businesses*

Our global Corporate and Investment Banking business, or Global CIB, primarily serves large corporations, financial institutions, and sovereign and multinational organizations with a comprehensive set of solutions for their financing needs. Global CIB generated about 20% of our net operating profit for the fiscal year ended March 31, 2010. Spearheaded by Group Head of Integrated Corporate Banking Business Group based in Tokyo,

our operations are predominantly located in the world's primary financial centers, including New York, London, Singapore and Hong Kong. With our global reach, we provide a full range of services, including commercial banking services such as loans, deposits and cash management services, corporate banking services such as providing credit commitments and arranging the issuance of asset-backed commercial paper, and investment banking services such as debt/equity issuance and M&A advisory services to help clients develop financial strategies. To meet clients' expectations for their various financing needs, Global CIB establishes a client-oriented coverage business model and coordinates our product experts who can offer innovative finance services all around the world.

*Union Bank.* UNBC is a wholly owned indirect subsidiary of MUFG. UNBC is a US bank holding company with Union Bank being its primary subsidiary. Union Bank is one of the largest commercial banks in California by both total assets and total deposits. Union Bank provides a wide range of financial services to consumers, small businesses, middle market companies and major corporations, primarily in California, Oregon, and Washington, as well as nationally and internationally.

*Global Strategic Alliance with Morgan Stanley.* In May 2010, pursuant to definitive agreements entered into in March 2010, we and Morgan Stanley formed two joint ventures in Japan by integrating our respective Japanese securities companies engaged in investment banking and securities businesses. We converted the wholesale and retail securities businesses conducted in Japan by the former MUS into one of the joint venture entities which is named Mitsubishi UFJ Morgan Stanley Securities, Co., Ltd., or MUMSS. Morgan Stanley contributed the investment banking operations conducted in Japan by its formerly wholly-owned subsidiary, Morgan Stanley Japan Securities Co., Ltd., or MSJS, into MUMSS and converted the sales and trading and capital markets businesses conducted in Japan by MSJS into a second joint venture entity called Morgan Stanley MUFG Securities, Co., Ltd., or MSMS. Following the respective contributions to the joint venture companies and a cash payment of ¥26 billion from us to Morgan Stanley at the closing of the transaction (subject to certain post-closing cash adjustments), we hold a 60% economic interest in each of the joint venture entities through Mitsubishi UFJ Securities Holdings Co., Ltd or MUSHD, our intermediate holding company, and Morgan Stanley indirectly holds a 40% economic interest in each of the joint venture companies. We hold a 60% voting interest through MUSHD and Morgan Stanley indirectly holds a 40% voting interest in MUMSS, while we hold a 49% voting interest through MUSHD and Morgan Stanley indirectly holds a 51% voting interest in MSMS. The board of directors of MUMSS has fifteen members, nine of whom are designated by us and six of whom are designated by Morgan Stanley. The board of directors of MSMS has ten members, six of whom are designated by Morgan Stanley and four of whom are designated by us. The CEO of MUMSS is designated by us and the CEO of MSMS is designated by Morgan Stanley. For a more detailed discussion on the Global Strategic Alliance, see "Item 5. Operating and Financial Review and Prospects—Recent Developments."

We made a \$9.0 billion preferred equity investment in Morgan Stanley in October 2008 as part of our global strategic alliance with Morgan Stanley. Since this initial investment, we have acquired a total of \$705 million of shares of Morgan Stanley common stock and sold back to Morgan Stanley \$705 million of the preferred securities in May 2009, and we have acquired a total of \$471 million of additional shares of Morgan Stanley common stock in June 2009. We beneficially own approximately 20% of the common stock of Morgan Stanley (assuming full conversion of the convertible preferred stock of Morgan Stanley we currently own).

On June 30, 2009, the scope of the Global Strategic Alliance was expanded into new geographies and businesses, including (1) a loan marketing joint venture that will provide clients in the Americas with access to expanded, world-class lending and capital markets services from both companies, (2) an agreement to establish business referral arrangements in Asia, Europe, the Middle East and Africa, covering capital markets, loans, fixed income sales and other businesses, (3) a global commodities referral agreement whereby BTMU and its affiliates will refer clients in need of commodities-related hedging solutions to certain affiliates of Morgan Stanley, and (4) an employee secondment program to share best practices and expertise in a wide range of business areas.

See "Item 3.D. Risk Factors—Risks Related to Our Business—If our strategic alliance with Morgan Stanley fails, we could suffer financial or reputational loss."

### ***Integrated Trust Assets Business Group***

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

Mitsubishi UFJ Global Custody, which was established on April 11, 1974 and was formerly named Bank of Tokyo-Mitsubishi UFJ (Luxembourg) S.A., provides global custody services, administration services for investment funds and fiduciary and trust accounts, and other related services to institutional investors.

Mitsubishi UFJ Asset Management and KOKUSAI Asset Management provide asset management and trust products and services mainly to high net worth individuals, branch customers and corporate clients in Japan.

### ***Global Markets***

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

### ***Other***

Other mainly consists of the corporate centers of the holding company, BTMU, MUTB and MUMSS.

### **Competition**

We face strong competition in all of our principal areas of operation. The deregulation of the Japanese financial markets as well as structural reforms in the regulation of the financial industry have resulted in dramatic changes in the Japanese financial system. Structural reforms have prompted Japanese banks to merge or reorganize their operations, thus changing the nature of the competition from other financial institutions as well as from other types of businesses.

### ***Japan***

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

The Banking Law, as amended, now permits banks to engage in certain types of securities business, including retail sales of investment funds and government and municipal bonds, and, through a domestic and overseas securities subsidiary, all types of securities business, with appropriate registration with or approval of the Financial Services Agency, an agency of the Cabinet Office. The Banking Law was amended in December 2008 to expand the scope of permissible activities of banks, permitting banks to engage in emissions trading and, through their subsidiaries and certain affiliates, Islamic financing. Further increases in competition among financial institutions are expected in these new areas of permissible activities.

In terms of recent market entrants, other financial institutions, such as Orix Corporation, and non-financial companies, such as the Seven & i Holdings group and Sony Corporation, also began to offer various banking

services, often through non-traditional distribution channels. Also, in recent years, various large foreign financial institutions entered the Japanese domestic market. Citigroup Inc., for example, has expanded its banking operations in Japan through a locally incorporated banking subsidiary. The privatization of Japan Post, a government-run public services corporation that is the world's largest holder of deposits, and the establishment of the Japan Post Group companies, including Japan Post Bank Co., Ltd., as part of the continuing privatization process, as well as the privatization of other governmental financial institutions, could also substantially increase competition within the financial services industry. In December 2009, the Japanese government's privatization plan for the Japan Post Group companies was suspended, and a bill was introduced to the Diet that, if enacted, would have doubled to ¥20 million the amount of deposits Japan Post Bank can accept from an individual depositor, permitted the Japan Post Bank to more easily enter new areas of business activities, required the government to retain more than one-third of the voting rights in Japan Post Holdings Co., Ltd. and required Japan Post Holdings to retain more than one-third of the voting rights in Japan Post Bank. However, it was not approved during the Diet session ended in June 2010.

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

- the separation of banking and securities businesses in Japan; and
- the distinctions among the permissible activities of Japan's two principal types of private banking institutions—ordinary banks and trust banks. For a discussion of the two principal types of private banking institutions, see “—The Japanese Financial System—Private Banking Institutions.”

In addition, as foreign exchange controls have been generally eliminated, customers can now have direct access to foreign financial institutions, with which we must also compete.

In the consumer banking sector, deregulation has enabled banks to offer customers an increasingly attractive and diversified range of products. For example, banks are permitted to sell investment trusts and all types of insurance products. Recently, competition has increased due to the development of new products and distribution channels. For example, Japanese banks have started competing with one another by developing innovative proprietary computer technologies that allow them to deliver basic banking services in a more efficient manner, such as internet banking services, and to create sophisticated new products in response to customer demand.

The trust assets business is a promising growth area that is competitive and becoming more so because of changes in the industry. In addition, there is growing corporate demand for change in the trust regulatory environment, such as reform of the pension system and related accounting regulations under Japanese GAAP. However, competition may increase in the future as regulatory barriers to entry are lowered. The current Trust Business Law came into effect on December 30, 2004. Among other things, the Trust Business Law has expanded the types of property that can be entrusted and allows non-financial companies to conduct trust business upon approval. The law has also adopted a type of registration for companies that wish to conduct only the administration type trust business. The Trust Business Law was further amended in December 2006 in order to cope with new types of trusts and to amend the duties imposed on the trustee in accordance with the sweeping amendment to the law. As these regulatory developments have facilitated the expansion of the trust business, the competition in this area has also intensified.

*Integration.* Since their formation in 2000 and 2001, the so-called Japanese “mega bank” groups, including us, the Mizuho Financial Group, and the Sumitomo Mitsui Financial Group have continued to expand their businesses and financial group capabilities. Heightened competition among the mega bank groups is currently expected in the securities sector as they have recently announced plans to expand, or have expanded, their respective securities businesses. In May 2010, we and Morgan Stanley commenced operations of two joint venture companies, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. and Morgan Stanley MUFG Securities Co., Ltd., each of which was formed by integrating certain operations of MUS and Morgan Stanley Japan Securities. In May 2009, Mizuho Securities Co., Ltd. acquired Shinko Securities Co., Ltd., and in October 2009 the Sumitomo Mitsui Financial Group acquired Nikko Cordial Securities Inc. and other businesses from

Citigroup Inc. In October 2009, The Sumitomo Trust and Banking Co., Ltd. acquired Nikko Asset Management Co., Ltd. from Citigroup Inc., and in November 2009 The Sumitomo Trust and Banking Co., Ltd and Chuo Mitsui Trust Holdings Inc. entered into basic agreement to integrate the two groups. The mega bank groups are also expected to face heightened competition with other financial groups. For example, the Nomura Group acquired Lehman Brothers Holding, Inc.'s franchise in the Asia-Pacific region and investment banking businesses in Europe and the Middle East in October 2008.

### ***Foreign***

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

In other international markets, we face competition from commercial banks and similar financial institutions, particularly major international banks and the leading domestic banks in the local financial markets in which we conduct business. In addition, we may face further competition as a result of recent investments, mergers and other business tie-ups among global financial institutions.

### **The Japanese Financial System**

Japanese financial institutions may be categorized into three types:

- the central bank, namely the Bank of Japan;
- private banking institutions; and
- government financial institutions.

### ***The Bank of Japan***

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

### ***Private Banking Institutions***

Private banking institutions in Japan are commonly classified into two categories (the following numbers are based on information published by the Financial Services Agency of Japan available as of July 20, 2010:

- ordinary banks (127 ordinary banks and 58 foreign commercial banks with ordinary banking operations); and
- trust banks (18 trust banks, including four Japanese subsidiaries of foreign financial institutions).

Ordinary banks in turn are classified as city banks, of which there are five, including BTMU, and regional banks, of which there are 106 and other banks, of which there are 16. In general, the operations of ordinary banks correspond to commercial banking operations in the United States. City banks and regional banks are distinguished based on head office location as well as the size and scope of their operations.

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

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

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

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

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

### ***Government Financial Institutions***

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

Among them are the following:

- The Development Bank of Japan, which was established for the purpose of contributing to the economic development of Japan by extending long-term loans, mainly to primary and secondary sector industries, and which was reorganized as a joint stock company in October 2008 as part of its ongoing privatization process;
- Japan Finance Corporation, which was formed in October 2008, through the merger of the International Financial Operations of the former Japan Bank for International Cooperation, National Life Finance Corporation, Agriculture, Forestry and Fisheries Finance Corporation, and Japan Finance Corporation for Small and Medium Enterprise, the primary purposes of which are to supplement and encourage the private financing of exports, imports, overseas investments and overseas economic cooperation, and to supplement private financing to the general public, small and medium enterprises and those engaged in agriculture, forestry and fishery;
- Japan Housing Finance Agency, which was originally established in June 1950 as the Government Housing Loan Corporation for the purpose of providing housing loans to the general public, was reorganized as an incorporated administrative agency and became specialized in securitization of housing loans in April 2007; and
- The Japan Post Group companies, a group of joint stock companies including Japan Post Bank, which were formed in October 2007 as a result of the reorganization of the former Japan Post, a government-run public services corporation, which had been the Postal Service Agency until March 2003. In December 2009, the Japanese government's privatization plan for the Japan Post Group companies was suspended, and a bill was introduced to the Diet outlining further modifications to the privatization plan. However, it was not approved during the Diet session ended in June 2010.

## Supervision and Regulation

### *Japan*

*Supervision.* The Financial Services Agency of Japan, an agency of the Cabinet Office, or FSA, is responsible for supervising and overseeing financial institutions, making policy for the overall Japanese financial system and conducting insolvency proceedings with respect to financial institutions. The Bank of Japan, as the central bank for financial institutions, also has supervisory authority over banks in Japan, based primarily on its contractual agreements and transactions with the banks.

*The Banking Law.* Among the various laws that regulate financial institutions, the Banking Law and its subordinated orders and ordinances are regarded as the fundamental law for ordinary banks and other private financial institutions. The Banking Law addresses bank holding companies, capital adequacy, inspections and reporting, as well as the scope of business activities, disclosure, accounting, limitation on granting credit and standards for arm's length transactions. In addition, the amendment to the Banking Law which came into effect in April 2006 relaxed the standards relating to bank-agent eligibility, which encourages banks to expand their operations through the use of bank agents. As a result of the amendment to the Banking Law and Financial Instruments and Exchange Law effective as of June 2009, firewall regulations that separate bank holding companies/banks from affiliated securities companies have become less stringent, and instead, bank holding companies, banks and other financial institutions are now expressly required to establish an appropriate system to cope with conflicts of interest that may arise from their business operations.

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

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

Basel II is designed to provide more risk-sensitive approaches and a range of options for measuring risks and determining the capital requirements. As a result, Basel II also reflects the nature of risks at each bank more closely. Under the FSA guidelines reflecting Basel II, we and our banking subsidiaries currently use the Advanced Internal Ratings-Based Approach, or the AIRB approach, to calculate capital requirements for credit risk. The Standardized Approach is used for some subsidiaries that are considered to be immaterial to the overall MUFG capital requirements and a few subsidiaries adopted a phased rollout of the internal ratings-based approach. We and our banking subsidiaries adopted the Standardized Approach to calculate capital requirements for operational risk. As for market risk, we and our banking subsidiaries adopted the Internal Models Approach mainly to calculate general market risk and adopted the Standardized Methodology to calculate specific risk.



The capital adequacy guidelines are in accordance with the standards of the BIS for a target minimum standard ratio of capital to modified risk-weighted assets of 8.0% on both consolidated and non-consolidated bases for banks with international operations, including BTMU and MUTB, or on a consolidated basis for bank holding companies with international operations, such as MUFG. Modified risk-weighted assets is the sum of risk-weighted assets compiled for credit risk purposes, market risk equivalent amount divided by 8% and operational risk equivalent amount divided by 8%. The capital adequacy guidelines place considerable emphasis on tangible common shareholders' equity as the core element of the capital base, with appropriate recognition of other components of capital.

Capital is classified into three tiers, referred to as Tier I, Tier II and Tier III. Tier I capital generally consists of shareholders' equity items, including common stock, preferred stock, capital surplus, noncontrolling interests and retained earnings (which includes deferred tax assets). However, recorded goodwill and other items, such as treasury stock, and unrealized losses on investment securities classified as "securities available for sale" under Japanese GAAP, net of taxes, if any, are deducted from Tier I capital. Tier II capital generally consists of:

- The amount (up to a maximum of 0.6% of credit risk-weighted assets) by which eligible reserves for credit losses exceed expected losses in the internal ratings-based approach, and general reserves for credit losses, subject to a limit of 1.25% of modified risk-weighted assets determined by the partial use of the Standardized Approach (including a phased rollout of the internal ratings-based approach);
- 45% of the unrealized gains on investment securities classified as "securities available for sale" under Japanese GAAP;
- 45% of the land revaluation excess;
- the balance of perpetual subordinated debt; and
- the balance of subordinated term debt with an original maturity of over five years and preferred stock with a maturity up to 50% of Tier I capital.

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

Amendments to the capital adequacy guidelines limiting the portion of Tier I capital consisting of deferred tax assets became effective on March 31, 2006. The restrictions are targeted at major Japanese banks and their holding companies, which include MUFG and its banking subsidiaries. The banks subject to the restrictions will not be able to reflect in their capital adequacy ratios any deferred tax assets that exceed the limit of 20% of their Tier I capital.

In September 2009, the Group of Central Bank Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced a comprehensive set of measures to modify the existing three pillars of the Basel II framework. In December 2009, the Basel Committee announced a package of proposals to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector. The proposals cover the following four key areas;

- raising the quality, consistency and transparency of the capital base;
- strengthening the risk coverage of the capital framework;
- introducing a leverage ratio as a supplementary measure to the Basel II risk-based framework with a view to migrating to a minimum capital requirement treatment based on appropriate review and calibration;

- introducing a series of measures to promote the build-up of capital buffers in good times that can be drawn upon in periods of stress; and
- Introducing a global minimum liquidity standard for internationally active banks that includes a 30-day liquidity coverage ratio requirement underpinned by a longer-term structural liquidity ratio.

These measures have not been adopted. However, if adopted, the Japanese capital ratio framework, which is currently based on Basel II, is expected to be revised to implement these measures, thereby imposing possibly more stringent requirements.

The various proposals could impose stricter capital requirements and new liquidity requirements on global financial institutions such as us. If adopted as proposed, the capital requirements could, among other things, significantly increase the aggregate common equity that financial institutions will be required to have issued in proportion to their total risk assets by disqualifying certain instruments that currently qualify as Tier I capital. In addition, the proposals also include a leverage ratio requirement. The proposals also include liquidity requirements that could result in financial institutions holding greater levels of lower yielding instruments as a percentage of their assets. The proposals would increase the level of risk-weighted assets, and could also increase the capital charges imposed on certain assets potentially making certain businesses more expensive to conduct. We will continue to assess the potential impact of the proposals.

*Inspection and reporting.* By evaluating banks' systems of self-assessment, auditing their accounts and reviewing their compliance with laws and regulations, the FSA monitors the financial soundness of banks, including the status and performance of their control systems for business activities. The FSA implemented the Financial Inspection Rating System ("FIRST") for deposit-taking financial institutions which has become applicable to major banks since April 1, 2007. By providing inspection results in the form of graded evaluations (i.e., ratings), the FSA expects this rating system to motivate financial institutions to voluntarily improve their management and operations. Additionally, the FSA currently takes the "better regulation" approach in its financial regulation and supervision. This consists of four pillars: optimal combination of rules-based and principles-based supervisory approaches; timely recognition of priority issues and effective response; encouraging voluntary efforts by financial firms and placing greater emphasis on providing them with incentives; improving the transparency and predictability of regulatory actions, in pursuit of improvement of the quality of financial regulation and supervision.

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

In addition, the Securities and Exchange Surveillance Commission inspects banks in connection with their securities business as well as financial instruments business operators, such as securities firms.

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

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

On September 30, 2006, a law which imposes a limitation on a bank's shareholding of up to the amount equivalent to its Tier I capital took effect.

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

Article 33 of the Financial Instruments and Exchange Law generally prohibits banks from engaging in securities transactions. However, bank holding companies and banks may, through a domestic or overseas securities subsidiary, conduct all types of securities business, with appropriate approval from the FSA. Similarly, registered banks are permitted to provide securities intermediation services and engage in certain other similar types of securities related transactions, including retail sales of investment funds and government and municipal bonds.

*Anti-money laundering laws.* Under the Law for Prevention of Transfer of Criminal Proceeds, banks and other financial institutions are required to report to responsible ministers, in the case of banks, the Commissioner of the FSA, any assets which they receive while conducting their businesses that are suspected of being illicit profits from criminal activity.

*Law concerning trust business conducted by financial institutions.* Under the Trust Business Law, joint stock companies that are licensed by the Prime Minister as trust companies are allowed to conduct trust business. In addition, under the Law Concerning Concurrent Operation for Trust Business by Financial Institutions, banks and other financial institutions, as permitted by the Prime Minister, are able to conduct trust business. The Trust Business Law was amended in December 2004 to expand the types of property that can be entrusted, to allow non-financial companies to conduct trust business and to allow a new type of registration for trustees who conduct only administration type trust business. The Trust Business Law was further amended in December 2006 in order to cope with new types of trust and to amend the duties imposed on the trustee in accordance with the sweeping amendment to the Trust Law.

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

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

Under the Deposit Insurance Law, the maximum amount of protection is ¥10 million per customer within one bank. Since April 1, 2005, all deposits are subject to the ¥10 million maximum, except for non-interest bearing deposits that are redeemable on demand and used by the depositor primarily for payment and settlement functions (the “settlement accounts”). Such deposit accounts are fully protected without a maximum amount limitation. Certain types of deposits are not covered by the deposit insurance system, such as foreign currency deposits and negotiable certificates of deposit. Currently, the Deposit Insurance Corporation charges insurance premiums equal to 0.107% on the deposits in the settlement accounts, which are fully protected as mentioned above, and premiums equal to 0.082% on the deposits in other accounts.

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

Under the Deposit Insurance Law, a Financial Reorganization Administrator can be appointed by the Prime Minister if a bank is unable to fully perform its obligations with its assets or may suspend or has suspended

repayment of deposits. The Financial Reorganization Administrator will take control of the assets of the troubled bank, dispose of the assets and search for another institution willing to take over its business. The troubled bank's business may also be transferred to a "bridge bank" established by the Deposit Insurance Corporation for the purpose of the temporary maintenance and continuation of operations of the troubled bank, and the bridge bank will seek to transfer the troubled bank's assets to another financial institution or dissolve the troubled bank. The Deposit Insurance Corporation protects deposits, as described above, either by providing financial aid for costs incurred by the financial institution succeeding the insolvent bank or by paying insurance money directly to depositors. The financial aid, provided by the Deposit Insurance Corporation, may take the form of a monetary grant, loan or deposit of funds, purchase of assets, guarantee or assumption of debts, subscription of preferred stock, or loss sharing. The Deposit Insurance Law also provides for exceptional measures to cope with systemic risk in the financial industry.

Further, against the background of the global financial crisis, in December 2008 the Law Concerning Special Measures for Strengthening of Financial Function was amended in order to enable the Japanese government to take special measures in order to strengthen the capital of financial institutions. Under the law, banks and other financial institutions may apply to receive capital injections from the Deposit Insurance Corporation, subject to government approval, which will be granted subject to the fulfillment of certain requirements, including, among other things, the improvement of profitability and efficiency, facilitation of financing to mid-small business enterprises in the local communities, and that the financial institution is not insolvent. The application deadline is March 31, 2012.

*Law Concerning the Temporary Measures for the Facilitation of Finance to Small and Medium-sized Firms and Others.* On November 30, 2009, the Japanese Diet passed a new piece of legislation entitled the Law Concerning the Temporary Measures for the Facilitation of Finance to Small and Medium-sized Firms and Others. The legislation requires financial institutions, among other things, to make an effort to reduce their customers' burden of loan payment by employing methods such as modifying the term of loans at the request of eligible borrowers including small and medium-sized firms and individual home loan borrowers. The new legislation also requires financial institutions to internally establish a system to implement the requirements of the legislation and periodically make public disclosure of and report to the relevant authority on the status of implementation. The legislation is scheduled to expire at the end of March 2011.

*Personal Information Protection Law.* With regards to protection of personal information, the Personal Information Protection Law became fully effective on April 1, 2005. Among other matters, the law requires Japanese banking institutions to limit the use of personal information to the stated purpose and to properly manage the personal information in their possession, and forbids them from providing personal information to third parties without consent. If a bank violates certain provisions of the law, the FSA may advise or order the bank to take proper action. The FSA announced related guidelines for the financial services sector in December 2004. In addition, the Banking Law and the Financial Instruments and Exchange Law provide certain provisions with respect to appropriate handling of customer information.

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

*Recent Regulatory Actions.* In June 2009, the former MUS received from the FSA an order to improve business operations pursuant to Article 51 of the Financial Instruments and Exchange Law and to submit a report on the former MUS's progress on adopting and implementing remedial and preventative measures (which report was submitted to the FSA on July 2, 2009) and a recommendation pursuant to the first paragraph of Article 34 of the Personal Information Protection Law in connection with the incident where data including customer information were fraudulently stolen.

In July 2009, kabu.com Securities Co., Ltd., a consolidated subsidiary, received an order to improve business operations from the FSA in connection with a former employee's trading activities in violation of Japanese insider trading regulations.

*Government reforms to restrict maximum interest rates on consumer lending business.* In December 2006, the Diet passed legislation to reform the regulations relating to the consumer lending business, including amendments to the Law Concerning Acceptance of Investment, Cash Deposit and Interest Rate etc., which, effective on June 18, 2010, reduced the maximum permissible interest rate from 29.2% per annum to 20% per annum. The regulatory reforms also included amendments to the Law Concerning Lending Business which, effective on June 18, 2010, abolished the so-called "gray-zone interest." Gray-zone interest refers to interest rates exceeding the limits stipulated by the Interest Rate Restriction Law (between 15% per annum to 20% per annum depending on the amount of principal). Prior to June 18, 2010, gray-zone interests were permitted under certain conditions set forth in the Law Concerning Lending Business. As a result of the regulatory reforms, all interest rates are now subject to the lower limits imposed by the Interest Rate Restriction Law, compelling lending institutions, including our consumer finance subsidiaries and equity method investees, to lower the interest rates they charge borrowers. Furthermore, the new regulations, which became effective on June 18, 2010, require, among other things, consumer finance companies to review the repayment capability of borrowers before lending, thereby limiting the amount of borrowing available to individual borrowers.

In addition, as a result of recent decisions made by the Supreme Court of Japan prior to June 18, 2010, imposing stringent requirements for charging such gray-zone interest, and the business environment for consumer finance companies in Japan has been altered in favor of borrowers. Due to such changes, borrowers' claims for reimbursement of such excess interest that they have paid to the consumer finance companies have significantly increased and are still holding at high levels.

### *United States*

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

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

- prohibited further expansion of the types of activities in which bank holding companies, acting directly or through nonbank subsidiaries, may engage;
- authorized qualifying bank holding companies to opt to become "financial holding companies," and thereby acquire the authority to engage in an expanded list of activities; and
- modified the role of the Federal Reserve Board by specifying new relationships between the Federal Reserve Board and the functional regulators of nonbank subsidiaries of both bank holding companies and financial holding companies.

The BHCA generally prohibits each of a bank holding company and a foreign banking organization that maintains branches or agencies in the United States from, directly or indirectly, acquiring more than 5% of the voting shares of any company engaged in nonbanking activities in the United States unless the bank holding company or foreign banking organization has elected to become a financial holding company, as discussed above, or the Federal Reserve Board has determined, by order or regulation, that such activities are so closely related to banking as to be a proper incident thereto and has granted its approval to the bank holding company or foreign

banking organization for such an acquisition. The BHCA also requires a bank holding company or foreign banking organization that maintains branches or agencies in the United States to obtain the prior approval of an appropriate federal banking authority before acquiring, directly or indirectly, the ownership of more than 5% of the voting shares or control of any US bank or bank holding company. In addition, under the BHCA, a US bank or a US branch or agency of a foreign bank is prohibited from engaging in various tying arrangements involving it or its affiliates in connection with any extension of credit, sale or lease of any property or provision of any services.

On October 6, 2008, we became a financial holding company. At the same time, BTMU, MUTB, and UNBC, which are also bank holding companies, elected to become financial holding companies. As noted above, as a financial holding company we are authorized to engage in an expanded list of activities. These activities include those deemed to be financial in nature or incidental to such financial activity, including among other things merchant banking, insurance underwriting, and a full range of securities activities. In addition, we are permitted to engage in certain specified nonbanking activities deemed to be closely related to banking, without prior notice to or approval from the Federal Reserve Board. To date, we have utilized this expanded authority by electing to engage in certain securities activities, including securities underwriting, indirectly through certain of our securities subsidiaries. In order to maintain our status as a financial holding company that allows us to expand our activities, we must continue to meet certain standards established by the Federal Reserve Board. Those standards require that we exceed the minimum standards applicable to bank holding companies that have not elected to become financial holding companies. These higher standards include meeting the “well capitalized” and “well managed” standards for financial holding companies as defined in the regulations of the Federal Reserve Board. In addition, as a financial holding company, we must ensure that our US banking subsidiaries identified below meet certain minimum standards under the Community Reinvestment Act of 1977. At this time, we continue to comply with these standards.

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

The IBA provides, among other things, that the Federal Reserve Board may examine US branches and agencies of foreign banks, and that each such branch and agency shall be subject to on-site examination by the appropriate federal or state bank supervisor as frequently as would a US bank. The IBA also provides that if the Federal Reserve Board determines that a foreign bank is not subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country, or if there is reasonable cause to believe that the foreign bank or its affiliate has committed a violation of law or engaged in an unsafe or unsound banking practice in the United States, the Federal Reserve Board may order the foreign bank to terminate activities conducted at a branch or agency in the United States.

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

As an example of state supervision, the branches of BTMU and MUTB in New York are licensed by the New York State Superintendent of Banks, or the Superintendent, pursuant to the New York Banking Law. Under

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

*US banking subsidiaries.* We indirectly own and control three US banks:

- Bank of Tokyo-Mitsubishi UFJ Trust Company, New York, New York (through BTMU, a registered bank holding company),
- Mitsubishi UFJ Trust & Banking Corporation (U.S.A.), New York, New York (through MUTB, a registered bank holding company), and
- Union Bank (through BTMU and its subsidiary, UNBC, a registered bank holding company).

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

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

*Bank capital requirements and capital distributions.* Our US banking subsidiaries are subject to applicable risk-based and leverage capital guidelines issued by US regulators for banks and bank holding companies. In addition, BTMU and MUTB, as foreign banking organizations that have US branches and agencies and that are controlled by us as a financial holding company, are subject to the Federal Reserve's requirements that they be "well-capitalized" based on Japan's risk based capital standards, as well as "well managed." All of our US banking subsidiaries and BTMU, MUTB, and UNBC are "well capitalized" as defined under, and otherwise comply with, all US regulatory capital requirements applicable to them. The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, provides, among other things, for expanded regulation of insured depository institutions, including banks, and their parent holding companies. As required by FDICIA, the federal banking agencies have established five capital tiers ranging from "well capitalized" to "critically undercapitalized" for insured depository institutions. As an institution's capital position deteriorates, the federal banking regulators may take progressively stronger actions, such as further restricting affiliate transactions, activities, asset growth or interest payments. In addition, FDICIA generally prohibits an insured depository institution from making capital distributions, including the payment of dividends, or the payment of any management fee to its holding company, if the insured depository institution would subsequently become undercapitalized.

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

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

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

*Regulatory Reform Legislation.* In response to the financial crisis and the perception that lax supervision of the financial industry in the United States may have been a contributing cause, new legislation designed to reform the system for supervision and regulation of financial firms in the United States called the "Dodd-Frank Wall Street Reform and Consumer Protection Act," or the Dodd-Frank Act, was signed into law on July 21, 2010. The Dodd-Frank Act is complex and extensive in its coverage and contains a wide range of provisions that would affect financial institutions operating in the United States, including our US operations. Included among these provisions, among other things, are sweeping reforms designed to reduce systemic risk presented by very large financial firms, promote enhanced supervision, regulation, and prudential standards for financial firms, establish comprehensive supervision of financial markets, impose new limitations on permissible financial institution activities and investments, expand regulation of the derivatives markets, protect consumers and investors from financial abuse, and provide the government with the tools needed to manage a financial crisis. Many aspects of the legislation require subsequent regulatory action by supervisory agencies for full implementation. Thus, we are unable to assess at this time the potential impact of any such enacted legislation on our operations.



**C. Organizational Structure**

The following chart presents our corporate structure summary as at March 31, 2010:

(As of March 31, 2010)

Mitsubishi UFJ Financial Group, Inc.	
Banking business	Domestic
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Trust banking business	Overseas
	UnionBanCal Corporation
	Mitsubishi UFJ Wealth Management Bank (Switzerland), Ltd.
Securities business	Domestic
	Mitsubishi UFJ Securities Co., Ltd. kabu.com Securities Co., Ltd. Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd.
Credit card business	Overseas
	Mitsubishi UFJ Securities International plc
	Mitsubishi UFJ Securities (USA), Inc.
	Mitsubishi UFJ Trust International Limited
	Mitsubishi UFJ Securities (HK) Holdings, Limited
Leasing business	Domestic
	NBL Co., Ltd. BOT Lease Co., Ltd.
Other businesses	Overseas
	BTMU Capital Corporation
	PT U Finance Indonesia
	BTMU Leasing & Finance, Inc.
	PT. BTMU-BRI Finance
Other businesses	Domestic
	Mitsubishi UFJ Factors Limited
	MU Frontier Servicer Co., Ltd.
	Mitsubishi UFJ Capital Co., Ltd.
	KOKUSAI Asset Management Co., Ltd.
	Mitsubishi UFJ Asset Management Co., Ltd.
	MU Investments Co., Ltd.
	Mitsubishi UFJ Research and Consulting Co., Ltd.
	Mitsubishi UFJ Real Estate Services Co., Ltd.

Set forth below is a list of our principal consolidated subsidiaries at March 31, 2010:

Name	Country of Incorporation	Proportion of Ownership Interest (%)	Proportion of Voting Interest <sup>(1)</sup> (%)
The Bank of Tokyo-Mitsubishi UFJ, Ltd. ....	Japan	100.00%	100.00%
Mitsubishi UFJ Trust and Banking Corporation .....	Japan	100.00%	100.00%
The Master Trust Bank of Japan, Ltd. ....	Japan	46.50%	46.50%
Mitsubishi UFJ Securities Co., Ltd. <sup>(2)</sup> .....	Japan	100.00%	100.00%
Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd. ....	Japan	50.98%	50.98%
kabu.com Securities Co., Ltd. ....	Japan	54.85%	54.85%
Mitsubishi UFJ NICOS Co., Ltd. ....	Japan	84.98%	84.98%
Tokyo Credit Services, Ltd. ....	Japan	74.00%	74.00%
Ryoshin DC Card Company, Ltd. ....	Japan	75.20%	75.20%
Tokyo Associates Finance Corp. ....	Japan	100.00%	100.00%
NBL Co., Ltd. ....	Japan	89.74%	89.74%
Mitsubishi UFJ Factors Limited .....	Japan	100.00%	100.00%
MU Frontier Servicer Co., Ltd. ....	Japan	94.44%	94.44%
Mitsubishi UFJ Capital Co., Ltd .....	Japan	40.26%	40.26%
MU Hands-on Capital Co., Ltd. ....	Japan	50.00%	50.00%
Defined Contribution Plan Consulting of Japan Co., Ltd. ....	Japan	77.49%	77.49%
KOKUSAI Asset Management Co., Ltd. ....	Japan	56.10%	56.16%
Mitsubishi UFJ Asset Management Co., Ltd. ....	Japan	100.00%	100.00%
MU Investments Co., Ltd. ....	Japan	100.00%	100.00%
Mitsubishi UFJ Real Estate Services Co., Ltd. ....	Japan	100.00%	100.00%
Mitsubishi UFJ Personal Financial Advisers Co., Ltd. ....	Japan	73.69%	73.69%
Mitsubishi UFJ Research and Consulting Ltd. ....	Japan	69.45%	69.45%
MU Business Engineering, Ltd. ....	Japan	100.00%	100.00%
Japan Shareholder Services Ltd. ....	Japan	50.00%	50.00%
BOT Lease Co., Ltd. ....	Japan	22.57%	22.57%
UnionBanCal Corporation .....	USA	100.00%	100.00%
Mitsubishi UFJ Trust & Banking Corporation (U.S.A.) .....	USA	100.00%	100.00%
Mitsubishi UFJ Global Custody S.A. ....	Luxembourg	100.00%	100.00%
Mitsubishi UFJ Wealth Management Bank (Switzerland), Ltd. ....	Switzerland	100.00%	100.00%
Mitsubishi UFJ Securities International plc .....	UK	100.00%	100.00%
Mitsubishi UFJ Securities (USA), Inc. ....	USA	100.00%	100.00%
Mitsubishi UFJ Trust International Limited .....	UK	100.00%	100.00%
Mitsubishi UFJ Securities (HK) Holdings, Limited .....	Peoples' Republic of China	100.00%	100.00%
Mitsubishi UFJ Securities (Singapore), Limited .....	Singapore	100.00%	100.00%
BTMU Capital Corporation .....	USA	100.00%	100.00%
BTMU Leasing & Finance, Inc. ....	USA	100.00%	100.00%
PT U Finance Indonesia .....	Indonesia	95.00%	95.00%
PT. BTMU-BRI Finance .....	Indonesia	55.00%	55.00%
BTMU Lease (Deutschland) GmbH .....	Germany	100.00%	100.00%
BTMU Participation (Thailand) Co., Ltd. ....	Thailand	24.49%	24.49%
Mitsubishi UFJ Baillie Gifford Asset Management Limited .....	UK	51.00%	51.00%
MU Trust Consulting (Shanghai) Co., Ltd. ....	Peoples' Republic of China	100.00%	100.00%

Notes:

- (1) Includes shares held in trading accounts, custody accounts and others.
- (2) On April 1, 2010, Mitsubishi UFJ Securities Co., Ltd. transferred its domestic business operations to a subsidiary by way of a company split, adopted an intermediate holding company structure and changed its corporate name to Mitsubishi UFJ Securities Holdings Co., Ltd. On May 1, 2010, the company succeeding to the domestic business operations of Mitsubishi UFJ Securities Co., Ltd. was integrated with the investment banking division of Morgan Stanley Japan Securities Co., Ltd. and changed its corporate name to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. See "Item 4.B. Information on the Company." and "Item 5. Operating and Financial Review and Prospects—Recent Developments."

#### D. Property, Plants and Equipment

Premises and equipment at March 31, 2009 and 2010 consisted of the following:

	At March 31,	
	2009 (As restated)	2010
	(in millions)	
Land . . . . .	¥ 413,257	¥ 399,893
Buildings . . . . .	673,011 <sup>(1)</sup>	680,085
Equipment and furniture . . . . .	653,211	681,886
Leasehold improvements . . . . .	250,284 <sup>(1)</sup>	235,807
Construction in progress . . . . .	16,290	17,206
Total . . . . .	2,006,053	2,014,877
Less accumulated depreciation . . . . .	962,637	1,019,710
Premises and equipment—net . . . . .	<u>¥1,043,416</u>	<u>¥ 995,167</u>

Note:

(1) The balances of Buildings and Leasehold improvements at March 31, 2009 have been restated. For more information, see Note 7 to our consolidated financial statements included elsewhere in this Annual Report.

Our registered address is 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo. At March 31, 2010, we and our subsidiaries conducted our operations either in the premises we owned or in the properties we leased.

The following table presents the book values of our material offices and other properties at March 31, 2010:

	<u>Book value</u> (in millions)
Owned land . . . . .	¥399,893
Owned buildings. . . . .	227,062

The buildings and land we own are primarily used by us and our subsidiaries as offices and branches. Most of the buildings and land we own are free from material encumbrances.

During the fiscal year ended March 31, 2010, we invested approximately ¥114.2 billion in our subsidiaries primarily for office renovations and relocation.

#### Item 4A. Unresolved Staff Comments.

We received a comment letter from the staff of the Division of Corporation Finance of the SEC dated March 15, 2010 and a subsequent comment letter dated August 10, 2010. The comments from the staff were issued with respect to its review of our annual report on Form 20-F for the fiscal year ended March 31, 2009. The comments covered information included in Item 3.D. Risk Factors, Item 5. Operating and Financial Review and Prospects, Item 6.B. Compensation and Item 7.B. Major Shareholders, and required either more robust disclosure or clarification with respect to our disclosure in those items.

**Item 5. Operating and Financial Review and Prospects.**

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

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## Introduction

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

## Key Financial Figures

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

Effective April 1, 2009, we adopted new accounting guidance regarding noncontrolling interests in subsidiaries. As a result, we have reclassified “Non-interest expense” for the fiscal years ended March 31, 2008 and 2009. See “*Noncontrolling Interests*” under “*Accounting Changes*” in Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

	Fiscal years ended March 31,		
	2008	2009	2010
	(in billions)		
Net interest income . . . . .	¥ 2,279.7	¥ 2,296.4	¥ 1,984.1
Provision for credit losses . . . . .	385.7	626.9	647.8
Non-interest income . . . . .	1,778.1	175.1	2,453.9
Non-interest expense . . . . .	3,620.3	3,608.8	2,508.1
Net income (loss) before attribution of noncontrolling interests . . . . .	(504.0)	(1,504.3)	875.1
Net income (loss) attributable to Mitsubishi UFJ Financial Group . . . . .	(542.4)	(1,468.0)	859.8
Total assets (at end of period) . . . . .	195,766.1	193,499.4	200,084.4

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

**Net interest income.** Net interest income is a function of:

- the amount of interest-earning assets,
- the amount of interest-bearing liabilities,
- the general level of interest rates,
- the so-called “spread,” or the difference between the rate of interest earned on interest-earning assets and the rate of interest paid on interest-bearing liabilities, and
- the proportion of interest-earning assets financed by non-interest-bearing liabilities and equity.

Our net interest income for the fiscal year ended March 31, 2010 decreased compared to that for the prior fiscal year mainly as a result of decreases in our foreign deposit and lending volumes as well as decreases in interest rates. The following table shows changes in our net interest income by changes in volume and by changes in rate for the fiscal year ended March 31, 2009 compared to the fiscal year ended March 31, 2008 and the fiscal year ended March 31, 2010 compared to the fiscal year ended March 31, 2009:

	Fiscal year ended March 31, 2009 versus fiscal year ended March 31, 2008			Fiscal year ended March 31, 2010 versus fiscal year ended March 31, 2009		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	Net change	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	Net change
	(in millions)					
Domestic . . . . .	¥(10,099)	¥23,633	¥13,534	¥ 36,512	¥(138,086)	¥(101,574)
Foreign . . . . .	(41,986)	45,140	3,154	(148,262)	(62,465)	(210,727)
<b>Total</b> . . . . .	<u>¥(52,085)</u>	<u>¥68,773</u>	<u>¥16,688</u>	<u>¥(111,750)</u>	<u>¥(200,551)</u>	<u>¥(312,301)</u>

Note:

(1) Volume/rate variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total “net change.”

The continuing low global interest rate environment negatively affected our overall interest spread in the fiscal year ended March 31, 2010. The following is a summary of the amount of interest-earning assets and interest-bearing liabilities average interest rates, the interest rate spread and non-interest-bearing liabilities for the fiscal years ended March 31, 2008, 2009 and 2010:

	Fiscal years ended March 31,					
	2008		2009		2010	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	(in billions, except percentages)					
Interest-earning assets:						
Domestic .....	¥123,196.2	1.78%	¥121,686.4	1.70%	¥127,830.2	1.34%
Foreign .....	49,271.1	4.41	51,556.3	3.53	47,635.1	2.20
Total .....	<u>¥172,467.3</u>	2.53%	<u>¥173,242.7</u>	2.25%	<u>¥175,465.3</u>	1.57%
Financed by:						
Interest-bearing liabilities:						
Domestic .....	¥123,231.9	0.69%	¥124,716.0	0.58%	¥124,431.3	0.37%
Foreign .....	32,920.1	3.74	31,368.9	2.80	33,725.1	0.93
Total .....	156,152.0	1.34	156,084.9	1.02	158,156.4	0.49
Non-interest-bearing liabilities .....	16,315.3	—	17,157.8	—	17,308.9	—
Total .....	<u>¥172,467.3</u>	1.21%	<u>¥173,242.7</u>	0.92%	<u>¥175,465.3</u>	0.44%
Interest rate spread .....		1.19%		1.23%		1.08%
Net interest income as a percentage of total interest-earning assets .....		1.32%		1.33%		1.13%

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

**Non-interest income.** Non-interest income consists of:

- fees and commissions, including
  - trust fees,
  - fees on funds transfer and service charges for collections,
  - fees and commissions on international business,
  - fees and commissions on credit card business,
  - service charges on deposits,
  - fees and commissions on securities business,
  - fees on real estate business,
  - insurance commissions,
  - fees and commissions on stock transfer agency services,
  - guarantee fees,
  - fees on investment funds business, and
  - other fees and commissions;

- foreign exchange gains (losses)—net, which primarily include net gains (losses) on currency derivative instruments entered into for trading purposes and transaction gains (losses) on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies;
- trading account profits (losses)—net, which primarily include net profits (losses) on trading account securities and interest rate derivative contracts entered into for trading purposes;
- investment securities gains (losses)—net, which primarily include net gains (losses) on sales and impairment losses on securities available for sale;
- equity in losses of equity method investees;
- gains on sales of loans; and
- other non-interest income.

The following table is a summary of our non-interest income for the fiscal years ended March 31, 2008, 2009 and 2010:

	Fiscal years ended March 31,		
	2008	2009	2010
	(in billions)		
Fees and commissions	¥ 1,317.1	¥1,188.5	¥1,139.5
Foreign exchange gains (losses)—net	1,295.9	(206.2)	216.7
Trading account profits (losses)—net	398.4	(257.8)	761.5
Investment securities gains (losses)—net	(1,373.1)	(658.7)	223.0
Equity in losses of equity method investees	(34.5)	(60.1)	(104.0)
Gains on sales of loans	11.8	6.4	21.2
Other non-interest income	162.5	163.0	196.0
Total non-interest income	<u>¥ 1,778.1</u>	<u>¥ 175.1</u>	<u>¥2,453.9</u>

### Core Business Areas

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

Our business segment information is based on financial information prepared in accordance with Japanese GAAP, as adjusted in accordance with internal management accounting rules and practice and is not consistent with our consolidated financial statements included elsewhere in this Annual Report, which have been prepared in accordance with US GAAP. The following tables sets forth the relative contributions to operating profit for the fiscal year ended March 31, 2010 of the three core business areas and the other business areas based on our business segment information:

	Integrated Retail Banking Business Group	Integrated Corporate Banking Business Group					Integrated Trust Assets Business Group	Global Markets	Other	Total
		Domestic	Overseas		Total	Total				
			Other than UNBC	UNBC						
		(in billions)								
Net revenue	¥1,433.3	¥945.4	¥348.4	¥265.3	¥613.7	¥1,559.1	¥157.2	¥528.5	¥ (73.0)	¥3,605.1
Operating expenses	988.2	511.7	204.6	168.1	372.7	884.4	91.4	61.3	179.2	2,204.5
Operating profit (loss)	<u>¥ 445.1</u>	<u>¥433.7</u>	<u>¥143.8</u>	<u>¥ 97.2</u>	<u>¥241.0</u>	<u>¥ 674.7</u>	<u>¥ 65.8</u>	<u>¥467.2</u>	<u>¥(252.2)</u>	<u>¥1,400.6</u>

### ***Summary of Our Recent Financial Results and Financial Condition***

We reported net income attributable to Mitsubishi UFJ Financial Group of ¥859.8 billion for the fiscal year ended March 31, 2010, compared to a net loss attributable to Mitsubishi UFJ Financial Group of ¥1,468.0 billion for the fiscal year ended March 31, 2009. Our diluted earnings per share of common stock (net income available to common shareholders of Mitsubishi UFJ Financial Group) for the fiscal year ended March 31, 2010 was ¥67.87, an improvement from a diluted loss per share of common stock of ¥137.84 for the fiscal year ended March 31, 2009. Income from continuing operations before income tax expense for the fiscal year ended March 31, 2010 was ¥1,282.1 billion, compared to a loss from continuing operations before income tax benefit of ¥1,764.2 billion for the fiscal year ended March 31, 2009.

Our business and results of operations as well as our assets are heavily influenced by trends in economic conditions particularly in Japan. In the fiscal year ended March 31, 2010, there were signs of recovery in the Japanese economy from the negative trends that continued throughout the previous fiscal year. For example, although Japan's real GDP contracted by 2.0% in the fiscal year ended March 31, 2010, stock prices in Japan generally increased during the fiscal year. The Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, increased from ¥8,109.53 at March 31, 2009 to ¥11,089.94 at March 31, 2010, mainly due to a rebound from the global financial crisis in the early part of the fiscal year. The closing price of the Tokyo Stock Price Index, or TOPIX, a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, also increased from 773.66 at March 31, 2009 to 978.81 at March 31, 2010. See “—Introduction—Business Environment.”

In addition to the macro economic factors, our net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2010 mainly reflected the following:

- Net interest income was ¥1,984.1 billion, a decrease of ¥312.3 billion from ¥2,296.4 billion for the previous fiscal year mainly due to the lower interest rate environment, which negatively affected our interest spread, and the decrease in returns from our foreign loans;
- Provision for credit losses was ¥647.8 billion, an increase of ¥20.9 billion from ¥626.9 billion for the fiscal year ended March 31, 2009, reflecting in part a significant amount of allocated allowance for specifically identified problem loans due to the weakening of the financial condition of borrowers, particularly domestic manufacturing, wholesale and retail borrowers and foreign governments and official institutions;
- Fees and commissions were ¥1,139.5 billion, a decrease ¥49.0 billion from ¥1,188.5 billion for the fiscal year ended March 31, 2009 primarily due to decreases of ¥18.2 billion in trust fees, ¥9.9 billion in fees and commissions on stock transfer agency services and ¥7.1 billion in guarantee fees, reflecting a general decrease in the volume of these businesses, partially offset by a ¥17.6 billion increase in fees and commissions on securities businesses as the overall volume of securities trading recovered with the improvement in stock prices in general;
- Net foreign exchange gains were ¥216.7 billion, compared to net foreign exchange losses of ¥206.2 billion for the fiscal year ended March 31, 2009, mainly due to an improvement in our overall position in currency swap contracts and options fees, partially offset by the losses associated with the appreciation of Japanese yen against the US dollar and other currencies;
- Net trading account profits were ¥761.5 billion, compared to net trading account losses of ¥257.8 billion for the fiscal year ended March 31, 2009, largely due to recording net profits on trading securities, excluding derivatives, of ¥850.0 billion for the fiscal year ended March 31, 2010, partially offset by net losses on interest rate and other derivative contracts of ¥88.5 billion for the fiscal year ended March 31, 2010;
- Net investment securities gains were ¥223.0 billion, compared to net losses of ¥658.7 billion for the fiscal year ended March 31, 2009, mainly reflecting net gains on sales of marketable equity securities of



¥213.5 billion and net gains on sales of debt securities available for sale of ¥83.7 billion, partially offset by impairment losses on securities available for sale of ¥92.7 billion; and

- Impairment of goodwill for the fiscal year ended March 31, 2010 was ¥0.5 billion, which was significantly lower than the impairment of goodwill of ¥845.8 billion for the fiscal year ended March 31, 2009. The impairment of goodwill for the fiscal year ended March 31, 2009 reflected the global financial market crisis and recession which negatively impacted the fair value of our reporting units for the purposes of our periodic testing of goodwill for impairment.

For the fiscal year ended March 31, 2010, domestic revenue, which consists of interest income and non-interest income, was ¥3,605.0 billion, while total foreign revenue was ¥1,607.4 billion, with the United States contributing ¥604.4 billion, Asia and Oceania (excluding Japan) contributing ¥482.6 billion and Europe contributing ¥355.0 billion. As a percentage of total revenue, for the three fiscal years ended March 31, 2010, domestic revenue has been on a declining trend, declining to 69.2%, and Asia and Oceania (excluding Japan) has been on an increasing trend, increasing to 9.3%, while the other geographic regions have fluctuated.

For the fiscal year ended March 31, 2010, domestic net income attributable to Mitsubishi UFJ Financial Group was ¥189.7 billion, while the corresponding total foreign net income was ¥670.1 billion. In particular, Asia and Oceania (excluding Japan) contributed ¥241.4 billion to our net income, more than half of which derived from net interest income from China, whereas Europe and the United States contributed ¥199.1 billion and ¥193.0 billion, respectively, reflecting trading gains and net interest income. In light of these trends, we plan to seek growth opportunities particularly in Asia and the United States.

Our net loans outstanding at March 31, 2010 were ¥90.87 trillion, a decrease of ¥8.28 trillion from ¥99.15 trillion at March 31, 2009. Before unearned income, net unamortized premiums and net deferred loan fees, our loan balance at March 31, 2010 consisted of ¥72.02 trillion of domestic loans and ¥20.27 trillion of foreign loans. As a result of a general decrease in the demand for loans, between March 31, 2009 and March 31, 2010, domestic loans decreased ¥5.28 trillion and foreign loans decreased ¥2.83 trillion. However, the total allowance for credit losses at March 31, 2010 was ¥1,315.6 billion, an increase of ¥159.0 billion from ¥1,156.6 billion at March 31, 2009 as we recorded a provision for credit losses of ¥647.8 billion, whereas we had net charge-offs of ¥468.4 billion. The increase in allowance reflected an increase in borrowers that may become bankrupt as well as an increase in restructured loans and nonaccrual loans throughout the period. As of March 31, 2010, our net loans outstanding accounted for 67.1% of our total deposits.

Investment securities increased ¥17.41 trillion to ¥55.05 trillion at March 31, 2010 from ¥37.64 trillion at March 31, 2009, primarily due to an increase of ¥15.26 trillion in Japanese national government bonds and Japanese government agency bonds and an increase of ¥1.56 trillion in foreign government and official institutions bonds between March 31, 2009 and March 31, 2010, partially offset by a ¥0.41 trillion decrease in corporate bonds. Our investment in Japanese national government and government agency bonds increased as part of our asset and liability management policy with respect to investing the amount of yen-denominated deposited funds exceeding our net loans. As a result, our holdings of Japanese national and government and Japanese government agency bonds as a percentage of our assets increased to relatively high levels as of March 31, 2010, accounting for 75.9% of our investment securities available for sale and being held to maturity, and 20.2% of our total assets. Regarding marketable equity securities, improvements in stock prices of Japanese equity securities resulted in an increase in our marketable equity securities by ¥0.59 trillion between March 31, 2009 and March 31, 2010.

Deferred tax assets decreased ¥0.88 trillion to ¥1.29 trillion at March 31, 2010 from ¥2.17 trillion at March 31, 2009. The decrease primarily reflected an increase in net unrealized gains on investment securities due to a recovery in the fair market value of these securities. A decrease in net operating loss carryforwards, which is attributable to our ability to utilize net operating loss carryforwards against taxable income for the fiscal year ended March 31, 2010, also contributed to the decrease in deferred tax assets.

In recent months, there have been some signs of improvement in the financial markets and general economy. Regarding the Japanese stock market, the closing price of the Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, increased from ¥8,109.53 at March 31, 2009 to ¥11,089.94 at March 31, 2010, and has been fluctuating between the ¥9,000 and ¥11,500 range since March 31, 2010. The current signs of improvement in the financial markets and overall economy, both in Japan and globally, may be temporary. Economic conditions may not improve as quickly or steadily as we anticipate, or there may be another economic downturn, in Japan or globally. Many of the negative trends in financial markets in Japan and globally may continue in the near future. The strong Japanese yen may affect our export-oriented borrowers and the value of our foreign assets as the Japanese yen appreciated against other currencies, fluctuating around ¥90 to US\$1 in the last six months. As of August 6, 2010, the Japanese yen stood at ¥85.25 to US\$1, an appreciation of ¥13.06 as compared to ¥98.31 as of March 31, 2009. As a result of such trends, we may suffer additional credit costs resulting mainly from deteriorating business conditions for our borrowers, and our fee income relating to investment products in retail business and derivative transactions in our corporate banking business and our trading income may decrease. The Bank of Japan has been maintaining a very low policy rate (uncollateralized overnight call rate) of 0.10% as part of its monetary easing policy. Interest rates in other major global financial markets, including the United States and the European Union, have remained at historic low levels in recent years. In addition, the current interest rate environment may continue in the near future, impacting our net interest income. However, an unanticipated interest rate movement may significantly affect the value of our debt securities portfolio. See “Item 3.D. Risk Factors” and “—Business Environment.”

### **Recent Developments**

During the fiscal year ended March 31, 2010, we strengthened our alliances with other global financial institutions, including Morgan Stanley, and pursued a capital raising transaction to better respond to the rapidly changing regulatory and competitive environment and to contribute to the real economy, both domestically and globally, as a provider of a stable source of funds and high quality financial services.

### ***Securities Joint Ventures with Morgan Stanley***

As part of our strategic alliance with Morgan Stanley, in May 2010, we and Morgan Stanley integrated our respective Japanese securities companies by forming two joint venture companies. We converted the wholesale and retail securities businesses conducted in Japan by MUS into one of the joint venture entities called Mitsubishi UFJ Morgan Stanley Securities, Co., Ltd., or MUMSS. We also paid ¥26 billion in cash to Morgan Stanley at closing of the transaction (subject to certain post-closing cash adjustments). Morgan Stanley contributed the investment banking operations conducted in Japan by its formerly wholly-owned subsidiary, Morgan Stanley Japan Securities Co., Ltd., or “Morgan Stanley Japan,” to MUMSS, and converted the sales and trading and capital markets businesses conducted in Japan by Morgan Stanley Japan into a second joint venture entity called Morgan Stanley MUFG Securities, Co., Ltd., or “MSMS.” We hold a 60% economic interest in each of the joint venture companies and Morgan Stanley holds a 40% economic interest in each of the joint venture companies. We hold a 60% voting interest and Morgan Stanley holds a 40% voting interest in MUMSS, and we hold a 49% voting interest and Morgan Stanley holds a 51% voting interest in MSMS. Our and Morgan Stanley’s economic and voting interests in the joint venture companies are held through a combination of intermediate holding companies and a partnership.

We created a wholly owned intermediate holding company called Mitsubishi UFJ Securities Holdings Co., Ltd., or MUSHD, which directly holds a 60% voting interest in MUMSS. Morgan Stanley created a wholly owned intermediate holding company called Morgan Stanley Japan Holdings Co., Ltd., or MSJHD, which directly holds a 51% voting interest in MSMS. The remaining voting shares in MUMSS and MSMS were contributed to a partnership created under the Civil Code of Japan called MM Partnership, in which MUSHD holds a 60% ownership interest and MSJHD holds a 40% ownership interest. Through this ownership structure of MM Partnership, MUSHD holds a 60% economic interest, and MSJHD holds a 40% economic interest, in each of MUMSS and MSMS. In addition, pursuant to the partnership agreement between us and Morgan Stanley,

MUSHD effectively holds a 49% voting interest in MSMS, and MSJHD effectively holds a 40% voting interest in MUMSS. MUMSS became our consolidated subsidiary, and MSMS became a consolidated subsidiary of Morgan Stanley.

### ***Completion of Global Offering of Common Stock***

In December 2009, we completed the sale of 2,337,000,000 shares of common stock in a public offering in Japan as well as private placements in other countries, including the United States, and the sale of 163,000,000 additional shares of common stock through a third-party allotment pursuant to the over-allotment option granted in connection with the Japanese offering. Immediately following the offering, we had 14,148,414,920 shares of common stock issued. The proceeds from the sale of these shares after underwriting discounts and commissions were ¥412.53 per share.

The total net proceeds from the offering after underwriting discounts and commissions and offering expenses were approximately ¥1.03 trillion. The total net proceeds from the offering after underwriting discounts and commissions and offering expenses were used to make an equity investment in BTMU to strengthen our overall group capital base. BTMU applied the funds for general corporate purposes.

### ***Strategic Business and Capital Alliance between MUTB and Aberdeen***

As part of our capital alliance with Aberdeen Asset Management PLC, or Aberdeen, in November 2009, a corporate officer of MUTB became a non-executive director of Aberdeen. MUTB held a 17.01% equity interest in Aberdeen as of March 31, 2010. MUTB and Aberdeen plan to continue to work towards further strengthening their strategic alliance by collaborating in marketing and product development.

### ***Agreement on Integration between Bank of Ikeda and Senshu Bank***

In October 2009, The Senshu Bank, Ltd., a regional bank subsidiary of BTMU headquartered in Osaka, and The Bank of Ikeda Ltd., another regional bank headquartered in Osaka, integrated their businesses by creating a holding company, which became our equity method affiliate. As a leading independent financial group in the Osaka region, the new integrated company seeks not only to contribute to the development of the regional society and economy but also to improve its enterprise value. In order to respect the business independence of the new financial group consisting of Bank of Ikeda, Senshu Bank and the new holding company, BTMU plans to divest a part of its common stock in the new holding company and intends to exclude the new holding company from being our equity method affiliate by September 30, 2014 at the latest. However, BTMU also intends to continuously and appropriately support the formation and development of the new financial group and, for that purpose, Nobuo Kuroyanagi, the Chairman of BTMU, has served as an outside director to the new holding company since its incorporation.

### ***Redemption of Preferred Securities Issued by Special Purpose Company***

In January 2010, we redeemed a total of ¥5 billion of non-cumulative and non-dilutive perpetual preferred securities issued by an overseas special purpose company in the Cayman Islands called UFJ Capital Finance 4 Limited. These preferred securities were reflected as part of our Tier I capital before redemption.

### ***Acquisition and Cancellation of First Series of Class 3 Preferred Stock***

In April 2010, we acquired and cancelled all of the outstanding shares of our First Series of Class 3 Preferred Stock at ¥2,500 per share for an aggregate purchase price of ¥250 billion. The preferred stock was reflected as part of our Tier 1 capital before acquisition and cancellation.

### ***Agreements with the FDIC to Acquire Assets and Assume Liabilities of Failing Community Banks***

In April 2010, Union Bank, our indirect wholly owned subsidiary in the United States, entered into a Purchase and Assumption Agreement with the FDIC as receiver of Frontier Bank of Everett, Washington to purchase certain assets and assume certain deposit and other liabilities of Frontier Bank. Of the approximately \$3.2 billion in total assets acquired, Union Bank acquired approximately \$2.8 billion in loans and other real estate owned which are covered under a loss share agreement with the FDIC. Union Bank also assumed approximately \$2.5 billion in deposits.

Also in April 2010, Union Bank entered into a Purchase and Assumption Agreement with the FDIC as receiver of Tamalpais Bank of San Rafael, California to purchase certain assets and assume certain deposits and other liabilities of Tamalpais Bank. Of the approximately \$0.6 billion in total assets acquired, Union Bank acquired approximately \$0.5 billion in loans and other real estate owned which are covered under a loss share agreement with the FDIC. Union Bank also assumed more than \$0.4 billion in deposits.

### **Business Environment**

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

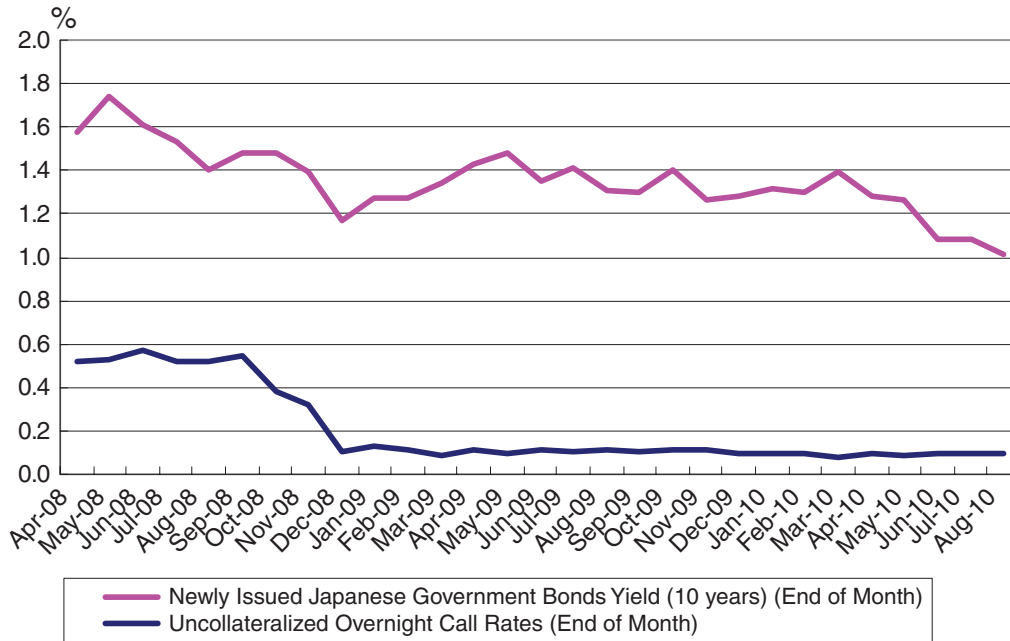
- general economic conditions;
- interest rates;
- currency exchange rates; and
- stock and real estate prices.

See “Item 3.D. Risk Factors.”

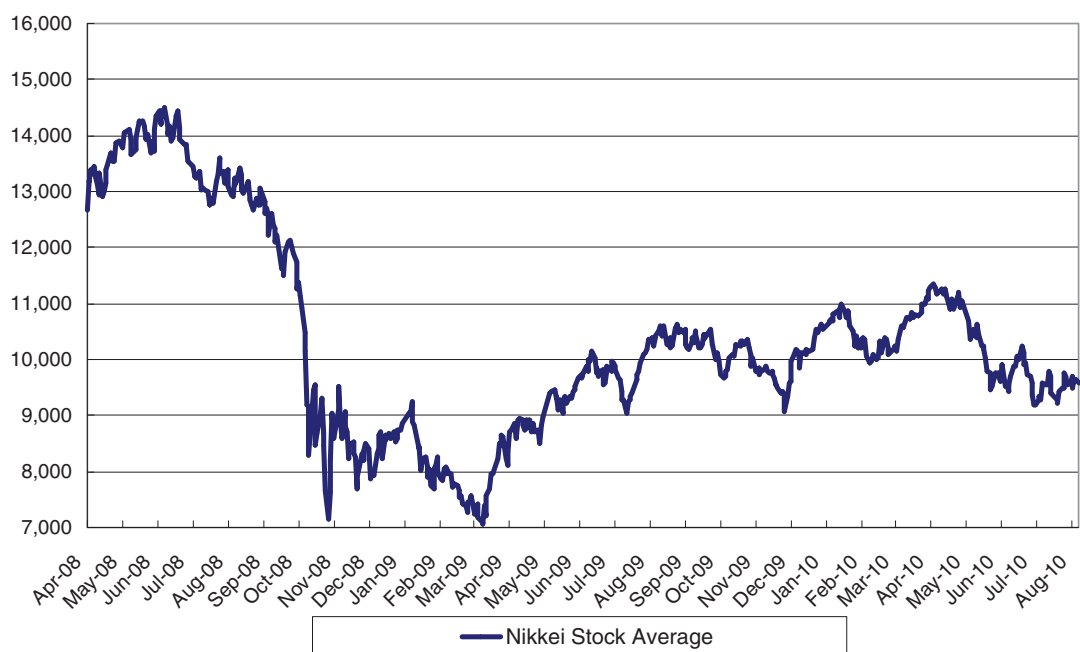
### ***Economic Environment in Japan***

Japan’s economy continues to show signs of recovery with increasing exports, especially to Asia, and with governmental economic stimulus measures continuing to produce positive effects. Japan’s real GDP grew at an annualized 5.0% quarter on quarter for the January-March 2010 period, marking the fourth straight quarter of positive growth, with net exports (exports minus imports) contributing 2.7 percentage points and domestic private demand, including consumption and capital expenditures, contributing 2.1 percentage points. Japan’s annualized GDP growth rate over the past four quarters averaged 4.2% quarter on quarter, exceeding the potential growth rate of 0.5% to 0.8%. The unemployment rate and capacity utilization rates for plants began to show signs of improvement. However, the Japanese economy is still merely recovering from the historic global recession that began in the latter half of 2008, and domestic demand, capital expenditure and employment has only started to improve gradually to a self-sustaining recovery. In addition, the recent GDP growth in Japan reflects the positive impact of one-time factors such as the recent increase in demand for home appliances due in part to the government’s economic stimulus measures. Moreover, the current positive trends in the overall Japanese economy may slow down or discontinue if economic conditions in other regions or globally deteriorate. For example, the Greek fiscal crisis, and the fear of another global economic downturn caused by such crisis, may have an adverse impact on not only the European Union, or EU financial markets but also financial markets in other countries and regions, including Japan.

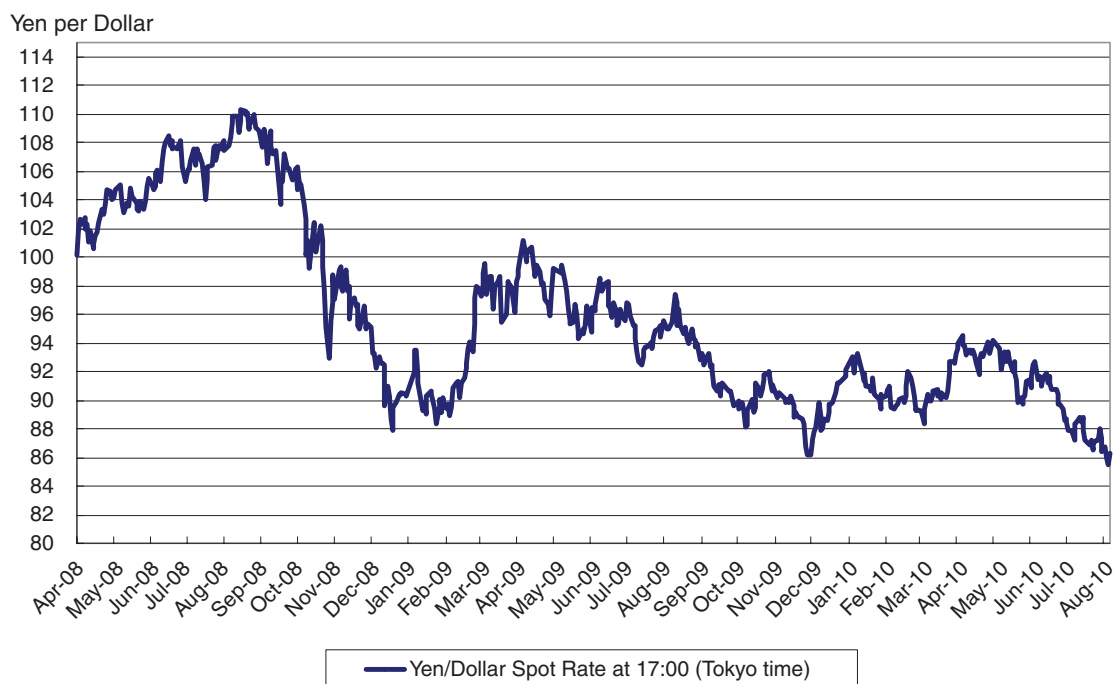
The Bank of Japan has maintained a very low policy rate (uncollateralized overnight call rate) of 0.10% in an effort to lift the economy out of deflation since December 2008, while increasingly supplying funds through its expanded new operations introduced at the end of the fiscal year ended March 31, 2009. Short-term interest rates continued to decline throughout the fiscal year ended March 31, 2010 because of the Bank of Japan’s so-called “monetary easing policy.” Euro-yen 3-month TIBOR fell to approximately 0.38% as of July 1, 2010, the lowest level since 2006. Long-term interest rates have also been on a downward trend, as global risk aversion triggered by the Greek fiscal crisis and tightened fiscal regulations in Europe and in the United States resulted in lower benchmark government bond yields as investors preferred safer assets such as sovereign debt. The yield on newly-issued ten-year Japanese government bonds fell to around 1.05% as of early August 2010. The following chart shows the interest rate trends in Japan since April 2008:



Regarding the Japanese stock market, the closing price of the Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, increased from ¥8,109.53 at March 31, 2009 to ¥11,089.94 at March 31, 2010, showing a rebound from the global financial crisis starting in the early part of calendar year 2009. The closing price of the Tokyo Stock Price Index, or TOPIX, a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, also increased from 773.66 at March 31, 2009 to 978.81 at March 31, 2010. The Nikkei Stock Average has been fluctuating between the ¥9,000 and ¥11,500 range, and has not yet recovered to the pre-Lehman shock level of ¥12,000 or higher. Improvements in the Japanese corporate sector's profitability, signs of recovery from the global financial crisis and the Bank of Japan's policy of increasing monetary supply, contributed to the upward stock price movement. However, investor sentiment remains cautious due in part to concerns surrounding the sovereign debt crises in several European countries, uncertainty regarding the Japanese political leadership and the appreciation of the Japanese yen against other currencies that may reduce the profitability of export-oriented companies in Japan. As of August 9, 2010, the closing price of the Nikkei Stock Average was ¥9,572.49 and that of the TOPIX was 857.62. The following chart shows the daily closing price of the Nikkei Stock Average since April 2008.



The Japanese yen has appreciated against other currencies, somewhat fluctuating around ¥90 to US\$1 in the last six months. As of August 6, 2010, the Japanese yen stood at ¥85.25 to US\$1, an appreciation of ¥13.06 as compared to ¥98.31 as of March 31, 2009. The strong Japanese yen appears to reflect rising risk aversion and lower interest rates abroad, which led to lower capital outflow from Japan. The Japanese yen has also appreciated against the Euro increasingly since April 2010, reflecting the sovereign debt crises and the subsequent tightening of monetary policies in Europe. The Japanese yen stood at ¥113.83 to €1 as of August 9, 2010 as compared to ¥130.52 to €1 as of March 31, 2009. The following chart shows the foreign exchange rates expressed in Japanese yen per US dollar since April 2008:



In calendar year 2009, the average prices for both residential and commercial real estate experienced significant declines for the second consecutive year. According to a survey conducted by the Japanese government, the average residential land price declined by 4.2% between January 1, 2009 and January 1, 2010. The average commercial land price declined by 6.1% during the same period. In the three major metropolitan areas of Tokyo, Osaka and Nagoya, the average residential land price declined by 4.5% between January 1, 2009 and January 1, 2010, while the average commercial land price declined by 7.1% during the same period. In the local regions other than the major metropolitan areas in Japan, the average residential and commercial land prices continued to decline for the sixth consecutive year with the rates of decline between January 1, 2009 and January 1, 2010, being 3.8% and 5.3%, respectively.

According to Teikoku Databank, a Japanese research institution, the number of companies that filed for legal bankruptcy in Japan from April 2009 to March 2010 was approximately 12,900, a decrease by 2.8% from the previous fiscal year, reflecting a moderate recovery of the Japanese economy since the second quarter of the fiscal year ended March 31, 2010. The decrease in the number of companies that filed for legal bankruptcy was mainly due to the positive effects of the Japanese government's economic stimulus measures and policies to increase public construction work by commencing projects earlier than originally scheduled, which generated revenues for many construction companies. The aggregate amount of liabilities subject to bankruptcy filings between April 2009 and March 2010 was approximately ¥7.0 trillion, including ¥2,322 billion attributable to the corporate reorganization filings by Japan Airlines group companies in January 2010. The aggregate amount of liabilities subject to bankruptcy filings decreased approximately 48.6% compared to the same period of the previous year, reflecting the decrease in the number of legal bankruptcy filings, particularly in the number of large-scale bankruptcies in the construction and real estate industries.

## ***International Financial Markets***

With respect to the international financial and economic environment, the US economy recently began to recover with the annualized real GDP growth rate averaging 3.9% in the second half of calendar year 2009. Our research division forecasts that the real GDP growth rate will continue to expand at around 3.1% throughout calendar year 2010. According to the US Bureau of Labor Statistics, the unemployment rate decreased from its cyclical high at 10.1% in October 2009 to 9.5% in June 2010. Reflecting the continued yet weak recovery of the US economy, inflationary pressure has been limited thus far. In March 2010, the core CPI (consumer inflation less food and energy) inflation rate on a year-on-year basis decreased to 1.1%, the slowest rate since and roughly matching November 2003, which is on the lowest end of the Federal Reserve's central tendency range of 1.1% to 1.7% for the entire calendar year 2010. Although household disposable income has been increasing due to the effects of economic stimulus measures and tax reductions by the US government, consumer sentiment remains weak in part because of the high unemployment rates. In the corporate sector, production continues on an upward trend due to improved inventory cycles and increasing exports and capital investments.

In the EU, the signs of recovery from the global recession have been weaker and, according to our research division, the real GDP is expected to grow at 0.6% throughout calendar year 2010. The industrial production growth rate year over year since April 2009 has been 9.5%, with lower growth rates of 1.5% and 0.8% in March and in April 2010, respectively, reflecting concerns over the Greek fiscal crisis. Retail sales in April 2010 declined by 1.5% year over year, which reflected a decrease in the consumer confidence index of 15.0 points. The unemployment rate in April 2010 was 10.1%, up by 0.1% from March 2010. While the unemployment rate is on a moderate declining trend in Germany, in many other EU member states, the unemployment rates remain high, stemming household consumption. With regard to consumer prices, the preliminary inflation rate in May 2010 was 1.6% year over year, which was lower than the European Central Bank's inflationary target of 2.0%. Inflationary pressure from higher oil prices appears to have so far been contained by weak domestic demand.

In the United States, the target for the federal funds rate has been maintained at a range of zero to 0.25%. As of August 6, 2010, the rate was 0.18%. The European Central Bank's interest rate policy has been established at 1.0%, which is the lowest level in the EU's history.

## **Critical Accounting Estimates**

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

### ***Allowance for Credit Losses***

The allowance for credit losses represents management's estimate of probable losses in our loan portfolio. The evaluation process, including credit-ratings and self-assessments, involves a number of estimates and judgments. The allowance is based on two principles of accounting guidance: (1) the guidance on contingencies requires that losses be accrued when they are probable of occurring and can be estimated, and (2) the guidance on accounting by creditors for impairment of a loan requires that losses be accrued based on the difference between the loan balance, on the one hand, and the present value of expected future cash flows discounted at the loan's effective interest rate and the fair value of collateral or the loan's observable market value, on the other hand.

Our allowance for credit losses consists of an allocated allowance and an unallocated allowance. The allocated allowance comprises (a) the allowance for specifically identified problem loans, (b) the allowance for large groups of smaller balance homogeneous loans, (c) the allowance for loans exposed to specific country risk and (d) the formula allowance. Both the allowance for loans exposed to specific country risk and the formula



allowance are provided for performing loans that are not subject to either the allowance for specifically identified problem loans or the allowance for large groups of smaller balance homogeneous loans. The allowance for loans exposed to specific country risk covers transfer risk which is not specifically covered by other types of allowance. Each of these components is determined based upon estimates that can and do change when actual events occur.

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

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

The allowance for loans exposed to specific country risk is based on an estimate of probable losses relating to our exposure to countries that we identify as having a high degree of transfer risk. We use a country risk grading system that assigns risk ratings to individual countries. To determine the risk rating, we consider the instability of foreign currency and difficulties regarding our borrowers' ability to service their debt.

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

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

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

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

### ***Impairment of Investment Securities***

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

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

For debt securities, other than temporary impairment is recognized in earnings if we have an intent to sell the debt security or if it is more likely than not we will be required to sell the debt security before recovery of its amortized cost basis. When we do not intend to sell the debt security and if it is more likely than not that we will not be required to sell the debt security before recovery of its amortized cost basis, the credit component of an other than temporary impairment of a debt security is recognized in earnings, but the noncredit component is recognized in accumulated other changes in equity from nonowner sources.

Certain securities held by BTMU, MUTB and certain other subsidiaries, which primarily consist of debt securities issued by the Japanese national government and generally considered to be of minimal credit risk, are determined not to be impaired as the respective subsidiaries do not have intention to sell the securities, or those subsidiaries are not more likely than not required to sell before recovery of their amortized cost basis.

The determination of other than temporary impairment for certain debt securities held by UNBC, our US subsidiary, which primarily consist of residential mortgage backed securities and certain asset-backed securities, are made on the basis of a cash flow analysis and monitoring of performance of such securities, as well as whether UNBC intends to sell, or is more likely than not required to sell, the securities before recovery of their amortized cost basis.

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

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

For further information on the amount of the impairment losses and the aggregate amount of unrealized gross losses on investment securities, see Note 4 to our consolidated financial statements included elsewhere in this Annual Report.

## ***Income Taxes***

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

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

Among other factors, forecasted operating results, which serve as the basis of our estimation of future taxable income, have a significant effect on the amount of the valuation allowance. In developing forecasted operating results, we assume that our operating performance is stable for certain entities where strong positive evidence exists, including core earnings based on past performance over a certain period of time. The actual results may be adversely affected by unexpected or sudden changes in interest rates as well as an increase in credit-related expenses due to the deterioration of economic conditions in Japan and material declines in the Japanese stock market to the extent that such impacts exceed our original forecast. In addition, near-term taxable income is also influential on the amount of the expiration of unused operating loss carryforwards since the Japanese corporate tax law permits operating losses to be deducted for a predetermined period generally no longer than seven years. For further information on the amount of operating loss carryforwards and the expiration dates, see Note 9 to our consolidated financial statements included elsewhere in this Annual Report.

Because the establishment of the valuation allowance is an inherently uncertain process involving estimates as discussed above, the currently established allowance may not be sufficient. If the estimated allowance is not sufficient, we will incur additional deferred tax expenses, which could materially affect our operating results and financial condition in future periods.

*Tax reserves.* We provide reserves for unrecognized tax benefits as required under guidance on accounting for uncertainty in income taxes. In applying the guidance, we consider the relative risks and merits of positions taken in tax returns filed and to be filed, considering statutory, judicial, and regulatory guidance applicable to those positions. The guidance requires us to make assumptions and judgments about potential outcomes that lie outside management's control. To the extent the tax authorities disagree with our conclusions, and depending on the final resolution of those disagreements, our effective tax rate may be materially affected in the period of final settlement with tax authorities.

## ***Accounting for Goodwill and Intangible Assets***

US GAAP requires us to test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired, using a two-step process that begins with an estimation of the fair value of a reporting unit of our business, which is to be compared with the carrying amount of the unit, to identify potential impairment of goodwill. A reporting unit is an operating segment or component of an operating segment that constitutes a business for which discrete financial information is available and is regularly reviewed by management. The fair value of a reporting unit is defined as the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. For a reporting unit for which an observable quoted market price is not available, the fair value is determined using an income approach. In the

income approach, the present value of expected future cash flows is calculated by taking the net present value based on each reporting unit's internal forecasts. The discount rate reflects current market capitalization. A control premium factor is also considered in relation to market capitalization.

If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss recorded in our consolidated statements of operations. This test requires comparison of the implied fair value of the unit's goodwill with the carrying amount of that goodwill. The estimate of the implied fair value of the reporting unit's goodwill requires us to allocate the fair value of a reporting unit to all of the assets and liabilities of that reporting unit, including unrecognized intangible assets, if any, since the implied fair value is determined as the excess of the fair value of a reporting unit over the net amounts assigned to its assets and liabilities in the allocation. Accordingly, the second step of the impairment test also requires an estimate of the fair value of individual assets and liabilities, including any unrecognized intangible assets that belong to that unit. A change in the estimation could have an impact on impairment recognition since it is driven by hypothetical assumptions, such as customer behavior and interest rate forecasts. The estimation is based on information available to management at the time the estimation is made.

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

#### ***Accrued Severance Indemnities and Pension Liabilities***

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

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

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

#### ***Valuation of Financial Instruments***

We measure certain financial assets and liabilities at fair value. The majority of such assets and liabilities are measured at fair value on a recurring basis, including trading securities, trading derivatives and investment securities. In addition, certain other assets and liabilities are measured at fair value on a non-recurring basis, including held for sale loans which are carried at the lower of cost or fair value, collateral dependent loans and nonmarketable equity securities subject to impairment.

We have elected the fair value option for certain foreign securities classified as available for sale, whose unrealized gains and losses are reported in income.

The guidance on the measurement of fair values defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We have an established and documented process for determining fair value in accordance with the guidance. To determine fair value, we use quoted market prices which include those provided from pricing vendors, where available. We generally obtain one price or quote per instrument and do not adjust it to determine fair value of the instrument. Certain asset-backed securities are valued based on non-binding quotes provided by independent broker-dealers where no or few observable inputs are available to measure fair value. We do not adjust such broker-dealer quotes to the extent that there is no evidence that would indicate that the quotes are not indicative of the fair values of the securities. We perform internal price verification procedures to ensure that the quotes provided from the independent broker-dealers are reasonable. Such verification procedures include analytical review of periodic price changes, comparison analysis between periodic price changes and changes of indices such as a credit default swap index, or inquiries of underlying inputs and assumptions used by the broker-dealers such as probability of default, prepayment rate and discount margin. These verification procedures are periodically performed by independent risk management departments. For collateralized loan obligations (“CLOs”) backed by general corporate loans, the fair value is determined by weighting the internal model valuation and the non-binding broker-dealer quotes. If quoted market prices are not available to determine fair value of derivatives, the fair value is based upon valuation techniques that use, where possible, current market-based or independently sourced parameters, such as interest rates, yield curves, foreign exchange rates, volatilities and credit curves. The fair values of trading liabilities are determined by discounting future cash flows at a rate which incorporates our own creditworthiness. In addition, valuation adjustments may be made to ensure that the financial instruments are recorded at fair value. These adjustments include, but are not limited to, amounts that reflect counterparty credit quality, liquidity risk, and model risk. Our financial models are validated and periodically reviewed by risk management departments independent of divisions that created the models.

For a further discussion of the valuation techniques or models applied to the material assets or liabilities, see “Fair Value” in Note 31 to our consolidated financial statements included elsewhere in this Annual Report.

### ***Change in Valuation Method***

We observed that the market for CLOs backed by general corporate loans became significantly inactive compared with normal market activity due to the reduction in liquidity of certain debt securities resulting from the global financial market instability in the second half of the fiscal year ended March 31, 2009. Under such circumstances, we concluded that the unadjusted non-binding quotes from broker-dealers became less reflective of the fair value as defined in guidance on the measurement of fair values with respect to CLOs backed by general corporate loans. Consequently, we changed the valuation method for estimating the fair value of such CLOs from the method adopting unadjusted quotes from independent broker-dealers to an estimation method by weighting the internal model prices and the non-binding broker-dealer quotes during the second half of the fiscal year ended March 31, 2009.

### ***Fair Value Hierarchy***

The guidance on the measurement of fair values establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity’s own data. Based on the observability of the inputs used in the valuation techniques, the following three-level hierarchy is established by the guidance:

- Level 1—Unadjusted quoted prices for identical instruments in active markets.
- Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the instruments.

- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the instruments.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement of the financial instrument. We review and update the fair value hierarchy on a half year basis. For the categorization within the valuation hierarchy by the financial instruments, see "Fair Value" in Note 31 to our consolidated financial statements included elsewhere in this Annual Report.

The following table summarizes the assets and liabilities accounted for at fair value on a recurring basis by level under the fair value hierarchy at March 31, 2009 and 2010:

	March 31, 2009		March 31, 2010	
	Fair Value (in billions)	Percentage of Total	Fair Value (in billions)	Percentage of Total
<b>Assets:</b>				
Level 1 . . . . .	¥40,664	63.0%	¥57,648	73.2%
Level 2 . . . . .	18,239	28.2	17,164	21.8
Level 3 . . . . .	5,667	8.8	3,964	5.0
Total . . . . .	<u>¥64,570</u>	<u>100.0%</u>	<u>¥78,776</u>	<u>100.0%</u>
As a percentage of total assets . . . . .	33.4%		39.4%	
<b>Liabilities:</b>				
Level 1 . . . . .	¥ 2,742	21.8%	¥ 3,315	26.7%
Level 2 . . . . .	9,632	76.4	8,659	69.6
Level 3 . . . . .	227	1.8	457	3.7
Total . . . . .	<u>¥12,601</u>	<u>100.0%</u>	<u>¥12,431</u>	<u>100.0%</u>
As a percentage of total liabilities . . . . .	6.7%		6.5%	

Level 3 assets decreased ¥1,703 billion during the fiscal year ended March 31, 2010 mainly because Level 3 trading securities decreased ¥739 billion and Level 3 securities available for sale decreased ¥972 billion.

The decrease in Level 3 trading securities was driven by significant decreases in equity securities and foreign asset-backed securities. The decrease of ¥333 billion in equity securities was primarily due to sales and transfers from Level 3 to Level 2. The transfers were related to certain hedge funds to which the MUFG group adopted and applied the FASB's new guidance for investments in certain entities that calculate net asset value per share issued in September 2009. The decrease of ¥314 billion in foreign asset-backed securities such as CLOs backed by general corporate loans was mainly due to sales, which were partially mitigated by gains resulting from their increased fair value.

The decrease in Level 3 securities available for sale was primarily attributable to the decrease in corporate bonds, most of which were private placement bonds issued by Japanese non-public companies. Such Level 3 corporate bonds decreased ¥880 billion for the fiscal year ended March 31, 2010 mainly due to redemption and transfers out of Level 3 of bonds. These transfers resulted from improvement in the creditworthiness of the private placement bonds.

A total of ¥133 billion of foreign asset-backed securities categorized in securities available for sale were transferred out of Level 3 recurring measurements during the fiscal year ended March 31, 2010 mainly because CLOs held by a foreign subsidiary were reclassified from securities available for sale to securities being held to maturity. The securities being held to maturity are not measured at fair value and therefore are excluded from the above fair value hierarchy disclosure on a recurring basis.

For further information regarding fair value measurements, see “Fair Value” in Note 31 to our consolidated financial statements included elsewhere in this Annual Report.

## Accounting Changes and Recently Issued Accounting Pronouncements

See “Accounting Changes” and “Recently Issued Accounting Pronouncements” in Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

### A. Operating Results

#### Results of Operations

The following table sets forth a summary of our results of operations for the fiscal years ended March 31, 2008, 2009 and 2010:

	Fiscal years ended March 31,		
	2008	2009	2010
		(in billions)	
Interest income . . . . .	¥4,366.8	¥ 3,895.8	¥2,758.5
Interest expense . . . . .	2,087.1	1,599.4	774.4
Net interest income . . . . .	2,279.7	2,296.4	1,984.1
Provision for credit losses . . . . .	385.7	626.9	647.8
Non-interest income . . . . .	1,778.1	175.1	2,453.9
Non-interest expense . . . . .	3,620.3	3,608.8	2,508.1
Income (loss) from continuing operations before income tax expense (benefit) . . . . .	51.8	(1,764.2)	1,282.1
Income tax expense (benefit) . . . . .	553.1	(259.9)	407.0
Income (loss) from continuing operations . . . . .	(501.3)	(1,504.3)	875.1
Loss from discontinued operations—net . . . . .	(2.7)	—	—
Net income (loss) before attribution of noncontrolling interests . . . . .	¥ (504.0)	¥(1,504.3)	¥ 875.1
Net income (loss) attributable to noncontrolling interests . . . . .	38.4	(36.3)	15.3
Net income (loss) attributable to Mitsubishi UFJ Financial Group . . . . .	¥ (542.4)	¥(1,468.0)	¥ 859.8

We reported net income attributable to Mitsubishi UFJ Financial Group of ¥859.8 billion for the fiscal year ended March 31, 2010, compared to a net loss attributable to Mitsubishi UFJ Financial Group of ¥1,468.0 billion for the fiscal year ended March 31, 2009. Our diluted earnings per share of common stock (net income available to common shareholders of Mitsubishi UFJ Financial Group) for the fiscal year ended March 31, 2010 was ¥67.87, an improvement from a diluted loss per share of common stock of ¥137.84 for the fiscal year ended March 31, 2009. Income from continuing operations before income tax expense for the fiscal year ended March 31, 2010 was ¥1,282.1 billion, compared to a loss from continuing operations before income tax benefit of ¥1,764.2 billion for the fiscal year ended March 31, 2009.

## Net Interest Income

The following is a summary of the interest rate spread for the fiscal years ended March 31, 2008, 2009 and 2010:

	Fiscal years ended March 31,					
	2008		2009		2010	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	(in billions, except percentages)					
Interest-earning assets:						
Domestic .....	¥123,196.2	1.78%	¥121,686.4	1.70%	¥127,830.2	1.34%
Foreign .....	49,271.1	4.41	51,556.3	3.53	47,635.1	2.20
Total .....	<u>¥172,467.3</u>	2.53%	<u>¥173,242.7</u>	2.25%	<u>¥175,465.3</u>	1.57%
Financed by:						
Interest-bearing liabilities:						
Domestic .....	¥123,231.9	0.69%	¥124,716.0	0.58%	¥124,431.3	0.37%
Foreign .....	32,920.1	3.74	31,368.9	2.80	33,725.1	0.93
Total .....	156,152.0	1.34	156,084.9	1.02	158,156.4	0.49
Non-interest-bearing liabilities .....	16,315.3	—	17,157.8	—	17,308.9	—
Total .....	<u>¥172,467.3</u>	1.21%	<u>¥173,242.7</u>	0.92%	<u>¥175,465.3</u>	0.44%
Interest rate spread .....		1.19%		1.23%		1.08%
Net interest income as a percentage of total interest-earning assets .....		1.32%		1.33%		1.13%

We use interest rate and other derivative contracts for hedging the risks affecting the values of our financial assets and liabilities. Although these contracts are generally entered into for risk management purposes, a majority of them do not meet the specific conditions to qualify for hedge accounting under US GAAP and thus are accounted for as trading assets or liabilities. Any gains or losses resulting from such derivative instruments are recorded as part of net trading account profits or losses. Therefore, our net interest income for each of the fiscal years ended March 31, 2008, 2009 and 2010 was not materially affected by gains or losses resulting from such derivative instruments. For a detailed discussion of our risk management systems, refer to “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.”

### Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009

Net interest income for the fiscal year ended March 31, 2010 was ¥1,984.1 billion, a decrease of ¥312.3 billion from ¥2,296.4 billion for the fiscal year ended March 31, 2009. The decrease in our net interest income mainly reflected the impact of the low interest rate environment that continued throughout the fiscal year ended March 31, 2010. In Japan, the Bank of Japan implemented monetary easing policies and maintained its “zero interest rate” policy throughout the fiscal year ended March 31, 2010. As a result, the average interest rate on domestic interest-earning assets decreased more than the decrease in the average interest rate on domestic interest-bearing liabilities. Central banks outside of Japan also continued to reduce their base interest rates to counter deflationary pressures caused by the financial crisis and the economic recession.

The average interest rate spread on interest-bearing liabilities (average interest rate for interest-earning assets minus average interest rate for interest-bearing liabilities) decreased 15 basis points from 1.23% for the fiscal year ended March 31, 2009 to 1.08% for the fiscal year ended March 31, 2010. For the fiscal year ended March 31, 2010, the average rate on interest-bearing liabilities decreased from 1.02% to 0.49% mainly due to lower foreign interest rates. However, the average rate on interest-earning assets decreased further due to lower foreign interest rates, which resulted in a decrease in the average interest rate spread. Consequently, net interest income decreased ¥200.6 billion due to changes in interest rates.



Average interest-earning assets for the fiscal year ended March 31, 2010 were ¥175,465.3 billion, an increase of ¥2,222.6 billion from ¥173,242.7 billion for the fiscal year ended March 31, 2009. This increase in average interest-earning assets was primarily attributable to an increase of ¥9,533.4 billion in investment securities, partially offset by a ¥4,654.9 billion decrease in both domestic and foreign loans. The increase in investment securities was mainly due to an increase in investment in Japanese national government and government agency bonds as part of our asset and liability management policy with respect to investing the amount of yen-denominated deposited funds. The increase in the average balance of domestic interest-earning assets resulted in an increase in our interest income from domestic assets for the fiscal year ended March 31, 2010 by ¥34.7 billion compared to the prior fiscal year, which was more than offset by a decrease in interest income from foreign assets of ¥92.9 billion due to lower average foreign interest-earning assets.

Average interest-bearing liabilities for the fiscal year ended March 31, 2010 were ¥158,156.4 billion, an increase of ¥2,071.5 billion from ¥156,084.9 billion for the fiscal year ended March 31, 2009. The increase was primarily attributable to an increase of ¥2,723.2 billion in foreign interest-bearing deposits, partially offset by a decrease of ¥1,822.4 billion in other short-term borrowings and trading account liabilities. The increase in foreign interest-bearing deposits was mainly due to increases in money market deposits and time deposits as depositors sought the safety of deposits at large financial institutions in light of the unstable economic conditions. The increase in the average balance of interest-bearing liabilities increased our interest expense for the fiscal year ended March 31, 2010 by ¥53.5 billion compared to the prior fiscal year.

#### ***Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008***

Net interest income for the fiscal year ended March 31, 2009 was ¥2,296.4 billion, an increase of ¥16.7 billion, from ¥2,279.7 billion for the fiscal year ended March 31, 2008. This increase was mainly due to decreases in the average interest rates on both domestic and foreign interest-bearing liabilities. The effect of these decreases exceeded that of the decreases in the average interest rates on both domestic and foreign interest-earning assets.

The average interest rate spread on interest-bearing liabilities increased four basis points from 1.19% for the fiscal year ended March 31, 2008 to 1.23% for the fiscal year ended March 31, 2009. For the fiscal year ended March 31, 2009, the average rate on interest-earning assets decreased mainly due to lower foreign interest rates. However, the average rate on interest-bearing liabilities further decreased, which resulted in an increase of the average interest rate spread on interest-bearing liabilities, mainly due to the lower foreign interest rates. The net interest income as a percentage of total interest-earning assets increased, showing an increase of one basis point from 1.32% for the fiscal year ended March 31, 2008 to 1.33% for the fiscal year ended March 31, 2009.

Average interest-earning assets for the fiscal year ended March 31, 2009 were ¥173,242.7 billion, an increase of ¥775.4 billion, from ¥172,467.3 billion for the fiscal year ended March 31, 2008. The increase was primarily attributable to an increase of ¥13,884.9 billion in trading account assets and an increase of ¥3,529.3 billion in foreign loans. These increases were partially offset by a decrease of ¥9,601.7 billion in foreign investment securities, a decrease of ¥2,058.4 billion in foreign interest-earning deposits in other banks and a decrease of ¥2,001.2 billion in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions. The increase in trading account assets was mainly due to the application of the fair value option, which resulted in the reclassification of some of our securities available for sale to trading account assets. For further information, see Note 31 to our consolidated financial statements included elsewhere in this Annual Report.

Average interest-bearing liabilities for the fiscal year ended March 31, 2009 were ¥156,084.9 billion, a decrease of ¥67.1 billion, from ¥156,152.0 billion for the fiscal year ended March 31, 2008. The decrease was primarily attributable to a decrease of ¥1,830.1 billion in foreign interest-bearing deposits and a decrease of ¥802.6 billion in domestic long-term debt. These decreases were partially offset by an increase of ¥2,581.3 billion in domestic interest-bearing deposits. The decrease in foreign interest-bearing deposits was mainly due to

the fact that large deposits from foreign financial institutions decreased in response to the recent difficult market conditions in addition to the appreciation of the Japanese yen against the US dollar and other foreign currencies. The increase in domestic interest-bearing deposits was partially attributable to the attractive interest rates of our time deposits.

### ***Provision for Credit Losses***

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

### ***Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009***

Provision for credit losses for the fiscal year ended March 31, 2010 was ¥647.8 billion, an increase of ¥20.9 billion from ¥626.9 billion for the fiscal year ended March 31, 2009. The increase in provision for credit losses was mainly due to weakening of the financial condition of borrowers, especially, in the manufacturing, wholesale and retail, and other industries segments.

### ***Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008***

Provision for credit losses for the fiscal year ended March 31, 2009 was ¥626.9 billion, an increase of ¥241.2 billion from ¥385.7 billion for the fiscal year ended March 31, 2008. The increase in provision for credit losses was mainly due to the general weakening of the financial condition of borrowers, particularly overseas and small and medium sized borrowers.

### Non-Interest Income

The following table is a summary of our non-interest income for the fiscal years ended March 31, 2008, 2009 and 2010:

	Fiscal years ended March 31,		
	2008	2009	2010
	(in billions)		
Fees and commissions:			
Trust fees	¥ 156.3	¥ 125.4	¥ 107.2
Fees on funds transfer and service charges for collections	152.9	147.7	145.9
Fees and commissions on international business	69.7	64.1	61.2
Fees and commissions on credit card business	138.0	141.4	137.4
Service charges on deposits	36.1	31.6	27.4
Fees and commissions on securities business	130.7	112.1	129.7
Fees on real estate business	44.5	19.8	19.9
Insurance commissions	43.0	28.1	22.9
Fees and commissions on stock transfer agency services	72.3	62.9	53.0
Guarantee fees	86.3	77.6	70.5
Fees on investment funds business	161.5	130.6	127.3
Other fees and commissions	225.8	247.2	237.1
Total	1,317.1	1,188.5	1,139.5
Foreign exchange gains (losses)—net	1,295.9	(206.2)	216.7
Trading account profits (losses)—net:			
Net profits (losses) on interest rate and other derivative contracts	520.6	555.5	(88.5)
Net profits (losses) on trading account securities, excluding derivatives	(122.2)	(813.3)	850.0
Total	398.4	(257.8)	761.5
Investment securities gains (losses)—net:			
Net gains on sales of securities available for sale:			
Debt securities	1.2	120.9	83.7
Marketable equity securities	83.8	28.4	213.5
Impairment losses on securities available for sale:			
Debt securities	(1,169.1)	(155.5)	(29.8)
Marketable equity securities	(331.3)	(660.7)	(62.9)
Other	42.3	8.2	18.5
Total	(1,373.1)	(658.7)	223.0
Equity in losses of equity method investees	(34.5)	(60.1)	(104.0)
Gains on sales of loans	11.8	6.4	21.2
Other non-interest income	162.5	163.0	196.0
Total non-interest income	¥ 1,778.1	¥ 175.1	¥ 2,453.9

Net foreign exchange gains (losses) primarily include transaction gains (losses) on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies and net gains (losses) on currency derivative instruments entered into for trading purposes. The transaction gains (losses) on the translation into Japanese yen fluctuate from period to period depending upon the spot rates at the end of each fiscal year. In principle, all transaction gains (losses) on translation of monetary liabilities denominated in foreign currencies are included in current earnings. Transaction gains (losses) on translation into Japanese yen of securities available for sale, such as bonds denominated in foreign currencies, are not included in current earnings, but are reflected in other changes in equity from nonowner sources. However, if we recognize an impairment loss on foreign currency-denominated securities available for sale due to the appreciation of the Japanese yen against the relevant foreign currency, such impairment loss is included in current earnings as part of investment securities gains (losses).

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

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

### ***Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009***

Non-interest income for the fiscal year ended March 31, 2010 was ¥2,453.9 billion, an increase of ¥2,278.8 billion, from ¥175.1 billion for the fiscal year ended March 31, 2009. This increase reflects net foreign exchange gains of ¥216.7 billion for the fiscal year ended March 31, 2010 compared to net losses of ¥206.2 billion for the fiscal year ended March 31, 2009, net trading account profits of ¥761.5 billion for the fiscal year ended March 31, 2010 compared to net losses of ¥257.8 billion for the fiscal year ended March 31, 2009, and net investment securities gains of ¥223.0 billion for the fiscal year ended March 31, 2010 compared to net losses of ¥658.7 billion for the fiscal year ended March 31, 2009. These improvements were partially offset by a ¥49.0 billion decrease in fees and commissions from ¥1,188.5 billion for the fiscal year ended March 31, 2009 to ¥1,139.5 billion for the fiscal year ended March 31, 2010.

#### *Fees and commissions*

Fees and commissions for the fiscal year ended March 31, 2010 were ¥1,139.5 billion, a decrease of ¥49.0 billion from ¥1,188.5 billion for the fiscal year ended March 31, 2009. This decrease was primarily due to a decrease of ¥18.2 billion in trust fees, a decrease of ¥9.9 billion in fees and commissions on stock transfer agency services and a decrease of ¥7.1 billion in guarantee fees. The decreases in the various categories of fees and commissions reflected the general decrease in transaction volume for all types of financial transactions and activities as the economy remained weak. The decrease of the various categories was partially offset by a ¥17.6 billion increase in fees and commissions on securities businesses from the prior fiscal year as the overall volume of securities trading recovered with the improvement in stock prices in general.

#### *Net foreign exchange gains (losses)*

Net foreign exchange gains for the fiscal year ended March 31, 2010 were ¥216.7 billion, compared to net foreign exchange losses of ¥206.2 billion for the fiscal year ended March 31, 2009. The gains in foreign exchange were mainly due to an improvement in our overall position in currency swap contracts and options fees, partially offset by the losses associated with the appreciation of Japanese yen against the US dollar and other currencies.

#### *Net trading account profits (losses)*

Net trading account profits of ¥761.5 billion were recorded for the fiscal year ended March 31, 2010, compared to net trading account losses of ¥257.8 billion for the fiscal year ended March 31, 2009. This improvement was largely due to the net profits on trading account securities, excluding derivatives, of ¥850.0 billion for the fiscal year ended March 31, 2010, compared to net losses of ¥813.3 billion for the fiscal year ended March 31, 2009. This improvement mainly reflected an increase in profit on evaluation of foreign currency denominated securities that was recorded under the fair value option. This was partially offset by a net loss of ¥88.5 billion on interest rate and other derivative contracts for the fiscal year ended March 31, 2010 as compared

to net profits of ¥555.5 billion for the fiscal year ended March 31, 2009. Net losses on interest rate and other derivative contracts were mainly reflective of a ¥217 billion loss in equity contracts and a ¥97 billion loss in credit derivatives, partially offset by a ¥213 billion profit in interest rate contracts. Those derivative contracts were primarily held for risk management purposes, yet the majority did not meet the conditions to qualify for hedge accounting under US GAAP and thus were accounted for as trading positions.

#### *Net investment securities gains (losses)*

Net investment securities gains for the fiscal year ended March 31, 2010 were ¥223.0 billion compared to a net loss of ¥658.7 billion for the fiscal year ended March 31, 2009.

The net investment securities losses for the fiscal year ended March 31, 2009 mainly reflected large impairment losses of ¥660.7 billion on marketable equity securities available for sale and of ¥155.5 billion on debt securities available for sale. Impairment losses associated with marketable equity securities and debt securities available for sale for the fiscal year ended March 31, 2010 were ¥62.9 billion and ¥29.8 billion respectively, as the global market conditions throughout the fiscal year ended March 31, 2010 did not deteriorate further than the levels recorded at the end of the fiscal year ended March 31, 2009. In addition, net gains on sales of marketable equity securities increased to ¥213.5 billion for the fiscal year ended March 31, 2010 from ¥28.4 billion for the fiscal year ended March 31, 2009, reflecting the weak yet slightly improving market conditions as well as our increased volume of sales, while net gains on sales of debt securities available for sale decreased to ¥83.7 billion for the fiscal year ended March 31, 2010 from ¥120.9 billion for the fiscal year ended March 31, 2009, reflecting a decrease in the volume of sales of domestic securities by our banking subsidiaries.

#### *Equity in losses of equity method investees*

We recorded equity in losses of equity method investees of ¥104.0 billion for the fiscal year ended March 31, 2010, an increase of ¥43.9 billion from ¥60.1 billion for the fiscal year ended March 31, 2009. The larger losses in the fiscal year ended March 31, 2010 were mainly due to increased losses associated with our equity method investees primarily in the consumer finance industry.

#### ***Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008***

Non-interest income for the fiscal year ended March 31, 2009 was ¥175.1 billion, a decrease of ¥1,603.0 billion from ¥1,778.1 billion for the fiscal year ended March 31, 2008. This decrease was primarily due to a decrease of ¥1,502.1 billion in foreign exchange gains and a decrease of ¥656.2 billion in trading account profits. These decreases were partially offset by a decrease of ¥714.4 billion in investment securities losses.

#### *Fees and commissions*

Fees and commissions for the fiscal year ended March 31, 2009 were ¥1,188.5 billion, a decrease of ¥128.6 billion from ¥1,317.1 billion for the fiscal year ended March 31, 2008. This decrease was primarily attributable to a decrease of ¥30.9 billion in trust fees, a decrease of ¥30.9 billion in fees on investment funds business, and a decrease of ¥24.7 billion in fees on real estate business due to a decrease of business volume.

#### *Net foreign exchange gains (losses)*

Net foreign exchange losses for the fiscal year ended March 31, 2009 were ¥206.2 billion, compared to net foreign exchange gains of ¥1,295.9 billion for the fiscal year ended March 31, 2008. The losses in foreign exchange were mainly due to the appreciation of the Japanese yen against the US dollar in the fiscal year ended March 31, 2009, compared to the fiscal year ended March 31, 2008. For reference, the foreign exchange rate expressed in Japanese yen per US\$1.00 by BTMU was ¥118.05 at March 30, 2007, ¥100.19 at March 31, 2008 and ¥98.23 at March 31, 2009. As a result of adopting the fair value option, in principle, all transaction gains or

losses on translation of eligible monetary assets and liabilities denominated in foreign currencies are included in current earnings. We recorded losses on translation of securities available for sale denominated in foreign currencies as non-interest income for the fiscal year ended March 31, 2009, which were recorded as other comprehensive income in prior fiscal years. As we maintain monetary assets and liabilities denominated in foreign currencies for our asset liability management, net foreign exchange gains or losses fluctuate with the appreciation or depreciation of the Japanese yen.

*Net trading account profits (losses)*

Net trading account losses of ¥257.8 billion were recorded for the fiscal year ended March 31, 2009, compared to net trading account profits of ¥398.4 billion for the fiscal year ended March 31, 2008. Net profits on interest rate and other derivative contracts were largely affected by the impact of the decrease in Japanese long-term interest rates on interest rate swaps principally held for risk management purposes. Although such contracts are generally entered into for risk management purposes, the majority did not meet the conditions to qualify for hedge accounting under US GAAP and thus are accounted for as trading positions. Both Japanese yen short-term interest rates and long-term interest rates generally declined during the fiscal year ended March 31, 2009 compared to the previous fiscal year. These declines in short-term and long-term interest rates had a favorable impact on our interest rate swap portfolios, in which we generally maintained net receive-fix and pay-variable positions, for managing interest rate risk on domestic deposits. However, the increase in net profits on interest rate and other derivative contracts of ¥34.9 billion was offset by an increase in net losses on trading account securities, excluding derivatives, of ¥691.1 billion, mainly reflecting the increase in loss on sales and revaluation from trading in debt and equity securities, including securities reclassified under the fair value option, primarily due to unfavorable market conditions.

*Net investment securities gains (losses)*

Net investment securities losses for the fiscal year ended March 31, 2009 were ¥658.7 billion, a decrease of ¥714.4 billion, from ¥1,373.1 billion for the fiscal year ended March 31, 2008.

The net investment securities losses for the fiscal year ended March 31, 2009 mainly reflected the impairment losses of ¥660.7 billion on marketable equity securities available for sale and of ¥155.5 billion on debt securities available for sale. Impairment losses on debt securities for the fiscal year ended March 31, 2008 were ¥1,169.1 billion due to the appreciation of the Japanese yen against the US dollar. The impairment losses on debt securities for the fiscal year ended March 31, 2009 substantially decreased by ¥1,013.6 billion, compared to those for the fiscal year ended March 31, 2008, due to the election of the fair value option for certain foreign securities. The increase in impairment losses on marketable equity securities was due to a general decline in Japanese stock prices in the fiscal year ended March 31, 2009. The Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, was ¥12,525.54 at March 31, 2008 and ¥8,109.53 at March 31, 2009.

*Equity in losses of equity method investees*

We recorded equity in losses of equity method investees of ¥60.1 billion for the fiscal year ended March 31, 2009, an increase of ¥25.6 billion, from ¥34.5 billion for the fiscal year ended March 31, 2008. The increase in losses in the fiscal year ended March 31, 2009 was mainly due to increased losses associated with our equity method investees primarily in consumer finance and regional banking.

### ***Non-Interest Expense***

The following table shows a summary of our non-interest expense for the fiscal years ended March 31, 2008, 2009 and 2010:

	Fiscal years ended March 31,		
	2008	2009	2010
		(in billions)	
Salaries and employee benefits . . . . .	¥ 909.8	¥ 873.4	¥ 908.2
Occupancy expenses—net . . . . .	173.2	171.9	171.1
Fees and commission expenses . . . . .	218.1	209.8	196.5
Outsourcing expenses, including data processing . . . . .	248.2	267.8	215.4
Depreciation of premises and equipment . . . . .	179.6	132.1	120.3
Amortization of intangible assets . . . . .	252.9	278.2	225.0
Impairment of intangible assets . . . . .	78.7	126.9	12.4
Insurance premiums, including deposit insurance . . . . .	112.4	113.8	112.5
Communications . . . . .	65.3	62.9	57.1
Taxes and public charges . . . . .	83.4	85.7	69.1
Provision for repayment of excess interest . . . . .	2.8	47.9	44.8
Impairment of goodwill . . . . .	893.7	845.8	0.5
Other non-interest expenses . . . . .	402.2	392.6	375.2
Total non-interest expense . . . . .	<u>¥3,620.3</u>	<u>¥3,608.8</u>	<u>¥2,508.1</u>

### ***Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009***

Non-interest expense for the fiscal year ended March 31, 2010 was ¥2,508.1 billion, a decrease of ¥1,100.7 billion from ¥3,608.8 billion for the previous fiscal year. This decrease was primarily attributable to the significant decrease in impairment of both goodwill and other intangible assets. Impairment charges recorded with respect to goodwill and other intangible assets were ¥0.5 billion and ¥12.4 billion, respectively, for the fiscal year ended March 31, 2010, as compared to ¥845.8 billion and ¥126.9 billion, respectively, for the fiscal year ended March 31, 2009. The decrease in these non-interest expenses was partially offset by a ¥34.8 billion increase in salaries and employee benefits.

#### ***Salaries and employee benefits***

Salaries and employee benefits for the fiscal year ended March 31, 2010 were ¥908.2 billion, an increase of ¥34.8 billion from ¥873.4 billion for the previous fiscal year. This increase was mainly due to an increase in allowance for bonuses reflecting the improvement in operating results and an increase in employee retirement expenses as a result of an increase in the number of employees who retired in the fiscal year ended March 31, 2010 and an increase in amortization of net actuarial loss.

#### ***Fees and commission expenses***

Fees and commission expenses for the fiscal year ended March 31, 2010 were ¥196.5 billion, a decrease of ¥13.3 billion from ¥209.8 billion for the fiscal year ended March 31, 2009. The decrease reflects the overall decrease in transaction volume for all types of financial transactions and activities as the economy remained weak.

#### ***Depreciation of premises and equipment***

Depreciation of premises and equipment for the fiscal year ended March 31, 2010 was ¥120.3 billion, a decrease of ¥11.8 billion from ¥132.1 billion for the previous fiscal year. This decrease was primarily attributable to a smaller base for depreciation in which we applied the declining-balance method.

### *Amortization of Intangible Assets*

Amortization of intangible assets for the fiscal year ended March 31, 2010 was ¥225.0 billion, a decrease of ¥53.2 billion from ¥278.2 billion for the previous fiscal year. The decrease was mainly due to a ¥31.4 billion decrease in amortization expenses on software at BTMU and termination of some of our software outsourcing contracts that reduced amortization expenses by ¥13.2 billion during the fiscal year ended March 31, 2010.

### *Impairment of intangible assets*

Impairment of intangible assets for the fiscal year ended March 31, 2010 was ¥12.4 billion, a decrease of ¥114.5 billion from ¥126.9 billion for the previous fiscal year. The decrease reflected the fact that, as compared to the significant impairment of intangible assets related to our consumer finance subsidiary for the fiscal year ended March 31, 2009, we did not have an equally significant impairment of intangible assets for the fiscal year ended March 31, 2010.

### *Impairment of goodwill*

In the fiscal year ended March 31, 2010, we recorded an impairment of goodwill of ¥0.5 billion that was significantly lower than the impairment of goodwill of ¥845.8 billion for the previous fiscal year. The impairment of goodwill for the previous fiscal year reflected, among other factors, the global financial market crisis and recession which negatively impacted the fair value of our reporting units for the purposes of our periodic testing of goodwill for impairment. For further information, see Note 8 to our consolidated financial statements included elsewhere in this Annual Report.

### ***Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008***

Non-interest expense for the fiscal year ended March 31, 2009 was ¥3,608.8 billion, a decrease of ¥11.5 billion from ¥3,620.3 billion for the previous fiscal year. This decrease was primarily due to a decrease of impairment of goodwill, depreciation of premises and equipment, and salaries and employee benefits. The decrease in these non-interest expenses was partially offset by an increase in impairment of intangible assets, provision for repayment of excess interest, amortization of intangible assets and outsourcing expenses, including data processing.

### *Salaries and employee benefits*

Salaries and employee benefits for the fiscal year ended March 31, 2009 were ¥873.4 billion, a decrease of ¥36.4 billion from ¥909.8 billion for the previous fiscal year. This decrease was mainly due to the fact that our credit card subsidiary paid early retirement benefits during the fiscal year ended March 31, 2008, which were not paid for in the fiscal year ended March 31, 2009.

### *Depreciation of premises and equipment*

Depreciation of premises and equipment for the fiscal year ended March 31, 2009 was ¥132.1 billion, a decrease of ¥47.5 billion from ¥179.6 billion for the previous fiscal year. This decrease primarily reflected the fact that the depreciation of premises and equipment increased significantly for the fiscal year ended March 31, 2008, because we reviewed the salvage values of premises and equipment and decided to change the estimated salvage values of these assets to ¥1 during the fiscal year ended March 31, 2008. For the fiscal year ended March 31, 2009, we did not have such additional depreciation and this resulted in a decrease of depreciation of premises and equipment compared to the previous year. For further information, see Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

### *Impairment of intangible assets*

Impairment of intangible assets for the fiscal year ended March 31, 2009 was ¥126.9 billion, an increase of ¥48.2 billion, from ¥78.7 billion for the previous fiscal year. The increase was mainly due to an increase in impairment of intangible assets related to our consumer finance subsidiary.



### *Provision for repayment of excess interest*

Provision for repayment of excess interest for the fiscal year ended March 31, 2009 was ¥47.9 billion, an increase of ¥45.1 billion from ¥2.8 billion for the previous fiscal year. The increase was mainly due to an increase in the provision for repayment of excess interest at our credit card subsidiary following developments in recent court cases relating to gray-zone interest repayment claims.

### *Impairment of goodwill*

In the fiscal year ended March 31, 2009, we recorded an impairment of goodwill of ¥845.8 billion. We recorded an impairment in goodwill due to, among other factors, the global financial market crisis and recession which negatively impacted the fair value of our reporting units for the purposes of our periodic testing of goodwill for impairment. We recorded an impairment of goodwill of ¥893.7 billion for the fiscal year ended March 31, 2008. For further information, see Note 8 to our consolidated financial statements included elsewhere in this Annual Report.

### *Income Tax Expense (Benefit)*

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

	Fiscal years ended March 31,		
	2008	2009	2010
	(in billions, except percentages)		
Income (loss) from continuing operations before income tax expense			
(benefit) . . . . .	¥ 51.8	¥(1,764.2)	¥1,282.1
Income tax expense (benefit) . . . . .	¥ 553.1	¥ (259.9)	¥ 407.0
Effective income tax rate . . . . .	1,068.6%	14.7%	31.7%
Combined normal effective statutory tax rate . . . . .	40.6%	40.6%	40.6%

Reconciling items between the combined normal effective statutory tax rates and the effective income tax rates for the fiscal years ended March 31, 2008, 2009 and 2010 are summarized as follows:

	Fiscal years ended March 31,		
	2008	2009	2010
Combined normal effective statutory tax rate . . . . .	40.6%	40.6%	40.6%
Increase (decrease) in taxes resulting from:			
Nondeductible expenses . . . . .	5.9	(0.2)	0.2
Dividends from foreign subsidiaries . . . . .	24.3	(0.3)	0.0
Foreign tax credits and payments . . . . .	2.4	(0.7)	0.7
Lower tax rates applicable to income of subsidiaries . . . . .	(18.9)	0.0	(0.7)
Change in valuation allowance . . . . .	334.3	(2.3)	(5.8)
Realization of previously unrecognized tax effects of subsidiaries . . . . .	(1.2)	(1.7)	(0.9)
Nontaxable dividends received . . . . .	(36.3)	0.4	(0.1)
Impairment of goodwill . . . . .	701.2	(19.5)	0.0
Undistributed earnings of subsidiaries . . . . .	8.7	(1.5)	(1.6)
Tax and interest expense for uncertainty in income taxes . . . . .	2.0	(1.0)	0.6
Other—net . . . . .	5.6	0.9	(1.3)
Effective income tax rate . . . . .	<u>1,068.6%</u>	<u>14.7%</u>	<u>31.7%</u>

The effective income tax rate of 31.7% for the fiscal year ended March 31, 2010 was 8.9 percentage points lower than the combined normal effective statutory tax rate of 40.6%. This lower effective income tax rate primarily reflected a decrease in the valuation allowance against deferred tax assets which accounted for 5.8 percentage points of the difference between the combined normal effective statutory tax rate and the effective

income tax rate. The valuation allowance decreased ¥88.3 billion to ¥641.6 billion at March 31, 2010 from ¥729.9 billion at March 31, 2009, as a result of our projected ability to utilize net operating loss carryforward, against future taxable income for the fiscal year ended March 31, 2010 in excess of the previously projected taxable income for the fiscal year ended March 31, 2009 and improved probability of realization of future tax benefits based on increased expected taxable income in future periods.

The effective income tax rate of 14.7% for the fiscal year ended March 31, 2009 was 25.9 percentage points lower than the combined normal effective statutory tax rate of 40.6%. This lower effective income tax rate primarily reflected an impairment loss on goodwill which was recognized as a result of declines in the fair value of reporting units used for impairment testing purposes due to the continuing global financial market instability. In addition, this lower tax rate reflected the increased valuation allowance for operating loss carryforwards that were no longer deemed to be realizable due to the global economic slowdown.

The effective income tax rate of 1,068.6% for the fiscal year ended March 31, 2008 was 1,028.0 percentage points higher than the combined normal effective statutory tax rate of 40.6%. This higher effective income tax rate was primarily due to the fact that an impairment of goodwill was recorded under US GAAP, decreasing our income from continuing operations before income tax expense and the cumulative effect of a change in accounting principle of ¥51.8 billion for the fiscal year ended March 31, 2008. Under Japanese tax law, such impairment of goodwill was not deductible in computing our taxable income and, accordingly, our income tax expense was significantly higher in comparison to our income from continuing operations before income tax expense and cumulative effect of a change in accounting principle reported under US GAAP. In addition, the higher effective income tax rate reflected an additional valuation allowance related to operating loss carryforwards that were no longer deemed to be “more likely than not” to be realized, due to a decline in estimated future taxable income resulting from the downturn in financial and banking businesses caused by disruptions in the global financial markets.

#### *Net income (loss) attributable to noncontrolling interests*

##### *Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009*

We recorded net income attributable to noncontrolling interests of ¥15.3 billion for the fiscal year ended March 31, 2010, compared to a net loss attributable to noncontrolling interests of ¥36.3 billion for the previous fiscal year. The improvement was mainly due to the absence of ¥29.1 billion of goodwill impairment losses at Mitsubishi UFJ NICOS that was recorded in the fiscal year ended March 31, 2009.

##### *Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008*

Our net loss attributable to noncontrolling interests for the fiscal year ended March 31, 2009 was ¥36.3 billion, compared to net income attributable to noncontrolling interests of ¥38.4 billion for the previous fiscal year. The decrease was mainly due to further investment in UNBC, which resulted in UNBC becoming a wholly-owned subsidiary and which eliminated our noncontrolling interest in UNBC.

#### **Business Segment Analysis**

We measure the performance of each of our business segments primarily in terms of “operating profit.” Operating profit and other segment information in this Annual Report are based on the financial information prepared in accordance with Japanese GAAP as adjusted in accordance with internal management accounting rules and practices. Accordingly, the format and information are not consistent with our consolidated financial statements prepared on the basis of US GAAP. For example, operating profit does not reflect items such as a part of provision (credit) for credit losses (primarily an equivalent of formula allowance under US GAAP), foreign exchange gains (losses) and equity investment securities gains (losses).

We operate our main businesses under an integrated business group system, which integrates the operations of BTMU, MUTB, MUMSS (formerly MUS), Mitsubishi UFJ NICOS and other subsidiaries in the following three areas—Retail, Corporate, and Trust Assets. This integrated business group system is intended to enhance

synergies by promoting more effective and efficient collaboration between our subsidiaries. Under this system, as the holding company, we formulate strategies for our Group on an integrated basis, which is then executed by the subsidiaries. Through this system, we aim to reduce overlapping of functions within our Group, thereby increasing efficiency and realizing the benefits of group resources and scale of operations. Moreover, through greater integration of our shared expertise in banking, trust and securities businesses, we aim to deliver a more diverse but integrated lineup of products and services for our customers.

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

The following is a brief explanation of our business segments:

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

*Integrated Corporate Banking Business Group*—Covers all domestic and overseas corporate businesses, including commercial banking, investment banking, trust banking and securities businesses as well as UNBC. Through the integration of these business lines, diverse financial products and services are provided to our corporate clients. This business group has clarified strategic domains, sales channels and methods to match the different growth stages and financial needs of our corporate customers. UNBC is a bank holding company, whose primary subsidiary, Union Bank, N.A., or Union Bank, is one of the largest commercial banks in California by both total assets and total deposits. Union Bank provides a wide range of financial services to consumers, small businesses, middle market companies and major corporations, primarily in California, Oregon and Washington but also nationally and internationally.

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

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

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

Effective April 1, 2009, we modified our managerial accounting methods, including those regarding revenue and expense distribution among our business segments. The presentation set forth below for the fiscal years ended March 31, 2008 and 2009 has been reclassified to conform to the new basis of managerial accounting. For further information, see Note 29 to our consolidated financial statements included elsewhere in this Annual Report. Our business segment information is based on financial information prepared in accordance with Japanese GAAP, as adjusted in accordance with internal management accounting rules and practices and is not consistent with our consolidated financial statements included elsewhere in this Annual Report, which has been prepared in accordance with US GAAP.

	<b>Integrated Retail Banking Business Group</b>	<b>Integrated Corporate Banking Business Group</b>				<b>Integrated Trust Assets Business Group</b>	<b>Global Markets</b>	<b>Other</b>	<b>Total</b>	
		<b>Domestic</b>	<b>Overseas</b>		<b>Total</b>					
			<b>Other than UNBC</b>	<b>UNBC</b>						<b>Overseas total</b>
		(in billions)								
Fiscal year ended March 31, 2008										
Net revenue	¥1,345.2	¥1,192.5	¥302.3	¥296.4	¥598.7	¥1,791.2	¥198.5	¥300.0	¥ (18.7)	¥3,616.2
Operating expenses	953.9	557.1	183.7	187.6	371.3	928.4	98.5	59.0	205.2	2,245.0
Operating profit (loss)	¥ 391.3	¥ 635.4	¥118.6	¥108.8	¥227.4	¥ 862.8	¥100.0	¥241.0	¥(223.9)	¥1,371.2
Fiscal year ended March 31, 2009										
Net revenue	¥1,320.0	¥1,045.0	¥358.7	¥256.8	¥615.5	¥1,660.5	¥171.1	¥396.3	¥(213.7)	¥3,334.2
Operating expenses	975.1	554.0	173.6	157.3	330.9	884.9	93.3	62.2	192.9	2,208.4
Operating profit (loss)	¥ 344.9	¥ 491.0	¥185.1	¥ 99.5	¥284.6	¥ 775.6	¥ 77.8	¥334.1	¥(406.6)	¥1,125.8
Fiscal year ended March 31, 2010										
Net revenue	¥1,433.3	¥ 945.4	¥348.4	¥265.3	¥613.7	¥1,559.1	¥157.2	¥528.5	¥ (73.0)	¥3,605.1
Operating expenses	988.2	511.7	204.6	168.1	372.7	884.4	91.4	61.3	179.2	2,204.5
Operating profit (loss)	¥ 445.1	¥ 433.7	¥143.8	¥ 97.2	¥241.0	¥ 674.7	¥ 65.8	¥467.2	¥(252.2)	¥1,400.6

### ***Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009***

Net revenue of the Integrated Retail Banking Business Group increased ¥113.3 billion to ¥1,433.3 billion for the fiscal year ended March 31, 2010 from ¥1,320.0 billion for the fiscal year ended March 31, 2009. Net revenue of the Integrated Retail Banking Business Group mainly consists of revenue from commercial banking operations, such as deposits and lending operations, and fees related to the sales of investment products to retail customers, as well as fees of subsidiaries within the Integrated Retail Banking Business Group. The increase in net revenue mainly reflects the consolidation for the full fiscal year of ACOM CO., LTD., a consumer finance company which became a consolidated subsidiary for purposes of Japanese GAAP in October 2008. ACOM remains an equity method investee under US GAAP. The increase was partially offset by a decrease in revenue from deposits caused by lower interest rates and a decrease in revenue from the operations of Mitsubishi UFJ NICOS reflecting lower consumption under the depressed economy.

Operating expenses of the Integrated Retail Banking Business Group increased ¥13.1 billion to ¥988.2 billion for the fiscal year ended March 31, 2010 from ¥975.1 billion for the fiscal year ended March 31, 2009. The increase in operating expenses mainly reflects the consolidation of ACOM for the full fiscal year.

Operating profit of the Integrated Retail Banking Business Group increased ¥100.2 billion to ¥445.1 billion for the fiscal year ended March 31, 2010 from ¥344.9 billion for the fiscal year ended March 31, 2009. This increase reflects the consolidation for the full fiscal year of ACOM, which increased operating profit by ¥154.0 billion.

Net revenue of the Integrated Corporate Banking Business Group decreased ¥101.4 billion to ¥1,559.1 billion for the fiscal year ended March 31, 2010 from ¥1,660.5 billion for the fiscal year ended March 31, 2009. Net revenue of the Integrated Corporate Banking Business Group mainly consists of revenues from corporate

lending and other commercial banking operations, investment banking and trust banking businesses in relation to corporate clients, as well as fees of subsidiaries within the Integrated Corporate Banking Business Group. The decrease in net revenue was mainly due to a decrease in net revenue from domestic businesses.

With regard to the domestic businesses, net revenue of ¥945.4 billion was recorded for the fiscal year ended March 31, 2010, a decrease of ¥99.6 billion from the previous fiscal year. This decrease was mainly due to a decrease in net interest income from deposits in other banks and due to losses associated with CDS transactions for managing credit risk exposures, partially offset by an increase in net interest income from corporate lending and an increase in profits from the securities business reflecting an increase in securities trading activity by our customers.

With regard to the overseas businesses, net revenue of ¥613.7 billion was recorded for the fiscal year ended March 31, 2010, a decrease of ¥1.8 billion from the previous fiscal year. This decrease was mainly due to losses associated with CDS hedging for managing credit risk exposures, partially offset by an increase in net interest and fee revenues.

Operating expenses of the Integrated Corporate Banking Business Group were ¥884.4 billion for the fiscal year ended March 31, 2010, a decrease of ¥0.5 billion from the fiscal year ended March 31, 2009.

Operating profit of the Integrated Corporate Banking Business Group decreased ¥100.9 billion to ¥674.7 billion for the fiscal year ended March 31, 2010 from ¥775.6 billion for the fiscal year ended March 31, 2009. This decrease was mainly due to the decrease in net revenue as stated above.

Net revenue of the Integrated Trust Assets Business Group decreased ¥13.9 billion to ¥157.2 billion for the fiscal year ended March 31, 2010 from ¥171.1 billion for the fiscal year ended March 31, 2009. Net revenue of the Integrated Trust Assets Business Group mainly consists of fees from asset management and administration services for products such as pension trusts and investment trusts. The decrease in net revenue was mainly due to a decrease in net revenue from pension trusts and investment trusts.

Operating expenses of the Integrated Trust Assets Business Group decreased ¥1.9 billion to ¥91.4 billion for the fiscal year ended March 31, 2010 from ¥93.3 billion for the fiscal year ended March 31, 2009.

Operating profit of the Integrated Trust Assets Business Group decreased ¥12.0 billion to ¥65.8 billion for the fiscal year ended March 31, 2010 from ¥77.8 billion for the fiscal year ended March 31, 2009. This decrease was mainly due to the decrease in net revenue as stated above.

Net revenue of Global Markets increased ¥132.2 billion to ¥528.5 billion for the fiscal year ended March 31, 2010 from ¥396.3 billion for the fiscal year ended March 31, 2009. The increase in net revenue was mainly due to improved results from our asset liability management for both domestic and overseas operations.

#### ***Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008***

Net revenue of the Integrated Retail Banking Business Group decreased ¥25.2 billion from ¥1,345.2 billion for the fiscal year ended March 31, 2008 to ¥1,320.0 billion for the fiscal year ended March 31, 2009. Net revenue of the Integrated Retail Banking Business Group mainly consists of revenue from commercial banking operations, such as deposits and lending operations, and fees related to the sales of investment products to retail customers, as well as fees of subsidiaries within the Integrated Retail Banking Business Group. The decrease in net revenue was mainly due to decreases in net interest income in consumer finance as well as fees and commissions on securities businesses and investment funds business, which fully offset increases in net fees and revenue from deposits and those from ACOM, a consumer finance company that became a consolidated subsidiary during the fiscal year ended March 31, 2009.

Operating expenses of the Integrated Retail Banking Business Group increased ¥21.2 billion from ¥953.9 billion for the fiscal year ended March 31, 2008 to ¥975.1 billion for the fiscal year ended March 31, 2009. The increase in operating expenses was primarily due to the consolidation of ACOM.

Operating profit of the Integrated Retail Banking Business Group decreased ¥46.4 billion from ¥391.3 billion for the fiscal year ended March 31, 2008 to ¥344.9 billion for the fiscal year ended March 31, 2009. This decrease was mainly due to a decrease in net revenue and increase in operating expenses as stated above.

Net revenue of the Integrated Corporate Banking Business Group decreased ¥130.7 billion from ¥1,791.2 billion for the fiscal year ended March 31, 2008 to ¥1,660.5 billion for the fiscal year ended March 31, 2009. Net revenue of the Integrated Corporate Banking Business Group mainly consists of revenues from lending and other commercial banking operations, investment banking and trust banking businesses in relation to corporate clients, as well as fees of subsidiaries within the Integrated Corporate Banking Business Group. The decrease in net revenue was mainly due to a decrease in net revenue in domestic businesses.

With regard to the domestic businesses, net revenue of ¥1,045.0 billion, a decrease of ¥147.5 billion from the previous fiscal year, was recorded for the fiscal year ended March 31, 2009. This decrease was mainly due to a decrease in net interest income resulting from a decrease in loan interest margin and decreases in net revenue from sales of derivative products and from securities businesses. The decrease in net revenue was also attributable to losses from impairment and sales of securitized products.

With regard to the overseas businesses, net revenue of ¥615.5 billion, an increase of ¥16.8 billion from the previous fiscal year, was recorded for the fiscal year ended March 31, 2009. This increase was mainly due to an increase in net revenue from overseas lending business mainly for non-Japanese corporate clients.

Operating expenses of the Integrated Corporate Banking Business Group were ¥884.9 billion for the fiscal year ended March 31, 2009, a decrease of ¥43.5 billion from the fiscal year ended March 31, 2008.

Operating profit of the Integrated Corporate Banking Business Group decreased ¥87.2 billion from ¥862.8 billion for the fiscal year ended March 31, 2008 to ¥775.6 billion for the fiscal year ended March 31, 2009. This decrease was mainly due to a decrease in net revenue as stated above.

Net revenue of the Integrated Trust Assets Business Group decreased ¥27.4 billion from ¥198.5 billion for the fiscal year ended March 31, 2008 to ¥171.1 billion for the fiscal year ended March 31, 2009. Net revenue of the Integrated Trust Assets Business Group mainly consists of fees from asset management and administration services for products such as pension trusts and investment trusts. The decrease in net revenue was mainly due to a decrease in net revenue from pension trusts and investment trusts.

Operating expenses of the Integrated Trust Assets Business Group decreased ¥5.2 billion from ¥98.5 billion for the fiscal year ended March 31, 2008 to ¥93.3 billion for the fiscal year ended March 31, 2009.

Operating profit of the Integrated Trust Assets Business Group decreased ¥22.2 billion from ¥100.0 billion for the fiscal year ended March 31, 2008 to ¥77.8 billion for the fiscal year ended March 31, 2009. This decrease was due to a decrease in net revenue as stated above.

Net revenue of Global Markets increased ¥96.3 billion from ¥300.0 billion for the fiscal year ended March 31, 2008 to ¥396.3 billion for the fiscal year ended March 31, 2009. The increase in net revenue was mainly due to improved performance in asset liability management for both domestic and overseas operations.

## Geographic Segment Analysis

The table immediately below sets forth our total revenue, income (loss) from continuing operations before income tax expense (benefit) and net income (loss) attributable to Mitsubishi UFJ Financial Group on a geographic basis for the fiscal years ended March 31, 2008, 2009 and 2010. Assets, income and expenses attributable to foreign operations are allocated to geographical areas based on the domicile of the debtors and customers. For further information, see Note 30 to our consolidated financial statements included elsewhere in this Annual Report.

	Fiscal years ended March 31,		
	2008	2009	2010
	(in billions)		
Total revenue (interest income and non-interest income):			
Domestic .....	¥4,691.0	¥ 2,924.4	¥3,605.0
Foreign:			
United States of America .....	228.1	568.7	604.4
Europe .....	699.8	233.7	355.0
Asia/Oceania excluding Japan .....	442.0	329.7	482.6
Other areas <sup>(1)</sup> .....	84.0	14.4	165.4
Total foreign .....	1,453.9	1,146.5	1,607.4
Total .....	¥6,144.9	¥ 4,070.9	¥5,212.4
Income (loss) from continuing operations before income tax expense (benefit):			
Domestic .....	¥ 316.2	¥(1,357.4)	¥ 539.9
Foreign:			
United States of America .....	(516.1)	(210.3)	208.4
Europe .....	91.0	(237.5)	224.4
Asia/Oceania excluding Japan .....	183.9	110.8	273.0
Other areas <sup>(1)</sup> .....	(23.2)	(69.8)	36.4
Total foreign .....	(264.4)	(406.8)	742.2
Total .....	¥ 51.8	¥(1,764.2)	¥1,282.1
Net income (loss) attributable to Mitsubishi UFJ Financial Group			
Domestic .....	¥ (227.1)	¥(1,064.3)	¥ 189.7
Foreign:			
United States of America .....	(637.3)	(223.5)	193.0
Europe .....	121.3	(229.5)	199.1
Asia/Oceania excluding Japan .....	232.2	119.4	241.4
Other areas <sup>(1)</sup> .....	(31.5)	(70.1)	36.6
Total foreign .....	(315.3)	(403.7)	670.1
Total .....	¥ (542.4)	¥(1,468.0)	¥ 859.8

Note:

(1) Other areas primarily include Canada, Latin America and the Caribbean.

### ***Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009***

Domestic net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2010 was ¥189.7 billion, compared to a net loss attributable to Mitsubishi UFJ Financial Group of ¥1,064.3 billion for the fiscal year ended March 31, 2009. This improvement mainly reflected lower losses associated with revaluation of trading debt and equity securities that were recorded for the fiscal year ended March 31, 2010, compared to significantly higher losses recorded in the previous fiscal year primarily due to unfavorable market conditions.

Foreign net income attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2010 was ¥670.1 billion, compared to a net loss attributable to Mitsubishi UFJ Financial Group of ¥403.7 billion for the fiscal year ended March 31, 2009. This improvement was primarily due to lower revaluation and foreign exchange losses attributable to our assets and operations in the US and Europe, which losses were significantly higher in the fiscal year ended March 31, 2009.

#### ***Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008***

Domestic net loss attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2009 was ¥1,064.3 billion, compared to a net loss attributable to Mitsubishi UFJ Financial Group of ¥227.1 billion for the fiscal year ended March 31, 2008. This deterioration mainly reflected the increase in loss on sales and revaluation from trading in debt and equity securities primarily due to unfavorable market conditions.

Foreign net loss attributable to Mitsubishi UFJ Financial Group for the fiscal year ended March 31, 2009 was ¥403.7 billion, an increase of ¥88.4 billion, from ¥315.3 billion for the fiscal year ended March 31, 2008. This increase primarily reflected an increase in net loss attributable to Mitsubishi UFJ Financial Group in Europe of ¥350.8 billion over the same period, which was recorded mainly due to the appreciation of the Japanese yen against the euro and other foreign currencies.

#### **Effect of Change in Exchange Rates on Foreign Currency Translation**

##### ***Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009***

The average exchange rate for the fiscal year ended March 31, 2010 was ¥92.85 per US\$1.00, compared to the prior fiscal year's average exchange rate of ¥100.54 per US\$1.00. The average exchange rate for the conversion of the US dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2009 was ¥93.57 per US\$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2008 of ¥103.46 per US\$1.00.

The change in the average exchange rate of the Japanese yen against the US dollar and other foreign currencies had the effect of decreasing total revenue by ¥181.3 billion, net interest income by ¥67.0 billion and income from continuing operations before income tax expense by ¥78.3 billion, respectively, for the fiscal year ended March 31, 2010.

##### ***Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008***

The average exchange rate for the fiscal year ended March 31, 2009 was ¥100.54 per US\$1.00, compared to the prior fiscal year's average exchange rate of ¥114.29 per US\$1.00. The average exchange rate for the conversion of the US dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2008 was ¥103.46 per US\$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2007 of ¥117.84 per US\$1.00.

The change in the average exchange rate of the Japanese yen against the US dollar and other foreign currencies had the effect of decreasing total revenue by ¥477.2 billion, net interest income by ¥141.2 billion and income from continuing operations before income tax expense by ¥168.2 billion, respectively, for the fiscal year ended March 31, 2009.

## **B. Liquidity and Capital Resources**

### **Financial Condition**

#### ***Total Assets***

Our total assets at March 31, 2010 were ¥200.08 trillion, an increase of ¥6.58 trillion from ¥193.50 trillion at March 31, 2009. The increase in total assets mainly reflected increases in investment securities of



¥17.41 trillion, interest-earning deposits in other banks of ¥1.24 trillion, and receivables under resale agreements of ¥1.01 trillion. These increases were partially offset by decreases in net loans of ¥8.28 trillion, trading account assets of ¥2.62 trillion, and deferred tax assets of ¥0.89 trillion.

We have allocated a substantial portion of our assets to international activities. As a result, reported amounts are affected by changes in the value of the Japanese yen against the US dollar and other foreign currencies. Foreign assets are denominated primarily in US dollars. The following table shows our total assets at March 31, 2009 and 2010 by geographic region based principally on the domicile of the obligors:

	<u>At March 31,</u>	
	<u>2009</u>	<u>2010</u>
	(in trillions)	
Japan .....	¥143.00	¥149.02
Foreign:		
United States of America .....	23.09	21.63
Europe .....	14.98	15.80
Asia/Oceania excluding Japan .....	7.47	8.42
Other areas <sup>(1)</sup> .....	4.96	5.21
Total foreign .....	<u>50.50</u>	<u>51.06</u>
Total .....	<u>¥193.50</u>	<u>¥200.08</u>

Note:

(1) Other areas primarily include Canada, Latin America and the Caribbean.

At March 31, 2010, the foreign exchange rate expressed in Japanese yen per US\$1.00 by us was ¥93.04, as compared with ¥98.23 at March 31, 2009. The Japanese yen amount of foreign currency-denominated assets decreased as the relevant exchange rates resulted in an increase in the value of the Japanese yen relative to such foreign currencies. The appreciation of the Japanese yen against the US dollar and other foreign currencies between March 31, 2009 and March 31, 2010 resulted in a decrease in the Japanese yen amount of our total assets at March 31, 2010 by ¥0.33 trillion.

## Loan Portfolio

The following table sets forth our loans outstanding, before deduction of allowance for credit losses, at March 31, 2009 and 2010, based on classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes, which is not necessarily based on use of proceeds.

	At March 31,	
	2009	2010
	(in billions)	
Domestic:		
Manufacturing	¥ 12,922.8	¥12,027.8
Construction	1,803.5	1,427.9
Real estate <sup>(1)</sup>	10,436.8	12,261.6
Services <sup>(1)</sup>	6,750.4	3,714.1
Wholesale and retail	9,760.8	8,597.2
Banks and other financial institutions <sup>(2)</sup>	4,836.0	4,159.6
Communication and information services	732.7	1,339.8
Other industries	9,515.9	9,393.0
Consumer	20,542.4	19,096.8
Total domestic	<u>77,301.3</u>	<u>72,017.8</u>
Foreign:		
Governments and official institutions	351.1	490.4
Banks and other financial institutions <sup>(2)</sup>	2,687.0	2,970.5
Commercial and industrial	17,550.6	14,252.7
Other	2,510.5	2,554.2
Total foreign	<u>23,099.2</u>	<u>20,267.8</u>
Unearned income, unamortized premium—net and deferred loan fees—net	(90.2)	(99.7)
Total <sup>(3)</sup>	<u>¥100,310.3</u>	<u>¥92,185.9</u>

### Notes:

- (1) Since the classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes was changed, loans to lease financing companies of ¥2,392.4 billion were included in “Real estate” at March 31, 2010. At March 31, 2009, the related balances had been included in “Services.”
- (2) Loans to the so-called non-bank finance companies are generally included in the “Banks and other financial institutions” category. Non-bank finance companies are primarily engaged in consumer lending, factoring and credit card businesses.
- (3) The above table includes loans held for sale of ¥119.6 billion and ¥102.3 billion at March 31, 2009 and 2010, respectively, which are carried at the lower of cost or estimated fair value.

Loans account for our largest use of funds. The average loan balance accounted for 57.81% of total interest-earning assets for the fiscal year ended March 31, 2009 and 54.43% for the fiscal year ended March 31, 2010.

At March 31, 2010, our total loans were ¥92.19 trillion, a decrease of ¥8.12 trillion from ¥100.31 trillion at March 31, 2009. Before unearned income, net unamortized premiums and net deferred loan fees, our loan balance at March 31, 2010 consisted of ¥72.02 trillion of domestic loans and ¥20.27 trillion of foreign loans, while the loan balance at March 31, 2009 consisted of ¥77.30 trillion of domestic loans and ¥23.10 trillion of foreign loans. Between March 31, 2009 and March 31, 2010, domestic loans decreased ¥5.28 trillion and foreign loans decreased ¥2.83 trillion.

Our domestic loan portfolio at March 31, 2010 was ¥72.02 trillion, a decrease of ¥5.28 trillion from ¥77.30 trillion for the fiscal year ended March 31, 2009. The decrease was mainly due to a decrease in our loans outstanding to the services, consumer, and wholesale and retail segments, which decreased ¥3.04 trillion, ¥1.45 trillion, and ¥1.16 trillion, respectively. This decrease was partially offset by an increase of ¥1.82 trillion in the loan balance to the real estate segment.

The decrease in foreign loans during the fiscal year ended March 31, 2010 was mainly due to a decrease in demand for loans from the commercial and industrial segment.

#### ***Allowance for Credit Losses, Nonperforming and Past Due Loans***

The following table shows a summary of the changes in the allowance for credit losses for the fiscal years ended March 31, 2008, 2009 and 2010:

	<b>Fiscal years ended March 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	(in billions)		
Balance at beginning of fiscal year . . . . .	¥1,112.5	¥1,134.9	¥1,156.6
Provision for credit losses . . . . .	385.7	626.9	647.8
Charge-offs:			
Domestic . . . . .	(380.0)	(559.0)	(401.9)
Foreign . . . . .	(6.5)	(44.3)	(118.9)
Total . . . . .	(386.5)	(603.3)	(520.8)
Recoveries:			
Domestic . . . . .	28.5	23.7	48.3
Foreign . . . . .	2.1	2.8	4.1
Total . . . . .	30.6	26.5	52.4
Net charge-offs . . . . .	(355.9)	(576.8)	(468.4)
Others <sup>(1)</sup> . . . . .	(7.4)	(28.4)	(20.4)
Balance at end of fiscal year . . . . .	<u>¥1,134.9</u>	<u>¥1,156.6</u>	<u>¥1,315.6</u>

Note:

(1) Others principally include losses (gains) from foreign exchange translation. In addition, for the fiscal year ended March 31, 2010, others include adjustments related to restructuring of business operations.

As previously discussed, the provision for credit losses for the fiscal year ended March 31, 2010 was ¥647.8 billion, an increase of ¥20.9 billion from ¥626.9 billion for the fiscal year ended March 31, 2009. The increase in the provision for credit losses was mainly due to the weakening of the financial condition of borrowers, especially, in the manufacturing, wholesale and retail, and other industries segments.

For the fiscal year ended March 31, 2010, the ratio of the provision for the credit losses of ¥647.8 billion to the average loan balance of ¥95.50 trillion was 0.68%, and that to the total average interest-earning assets of ¥175.47 trillion was 0.37%.

Charge-offs for the fiscal year ended March 31, 2010 were ¥520.8 billion, a decrease of ¥82.5 billion from ¥603.3 billion for the fiscal year ended March 31, 2009. The decrease in the charge-offs was mainly due to decreases in the charge-offs for the domestic manufacturing, wholesale and retail, and services segments, mainly reflecting the gradual recovery of the domestic economy.

The total allowance for credit losses at March 31, 2010 was ¥1,315.6 billion, an increase of ¥159.0 billion from ¥1,156.6 billion at March 31, 2009 as we recorded a provision for credit losses of ¥647.8 billion, while we had net charge-offs of ¥468.4 billion.

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

	<u>Principal amount of loans<sup>(1)</sup></u>	<u>Allowance for credit losses<sup>(2)</sup></u>	<u>Loans, net of allowance</u>	<u>Reversal of allowance for credit losses</u>
	(in billions)			
For the fiscal year ended March 31, 2009 . . . . .	¥24.5	¥ 9.4	¥15.1	¥ (0.3)
For the fiscal year ended March 31, 2010 . . . . .	¥74.6	¥24.5	¥50.1	¥(16.0)

Notes:

- (1) Represents principal amount after the deduction of charge-offs made before the sales of nonperforming loans.
- (2) Represents allowance for credit losses at the latest balance-sheet date.

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

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

In connection with the sale of loans, including performing loans, we recorded net losses of ¥1.7 billion and net gains of ¥17.8 billion for the fiscal years ended March 31, 2009 and 2010, respectively.

The following table summarizes the allowance for credit losses by component at March 31, 2009 and 2010:

	<u>At March 31,</u>	
	<u>2009</u>	<u>2010</u>
	(in billions)	
Allocated allowance:		
Specific—specifically identified problem loans . . . . .	¥ 618.5	¥ 770.3
Large groups of smaller balance homogeneous loans . . . . .	97.9	103.9
Loans exposed to specific country risk . . . . .	1.1	0.8
Formula—substandard, special mention and other loans . . . . .	432.8	423.0
Unallocated allowance . . . . .	<u>6.3</u>	<u>17.6</u>
Total allowance . . . . .	<u>¥1,156.6</u>	<u>¥1,315.6</u>

#### *Allowance policy*

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

#### *Change in total allowance and provision for credit losses*

At March 31, 2010, the total allowance for credit losses was ¥1,315.6 billion, representing 1.43% of our total loan portfolio. At March 31, 2009, the total allowance for credit losses was ¥1,156.6 billion, representing 1.15% of our total loan portfolio.

The total allowance increased to ¥1,315.6 billion at March 31, 2010 from ¥1,156.6 billion at March 31, 2009 primarily as a result of the downgrades in the credit ratings of domestic borrowers in the manufacturing, wholesale and retail, and other industry segments and overseas borrowers during the fiscal year ended March 31, 2010.

During the fiscal year ended March 31, 2010, there were no significant changes in our general allowance policy, which affected our allowance for credit losses for the period, resulting from directives, advice or counsel from governmental or regulatory bodies.

#### *Allocated allowance for specifically identified problem loans*

The allocated credit loss allowance for specifically identified problem loans represents the allowance against impaired loans required under the guidance on accounting by creditors for impairment of a loan. Impaired loans primarily include nonaccrual loans and restructured loans. We generally discontinue the accrual of interest income on loans when substantial doubt exists as to the full and timely collection of either principal or interest, or when principal or interest is contractually past due one month or more with respect to loans of our domestic banking subsidiaries, including BTMU and MUTB, and 90 days or more with respect to loans of certain banking subsidiaries abroad. Loans are classified as restructured loans when we grant a concession to borrowers for economic or legal reasons related to the borrowers' financial difficulties.

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

Based upon a review of the financial status of borrowers, our banking subsidiaries may grant various concessions (modification of loan terms) to troubled borrowers at the borrowers' request, including reductions in the stated interest rates, debt write-offs, and extensions of the maturity date. According to the policies of each of our banking subsidiaries, such modifications are made to mitigate the near-term burden of the loans to the borrowers and to better match the payment terms with the borrowers' expected future cash flows or, in cooperation with other creditors, to reduce the overall debt burden of the borrowers so that they may normalize their operations, in each case to improve the likelihood that the loans will be repaid in accordance with the revised terms. The nature and amount of the concessions depend on the particular financial condition of each borrower. In principle, however, none of our banking subsidiaries modify the terms of loans to borrowers that are considered "Likely to Become Bankrupt," "Virtually Bankrupt," or "Bankrupt" under the self-assessment categories established by Japanese banking regulations because in these cases there is little likelihood that the modification of loan terms would enhance recovery of the loans.

The allowance for specifically identified problem loans as of March 31, 2010 was ¥770.3 billion, an increase of ¥151.8 billion from ¥618.5 billion as of March 31, 2009. This increase reflected an increase in nonaccrual loans to domestic other industries and foreign governments and official institutions segments.

*Nonaccrual and restructured loans and accruing loans contractually past due 90 days or more*

The following table summarizes nonaccrual and restructured loans, and accruing loans that are contractually past due 90 days or more as to principal or interest payments, at March 31, 2009 and 2010:

	At March 31,	
	2009	2010
(in billions, except percentages)		
Nonaccrual loans:		
Domestic:		
Manufacturing .....	¥ 87.7	¥ 111.2
Construction .....	55.8	33.5
Real estate <sup>(1)</sup> .....	263.8	214.4
Services <sup>(1)</sup> .....	104.6	79.5
Wholesale and retail .....	139.0	135.5
Banks and other financial institutions .....	14.8	2.3
Communication and information services .....	36.9	73.6
Other industries .....	20.6	116.8
Consumer .....	372.9	355.0
Total domestic .....	1,096.1	1,121.8
Foreign .....	153.4	247.2
Total nonaccrual loans .....	1,249.5	1,369.0
Restructured loans:		
Domestic:		
Manufacturing .....	67.5	140.1
Construction .....	18.0	25.1
Real estate <sup>(1)</sup> .....	59.4	56.8
Services <sup>(1)</sup> .....	40.7	83.0
Wholesale and retail .....	28.8	89.1
Banks and other financial institutions .....	3.3	3.0
Communication and information services .....	15.9	24.0
Other industries .....	128.3	38.3
Consumer .....	95.9	105.6
Total domestic .....	457.8	565.0
Foreign .....	63.8	47.2
Total restructured loans .....	521.6	612.2
Accruing loans contractually past due 90 days or more:		
Domestic .....	15.1	25.9
Foreign .....	6.4	0.5
Total accruing loans contractually past due 90 days or more .....	21.5	26.4
Total nonaccrual and restructured loans and accruing loans contractually past due 90 days or more .....	¥ 1,792.6	¥ 2,007.6
Total loans .....	¥100,310.3	¥92,185.9
Nonaccrual and restructured loans and accruing loans contractually past due 90 days or more, as a percentage of total loans .....	1.79%	2.18%

Note:

- (1) Since the classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes was changed, nonaccrual loans to lease financing companies of ¥28.5 billion were included in "Real estate" at March 31, 2010. At March 31, 2009, the related balances had been included in "Services."

Nonaccrual and restructured loans and accruing loans contractually past due 90 days or more increased ¥215.0 billion to ¥2,007.6 billion at March 31, 2010 from ¥1,792.6 billion at March 31, 2009. Similarly, the percentage of such nonperforming loans to total loans increased to 2.18% at March 31, 2010 from 1.79% at March 31, 2009.

Total nonaccrual loans were ¥1,369.0 billion at March 31, 2010, an increase of ¥119.5 billion from ¥1,249.5 billion at March 31, 2009. Domestic nonaccrual loans increased ¥25.7 billion between March 31, 2009 and March 31, 2010, mainly due to the downgrades in the credit ratings of borrowers in the manufacturing, communication and information services, and other industry segments. Foreign nonaccrual loans increased ¥93.8 billion between March 31, 2009 and March 31, 2010, mainly due to the downgrades in the credit ratings of overseas borrowers included in the foreign governments and official institutions segment. As a result, foreign nonaccrual loans in governments and official institutions increased ¥66.3 billion.

Total restructured loans were ¥612.2 billion at March 31, 2010, an increase of ¥90.6 billion from ¥521.6 billion at March 31, 2009. The restructured loans set forth in the above table are current in accordance with the applicable restructured contractual terms. Domestic restructured loans increased ¥107.2 billion to ¥565.0 billion at March 31, 2010 from ¥457.8 billion at March 31, 2009 mainly due to the downgrades in the credit ratings of borrowers in the manufacturing, wholesale and retail, and services segments. Restructured loans in the manufacturing segment increased ¥72.6 billion, those in the wholesale and retail segment increased ¥60.3 billion and those in the services segment increased ¥42.2 billion, but those in the other industries segment decreased ¥90.0 billion.

We from time to time provide additional loans, equity capital or other forms of support, including repayment extensions, reductions in applicable interest rates, forbearance of exercising our rights as a creditor, or forgiveness of loans, to borrowers our outstanding loans to whom are classified as nonaccrual and restructured loans and accruing loans contractually past due 90 days or more, based on our internal policy, in order to facilitate their restructuring and revitalization efforts. We decide whether to grant additional financial supports to those borrowers on a case by case basis. Factors that affect our decision include the prospects of those borrowers recovering their ability to service their debt to an extent where they are reasonably expected to be reclassified as normal borrowers in the future, as a result of an improvement in the operations and financial condition of those borrowers.

#### *Impaired loans and Impairment allowance*

The following table summarizes the balances of impaired loans and related impairment allowances at March 31, 2009 and 2010, excluding smaller-balance homogeneous loans and restructured loans:

	At March 31,			
	2009		2010	
	Loan balance	Impairment allowance	Loan balance	Impairment allowance
	(in billions)			
Requiring an impairment allowance . . . . .	¥1,168.5	¥618.6	¥1,465.1	¥770.3
Not requiring an impairment allowance <sup>(1)</sup> . . . . .	407.7	—	360.8	—
Total <sup>(2)</sup> . . . . .	¥1,576.2	¥618.6	¥1,825.9	¥770.3
Percentage of the allocated allowance to total impaired loans . . .	39.2%		42.2%	

Notes:

- (1) These loans do not require an allowance for credit losses under the guidance on accounting by creditors for impairment of a loan since the fair values of the impaired loans equal or exceed the recorded investments in the loans.
- (2) In addition to impaired loans presented in the above table, there were loans held for sale that were impaired in the amount of ¥14.5 billion at March 31, 2010. There were no such impaired loans at March 31, 2009.

Impaired loans increased by ¥249.7 billion from ¥1,576.2 billion at March 31, 2009 to ¥1,825.9 billion at March 31, 2010, reflecting the increase in nonaccrual loans and restructured loans.

The percentage of the allocated allowance to total impaired loans increased 3.0 percentage points to 42.2% at March 31, 2010 from 39.2% at March 31, 2009.

*Allocated allowance for large groups of smaller-balance homogeneous loans*

The allocated credit loss allowance for large groups of smaller-balance homogeneous loans is focused on loss experience for the pools of loans rather than on an analysis of individual loans. Large groups of smaller-balance homogeneous loans primarily consist of first mortgage housing loans to individuals. The allowance for groups of performing loans is based on historical loss experience over a period. In determining the level of the allowance for delinquent groups of loans, we classify groups of homogeneous loans based on the risk rating and/or the number of delinquencies. We determine the credit loss allowance for delinquent groups of loans based on the probability of insolvency by the number of actual delinquencies and actual loss experience.

The allocated credit loss allowance for large groups of smaller-balance homogeneous loans was ¥103.9 billion at March 31, 2010, an increase of ¥6.0 billion from ¥97.9 billion at March 31, 2009.

*Allocated allowance for country risk exposure*

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

The allocated allowance for country risk exposure was ¥0.8 billion at March 31, 2010, a decrease of ¥0.3 billion from ¥1.1 billion at March 31, 2009.

*Formula allowance for substandard, special mention and unclassified loans*

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

The formula allowance decreased ¥9.8 billion to ¥423.0 billion at March 31, 2010 from ¥432.8 billion at March 31, 2009.

Each of our banking subsidiaries has computed the formula allowance based on estimated credit losses using a methodology defined by the credit rating system. Estimated losses inherent in the loan portfolio at the balance sheet date are calculated by multiplying the default ratio by the nonrecoverable ratio (determined as a complement of the recovery ratio). The default ratio is determined by each credit risk rating, taking into account the historical number of defaults of borrowers within each credit risk rating divided by the total number of borrowers within that credit risk rating existing at the beginning of the three-year observation period. The recovery ratio is mainly determined by the historical experience of collections against loans in default. The default ratio, the recovery ratio and other indicators are continually reviewed and improved to compute the formula allowance and the allowance for off-balance-sheet instruments. In addition, an appropriate adjustment to the formula allowance and the allowance for off-balance-sheet instruments, considering the risk of losses from large obligors and other credit risks, is examined and made by analyzing the difference between the allowance computed by multiplying the default ratio by the nonrecoverable ratio and the allowance calculated based on the loss experience ratio.

UNBC, our largest overseas subsidiary, calculates the formula allowance by applying loss factors to outstanding loans and certain unused commitments, in each case based on the internal risk grade of such loans,



leases and commitments. Changes in risk grades affect the amount of the formula allowance. Loss factors are based on their historical loss experience and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. Loss factors are developed in the following ways:

- loss factors for individually graded credits are derived from a migration model that tracks historical losses over a period, which we believe captures the inherent losses in our loan portfolio; and
- pooled loan loss factors (not individually graded loans) are based on expected net charge-offs. Pooled loans are loans that are homogeneous in nature, such as consumer installment, home equity, residential mortgage loans and certain small commercial and commercial real estate loans.

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

#### *Unallocated allowance*

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

- general economic and business conditions affecting our key lending areas;
- credit quality trends (including trends in nonperforming loans expected to result from existing conditions);
- collateral values;
- loan volumes and concentrations;
- specific industry conditions within portfolio segments;
- recent loss experience in particular segments of the portfolio;
- duration of the current economic cycle;
- bank regulatory examination results; and
- findings of internal credit examination.

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

The unallocated allowance increased ¥11.3 billion to ¥17.6 billion at March 31, 2010 from ¥6.3 billion at March 31, 2009.

#### *Allowance for Off-balance-sheet Credit Instruments*

In addition to the allowance for credit losses on the loan portfolio, we maintain an allowance for credit losses on off-balance-sheet credit instruments, including commitments of credit, guarantees and standby letters of credit. This allowance is included in other liabilities. With regard to the specific allocated allowance for specifically identified credit exposure and the allocated formula allowance, we apply the same methodology that we use in determining the allowance for loan credit losses. The allowance for credit losses on off-balance-sheet credit instruments was ¥85.7 billion at March 31, 2010, an increase of ¥1.1 billion from ¥84.6 billion at March 31, 2009.

## Investment Portfolio

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

Historically, we have held equity securities of some of our customers for strategic purposes, in particular, to maintain long-term relationships with these customers. However, we have been reducing the aggregate value of our equity securities because we believe that from a risk management perspective reducing the price fluctuation risk in our equity portfolio is imperative. As of March 31, 2010, the aggregate value of our marketable equity securities under Japanese GAAP satisfied the requirements of the legislation prohibiting banks from holding equity securities in excess of their Tier I capital.

Investment securities increased ¥17.41 trillion to ¥55.05 trillion at March 31, 2010 from ¥37.64 trillion at March 31, 2009 due primarily to a ¥15.26 trillion increase in Japanese national government and Japanese government agency bonds and to a ¥1.14 trillion increase in U.S. Treasury and other U.S. government agencies bonds, partially offset by a ¥0.41 trillion decrease in corporate bonds. The general improvement in stock prices of Japanese equity securities resulted in an increase of our marketable equity securities by ¥0.48 trillion at March 31, 2010 compared to March 31, 2009. Investment securities other than securities available for sale or being held to maturity (i.e., nonmarketable equity securities set forth on our consolidated balance sheet as other investment securities) were primarily carried at cost of ¥1.43 trillion and ¥1.69 trillion at March 31, 2009 and March 31, 2010, respectively, because their fair values were not readily determinable. See “—Critical Accounting Estimates—Fair Value Hierarchy.”

The following table shows information as to the amortized costs and estimated fair values of our investment securities available for sale and being held to maturity at March 31, 2009 and 2010:

	At March 31,					
	2009			2010		
	Amortized cost	Estimated fair value	Net unrealized gains (losses)	Amortized cost	Estimated fair value	Net unrealized gains (losses)
	(in billions)					
Securities available for sale:						
Debt securities:						
Japanese national government and Japanese government agency bonds . . .	¥23,846.2	¥23,892.8	¥ 46.6	¥39,431.1	¥39,432.9	¥ 1.8
Japanese prefectural and municipal bonds . . . . .	277.9	282.5	4.6	272.8	280.9	8.1
Foreign governments and official institutions bonds . . . . .	185.6	190.6	5.0	1,340.8	1,345.2	4.4
Corporate bonds . . . . .	3,791.0	3,869.0	78.0	3,394.3	3,474.7	80.4
Mortgage-backed securities . . . . .	676.3	668.2	(8.1)	991.3	994.7	3.4
Asset-backed securities, excluding mortgage-backed securities <sup>(1)</sup> . . . . .	543.0	495.1	(47.9)	329.6	327.8	(1.8)
Other debt securities . . . . .	33.3	32.1	(1.2)	1.0	1.0	—
Marketable equity securities . . . . .	3,340.3	3,959.8	619.5	3,083.0	4,554.7	1,471.7
Total securities available for sale . . . . .	<u>¥32,693.6</u>	<u>¥33,390.1</u>	<u>¥696.5</u>	<u>¥48,843.9</u>	<u>¥50,411.9</u>	<u>¥1,568.0</u>
Debt securities being held to maturity <sup>(2)</sup> . . . . .	<u>¥ 2,812.4</u>	<u>¥ 2,826.4</u>	<u>¥ 14.0</u>	<u>¥ 2,943.8</u>	<u>¥ 3,027.9</u>	<u>¥ 84.1</u>

### Notes:

- (1) AAA and AA-rated products account for approximately two-thirds of our asset-backed securities.
- (2) See Note 4 to our consolidated financial statements included elsewhere in this Annual Report for more details.

Net unrealized gains on securities available for sale increased ¥871.5 billion to ¥1,568.0 billion at March 31, 2010 from ¥696.5 billion at March 31, 2009. This increase primarily consisted of a ¥852.2 billion increase in net unrealized gains on marketable equity securities. The increase in net unrealized gains of ¥852.2 billion on marketable equity securities was mainly due to the increase in stock prices which favorably affected our holdings of Japanese equity securities.

The amortized cost of securities being held to maturity increased ¥131.4 billion compared to the previous fiscal year mainly due to a ¥402.6 billion increase in foreign government bonds to counter the low interest rate environment in the domestic bond market, partially offset by the redemption of Japanese national government bonds classified as securities being held to maturity.

### ***Cash and Due from Banks***

Cash and due from banks fluctuate significantly from day to day depending upon financial market conditions. Cash and due from banks at March 31, 2010 was ¥2.86 trillion, a decrease of ¥0.21 trillion from ¥3.07 trillion at March 31, 2009. The decrease was primarily due to a decrease in the cash balance of our domestic offices.

### ***Interest-earning Deposits in Other Banks***

Interest-earning deposits in other banks fluctuate significantly from day to day depending upon financial market conditions. Interest-earning deposits in other banks at March 31, 2010 were ¥4.78 trillion, an increase of ¥1.24 trillion from ¥3.54 trillion at March 31, 2009. This increase primarily reflected an increase in interest-earning deposits denominated in foreign currencies of our overseas offices.

### ***Receivables under Resale Agreements***

Receivables under resale agreements at March 31, 2010 were ¥3.54 trillion, an increase of ¥1.01 trillion from ¥2.53 trillion at March 31, 2009. The increase was primarily due to an increase in transaction volume of receivables under resale agreements at our overseas subsidiaries to manage and invest increased customer deposits.

### ***Goodwill***

Goodwill at March 31, 2010 was ¥381.5 billion, substantially unchanged from March 31, 2009.

### ***Deferred Tax Assets***

Deferred tax assets decreased ¥0.88 trillion to ¥1.29 trillion at March 31, 2010 from ¥2.17 trillion at March 31, 2009. The decrease primarily reflected an increase in net unrealized gains on investment securities due to a recovery in the fair market value of these securities. A decrease in net operating loss carryforwards, which is attributable to our ability to utilize net operating loss carryforwards against taxable income for the fiscal year ended March 31, 2010, also contributed to a decrease in deferred tax assets.

### ***Total Liabilities***

At March 31, 2010, total liabilities were ¥190.98 trillion, an increase of ¥3.95 trillion from ¥187.03 trillion at March 31, 2009, while the total balance of deposits was ¥135.47 trillion at March 31, 2010, an increase of ¥7.14 trillion from ¥128.33 trillion at March 31, 2009. The increase in total deposits of ¥7.14 trillion was partially offset by decreases in other short-term borrowings of ¥1.77 trillion, trading account liabilities of ¥0.80 trillion, and other liabilities of ¥0.68 trillion.

The appreciation of the Japanese yen against the US dollar and other foreign currencies between March 31, 2009 and March 31, 2010 resulted in a decrease in the Japanese yen amount of foreign currency-denominated liabilities at March 31, 2010 by ¥0.10 trillion.

### ***Deposits***

Deposits are our primary source of funds. Total average balance of deposits increased ¥2.95 trillion to ¥130.02 trillion for the fiscal year ended March 31, 2010 from ¥127.07 trillion for the fiscal year ended March 31, 2009. This increase primarily reflected an increase of ¥2.72 trillion in average foreign interest-bearing deposits, principally money market deposits and time deposits as depositors sought the safety of deposits at large financial institutions in light of the unstable economic conditions, especially in the United States and Europe.

The balance at the end of the fiscal year of domestic deposits increased ¥1.90 trillion to ¥112.73 trillion at March 31, 2010 from ¥110.83 trillion at March 31, 2009, and the balance at the end of the fiscal year of foreign deposits increased ¥5.24 trillion from ¥17.50 trillion at March 31, 2009 to ¥22.74 trillion at March 31, 2010. Within domestic deposits, the balance of interest-bearing deposits increased, partially in response to depositors' preference to seek the safety of deposits at large financial institutions. The increase in foreign deposits was mainly due to an increase in foreign interest-bearing deposits of our overseas offices, especially in the United States and Europe.

### ***Short-term Borrowings***

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

Short-term borrowings decreased ¥3.07 trillion to ¥25.02 trillion at March 31, 2010 from ¥28.09 trillion at March 31, 2009. This decrease was primarily attributable to a decrease of ¥1.77 trillion in other short-term borrowings which were comprised of borrowings from the Bank of Japan and other financial institutions.

### ***Long-term debt***

Long-term debt at March 31, 2010 was ¥14.16 trillion, an increase of ¥0.89 trillion from ¥13.27 trillion at March 31, 2009. This increase was mainly due to an increase in unsubordinated debts by BTMU to maintain an appropriate level of regulatory capital. For further information, see Note 14 to our consolidated financial statements included elsewhere in this Annual Report.

### ***Benefit Obligations***

As of March 31, 2009 and 2010, we had benefit obligations of ¥2,000.3 billion and ¥1,887.1 billion, respectively, and the fair value of our plan assets was ¥1,814.0 billion and ¥2,108.5 billion, respectively. The fair value of our plan assets has fluctuated significantly depending on the general market conditions in recent fiscal years. If the fair value of our pension plan assets declines or our investment return on our pension plan assets decreases, or if a change is made in the actuarial assumptions on which the calculations of the projected pension obligations are based, we may incur losses. Changes in the interest rate environment could also result in an increase in our pension obligations and annual funding costs. In addition, unrecognized prior service costs may be incurred if our pension plans are amended.

### ***Sources of Funding and Liquidity***

Our primary source of liquidity is from a large balance of deposits, mainly ordinary deposits, certificates of deposit and time deposits. Time deposits have historically shown a high rollover rate among our corporate customers and individual depositors. Due to our broad customer base in Japan and the depositors' preference to seek the safety of deposits at large financial institutions, the balance of our deposits increased from ¥128.33 trillion at March 31, 2009 to ¥135.47 trillion at March 31, 2010. As of March 31, 2010, our deposits exceeded

our loans, net of allowance for credit losses of ¥90.87 trillion, by ¥44.60 trillion. These deposits provide us with a sizable source of stable and low-cost funds. Our average deposits, combined with average total equity of ¥7.86 trillion, funded 70.5% of our average total assets of ¥195.56 trillion during the fiscal year ended March 31, 2010.

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

### Total Equity

The following table presents a summary of our total equity at March 31, 2009 and 2010:

	<u>At March 31,</u>	
	<u>2009</u>	<u>2010</u>
	(in billions, except percentages)	
Preferred stock . . . . .	¥ 442.1	¥ 442.1
Common stock . . . . .	1,127.6	1,643.2
Capital surplus . . . . .	6,095.8	6,619.5
Retained earnings appropriated for legal reserve . . . . .	239.6	239.6
Accumulated deficit . . . . .	(845.8)	(18.1)
Accumulated other changes in equity from nonowner sources, net of taxes . . . . .	(813.7)	(45.4)
Treasury stock, at cost . . . . .	(10.7)	(14.0)
Total Mitsubishi UFJ Financial Group shareholders' equity . . . . .	<u>¥6,234.9</u>	<u>¥8,866.9</u>
Noncontrolling interests . . . . .	232.2	235.9
Total equity . . . . .	<u>¥6,467.1</u>	<u>¥9,102.8</u>
Ratio of total equity to total assets . . . . .	3.34%	4.55%

Total equity increased ¥2,635.7 billion to ¥9,102.8 billion at March 31, 2010 from ¥6,467.1 billion at March 31, 2009. The ratio of total equity to total assets also showed an increase of 1.21 percentage points to 4.55% at March 31, 2010 from 3.34% at March 31, 2009. The increase in total equity, and the resulting increase in the ratio to total assets, at March 31, 2010 were principally attributable to a decrease in accumulated deficit of ¥827.7 billion, an increase in accumulated other changes in equity from nonowner sources, net of taxes, of ¥768.3 billion, an increase in capital surplus of ¥523.7 billion, and an increase in common stock of ¥515.6 billion. The increase in common stock and capital surplus was mainly due to the capital procured through the common stock offering in December 2009. The decrease in accumulated deficit was mainly due to our recording net income available to common shareholders of Mitsubishi UFJ Financial Group of ¥838.1 billion for the fiscal year ended March 31, 2010. The increase in accumulated other changes in equity from nonowner sources, net of taxes, was primarily due to an increase in unrealized gains on investment securities and an increase in pension liability adjustments.

Due to our holdings of a large amount of marketable Japanese equity securities and the volatility of the equity markets in Japan, changes in the fair value of marketable equity securities have significantly affected our total equity in recent years. The following table presents information relating to the accumulated net unrealized gains, net of taxes, in respect of investment securities classified as available for sale at March 31, 2009 and 2010:

	<u>At March 31,</u>	
	<u>2009</u>	<u>2010</u>
	(in billions, except percentages)	
Accumulated net unrealized gains on investment securities . . . . .	¥95.2	¥588.2
Accumulated net unrealized gains to total equity . . . . .	1.47%	6.46%

## Capital Adequacy

We are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which we operate. Failure to meet minimum capital requirements can initiate mandatory actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements. Moreover, if our capital ratios are perceived to be low, our counterparties may avoid entering into transactions with us, which in turn could negatively affect our business and operations. For further information, see “Item 3.D. Risk Factors—*We may not be able to maintain our capital ratios above minimum required levels, which could result in the suspension of some or all of our operations.*”

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

### *Capital Requirements for Banking Institutions in Japan*

A Japanese banking institution is subject to the minimum capital adequacy requirements both on a consolidated basis and a stand-alone basis, and is required to maintain the minimum capital irrespective of whether it operates independently or as a subsidiary under the control of another company. A bank holding company is also subject to the minimum capital adequacy requirements on a consolidated basis. Under the guidelines of the Financial Services Agency of Japan, or the FSA, capital is classified into three tiers, referred to as Tier I, Tier II and Tier III capital. Our Tier I capital generally consists of shareholders’ equity items, including common stock, non-cumulative preferred stock, capital surplus, noncontrolling interests and retained earnings (which includes deferred tax assets). However, recorded goodwill and other items, such as treasury stock and unrealized losses on investment securities classified as “securities available for sale” under Japanese GAAP, net of taxes, if any, are deducted from Tier I capital. Our Tier II capital generally consists of the amount (up to a maximum of 0.6% of credit risk-weighted assets) by which eligible reserves for credit losses exceed expected losses in the internal ratings-based approach, or the IRB approach, and general reserves for credit losses, subject to a limit of 1.25% of modified risk-weighted assets determined by the partial use of the Standardized Approach (including a phased rollout of the IRB approach), 45% of the unrealized gains on investment securities classified as “securities available for sale” under Japanese GAAP, 45% of the land revaluation excess, the balance of perpetual subordinated debt and the balance of subordinated term debt with an original maturity of over five years subject to certain limitations, up to 50% of Tier I capital. Our Tier III capital consists of short-term subordinated debt with an original maturity of at least two years, subject to certain limitations. At least 50% of the minimum capital requirements must be maintained in the form of Tier I capital.

The eligible regulatory capital set forth in the FSA’s guidelines discussed above was modified as of March 31, 2007 to reflect the “International Convergence of Capital Measurement and Capital Standards: A Revised Framework,” often referred to as “Basel II.” In December 2009, the Basel Committee on Banking Supervision released proposals designed to strengthen global capital and liquidity regulations. If the proposals, including other proposals released thereafter, are adopted, they could impose stricter capital requirements and new liquidity requirements on global financial institutions such as us. For further information, see “Item 3.D. Risk Factors—*We may not be able to maintain our capital ratios above minimum required levels, which could result in the suspension of some or all of our operations.*”

As of March 31, 2009 and 2010, we have calculated our risk-weighted assets in accordance with the FSA guidelines reflecting Basel II. In determining capital ratios under the FSA guidelines reflecting Basel II, we and our banking subsidiaries used the advanced internal ratings-based approach, or the AIRB approach, to calculate capital requirements for credit risk as of the end of March 2009 and 2010. The Standardized Approach is used for some subsidiaries that are considered to be immaterial to the overall MUFG capital requirements and a few

subsidiaries adopted a phased rollout of the internal ratings-based approach. Market risk is reflected in the risk-weighted assets by applying the Internal Models Approach to calculate general market risk and the Standardized Methodology to calculate specific risk. Under the Internal Models Approach, we principally use a historical simulation model to calculate value-at-risk amounts by estimating the profit and loss on our portfolio by applying actual fluctuations in historical market rates and prices over a fixed period. Under the FSA guidelines reflecting Basel II, we reflect operational risk in the risk-weighted assets by applying the Standardized Approach. Specifically, operational risk capital charge is determined based on the amount of gross profit allocated to business lines multiplied by a factor ranging from 12% to 18%.

For additional discussion of the calculation of our capital ratios, see Note 21 to our consolidated financial statements included elsewhere in this Annual Report.

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

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

#### ***Capital Requirements for Banking Institutions in the United States***

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

In addition, BTMU and MUTB are subject to the Federal Reserve’s requirements as foreign banking organizations that have US branches and agencies and that are controlled by us as a financial holding company.

For a detailed discussion of the capital adequacy guidelines applicable to us in the United States, see “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—United States—Bank Capital Requirements and Capital Distributions.”

#### ***Capital Requirements for Securities Firms in Japan and Overseas***

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

### *Mitsubishi UFJ Financial Group Ratios*

The table below presents our consolidated total capital, risk-weighted assets and risk-adjusted capital ratios at March 31, 2009 and 2010. (Underlying figures are calculated in accordance with Japanese banking regulations based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP, as required by the FSA. The percentages in the tables below are rounded down.) For further information, see Note 21 to our consolidated financial statements included elsewhere in this Annual Report.

	At March 31,		Minimum capital ratios required
	2009	2010	
	(in billions, except percentages)		
Capital components:			
Tier I capital . . . . .	¥ 7,575.2	¥10,009.6	
Tier II capital includable as qualifying capital . . . . .	4,216.1	4,449.6	
Tier III capital includable as qualifying capital . . . . .	—	—	
Deductions from total qualifying capital . . . . .	(312.9)	(467.4)	
Total risk-based capital . . . . .	<u>¥11,478.4</u>	<u>¥13,991.8</u>	
Risk-weighted assets . . . . .	¥97,493.5	¥94,081.3	
Capital ratios:			
Tier I capital . . . . .	7.76%	10.63%	4.00%
Total risk-adjusted capital . . . . .	11.77	14.87	8.00

Our Tier I capital ratio and total risk-adjusted capital ratio at March 31, 2010 were 10.63% and 14.87%, respectively. The increase in total risk-adjusted capital ratio was mainly due to an increase in Tier I capital resulting from a common stock offering in December 2009 and a decrease in risk-weighted assets as our loan balance decreased. For a detailed discussion of the common stock offering, see “—Recent Developments—Completion of Global Offering of Common Stock.”

### *Capital Ratios of Our Major Banking Subsidiaries in Japan*

The table below presents the risk-adjusted capital ratios of BTMU and MUTB at March 31, 2009 and 2010 (underlying figures are calculated in accordance with Japanese banking regulations based on information derived from their consolidated and non-consolidated financial statements prepared in accordance with Japanese GAAP, as required by the FSA. The percentages in the tables below are rounded down.). For further information, see Note 21 to our consolidated financial statements included elsewhere in this Annual Report.

	At March 31,		Minimum capital ratios required
	2009	2010	
Consolidated capital ratios:			
BTMU			
Tier I capital . . . . .	7.64%	10.84%	4.00%
Total risk-adjusted capital . . . . .	12.02	15.54	8.00
MUTB			
Tier I capital . . . . .	10.17	12.47	4.00
Total risk-adjusted capital . . . . .	12.70	16.02	8.00
Stand-alone capital ratios:			
BTMU			
Tier I capital . . . . .	8.34	11.59	4.00
Total risk-adjusted capital . . . . .	12.74	16.34	8.00
MUTB			
Tier I capital . . . . .	9.85	12.09	4.00
Total risk-adjusted capital . . . . .	12.49	16.10	8.00

At March 31, 2010, management believes that our banking subsidiaries were in compliance with all capital adequacy requirements to which they were subject.



### **Capital Ratios of Banking Subsidiaries in the United States**

The table below presents the risk-adjusted capital ratios of UNBC and Union Bank, both subsidiaries of BTMU, at December 31, 2008 and 2009:

	At December 31,		Minimum capital ratios required	Ratios OCC requires to be "well-capitalized"
	2008	2009		
UNBC:				
Tier I capital (to risk-weighted assets) . . . . .	8.78%	11.82%	4.00%	—
Tier I capital (to quarterly average assets) <sup>(1)</sup> . . . . .	8.42	9.45	4.00	—
Total capital (to risk-weighted assets) . . . . .	11.63	14.54	8.00	—
Union Bank:				
Tier I capital (to risk-weighted assets) . . . . .	8.67%	11.39%	4.00%	6.00%
Tier I capital (to quarterly average assets) <sup>(1)</sup> . . . . .	8.31	9.05	4.00	5.00
Total capital (to risk-weighted assets) . . . . .	11.01	13.73	8.00	10.00

Note:

(1) Excludes certain intangible assets.

Management believes that, at December 31, 2009, UNBC and Union Bank met all capital adequacy requirements to which they were subject.

At December 31, 2008 and 2009, the Office of the Comptroller of the Currency, or OCC, categorized Union Bank as "well-capitalized." To be categorized as "well-capitalized," Union Bank must maintain minimum ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to quarterly average assets (the Leverage ratio) as set forth in the table. There are no conditions or events since December 31, 2009 that would cause management to believe Union Bank's category has changed.

### **Capital Adequacy Ratio of Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (MUMSS)**

On April 1, 2010, MUS became an intermediate holding company and was renamed as Mitsubishi UFJ Securities Holdings Co., Ltd., or MUSHD, whose operating subsidiary succeeded to the former MUS's domestic operations and, on May 1, 2010, succeeded to the investment banking operations conducted in Japan by Morgan Stanley Japan Securities Co., Ltd. and was renamed as Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., or MUMSS. MUMSS is required to meet the capital adequacy ratios.

At March 31, 2009 and 2010, MUMSS' capital accounts less certain fixed assets of ¥502.8 billion and ¥505.7 billion represented 353.7% and 342.9% of the total amounts equivalent to market, counterparty credit and operations risks, respectively, as calculated pursuant to the Financial Instruments and Exchange Law of Japan. For further information, see Note 21 to our consolidated financial statements included elsewhere in this Annual Report.

## Non-exchange Traded Contracts Accounted for at Fair Value

The use of non-exchange traded or over-the-counter contracts provides us with the ability to adapt to the varied requirements of a wide customer base while mitigating market risks. Non-exchange traded contracts are accounted for at fair value, which is generally based on pricing models or quoted market prices for instruments with similar characteristics. Gains or losses on non-exchange traded contracts are included in “Trading account profits (losses)—net” in our consolidated statements of operations included elsewhere in this Annual Report. The following table summarizes the changes in fair value of non-exchange traded contracts for the fiscal years ended March 31, 2009 and 2010:

	<b>Fiscal years ended March 31,</b>	
	<b>2009</b>	<b>2010</b>
	(in millions)	
Net fair value of contracts outstanding at beginning of fiscal year . . . . .	¥ 87,772	¥38,225
Changes attributable to contracts realized or otherwise settled during the fiscal year . . . . .	11,137	(8,079)
Fair value of new contracts when entered into during the fiscal year . . . . .	17,272	(3,433)
Other changes in fair value, principally revaluation at end of fiscal year . . . . .	(77,956)	10,425
Net fair value of contracts outstanding at end of fiscal year . . . . .	<u>¥ 38,225</u>	<u>¥37,138</u>

During the fiscal year ended March 31, 2010, the fair value of non-exchange traded contracts slightly decreased mainly due to a decline in the fair value of credit default swaps embedded in collateralized debt obligations, which was partially offset by an increase in the fair value of buy metals swap positions.

The following table summarizes the maturities of non-exchange traded contracts at March 31, 2010:

	<b>Net fair value of contracts—unrealized gains</b>	
	<b>Prices provided by other external sources</b>	<b>Prices based on models and other valuation methods</b>
	(in millions)	
Maturity less than 1 year . . . . .	¥ (6)	¥10,806
Maturity less than 3 years . . . . .	394	15,473
Maturity less than 5 years . . . . .	52	3,222
Maturity 5 years or more . . . . .	(308)	7,505
Total fair value . . . . .	<u>¥ 132</u>	<u>¥37,006</u>

### C. Research and Development, Patents and Licenses, etc.

Not applicable.

### D. Trend Information

See the discussions in “—A. Operating Results” and “—B. Liquidity and Capital Resources.”

## E. Off-balance-sheet Arrangements

In the normal course of our business, we engage in several types of off-balance-sheet arrangements to meet the financing needs of our customers, including various types of guarantees, commitments to extend credit and commercial letters of credit. The following table summarizes these commitments at March 31, 2010:

	<u>Amount of commitment by expiration period</u>			
	<u>1 year or less</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	(in billions)			
Guarantees:				
Standby letters of credit and financial guarantees . . . . .	¥ 2,147	¥ 1,036	¥1,040	¥ 4,223
Performance guarantees . . . . .	1,438	682	122	2,242
Derivative instruments . . . . .	29,371	48,502	3,371	81,244
Guarantees for the repayment of trust principal . . . . .	89	1,007	8	1,104
Liabilities of trust account . . . . .	3,393	293	640	4,326
Others . . . . .	180	1	2	183
Total guarantees . . . . .	<u>36,618</u>	<u>51,521</u>	<u>5,183</u>	<u>93,322</u>
Other off-balance-sheet instruments:				
Commitments to extend credit . . . . .	46,477	13,879	664	61,020
Commercial letters of credit . . . . .	622	6	—	628
Commitments to make investments . . . . .	25	66	35	126
Others . . . . .	6	—	—	6
Total other off-balance-sheet instruments . . . . .	<u>47,130</u>	<u>13,951</u>	<u>699</u>	<u>61,780</u>
Total . . . . .	<u>¥83,748</u>	<u>¥65,472</u>	<u>¥5,882</u>	<u>¥155,102</u>

See Note 24 to our consolidated financial statements, included elsewhere in this Annual Report, for a description of the nature of our guarantees and other off-balance-sheet instruments.

The contractual amounts of these guarantees and other off-balance-sheet instruments represent the amounts at risk if the contracts were to be fully drawn upon as a result of a subsequent default by our customer and a decline in the value of the underlying collateral. Because many of these commitments expire without being drawn upon, the total contractual or notional amounts of these commitments do not necessarily represent our future cash requirements. At March 31, 2010, approximately 54% of these commitments will expire within one year, 42% from one year to five years and 4% after five years. Such risks are monitored and managed as a part of our risk management system as set forth in “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk.” We evaluate off-balance-sheet arrangements in the manner described in Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

The fees generated specifically from off-balance-sheet arrangements are not a dominant source of our overall fees and commissions.

Some of our off-balance-sheet arrangements are related to activities of special purpose entities, most of which are variable interest entities, or VIEs. For further information, see Note 25 to our consolidated financial statements included elsewhere in this Annual Report.

## F. Tabular Disclosure of Contractual Obligations

The following table shows a summary of our contractual cash obligations outstanding at March 31, 2010:

	Payments due by period				Total
	Less than 1 year	1-3 years	3-5 years	Over 5 years	
	(in billions)				
Contractual cash obligations:					
Time deposit obligations	¥51,040	¥ 8,753	¥1,411	¥ 161	¥61,365
Long-term debt obligations	2,008	2,642	2,131	7,305	14,086
Capital lease obligations	19	21	9	28	77
Operating lease obligations	66	105	77	296	544
Purchase obligations	18	22	42	30	112
Total <sup>(1)(2)</sup>	<u>¥53,151</u>	<u>¥11,543</u>	<u>¥3,670</u>	<u>¥7,820</u>	<u>¥76,184</u>

### Notes:

- (1) The total amount of expected future pension payments is not included in the above table or the total amount of commitments outstanding at March 31, 2010 as such amount is not currently determinable. We expect to contribute approximately ¥45.9 billion for pension and other benefits for our employees for the fiscal year ending March 31, 2011. For further information, see Note 15 to our consolidated financial statements included elsewhere in this Annual Report.
- (2) The above table does not include unrecognized tax benefits and interest and penalties related to income tax associated with the guidance on accounting for uncertainty in income taxes. For further information, see Note 9 to our consolidated financial statements included elsewhere in this Annual Report.

Purchase obligations include any legally binding contractual obligations that require us to spend more than ¥100 million annually under the contract. Purchase obligations in the table primarily include commitments to make investments into corporate recovery or private equity investment funds.

## G. Safe Harbor

See the discussion under “Forward-Looking Statements.”

## Item 6. Directors, Senior Management and Employees.

### A. Directors and Senior Management

The following table sets forth the members of our board of directors as of July 31, 2010, together with their respective dates of birth, positions and experience:

Name (Date of Birth)	Position in MUFG		Business Experience
Takamune Okihara (July 11, 1951)	Chairman	April 1974	Joined Sanwa Bank
		March 2001	Executive Officer of Sanwa Bank
		January 2002	Executive Officer of UFJ Bank
		May 2003	Senior Executive Officer of UFJ Bank
		May 2004	President and CEO of UFJ Bank
		June 2004	Director of UFJ Holdings
		October 2005	Managing Officer of MUFG
		January 2006	Deputy President of BTMU
		April 2008	Deputy Chairman of BTMU (incumbent)
		June 2010	Retired from Managing officer of MUFG Chairman of MUFG (incumbent)
Kinya Okauchi (September 10, 1951)	Deputy Chairman and Chief Audit Officer	April 1974	Joined Mitsubishi Trust Bank
		June 2001	Director (Non-Board Member Director) of Mitsubishi Trust Bank
		April 2003	Managing Director (Non-Board Member Director) of Mitsubishi Trust Bank
		March 2004	Managing Director of Mitsubishi Trust Bank
		June 2004	Director of MTFG
		June 2005	Senior Managing Director of Mitsubishi Trust Bank
		October 2005	Director of MUFG Senior Managing Director of MUTB
		June 2007	Managing Officer of MUFG
		June 2008	President of MUTB (incumbent)
		April 2010	Director of MUFG Deputy Chairman of MUFG (incumbent)
Katsunori Nagayasu (April 6, 1947)	President and CEO	May 1970	Joined Mitsubishi Bank
		June 1997	Director of Bank of Tokyo-Mitsubishi
		June 2000	Retired from Director of Bank of Tokyo- Mitsubishi
		April 2001	Managing Director of Nippon Trust Bank
		October 2001	Director of MTFG
		June 2002	Managing Director of Mitsubishi Trust Bank Retired from Managing Director of Mitsubishi Trust Bank
			Managing Director of Bank of Tokyo- Mitsubishi
		April 2004	Director and Managing Officer of MTFG
		June 2004	Managing Officer of MTFG
		January 2005	Senior Managing Director of Bank of Tokyo-Mitsubishi
		May 2005	Deputy President of Bank of Tokyo- Mitsubishi
		October 2005	Managing Officer of MUFG
		December 2005	Retired from Managing Officer of MUFG
		January 2006	Deputy President of BTMU
June 2006	Deputy President of MUFG		
April 2008	Director of MUFG		
April 2010	President of BTMU (incumbent) President and CEO of MUFG (incumbent)		

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>		<b>Business Experience</b>
Kyota Omori (March 14, 1948)	Deputy President and Chief Compliance Officer	April 1972	Joined Mitsubishi Bank
		June 1999	Director of Bank of Tokyo-Mitsubishi
		June 2001	Non-Board Member Director of Bank of Tokyo-Mitsubishi
		May 2003	Non-Board Member Managing Director of Bank of Tokyo-Mitsubishi
		June 2003	Managing Director of Bank of Tokyo- Mitsubishi
		May 2004	Non-Board Member Managing Director of Bank of Tokyo-Mitsubishi
		June 2005	Managing Officer of MTFG
		October 2005	Managing Officer of MUFG
		January 2006	Managing Executive Officer of BTMU
		October 2007	Senior Managing Executive Officer of BTMU
Hiroshi Saito (July 13, 1951)	Senior Managing Director and Chief Financial Officer	April 1974	Joined Mitsubishi Trust Bank
		June 2002	Director (Non-Board Member Director) of Mitsubishi Trust Bank
		October 2005	Executive Officer of MUTB
		June 2006	Managing Director of MUTB
		May 2007	Managing Officer of MUFG
		June 2007	Retired from Managing Director of MUTB Director of BTMU (incumbent) Senior Managing Director of MUFG (incumbent)
Nobushige Kamei (November 20, 1952)	Senior Managing Director and Chief Planning Officer	April 1975	Joined Sanwa Bank
		January 2002	Executive Officer of UFJ Bank
		May 2004	Senior Executive Officer of UFJ Bank
		January 2006	Managing Executive Officer of BTMU
		May 2009	Retired from Managing Executive Officer of BTMU
		June 2009	Senior Managing Officer of MUFG Director of MUTB (incumbent) Senior Managing Director of MUFG (incumbent)
Masao Hasegawa (April 20, 1955)	Managing Director and Chief Risk Management Officer	April 1979	Joined Bank of Tokyo
		May 2005	Managing Director & General Manager of Bank of Tokyo-Mitsubishi (Holland) N.V.
		January 2006	Managing Director & General Manager of Bank of Tokyo-Mitsubishi UFJ (Holland) N.V.
		April 2008	Executive Officer of BTMU
		May 2008	Executive Officer of MUFG
		May 2010	Retired from Executive Officer of BTMU Managing Officer of MUFG
		June 2010	Director of Mitsubishi UFJ Securities Holdings Co., Ltd. (incumbent) Managing Director of MUFG (incumbent)

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>		<b>Business Experience</b>
Fumiyuki Akikusa (October 9, 1949)	Director	April 1972	Joined Mitsubishi Bank
		June 2000	Director of Bank of Tokyo-Mitsubishi
		June 2001	Non-Board Member Director of Bank of Tokyo-Mitsubishi
		May 2003	Non-Board Member Managing Director of Bank of Tokyo-Mitsubishi
		May 2004	Managing Officer of MTFG
		June 2004	Managing Director of Bank of Tokyo-Mitsubishi
		May 2005	Retired from Managing Officer of MTFG
		June 2005	Retired from Managing Director of Bank of Tokyo-Mitsubishi
			Senior Managing Director and Principal Executive Officer of Mitsubishi Securities Co., Ltd.
		October 2005	Director and Principal Executive Officer of MUS
		June 2006	Deputy President of MUS
			Director of MUFG (incumbent)
		June 2008	President of MUS
		April 2010	President of Mitsubishi UFJ Securities Holdings Co., Ltd. (incumbent)
May 2010	President & CEO of Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (incumbent)		
Kazuo Takeuchi (August 15, 1950)	Director	April 1973	Joined Tokai Bank
		April 1999	Executive Officer of Tokai Bank
		June 1999	Director of Tokai Bank
		March 2001	Retired from Director of Tokai Bank
		April 2001	Executive Officer of UFJ Holdings
		January 2002	Retired from Executive Officer of UFJ Holdings
			Senior Executive Officer of UFJ Bank
		May 2005	Retired from Senior Executive Officer of UFJ Bank
		June 2005	Senior Executive Officer of UFJ Tsubasa Securities Co., Ltd.
		October 2005	Senior Executive Officer of MUS
		June 2008	Senior Managing Director of MUS
			Director of MUFG (incumbent)
		April 2010	Senior Managing Director of Mitsubishi UFJ Securities Holdings Co., Ltd.
		May 2010	Deputy President of Mitsubishi UFJ Securities Holdings Co., Ltd. (incumbent)
	Senior Managing Director of Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (incumbent)		

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>		<b>Business Experience</b>		
Nobuyuki Hirano (October 23, 1951)	Director and Chief Strategic Alliance Officer	April 1974	Joined Mitsubishi Bank		
		June 2001	Non-Board Member Director of Bank of Tokyo-Mitsubishi		
		July 2004	Executive Officer of MTFG		
		May 2005	Non-Board Member Managing Director of Bank of Tokyo-Mitsubishi		
		June 2005	Managing Director of Bank of Tokyo- Mitsubishi		
			Director of MTFG		
		October 2005	Director of MUFG		
		January 2006	Managing Director of BTMU		
		October 2008	Senior Managing Director of BTMU		
		June 2009	Deputy President of BTMU (incumbent)		
	Managing Officer of MUFG				
		June 2010	Director of MUFG (incumbent)		
Shunsuke Teraoka (December 4, 1953)	Director	April 1976	Joined Toyo Trust Bank		
		May 2002	Executive Officer of UFJ Trust Bank		
		May 2004	Director and Executive Officer of UFJ Trust Bank		
		May 2005	Director and Senior Executive Officer of UFJ Trust Bank		
		October 2005	Managing Executive Officer of MUTB		
		June 2008	Senior Managing Director of MUTB		
		June 2010	Deputy President of MUTB (incumbent)		
			Director of MUFG (incumbent)		
Kaoru Wachi (December 9, 1955)	Director	April 1978	Joined Mitsubishi Trust Bank		
		April 2004	General Manager of Asset Management and Administration Planning Division of MTFG		
				June 2005	Executive Officer of MTFG Director (Non-Board Member Director) of Mitsubishi Trust Bank
				October 2005	Executive Officer of MUFG Executive Officer of MUTB
				June 2008	Managing Director of MUTB Director of MUFG (incumbent)
				June 2010	Senior Managing Director of MUTB (incumbent)



<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>		<b>Business Experience</b>
Takashi Oyamada (November 2, 1955)	Director	April 1979	Joined Mitsubishi Bank
		May 2004	General Manager of Corporate Policy Division of MTFG
		July 2004	Co-General Manager of Corporate Planning Office of Bank of Tokyo-Mitsubishi
		July 2004	Co-General Manager of Corporate Policy Division of MTFG
		June 2005	Executive Officer of MTFG Non-Board Member Director of Bank of Tokyo-Mitsubishi
		October 2005	Executive Officer of MUFG
		January 2006	Executive Officer of BTMU
		January 2009	Managing Executive Officer of BTMU
		June 2009	Managing Director of BTMU (incumbent) Director of MUFG (incumbent)
		Ryuji Araki (January 29, 1940)	Director
September 1992	Director, Member of the Board of TOYOTA MOTOR CORPORATION (TOYOTA)		
June 1997	Managing Director, Member of the Board of TOYOTA		
June 1999	Senior Managing Director, Member of the Board of TOYOTA		
June 2001	Vice President, Member of the Board and Representative Director of TOYOTA		
June 2002	Auditor of Aioi Insurance Company Limited. (Aioi Insurance)		
June 2005	Senior Advisor to the Board of TOYOTA Chairman and Representative Director of Aioi Insurance Chairman of TOYOTA FINANCIAL CORPORATION. (TFS)		
June 2007	Advisor of TFS		
June 2008	Advisor of TOYOTA (incumbent) Advisor of Aioi Insurance (incumbent)		
June 2009	Retired from Advisor of TFS Director of MUFG (incumbent)		

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>	<b>Business Experience</b>	
Kazuhiro Watanabe (May 19, 1947)	Director	April 1974	Public Prosecutor, Tokyo District Public Prosecutors Office
		July 1998	Assistant Vice-minister of Justice (Deputy Director-General for Criminal Affairs Bureau)
		April 2001	Public Prosecutor, Supreme Public Prosecutors Office
		January 2002	Chief Public Prosecutor, Nara District Public Prosecutors Office
		September 2004	Chief Public Prosecutor, Maebashi District Public Prosecutors Office
		September 2005	Chief Public Prosecutor, Nagoya District Public Prosecutors Office
		June 2007	Chief Public Prosecutor, Yokohama District Public Prosecutors Office
		July 2008	Superintending Prosecutor, Sapporo High Public Prosecutors Office
		July 2009	Retired from Superintending Prosecutor, Sapporo High Public Prosecutors Office
		September 2009	Attorney at Law Joined Dai-ichi Tokyo Bar Association (incumbent) Professor of Law, Tokai University Law School (incumbent)
		June 2010	Director of MUFG (incumbent)
Takuma Otoshi (October 17, 1948)	Director	July 1971	Joined IBM Japan, Ltd. (IBM Japan)
		March 1994	Director of IBM Japan
		March 1997	Managing Director of IBM Japan
		December 1999	President of IBM Japan
		June 2004	Director of MTFG
		October 2005	Director of MUFG (incumbent)
		April 2008	President & Chairman of IBM Japan
		January 2009	Chairman of IBM Japan (incumbent)

The following table sets forth our corporate auditors as of July 31, 2010, together with their respective dates of birth, positions and experience:

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>	<b>Business Experience</b>	
Shota Yasuda (July 23, 1948)	Corporate Auditor (Full-Time)	July 1971	Joined Mitsubishi Bank
		June 1998	Director of Bank of Tokyo-Mitsubishi
		June 2001	Non-Board Member Director of Bank of Tokyo-Mitsubishi
		May 2002	Managing Director (Non-Board Member Director) of Bank of Tokyo-Mitsubishi
		January 2006	Senior Managing Director of BTMU
		June 2007	Retired from Senior Managing Director of BTMU Corporate Auditor (Full-Time) of MUFG (incumbent)

<b>Name (Date of Birth)</b>	<b>Position in MUFG</b>	<b>Business Experience</b>	
Tetsuo Maeda (June 10, 1951)	Corporate Auditor (Full-Time)	April 1974	Joined Toyo Trust Bank
		May 2000	Executive Officer of Toyo Trust Bank
		January 2002	Executive Officer of UFJ Trust Bank
		May 2003	Senior Executive Officer of UFJ Trust Bank
		September 2004	Director and Senior Executive Officer of UFJ Trust Bank
		October 2005	Managing Director of MUTB
		June 2006	Senior Managing Director of MUTB
Tsutomu Takasuka (February 11, 1942)	Corporate Auditor	June 2009	Retired from Senior Managing Director of MUTB
			Corporate Auditor (Full-Time) of MUFG (incumbent)
		April 1967	Became a member of the Japanese Institute of Certified Public Accountants
		June 1985	Partner at Mita Audit Corporation
		February 1990	Partner at Tohmatsu & Co.
		September 2002	Resigned Tohmatsu & Co.
		April 2004	Professor, Department of Business Administration, Bunkyo Gakuin University
		October 2004	Full-time Corporate Auditor of Bank of Tokyo-Mitsubishi
		June 2005	Corporate Auditor of MTFG
		October 2005	Corporate Auditor of MUFG (incumbent)
		January 2006	Full-time Corporate Auditor of BTMU (incumbent)
March 2010	Retired from Professor, Department of Business Administration, Bunkyo Gakuin University		
Kunie Okamoto (September 11, 1944)	Corporate Auditor	June 1969	Joined Nippon Life Insurance Company (Nippon Life)
		July 1995	Director of Nippon Life
		March 1999	Managing Director of Nippon Life
		March 2002	Senior Managing Director of Nippon Life
		April 2005	President of Nippon Life (incumbent)
		June 2005	Corporate Auditor of UFJ Holdings
Yasushi Ikeda (April 18, 1946)	Corporate Auditor	October 2005	Corporate Auditor of MUFG (incumbent)
		April 1972	Admitted to the Bar Joined the Tokyo Bar Association
		April 1977	Partner of the law firm Miyake Imai & Ikeda (incumbent)
	June 2009	Corporate Auditor of MUFG (incumbent)	

The board of directors and corporate auditors may be contacted through our headquarters at Mitsubishi UFJ Financial Group, Inc., 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, Japan.

All directors and corporate auditors were elected at a general meeting of shareholders. The regular term of office of a director is one year from the date of election, and the regular term of office of a corporate auditor is four years from the date of election. Directors and corporate auditors may serve their terms until the close of the annual general meeting of shareholders held in the last year of their terms. Directors and corporate auditors may

serve any number of consecutive terms. No family relationship exists among any of our directors or corporate auditors. None of our directors is party to a service contract with MUFG or any of its subsidiaries that provides for benefits upon termination of employment.

## B. Compensation

The aggregate amount of compensation paid, including benefits in kind granted and any contingent and deferred compensation but excluding retirement allowances paid, by MUFG and its subsidiaries during the fiscal year ended March 31, 2010 to our directors (excluding outside directors), to corporate auditors (excluding outside auditors) and to outside directors and auditors, was ¥1,125 million, ¥82 million and ¥99 million, respectively.

The following table sets forth the details of individual compensation paid, including benefits in kind granted but excluding retirement allowances paid, by MUFG and its subsidiaries in an amount equal to or exceeding ¥100 million during the fiscal year ended March 31, 2010:

<u>Directors</u>	<u>Aggregate amount</u>	<u>Paid by</u>	<u>Compensation paid</u>		
			<u>Annual salary</u>	<u>Stock options</u>	<u>Bonus</u>
			(in millions)		
Ryosuke Tamakoshi .....	¥105	MUFG	¥54	¥33	¥18
Nobuo Kuroyanagi .....	110	MUFG	28	17	10
		BTMU	28	17	10
Katsunori Nagayasu .....	110	MUFG	6	3	1
		BTMU	50	31	19

Prior to June 28, 2007, in accordance with customary Japanese practice, when a director or corporate auditor retired, a proposal to pay a retirement allowance was submitted at the annual ordinary general meeting of shareholders for approval. The retirement allowance consisted of a one-time payment of a portion of the allowance paid at the time of retirement and periodic payments of the remaining amount for a prescribed number of years. After the shareholders' approval was obtained, the retirement allowance for a director or corporate auditor was fixed by the board of directors or by consultation among the corporate auditors in accordance with our internal regulations and practice and generally reflected the position of the director or corporate auditor at the time of retirement, the length of his service as a director or corporate auditor and his contribution to our performance. MUFG did not set aside reserves for any retirement payments for directors and corporate auditors made under this practice. Pursuant to a one-time shareholders' approval in June 2007 for the retirement allowances to be paid to the directors and corporate auditors who were elected prior to that date at the time of their retirement, the aggregate amount of retirement allowance paid by MUFG and its subsidiaries during the fiscal year ended March 31, 2010 to our directors (excluding outside directors), to corporate auditors (excluding outside auditors) and to outside directors and auditors, who have retired from their respective positions held at MUFG or, if such directors and corporate auditors concurrently held positions at MUFG's subsidiaries, who have retired from such positions, was ¥44 million, ¥17 million and ¥37 million, respectively.

As part of our compensation structure, on June 28, 2007, our shareholders approved the creation of a stock-based compensation plan for our directors, corporate auditors and certain of our officers. On November 21, 2007, the board of directors adopted a plan entitled "First Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc." for our directors, corporate auditors and certain of our officers. Under the stock-based compensation plan, on December 6, 2007, we allotted an aggregate of 3,224 stock acquisition rights to our directors and an aggregate of 493 stock acquisition rights to our corporate auditors for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights were subject to a one-year vesting period. The rights are exercisable until December 5, 2037, but only after the date on which a grantee's service as a director or corporate auditor terminates. The fair value of each stock acquisition right was ¥103,200.

As part of our compensation structure, on June 27, 2008, the board of directors adopted another stock-based compensation plan entitled “Second Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc.” for our directors, corporate auditors and certain of our officers. Under the stock-based compensation plan, on July 15, 2008, we allotted an aggregate of 4,690 stock acquisition rights to our directors and an aggregate of 495 stock acquisition rights to our corporate auditors for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights were subject to a one-year vesting period. The rights are exercisable until July 14, 2038, but only after the date on which a grantee’s service as a director, corporate auditor or officer terminates. The fair value of each stock acquisition right was ¥92,300.

As part of our compensation structure, on June 26, 2009, the board of directors adopted another stock-based compensation plan entitled “Third Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc.” for our directors, corporate auditors and certain of our officers. Under the stock-based compensation plan, on July 14, 2009, we allotted an aggregate of 6,466 stock acquisition rights to our directors and an aggregate of 872 stock acquisition rights to our corporate auditors for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights were subject to a one-year vesting period. The rights are exercisable until July 13, 2039, but only after the date on which a grantee’s service as a director, corporate auditor or officer terminates. The fair value of each stock acquisition right was ¥48,700.

As part of our compensation structure, on June 29, 2010, the board of directors adopted another stock-based compensation plan entitled “Fourth Series of Stock Acquisition Rights of Mitsubishi UFJ Financial Group, Inc.” for our directors, corporate auditors and certain of our officers. Under the stock-based compensation plan, on July 16, 2010, we allotted an aggregate of 8,014 stock acquisition rights to our directors and an aggregate of 1,149 stock acquisition rights to our corporate auditors for their respective services to MUFG and its subsidiaries. Each stock acquisition right represents a right to purchase 100 shares of MUFG common stock at ¥1 per share of common stock. The stock acquisition rights are subject to a one-year vesting period. The rights are exercisable until July 15, 2040, but only after the date on which a grantee’s service as a director, corporate auditor or officer terminates. The fair value of each stock acquisition right was ¥36,600.

As of July 31, 2010, our directors and corporate auditors held the following numbers of shares of our common stock:

<u>Directors</u>	<u>Number of Shares Registered</u>
Takamune Okihara . . . . .	18,620
Kinya Okauchi . . . . .	13,100
Katsunori Nagayasu . . . . .	8,540
Kyota Omori . . . . .	13,000
Hiroshi Saito . . . . .	8,340
Nobushige Kamei . . . . .	71,280
Masao Hasegawa . . . . .	57,100
Fumiyuki Akikusa . . . . .	17,546
Kazuo Takeuchi . . . . .	18,320
Nobuyuki Hirano . . . . .	21,400
Shunsuke Teraoka . . . . .	4,740
Kaoru Wachi . . . . .	4,300
Takashi Oyamada . . . . .	10,550
Ryuji Araki . . . . .	9,000
Kazuhiro Watanabe . . . . .	—
Takuma Otoshi . . . . .	3,000

<u>Corporate Auditors</u>	<u>Number of Shares Registered</u>
Shota Yasuda .....	21,500
Tetsuo Maeda .....	62,230
Tsutomu Takasuka .....	—
Kunie Okamoto .....	536
Yasushi Ikeda .....	—

### C. Board Practices

Our articles of incorporation provide for a board of directors of not more than twenty members and not more than seven corporate auditors. Our corporate officers are responsible for executing our business operations, and our directors oversee these officers and set our fundamental strategies.

We currently have sixteen directors. Our board of directors has ultimate responsibility for the administration of our affairs. By resolution, our board of directors shall appoint, from the directors, representative directors who may represent us severally. Our board of directors shall appoint a president and may also appoint a chairman, deputy chairmen, deputy presidents, senior managing directors and managing directors from their members by resolution. Deputy presidents assist the president, and senior managing directors and managing directors assist the president and deputy presidents, if any, in the management of our day-by-day operations.

We currently have three outside directors as members of our board of directors. Under the Company Law, an outside director is defined as a person who has never been an executive director (*gyomu shikko torishimariyaku*), executive officer (*shikkoyaku*), manager (*shihainin*) or any other type of employee of the company or any of its subsidiaries prior to his or her appointment.

Under the Company Law, a resolution of the board of directors is required if any director wishes to engage in any business that is in competition with us or any transaction with us. Additionally, no director may vote on a proposal, arrangement or contract in which that director is deemed to be particularly interested.

Neither the Company Law nor our articles of incorporation contain special provisions as to the borrowing power exercisable by a director, the retirement age of our directors and corporate auditors or a requirement of our directors and corporate auditors to hold any shares of our capital stock.

The Company Law requires a resolution of the board of directors for a company to determine the execution of important businesses, to acquire or dispose of material assets, to borrow substantial amounts of money, to employ or discharge managers (*shihainin*) and other important employees, and to establish, change or abolish branch offices or other material corporate organizations, to float bonds, to establish internal control systems, and to exempt a director from liability to the company in accordance with applicable laws and regulations.

We currently have five corporate auditors, including three outside corporate auditors. An outside corporate auditor is defined under the Company Law as a person who has not served as a director, account assistant, executive officer (*shikkoyaku*), manager (*shihainin*) or any other type of employee of the company or any of its subsidiaries prior to his or her appointment.

Our corporate auditors, who are not required to be certified public accountants, have various statutory duties, including principally:

- the examination of the financial statements, business reports, proposals and other documents which our board of directors prepares and submits to a general meeting of shareholders;
- the examination of our directors' administration of our affairs; and
- the preparation and submission of a report on their examination to a general meeting of shareholders.

Our corporate auditors are obligated to attend meetings of our board of directors, and to make statements at the meetings if they deem necessary, although they are not entitled to vote at the meetings. Our corporate auditors comprise the board of corporate auditors, which determines matters relating to the performance of audits. The Company Law provides that a company that has or is required to have a board of corporate auditors must have three or more corporate auditors, and at least half of the corporate auditors must be outside corporate auditors. In a company that has or is required to have a board of corporate auditors, one or more of the corporate auditors must be designated by the board of corporate auditors to serve on a full-time basis.

Under the Company Law and our articles of incorporation, we may exempt, by resolution of the board of directors, our directors and corporate auditors from liabilities to the company arising in connection with their failure to execute their duties without gross negligence, within the limits stipulated by applicable laws and regulations. In addition, we have entered into a liability limitation agreement with each outside director and outside corporate auditor which limits the maximum amount of their liability to the company arising in connection with a failure to execute their duties without gross negligence to the greater of either ¥10 million or the aggregate sum of the amounts prescribed in paragraph 1 of Article 425 of the Company Law and Articles 113 and 114 of the Company Law Enforcement Regulations.

The Company Law permits two types of governance systems for large companies, including MUFG. The first system is for companies with audit, nomination and compensation committees, and the other is for companies with corporate auditors. We have elected to adopt a corporate governance system based on corporate auditors.

Under the Company Law, if a company has corporate auditors, the company is not obligated to have any outside directors or to have any audit, nomination or compensation committees. Although we have adopted a board of corporate auditors, we have three outside directors as part of our efforts to further enhance corporate governance. In an effort to further enhance our corporate governance, we have also voluntarily established an internal audit and compliance committee and a nomination and compensation committee to support our board of directors.

*Internal Audit and Compliance Committee.* The internal audit and compliance committee, a majority of which is comprised of outside directors and specialists, deliberates important matters relating to internal audits, internal control of financial information, financial audits, compliance, corporate risk management, and other internal control systems. This committee makes reports and proposals to the board of directors about important matters for deliberation and necessary improvement measures. We aim to enhance the effectiveness of internal audit functions by utilizing the external view points provided by the internal audit and compliance committee members. The chairman of the internal audit and compliance committee is Ryuji Araki, who is an outside director. The other members of this committee are Kazuhiro Watanabe, an outside director, Kouji Tajika, a certified public accountant, Yoshinari Tsutsumi, an attorney-at-law, and Kinya Okauchi, a deputy chairman and the chief audit officer. The internal audit and compliance committee met twelve times between April 2009 and March 2010.

*Nomination and Compensation Committee.* The nomination and compensation committee, a majority of which is comprised of outside directors, deliberates matters relating to the appointment and dismissal of our directors and the directors of our subsidiaries, the compensation framework of our directors and the directors of our subsidiaries, as well as the compensation of our top management and the top management of our subsidiaries. The nomination and compensation committee makes reports and proposals to the board of directors about important matters for deliberation and necessary improvement measures. The chairman of the nomination and compensation committee is Takuma Otsu, an outside director. The other members of this committee are Ryuji Araki, Kazuhiro Watanabe and Katsunori Nagayasu, President and CEO. The nomination and compensation committee met eight times between April 2009 and March 2010.

For additional information on our board practices and the significant differences in corporate governance practices between MUFG and US companies listed on the New York Stock Exchange, see “—A. Directors and Senior Management” and “Item 16.G. Corporate Governance.”

## D. Employees

As of March 31, 2010, we had approximately 79,000 employees, a decrease of approximately 500 employees compared with the number of employees as of March 31, 2009. In addition, as of March 31, 2010, we had approximately 36,300 part-time and temporary employees. The following tables show the percentages of our employees in our different business units and in different locations as of March 31, 2010:

### Business unit

#### **Bank of Tokyo-Mitsubishi UFJ:**

Retail Banking Business Unit . . . . .	20%
Corporate Banking Business Unit . . . . .	13
Global Business Unit . . . . .	24
Global Markets Unit . . . . .	1
Operations and Systems Unit . . . . .	9
Corporate Center/Independent Divisions . . . . .	3

#### **Mitsubishi UFJ Trust and Banking Corporation:**

Trust-Banking . . . . .	5
Trust Assets . . . . .	3
Real Estate . . . . .	2
Global Markets . . . . .	1
Administration and subsidiaries . . . . .	3

#### **Mitsubishi UFJ Securities:**

Sales Marketing Business Unit . . . . .	5
Global Investment Banking Business Unit . . . . .	0
Global Markets Business Unit . . . . .	1
International Business Unit . . . . .	1
Corporate Center and Others . . . . .	2

#### **Mitsubishi UFJ NICOS:**

Business Marketing Division . . . . .	2
Credit Risk Management & Risk Assets Administration Division . . . . .	2
Operations Division . . . . .	1
Systems Division . . . . .	0
Corporate Division . . . . .	0

<b>Others</b> . . . . .	<u>2</u>
	<u>100%</u>



**Location**

**Bank of Tokyo-Mitsubishi UFJ:**

Japan .....	45%
United States .....	15
Europe .....	2
Asia/Oceania excluding Japan .....	8
Other areas .....	1

**Mitsubishi UFJ Trust and Banking Corporation:**

Japan .....	12
United States .....	0
Europe .....	0
Asia/Oceania excluding Japan .....	0

**Mitsubishi UFJ Securities:**

Japan .....	9
United States .....	0
Europe .....	1
Asia/Oceania excluding Japan .....	0

**Mitsubishi UFJ NICOS:**

Japan .....	5
United States .....	0
Europe .....	0
Asia/Oceania excluding Japan .....	0

<b>Others</b> .....	<u>2</u>
	<u>100%</u>

Most of our employees are members of our employees' union, which negotiates on behalf of employees in relation to remuneration and working conditions. We believe our labor relations to be good.

**E. Share Ownership**

The information required by this item is set forth in “—B. Compensation.”

## Item 7. Major Shareholders and Related Party Transactions.

### A. Major Shareholders

#### Common Stock

As of March 31, 2010, we had 776,669 registered shareholders of our common stock. The ten largest holders of our common stock appearing on the register of shareholders as of March 31, 2010, and the number and the percentage of such shares held by them, were as follows:

<u>Name</u>	<u>Number of shares held</u>	<u>Percentage of total shares in issue</u>
Japan Trustee Services Bank, Ltd. (Trust account) <sup>(1)</sup> . . . . .	847,661,900	5.99%
The Master Trust Bank of Japan, Ltd. (Trust account) <sup>(1)</sup> . . . . .	629,455,000	4.44
Nippon Life Insurance Company . . . . .	285,603,153	2.01
The Bank of New York Mellon as Depository Bank for DR Holders <sup>(2)</sup> . . . . .	275,722,684	1.94
State Street Bank and Trust Company . . . . .	217,214,650	1.53
Japan Trustee Services Bank, Ltd. (Trust account 9) <sup>(1)</sup> . . . . .	210,368,800	1.48
SSBT OD05 Omnibus Account China Treaty Clients . . . . .	180,960,350	1.27
Meiji Yasuda Life Insurance Company <sup>(3)</sup> . . . . .	175,000,000	1.23
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account . . . . .	162,305,975	1.14
Toyota Motor Corporation . . . . .	149,263,153	1.05
Total . . . . .	<u>3,133,555,665</u>	<u>22.14%</u>

#### Notes:

- (1) Includes the shares held in trust accounts, which do not disclose the names of beneficiaries.
- (2) An owner of record for our American depository shares.
- (3) These shares are those held in a pension trust account with The Master Trust Bank of Japan, Ltd. for the benefit of retirement plans with voting rights retained by Meiji Yasuda Life Insurance Company.

As of March 31, 2010, 411,618 shares, representing less than 0.01% of our outstanding common stock, were held by our directors and corporate auditors. Our major shareholders do not have different voting rights.

As of March 31, 2010, 1,958,941,291 shares, representing 13.84% of our outstanding common stock, were owned by 352 US shareholders of record who are resident in the United States, one of whom is the ADR depository's nominee holding 275,722,684 shares, or 1.94%, of our issued common stock.

#### Preferred Stock

No holder of our preferred stock has the right to vote at a general meeting of shareholders, except:

- 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, unless and until such time as a resolution of an ordinary general meeting of shareholders declaring a preferred dividend is passed.

Holder of our preferred stock are entitled to vote at a meeting separately held for their respective classes of preferred stock in accordance with the Company Law. A resolution of a separate meeting of class shareholders is required for the following actions, but only if the action is likely to prejudice the interests of the relevant class shareholders:

- an amendment to our articles of incorporation to (a) create a new class of shares, (b) change the terms of shares, or (c) increase the total number of authorized shares or the total number of authorized shares of a

class of stock, except in some cases, such as an amendment to change a class of stock to callable stock, the resolution of, or the unanimous consent from, relevant class shareholders is required, regardless of whether the action is likely to prejudice their interests;

- a consolidation of shares;
- a share split;
- an allotment of shares to our existing shareholders;
- an allotment of stock acquisition rights to our existing shareholders; and
- a merger, corporate split, stock for stock exchange, or stock for stock transfer.

Class 11 preferred stock is convertible into shares of our common stock as described in “Item 10.B. Additional Information—Memorandum and Articles of Association.”

The shareholders of our preferred stock, appearing on the register of shareholders as of March 31, 2010, and the number and the percentage of such shares held by them, were as follows:

First series of class 3 preferred stock

<u>Name</u>	<u>Number of shares held</u>	<u>Percentage of total shares in issue</u>
Tokio Marine & Nichido Fire Insurance Co., Ltd. . . . .	40,000,000	40%
Meiji Yasuda Life Insurance Company . . . . .	40,000,000	40
Nippon Life Insurance Company . . . . .	20,000,000	20
Total . . . . .	<u>100,000,000</u>	<u>100%</u>

The outstanding shares of the first series of class 3 preferred stock were redeemed as of April 1, 2010.

First series of class 5 preferred stock

<u>Name</u>	<u>Number of shares held</u>	<u>Percentage of total shares in issue</u>
Nippon Life Insurance Company . . . . .	40,000,000	25.64%
Meiji Yasuda Life Insurance Company . . . . .	40,000,000	25.64
Taiyo Life Insurance Company . . . . .	20,000,000	12.82
Daido Life Insurance Company . . . . .	20,000,000	12.82
Tokio Marine & Nichido Fire Insurance Co., Ltd. . . . .	20,000,000	12.82
Nipponkoa Insurance Company, Limited . . . . .	12,000,000	7.69
Aioi Insurance Company, Limited . . . . .	4,000,000	2.56
Total . . . . .	<u>156,000,000</u>	<u>100%</u>

Class 11 preferred stock

<u>Name</u>	<u>Number of shares held</u>	<u>Percentage of total shares in issue</u>
UFJ Trustee Services PVT. (Bermuda) Limited as the trustee of UFJ International Finance (Bermuda) Trust . . . . .	1,000	100%
Total . . . . .	<u>1,000</u>	<u>100%</u>

## **B. Related Party Transactions**

In May 2010, pursuant to definitive agreements entered into in March 2010, we and Morgan Stanley formed two joint ventures in Japan by contributing and integrating the investment banking and securities businesses conducted by our respective securities subsidiaries in Japan. We also made a cash payment of ¥26 billion to Morgan Stanley at closing of the transaction (subject to certain post-closing cash adjustments). We currently hold an approximately 20% interest (on a fully diluted basis) in Morgan Stanley, and a member of our senior management currently serves on the board of directors of Morgan Stanley. See “Item 4.B. Information on the Company—Business Overview” and “Item 5. Operating and Financial Review and Prospects—Recent Developments.”

We and our banking subsidiaries had, and expect to have in the future, banking transactions and other transactions in the ordinary course of business with our related parties. Although for the fiscal year ended March 31, 2010, such transactions included, but were not limited to, call money, loans, electronic data processing, leases and management of properties, those transactions were immaterial and were made at prevailing market rates, terms and conditions and do not involve more than the normal risk of collectibility or present other unfavorable features.

None of our directors or corporate auditors, and none of the close members of their respective families, has had any transactions or has any presently proposed transactions that are material or any transactions that are unusual in their nature or conditions, involving goods, services or tangible or intangible assets, to which we were, are or will be a party.

No loans have been made to our directors or corporate auditors other than in the normal course of business, on normal commercial terms and conditions, involving the normal risk of collectibility, and presenting normal features. In addition, no loans have been made to our directors or executive officers or corporate auditors other than as permitted under Section 13(k) of the US Securities Exchange Act and Rule 13k-1 promulgated thereunder.

No family relationship exists among any of our directors or corporate auditors. No arrangement or understanding exists between any of our directors or corporate auditors and any other person pursuant to which any director or corporate auditor was elected to their position at MUFG.

As part of our compensation structure, we have granted stock acquisition rights to our directors and corporate auditors. For a detailed discussion of the stock acquisition rights, see “Item 6.B. Directors, Senior Management and Employees—Compensation.”

## **C. Interests of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information.**

### **A. Consolidated Statements and Other Financial Information**

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this Annual Report and in “Selected Statistical Data” starting on page A-1 of this Annual Report.

### **Legal Proceedings**

From time to time, we are involved in various litigation matters. Although the final resolution of any such matters could have a material effect on our consolidated operating results for a particular reporting period, based on our current knowledge and consultation with legal counsel, we believe the current litigation matters, when ultimately determined, will not materially affect our results of operations or financial position.

### **Distributions**

Our board of directors submits a recommendation for a year-end dividend for our shareholders’ approval at the ordinary general meeting of shareholders customarily held in June of each year. The year-end dividend is usually distributed immediately following shareholders’ approval to holders of record at the end of the preceding fiscal year. In addition to year-end dividends, we may make cash distributions by way of interim dividends to shareholders of record as of September 30 of each year as distribution of surplus by resolution of our board of directors. On June 29, 2010, we paid year-end dividends in the amount of ¥6 per share of common stock for the fiscal year ended March 31, 2010.

See “Item 10.B. Memorandum and Articles of Association” for additional information on our dividends policy.

Under the Japanese foreign exchange regulations currently in effect, dividends paid on shares held by non-residents of Japan may be converted into any foreign currency and repatriated abroad. Under the terms of the deposit agreement pursuant to which ADSs are issued, the depository is required, to the extent that in its judgment it can convert Japanese yen on a reasonable basis into US dollars and transfer the resulting US dollars to the United States, to convert all cash dividends that it receives in respect of deposited shares into US dollars and to distribute the amount received, after deduction of any applicable withholding taxes, to the holders of ADSs. See “Item 10.D. Additional Information—Exchange Controls—Foreign Exchange and Foreign Trade Law.”

### **B. Significant Changes**

Other than as described in this Annual Report, no significant changes have occurred since the date of our consolidated financial statements included in this Annual Report.

## Item 9. The Offer and Listing.

### A. Offer and Listing Details

#### Market Price Information

The following table shows, for the periods indicated, the reported high and low sale prices for shares of our common stock on the Tokyo Stock Exchange, or the TSE, and of the ADSs on the New York Stock Exchange, or the NYSE.

	Price per share on the TSE		Price per ADS on the NYSE	
	High	Low	High	Low
	(yen)		(US\$)	
Fiscal year ended March 31, 2006 .....	1,810	873	15.54	7.95
Fiscal year ended March 31, 2007 .....	1,950	1,260	16.75	11.01
Fiscal year ended March 31, 2008 .....	1,430	782	11.72	7.95
Fiscal year ended March 31, 2009				
First quarter .....	1,173	856	11.11	8.66
Second quarter .....	1,036	741	9.67	6.87
Third quarter .....	946	427	9.14	4.50
Fourth quarter .....	590	377	6.34	3.71
Fiscal year ended March 31, 2010				
First quarter .....	699	470	6.84	4.79
Second quarter .....	624	475	6.53	5.32
Third quarter .....	523	437	5.78	4.89
Fourth quarter .....	506	443	5.54	4.91
February .....	482	443	5.39	4.94
March .....	504	453	5.41	5.06
Fiscal year ending March 31, 2011				
April .....	520	481	5.56	5.16
May .....	480	435	5.26	4.76
June .....	449	399	4.93	4.48
July .....	440	396	5.05	4.52
August (through August 9) .....	439	425	5.06	4.91

Note: The amounts in this table prior to 2007 have been adjusted to reflect the 1,000-for-one stock split of our common stock, effective as of September 30, 2007.

### B. Plan of Distribution

Not applicable.

### C. Markets

The primary market for our common stock is the TSE. Our common stock is also listed on the Osaka Securities Exchange and the Nagoya Stock Exchange in Japan. ADSs, each representing one share of common stock, are quoted on the NYSE under the symbol, "MTU."

### D. Selling Shareholders

Not applicable.

### E. Dilution

Not applicable.

### F. Expenses of the Issue

Not applicable.

## **Item 10. Additional Information.**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association**

#### **Our Corporate Purpose**

Article 2 of our Articles of Incorporation provides that our corporate purpose is to carry on the following businesses:

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

#### **Board of Directors**

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

#### **Common Stock**

We summarize below the material provisions of our Articles of Incorporation, our share handling regulations and the Company Law (Law No. 86 of 2005, also known as the Companies Act) as they relate to a type of joint stock company known as *kabushiki kaisha*, within which we fall. Because it is a summary, this discussion should be read together with our Articles of Incorporation and share handling regulations, which have been filed as exhibits to this Annual Report.

#### **General**

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

As of June 29, 2010, our authorized common share capital was comprised of 33,000,000,000 shares of common stock with no par value.

As of March 31, 2010, a total of 14,148,414,920 shares of common stock (including 21,069,229 shares of common stock held by us and our consolidated subsidiaries as treasury stock) had been issued. Each of the shares issued and outstanding was fully paid and non-assessable.

As of June 29, 2010, we were authorized to issue 920,001,000 shares of preferred stock, including 120,000,000 shares of class 3 preferred stock, 400,000,000 shares of each of the first to fourth series of class 5 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 5 preferred stock does not exceed 400,000,000 shares), 200,000,000 shares of each of the first to fourth series of class 6 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 6 preferred stock does not exceed 200,000,000 shares), 200,000,000 shares of each of the first to fourth series of class 7 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 7 preferred stock does not exceed 200,000,000 shares), and 1,000 shares of class 11 preferred stock. As of March 31, 2010, we had 100,000,000 shares of class 3 preferred stock, 156,000,000 shares of first series class 5 preferred stock, and 1,000 shares of class 11 preferred stock issued and outstanding. The outstanding shares of the first series of class 3 preferred stock were redeemed on April 1, 2010.

We may issue shares from our authorized but unissued share capital following a resolution to that effect by our board of directors. An increase in our authorized share capital is only possible by amendment of our Articles of Incorporation, which generally requires shareholders' special approval.

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

A law to establish a new central clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares became effective on January 5, 2009. Under the "Law Concerning Book-Entry Transfer of Corporate Bonds, Stocks etc.," a new central clearing system was established and the shares of all Japanese companies listed on any Japanese stock exchange are now subject to the new central clearing system. As of January 5, 2009, we are deemed to be a company which shall no longer issue share certificates for our shares, and all existing share certificates for such shares have become automatically null and void, without us being required to collect those share certificates from shareholders. The transfer of such shares is effected through entry in the books maintained under the new central clearing system. Only shares that were deposited with the Japan Securities Depository Center as of January 5, 2009 are immediately transferable under the new central clearing system.

### ***Dividends***

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

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

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

- (a) our Articles of Incorporation so provide (our Articles of Incorporation currently contain no such provisions);
- (b) the normal term of office of our directors is one year; and
- (c) certain conditions concerning our non-consolidated annual financial statements and certain documents for the latest fiscal year as required by an ordinance of the Ministry of Justice are satisfied.

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

Under the Company Law, distributions of surplus may be made in cash or in kind in proportion to the number of shares of common stock held by each shareholder. A resolution of a general meeting of shareholders



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

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

In Japan, the “ex-dividend” date and the record date for any dividends precede the date of determination of the amount of the dividend to be paid. The market price of shares generally becomes ex-dividend on the third

business day prior to the record date. Under our Articles of Incorporation, we are not obligated to pay any dividends which are left unclaimed for a period of five years after the date on which they first became payable.

### ***Capital and Reserves***

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

### ***Stock Splits***

Stock splits of our outstanding stock may be effected at any time by resolution of the board of directors. When a stock split is to be effected, we may increase the authorized share capital to cover the number of shares to be increased by the stock split by amending our Articles of Incorporation by resolution of the board of directors without approval by special resolution of the general meeting of shareholders, unless more than one class of stock is issued and outstanding. We must give public notice of the stock split, specifying a record date at least two weeks prior to the record date.

We conducted a stock split pursuant to which each of our shares of common and preferred stock were split into 1,000 shares of the respective classes of securities, effective as of September 30, 2007. Our Articles of Incorporation were amended to increase the authorized share capital to cover the number of shares increased by the stock split, which amendment became effective simultaneously with the effectiveness of the stock split.

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

We adopt the unit share system, where 100 shares of either common or preferred stock shall each constitute a unit, as the amendment of our Articles of Incorporation to provide for such system has been approved at the shareholders' meetings on June 27 and 28, 2007.

Under the unit share system, each unit is entitled to one voting right. A holder of less than one unit has no voting right. Our Articles of Incorporation provide that the holders of shares constituting less than a full unit will not have shareholder rights except for those specified in the Company Law or an ordinance of the Ministry of Justice, including rights (i) to receive dividends, (ii) to receive cash or other assets in case of consolidation or split of shares, stock-for-stock exchange or stock-for-stock transfer, corporate split or merger or (iii) to be allotted rights to subscribe for free for new shares and stock acquisition rights when such rights are granted to shareholders. Shareholders may require us to purchase shares constituting less than a unit at the current market price. In addition, holders of shares constituting less than a unit may require us to sell them such number of shares, which, when combined with the number of shares already held by such holder, shall constitute a whole unit of share; provided that we will be obliged to comply with such request only when we own a sufficient number of shares to accommodate the desired sale and purchase. The board of directors may reduce the number of shares constituting a unit or cease to use the unit share system by amendments to the Articles of Incorporation without shareholders' approval even though amendments to the Articles of Incorporation generally require a special resolution of the general meeting of shareholders.

### ***General Meeting of Shareholders***

The ordinary general meeting of our shareholders is usually held in June of each year in Tokyo. In addition, we may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks'

advance notice to shareholders who are entitled to vote at the relevant general meeting of shareholders. The record date for ordinary general meetings of our shareholders is March 31.

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 shareholder rights described above may be decreased or shortened if our Articles of Incorporation so provide. Our Articles of Incorporation currently contain no such provisions.

### ***Voting Rights***

A holder of shares of our common stock is generally entitled to one voting right for each unit of common stock held. The following shares of common stock are not entitled to voting rights even when such shares constitute a whole unit, and such shares of common stock are not considered when determining whether a quorum exists for a shareholders' meeting:

- treasury stock;
- 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, and fractional shareholders becoming a shareholder of a whole unit share.

On the other hand, holders of certain class of preferred stock shall be entitled to a voting right for each unit of preferred stock held under certain conditions provided for by relevant laws or regulations and our Articles of Incorporation, for example, when a proposal to pay the full amount of preferential dividends on any class of preferred stock in compliance with the terms of such preferred stock 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 corporate auditor;
- the exemption from liability of a director or corporate auditor, with certain exceptions;
- a reduction in stated capital with certain exceptions in which a shareholders' resolution is not required;
- a distribution of in-kind dividends which meets certain requirements;

- the transfer of the whole or an important part of our business, except in some limited circumstances;
- the acquisition of the whole business of another company, except in some limited circumstances;
- a dissolution, merger or consolidation, except for certain types of mergers;
- a stock-for-stock exchange (*kabushiki-kokan*) or stock-for-stock transfer (*kabushiki-iten*), except in some limited circumstances; and
- a corporate split, except in some limited circumstances.

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

Our Articles of Incorporation do not include any provision that grants shareholders cumulative voting rights at elections of directors or corporate auditors.

### ***Subscription Rights***

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

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

### ***Stock Acquisition Rights***

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

### ***Liquidation Rights***

Upon our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and preferred distributions to holders of shares of our preferred stock will be distributed among the holders of shares 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. MUTB maintained our register of lost share certificates until January 5, 2010, as required by the New Share Settlement Law.

### ***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 notice thereof to shareholders prior to such general meeting, in general;
- from all shareholders of a specific class of shares offering to sell their shares, if authorized by a resolution of a general meeting of shareholders or our board of directors and we give a public notice or notice thereof to all of the shareholders (if we repurchase any class of preferred stock, notices to all shareholders of the relevant class of preferred stock); or
- from our subsidiaries, if authorized by a resolution of the board of directors.

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

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

We may hold our own shares so repurchased without restrictions. In addition, we may cancel or dispose of our repurchased shares by a resolution of our board of directors. As of March 31, 2010, we (excluding our subsidiaries) owned 426,985 shares of treasury stock.

### **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 stock 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, 2010, we were authorized under our Articles of Incorporation to issue five classes of preferred stock totaling 920,001,000 shares of preferred stock, including 120,000,000 shares of class 3 preferred stock, 400,000,000 shares of each of the first to fourth series of class 5 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 5 preferred stock does not exceed 400,000,000 shares), 200,000,000 shares of each of the first to fourth series of class 6 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 6 preferred stock does not exceed 200,000,000 shares), 200,000,000 shares of each of the first to fourth series of class 7 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the four series of class 7 preferred stock does not exceed 200,000,000 shares) and 1,000 shares of class 11 preferred stock. Our preferred stock has equal preference over our shares of common stock with respect to dividend entitlements and distribution of assets upon our liquidation. However, holders of shares of our preferred stock are not entitled to vote at general meetings of shareholders, subject to the exceptions provided under our Articles of Incorporation. As of March 31, 2010, 100,000,000 shares of class 3 preferred stock, 156,000,000 shares of first series class 5 preferred stock and 1,000 shares of class 11 preferred stock had been outstanding, but there were no shares of class 6 or 7 preferred stock outstanding. The outstanding shares of the first series of class 3 preferred stock were redeemed as of April 1, 2010. We may, at any time, following necessary authorization as described in the first paragraph under “Repurchase of Our Shares,” purchase and cancel, at fair value, any shares of preferred stock outstanding out of the distributable amount.

Class 3, first to fourth series of class 5 and first to fourth series of class 6 preferred shareholders are not entitled to request acquisition of their shares of preferred stock in exchange for our shares of common stock but we may acquire shares of class 3, first to fourth series of class 5 and first to fourth series of class 6 preferred stock 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 stock at ¥2,500 per share, in whole or in part, on or after February 18, 2010. The provisions for acquisition of shares of first to fourth series of class 5 and first to fourth series of class 6 preferred stock will be determined by the board of directors at the time of issuance of such preferred stock. When issued, any holder of shares of first to fourth series of class 6 preferred stock or first to fourth series of class 7 preferred stock may request acquisition of shares of such preferred stock in exchange for shares of our common stock during the period determined by resolution of the board of directors adopted at the time of issuance of such shares of preferred stock. Any shares of first to fourth series of class 6 preferred stock or first to fourth series of class 7 preferred stock for which no request for acquisition in exchange for shares of our 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 share of preferred stock 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 shares of class 11 preferred stock may request acquisition of shares of the relevant preferred stock in exchange for shares of our common stock during the period as provided for in the attachment to our Articles of Incorporation. Any shares of class 11 preferred stock for which no request for acquisition in exchange for shares of our 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 share of preferred stock 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 stock: ¥60.00 per share as set by the resolution of our board of directors dated January 27, 2005 and amended to reflect the stock split pursuant to our Articles of Incorporation;

- first series of class 5 preferred stock: ¥115.00 per share;
- second to fourth series of class 5 preferred stock: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥250.00 per share;
- first to fourth series of class 6 preferred stock: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥125.00 per share;
- first to fourth series of class 7 preferred stock: to be set by resolution of our board of directors at the time of issuance, up to a maximum of ¥125.00 per share; and
- class 11 preferred stock: ¥5.30 per share.

In the event that our board of directors decides to pay an interim dividend to holders of record of our common stock as of September 30 of any year, we will, in priority to the payment of that interim dividend, pay a preferred interim dividend in the amount specified in our Articles of Incorporation to holders of record of our preferred stock as of September 30 of the same year. 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 per share of class 3 preferred stock;
- ¥2,500 per share of first to fourth series of class 5 preferred stock;
- ¥2,500 per share of first to fourth series of class 6 preferred stock;
- ¥2,500 per share of first to fourth series of class 7 preferred stock; and
- ¥1,000 per share of class 11 preferred stock.

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

### ***Voting Rights***

No holder of our preferred stock has the right to receive notice of, or to vote at, a general meeting of shareholders, except as otherwise specifically provided under our Articles of Incorporation or other applicable law. Under our Articles of Incorporation, holders of our preferred stock will be entitled to receive notice of, and have one voting right per unit of preferred stock 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 Mellon will issue the American depositary receipts, or ADRs. Each ADR will represent ownership interests in American depositary shares, or ADSs. As a result of the 1,000-for-one stock split that became effective on September 30, 2007, each ADS represents one share of our common stock. Each ADS is held by The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, acting as custodian, at its principal office in Tokyo, on behalf of The Bank of New York Mellon, acting as depositary. Each ADS will also represent securities, cash or other property deposited with The Bank of New York Mellon but not distributed to ADS holders. The Bank of New York Mellon'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 Mellon 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 Mellon are set out in a deposit agreement among us, The Bank of New York Mellon 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 Mellon 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 Mellon 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 Mellon to distribute the Japanese yen only to those ADS holders to whom it is possible to do so. The Bank of New York Mellon will hold the Japanese yen it cannot convert for the account of the ADS holders who have not been paid. It will not invest the Japanese yen and it will not be liable for any interest.



Before making a distribution, any withholding taxes that must be paid under Japanese law will be deducted. See “—Taxation—Japanese Taxation.” The Bank of New York Mellon 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 Mellon cannot convert the Japanese currency, you may lose some or all of the value of the distribution.

*Shares.* The Bank of New York Mellon may distribute new ADSs representing any shares we may distribute as a dividend or free distribution, if we furnish The Bank of New York Mellon promptly with satisfactory evidence that it is legal to do so. The Bank of New York Mellon 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 Mellon 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 Mellon may, after consultation with us, make those rights available to you. We must first instruct The Bank of New York Mellon 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 Mellon decides that it is practical to sell the rights, The Bank of New York Mellon will sell the rights and distribute the proceeds in the same way as it distributes cash dividends. The Bank of New York Mellon 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 Mellon 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 Mellon 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.

US 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 Mellon 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 Mellon 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 US 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 Mellon 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 Mellon 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 Mellon 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 Mellon to make them available to you.

### ***Deposit, Withdrawal and Cancellation***

The Bank of New York Mellon 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 Mellon 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 Mellon 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 depository. The depository may receive ADSs instead of the shares to close out a pre-release. The depository 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 depository 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 depository considers appropriate; and
- The depository 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 depository considers appropriate. In addition, the depository 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 Mellon'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 Mellon 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 Mellon will deliver the deposited securities at its Corporate Trust Office.

As a result of the stock split and the adoption of the unit share system on September 30, 2007, the ADSs may only be presented for cancellation and release of the underlying shares of common stock or other deposited securities in multiples of 100 ADSs. Holders of ADRs evidencing less than 100 ADSs are not entitled to delivery of any underlying shares or other deposited securities unless ADRs, together with other ADRs presented by the same holder at the same time, represent in the aggregate at least 100 ADSs. If any ADSs are surrendered but not cancelled pursuant to the preceding sentence, The Bank of New York Mellon 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 Mellon, you may instruct The Bank of New York Mellon 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 Mellon 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 Mellon 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 Mellon 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 Mellon for such purpose, The Bank of New York Mellon 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 Mellon 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 Mellon, 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 Mellon 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 Mellon 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 Mellon 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 Mellon for such purpose, The Bank of New York Mellon shall deem you to have instructed The Bank of New York Mellon to give a discretionary proxy to a person designated by us with respect to such deposited securities and The Bank of New York Mellon shall give a discretionary proxy to a person designated by us to vote such deposited securities, provided that no such instruction shall be given with respect to any matter as to which we inform The Bank of New York Mellon (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 Mellon to vote your shares. In addition, The Bank of New York Mellon 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***

See “Item 12.D. Description of Securities Other than Equity Securities—American Depositary Shares.”

### ***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 Mellon 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 Mellon 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 Mellon 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 Mellon 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 Mellon 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 Mellon 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 Mellon may also terminate the deposit agreement if The Bank of New York Mellon has told us that it would like to resign and we have not appointed a new depository bank within 60 days.

If any ADSs remain outstanding after termination, The Bank of New York Mellon 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 Mellon.

At any time after one year following termination, The Bank of New York Mellon may sell any remaining deposited securities. After that, The Bank of New York Mellon 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 Mellon's only obligations will be to account for the money and other cash and with respect to indemnification and to retain depository documents. After termination, our only obligations will be with respect to indemnification and to pay certain amounts to The Bank of New York Mellon.

### ***Limitations on Obligations and Liability to ADS Holders***

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

- 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 Mellon 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 Mellon 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 Mellon 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 Mellon 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 Mellon 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 Mellon 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 Mellon will also send you copies of those reports it receives from us.

### ***Inspection of Transfer Books***

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

## **C. Material Contracts**

Except as described elsewhere in this Annual Report, all material contracts entered into by us in the past two years preceding the filing of this Annual Report were entered into in the ordinary course of business.

## **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 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:

- non resident individuals;
- 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 directly or indirectly 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 by the fifteenth day of the month immediately following the month to which the date of such acquisition belongs. 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 depository, including shares deposited with us as custodian for the depository, 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 Financial Instruments 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 financial instruments 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, shares 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 financial instruments 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 of our common stock or ADSs who are non-resident individuals or non-Japanese corporations without a permanent establishment in Japan to which the relevant income is attributable, which we refer to as "non-resident holders" in this section. The statements regarding Japanese tax laws below are based on the laws in force and as interpreted by the Japanese taxation authorities as at the date of this Annual Report and are subject to changes in the applicable Japanese laws, double taxation treaties, conventions or agreements or interpretations thereof occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor, and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of shares of our common stock 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 US holder of ADSs will be treated as the owner of the shares of our common stock underlying the ADSs evidenced by the ADRs.

Generally, a non-resident holder of shares of our common stock 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 December 31, 2011 pursuant to Japanese tax law. After such date, the maximum withholding rate for US 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"), became effective to replace its predecessor, which was signed on March 8, 1971 (the "Prior Treaty"). The Tax Convention establishes the maximum rate of Japanese withholding tax which may be imposed on dividends paid to a US resident not having a permanent establishment in Japan. Under the Tax Convention, the maximum withholding rate for US 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 US resident, provided that such dividends are not derived from the carrying on of a business, directly or indirectly, by such pension fund or (ii) a parent company with a controlling interest in the paying company and satisfies certain other requirements. US 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 December 31, 2011 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 of our common stock 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 of our common stock or ADSs 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 of our common stock 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 of our common stock or ADSs as legatee, heir or donee, even if none of the individual, the decedent or the donor is a Japanese resident.

## **US Taxation**

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

The following summary is not a complete analysis or description of all potential US federal income tax consequences to a particular US holder. It does not address all US 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-US 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 “US holder” is a beneficial owner of shares or ADSs, as the case may be, that is, for US 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 US federal income tax regardless of its source; or
- a trust
  - the administration of which is subject to (1) the supervision of a court within the United States and (2) the control of one or more US persons as described in Section 7701(a)(30) of the Code; or
  - that has a valid election in effect under applicable US Treasury regulations to be treated as a US person.

A “Non-US holder” is any beneficial holder of shares or ADSs that is not a US 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 US holders to consult their own tax advisors concerning the US 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 US federal income tax purposes, holders of ADSs will be treated as the owners of the shares represented by the ADSs. Accordingly, withdrawals or deposits of shares in exchange for ADSs generally will not be subject to US federal income tax.

The US Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with the beneficial ownership of the underlying shares (for example, pre-releasing ADSs to persons who do not have beneficial ownership of the securities underlying the ADSs). Accordingly, the discussion on the creditability of Japanese taxes and the availability of the reduced rate of tax for dividends received by certain non-corporate US holders, each as described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of ADSs and MUFG if, as a result of such actions, the holders of ADSs are not properly treated as beneficial owners of the underlying shares. We are not aware of any intention to take any such actions, and accordingly, the remainder of this discussion assumes that holders of ADSs will be properly treated as beneficial owners of the underlying shares.

Special adverse US federal income tax rules apply if a US 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 US holder held shares or ADSs, as discussed in more detail below. US 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***

Subject to the application of the PFIC rules discussed below, US 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 US federal income tax purposes) of MUFG, as ordinary income in their gross income. As discussed below, for certain US holders, dividends may be eligible for a reduced rate of taxation. 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 US holder will not be eligible for the

“dividends-received deduction” allowed to US corporations in respect of dividends received from other US corporations. To the extent that an amount received by a US 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 US holder’s tax basis, such excess will be treated as capital gain. However, MUFG does not maintain calculations of its earnings and profits in accordance with US federal income tax principles, and US holders should therefore assume that any distribution by MUFG with respect to shares or ADSs will constitute ordinary dividend income. The amount of the dividend will be the US dollar value of the Japanese yen payments received. This value will be determined at the spot Japanese yen/US dollar rate on the date the dividend is received by the depository in the case of US holders of ADSs, or by the shareholder in the case of US 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 US 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 US source ordinary income or loss. If the Japanese yen received as a dividend are converted into US dollars on the date of receipt, a US holder will generally not be required to recognize foreign currency gain or loss in respect of the dividend income.

If a US holder is eligible for benefits under the Tax Convention, the holder may be able to claim a reduced rate of Japanese withholding tax. All US holders should consult their tax advisors about their eligibility for reduction of Japanese withholding tax. A US holder may claim a deduction or a foreign tax credit, subject to other applicable limitations, only for tax withheld at the appropriate rate. A US holder should not be allowed a foreign tax credit for withholding tax for any portion of the tax that could have been avoided by claiming benefits under the Tax Convention. 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 US holders, “financial services income.” The rules governing US foreign tax credits are very complex and US holders should consult their tax advisors regarding the availability of foreign tax credits under their particular circumstances.

Subject to applicable exceptions with respect to short-term and hedged positions, qualified dividends received by non-corporate US holders prior to January 1, 2011 from a qualified corporation may be eligible for reduced rates of taxation. Qualified corporations include those foreign corporations eligible for the benefits of a comprehensive income tax treaty with the United States that the US Treasury Department determines to be satisfactory for these purposes and that includes an exchange of information provision. The Tax Convention meets these requirements. We believe that MUFG is a qualified foreign corporation and that dividends received by US investors with respect to shares or ADSs of MUFG will be qualified dividends. Dividends received by US 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.

### ***Passive Foreign Investment Company Considerations***

Special adverse US federal income tax rules apply if a US holder holds shares or ADSs of a company that is treated as a PFIC, for any taxable year during which the US holder held shares or ADSs. A foreign corporation will be considered a PFIC for any taxable year in which (i) 75% or more of its gross income is passive income, or (ii) 50% or more of the average fair market value of its assets (determined quarterly) is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents and certain gains from the sale of stock and securities. If a foreign corporation owns at least 25% (by value) of the stock of another corporation, the corporation will be treated, for purposes of the PFIC tests, as owning a proportionate share of the other corporation’s assets and receiving its proportionate share of the other corporation’s income. The determination of whether a foreign corporation is a PFIC is made annually.

Proposed Treasury regulations convert what would otherwise be passive income into non-passive income when such income is banking income earned by an active bank. Based upon these proposed Treasury regulations and upon certain management estimates and assumptions, we do not believe that we were a PFIC for the year

ending March 31, 2010 and do not expect to be a PFIC in the current or future years. However, there can be no assurance that the described proposed Treasury regulations will be finalized in their current form and the application of the proposed Treasury regulations is not clear. Moreover, 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 and is made annually. Accordingly, it is possible that MUFG may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. In addition, a decrease in the price of our shares may also result in MUFG becoming a PFIC. If MUFG were classified as a PFIC in any year during which a US holder owns shares or ADSs and the US holder does not make a “mark-to-market” election, as discussed below, MUFG generally would continue to be treated as a PFIC as to such US holder in all succeeding years, regardless of whether MUFG continues to meet the income or asset test discussed above.

If MUFG were classified as a PFIC for any taxable year during which a US holder holds our shares or ADSs, the US holder would generally not receive capital gains treatment upon the sale of the shares or ADSs and would be subject to increased tax liability (generally including an interest charge) upon the sale or other disposition of the shares or ADSs or upon the receipt of certain distributions treated as “excess distributions,” unless the US holder makes the mark-to-market election described below. An excess distribution generally would be any distribution to a US holder with respect to shares or ADSs during a single taxable year that is greater than 125% of the average annual distributions received by a US holder with respect to shares or ADSs during the three preceding taxable years or, if shorter, during the US holder’s holding period for the shares or ADSs.

*Mark-to-Market Election.* If the shares or ADSs are regularly traded on a registered national securities exchange or certain other exchanges or markets, then such shares or ADSs would constitute “marketable stock” for purposes of the PFIC rules, and a US holder would not be subject to the foregoing PFIC rules if such holder made a mark-to-market election. After making such an election, the US holder generally would include as ordinary income each year during which the election is in effect and during which MUFG is a PFIC the excess, if any, of the fair market value of MUFG shares or ADSs at the end of the taxable year over such holder’s adjusted basis in such shares or ADSs. These amounts of ordinary income would not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. A US holder also would be allowed to take an ordinary loss in respect of the excess, if any, of the holder’s adjusted basis in MUFG shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income that was previously included as a result of the mark-to-market election). A US holder’s tax basis in MUFG shares or ADSs would be adjusted to reflect any income or loss amounts resulting from a mark-to-market election. If made, a mark-to-market election would be effective for the taxable year for which the election was made and for all subsequent taxable years unless the shares or ADSs cease to qualify as “marketable stock” for purposes of the PFIC rules or the Internal Revenue Service consented to the revocation of the election. In the event that MUFG is classified as a PFIC, US holders are urged to consult their tax advisors regarding the availability of the mark-to-market election, and whether the election would be advisable in the holder’s particular circumstances.

*QEF Election.* The PFIC rules outlined above also would not apply to a US holder if such holder alternatively elected to treat MUFG as a “qualified electing fund” or “QEF”. An election to treat MUFG as a QEF will not be available, however, if MUFG does not provide the information necessary to make such an election. MUFG will not provide US holders with the information necessary to make a QEF election, and thus, the QEF election will not be available with respect to our shares.

Notwithstanding any election made with respect to MUFG shares, dividends received with respect to MUFG shares will not constitute “qualified dividend income” if MUFG is a PFIC in either the year of the distribution or the preceding taxable year. Dividends that do not constitute qualified dividend income are not eligible for taxation at the reduced tax rate described above in “—Taxation of Dividends.” Instead, such dividends would be subject to tax at ordinary income rates.

If a US holder owns shares or ADSs during any year in which MUFG is a PFIC, the US holder must also file IRS Form 8621 regarding distributions received on the shares or ADSs, any gain realized on the shares or

ADSs, and any “reportable election” in accordance with the instructions to such form. In addition, under recently enacted legislation, each US shareholder of a PFIC is required to file such annual information as is specified by the U.S. Treasury Department, which has not yet enacted regulations or other authority specifying what information must be filed. US holders are urged to consult their own tax advisors concerning the U.S. federal income tax consequences of holding Offered Shares if the Company were considered a PFIC in any taxable year.

### ***Taxation of Capital Gains***

Subject to the application of the PFIC rules discussed above, upon a sale or other disposition of shares or ADSs, a US holder will recognize a gain or loss in an amount equal to the difference between the US dollar value of the amount realized and the US holder’s tax basis, determined in US dollars, in such shares or ADSs. Such gains or losses will be capital gains or losses and will be long-term capital gains or losses if the US holder’s holding period for such shares or ADSs exceeds one year. A US 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 gains or losses realized by a US 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. The deductibility of capital losses is subject to limitations under the Code.

### ***Information Reporting and Backup Withholding***

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

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

Backup withholding is not an additional tax. Any amount withheld under these rules will be creditable against the US holder’s US federal income tax liability or refundable to the extent that it exceeds such liability if the US holder provides the required information to the Internal Revenue Service. If a US holder is required to and does not provide a correct taxpayer identification number, the US 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.

In addition, for taxable years beginning after March 18, 2010, new legislation requires certain U.S. holders who are individuals that hold certain foreign financial assets (which may include our shares or ADSs) to report information relating to such assets, subject to certain exceptions. U.S. Holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of our shares and ADSs.

### **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, NE, Washington, DC 20549. Please call the

SEC at 1-800-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>). 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 our business environment have occurred as a result of globalization of the financial industry, the advancement of information technology and changes in economic conditions. We aim to be a global and comprehensive financial group encompassing leading commercial and trust banks, and securities firms in Japan. Risk management plays an increasingly important role as the risks faced by financial groups such as us increase in scope and variety.

We identify various risks arising from businesses based on uniform criteria, and implement integrated risk management to ensure a stronger financial condition and to maximize shareholder value. Based on this policy, we identify, measure, control and monitor a wide variety of risks so as to achieve a stable balance between earnings and risks. We undertake risk management to create an appropriate capital structure and to achieve optimal allocation of resources.

### Risk Classification

At the holding company level, we broadly classify and define risk categories faced by the Group including those that are summarized below. Group companies perform more detailed risk management based on their respective operations.

<u>Type of Risk</u>	<u>Definition</u>
Credit Risk	The risk of financial loss in credit assets (including off-balance sheet instruments) caused by deterioration in the credit conditions of counterparties. This category includes country risk.
Market Risk	Market risk is the risk of financial loss where the value of our assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices and foreign exchange rates. Market liquidity risk is the risk of financial loss caused by the inability to secure market transactions at the required volume or price levels as a result of market turbulence or lack of trading liquidity.
Liquidity Risk	The risk of incurring loss if a poor financial position at a group company hampers the ability to meet funding requirements or necessitates fund procurement at interest rates markedly higher than normal.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.
• Operations Risk	The risk of incurring loss that might be caused by negligence of correct operational processing, or by incidents or misconduct by either officers or staff, as well as risks similar to this risk.
• Information Asset Risk	The risk of loss caused by loss, alteration, falsification or leakage of information, or by destruction, disruption, errors or misuse of information systems, as well as risks similar to this risk.
• Reputation Risk	The risk of loss due to deterioration in reputation as a consequence of the spread of rumors among customers or in the market, or as a consequence of inadequate response to the circumstance by MUFG, as well as risks similar to this risk.

### ***Risk Management System***

We have adopted an integrated risk management system to promote close cooperation among the holding company and group companies. The holding company and the major subsidiaries (which include The Bank of Tokyo-Mitsubishi UFJ, Ltd., or BTMU, Mitsubishi UFJ Trust and Banking Corporation, or MUTB, and Mitsubishi UFJ Securities Holdings Co., Ltd., or MUSHD) each appoint a Chief Risk Management Officer and establish an independent risk management division. At the 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 system 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 system based on this policy.

### ***Business Continuity Management***

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

### **Implementation of Basel II**

Basel II is a comprehensive regulatory framework for ensuring the soundness and stability of the international banking system. It is based on "three pillars": (1) minimum capital requirements, (2) the self-regulation of financial institutions based on supervisory review process, and (3) market discipline through the disclosure of information. The goal of Basel II is to have these three pillars mutually reinforce each other to ensure the effectiveness of regulations. In addition, with respect to credit risk and operational risk, as compared to the previous framework, Basel II provides more risk-sensitive approaches and a range of options for measuring risks and determining the capital requirements. As a result, Basel II also reflects the nature of risks at each bank more closely. Basel II has been applied to Japanese banks since March 31, 2007.

Based on the principles of Basel II, MUFG has adopted the Advanced Internal Ratings-Based Approach to calculate its capital requirements for credit risk since March 31, 2009. The Standardized Approach is used for some subsidiaries that are considered to be immaterial to our overall capital requirements and a few subsidiaries have adopted a phased rollout of the internal ratings-based approach. MUFG has adopted the Standardized Approach to calculate its capital requirements for operational risk. As for market risk, MUFG has adopted the Internal Models Approach mainly to calculate general market risk and adopted the Standardized Method to calculate specific risk.

The Basel Committee of Banking Supervision has proposed revisions to Basel II in response to the recent global financial crisis. We intend to continue to monitor discussions and other developments relating to the proposed revisions.

**Credit Risk Management**

Credit risk is the risk of losses due to deterioration in the financial condition of a borrower. We have established risk management systems to maintain asset quality, manage credit risk exposure and achieve earnings commensurate with risk.

Our major banking subsidiaries (which include BTMU and MUTB) apply a uniform credit rating system for asset evaluation and assessment, loan pricing, and quantitative measurement of credit risk. This system also underpins the calculation of capital requirements and management of credit portfolios. We continually seek to upgrade credit portfolio management, or CPM, expertise to achieve an improved risk-adjusted return based on the Group’s credit portfolio status and flexible response capability to economic and other external changes.

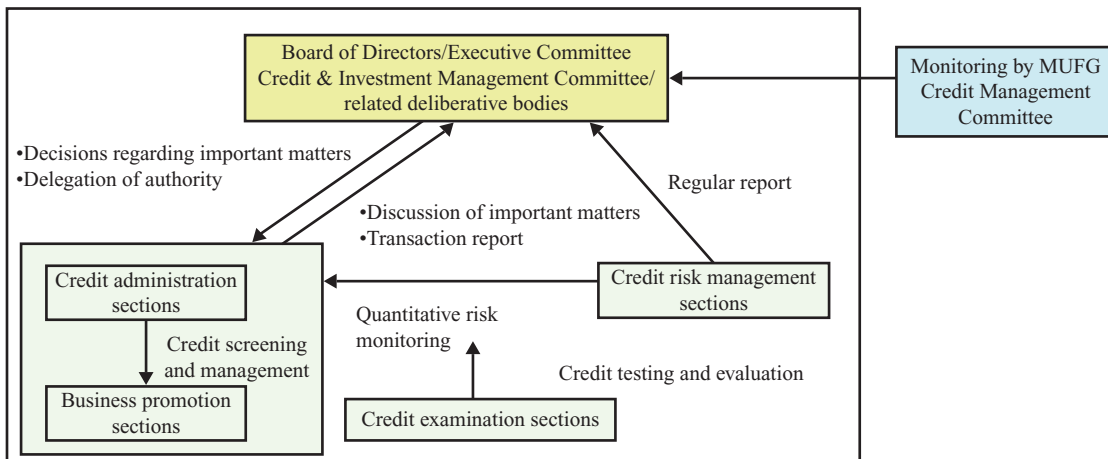
**Credit Risk Management System**

The credit portfolios of our major banking subsidiaries are monitored and assessed on a regular basis by the holding company to maintain and improve asset quality. A uniform credit rating and asset evaluation and assessment system is used to ensure timely and proper evaluation of all credit risks.

Under our credit risk management system, each major banking subsidiary manages its respective credit risk on a consolidated and global basis, while the holding company oversees and manages credit risk on an overall group-wide basis. The holding company also convenes regular committee meetings to monitor credit risk management at banking subsidiaries and to issue guidance where necessary.

Each major banking subsidiary has 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 extension of credit. At the management level, regular meetings of Credit & Investment Management Committee and related deliberative bodies ensure full discussion of important matters related to credit risk management. Besides such checks and balances and internal oversight systems, credit examination sections also undertake credit testing and evaluation to ensure appropriate credit risk management.

The following diagram summarizes the credit risk management framework for our major banking subsidiaries:



**Credit Rating System**

MUFG and its major banking subsidiaries have introduced an integrated credit rating system to evaluate credit risk. The credit rating system consists primarily of borrower rating, facility risk rating, structured finance rating and asset securitization rating.



Country risk is also rated on a uniform group-wide basis. Our country risk rating is reviewed periodically to take into account relevant political and economic factors, including foreign currency availability.

Risk exposure for small retail loans, such as residential mortgage loans, is managed by grouping loans into various pools and assigning ratings at the pool level.

### ***Borrower rating***

Our borrower rating classifies borrowers into 15 grades based on evaluations of their expected debt-service capability over the next three to five years.

The following table sets forth our borrower grades:

#### *Definition of MUFG Borrower Rating*

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

### ***Facility risk rating***

Facility risk rating is used to evaluate and classify the quality of individual credit facilities, including guarantees and collateral. Ratings are assigned by quantitatively measuring the estimated loss rate of a facility in the event of a default.

### ***Structured finance rating and asset securitization rating***

These ratings are also used to evaluate and classify the quality of individual credit facilities, including guarantees and collateral, and focus on the structure, including the applicable credit period, of each credit facility. In evaluating the debt service potential of a credit facility, we scrutinize its underlying structure to determine the likelihood of the planned future cash flows being achieved.

### ***Pool assignment***

Each major banking subsidiary has its own system for pooling and rating small retail loans designed to reflect the risk profile of its loan portfolios.

### ***Asset Evaluation and Assessment System***

The asset evaluation and assessment system is used to classify assets held by financial institutions according to the probability of collection and the risk of any impairment in value based on borrower classifications consistent with the borrower ratings and the status of collateral, guarantees, and other factors.

The system is used to conduct write-offs and allocate allowances against credit risk in a timely and adequate manner.

### ***Quantitative Analysis of Credit Risk***

MUFG and its major banking subsidiaries manage credit risk by monitoring credit amount and expected losses, and run simulations based on internal models to estimate the maximum amount of credit risk. These models are used for internal management purposes, including loan pricing and measuring economic capital.

When quantifying credit risk amounts using the internal models, MUFG and its major banking subsidiaries consider various parameters, including probability of default, or PD, loss given default, or LGD, and exposure at default, or EAD, used in their borrower ratings, facility risk ratings and pool assignments as well as any credit concentration risk in particular borrower groups or industry sectors. MUFG and its major banking subsidiaries also share credit portfolio data in appropriate cases.

### ***Loan Portfolio Management***

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

We 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 Credit Guidelines.

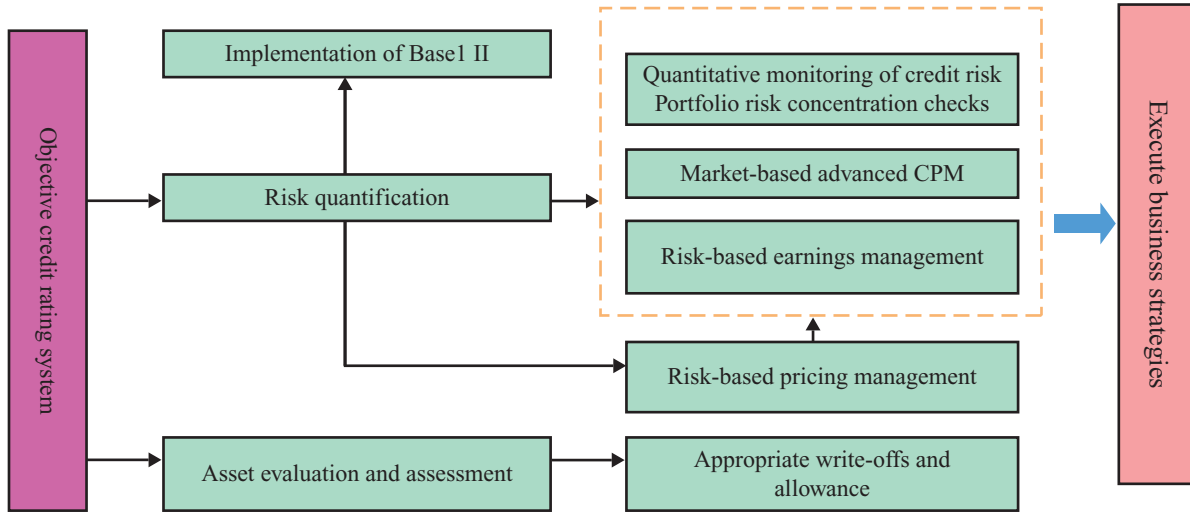
To manage country risk, we have established specific credit ceilings by country. These ceilings are reviewed when there is any material change in a country's credit standing, in addition to regular review.

### ***Continuous CPM Improvement***

With the prevalence of securitized products and credit derivatives in global markets, we 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, we aim to improve the risk return profile of the Group's credit portfolio, using financial markets to rebalance credit portfolios in a dynamic and active manner based on an accurate assessment of credit risk. The following diagram summarizes our CPM framework:

*Credit Portfolio Management (CPM) Framework*



**Risk Management of Strategic Equity Portfolio**

Strategic equity investment risk is the risk of loss caused by a decline in the prices of our equity investments.

We 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 (Tokyo Stock Exchange-listed) stocks as of March 31, 2010 was subject to a variation of approximately ¥4.2 billion when TOPIX index moves one point in either direction.

We seek 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 1 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**

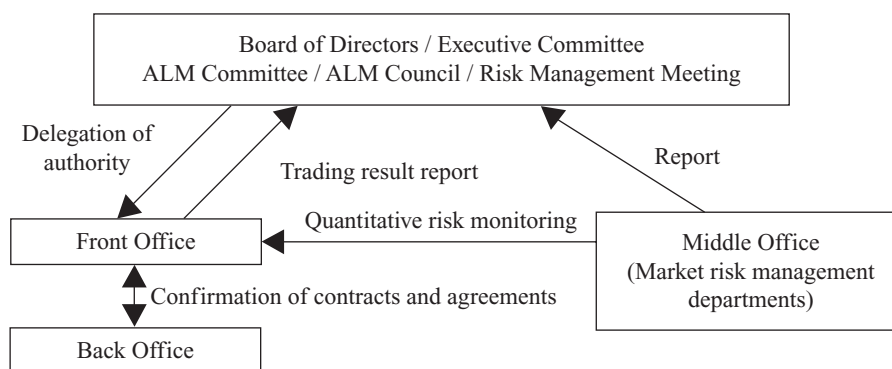
We have adopted an integrated system to manage market risk from our trading and non-trading activities. The holding company monitors group-wide market risk, while each of the major subsidiaries manages its market risks on a consolidated and global basis.

At each of the major subsidiaries, checks and balances are maintained through a system in which back and middle offices operate independently from front offices. In addition, separate Asset-Liability Management, or

ALM Committee, ALM Council and Risk Management Meetings are held at each of the major subsidiaries every month to deliberate important matters related to market risk and control.

The holding company and the major subsidiaries allocate economic capital commensurate with levels of market risk and determined within the scope of their capital bases. The major subsidiaries have established quantitative limits relating to market risk based on their allocated economic capital. In addition, in order to keep losses within predetermined limits, the major subsidiaries have also set limits for the maximum amount of losses arising from market activities. The following diagram summarizes the market risk management system of each major subsidiary:

*Management System of Our Major Subsidiaries*



**Market Risk Management and Control**

At the holding company and the major subsidiaries, market risk exposure is reported to the Chief Risk Management Officers on a daily basis. At the holding company, the Chief Risk Management Officer monitors market risk exposure across the Group as well as the major subsidiaries’ control over their quantitative limits for market risk and losses. Meanwhile, the Chief Risk Management Officers at the major subsidiaries monitor their own market risk exposure and their control over their quantitative limits for market risk and losses. In addition, various analyses on risk profiles, including stress testing, are conducted and reported to the Executive Committees and the Corporate Risk Management Committees on a regular basis. At the business unit levels in the major subsidiaries, the market risks on their marketable assets and liabilities, such as interest rate risk and foreign exchange rate risk, are controlled by entering into various hedging transactions using marketable securities and derivatives.

As part of our market risk management activities, we use certain derivative financial instruments to manage our interest rate and currency exposures. We maintain an overall interest rate risk management strategy that incorporates the use of interest rate contracts to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. We enter into interest rate swaps and other contracts as part of our interest rate risk management strategy primarily to alter the interest rate sensitivity of our loans, investment securities and deposit liabilities. Our principal objectives in risk management include asset and liability management. Asset and liability management is viewed as one of the methods for us to manage our interest rate exposures on interest-bearing assets and liabilities. Interest rate contracts, which are generally non-leveraged generic interest rate and basis swaps, options and futures, allow us to effectively manage our interest rate risk position. Option contracts primarily consist of caps, floors, swaptions and options on index futures. Futures contracts used for asset and liability management activities are primarily index futures providing for cash payments based upon the movement of an underlying rate index. We enter into forward exchange contracts, currency swaps and other contracts in response to currency exposures resulting from on-balance-sheet assets and liabilities denominated in foreign currencies in order to limit the net foreign exchange position by currency to an appropriate level.

These market risk management activities are performed in accordance with the predetermined rules and procedures. The internal auditors as well as independent accounting auditors regularly verify the appropriateness of the management controls over these activities and the risk evaluation models adopted.

### ***Market Risk Measurement Model***

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

To measure 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. Since the daily variation in market risk is significantly greater than that in other types of risk, MUFG measures and manages market risk using VaR on a daily basis.

Market risk for trading and non-trading activities is measured using a uniform market risk measurement model. The principal model used for these activities is historical simulation (HS) model (holding period, 10 business days; confidence interval, 99%; and observation period, 701 business days). The HS model calculates VaR amounts by estimating the profit and loss on the current portfolio by applying actual fluctuations in market rates and prices over a fixed period in the past. This method is designed to capture certain statistically infrequent movements, such as a fat tail, and accounts for the characteristics of financial instruments with non-linear behavior. Independent auditors, who were engaged only in the particular audit, verified the accuracy and appropriateness of this internal market risk model. The holding company and banking subsidiaries use the HS model to calculate Basel II regulatory capital adequacy ratios.

In calculating VaR using the HS method, we have implemented an integrated market risk measurement system throughout the Group. Our major subsidiaries calculate their VaR based on the risk and market data prepared by the information systems of their front offices and other departments. The major subsidiaries provide this risk data to the holding company, which calculates overall VaR taking into account the diversification effect among all portfolios of the major subsidiaries.

For the purpose of internally evaluating capital adequacy on an economic capital basis in terms of market risk, we use this market risk measurement model to calculate risk amounts based on a holding period of one year and a confidence interval of 99%.

Monitoring and managing our sensitivity to interest rate fluctuations is the key to managing market risk in MUFG's non-trading activities. The major banking subsidiaries take the following approach to measuring risks concerning core deposits, loan prepayments and early deposit withdrawals.

To measure interest rate risk relating to deposits without contract-based fixed maturities, the amount of "core deposits" is calculated through a statistical analysis based on deposit balance trend data and the outlook for interest rates on deposits, business decisions, and other factors. The amount of "core deposit" is categorized into various groups of maturity terms of up to five years (2.5 years on average) to recognize interest rate risk. The calculation assumptions and methods to determine the amount of core deposits and maturity term categorization are regularly reviewed.

Meanwhile, deposits and loans with contract-based maturities are sometimes cancelled or repaid before their maturity dates. To measure interest rate risk for these deposits and loans, we reflect these early termination events mainly by applying early termination rates calculated based on a statistical analysis of historical repayment and cancellation data together with historical market interest rate data.

**Summaries of Market Risks (Fiscal Year Ended March 2010)**

**Trading activities**

The aggregate VaR for our total trading activities as of March 31, 2010 was ¥17.06 billion, comprising interest-rate risk exposure of ¥18.08 billion, foreign exchange risk exposure of ¥4.05 billion, and equity-related risk exposure of ¥1.94 billion. Compared with the VaR as of March 31, 2009, we experienced a slight decrease in market risk during the fiscal year ended March 31, 2010, primarily due to increased diversification effect, though our exposure to interest rate risk increased.

Our average daily VaR for the fiscal year ended March 31, 2010 was ¥18.02 billion. Based on a simple sum of figures across market risk categories, interest rate risk accounted for approximately 66%, foreign exchange risk for approximately 21% and equity-related risk for approximately 12% of our total trading activity market risks.

Due to the nature of trading operations which involves frequent changes in trading positions, market risk varied substantially during the fiscal year, depending on our trading positions.

The following tables set forth the VaR related to our trading activities by risk category for the periods indicated:

<u>April 1, 2008—March 31, 2009</u>	<u>Average</u>	<u>Maximum<sup>(1)</sup></u>	<u>Minimum<sup>(1)</sup></u>	<u>Mar 31, 2009</u>
		(in billions)		
MUFG .....	¥16.36	¥27.73	¥ 8.68	¥17.29
Interest rate .....	14.25	26.76	7.32	15.98
Yen .....	8.82	15.60	3.69	9.16
Dollars .....	5.49	9.70	1.12	6.97
Foreign exchange .....	4.84	11.89	0.97	3.78
Equities .....	1.78	4.49	0.74	2.26
Commodities .....	0.32	0.74	0.06	0.21
Less diversification effect .....	(4.83)	—	—	(4.94)
 <u>April 1, 2009—March 31, 2010</u>	 <u>Average</u>	 <u>Maximum<sup>(1)</sup></u>	 <u>Minimum<sup>(1)</sup></u>	 <u>Mar 31, 2010</u>
		(in billions)		
MUFG .....	¥18.02	¥25.66	¥11.29	¥17.06
Interest rate .....	16.36	22.06	11.90	18.08
Yen .....	11.81	17.49	7.57	11.61
Dollars .....	6.30	11.72	3.36	11.31
Foreign exchange .....	5.11	10.36	1.70	4.05
Equities .....	2.93	8.05	0.90	1.94
Commodities .....	0.50	0.93	0.20	0.61
Less diversification effect .....	(6.88)	—	—	(7.62)

**Assumptions for VaR calculations:**

Historical simulation method  
Holding period: 10 business days  
Confidence interval: 99%  
Observation period: 701 business days

**Note:**

(1) 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, 2010 was as follows:

<u>Quarter</u>	<u>Daily average VaR</u> (in billions)
April—June 2009 .....	¥ 17.95
July—September 2009 .....	19.96
October—December 2009 .....	18.93
January—March 2010 .....	15.11

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, 2010, the revenue from our trading activities has been relatively stable, keeping positive numbers in 228 days out of 260 trading days in the period. During the same period, there were 100 days with positive revenue exceeding ¥1 billion and 3 days with negative revenue exceeding minus ¥1 billion.

### *Non-trading Activities*

The aggregate VaR for our total non-trading activities as of March 31, 2010, excluding market risks related to our strategic equity portfolio and measured using the same standards as trading activities, was ¥455.7 billion. Market risks related to interest rates equaled ¥430.9 billion and equities-related risks equaled ¥147.1 billion. Compared with the VaR for MUFG at March 31, 2009, the decrease in the overall market risk was ¥47.6 billion. Market risks related to interest rates decreased ¥41.4 billion. Equity related risks increased ¥88.8 billion.

Based on a simple sum of figures across market risk categories, interest rate risks accounted for approximately 75% of our total non-trading activity market risks. Looking at a breakdown of interest rate related risk by currency, at March 31, 2010, the yen accounted for approximately 36% while the US dollar accounted for approximately 51%.

The following table shows the VaR related to our non-trading activities by risk category for the fiscal year ended March 31, 2010:

<u>April 1, 2009—March 31, 2010</u>	<u>Average</u>	<u>Maximum<sup>(1)</sup></u>	<u>Minimum<sup>(1)</sup></u>	<u>Mar 31, 2010</u>
	(in billions)			
Interest rate .....	¥439.0	¥472.7	¥414.8	¥430.9
Yen .....	160.0	195.6	136.9	183.3
Dollars .....	293.5	333.3	254.4	263.6
Foreign exchange .....	0.4	1.2	0.0	0.1
Equities .....	83.1	147.1	56.0	147.1
Total <sup>(1)</sup> .....	467.1	502.6	442.6	455.7

#### Assumptions for VaR calculations:

Historical simulation method  
 Holding period: 10 business days  
 Confidence interval: 99%  
 Observation period: 701 business days

Note:

- (1) The maximum and minimum VaR overall for each category and in total were taken from different days. The equities-related risk figures do not include market risk exposure from our strategic equity portfolio. A simple summation of VaR by risk category is not equal to total VaR due to the effect of diversification.

The average daily interest rate VaR by quarter in the fiscal year ended March 31, 2010 was as follows.

<u>Quarter</u>	<u>Daily average VaR</u> (in billions)
April—June 2009 .....	¥475.54
July—September 2009 .....	470.78
October—December 2009 .....	463.88
January—March 2010 .....	458.24

Comparing the proportion of each currency's interest rate VaR to the total interest rate VaR as of March 31, 2010 against that as of March 31, 2009, there were a 7 percentage point increase in Japanese yen from 29% to 36%, a 11 percentage point decrease in US dollar from 62% to 51%, and a 6 percentage point increase in Euro from 7% to 13%.

### ***Backtesting***

We conduct backtesting in which a VaR is compared with actual realized and unrealized losses on a daily basis to verify the accuracy of our VaR measurement model. We also conduct additional backtesting using other methods, including testing VaR against hypothetical losses and testing VaR by various changing parameters such as confidence intervals and observation periods used in the model.

Actual losses never exceeded VaR in the fiscal year ended March 31, 2010. This means that our VaR model provided reasonably accurate measurements of market risk during the fiscal year.

### ***Stress Testing***

We have adopted an HS-VaR model, which calculates a VaR as a statistically possible amount of losses in a fixed confidence interval based on historical market volatility. However, the HS-VaR model is not designed to capture certain abnormal market fluctuations. In order to complement this weakness of the model, MUFG conducts portfolio stress testing to measure potential losses using a variety of scenarios.

The holding company and the major subsidiaries conduct stress testing on a daily, monthly and quarterly basis to monitor their overall portfolio risk by applying various scenarios. For example, daily stress testing at the holding company estimates maximum potential losses in each market on the current trading portfolio based on the worst ten-day historical volatility recorded during the VaR observation period of 701 days.

In light of increased market volatility since the second half of 2007, we have implemented additional tests under various stress scenarios to supplement VaR and are applying the test results to risk management.

### **Liquidity Risk Management**

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

Our major subsidiaries maintain appropriate liquidity in both Japanese yen and foreign currencies by managing their funding sources and mechanism, such as liquidity gap, liquidity-supplying products such as commitment lines, and buffer assets.

We have established a group-wide system for managing liquidity risk by categorizing the risk in the following three stages: Normal, With-Concern, and Critical. The front offices and risk management offices of the major subsidiaries and the holding company exchange information and data on liquidity risk even at the Normal stage. At higher alert stages, we centralize information about liquidity risk and discuss issues relating to group-wide liquidity control actions among group companies, if necessary. We have also established a system for



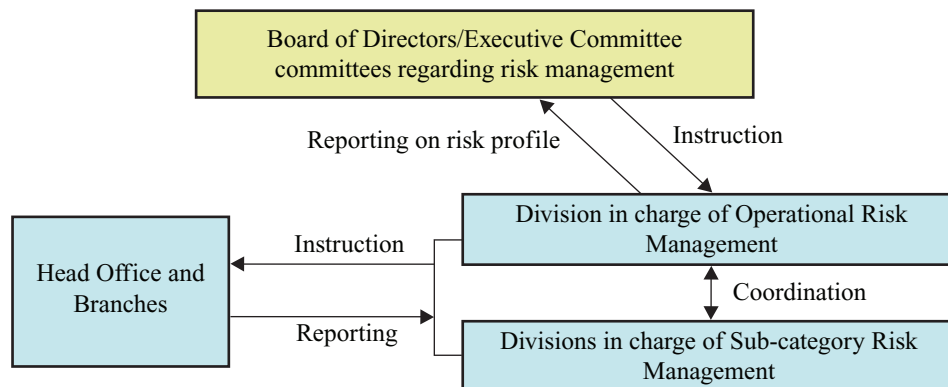
liaison and consultation on funding in preparation for contingency, such as natural disasters, wars and terrorist attacks. The holding company and the major subsidiaries conduct group-wide contingency preparedness drills on a regular basis to ensure smooth implementation in the event of an emergency.

### Operational Risk Management

Operational risk refers to the risk of loss caused by either internal control issues, such as inadequate operational processes or misconduct, system failures, or external factors such as serious political instability, major terrorist activity, health epidemics and natural disasters. The term includes a broad range of risks that could lead to losses, including operations risk, information asset risk, reputation risk, legal risk, and tangible asset risk. These risks that comprise operational risk are referred to as sub-category risks.

MUFG’s board of directors has approved the MUFG Operational Risk Management Policy as a group-wide policy for managing operational risk. This policy sets forth the core principles regarding operational risk management, including the definition of operational risk, and the risk management system and processes. The policy also requires the board of directors and the Executive Committee to formulate fundamental principles of operational risk management and establish and maintain an appropriate risk management system. The Chief Risk Management Officer is responsible for recognizing, evaluating, and appropriately managing operational risk in accordance with the fundamental principles formulated by the board of directors and the Executive Committee. A division in charge of operational risk management must be established that is independent of business promotion sections to manage overall operational risk in a comprehensive manner. These fundamental principles have also been approved by the boards of directors of the major subsidiaries, providing a consistent framework for operational risk management of the Group. The diagram below sets forth the operational risk management system of each major banking subsidiary:

#### Management System of Our Major Banking Subsidiaries

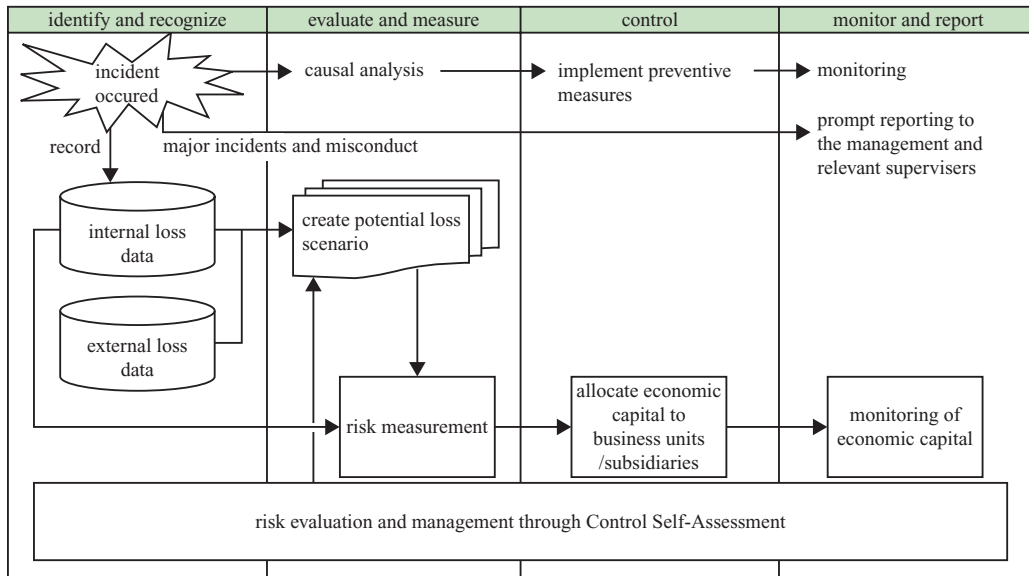


As set forth in the following diagram, we have established a risk management framework for loss data collection, control self assessment (CSA), and measurement of operational risk in order to appropriately identify, recognize, evaluate, measure, control, monitor and report operational risk.

We have also established group-wide reporting guidelines with respect to loss data collection and its monitoring. We focus our efforts on ensuring accurate assessment of the status of operational risk losses and the implementation of appropriate countermeasures, while maintaining databases of internal and external loss events.

The following diagram summarizes our operational risk management framework:

**Risk Management Framework**



**Operations Risk Management**

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

Specific ongoing measures to reduce operations risk include the development of databases to manage, analyze and prevent the recurrence of related loss events; efforts to tighten controls over administrative procedures and related operating authority, while striving to improve human resources management; investments in systems to improve the efficiency of administrative operations; and programs to expand and upgrade internal auditing and operational guidance systems.

Senior management receives regular reports on the status of our businesses from an operations risk management perspective. We work to promote the sharing within the Group of information and expertise concerning any operational incidents and the measures implemented to prevent any recurrence.

Efforts to upgrade the management of operations risk continue with the aim of providing our customers with a variety of high-quality services.

**Information Asset Risk Management**

Information asset risk refers to the risk of loss caused by loss, alteration, falsification or leakage of information, or by destruction, disruption, errors or misuse of information systems, as well as risks similar to this risk. In order to ensure proper handling of information and prevent loss or leakage of information, our major banking subsidiaries strive to better manage and reduce such risks through the appointment of managers with

specific responsibilities for information security issues, the establishment of internal procedures, training courses designed for all staff, and the implementation of measures to ensure stable IT systems control. We have also formulated the Personal Information Protection Policy as the basis for ongoing programs to protect the confidentiality of personal information.

Systems planning, development and operations include appropriate design and extensive testing phases to ensure that systems are designed to help prevent failures while providing sufficient safeguards for the security of personal information. The status of the development of any mission-critical IT systems is reported regularly to senior management. We have developed disaster countermeasures systems and have also been investing in duplication of the Group's IT infrastructure to minimize damage in the event of any system failure. Emergency drills are conducted to help increase staff preparedness.

With the aim of preventing any recurrence, we also work to promote sharing of information within the Group related to the causes of any loss or leakage of information, or system failure.

## **Compliance**

### ***Basic Policy***

The MUFG Group's policy is to strictly observe laws, regulations and internal rules, and conduct its business in a fair, trustworthy and highly transparent manner based on the Group's management philosophy of obtaining the trust and confidence of society as a whole. Furthermore, we have established an ethical framework and code of conduct as the basic ethical guidelines for the Group's directors and employees. We have expressed our commitment to building a corporate culture in which we act with integrity and fairness in conformity with these guidelines.

Despite these measures, some of our Group companies have recently received administrative orders from government authorities in Japan and abroad. We view these actions with the deepest concern. We continue to work to ensure an appropriate compliance structure in Japan and abroad across the MUFG Group to enable sound and appropriate business management.

### ***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 are the responsibility of separate compliance management divisions established at the holding company and the major subsidiaries. Each compliance management division formulates compliance programs and organizes training courses to promote compliance, and regularly reports to each company's board of directors and Executive Committee on the status of compliance activities.

The holding company and each major subsidiary have also established voluntary committees, such as an Internal Audit and Compliance Committee, where members from outside the Group account for a majority, and a Compliance Committee. Through these measures, we have established a structure for deliberating key issues related to compliance. Additionally, the holding company has the Group Chief Compliance Officer, or CCO, Committee which deliberates important matters related to compliance and compliance-related issues for which the Group should share a common understanding.

### ***CCO of Holding Company***

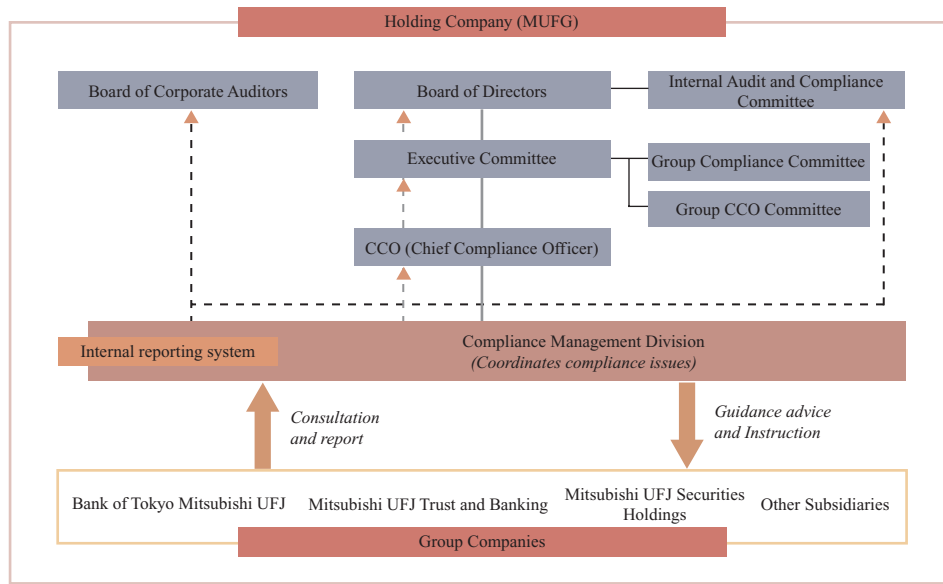
Directors responsible for compliance at the holding company and the major subsidiaries have been named the CCOs of their respective companies. The CCOs of the major subsidiaries have also been appointed as the deputy CCOs of the holding company to assist the CCO of the holding company. This system promotes the prompt reporting of group-wide compliance-related information to the holding company and also allows the CCO of the holding company to effectively provide compliance-related guidance, advice, and instructions to MUFG Group companies.

### ***Group CCO Committee***

A Group CCO Committee has been established under the Executive Committee of the holding company. The committee consists of the CCO of the holding company as the committee chairman and the CCOs of the major subsidiaries.

By timely holding meetings, the Group CCO Committee seeks to promote greater sharing of compliance-related information among the MUFG Group companies and works to strengthen the Group's incident prevention controls and to help the Group companies respond to unforeseen problems. The Committee also continues to strive to improve compliance systems throughout the Group.

The following diagram summarizes our compliance framework:



### ***Internal Reporting System and Accounting Auditing Hotline***

The major subsidiaries have established internal reporting systems that aim to identify compliance issues early so that any problems can be quickly rectified. This system includes an independent external compliance hotline. Furthermore, the holding company has set up an MUFG Group Compliance Helpline that acts in parallel with group-company internal reporting systems and provides a reporting channel for directors and employees of group companies.

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.

### ***MUFG Accounting Auditing Hotline***

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

#### **Hokusei Law Office**

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

*When reporting information please pay attention to the following:*

- Please include the name of the company concerned, and provide detailed information with respect to the matter. Without detailed factual information there is a limit to how much our investigations can achieve.
- Anonymous information will be accepted.
- No information regarding the identity of the informant will be passed on to third parties without the approval of the informant him- or herself. However, this excludes instances where disclosure is legally mandated, or to the extent that the information is necessary for surveys or reports, when data may be passed on following the removal of the informant's name.

- 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 of internal audit is to make suggestions to help improve or rectify any issues or specific problems that are identified.

### ***Group Internal Audit Framework***

The board of directors at the holding company level has instituted MUFG's internal audit policy to define the policy, function and organizational position of internal audits. Separate internal audit divisions have been created within the holding company and certain subsidiaries. Through close cooperation and collaboration among the internal audit divisions in each of these subsidiaries, these internal audit divisions provide coverage for the entire group and also support the board of directors in monitoring and overseeing all MUFG operations.

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 internal audit 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 Effective and Efficient Internal Audits***

To ensure that internal audit processes use available resources with optimal effectiveness and efficiency, 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.

### ***The Independence of Internal Audit Divisions***

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 and the major subsidiaries have established internal audit and compliance committees. These committees receive reports from the internal audit divisions on important matters, including the results of all internal audits and basic policies for planning internal audits. The deliberations of the internal audit and compliance committees concerning such matters are then reported to the respective boards of directors.

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

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Shares**

***Fees, charges and other payments relating to ADSs***

As a holder of our ADSs, you will be required to pay to The Bank of New York Mellon, as depositary for the ADSs, or the “Depositary,” either directly or indirectly, the following fees or charges. The Depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees.

**ADR holders must pay:**

\$5.00 (or less) per 100 ADSs (or portion thereof)

\$0.02 (or less) per ADSs

A fee equivalent to the fee that would be payable if securities distributed to the ADR holder had been shares and the shares had been deposited for issuance of ADSs

Registration or transfer fees

Expenses of The Bank of New York Mellon

Taxes and other governmental charges The Bank of New York Mellon or BTMU, as custodian, have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

**For:**

Each issuance of an ADS, including as a result of a distribution of shares or rights or other property

Each cancellation of an ADS, including if the agreement terminates

Any cash distribution, to the extent permitted by any securities exchange on which the ADSs may be listed for trading

Distribution of securities distributed to holders of deposited securities which are distributed by the Depositary to ADS registered holders

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 Mellon or its agent when you deposit or withdraw shares

Conversion of foreign currency to US dollars cable, telex and facsimile transmission expenses

As necessary

***Fees Waived by the Depositary for the Fiscal Year Ended March 31, 2010***

For the fiscal year ended March 31, 2010, the Depositary waived \$136,223.47 of standard out-of-pocket maintenance costs for the ADRs, which consisted of the expenses of postage and envelopes for mailing annual reports, printing and distributing dividend checks, stationery, postage, facsimile, and telephone calls.

***Fees Waived by the Depositary for Future Periods***

The Depositary has agreed to waive the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual reports, printing and distributing dividend checks, stationery, postage, facsimile, and telephone calls.



## PART II

### Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

### Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

None.

### Item 15. Controls and Procedures.

#### *Disclosure Controls and Procedures*

An evaluation was carried out under the supervision and with the participation of our management, including the Chief Executive Officer, or CEO, and the Chief Financial Officer, or CFO, of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the US Securities Exchange Act of 1934, as of the end of the period covered by this Annual Report.

Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2010.

#### *Management's Annual Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the US Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed by, or under the supervision of, MUFG's principal executive and principal financial officers, and effected by MUFG's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP and includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of MUFG;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of MUFG are being made only in accordance with authorizations of management and directors of MUFG; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of MUFG's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management evaluated the effectiveness of our internal control over financial reporting as of March 31, 2010 based on the criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, management has concluded that MUFG maintained effective internal control over financial reporting as of March 31, 2010.

The effectiveness of our internal control over financial reporting as of March 31, 2010 has been audited by Deloitte Touche Tohmatsu LLC, an independent registered public accounting firm, as stated in its report, presented on page 162.

#### *Changes in Internal Control Over Financial Reporting*

During the period covered by this Annual Report, there has been no change in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Mitsubishi UFJ Financial Group, Inc.  
(Kabushiki Kaisha Mitsubishi UFJ Financial Group):

We have audited the internal control over financial reporting of Mitsubishi UFJ Financial Group, Inc. (Kabushiki Kaisha Mitsubishi UFJ Financial Group) (“MUFG”) and subsidiaries (together, the “MUFG Group”) as of March 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The MUFG Group’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the MUFG Group’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

The MUFG Group’s internal control over financial reporting is a process designed by, or under the supervision of, the MUFG Group’s principal executive and principal financial officers, or persons performing similar functions, and effected by the MUFG Group’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The MUFG Group’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the MUFG Group; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the MUFG Group are being made only in accordance with authorizations of management and directors of the MUFG Group; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the MUFG Group’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the MUFG Group maintained, in all material respects, effective internal control over financial reporting as of March 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of the MUFG Group as of March 31, 2009 and 2010, and the related consolidated statements of operations, changes in equity from nonowner sources, shareholders’ equity, and cash flows for each of the three years in the period ended March 31, 2010 (all

expressed in Japanese Yen) and our report dated August 16, 2010 expressed an unqualified opinion on those financial statements and included explanatory paragraphs relating to (i) the restatement of the consolidated statements of cash flows for the fiscal years ended March 31, 2008 and 2009 discussed in Note 35 to the consolidated financial statements, (ii) the restatements discussed in Notes 5 and 7 to the consolidated financial statements, and (iii) the changes in methods of accounting for (a) uncertainty in income taxes, (b) leveraged leases, (c) defined benefit pension and other post retirement plans, (d) fair value measurements, (e) fair value option for financial assets and financial liabilities, (f) noncontrolling interests, and (g) other-than-temporary impairments on investment securities all described in Note 1 to the consolidated financial statements.

/s/ Deloitte Touche Tohmatsu LLC  
**DELOITTE TOUCHE TOHMATSU LLC**

Tokyo, Japan  
August 16, 2010

**Item 16A. Audit Committee Financial Expert.**

Our board of corporate auditors has determined that Mr. Tsutomu Takasuka is an “audit committee financial expert” as defined in Item 16A of Form 20-F and is “independent” as defined in the listing standards of the New York Stock Exchange. Mr. Takasuka, a corporate auditor, has spent most of his business career auditing Japanese corporations as a certified public accountant and was a professor at Bunkyo Gakuin University from April 2004 to March 31, 2010. Mr. Takasuka is an “outside corporate auditor” under Japanese law.

**Item 16B. Code of Ethics.**

We have adopted a code of ethics, which constitutes internal rules named ethical framework and code of conduct, compliance rules and compliance manual, each of which applies to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions.

Our compliance rules set forth the necessity of adherence to our ethical framework and code of conduct by our directors, executive officers and employees. These rules also set forth the roles and responsibilities of our employees, compliance officers, Compliance Division and others in the event of a breach of the compliance rules.

Our compliance manual was created to identify, and to promote compliance by our directors, executive officers and employees with, the relevant laws and regulations in conjunction with our ethical framework and code of conduct and compliance rules. This manual also sets forth the procedures regarding the handling of conflicts of interest for our directors and the promotion of conduct that meets our ethical framework and code of conduct and compliance rules for employees.

A copy of the sections of our ethical framework and code of conduct, compliance rules, compliance manual, and rules of employment relating to the “code of ethics” (as defined in paragraph (b) of Item 16B. of Form 20-F) is attached as Exhibit 11 to this Annual Report. There were no material changes to the code of ethics from the previous code of ethics. For a detailed discussion of our current compliance structure, see “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk—Compliance.” No waivers of the ethical framework and code of conduct, compliance rules, compliance manual and rules of employment have been granted to our principal executive officer, principal financial officer, principal accounting officer, directors and corporate auditors, during the fiscal year ended March 31, 2010.

**Item 16C. Principal Accountant Fees and Services.*****Fees and Services of Deloitte Touche Tohmatsu LLC***

The aggregate fees billed by Deloitte Touche Tohmatsu LLC, our independent auditor, for the fiscal years ended March 31, 2009 and 2010 are presented in the following table:

	<u>2009</u>	<u>2010</u>
	(in millions)	
Audit fees . . . . .	¥5,524	¥5,100
Audit-related fees . . . . .	700	210
Tax fees . . . . .	213	252
All other fees . . . . .	44	39
Total . . . . .	<u>¥6,481</u>	<u>¥5,601</u>

The description of our fees billed for each category described above is as follows:

*Audit fees*—Audit fees are primarily for annual audit of our financial statements, review of our semi-annual condensed financial statements, statutory audit of our financial statements and audits of our subsidiary financial statements and attestation services relating to the internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act.

*Audit-related fees*—Audit-related fees primarily include accounting consultations, agreed upon procedures on internal controls, employee benefit plan audit, and advisory services relating to the internal control reviews.

*Tax fees*—Tax fees relate primarily to tax compliance, including assistance with preparation of tax return filings, tax advisory and tax planning services.

*All other fees*—All other fees primarily include agreed upon procedures related to advice on operational risk management, and to operational audits of our overseas branches.

#### ***Pre-Approval Policies and Procedures for Services by Deloitte Touche Tohmatsu LLC***

Our board of corporate auditors performs the pre-approval function required by applicable SEC rules and regulations. Effective May 1, 2003, our board of corporate auditors has established pre-approval policies and procedures that MUFG and its subsidiaries must follow before engaging Deloitte Touche Tohmatsu LLC to perform audit and permitted non-audit services.

When MUFG or a subsidiary intends to engage Deloitte Touche Tohmatsu LLC to perform audit and permitted non-audit services, it must make an application for pre-approval on either a periodic or case-by-case basis.

- *Periodic application* is an application for pre-approval made each fiscal year for services that are expected to be provided by Deloitte Touche Tohmatsu LLC during the next fiscal year.
- *Case-by-case application* is an application for pre-approval made on a case-by-case basis for services to be provided by Deloitte Touche Tohmatsu LLC that are not covered by the periodic application.

Pre-approval is resolved in principle by our board of corporate auditors prior to engagement, although if necessary a full-time corporate auditor may consider any case-by-case application for pre-approval on behalf of the board of corporate auditors prior to the next scheduled board meeting. Such decisions made individually by a full-time corporate auditor are reported to and ratified by the board of corporate auditors as appropriate at the next scheduled board meeting.

Fees approved pursuant to the procedures described in paragraph 2-01(c)(7)(i)(C) of Regulation S-X, which provides for an exception to the general requirement for pre-approval in certain circumstances, were less than 0.1% of the total fees for each of the fiscal years ended March 31, 2009 and 2010.

#### **Item 16D. Exemptions from the Listing Standards for Audit Committees.**

In reliance upon the general exemption contained in Rule 10A-3(c)(3) under the US Securities Exchange Act of 1934, MUFG does not have an audit committee. Rule 10A-3 provides an exemption from the listing standards of the New York Stock Exchange, or the NYSE, relating to audit committees for foreign companies like MUFG that have a board of corporate auditors established pursuant to applicable Japanese law and Articles of Incorporation. MUFG's reliance on Rule 10A-3(c)(3) does not, in its opinion, materially adversely affect the ability of its board of corporate auditors to act independently and to satisfy the other requirements of Rule 10A-3.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.***Issuer Purchases of Common Stock*

	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30, 2009 .....	9,690	¥511.34	—	—
May 1 to May 31, 2009 .....	6,327	592.50	—	—
June 1 to June 30, 2009 .....	5,763	618.44	—	—
July 1 to July 31, 2009 .....	6,251	570.34	—	—
August 1 to August 31, 2009 .....	5,568	586.28	—	—
September 1 to September 30, 2009 .....	3,155	554.45	—	—
October 1 to October 31, 2009 .....	2,900	476.15	—	—
November 1 to November 30, 2009 .....	355,622	488.45	—	—
December 1 to December 31, 2009 .....	56,738	472.18	—	—
January 1 to January 31, 2010 .....	23,161	476.02	—	—
February 1 to February 28, 2010 .....	13,315	461.21	—	—
March 1 to March 31, 2010 .....	12,264	460.79	—	—
Total .....	500,754	¥490.34	—	—

Note:

- (1) All of the purchased shares were shares constituting less than one unit (100 shares) purchased from registered holders of such shares at the current market price of those shares.

We did not make any purchases of our shares other than the above for the fiscal year ended March 31, 2010.

**Item 16F. Change in Registrant's Certifying Accountant.**

None.

**Item 16G. Corporate Governance.**

The New York Stock Exchange, or the NYSE, allows NYSE-listed companies that are foreign private issuers, such as MUFG, with certain exceptions, to follow home-country practices in lieu of the corporate governance practices followed by US companies pursuant to the NYSE's Listed Company Manual. The following sections summarize the significant differences between MUFG's corporate governance practices and those followed by US listed companies under the NYSE's Listed Company Manual.

***1. A NYSE-listed US company must have a majority of directors that meet the independence requirements under Section 303A of the NYSE's Listed Company Manual.***

As of July 31, 2010, MUFG has three outside directors as members of its board of directors. For companies employing the corporate auditor system such as MUFG, the task of overseeing the management of the company is assigned to the corporate auditors as well as the board of directors. At least half of the corporate auditors are required to be an "outside corporate auditor" as defined below.

Under the Company Law, an "outside director" is defined as a director who has not served as an executive director (*gyomu shikko torishimariyaku*), executive officer (*shikkoyaku*), manager (*shihainin*) or any other type of employee of the relevant company or any of its subsidiaries prior to his or her appointment.

For MUFG and other large Japanese companies employing a corporate governance system based on a board of corporate auditors, the Company Law has no independence or similar requirement with respect to directors. In December 2009, the Tokyo Stock Exchange adopted a new rule requiring listed companies, including MUFG, to identify at least one individual who the company believes will unlikely have a conflict of interests with general shareholders and have such individual serve as an independent director or corporate auditor.

***2. A NYSE-listed US company must have an audit committee composed entirely of independent directors.***

Under the Company Law, MUFG and other Japanese companies (excluding companies with committees established pursuant to the Company Law) are not obliged to establish an audit committee.

As discussed above, MUFG employs a corporate auditor system as stipulated by the Company Law. Accordingly, MUFG has established a board of corporate auditors consisting of corporate auditors with a statutory duty to audit MUFG directors' performance of their professional duties and to review and report on the manner and results of the audit of MUFG's financial statements, for the benefit of MUFG's shareholders.

The Company Law requires companies having a board of corporate auditors, including MUFG, to elect at least three corporate auditors through a resolution adopted at a general meeting of shareholders. At least half of the corporate auditors must be an "outside corporate auditor," which is defined as a corporate auditor who has not served as a director, account assistant, executive officer (*shikkoyaku*), manager (*shihainin*), or any other employee of the relevant company or any of its subsidiaries.

As of July 31, 2010, MUFG had five corporate auditors, three of whom are outside corporate auditors.

***3. A NYSE-listed US company must have a compensation committee composed entirely of independent directors.***

Under the Company Law, MUFG and other Japanese companies (excluding companies with committees established pursuant to the Company Law) are not obliged to establish a compensation committee.

The maximum aggregate amounts of compensation for MUFG's directors and corporate auditors are approved at MUFG's general meeting of shareholders. The amount and allocation of compensation for each MUFG director are then proposed to, and voted upon by, the board of directors. The amount and allocation of compensation for each MUFG corporate auditor are determined through discussions and agreement among MUFG's corporate auditors.

***4. A NYSE-listed US company must have a nominating or corporate governance committee composed entirely of independent directors.***

Under the Company Law, MUFG and other Japanese companies (excluding companies with committees established pursuant to the Company Law) are not obliged to establish a nominating or corporate governance committee.

MUFG's directors are elected or dismissed at MUFG's general meeting of shareholders in accordance with the relevant provisions of the Company Law and MUFG's articles of incorporation. MUFG's corporate auditors are also elected or dismissed at MUFG's general meeting of shareholders. A proposal by MUFG's board of directors to elect a corporate auditor needs the consent of its board of corporate auditors. MUFG's board of corporate auditors is empowered to adopt a resolution requesting that MUFG's directors submit a proposal for election of a corporate auditor to MUFG's general meeting of shareholders.

The corporate auditors have the right to state their opinion concerning the election or dismissal of a corporate auditor at MUFG's general meeting of shareholders.

***5. A NYSE-listed US company must obtain shareholder approval with respect to any equity compensation plan.***

Under the Company Law, a public company seeking to issue "stock acquisition rights" (granting the holder thereof the right to acquire from the issuer shares of its stock at a prescribed price) must obtain the approval of its board of directors, not its shareholders.

When stock acquisition rights are issued under terms and conditions that are especially favorable to the recipients thereof, such issuance must be approved by a "special resolution" of a general meeting of shareholders. Under MUFG's articles of incorporation, the quorum for a special resolution is at least one-third of the total outstanding voting rights, and the approval of at least two-thirds of the voting rights represented at the relevant general meeting of shareholders of MUFG is required to pass a special resolution.

***6. A NYSE-listed US company must adopt and disclose Corporate Governance Guidelines and a Code of Business Conduct and Ethics, and it must also disclose any exemptions granted to directors or executives.***

Under the Company Law, the Financial Instruments and Exchange Law of Japan and applicable stock exchange rules, Japanese companies, including MUFG, are not obliged to adopt and disclose corporate governance guidelines or a code of business conduct and ethics for directors, officers and employees. In order to further enhance its disclosure, however, MUFG has decided to disclose the details of its corporate governance in its Annual Securities Report and related disclosure reports.

MUFG has also adopted a code of ethics, compliance rules and a compliance manual which it believes are compliant with the requirements for a Code of Ethics as set forth under Section 406 of the Sarbanes-Oxley Act. MUFG has disclosed the relevant sections of its code of ethics, compliance rules and compliance manual as an exhibit to this Annual Report. No exemptions from MUFG's code of ethics, compliance rules or compliance manual were granted to its directors or executives during the fiscal year ended March 31, 2010.

***7. A NYSE-listed US company must hold regularly scheduled executive sessions where participants are limited to non-management directors.***

Under the Company Law, Japanese corporations are not obliged to hold executive sessions where participants are limited to non-management directors. Such executive sessions are also not required under MUFG's internal corporate governance rules.



### PART III

#### Item 17. Financial Statements.

In lieu of responding to this item, we have responded to Item 18 of this Annual Report.

#### Item 18. Financial Statements.

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this Annual Report.

#### Item 19. Exhibits.

<u>Exhibit</u>	<u>Description</u>
1(a)	Articles of Incorporation of Mitsubishi UFJ Financial Group, Inc., as amended on June 26, 2009. (English translation)*
1(b)	Board of Directors Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 29, 2006. (English translation)**
1(c)	Corporation Meetings Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on July 31, 2006. (English translation)**
1(d)	Share Handling Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 26, 2009. (English Translation)*
2(a)	Form of American Depositary Receipt.**
2(b)	Form of Deposit Agreement, amended and restated as of December 22, 2004, among Mitsubishi Tokyo Financial Group, Inc. (subsequently renamed Mitsubishi UFJ Financial Group, Inc.), The Bank of New York Mellon and the holders from time to time of American Depositary Receipts issued thereunder.**
4(a)	Agreement and Plan of Merger among UnionBanCal Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Merger Sub, dated as of August 18, 2008.***
4(b)	Securities Purchase Agreement dated as of September 29, 2008 by and between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc., the first amendment thereto entered into on October 3, 2008, the second amendment thereto entered into on October 8, 2008 and the third amendment thereto entered into on October 13, 2008, and Amended Certificate of Designations of Preferences and Rights of the 10% Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock (\$1,000 Liquidation Preference per Share) of Morgan Stanley and Certificate of Designations of Preferences and Rights of the 10% Series C Non-Cumulative Non-Voting Perpetual Preferred Stock (\$1,000 Liquidation Preference per Share) of Morgan Stanley.*
4(c)	Investor Agreement dated as of October 13, 2008 by and between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc., and the first amendment thereto entered into on October 27, 2008.*
4(d)	Registration Rights Agreement dated as of October 13, 2008 by and between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc.*
4(e)	Integration and Investment Agreement, dated as of March 30, 2010, by and between Mitsubishi UFJ Financial Group, Inc. and Morgan Stanley.
8	Subsidiaries of the Company—see “Item 4.C. Information on the Company—Organizational Structure.”

Exhibit	Description
11	Ethical framework and code of conduct, compliance rules, compliance manual and rules of employment of Mitsubishi UFJ Financial Group, Inc. applicable to its directors and managing officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. (English translation of relevant sections)****
12	Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)).
13	Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
15	Consent of independent registered public accounting firm.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

Notes:

\* Incorporated by reference to our annual report on Form 20-F (File No. 333-98061-99) filed on September 2, 2009.

\*\* Incorporated by reference to our annual report on Form 20-F (File No. 333-98061-99) filed on September 28, 2006.

\*\*\* Incorporated by reference to our annual report on Form 20-F (File No. 333-98061-99) filed on September 19, 2008.

\*\*\*\* Incorporated by reference to our annual report on Form 20-F (File No. 333-98061-99) filed on September 21, 2007.

## SELECTED STATISTICAL DATA

Due to close integration of our foreign and domestic activities, it is difficult to make a precise determination of the assets, liabilities, income and expenses of our foreign operations. The foreign operations as presented include the business conducted by overseas subsidiaries and branches, and the international business conducted by the several international banking related divisions headquartered in Japan. Our management believes that the results appropriately represent our domestic and foreign activities.

On October 1, 2005, Mitsubishi Tokyo Financial Group, Inc., or MTFG, merged with UFJ Holdings, Inc. with MTFG being the surviving entity. Upon consummation of the merger, MTFG changed its name to Mitsubishi UFJ Financial Group, Inc., or MUFG. Numbers as of March 31, 2006 reflect the financial position of MUFG and its subsidiaries, or the MUFG Group, while numbers for the fiscal year ended March 31, 2006 comprised the results of the MTFG Group for the six months ended September 30, 2005 and the results of the MUFG Group from October 1, 2005 to March 31, 2006. Numbers as of and for the fiscal years ended March 31, 2007, 2008, 2009 and 2010 reflect the financial position and results of the MUFG Group.

## I. Distribution of Assets, Liabilities and Equity; Interest Rates and Interest Differential

### Average Balance Sheets, Interest and Average Rates

The following table shows our average balances, interest and average interest rates for the fiscal years ended March 31, 2008, 2009 and 2010. Average balances are generally based on a daily average while a month-end average is used for certain average balances when it is not practicable to obtain applicable daily averages. The average balances determined by such methods are considered to be representative of our operations.

	Fiscal years ended March 31,								
	2008			2009			2010		
	Average balance	Interest income	Average rate	Average balance	Interest income	Average rate	Average balance	Interest income	Average rate
	(in millions, except percentages)								
<b>Assets:</b>									
<b>Interest-earning assets:</b>									
Interest-earning deposits in other banks:									
Domestic .....	¥ 715,565	¥ 27,905	3.90%	¥ 644,550	¥ 11,900	1.85%	¥ 894,396	¥ 4,177	0.47%
Foreign .....	7,161,894	230,639	3.22	5,103,530	112,932	2.21	3,734,585	22,520	0.60
Total .....	7,877,459	258,544	3.28	5,748,080	124,832	2.17	4,628,981	26,697	0.58
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions:									
Domestic .....	6,755,706	46,405	0.69	5,264,909	30,626	0.58	5,051,284	9,240	0.18
Foreign .....	7,357,362	262,170	3.56	6,846,958	248,114	3.62	6,062,075	26,324	0.43
Total .....	14,113,068	308,575	2.19	12,111,867	278,740	2.30	11,113,359	35,564	0.32
Trading account assets:									
Domestic .....	4,347,140	66,046	1.52	7,305,737	72,511	0.99	7,601,584	56,612	0.74
Foreign .....	2,629,800	44,302	1.68	13,556,131	388,023	2.86	12,721,988	251,346	1.98
Total .....	6,976,940	110,348	1.58	20,861,868	460,534	2.21	20,323,572	307,958	1.52
Investment securities <sup>(1)</sup> :									
Domestic .....	34,451,745	345,242	1.00	31,950,811	352,235	1.10	40,039,924	293,874	0.73
Foreign .....	12,012,930	553,597	4.61	2,411,191	121,092	5.02	3,855,490	179,706	4.66
Total .....	46,464,675	898,839	1.93	34,362,002	473,327	1.38	43,895,414	473,580	1.08
Loans <sup>(2)</sup> :									
Domestic .....	76,926,024	1,709,133	2.22	76,520,426	1,607,122	2.10	74,242,963	1,347,611	1.82
Foreign .....	20,109,157	1,081,372	5.38	23,638,502	951,239	4.02	21,261,004	567,094	2.67
Total .....	97,035,181	2,790,505	2.88	100,158,928	2,558,361	2.55	95,503,967	1,914,705	2.00
Total interest-earning assets:									
Domestic .....	123,196,180	2,194,731	1.78	121,686,433	2,074,394	1.70	127,830,151	1,711,514	1.34
Foreign .....	49,271,143	2,172,080	4.41	51,556,312	1,821,400	3.53	47,635,142	1,046,990	2.20
Total .....	172,467,323	4,366,811	2.53	173,242,745	3,895,794	2.25	175,465,293	2,758,504	1.57
<b>Non-interest-earning assets:</b>									
Cash and due from banks .....	2,901,241			2,922,401			2,846,828		
Other non-interest-earning assets .....	23,726,071			21,240,425			18,456,550		
Allowance for credit losses .....	(1,147,943)			(1,191,181)			(1,206,599)		
Total non-interest-earning assets .....	25,479,369			22,971,645			20,096,779		
<b>Total assets</b> .....	<u>¥197,946,692</u>			<u>¥196,214,390</u>			<u>¥195,562,072</u>		

#### Notes:

- (1) Tax-exempt income of tax-exempt investment securities has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.
- (2) Average balances on loans outstanding include all nonaccrual and restructured loans. See "III. Loan Portfolio." The amortized portion of net loan origination fees (costs) is included in interest income on loans, representing an adjustment to the yields of an insignificant amount.

	Fiscal years ended March 31,								
	2008			2009			2010		
	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate
	(in millions, except percentages)								
<b>Liabilities and equity:</b>									
<b>Interest-bearing liabilities:</b>									
Deposits:									
Domestic . . . . .	¥ 92,850,670	¥ 442,938	0.48%	¥ 95,431,983	¥ 381,109	0.40%	¥ 95,634,273	¥ 220,073	0.23%
Foreign . . . . .	18,289,382	651,018	3.56	16,459,276	355,347	2.16	19,182,441	133,796	0.70
Total . . . . .	<u>111,140,052</u>	<u>1,093,956</u>	0.98	<u>111,891,259</u>	<u>736,456</u>	0.66	<u>114,816,714</u>	<u>353,869</u>	0.31
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:									
Domestic . . . . .	11,425,960	164,593	1.44	11,263,438	89,694	0.80	10,938,556	21,632	0.20
Foreign . . . . .	7,289,632	282,664	3.88	7,395,052	285,182	3.86	7,850,081	37,599	0.48
Total . . . . .	<u>18,715,592</u>	<u>447,257</u>	2.39	<u>18,658,490</u>	<u>374,876</u>	2.01	<u>18,788,637</u>	<u>59,231</u>	0.32
Due to trust account—									
Domestic . . . . .	1,653,717	8,014	0.48	1,479,736	6,843	0.46	1,683,607	6,119	0.36
Other short-term borrowings and trading account liabilities:									
Domestic . . . . .	7,247,750	66,893	0.92	7,289,639	82,807	1.14	6,513,029	43,840	0.67
Foreign . . . . .	3,231,819	139,470	4.32	3,599,444	87,717	2.44	2,553,648	21,914	0.86
Total . . . . .	<u>10,479,569</u>	<u>206,363</u>	1.97	<u>10,889,083</u>	<u>170,524</u>	1.57	<u>9,066,677</u>	<u>65,754</u>	0.73
Long-term debt:									
Domestic . . . . .	10,053,815	172,659	1.72	9,251,228	160,773	1.74	9,661,842	168,256	1.74
Foreign . . . . .	4,109,237	158,845	3.87	3,915,063	149,917	3.83	4,138,886	121,171	2.93
Total . . . . .	<u>14,163,052</u>	<u>331,504</u>	2.34	<u>13,166,291</u>	<u>310,690</u>	2.36	<u>13,800,728</u>	<u>289,427</u>	2.10
Total interest-bearing liabilities:									
Domestic . . . . .	123,231,912	855,097	0.69	124,716,024	721,226	0.58	124,431,307	459,920	0.37
Foreign . . . . .	32,920,070	1,231,997	3.74	31,368,835	878,163	2.80	33,725,056	314,480	0.93
Total . . . . .	<u>156,151,982</u>	<u>2,087,094</u>	1.34	<u>156,084,859</u>	<u>1,599,389</u>	1.02	<u>158,156,363</u>	<u>774,400</u>	0.49
<b>Non-interest-bearing liabilities<sup>(1)</sup></b> . . . . .	<u>31,756,325</u>			<u>32,060,269</u>			<u>29,544,432</u>		
<b>Total equity<sup>(1)</sup></b> . . . . .	<u>10,038,385</u>			<u>8,069,262</u>			<u>7,861,277</u>		
<b>Total liabilities and equity</b> . . . . .	<u>¥197,946,692</u>			<u>¥196,214,390</u>			<u>195,562,072</u>		
<b>Net interest income and interest rate spread</b> . . . . .		<u>¥2,279,717</u>	<u>1.19%</u>		<u>¥2,296,405</u>	<u>1.23%</u>		<u>¥1,984,104</u>	<u>1.08%</u>
<b>Net interest income as a percentage of total interest-earning assets</b> . . . . .			<u>1.32%</u>			<u>1.33%</u>			<u>1.13%</u>

Note:

- (1) Effective April 1, 2009, we adopted new guidance regarding noncontrolling interests in subsidiaries. See “*Noncontrolling Interests*” under “*Accounting Changes*” in Note 1 to our consolidated financial statements included elsewhere in this Annual Report for the detail. As a result, we have reclassified average balances of “Non-interest-bearing liabilities” and “Total equity” for the fiscal years ended March 31, 2008 and 2009.

The percentage of total average assets attributable to foreign activities was 28.0%, 30.1% and 28.7%, respectively, for the fiscal years ended March 31, 2008, 2009 and 2010.

The percentage of total average liabilities attributable to foreign activities was 29.1%, 31.0% and 29.3%, respectively, for the fiscal years ended March 31, 2008, 2009 and 2010.

### *Analysis of Net Interest Income*

The following table shows changes in our net interest income by changes in volume and by changes in rate for the fiscal year ended March 31, 2009 compared to the fiscal year ended March 31, 2008 and the fiscal year ended March 31, 2010 compared to the fiscal year ended March 31, 2009.

	Fiscal year ended March 31, 2008 versus fiscal year ended March 31, 2009			Fiscal year ended March 31, 2009 versus fiscal year ended March 31, 2010		
	Increase (decrease) due to changes in		Net change	Increase (decrease) due to changes in		Net change
	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>		Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	
(in millions)						
<b>Interest income:</b>						
Interest-earning deposits in other banks:						
Domestic .....	¥ (1,443)	¥ (14,562)	¥ (16,005)	¥ 3,436	¥ (11,159)	¥ (7,723)
Foreign .....	(55,289)	(62,418)	(117,707)	(24,356)	(66,056)	(90,412)
Total .....	(56,732)	(76,980)	(133,712)	(20,920)	(77,215)	(98,135)
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions:						
Domestic .....	(9,629)	(6,150)	(15,779)	(1,195)	(20,191)	(21,386)
Foreign .....	(18,188)	4,132	(14,056)	(25,557)	(196,233)	(221,790)
Total .....	(27,817)	(2,018)	(29,835)	(26,752)	(216,424)	(243,176)
Trading account assets:						
Domestic .....	29,365	(22,900)	6,465	2,834	(18,733)	(15,899)
Foreign .....	294,215	49,506	343,721	(22,650)	(114,027)	(136,677)
Total .....	323,580	26,606	350,186	(19,816)	(132,760)	(152,576)
Investment securities <sup>(2)</sup> :						
Domestic .....	(25,062)	32,055	6,993	76,330	(134,691)	(58,361)
Foreign .....	(442,481)	9,976	(432,505)	67,878	(9,264)	58,614
Total .....	(467,543)	42,031	(425,512)	144,208	(143,955)	253
Loans:						
Domestic .....	(8,560)	(93,451)	(102,011)	(46,665)	(212,846)	(259,511)
Foreign .....	142,025	(272,158)	(130,133)	(88,261)	(295,884)	(384,145)
Total .....	133,465	(365,609)	(232,144)	(134,926)	(508,730)	(643,656)
<b>Total interest income:</b>						
Domestic .....	(15,329)	(105,008)	(120,337)	34,740	(397,620)	(362,880)
Foreign .....	(79,718)	(270,962)	(350,680)	(92,946)	(681,464)	(774,410)
<b>Total .....</b>	<b>¥ (95,047)</b>	<b>¥(375,970)</b>	<b>¥(471,017)</b>	<b>¥ (58,206)</b>	<b>¥(1,079,084)</b>	<b>¥(1,137,290)</b>

Notes:

- (1) Volume/rate variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total "net change."
- (2) Tax-exempt income of tax-exempt investment securities has not been calculated on a tax equivalent basis because the effect of such calculation would not be material.

	Fiscal year ended March 31, 2008 versus fiscal year ended March 31, 2009			Fiscal year ended March 31, 2009 versus fiscal year ended March 31, 2010		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	Net change	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	Net change
	(in millions)					
<b>Interest expense:</b>						
Deposits:						
Domestic	¥ 10,309	¥ (72,138)	¥ (61,829)	¥ 806	¥(161,842)	¥(161,036)
Foreign	(43,261)	(252,410)	(295,671)	50,975	(272,526)	(221,551)
Total	(32,952)	(324,548)	(357,500)	51,781	(434,368)	(382,587)
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:						
Domestic	(1,313)	(73,586)	(74,899)	(2,515)	(65,547)	(68,062)
Foreign	4,065	(1,547)	2,518	16,539	(264,122)	(247,583)
Total	2,752	(75,133)	(72,381)	14,024	(329,669)	(315,645)
Due to trust account—Domestic	(832)	(339)	(1,171)	864	(1,588)	(724)
Other short-term borrowings and trading account liabilities:						
Domestic	389	15,525	15,914	(8,077)	(30,890)	(38,967)
Foreign	8,959	(60,712)	(51,753)	(20,374)	(45,429)	(65,803)
Total	9,348	(45,187)	(35,839)	(28,451)	(76,319)	(104,770)
Long-term debt:						
Domestic	(13,783)	1,897	(11,886)	7,150	333	7,483
Foreign	(7,495)	(1,433)	(8,928)	8,176	(36,922)	(28,746)
Total	(21,278)	464	(20,814)	15,326	(36,589)	(21,263)
<b>Total interest expense:</b>						
Domestic	(5,230)	(128,641)	(133,871)	(1,772)	(259,534)	(261,306)
Foreign	(37,732)	(316,102)	(353,834)	55,316	(618,999)	(563,683)
Total	¥(42,962)	¥(444,743)	¥(487,705)	¥ 53,544	¥(878,533)	¥(824,989)
<b>Net interest income:</b>						
Domestic	¥(10,099)	¥ 23,633	¥ 13,534	¥ 36,512	¥(138,086)	¥(101,574)
Foreign	(41,986)	45,140	3,154	(148,262)	(62,465)	(210,727)
Total	¥(52,085)	¥ 68,773	¥ 16,688	¥(111,750)	¥(200,551)	¥(312,301)

Note:

(1) Volume/rate variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total "net change."

## II. Investment Portfolio

The following table shows information as to the value of our investment securities available for sale and being held to maturity at March 31, 2008, 2009 and 2010:

	At March 31,								
	2008			2009			2010		
	Amortized cost	Estimated fair value	Net unrealized gains (losses)	Amortized cost	Estimated fair value	Net unrealized gains (losses)	Amortized cost	Estimated fair value	Net unrealized gains (losses)
	(in millions)								
<b>Securities available for sale:</b>									
Domestic:									
Japanese national government and Japanese government agency bonds	¥16,133,001	¥16,185,893	¥ 52,892	¥23,846,153	¥23,892,774	¥ 46,621	¥39,431,089	¥39,432,861	¥ 1,772
Corporate bonds	3,998,366	4,094,185	95,819	3,698,535	3,776,958	78,423	3,293,831	3,374,095	80,264
Marketable equity securities	4,009,747	5,993,883	1,984,136	3,318,143	3,937,517	619,374	2,960,293	4,417,031	1,456,738
Other securities	714,627	720,370	5,743	737,866	739,494	1,628	611,292	615,010	3,718
Total domestic	24,855,741	26,994,331	2,138,590	31,600,697	32,346,743	746,046	46,296,505	47,838,997	1,542,492
Foreign:									
U.S. Treasury and other U.S. government agencies bonds	1,912,224	1,918,466	6,242	87,998	91,044	3,046	1,180,899	1,178,334	(2,565)
Other governments and official institutions bonds	1,725,342	1,752,357	27,015	97,563	99,587	2,024	159,851	166,892	7,041
Mortgage-backed securities	3,376,511	3,375,585	(926)	559,937	555,397	(4,540)	901,848	909,448	7,600
Other securities	4,706,437	4,688,562	(17,875)	347,422	297,316	(50,106)	304,761	318,205	13,444
Total foreign	11,720,514	11,734,970	14,456	1,092,920	1,043,344	(49,576)	2,547,359	2,572,879	25,520
Total	¥36,576,255	¥38,729,301	¥2,153,046	¥32,693,617	¥33,390,087	¥696,470	¥48,843,864	¥50,411,876	¥1,568,012
<b>Securities being held to maturity:</b>									
Domestic:									
Japanese national government and Japanese government agency bonds	¥ 2,601,852	¥ 2,618,946	¥ 17,094	¥ 1,352,213	¥ 1,369,652	¥ 17,439	¥ 1,076,900	¥ 1,094,150	¥ 17,250
Other securities	204,181	206,437	2,256	187,015	188,789	1,774	170,704	173,569	2,865
Total domestic	2,806,033	2,825,383	19,350	1,539,228	1,558,441	19,213	1,247,604	1,267,719	20,115
Foreign:									
U.S. Treasury and other U.S. government agencies bonds	4,592	5,256	664	82,491	83,892	1,401	139,039	142,086	3,047
Other governments and official institutions bonds	5,010	5,010	—	122,463	123,153	690	468,519	473,481	4,962
Other securities	24,031	24,748	717	1,068,171	1,060,960	(7,211)	1,088,639	1,144,635	55,996
Total foreign	33,633	35,014	1,381	1,273,125	1,268,005	(5,120)	1,696,197	1,760,202	64,005
Total	¥ 2,839,666	¥ 2,860,397	¥ 20,731	¥ 2,812,353	¥ 2,826,446	¥ 14,093	¥ 2,943,801	¥ 3,027,921	¥ 84,120

Nonmarketable equity securities presented in Other investment securities in the consolidated financial statements were primarily carried at cost of ¥513,975 million, ¥1,390,315 million and ¥1,655,812 million, at March 31, 2008, 2009 and 2010, respectively. The corresponding estimated fair values at those dates were not readily determinable. Investment securities held by certain subsidiaries subject to specialized industry accounting principles in AICPA Guides presented in Other investment securities were carried at fair value of ¥66,038 million, ¥43,809 million and ¥35,026 million, at March 31, 2008, 2009 and 2010, respectively.



The following table presents the book values, maturities and weighted average yields of investment securities available for sale and being held to maturity, excluding equity securities, at March 31, 2010. Weighted average yields are calculated based on amortized cost. Yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect of such calculation would not be material:

	Maturities within one year		Maturities after one year but within five years		Maturities after five years but within ten years		Maturities after ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(in millions, except percentages)										
<b>Securities available for sale:</b>										
Domestic:										
Japanese national government and Japanese government agency bonds										
	¥15,096,928	0.03%	¥19,104,993	0.53%	¥2,807,673	1.11%	¥2,423,267	1.45%	¥39,432,861	0.43%
Corporate bonds	524,418	0.95	2,277,930	1.11	521,420	1.12	50,327	1.66	3,374,095	1.10
Other securities	139,080	0.98	191,238	1.06	265,853	1.50	18,839	1.05	615,010	1.23
Total domestic	<u>15,760,426</u>	<u>0.07</u>	<u>21,574,161</u>	<u>0.59</u>	<u>3,594,946</u>	<u>1.14</u>	<u>2,492,433</u>	<u>1.45</u>	<u>43,421,966</u>	<u>0.50</u>
Foreign:										
U.S. Treasury and other U.S. government agencies bonds										
	355,756	0.57	821,198	1.61	1,380	9.20	—	0.00	1,178,334	1.30
Other governments and official institutions bonds										
	44,065	1.61	50,319	3.38	70,538	2.41	1,970	5.39	166,892	2.52
Mortgage-backed securities										
	1	—	29,183	3.69	138,165	3.84	742,099	4.16	909,448	4.10
Other securities	30,866	1.13	127,979	1.90	10,211	0.94	11,500	4.05	180,556	1.85
Total foreign	<u>430,688</u>	<u>0.72</u>	<u>1,028,679</u>	<u>1.78</u>	<u>220,294</u>	<u>3.28</u>	<u>755,569</u>	<u>4.16</u>	<u>2,435,230</u>	<u>2.46</u>
Total	<u>¥16,191,114</u>	<u>0.09%</u>	<u>¥22,602,840</u>	<u>0.65%</u>	<u>¥3,815,240</u>	<u>1.26%</u>	<u>¥3,248,002</u>	<u>2.08%</u>	<u>¥45,857,196</u>	<u>0.60%</u>
<b>Securities being held to maturity:</b>										
Domestic:										
Japanese national government and Japanese government agency bonds										
	¥ 252,382	1.14%	¥ 824,493	1.24%	¥ 25	—%	¥ —	—%	¥ 1,076,900	1.22%
Other securities	33,384	1.47	136,323	1.42	—	—	997	1.91	170,704	1.44
Total domestic	<u>285,766</u>	<u>1.18</u>	<u>960,816</u>	<u>1.27</u>	<u>25</u>	<u>—</u>	<u>997</u>	<u>1.91</u>	<u>1,247,604</u>	<u>1.25</u>
Foreign:										
U.S. Treasury and other U.S. government agencies bonds										
	9,302	1.62	126,968	2.61	1,940	8.20	829	8.56	139,039	2.66
Other governments and official institutions bonds										
	44,179	2.78	424,340	2.89	—	—	—	—	468,519	2.88
Other securities	2,749	3.78	11,365	1.50	356,844	0.90	717,681	0.67	1,088,639	0.76
Total foreign	<u>56,230</u>	<u>2.64</u>	<u>562,673</u>	<u>2.80</u>	<u>358,784</u>	<u>0.94</u>	<u>718,510</u>	<u>0.68</u>	<u>1,696,197</u>	<u>1.50</u>
Total	<u>¥ 341,996</u>	<u>1.42%</u>	<u>¥ 1,523,489</u>	<u>1.83%</u>	<u>¥ 358,809</u>	<u>0.94%</u>	<u>¥ 719,507</u>	<u>0.68%</u>	<u>¥ 2,943,801</u>	<u>1.40%</u>

Excluding U.S. Treasury and other U.S. government agencies bonds and Japanese national government bonds, none of individual issuers held in our investment securities portfolio exceeded 10% of our consolidated total Mitsubishi UFJ Financial Group shareholders' equity at March 31, 2010.

### III. Loan Portfolio

The following table shows our loans outstanding, before deduction of allowance for credit losses, by domicile and type of industry of borrower at March 31 of each of the five fiscal years ended March 31, 2010. Classification of loans by industry is based on the industry segment loan classification as defined by the Bank of Japan for regulatory reporting purposes and is not necessarily based on use of proceeds:

	At March 31,				
	2006	2007	2008 (in millions)	2009	2010
Domestic:					
Manufacturing . . . . .	¥10,546,566	¥10,869,329	¥11,178,924	¥ 12,922,822	¥12,027,795
Construction . . . . .	1,835,104	1,812,454	1,728,534	1,803,541	1,427,933
Real estate <sup>(1)</sup> . . . . .	11,026,786	10,432,600	10,857,072	10,436,795	12,261,588
Services <sup>(1)</sup> . . . . .	7,220,040	6,902,660	6,553,980	6,750,442	3,714,148
Wholesale and retail . . . . .	9,134,683	9,317,518	9,308,599	9,760,805	8,597,192
Banks and other financial institutions <sup>(2)</sup> . . . . .	5,054,477	4,358,275	4,671,499	4,836,047	4,159,603
Communication and information services . . . . .	1,177,137	1,167,630	1,150,438	732,652	1,339,753
Other industries . . . . .	13,591,354	10,559,974	10,806,144	9,515,861	9,393,031
Consumer . . . . .	20,362,015	21,954,409	21,517,672	20,542,398	19,096,832
Total domestic . . . . .	<u>79,948,162</u>	<u>77,374,849</u>	<u>77,772,862</u>	<u>77,301,363</u>	<u>72,017,875</u>
Foreign:					
Governments and official institutions . . . . .	332,213	374,157	316,761	351,134	490,376
Banks and other financial institutions <sup>(2)</sup> . . . . .	1,101,152	1,694,951	2,100,057	2,687,004	2,970,470
Commercial and industrial . . . . .	11,776,784	13,470,223	16,189,725	17,550,544	14,252,704
Other . . . . .	2,337,237	2,459,577	2,706,750	2,510,521	2,554,209
Total foreign . . . . .	<u>15,547,386</u>	<u>17,998,908</u>	<u>21,313,293</u>	<u>23,099,203</u>	<u>20,267,759</u>
Total . . . . .	<u>95,495,548</u>	<u>95,373,757</u>	<u>99,086,155</u>	<u>100,400,566</u>	<u>92,285,634</u>
Unearned income, unamortized premiums—net and deferred loan fees—net . . . . .	11,287	(50,913)	(84,076)	(90,225)	(99,724)
<b>Total<sup>(3)</sup> . . . . .</b>	<u>¥95,506,835</u>	<u>¥95,322,844</u>	<u>¥99,002,079</u>	<u>¥100,310,341</u>	<u>¥92,185,910</u>

Notes:

- (1) Since the classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes was changed, loans to lease financing companies of ¥2,392,425 million is included in “Real estate” at March 31, 2010. In prior periods through March 31, 2009, the related balances had been included in “Services.”
- (2) Loans to the so-called non-bank finance companies are generally included in the “Banks and other financial institutions” category. Non-bank finance companies are primarily engaged in consumer lending, factoring and credit card businesses.
- (3) The above table includes loans held for sale of ¥41,904 million, ¥113,580 million, ¥505,626 million, ¥119,596 million and ¥102,268 million at March 31, 2006, 2007, 2008, 2009 and 2010, respectively, which are carried at the lower of cost or estimated fair value.

### *Maturities and Sensitivities of Loans to Changes in Interest Rates*

The following table shows the maturities of our loan portfolio at March 31, 2010:

	Maturity			Total
	One year or less	One to five years	Over five years	
	(in millions)			
<b>Domestic:</b>				
Manufacturing . . . . .	¥ 7,515,341	¥ 3,909,255	¥ 603,199	¥12,027,795
Construction . . . . .	913,998	455,020	58,915	1,427,933
Real estate <sup>(1)</sup> . . . . .	3,470,386	4,630,112	4,161,090	12,261,588
Services <sup>(1)</sup> . . . . .	1,853,257	1,399,852	461,039	3,714,148
Wholesale and retail . . . . .	5,730,517	2,570,322	296,353	8,597,192
Banks and other financial institutions . . . . .	1,976,734	1,992,693	190,176	4,159,603
Communication and information services . . . . .	649,647	626,692	63,414	1,339,753
Other industries . . . . .	6,287,923	2,075,324	1,029,784	9,393,031
Consumer . . . . .	2,488,182	4,103,589	12,505,061	19,096,832
Total Domestic . . . . .	30,885,985	21,762,859	19,369,031	72,017,875
<b>Foreign</b> . . . . .	8,564,070	7,761,489	3,942,200	20,267,759
<b>Total</b> . . . . .	¥39,450,055	¥29,524,348	¥23,311,231	¥92,285,634

The above loans due after one year which had predetermined interest rates and floating or adjustable interest rates at March 31, 2010 are shown below:

	Domestic	Foreign	Total
	(in millions)		
Predetermined rate . . . . .	¥15,472,202	¥ 1,796,016	¥17,268,218
Floating or adjustable rate . . . . .	25,659,688	9,907,673	35,567,361
<b>Total</b> . . . . .	¥41,131,890	¥11,703,689	¥52,835,579

Note:

- (1) Since the classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes was changed, "Real estate" includes loans to lease financing companies of ¥1,021,945 million, ¥1,208,305 million, ¥162,175 million within the above maturity classifications, respectively at March 31, 2010. In prior periods through March 31, 2009, the related balances had been included in "Services."

### *Nonaccrual, Past Due and Restructured Loans*

We generally discontinue the accrual of interest income on loans when substantial doubt exists as to the full and timely collection of either principal or interest, or when principal or interest is contractually past due one month or more with respect to loans of banking subsidiaries, including BTMU and MUTB, and 90 days or more with respect to loans of certain foreign banking subsidiaries.

The following table shows the distribution of our nonaccrual loans, restructured loans and accruing loans which are contractually past due 90 days or more as to principal or interest payments at March 31 of each of the five fiscal years ended March 31, 2010, based on the domicile and type of industry of the borrowers:

	At March 31,				
	2006	2007	2008	2009	2010
	(in millions)				
Nonaccrual loans:					
Domestic:					
Manufacturing . . . . .	¥ 128,055	¥ 82,206	¥ 109,023	¥ 87,649	¥ 111,235
Construction . . . . .	38,406	45,027	44,322	55,760	33,449
Real estate <sup>(1)</sup> . . . . .	190,703	142,681	164,521	263,831	214,367
Services <sup>(1)</sup> . . . . .	70,339	140,464	142,795	104,594	79,517
Wholesale and retail . . . . .	130,216	133,344	156,816	139,000	135,523
Banks and other financial institutions . . .	15,794	16,712	10,591	14,826	2,322
Communication and information services . . . . .	13,034	32,035	45,115	36,853	73,615
Other industries . . . . .	29,523	140,224	36,192	20,615	116,741
Consumer . . . . .	319,116	301,819	318,861	372,944	355,040
Total domestic . . . . .	<u>935,186</u>	<u>1,034,512</u>	<u>1,028,236</u>	<u>1,096,072</u>	<u>1,121,809</u>
Foreign:					
Governments and official institutions . . .	52	47	45	4,279	70,529
Banks and other financial institutions . . .	38,796	3,730	2,793	56,628	19,880
Commercial and industrial . . . . .	30,387	46,536	111,852	81,990	135,622
Other . . . . .	5,413	1,519	1,529	10,553	21,169
Total foreign . . . . .	<u>74,648</u>	<u>51,832</u>	<u>116,219</u>	<u>153,450</u>	<u>247,200</u>
Total . . . . .	<u>¥1,009,834</u>	<u>¥1,086,344</u>	<u>¥1,144,455</u>	<u>¥1,249,522</u>	<u>¥1,369,009</u>
Restructured loans:					
Domestic . . . . .	¥ 937,160	¥ 548,569	¥ 492,230	¥ 457,838	¥ 565,008
Foreign . . . . .	74,676	42,117	25,035	63,750	47,184
Total . . . . .	<u>¥1,011,836</u>	<u>¥ 590,686</u>	<u>¥ 517,265</u>	<u>¥ 521,588</u>	<u>¥ 612,192</u>
Accruing loans contractually past due 90 days or more:					
Domestic . . . . .	¥ 21,896	¥ 20,649	¥ 14,954	¥ 15,047	¥ 25,871
Foreign . . . . .	1,112	1,821	2,998	6,440	547
Total . . . . .	<u>¥ 23,008</u>	<u>¥ 22,470</u>	<u>¥ 17,952</u>	<u>¥ 21,487</u>	<u>¥ 26,418</u>
<b>Total</b> . . . . .	<u>¥2,044,678</u>	<u>¥1,699,500</u>	<u>¥1,679,672</u>	<u>¥1,792,597</u>	<u>¥2,007,619</u>

Note:

- (1) Since the classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes was changed, nonaccrual loans to lease financing companies of ¥28,547 million is included in "Real estate" at March 31, 2010. In prior periods through March 31, 2009, the related balances had been included in "Services."

Gross interest income which would have been accrued at the original terms on domestic nonaccrual and restructured loans outstanding during the fiscal year ended March 31, 2010 was approximately ¥84.0 billion, of which ¥33.0 billion was included in the results of operations for the fiscal year. Gross interest income which would have been accrued at the original terms on foreign nonaccrual and restructured loans outstanding for the fiscal year ended March 31, 2010 was approximately ¥12.2 billion, of which ¥5.8 billion was included in the results of operations for the fiscal year.

### ***Foreign Loans Outstanding***

We had no cross-border outstandings to borrowers in any foreign country which in total exceeded 0.75% of consolidated total assets at March 31, 2008, 2009 and 2010. Cross-border outstandings are defined, for this purpose, as loans (including accrued interest), acceptances, interest-earning deposits with other banks, other interest-earning investments and any other monetary assets denominated in Japanese yen or other non-local currencies. Material local currency loans outstanding which are neither hedged nor funded by local currency borrowings are included in cross-border outstandings.

Guarantees of outstandings of borrowers of other countries are considered to be outstandings of the guarantor. Loans made to, or deposits placed with, a branch of a foreign bank located outside the foreign bank's home country are considered to be loans to, or deposits with, the foreign bank. Outstandings of a country do not include principal or interest amounts of which are supported by written, legally enforceable guarantees by guarantors of other countries or the amounts of outstandings to the extent that they are secured by tangible, liquid collateral held and realizable by BTMU, MUTB and their subsidiaries outside the country in which they operate.

In addition to credit risk, cross-border outstandings are subject to country risk that as a result of political or economic conditions in a country, borrowers may be unable or unwilling to pay principal and interest according to contractual terms. Other risks related to cross-border outstandings include the possibility of insufficient foreign exchange and restrictions on its availability.

In order to manage country risk, we establish various risk management measures internally. Among other things, we regularly monitor economic conditions and other factors globally and assess country risk in each country where we have cross-border exposure. For purposes of monitoring and controlling the amount of credit exposed to country risk, we set a country limit, the maximum amount of credit exposure for an individual country, in consideration of the level of country risk and our ability to bear such potential risk. We also determine our credit policy for each country in accordance with our country risk level and our business plan with regard to the country. Assessment of country risk, establishment of country limits, and determination of country credit policies are subject to review and approval by our senior management and are updated periodically.

### ***Loan Concentrations***

At March 31, 2010, there were no concentrations of loans to a single industry group of borrowers, as defined by the Bank of Japan industry segment loan classifications, which exceeded 10% of our consolidated total loans, except for loans in a category disclosed in the table of loans outstanding above.

### ***Credit Risk Management***

We have a credit rating system, under which borrowers and transactions are graded on a worldwide basis. We calculate probability of default by statistical means and manage our credit portfolio based on this credit rating system. For a detailed description of this system and other elements of our risk management structure, see "Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk—Credit Risk Management."

#### IV. Summary of Loan Loss Experience

The following table shows an analysis of our loan loss experience by type of borrowers' business for each of the five fiscal years ended March 31, 2010:

	Fiscal years ended March 31,				
	2006	2007	2008	2009	2010
	(in millions, except percentages)				
Allowance for credit losses at beginning of fiscal year	¥ 739,872	¥1,012,227	¥1,112,453	¥1,134,940	¥1,156,638
Additions resulting from the merger with UFJ Holdings <sup>(1)</sup>	287,516	—	—	—	—
Provision for credit losses	110,167	358,603	385,740	626,947	647,793
Charge-offs:					
Domestic:					
Manufacturing	17,241	27,043	41,587	83,121	41,933
Construction	6,798	18,902	24,097	44,180	22,707
Real estate <sup>(2)</sup>	16,911	12,845	11,775	76,734	75,446
Services <sup>(2)</sup>	41,722	26,274	39,336	64,418	29,264
Wholesale and retail	15,397	43,169	70,173	118,144	76,407
Banks and other financial institutions	701	1,790	13,873	25,310	542
Communication and information services	2,621	16,322	30,868	19,632	23,540
Other industries	2,644	5,396	9,865	10,472	7,225
Consumer	49,496	137,461	138,370	117,021	124,792
Total domestic	153,531	289,202	379,944	559,032	401,856
Total foreign	11,202	13,912	6,540	44,266	118,916
Total	164,733	303,114	386,484	603,298	520,772
Recoveries:					
Domestic	11,356	35,466	28,475	23,692	48,269
Foreign	17,242	4,953	2,117	2,754	4,103
Total	28,598	40,419	30,592	26,446	52,372
Net charge-offs	136,135	262,695	355,892	576,852	468,400
Others <sup>(3)</sup>	10,807	4,318	(7,361)	(28,397)	(20,416)
Allowance for credit losses at end of fiscal year	<u>¥1,012,227</u>	<u>¥1,112,453</u>	<u>¥1,134,940</u>	<u>¥1,156,638</u>	<u>¥1,315,615</u>
Allowance for credit losses applicable to foreign activities:					
Balance at beginning of fiscal year	¥ 91,701	¥ 123,080	¥ 109,654	¥ 136,656	¥ 307,343
Balance at end of fiscal year	<u>¥ 123,080</u>	<u>¥ 109,654</u>	<u>¥ 136,656</u>	<u>¥ 307,343</u>	<u>¥ 327,568</u>
Provision (credit) for credit losses	¥ 587	¥ (8,516)	¥ 38,637	¥ 240,015	¥ 134,966
Ratio of net charge-offs during the fiscal year to average loans outstanding during the fiscal year	0.19%	0.27%	0.37%	0.58%	0.49%

#### Notes:

- (1) Additions resulting from the merger with UFJ Holdings represent the allowance for credit losses for acquired loans outside the scope of the guidance on loans and debt securities acquired with deteriorated credit quality. The allowance for credit losses on loans within the scope of the guidance on loans and debt securities acquired with deteriorated credit quality was not carried over.
- (2) Since the classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes was changed, the charge-offs to lease financing companies of ¥174 million is included in "Real estate" for the fiscal year ended March 31, 2010. In prior periods through March 31, 2009, the related amounts had been included in "Services."
- (3) Others principally include losses (gains) from foreign exchange translation. In addition, for the fiscal year ended March 31, 2010, others include adjustments related to restructuring of business operations.

The following table shows an allocation of our allowance for credit losses at March 31 of each of the five fiscal years ended March 31, 2010:

	At March 31,									
	2006		2007		2008		2009		2010	
	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans
	(in millions, except percentages)									
Domestic:										
Manufacturing . . . . .	¥ 130,734	11.05%	¥ 108,303	11.40%	¥ 125,824	11.28%	¥ 112,412	12.87%	¥ 177,753	13.03%
Construction . . . . .	28,142	1.92	41,016	1.90	43,043	1.74	45,234	1.80	31,764	1.55
Real estate <sup>(1)</sup> . . . . .	99,947	11.55	85,183	10.94	112,899	10.96	116,460	10.39	112,154	13.29
Services <sup>(1)</sup> . . . . .	71,653	7.56	123,020	7.24	126,832	6.61	88,829	6.72	88,435	4.02
Wholesale and retail . . . . .	132,519	9.57	129,701	9.77	141,870	9.39	115,109	9.72	148,637	9.32
Banks and other financial institutions . . . . .	51,500	5.29	73,925	4.57	59,200	4.72	38,189	4.82	20,015	4.51
Communication and information services . . . . .	16,971	1.23	33,699	1.22	37,251	1.16	37,549	0.73	67,273	1.45
Other industries . . . . .	115,930	14.23	175,989	11.07	97,019	10.91	65,363	9.48	110,545	10.18
Consumer . . . . .	234,073	21.32	224,926	23.02	244,652	21.72	223,865	20.46	213,889	20.69
Foreign:										
Governments and official institutions . . . . .	1,227	0.35	420	0.39	880	0.32	2,349	0.35	70,017	0.53
Banks and other financial institutions . . . . .	13,680	1.15	3,668	1.78	6,858	2.12	76,518	2.68	29,030	3.22
Commercial and industrial . . . . .	104,443	12.33	103,259	14.12	126,693	16.34	211,307	17.48	203,611	15.44
Other . . . . .	3,730	2.45	2,307	2.58	2,225	2.73	17,169	2.50	24,910	2.77
Unallocated . . . . .	7,678	—	7,037	—	9,694	—	6,285	—	17,582	—
<b>Total</b> . . . . .	<b>¥1,012,227</b>	<b>100.00%</b>	<b>¥1,112,453</b>	<b>100.00%</b>	<b>¥1,134,940</b>	<b>100.00%</b>	<b>¥1,156,638</b>	<b>100.00%</b>	<b>¥1,315,615</b>	<b>100.00%</b>
Allowance as a percentage of loans . . . . .	1.06%		1.17%		1.15%		1.15%		1.43%	
Allowance as a percentage of nonaccrual and restructured loans and accruing loans contractually past due 90 days or more . . . . .	49.51%		65.46%		67.57%		64.52%		65.53%	

Note:

(1) Since the classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes was changed, the allowance for credit losses to lease financing companies of ¥25,111 million is included in "Real estate" at March 31, 2010. In prior periods through March 31, 2009, the related balances had been included in "Services." Percentage of loans in "Lease financing" at March 31, 2010 is 2.59%.

While the allowance for credit losses contains amounts allocated to components of specifically identified loans as well as a group on portfolio of loans, the allowance for credit losses is available for credit losses in the entire loan portfolio and the allocations shown above are not intended to be restricted to the specific loan category. Accordingly, as the evaluation of credit risks changes, allocations of the allowance will be changed to reflect current conditions and various other factors.

## V. Deposits

The following table shows the average amount of, and the average rate paid on, the following deposit categories for the fiscal years ended March 31, 2008, 2009 and 2010:

	Fiscal years ended March 31,					
	2008		2009		2010	
	Average amount	Average rate	Average amount	Average rate	Average amount	Average rate
(in millions, except percentages)						
Domestic offices:						
Non-interest-bearing demand deposits	¥ 13,738,148	—%	¥ 12,896,727	—%	¥ 12,958,611	—%
Interest-bearing demand deposits	44,493,991	0.24	44,359,163	0.17	45,659,544	0.05
Deposits at notice	2,479,141	2.54	1,890,640	0.83	1,647,972	0.12
Time deposits	41,016,140	0.59	43,895,395	0.58	43,178,140	0.42
Certificates of deposit	4,861,398	0.62	5,286,785	0.66	5,148,617	0.34
Foreign offices:						
Non-interest-bearing demand deposits	2,141,934	—	2,280,553	—	2,240,971	—
Interest-bearing deposits, principally time deposits and certificates of deposit	18,289,382	3.56	16,459,276	2.16	19,182,441	0.70
<b>Total</b>	<u>¥127,020,134</u>		<u>¥127,068,539</u>		<u>¥130,016,296</u>	

Deposits at notice represent interest-bearing demand deposits which require the depositor to give two or more days notice in advance of withdrawal.

The average amounts of total deposits by foreign depositors included in domestic offices for the fiscal years ended March 31, 2008, 2009 and 2010 were ¥489,751 million, ¥439,346 million and ¥417,259 million, respectively.

At March 31, 2010, the balances and remaining maturities of time deposits and certificates of deposit issued by domestic offices in amounts of ¥10 million (approximately US\$107 thousand at the Federal Reserve Bank of New York's noon buying rate on March 31, 2010) or more and total foreign deposits issued in amounts of US\$100,000 or more are shown in the following table:

	Time deposits	Certificates of deposit (in millions)	Total
Domestic offices:			
Three months or less	¥ 8,332,280	¥2,962,998	¥11,295,278
Over three months through six months	5,520,219	1,324,212	6,844,431
Over six months through twelve months	5,373,113	552,927	5,926,040
Over twelve months	3,105,054	82,232	3,187,286
<b>Total</b>	<u>¥22,330,666</u>	<u>¥4,922,369</u>	<u>¥27,253,035</u>
Foreign offices			<u>¥14,411,085</u>



## VI. Short-Term Borrowings

The following table shows certain additional information with respect to our short-term borrowings for the fiscal years ended March 31, 2008, 2009 and 2010:

	Fiscal years ended March 31,		
	2008	2009	2010
	(in millions, except percentages)		
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:			
Average balance outstanding during the fiscal year .....	¥18,715,592	¥18,658,490	¥18,788,637
Maximum balance outstanding at any month-end during the fiscal year .....	19,530,303	18,427,340	19,343,978
Balance at end of fiscal year .....	18,769,133	18,427,340	17,364,371
Weighted average interest rate during the fiscal year .....	2.39%	2.01%	0.32%
Weighted average interest rate on balance at end of fiscal year .....	2.35%	0.97%	0.30%
Due to trust account:			
Average balance outstanding during the fiscal year .....	¥ 1,653,717	¥ 1,479,736	¥ 1,683,607
Maximum balance outstanding at any month-end during the fiscal year .....	2,171,467	1,796,846	1,795,280
Balance at end of fiscal year .....	1,461,006	1,796,846	1,559,631
Weighted average interest rate during the fiscal year .....	0.48%	0.46%	0.36%
Weighted average interest rate on balance at end of fiscal year .....	0.49%	0.42%	0.32%
Other short-term borrowings:			
Average balance outstanding during the fiscal year .....	¥ 5,729,422	¥ 6,664,948	¥ 6,371,845
Maximum balance outstanding at any month-end during the fiscal year .....	6,802,404	9,190,011	6,319,721
Balance at end of fiscal year .....	6,016,893	7,867,378	6,097,336
Weighted average interest rate during the fiscal year .....	2.17%	1.61%	0.49%
Weighted average interest rate on balance at end of fiscal year .....	1.82%	0.85%	0.27%

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Mitsubishi UFJ Financial Group, Inc.  
(Kabushiki Kaisha Mitsubishi UFJ Financial Group):

We have audited the accompanying consolidated balance sheets of Mitsubishi UFJ Financial Group, Inc. (Kabushiki Kaisha Mitsubishi UFJ Financial Group) (“MUFG”) and subsidiaries (together, the “MUFG Group”) as of March 31, 2009 and 2010, and the related consolidated statements of operations, changes in equity from nonowner sources, equity, and cash flows for each of the three years in the period ended March 31, 2010 (all expressed in Japanese Yen). These financial statements are the responsibility of MUFG’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the MUFG Group as of March 31, 2009 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 35 to the consolidated financial statements, the accompanying consolidated statements of cash flows for the fiscal years ended March 31, 2008 and 2009 have been restated. As discussed in Notes 5 and 7 to the consolidated financial statements, certain loans and premises and equipment disclosure information have been restated.

As discussed in Note 1 to the consolidated financial statements, MUFG changed its methods of accounting for uncertainty in income taxes and leveraged leases in the fiscal year ended March 31, 2008, its methods of accounting for defined benefit pension and other postretirement plans (measurement date provision), fair value measurements, and fair value option for financial assets and financial liabilities in the fiscal year ended March 31, 2009, and its methods of accounting for noncontrolling interests and other-than-temporary impairments on investment securities in the fiscal year ended March 31, 2010.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MUFG Group’s internal control over financial reporting as of March 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 16, 2010 expressed an unqualified opinion on MUFG Group’s internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu LLC  
**DELOITTE TOUCHE TOHMATSU LLC**

Tokyo, Japan  
August 16, 2010

**mitsubishi UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2009 AND 2010**

	<b>2009</b>	<b>2010</b>
	(in millions)	
<b>ASSETS</b>		
Cash and due from banks (Note 10) . . . . .	¥ 3,071,252	¥ 2,862,523
Interest-earning deposits in other banks (including ¥22,768 million and ¥10,201 million measured at fair value under fair value option in 2009 and 2010) (Notes 10 and 31) . . . . .	3,543,551	4,780,861
Call loans and funds sold (Note 12) . . . . .	407,448	508,922
Receivables under resale agreements (including ¥36,066 million and ¥30,832 million measured at fair value under fair value option in 2009 and 2010) (Note 31) . . . . .	2,530,405	3,543,020
Receivables under securities borrowing transactions . . . . .	6,797,025	5,770,044
Trading account assets (including assets pledged that secured parties are permitted to sell or repledge of ¥10,643,443 million in 2009 and ¥8,712,347 million in 2010) (including ¥10,832,557 million and ¥8,918,156 million measured at fair value under fair value option in 2009 and 2010) (Notes 10, 23 and 31) . . . . .	30,281,525	27,663,076
Investment securities (Notes 4, 10 and 31):		
Securities available for sale—carried at estimated fair value (including assets pledged that secured parties are permitted to sell or repledge of ¥1,899,512 million in 2009 and ¥4,107,734 million in 2010) . . . . .	33,390,087	50,411,876
Securities being held to maturity—carried at amortized cost (including assets pledged that secured parties are permitted to sell or repledge of ¥165,818 million in 2009 and ¥566,313 million in 2010) (estimated fair value of ¥2,826,446 million in 2009 and ¥3,027,921 million in 2010) . . . . .	2,812,353	2,943,801
Other investment securities . . . . .	1,434,124	1,690,838
Total investment securities . . . . .	37,636,564	55,046,515
Loans, net of unearned income, unamortized premiums and deferred loan fees (including assets pledged that secured parties are permitted to sell or repledge of ¥3,729,490 million in 2009 and ¥3,476,841 million in 2010) (Notes 5 and 10) . . . . .	100,310,341	92,185,910
Allowance for credit losses (Notes 5 and 6) . . . . .	(1,156,638)	(1,315,615)
Net loans . . . . .	99,153,703	90,870,295
Premises and equipment—net (Note 7) . . . . .	1,043,416	995,167
Accrued interest . . . . .	267,747	240,267
Customers' acceptance liability . . . . .	59,144	49,143
Intangible assets—net (Notes 3 and 8) . . . . .	1,191,941	1,116,117
Goodwill (Notes 3 and 8) . . . . .	379,426	381,498
Deferred tax assets (Notes 9 and 15) . . . . .	2,172,789	1,287,611
Other assets (Notes 5, 10, 15 and 16) . . . . .	4,963,481	4,969,338
<b>Total assets</b> . . . . .	<b>¥193,499,417</b>	<b>¥200,084,397</b>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS—(Continued)**  
**MARCH 31, 2009 AND 2010**

	2009	2010
	(in millions)	
<b>LIABILITIES AND EQUITY</b>		
Deposits (Notes 10 and 11):		
Domestic offices:		
Non-interest-bearing	¥ 15,023,660	¥ 15,201,298
Interest-bearing	95,802,559	97,526,535
Overseas offices:		
Non-interest-bearing	2,212,386	2,403,147
Interest-bearing (including ¥4,235 million and nil measured at fair value under fair value option in 2009 and 2010) (Note 31)	15,292,447	20,341,516
Total deposits	128,331,052	135,472,496
Call money and funds purchased (Notes 10 and 12)	2,235,858	1,883,824
Payables under repurchase agreements (Note 10)	11,911,615	11,846,656
Payables under securities lending transactions (Note 10)	4,279,867	3,633,891
Due to trust account (Note 13)	1,796,846	1,559,631
Other short-term borrowings (including ¥3,755 million and ¥4,506 million measured at fair value under fair value option in 2009 and in 2010) (Notes 10, 14 and 31)	7,867,378	6,097,336
Trading account liabilities (Notes 23 and 31)	9,492,561	8,688,826
Obligations to return securities received as collateral (Note 31)	2,708,800	3,229,321
Bank acceptances outstanding	59,144	49,143
Accrued interest	251,285	218,117
Long-term debt (including ¥532,641 million and ¥615,618 million measured at fair value under fair value option in 2009 and in 2010) (Notes 10, 14 and 31)	13,273,288	14,162,424
Other liabilities (Notes 1, 9, 10, 15 and 16)	4,824,603	4,139,892
Total liabilities	187,032,297	190,981,557
Commitments and contingent liabilities (Notes 24 and 26)		
Mitsubishi UFJ Financial Group shareholders' equity (Note 21):		
Capital stock (Notes 17 and 18):		
Preferred stock—aggregate liquidation preference of ¥640,001 million in 2009 and in 2010, with no stated value	442,100	442,100
Common stock—authorized, 33,000,000,000 shares; issued, 11,648,360,720 shares in 2009, and 14,148,414,920 shares in 2010, with no stated value	1,127,552	1,643,238
Capital surplus (Note 18)	6,095,820	6,619,525
Retained earnings (Accumulated deficit) (Notes 19 and 36):		
Appropriated for legal reserve	239,571	239,571
Accumulated deficit	(845,778)	(18,127)
Accumulated other changes in equity from nonowner sources, net of taxes	(813,695)	(45,435)
Treasury stock, at cost—9,080,212 common shares in 2009 and 21,069,229 common shares in 2010	(10,675)	(13,954)
Total Mitsubishi UFJ Financial Group shareholders' equity	6,234,895	8,866,918
Noncontrolling interests (Note 20)	232,225	235,922
Total equity	6,467,120	9,102,840
<b>Total liabilities and equity</b>	<b>¥193,499,417</b>	<b>¥200,084,397</b>

See the accompanying notes to Consolidated Financial Statements.

**mitsubishi UFJ Financial Group, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
**For the Fiscal Years Ended March 31, 2008, 2009 and 2010**

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(in millions)		
<b>Interest income:</b>			
Loans, including fees (Note 5) . . . . .	¥ 2,790,505	¥2,558,361	¥1,914,705
Deposits in other banks . . . . .	258,544	124,832	26,697
Investment securities:			
Interest . . . . .	771,763	309,835	305,080
Dividends . . . . .	127,076	163,492	168,500
Trading account assets . . . . .	110,348	460,534	307,958
Call loans and funds sold . . . . .	24,969	15,010	4,110
Receivables under resale agreements and securities borrowing transactions . . . . .	283,606	263,730	31,454
Total . . . . .	<u>4,366,811</u>	<u>3,895,794</u>	<u>2,758,504</u>
<b>Interest expense:</b>			
Deposits . . . . .	1,093,956	736,456	353,869
Call money and funds purchased . . . . .	45,180	24,973	5,683
Payables under repurchase agreements and securities lending transactions . . . . .	402,077	349,903	53,548
Due to trust account . . . . .	8,014	6,843	6,119
Other short-term borrowings and trading account liabilities . . . . .	206,363	170,524	65,754
Long-term debt . . . . .	331,504	310,690	289,427
Total . . . . .	<u>2,087,094</u>	<u>1,599,389</u>	<u>774,400</u>
<b>Net interest income</b> . . . . .	<u>2,279,717</u>	<u>2,296,405</u>	<u>1,984,104</u>
<b>Provision for credit losses</b> (Notes 5 and 6) . . . . .	<u>385,740</u>	<u>626,947</u>	<u>647,793</u>
<b>Net interest income after provision for credit losses</b> . . . . .	<u>1,893,977</u>	<u>1,669,458</u>	<u>1,336,311</u>
<b>Non-interest income:</b>			
Fees and commissions (Note 27) . . . . .	1,317,047	1,188,512	1,139,543
Foreign exchange gains (losses)—net (Note 28) . . . . .	1,295,933	(206,153)	216,720
Trading account profits (losses)—net (Note 28) . . . . .	398,396	(257,807)	761,472
Investment securities gains (losses)—net (including credit loss of ¥29,822 million, consisting of ¥27,962 million decline in fair value and net of ¥1,860 million recognized in other changes in equity from nonowner sources in 2010) (Note 4) . . . . .	(1,373,072)	(658,679)	223,030
Equity in losses of equity method investees . . . . .	(34,485)	(60,051)	(104,098)
Gains on sales of loans (Note 5) . . . . .	11,789	6,401	21,232
Other non-interest income (Note 20) . . . . .	162,506	162,876	195,966
Total . . . . .	<u>1,778,114</u>	<u>175,099</u>	<u>2,453,865</u>
<b>Non-interest expense:</b>			
Salaries and employee benefits (Note 15) . . . . .	909,771	873,371	908,213
Occupancy expenses—net (Notes 7 and 26) . . . . .	173,183	171,902	171,098
Fees and commission expenses . . . . .	218,088	209,750	196,515
Outsourcing expenses, including data processing . . . . .	248,265	267,790	215,397
Depreciation of premises and equipment (Note 7) . . . . .	179,567	132,121	120,268
Amortization of intangible assets (Note 8) . . . . .	252,890	278,241	225,000
Impairment of intangible assets (Note 8) . . . . .	78,679	126,885	12,400
Insurance premiums, including deposit insurance . . . . .	112,444	113,803	112,539
Communications . . . . .	65,286	62,943	57,064
Taxes and public charges . . . . .	83,439	85,743	69,073
Provision for repayment of excess interest (Note 26) . . . . .	2,826	47,865	44,808
Impairment of goodwill (Note 8) . . . . .	893,721	845,842	461
Other non-interest expenses (Notes 7 and 20) . . . . .	402,177	392,528	375,224
Total . . . . .	<u>3,620,336</u>	<u>3,608,784</u>	<u>2,508,060</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS—(Continued)**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2008, 2009 AND 2010**

	<b>2008</b>	<b>2009</b>	<b>2010</b>
	(in millions)		
<b>Income (loss) from continuing operations before income tax expense (benefit)</b> .....	51,755	(1,764,227)	1,282,116
<b>Income tax expense (benefit) (Note 9)</b> .....	553,045	(259,928)	407,040
<b>Income (loss) from continuing operations</b> .....	(501,290)	(1,504,299)	875,076
<b>Loss from discontinued operations—net (Note 2)</b> .....	(2,670)	—	—
<b>Net income (loss) before attribution of noncontrolling interests</b> .....	(503,960)	(1,504,299)	875,076
Net income (loss) attributable to noncontrolling interests .....	38,476	(36,259)	15,257
<b>Net income (loss) attributable to Mitsubishi UFJ Financial Group</b> .....	¥(542,436)	¥(1,468,040)	¥ 859,819
<b>Income allocable to preferred shareholders:</b>			
Cash dividends paid .....	¥ 6,669	¥ 6,399	¥ 21,678
Beneficial conversion feature (Note 17) .....	7,909	9,478	—
<b>Income allocable to preferred shareholders of Mitsubishi UFJ NICOS Co., Ltd. :</b>			
Effect of induced conversion of Mitsubishi UFJ NICOS Co., Ltd. Class 1 stock (Note 3) .....	—	7,676	—
<b>Net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group</b> .....	¥(557,014)	¥(1,491,593)	¥ 838,141
	(in Yen)		
<b>Earnings (loss) per share applicable to common shareholders of Mitsubishi UFJ Financial Group (Notes 19 and 22):</b>			
Basic earnings (loss) per common share—income (loss) from continuing operations available to common shareholders of Mitsubishi UFJ Financial Group .....	¥ (53.79)	¥ (137.84)	¥ 68.01
Basic earnings (loss) per common share—net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group .....	(54.05)	(137.84)	68.01
Diluted earnings (loss) per common share—income (loss) from continuing operations available to common shareholders of Mitsubishi UFJ Financial Group .....	(53.79)	(137.84)	67.87
Diluted earnings (loss) per common share—net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group .....	(54.05)	(137.84)	67.87

See the accompanying notes to Consolidated Financial Statements.



**mitsubishi UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FROM NONOWNER SOURCES**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2008, 2009 AND 2010**

	Gains (Losses) before income tax expense (benefit)	Income tax (expense) benefit  (in millions)	Gains (Losses) net of income tax expense (benefit)
<b>Fiscal year ended March 31, 2008:</b>			
Net loss before attribution of noncontrolling interests			¥ (503,960)
Other changes in equity from nonowner sources:			
Net unrealized holding losses on investment securities	¥(3,653,597)	¥1,481,643	(2,171,954)
Reclassification adjustment for losses included in net loss before attribution of noncontrolling interests	1,387,814	(563,414)	824,400
Total	(2,265,783)	918,229	(1,347,554)
Net unrealized gains on derivatives qualifying for cash flow hedges	4,444	(1,564)	2,880
Reclassification adjustment for losses included in net loss before attribution of noncontrolling interests	3,085	(1,326)	1,759
Total	7,529	(2,890)	4,639
Pension liability adjustments	(69,498)	28,118	(41,380)
Reclassification adjustment for gains included in net loss before attribution of noncontrolling interests	(17,346)	6,168	(11,178)
Total	(86,844)	34,286	(52,558)
Foreign currency translation adjustments	(124,268)	30,975	(93,293)
Reclassification adjustment for losses included in net loss before attribution of noncontrolling interests	162	690	852
Total	(124,106)	31,665	(92,441)
Total changes in equity from nonowner sources			(1,991,874)
Net income attributable to noncontrolling interests			38,476
Other changes in equity from nonowner sources attributable to noncontrolling interests			(15,198)
Total changes in equity from nonowner sources attributable to Mitsubishi UFJ Financial Group			¥(2,015,152)
<b>Fiscal year ended March 31, 2009:</b>			
Net loss before attribution of noncontrolling interests			¥(1,504,299)
Other changes in equity from nonowner sources:			
Net unrealized holding losses on investment securities	¥(2,070,144)	¥ 840,309	(1,229,835)
Reclassification adjustment for losses included in net loss before attribution of noncontrolling interests	629,566	(254,987)	374,579
Total	(1,440,578)	585,322	(855,256)
Net unrealized gains on derivatives qualifying for cash flow hedges	15,180	(6,105)	9,075
Reclassification adjustment for gains included in net loss before attribution of noncontrolling interests	(8,615)	3,380	(5,235)
Total	6,565	(2,725)	3,840
Pension liability adjustments	(721,816)	289,201	(432,615)
Reclassification adjustment for losses included in net loss before attribution of noncontrolling interests	992	(345)	647
Total	(720,824)	288,856	(431,968)
Foreign currency translation adjustments	(332,132)	16,963	(315,169)
Reclassification adjustment for losses included in net loss before attribution of noncontrolling interests	11,094	(1,959)	9,135
Total	(321,038)	15,004	(306,034)
Total changes in equity from nonowner sources			(3,093,717)
Net loss attributable to noncontrolling interests			(36,259)
Other changes in equity from nonowner sources attributable to noncontrolling interests			(8,027)
Total changes in equity from nonowner sources attributable to Mitsubishi UFJ Financial Group			¥(3,049,431)

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FROM NONOWNER SOURCES—(Continued)**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2008, 2009 AND 2010**

	<b>Gains (Losses) before income tax expense (benefit)</b>	<b>Income tax (expense) benefit</b>	<b>Gains (Losses) net of income tax expense (benefit)</b>
	<b>(in millions)</b>		
<b>Fiscal year ended March 31, 2010:</b>			
Net income before attribution of noncontrolling interests .....			¥ 875,076
Other changes in equity from nonowner sources:			
Net unrealized holding gains on investment securities (including unrealized gain of ¥1,103 million, net of tax, related to debt securities with credit component realized in earnings) .....	¥1,187,682	¥(441,401)	746,281
Reclassification adjustment for gains included in net income before attribution of noncontrolling interests .....	(224,560)	90,894	(133,666)
Total .....	963,122	(350,507)	612,615
Net unrealized gains on derivatives qualifying for cash flow hedges .....	3,621	(1,322)	2,299
Reclassification adjustment for gains included in net income before attribution of noncontrolling interests .....	(11,711)	4,617	(7,094)
Total .....	(8,090)	3,295	(4,795)
Pension liability adjustments .....	352,647	(138,293)	214,354
Reclassification adjustment for losses included in net income before attribution of noncontrolling interests .....	48,296	(19,427)	28,869
Total .....	400,943	(157,720)	243,223
Foreign currency translation adjustments .....	25,036	5,542	30,578
Reclassification adjustment for losses included in net income before attribution of noncontrolling interests .....	18,420	(8,136)	10,284
Total .....	43,456	(2,594)	40,862
Total changes in equity from nonowner sources .....			1,766,981
Net income attributable to noncontrolling interests .....			15,257
Other changes in equity from nonowner sources attributable to noncontrolling interests ..			5,435
Total changes in equity from nonowner sources attributable to Mitsubishi UFJ Financial Group .....			¥1,746,289

See the accompanying notes to Consolidated Financial Statements.

**mitsubishi ufj financial group, inc. and subsidiaries**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2008, 2009 AND 2010**

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(in millions)		
<b>Preferred stock (Note 17):</b>			
Balance at beginning of fiscal year	¥ 247,100	¥ 247,100	¥ 442,100
Issuance of new shares of Class 5 preferred stock	—	195,000	—
Balance at end of fiscal year	<u>¥ 247,100</u>	<u>¥ 442,100</u>	<u>¥ 442,100</u>
<b>Common stock (Note 18):</b>			
Balance at beginning of fiscal year	¥1,084,708	¥ 1,084,708	¥1,127,552
Issuance of new shares of common stock	—	42,844	515,662
Issuance of new shares of common stock by way of exercise of the stock acquisition rights	—	—	24
Balance at end of fiscal year	<u>¥1,084,708</u>	<u>¥ 1,127,552</u>	<u>¥1,643,238</u>
<b>Capital surplus (Note 18):</b>			
Balance at beginning of fiscal year	¥5,834,529	¥ 5,791,300	¥6,095,820
Losses on exchange of shares of treasury stock for shares of Mitsubishi UFJ Securities Co., Ltd. (Note 3)	(56,134)	—	—
Gains on induced conversion of shares of Mitsubishi UFJ NICOS Co., Ltd. Class 1 stock (Note 3)	—	71,103	—
Beneficial conversion feature of preferred stock (Note 17)	7,909	9,478	—
Stock-based compensation expense (Note 32)	5,747	14,418	1,695
Stock option and other share based compensation payouts as a result of UnionBanCal Corporation's privatization (Note 32)	—	(21,063)	—
Conversion of preferred stock to common stock by a subsidiary	—	—	(641)
Losses on sales of shares of treasury stock	(456)	(7,500)	—
Issuance of new shares of Class 5 preferred stock (Note 17)	—	194,183	—
Issuance of new shares of common stock and sale of treasury stock (Note 18)	—	43,906	522,414
Other—net	(295)	(5)	237
Balance at end of fiscal year	<u>¥5,791,300</u>	<u>¥ 6,095,820</u>	<u>¥6,619,525</u>
<b>Retained earnings appropriated for legal reserve (Note 19):</b>			
Balance at beginning of fiscal year	¥ 239,571	¥ 239,571	¥ 239,571
Balance at end of fiscal year	<u>¥ 239,571</u>	<u>¥ 239,571</u>	<u>¥ 239,571</u>
<b>Unappropriated retained earnings (Accumulated deficit) (Note 19):</b>			
Balance at beginning of fiscal year	¥1,636,803	¥ 935,309	¥ (845,778)
Net income (loss) attributable to Mitsubishi UFJ Financial Group	(542,436)	(1,468,040)	859,819
Cash dividends:			
Common stock—¥13.00 in 2008, ¥14.00 in 2009 and ¥11.00 in 2010 per share	(134,664)	(146,937)	(128,062)
Preferred stock (Class 3)—¥60.00 in 2008, in 2009 and in 2010 per share	(6,000)	(6,000)	(6,000)
Preferred stock (Class 5)—¥100.50 in 2010 per share	—	—	(15,678)
Preferred stock (Class 8)—¥15.90 in 2008 and ¥7.95 in 2009 per share	(282)	(140)	—
Preferred stock (Class 12)—¥11.50 in 2008 and in 2009 per share	(387)	(259)	—
Beneficial conversion feature of preferred stock (Note 17)	(7,909)	(9,478)	—
Effect of adopting new guidance on accounting for uncertainty in income taxes (Note 1)	(4,091)	—	—
Effect of adopting new guidance on accounting for a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction (Note 1)	(5,725)	—	—
Losses on exchange of shares of treasury stock for shares of Mitsubishi UFJ NICOS Co., Ltd. (Note 3)	—	(47,507)	—
Losses on sales of shares of treasury stock for shares of Mitsubishi UFJ NICOS Co., Ltd. (Note 3)	—	(35,966)	—
Losses on sales of shares of treasury stock	—	(119,223)	(261)
Effect of induced conversion of Mitsubishi UFJ NICOS Co., Ltd. Class 1 stock (Note 3)	—	(7,676)	—
Effect of adopting new guidance on recognition and presentation of other-than-temporary impairments (Note 1)	—	—	118,210
Effect of adopting new guidance on defined benefit pension and other postretirement plans (Note 1)	—	(132)	—
Effect of adopting new guidance on fair value measurements (Note 1)	—	27,317	—
Effect of adopting new guidance on fair value option for financial assets and financial liabilities (Note 1)	—	32,979	—
Other—net	—	(25)	(377)
Balance at end of fiscal year (Note 36)	<u>¥ 935,309</u>	<u>¥ (845,778)</u>	<u>¥ (18,127)</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EQUITY—(Continued)**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2008, 2009 AND 2010**

	<u>2008</u>	<u>2009</u>	<u>2010</u>
		(in millions)	
<b>Accumulated other changes in equity from nonowner sources, net of taxes:</b>			
Net unrealized gains on investment securities (Note 4):			
Balance at beginning of fiscal year	¥ 2,315,648	¥ 973,697	¥ 95,213
Net change during the fiscal year	(1,341,951)	(858,334)	611,193
Effect of adopting new guidance on fair value option for financial assets and financial liabilities, net of taxes (Note 1)	—	(20,150)	—
Effect of adopting new guidance on recognition and presentation of other-than-temporary impairments, net of taxes (Note 1)	—	—	(118,210)
Balance at end of fiscal year	<u>¥ 973,697</u>	<u>¥ 95,213</u>	<u>¥ 588,196</u>
Net unrealized gains (losses) on derivatives qualifying for cash flow hedges (Note 23):			
Balance at beginning of fiscal year	¥ (909)	¥ 1,764	¥ 6,507
Net change during the fiscal year	2,673	4,743	(4,795)
Balance at end of fiscal year	<u>¥ 1,764</u>	<u>¥ 6,507</u>	<u>¥ 1,712</u>
Pension liability adjustments (Note 15):			
Balance at beginning of fiscal year	¥ 172,776	¥ 122,848	¥ (446,469)
Net change during the fiscal year	(49,928)	(437,743)	242,509
Effect of adopting new guidance on defined benefit pension and other postretirement plans, net of taxes (Note 1)	—	(131,574)	—
Balance at end of fiscal year	<u>¥ 122,848</u>	<u>¥ (446,469)</u>	<u>¥ (203,960)</u>
Foreign currency translation adjustments:			
Balance at beginning of fiscal year	¥ (95,379)	¥ (178,889)	¥ (468,946)
Net change during the fiscal year	(83,510)	(290,057)	37,563
Balance at end of fiscal year	<u>¥ (178,889)</u>	<u>¥ (468,946)</u>	<u>¥ (431,383)</u>
Balance at end of fiscal year	<u>¥ 919,420</u>	<u>¥ (813,695)</u>	<u>¥ (45,435)</u>
<b>Treasury stock:</b>			
Balance at beginning of fiscal year	¥(1,001,535)	¥ (727,293)	¥ (10,675)
Purchases of shares of treasury stock (Note 18)	(151,365)	(2,919)	(5,588)
Sales of shares of treasury stock	1,779	537,542	2,806
Exchange of shares of treasury stock for shares of Mitsubishi UFJ Securities Co., Ltd. (Note 3)	425,530	—	—
Net increase resulting from changes in voting interests in its consolidated subsidiaries and affiliated companies	(1,702)	(2,883)	(497)
Exchange of shares of treasury stock for shares of Mitsubishi UFJ NICOS Co., Ltd. (Note 3)	—	184,878	—
Balance at end of fiscal year	<u>¥ (727,293)</u>	<u>¥ (10,675)</u>	<u>¥ (13,954)</u>
<b>Total Mitsubishi UFJ Financial Group shareholders' equity</b>	<u>¥ 8,490,115</u>	<u>¥ 6,234,895</u>	<u>¥ 8,866,918</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EQUITY—(Continued)**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2008, 2009 AND 2010**

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(in millions)		
<b>Noncontrolling interests:</b>			
Balance at beginning of fiscal year	¥ 884,982	¥ 663,816	¥ 232,225
Initial origination of noncontrolling interests	97,975	60,858	45,130
Transactions with noncontrolling interest shareholders in relation to the consolidated subsidiaries	(272,001)	(203,115)	3,555
Exchange of shares of treasury stock for shares of Mitsubishi UFJ NICOS Co., Ltd. and sale of shares of Mitsubishi UFJ NICOS Co., Ltd.	—	(137,603)	—
Decrease in noncontrolling interests related to exclusion of subsidiaries from consolidation	(50,006)	(92,298)	(59,973)
Decrease in noncontrolling interests related to disposition of subsidiaries	(204)	(2,778)	—
Net income (loss) attributable to noncontrolling interests	38,476	(36,259)	15,257
Dividends paid to noncontrolling interests	(22,790)	(9,698)	(5,393)
Other changes in equity from nonowner sources, net of taxes:			
Net unrealized holding gains (losses) on investment securities	(7,843)	(86)	1,808
Reclassification adjustment for losses (gains) included in net income (loss) attributable to noncontrolling interests in relation to net unrealized holding gains (losses) on investment securities	2,240	3,164	(386)
Net unrealized gains (losses) on derivatives qualifying for cash flow hedges	1,358	(93)	—
Reclassification adjustment for losses (gains) included in net income (loss) attributable to noncontrolling interests in relation to net unrealized gains (losses) on derivatives qualifying for cash flow hedges	608	(810)	—
Pension liability adjustments	(2,171)	(655)	616
Reclassification adjustment for losses (gains) included in net income (loss) attributable to noncontrolling interests in relation to pension liability adjustments	(459)	6,430	98
Foreign currency translation adjustments	(8,931)	(15,973)	3,273
Reclassification adjustment for losses (gains) included in net income (loss) attributable to noncontrolling interests in relation to foreign currency translation adjustments	—	(4)	26
Other—net	2,582	(2,671)	(314)
Balance at end of fiscal year	<u>¥ 663,816</u>	<u>¥ 232,225</u>	<u>¥ 235,922</u>
<b>Total equity</b>	<u>¥9,153,931</u>	<u>¥6,467,120</u>	<u>¥9,102,840</u>

See the accompanying notes to Consolidated Financial Statements.

**mitsubishi UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2008, 2009 AND 2010**

	<b>2008</b> <b>(As restated,</b> <b>see Note 35)</b>	<b>2009</b> <b>(As restated,</b> <b>see Note 35)</b>	<b>2010</b>
	<b>(in millions)</b>		
<b>Cash flows from operating activities:</b>			
Net income (loss) before attribution of noncontrolling interests	¥ (503,960)	¥ (1,504,299)	¥ 875,076
Adjustments to reconcile net income (loss) before attribution of noncontrolling interests to net cash provided by (used in) operating activities:			
Loss from discontinued operations—net (Note 2)	2,670	—	—
Depreciation and amortization	432,457	410,362	345,268
Impairment of goodwill (Note 8)	893,721	845,842	461
Impairment of intangible assets (Note 8)	78,679	126,885	12,400
Provision for credit losses (Notes 5 and 6)	385,740	626,947	647,793
Investment securities losses (gains)—net	1,373,072	658,679	(223,030)
Foreign exchange losses (gains)—net	(1,466,299)	1,304,438	(236,055)
Equity in losses of equity method investees	34,485	60,051	104,098
Provision for deferred income tax expense (benefit)	446,253	(401,367)	316,388
Decrease (increase) in trading account assets, excluding foreign exchange contracts	(3,928,763)	(4,390,178)	801,245
Increase (decrease) in trading account liabilities, excluding foreign exchange contracts	2,875,793	1,493,062	(184,013)
Decrease (increase) in accrued interest receivable and other receivables	(85,575)	73,374	3,322
Increase (decrease) in accrued interest payable and other payables	105,442	(103,573)	(6,866)
Net increase (decrease) in accrued income taxes and decrease (increase) in income tax receivables	(17,843)	103,164	5,762
Increase (decrease) in allowance for repayment of excess interest (Note 26)	(22,290)	(3,316)	7,378
Net decrease (increase) in collaterals for derivative transactions	133,522	(497,629)	(132,610)
Other—net	(183,712)	231,371	(26,632)
Net cash provided by (used in) operating activities	<u>553,392</u>	<u>(966,187)</u>	<u>2,309,985</u>
<b>Cash flows from investing activities:</b>			
Proceeds from sales of investment securities available for sale (including proceeds from securities under fair value option for the fiscal years ended March 31, 2009 and 2010) (Note 4)	51,204,443	76,089,849	74,475,416
Proceeds from maturities of investment securities available for sale (including proceeds from securities under fair value option for the fiscal years ended March 31, 2009 and 2010) (Note 4)	26,300,910	29,796,236	46,056,462
Purchases of investment securities available for sale (including purchases of securities under fair value option for the fiscal years ended March 31, 2009 and 2010) (Note 4)	(74,651,166)	(114,561,896)	(135,509,931)
Proceeds from maturities of investment securities being held to maturity	543,799	1,497,026	296,420
Purchases of investment securities being held to maturity	(354,008)	(296,772)	(433,118)
Proceeds from sales of other investment securities	153,436	37,773	104,040
Purchases of common stock investment in ACOM CO., LTD., an affiliated company of MUFG	—	(152,971)	—
Purchases of other investment securities	(78,352)	(958,616)	(379,154)
Net decrease (increase) in loans	(5,926,711)	(6,286,913)	5,919,699
Net decrease (increase) in interest-earning deposits in other banks	(792,340)	2,236,492	(1,273,410)
Net decrease (increase) in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions	(4,086,565)	4,598,497	233,782
Proceeds from sales of premises and equipment	64,067	36,269	17,878
Capital expenditures for premises and equipment	(187,745)	(154,607)	(114,230)
Purchases of intangible assets	(230,136)	(195,482)	(171,405)
Proceeds from sales of consolidated VIEs and subsidiaries—net	117,626	110,010	1,290
Other—net	53,025	(48,474)	(38,171)
Net cash used in investing activities	<u>(7,869,717)</u>	<u>(8,253,579)</u>	<u>(10,814,432)</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)**  
**FOR THE FISCAL YEARS ENDED MARCH 31, 2008, 2009 AND 2010**

	<b>2008</b> <b>(As restated,</b> <b>see Note 35)</b>	<b>2009</b> <b>(As restated,</b> <b>see Note 35)</b>	<b>2010</b>
		<b>(in millions)</b>	
<b>Cash flows from financing activities:</b>			
Net increase in deposits	5,438,515	2,664,202	9,408,480
Net increase (decrease) in call money, funds purchased, and payables under repurchase agreements and securities lending transactions	3,699,282	2,343,192	(1,048,232)
Net increase (decrease) in due to trust account	(78,967)	335,840	(237,215)
Net increase (decrease) in other short-term borrowings	209,462	2,576,140	(1,720,216)
Proceeds from issuance of long-term debt	2,342,824	2,917,573	3,478,615
Repayment of long-term debt	(2,700,610)	(2,756,725)	(2,467,525)
Proceeds from issuance of common stock, net of stock issue expenses	—	280,460	1,036,053
Proceeds from issuance of new shares of preferred stock, net of stock issue expenses	—	388,623	—
Proceeds from sales of treasury stock	1,173	187,147	1,077
Payments to acquire treasury stock (Note 18)	(151,365)	(2,697)	(4,621)
Dividends paid	(141,159)	(153,217)	(149,486)
Dividends paid to noncontrolling interests	(22,990)	(12,864)	(5,908)
Payments related to privatization of UnionBanCal Corporation (Notes 3 and 32)	—	(410,373)	—
Other—net	(6,378)	(57,022)	4,256
Net cash provided by financing activities	<u>8,589,787</u>	<u>8,300,279</u>	<u>8,295,278</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>(32,435)</u>	<u>(99,951)</u>	<u>440</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>1,241,027</u>	<u>(1,019,438)</u>	<u>(208,729)</u>
<b>Cash and cash equivalents at beginning of fiscal year (including cash and cash equivalents identified as discontinued operations of ¥2,194 million in 2008, nil in 2009 and 2010)</b>	<u>2,849,663</u>	<u>4,090,690</u>	<u>3,071,252</u>
<b>Cash and cash equivalents at end of fiscal year (no cash and cash equivalents identified as discontinued operations in 2008, 2009 and 2010)</b>	<u>¥ 4,090,690</u>	<u>¥ 3,071,252</u>	<u>¥ 2,862,523</u>
<b>Supplemental disclosure of cash flow information:</b>			
<b>Cash paid during the fiscal year for:</b>			
Interest	¥ 2,055,790	¥ 1,643,730	¥ 831,847
Income taxes, net of refunds	145,806	38,275	84,890
<b>Non-cash investing and financing activities:</b>			
Obtaining assets by entering into capital lease	18,739	5,408	5,763
Acquisition of noncontrolling interests in Mitsubishi UFJ Securities Co., Ltd. in exchange for treasury stock (Note 3)	369,588	—	—
Acquisition of noncontrolling interests in Mitsubishi UFJ NICOS Co., Ltd. in exchange for treasury stock (Note 3)	—	131,445	—
Transfer to securities from loans resulting from securitizations (Note 5)	—	60,671	—
Transfer to trading account assets from investment securities available for sale (Note 31)	—	10,448,079	—
Transfer to investment securities being held to maturity from trading account assets (Note 4)	—	1,053,029	—
Union Bank's term borrowing issued in its fiscal year ended December 31, 2008, but settled on January 2, 2009	—	91,030	—
Transfer to investment securities being held to maturity from investment securities available for sale (Note 4)	—	—	111,895
Exchange of shares in Senshu Bank for shares in Senshu Ikeda Holdings, Inc. (Note 20):			
Acquisition of shares of Senshu Ikeda Holdings, Inc. recorded at fair value	—	—	79,073
Deconsolidation of Senshu Bank at book value	—	—	50,069

See the accompanying notes to Consolidated Financial Statements.

## MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. BASIS OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Description of Business*

Mitsubishi UFJ Financial Group, Inc. (“MUFG”) is a holding company for The Bank of Tokyo-Mitsubishi UFJ, Ltd. (“BTMU”), Mitsubishi UFJ Trust and Banking Corporation (“MUTB”), Mitsubishi UFJ Securities Co., Ltd. (“MUS”), Mitsubishi UFJ NICOS Co., Ltd. (“Mitsubishi UFJ NICOS”), and other subsidiaries. Through its subsidiaries and affiliated companies, MUFG engages in a broad range of financial operations, including commercial banking, investment banking, trust banking and asset management services, securities businesses, and credit card businesses, and provides related services to individual and corporate customers. See Note 29 for more information by business segment.

##### *Basis of Financial Statements*

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which MUFG is incorporated and principally operates. The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (“US GAAP”). In certain respects, the accompanying consolidated financial statements reflect adjustments which are not included in the consolidated financial statements issued by MUFG and certain of its subsidiaries in accordance with applicable statutory requirements and accounting practices in their respective countries of incorporation. The major adjustments include those relating to (1) investment securities, (2) derivative financial instruments, (3) allowance for credit losses, (4) income taxes, (5) consolidation, (6) premises and equipment, (7) transfer of financial assets, (8) accrued severance indemnities and pension liabilities, (9) goodwill and other intangible assets and (10) lease transactions.

Fiscal periods of certain subsidiaries, which end on or after December 31, and MUFG’s fiscal year, which ends on March 31, have been treated as coterminous. For the fiscal years ended March 31, 2008, 2009 and 2010, the effect of recording intervening events for the three-month periods ended March 31 on MUFG’s proportionate equity in net income of subsidiaries with fiscal periods ended on or after December 31, would have resulted in an increase of ¥14.02 billion to net loss, an increase of ¥2.42 billion to net loss and an increase of ¥3.90 billion to net income, respectively. No intervening events occurred during each of the three-month periods ended March 31, 2008, 2009 and 2010 which, if recorded, would have had material effects to consolidated total assets, loans, total liabilities, deposits or total equity as of March 31, 2008, 2009 and 2010.

##### *Use of Estimates*

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to management judgment primarily relate to the allowance for credit losses on loans and off-balance-sheet credit instruments, valuation allowances of deferred tax assets, tax reserves, valuation of financial instruments, goodwill, intangible assets, investment securities and accrued severance indemnities and pension liabilities.



**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Summary of Significant Accounting Policies***

Significant accounting policies applied in the accompanying consolidated financial statements are summarized below:

*Consolidation*—The consolidated financial statements include the accounts of MUFG and its subsidiaries (together, the “MUFG Group”) over which control is exercised through either majority ownership of voting stock and/or other means, including, but not limited to, the possession of the power to direct or cause the direction of management and policies of entities. In situations in which the MUFG Group has less than 100% but greater than 50% of ownership in entities, such entities are consolidated and noncontrolling interests are recorded in Total equity. Intercompany items have been eliminated. Investments in affiliated companies (companies over which the MUFG Group has the ability to exercise significant influence) are accounted for by the equity method of accounting and are reported in Other assets. The MUFG Group’s equity interest in the earnings of these equity investees and gains or losses realized on disposition of such investments are reported in Equity in losses of equity method investees.

Variable interest entities are consolidated when the MUFG Group has a variable interest that will absorb a majority of the entity’s expected losses, receive a majority of the entity’s expected residual returns, or both. See Note 25 for the details of variable interest entities.

Assets that the MUFG Group holds in an agency, fiduciary or trust capacity are not assets of the MUFG Group and, accordingly, are not included in the accompanying consolidated balance sheets.

*Cash Flows*—For the purposes of reporting cash flows, cash and cash equivalents are defined as those amounts included in the consolidated balance sheets under the caption Cash and due from banks with original maturities of 90 days or less. Cash flows from qualified hedging activities are classified in the same category as the items being hedged.

*Translation of Foreign Currency Financial Statements and Foreign Currency Transactions*—Financial statements of overseas entities are translated into Japanese yen using the respective fiscal year-end exchange rates for assets and liabilities. Income and expense items are translated at average rates of exchange for the respective fiscal periods.

Foreign currency translation gains and losses related to the financial statements of overseas entities of the MUFG Group, net of related income tax effects, are credited or charged directly to Foreign currency translation adjustments, a component of accumulated other changes in equity from nonowner sources. Tax effects of gains and losses on foreign currency translation of financial statements of overseas entities are not recognized unless it is apparent that the temporary differences will reverse in the foreseeable future.

Foreign currency-denominated assets and liabilities are translated into the functional currencies of the individual entities included in consolidation at the respective fiscal year-end foreign exchange rates. Foreign currency-denominated income and expenses are translated using average rates of exchange for the respective fiscal periods. Gains and losses from such translation are included in Foreign exchange gains (losses)—net, as appropriate.

*Repurchase Agreements, Securities Lending and Other Secured Financing Transactions*—Securities sold with agreements to repurchase (“repurchase agreements”), securities purchased with agreements to resell (“resale agreements”) and securities lending and borrowing transactions are accounted for as secured financing or lending transactions, if the control over the securities is not surrendered. If they meet the relevant conditions for the

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

surrender of control, they are accounted for as sales of securities with related off-balance sheet forward repurchase commitments or purchases of securities with related off-balance sheet forward resale commitments. For the fiscal years ended March 31, 2008, 2009 and 2010, there were no such transactions accounted for as sales.

*Collateral*—For secured lending transactions, including resale agreements, securities borrowing transactions, commercial lending and derivative transactions, the MUFG Group, as a secured party, generally has the right to require the counterparties to provide collateral, including letters of credit, cash, securities and other financial assets. For most securities lending transactions, the MUFG Group maintains strict levels of collateralization governed by daily mark-to-market analysis. Financial assets pledged as collateral are generally negotiable financial instruments and are permitted to be sold or repledged by secured parties. If the MUFG Group sells these financial assets received as collateral, it recognizes the proceeds from the sale and its obligation to return the collateral. For secured borrowing transactions, principally repurchase agreements and securities lending transactions and derivative transactions, where the secured party has the right to sell or repledge financial assets pledged as collateral, the MUFG Group separately discloses those financial assets pledged as collateral in the consolidated balance sheets.

*Trading Account Securities*—Securities and money market instruments held in anticipation of short-term market movements and for resale to customers are included in Trading account assets, and short trading positions of these instruments are included in Trading account liabilities. Trading positions are carried at fair value on the consolidated balance sheets and recorded on a trade date basis. Changes in the fair value of trading positions are recognized currently in Trading account profits (losses)—net, as appropriate. The MUFG Group has elected fair value option accounting for certain foreign securities. See Note 31 for a further discussion of fair value option accounting.

*Investment Securities*—Debt securities for which the MUFG Group has both the ability and positive intent to hold to maturity are classified as Securities being held to maturity and carried at amortized cost. Debt securities that the MUFG Group may not hold to maturity and marketable equity securities, other than those classified as Trading account securities, are classified as Securities available-for-sale, and are carried at their fair values, with unrealized gains and losses reported on a net-of-tax basis within accumulated other changes in equity from nonowner sources, which is a component of equity. Other investment securities include nonmarketable equity securities carried at their acquisition costs, and also securities held by subsidiaries that are investment companies or brokers and dealers in securities. Such securities held by those subsidiaries are subject to the specialized industry accounting principles for investment companies and brokers and dealers in securities applicable for those subsidiaries. Securities of those subsidiaries are carried at their fair values.

Individual debt and equity securities are written down to fair value with the resulting losses charged to operations when, in the opinion of management, a decline in estimated fair value below the cost of such securities is other than temporary. Such impairment loss is included in Investment securities gains (losses)—net in the consolidated statements of operations. In determining other than temporary declines in fair value to be recognized as an impairment loss on investment securities, the MUFG Group generally considers factors such as the ability and positive intent to hold the investments for a period of time sufficient to allow for any anticipated recovery in fair value, the financial condition of the issuer, the extent of decline in fair value, and the length of time that the decline in fair value below cost has existed. The MUFG Group adopted the new guidance which amends the other than temporary impairment model for debt securities on April 1, 2009. See *Accounting Changes-Recognition and Presentation of Other-Than-Temporary Impairments* and Note 4 for a further discussion. This new guidance did not affect the other than temporary impairment model for equity securities. Interest and dividends on investment securities are reported in Interest income. Dividends are recognized when the shareholder right to receive the dividend is established. Gains and losses on disposition of investment securities are computed using the average cost method and are recognized on the trade date.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Derivative Financial Instruments*—The MUFG Group engages in derivative activities involving swaps, forwards, futures, options, and other types of derivative contracts. Derivatives are used in trading activities to generate trading revenues and fee income for its own account and to respond to the customers' financial needs. Derivatives are also used to manage its market risk exposures to fluctuations in interest and foreign exchange rates, equity and commodity prices, and counterparty credit risk.

Derivatives entered into for trading purposes are carried at fair value and are reported as Trading account assets or Trading account liabilities. Prior to the adoption of new guidance on the measurement of fair value, the MUFG Group deferred trade date gains or losses on derivatives where the fair values of those derivatives were not obtained from a quoted market price, supported by comparison to other observable market transactions, or based upon a valuation technique which incorporated observable market data. See *Accounting Changes—Fair Value Measurements* for details related to adoption of the new guidance on the measurement of fair value. The fair values of derivative contracts executed with the same counterparty under legally enforceable master netting agreements are presented on a gross basis. Changes in the fair value of such contracts are recognized currently in Foreign exchange gains (losses)—net with respect to foreign exchange contracts and in Trading account profits (losses)—net with respect to interest rate contracts and other types of contracts.

Embedded features that are not clearly and closely related to the host contracts and meet the definition of derivatives are separated from the host contracts and measured at fair value unless the contracts embedding the derivatives are measured at fair value in their entirety.

Derivatives are also used to manage exposures to fluctuations in interest and foreign exchange rates arising from mismatches of asset and liability positions. Certain of those derivatives are designated by the MUFG Group and qualify for hedge accounting. A derivative is designated as a hedging instrument at the inception of each such hedge relationship and the MUFG Group documents, for such individual hedging relationships, the risk management objective and strategy, including identifying the item being hedged, identifying the specific risk being hedged and the method used to assess the hedge's effectiveness. In order for a hedging relationship to qualify for hedge accounting, the changes in the fair value of the derivative instruments must be highly effective in achieving offsetting changes in fair values or variable cash flows of the hedged items attributable to the risk being hedged. Any ineffectiveness, which arises during the hedging relationship, is recognized in Non-interest income or expense in the period in which it arises. All qualifying hedging derivatives are valued at fair value and included in Other assets or Other liabilities. The fair values of derivative contracts executed with the same counterparty under legally enforceable master netting agreements are presented on a gross basis. For fair value hedges of interest-bearing assets or liabilities, the change in the fair value of the hedged item and the hedging instruments is recognized in net interest income to the extent that it is effective. For all other fair value hedges, the change in the fair value of the hedged item and change in fair value of the derivative are recognized in non-interest income or expense. For cash flow hedges, the unrealized changes in fair value to the extent effective are recognized in accumulated other changes in equity from nonowner sources. Amounts realized on cash flow hedges related to variable rate loans are recognized in net interest income in the period when the cash flow from the hedged item is realized. The fair value of cash flow hedges related to forecasted transactions, if any, is recognized in non-interest income or expense in the period when the forecasted transaction occurs. Any difference that arises from gains or losses on hedging derivatives offsetting corresponding gains or losses on the hedged items, and gains and losses on derivatives attributable to the risks excluded from the assessment of hedge effectiveness are recognized in non-interest income or expense.

*Loans*—Loans originated by the MUFG Group ("originated loans") are carried at the principal amount outstanding, adjusted for unearned income and deferred net nonrefundable loan fees and costs. Originated loans held and intended for dispositions or sales in secondary markets are transferred to the held-for-sale classification and carried at the lower of cost or estimated fair value generally on an individual loan basis. Loan origination

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fees, net of certain direct origination costs, are deferred and recognized over the contractual life of the loan as an adjustment of yield using the method that approximates the interest method. Interest income on loans that are not impaired is accrued and credited to interest income as it is earned. Unearned income and discounts or premiums on purchased loans are deferred and recognized over the contractual lives of the loans using a method that approximates the interest method when such purchased loans are outside the scope of the guidance on loans and debt securities acquired with deteriorated credit quality as described below.

Originated loans are considered impaired when, based on current information and events, it is probable that the MUFG Group will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Originated loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

Originated loans are generally placed on nonaccrual status when substantial doubt exists as to the full and timely collection of either principal or interest, or when principal or interest is contractually past due one month or more with respect to loans of domestic banking subsidiaries, including BTMU and MUTB, and 90 days or more with respect to loans of certain foreign banking subsidiaries. A nonaccrual loan may be restored to an accrual status when interest and principal payments become current and management expects that the borrower will make future contractual payments as scheduled. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income. Cash receipts on nonaccrual loans, for which the ultimate collectibility of principal is uncertain, are applied as principal reductions; otherwise, such collections are credited to income. The MUFG Group does not capitalize any accrued interest in the principal balances of impaired loans at each balance sheet date.

In accordance with the guidance on loans and debt securities acquired with deteriorated credit quality, impaired loans acquired for which it is probable that the MUFG Group will be unable to collect all contractual receivables are initially recorded at the present value of amounts expected to be received and the related valuation allowances are not carried over or created initially. Accretable yield is limited to the excess of the investor's estimate of undiscounted cash flows over the investor's initial investment in the loan and subsequent increases in cash flows expected to be collected are recognized prospectively through adjustment of the loan's yield over its remaining life after reduction of any remaining allowance for credit losses for the loan established after its acquisition, if any, while any decrease in such cash flows below those initially expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition are recognized as impairments.

*Loan Securitization*—The MUFG Group securitizes and services commercial and industrial loans in the normal course of business. The MUFG Group accounts for a transfer of loans in a securitization transaction as a sale if it meets relevant conditions for the surrender of control. Otherwise, the transfer is accounted for as a collateralized borrowing transaction. Interests in loans sold through a securitization accounted for as a sale may be retained in the form of subordinated tranches or beneficial interests. These retained interests are primarily recorded in Securities available for sale. The previous carrying amount of the loans involved in the transfer is allocated between the loans sold and the retained interests based on their relative fair values at the date of the

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

securitization. Since quoted market prices are generally not available, the MUFG Group usually estimates fair value of these retained interests based on the present value of future expected cash flows by using modeling techniques that involve management's best estimates of key assumptions, which may include default rates, recovery rates, and discount rates. See *Accounting Changes—Fair Value Measurements* and Note 31 for details of fair value measurements.

*Allowance for Credit Losses*—The MUFG Group maintains an allowance for credit losses to absorb probable losses inherent in the loan portfolio. Actual credit losses (amounts deemed uncollectible, in whole or in part), net of recoveries, are deducted from the allowance for credit losses, as net charge-offs, generally based on detailed loan reviews and a credit assessment by management at each balance sheet date. The MUFG Group generally applies its charge-off policy to all loans in its portfolio regardless of the type of borrower. The provision for credit losses, which is a charge against earnings, is added to bring the allowance to a level which, in management's opinion, is adequate to absorb probable losses inherent in the credit portfolio.

A key element relating to the policies and discipline used in determining the allowance for credit losses is the credit classification and the related borrower categorization process. The categorization is based on conditions that may affect the ability of borrowers to service their debt, taking into consideration current financial information, historical payment experience, credit documentation, public information, analyses of relevant industry segments and current trends. In determining the appropriate level of the allowance, the MUFG Group evaluates the probable loss by category of loan based on its type and characteristics.

The allowance for credit losses for non-homogeneous loans consists of an allocated allowance for specifically identified problem loans, an allocated allowance for country risk exposure, a formula allowance and an unallocated allowance. An allocated allowance is also established for large groups of smaller-balance homogeneous loans.

The credit loss allowance for individual customers represents the impairment allowance determined in accordance with the guidance on accounting by creditors for impairment of a loan. The MUFG Group measures the impairment of a loan, based on the present value of expected future cash flows discounted at the loan's effective interest rate, or on the loan's observable market price, or based on the fair value of the collateral if the loan is collateral dependent, when it is probable that the MUFG Group will be unable to collect all amounts due according to the contractual terms of the loan agreement. For certain subsidiaries, some impaired loans are aggregated for the purpose of measuring impairment using historical loss factors. Generally, the MUFG Group's impaired loans include nonaccrual loans, restructured loans and other loans specifically identified as impaired.

The credit loss allowance for country risk exposure is a country-specific allowance for substandard, special mention and unclassified loans. The allowance is established to supplement the formula allowance for these loans, based on an estimate of probable losses relating to the exposure to countries that are identified by management to have a high degree of transfer risk. The measure is generally based on a function of default probability and the recovery ratio with reference to external credit ratings. For the allowance for specifically identified cross-border problem loans, the MUFG Group incorporates transfer risk in its determination of related allowance for credit losses.

The formula allowance is calculated for groups of loans collectively evaluated for impairment that cannot be attributed to specific loans by applying loss factors to outstanding substandard, special mention and unclassified loans. The evaluation of inherent loss for these loans involves a high degree of uncertainty, subjectivity and judgment. In determining the formula allowance, the MUFG Group, therefore, relies on a statistical analysis that incorporates historical loss factor percentages of total loans outstanding. Corresponding to the periodic impairment identification and self-assessment process, the estimation of the formula allowance is back-tested by

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

comparing the allowance with the actual results subsequent to the balance sheet date. The results of such back-testing are evaluated by management to determine whether the manner and level of formula allowance needs to be changed in subsequent years.

The unallocated allowance represents an estimate of additional losses inherent in the loan portfolio and is composed of attribution factors, which are based upon management’s evaluation of various conditions that are not directly or indirectly measured in the determination of the allocated allowance. The conditions evaluated in connection with the unallocated allowance may include existing general economic and business conditions affecting the key lending areas of the MUFG Group, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, specific industry conditions within portfolio segments, recent loss experience in particular segments of the portfolio, duration of the current business cycle, bank regulatory examination results and findings of the MUFG Group’s internal credit examiners.

*Allowance for Off-Balance-Sheet Credit Instruments*—The MUFG Group maintains an allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, guarantees, standby letters of credit and other financial instruments. The allowance is recorded as a liability in Other liabilities. The MUFG Group adopts the same methodology used in determining the allowance for loan credit losses. Potential credit losses related to derivatives are considered in the fair valuation of the derivatives.

Net changes in the allowance for off-balance-sheet credit instruments are accounted for as Other non-interest expenses.

*Premises and Equipment*—Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to operations over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. MUFG, BTMU and MUTB apply the declining-balance method in depreciating their premises and equipment, while other subsidiaries mainly apply the straight-line method, at rates principally based on the following estimated useful lives:

	<u>Years</u>
Buildings .....	15 to 50
Equipment and furniture .....	2 to 20
Leasehold improvements .....	3 to 39

Maintenance, repairs and minor improvements are charged to operations as incurred. Major improvements are capitalized. Net gains or losses on dispositions of premises and equipment are included in Other non-interest income or expense, as appropriate.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount to future undiscounted net cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets are grouped with other assets and liabilities at the lowest level with independent and identifiable cash flows. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less estimated cost to sell.

Asset retirement obligations related to restoration of certain leased properties upon lease termination are recorded in Other liabilities with a corresponding increase in leasehold improvements. The amounts represent the

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

present value of expected future cash flows associated with returning such leased properties to their original condition. The difference between the gross and present value of expected future cash flows is accreted over the life of the related leases as a non-interest expense.

*Goodwill*—Before April 1, 2009, the MUFG Group had recognized goodwill, as of the acquisition date, measured as the excess of the cost of investments in subsidiaries over its share of the fair value of net assets. After the adoption of new guidance on accounting for business combinations on April 1, 2009, the MUFG Group recognizes goodwill, as of the acquisition date, measured as the excess of fair value, including that of noncontrolling interests, over net assets of the acquiree. Goodwill related to investments in equity method investees is included in Other assets as a part of the carrying amount of investments in equity method investees.

Goodwill arising from a business combination is not amortized but is tested at least annually for impairment. Goodwill is recorded at a designated reporting unit level for the purpose of assessing impairment. A reporting unit is an operating segment, or an identified business unit one level below an operating segment. An impairment loss is recognized to the extent that the carrying amount of goodwill exceeds its implied fair value.

*Intangible assets*—Intangible assets consist of software, core deposit intangibles, customer relationships, trade names and other intangible assets. These are amortized over their estimated useful lives unless they have indefinite useful lives. Amortization of intangible assets is computed in a manner that best reflects the economic benefits of the intangible assets as follows:

	Useful lives (years)	Amortization method
Software . . . . .	2 to 10	Straight-line
Core deposit intangibles . . . . .	5 to 19	Declining-balance
Customer relationships . . . . .	12 to 27	Declining-balance
Trade names . . . . .	5 to 40	Straight-line

Intangible assets having indefinite useful lives, primarily certain customer relationships, are not amortized but are subject to annual impairment tests. An impairment exists if the carrying value of an indefinite-lived intangible asset exceeds its fair value. For other intangible assets subject to amortization, an impairment is recognized if the carrying amount is not recoverable and the carrying amount exceeds the fair value of the intangible asset.

The MUFG Group capitalizes certain costs associated with the acquisition or development of internal-use software. Costs subject to capitalization are salaries and employee benefits for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of time spent directly on the project. Once the software is ready for its intended use, the MUFG Group begins to amortize capitalized costs on a straight-line basis.

*Accrued Severance and Pension Liabilities*—The MUFG Group has defined benefit pension plans and other postretirement benefit plans, including severance indemnities plans. The liabilities related to these plans are computed and recognized based on actuarial computations. Net actuarial gains and losses that arise from differences between actual experience and assumptions are generally amortized over the average remaining service period of participating employees if it exceeds the corridor, which is defined as the greater of 10% of plan assets or the projected benefit obligation. Under the guidance related to employers' accounting for defined benefit pension and other postretirement plans, the MUFG Group recognizes a net liability or asset to report the funded status of its defined benefit pension and other postretirement plans in the consolidated balance sheets and recognizes changes in the funded status of defined benefit pension and other postretirement plans in the year in

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which the changes occur in accumulated other changes in equity from nonowner sources. The costs of the plans, based on actuarial computations of current and future employee benefits, were charged to salaries and employee benefits.

The MUFG Group adopted the measurement date provision of the new guidance on employers' accounting for defined benefit pension and other post retirement plans as of April 1, 2008. See *Accounting Changes—Defined Benefit Pension and Other Postretirement Plans* and Note 15 for further information.

*Long-Term Debt*—Premiums, discounts and issuance costs of long-term debt are amortized based on the method that approximates the interest method over the terms of the long-term debt.

*Obligations under Guarantees*—The MUFG Group provides customers with a variety of guarantees and similar arrangements, including standby letters of credit, financial and performance guarantees, credit protections, and liquidity facilities. The MUFG Group recognizes guarantee fee income over the guarantee period based on the contractual terms of the guarantee contracts. It is the MUFG Group's dominant business practice to receive a guarantee fee at the inception of the guarantee, which approximates market value of the guarantee and is initially recorded as a liability, which is then recognized as guarantee fee income ratably over the guarantee period.

*Allowance for repayment of excess interest*—The MUFG Group maintains an allowance for repayment of excess interest based on an analysis of past experience of reimbursement of excess interest, borrowers' profile and recent trend of borrowers' demand for reimbursement. The allowance is recorded as a liability in Other liabilities.

*Fees and Commissions*—Revenue recognition of major components of fees and commissions is as follows:

- Fees on funds transfer and collection services, service charges on deposit accounts, fees and commissions on securities business, fees on real estate business, insurance commissions, fees and commissions on stock transfer agency services, fees on investment funds business, and fees and commissions from other services are generally recognized as revenue when the related services are performed or recognized over the period that the service is provided.
- Fees from trade-related financing services are recognized over the period of the financing.
- Trust fees are recognized on an accrual basis, generally based on the volume of trust assets under management and/or the operating performance for the accounting period of each trust account. With respect to trust accounts with guarantee of trust principal, trust fees are determined based on the profits earned by individual trust account during the trust accounting period, less deductions, including provision for reserve, impairment for individual investments and dividends paid to beneficiary certificate holders. The trust fees for these trust accounts are accrued based on the amounts expected to be earned during the accounting period of each trust account.
- Annual fees and royalty and other service charges related to credit card business are recorded on a straight-line basis as services are provided.
- Interchange income from credit card business is recognized as billed.
- Fees on guarantees are generally recognized over the contractual periods of the respective guarantees. Amounts initially recorded as a liability corresponding to the obligations at fair value are generally recognized as revenue over the terms of the guarantees as the MUFG Group is deemed to be released from the risk under guarantees.

*Income Taxes*—The provision for income taxes is determined using the asset and liability method of accounting for income taxes. Under this method, deferred income taxes reflect the net tax effects of (1) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes



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and the amounts used for income tax purposes, and (2) operating loss and tax credit carryforwards. A valuation allowance is recognized for any portion of the deferred tax assets where it is considered more likely than not that it will not be realized. The provision for deferred taxes is based on the change in the net deferred tax asset or liability during the fiscal year.

*Free Distributions of Common Shares*—As permitted by the Company Law, Japanese companies, upon approval by the Board of Directors, may make a free distribution of shares, in the form of a “stock split” as defined, to shareholders. In accordance with generally accepted accounting practice in Japan, such distribution does not give rise to any change in capital stock or capital surplus accounts. Common shares distributed are recorded as shares issued on the distribution date. See Note 18 for further information.

*Earnings (Loss) per Common Share*—Basic earnings per share (“EPS”) excludes dilutive effects of potential common shares and is computed by dividing income available to common stock shareholders by the weighted average number of common shares outstanding for the period, while diluted EPS gives effect to all dilutive potential common shares that were outstanding during the period. See Note 22 for the computation of basic and diluted EPS.

*Treasury Stock*—The MUFG Group presents its treasury stock, including shares of MUFG owned by its subsidiaries and affiliated companies, as a reduction of equity on the consolidated balance sheets at cost and accounts for treasury stock transactions under an average cost method. Gains (losses) on sales of treasury stock are charged to capital surplus, and unappropriated retained earnings.

*Comprehensive Income (Loss)*—Comprehensive income (loss) includes net income (loss) before attribution to noncontrolling interests and other changes in equity from nonowner sources. All changes in unrealized gains and losses on investment securities, unrealized gains and losses on derivatives qualifying for cash flow hedges, pension liability adjustments and foreign currency translation adjustments constitute changes in equity from nonowner sources and are presented, with related income tax effects, in the consolidated statements of changes in equity from nonowner sources.

*Stock-Based Compensation*—MUFG and certain of its subsidiaries have stock-based compensation plans. Stock-based compensation expenses are recognized based on the grant-date fair value of share based compensation over the period during which an employee is required to provide service in accordance with the terms of the plans. See Note 32 for further discussion of stock-based compensation plans.

***Stock Split***

Effective September 30, 2007, MUFG declared a stock split whereby each common and preferred share was split into 1,000 common and preferred shares. As a result, the number of shares and per share information have been retroactively adjusted.

***Reclassifications***

Certain reclassifications and format changes have been made to the consolidated financial statements for the fiscal years ended March 31, 2008 and 2009 to conform to the presentation for the fiscal year ended March 31, 2010. The MUFG Group adopted new guidance regarding noncontrolling interests in subsidiaries in this fiscal year. As a result, noncontrolling interests were reclassified from “Other liabilities” to “Equity” in the consolidated balance sheets, and also other reclassifications and format changes were made to the consolidated statements of operations, consolidated statements of changes in equity from nonowner sources, consolidated statements of equity, consolidated statements of cash flows, and notes to the consolidated financial statements. See Accounting Changes—Noncontrolling Interests below for details. These reclassifications and format changes did not result in a change in previously reported financial positions and results of operations.

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***Change in Accounting Estimates***

MUFG and its domestic subsidiaries have reviewed the salvage values of premises and equipment and decided to change the estimated salvage values of these assets to ¥1 during the fiscal year ended March 31, 2008. A change in salvage values of depreciable assets is treated as a change in accounting estimate. The effect of this change has been reflected on a prospective basis beginning April 1, 2007. This change had an adverse impact on income from continuing operations before income tax expense and net loss attributable to Mitsubishi UFJ Financial Group of ¥53 billion and ¥31 billion, respectively, and a corresponding impact on both basic and diluted loss per share of ¥3.04 per share for the fiscal year ended March 31, 2008.

The MUFG Group periodically updates underlying assumptions to make a current estimate of the allowance for credit losses. During the fiscal year ended March 31, 2008, in addition to such routine update of estimates to reflect current conditions, BTMU adopted an advanced estimation to determine appropriate level of formula allowance, which is estimated based primarily on the default ratio and the recoverable ratio. Previously, the recoverable ratio was computed from the major cases of a default event such as legal bankruptcy. During the fiscal year ended March 31, 2008, BTMU began incorporating other credit events for its recoverable ratio to better reflect broader cases of default. In addition, BTMU made an adjustment for the impact of heterogeneous size of borrowers among its loan portfolio to estimate the appropriate level of the formula allowance for the fiscal year ended March 31, 2008. Since the default ratio is statistically computed by counting one credit event as one regardless of the size of borrowers, BTMU commenced making an additional reserve by looking to the monetary level of past defaults in addition to the number of defaults. Similarly, during the fiscal year ended March 31, 2009, MUTB adopted an advanced estimation to determine appropriate level of formula allowance, which is estimated based primarily on the default ratio and the recoverable ratio. Previously, the recoverable ratio was computed according to the amount of the secured part of the loan or appraisal of the collateral, which was discounted by a certain rate. Due to the accumulation of the historical data, MUTB has begun incorporating the historical recovery data of the unsecured portion of loans and of the respective collateral for its respective recoverable ratios since the fiscal year ended March 31, 2009. For the fiscal year ended March 31, 2008, the effect from those changes had a positive impact on income from continuing operations before income tax expense and net loss attributable to Mitsubishi UFJ Financial Group of ¥45 billion and ¥27 billion, respectively, and a corresponding impact on both basic and diluted loss per share of ¥2.60 per share. For the fiscal year ended March 31, 2009, the effect from those changes had a positive impact on loss from continuing operations before income tax benefit and net loss attributable to Mitsubishi UFJ Financial Group of ¥104 billion and ¥62 billion, respectively, and a corresponding impact on both basic and diluted loss per share of ¥5.69 per share.

The MUFG Group observed that the market for collateralized loan obligations (“CLOs”) backed by general corporate loans became significantly inactive compared with normal market activity due to the reduction in liquidity of certain debt securities resulting from the global financial market instability in the second half of the fiscal year ended March 31, 2009. Under such circumstances, the MUFG Group concluded that the unadjusted non-binding quotes from broker-dealers became less reflective of the fair values for CLOs backed by general corporate loans. Consequently, during the second half of the fiscal year ended March 31, 2009, the MUFG Group changed the valuation method for estimating the fair value of such CLOs from the method adopting unadjusted quotes from independent broker-dealers to the estimation method by weighting the internal model prices and the non-binding broker-dealer quotes. This change in valuation method was accounted for prospectively as a change in accounting estimate. See Note 31 for the details of the valuation method.

***Accounting Changes***

*The Codification and the Hierarchy of GAAPs*—In June 2009, the Financial Accounting Standards Board (the “FASB”) voted to approve the “FASB Accounting Standards Codification” (the “Codification”). The Codification is not meant to change US GAAP, but is intended to improve the ease of researching US GAAP

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issues. The Codification reorganizes existing US GAAP pronouncements into approximately 90 accounting topics. The Codification is now the single source of authoritative US GAAP. On the effective date, the Codification superseded all then-existing non-SEC accounting and reporting standards to become the single source of authoritative non-governmental US GAAP. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. All subsequent standards will be issued as “Accounting Standard Updates”, which will serve only to update the Codification. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The MUFG Group adopted the Codification during the fiscal year ended March 31, 2010. The Codification did not have an impact on the MUFG Group’s financial position and results of operations. However, throughout the consolidated financial statements, all references to prior FASB, AICPA and EITF accounting pronouncements have been removed, and all non-SEC accounting guidance is referred to in terms of the applicable subject matter.

*Defined Benefit Pension and Other Postretirement Plans*—In September 2006, the FASB issued new guidance related to employers’ accounting for defined benefit pension and other postretirement plans. The new guidance clarifies that defined benefit assets and obligations should be measured as of the date of the entity’s consolidated balance sheets. The requirement to measure plan assets and benefit obligations as of the date of the consolidated balance sheets was effective for fiscal years ending after December 15, 2008.

The MUFG Group adopted the new measurement date provisions on April 1, 2008 which changed the measurement date for plan assets and benefit obligations of BTMU and some of its domestic subsidiaries from December 31 to March 31 by using the approach that remeasured plan assets and benefit obligations as of March 31, 2008. The MUFG Group recognized ¥411 million in gains on settlement during the period from January 1, 2008 to March 31, 2008 and recorded a decrease in the beginning balance of retained earnings as of April 1, 2008 by ¥132 million, net of taxes, and a decrease in the beginning balance of accumulated other changes in equity from nonowner sources as of April 1, 2008 by ¥131,574 million, net of taxes, as a result of adopting this provision. The impact on the beginning balance of accumulated other changes in equity from nonowner sources upon adoption of the new measurement date provisions as of April 1, 2008 is mainly due to a decrease in the fair value of plan assets of ¥175,680 million and an increase in benefit obligations of ¥32,382 million, net of ¥4,333 million in settlements during the period from January 1, 2008 to March 31, 2008 recognized as lump-sum payments for the fiscal year ended March 31, 2008. The increase was caused by a decline in the discount rate from December 31, 2007 to March 31, 2008.

*Uncertainty in Income Taxes*—In June 2006, the FASB issued new guidance on accounting for uncertainty in income taxes. This new guidance requires recognition of a tax benefit to the extent of management’s best estimate of the impact of a tax position based on the technical merits of the position, provided it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. This new guidance also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The MUFG Group adopted this new guidance on April 1, 2007, which reduced the beginning balance of retained earnings by ¥4,091 million. The MUFG Group classifies accrued interest and penalties, if applicable, related to income taxes as income tax expenses.

*Leveraged Leases*—In July 2006, the FASB issued new guidance on accounting for a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction. This new guidance requires that if, during the lease term, the projected timing of the income tax cash flows generated by a leveraged lease is revised, the rate of return and the allocation of income shall be recalculated from the inception of the lease. At adoption, the cumulative effect of applying the provisions of this new guidance shall be reported as an adjustment to the beginning balance of retained earnings as of the beginning of the period in which it is adopted. This new guidance is effective in fiscal years beginning after December 15, 2006. The MUFG Group

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adopted this new guidance on April 1, 2007, which reduced the beginning balance of retained earnings by ¥5,725 million, net of taxes. The reduction to retained earnings at adoption will be recognized in interest income over the remaining terms of the affected leases as tax benefits are realized.

*Fair Value Measurements*—In September 2006, the FASB issued new guidance on the measurement of fair value. This new guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. In addition, it applies under other accounting topics that require or permit fair value measurements since the FASB previously concluded in those accounting topics that fair value is the relevant measurement attribute. Accordingly, this new guidance does not require any new fair value measurements. Under the new guidance, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, a fair value hierarchy is established that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Fair value measurements are separately disclosed by level within the fair value hierarchy. This new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. It shall be applied prospectively, except for the provisions related to block discounts, and existing derivative and hybrid financial instruments measured at fair value using the transaction price. This new guidance nullifies the guidance which requires the deferral of trade date gains or losses on derivatives where the fair value of those derivatives were not obtained from a quoted market price, supported by comparison to other observable market transactions, or based upon a valuation technique incorporating observable market data. The new guidance also precludes the use of a blockage factor when measuring financial instruments traded in an active market at fair value and requires consideration of nonperformance risk when measuring liabilities at fair value. Effective April 1, 2008, the MUFG Group adopted the new guidance for measurement of fair value. Upon its adoption, the difference between the carrying amount and fair value of the derivatives measured under the previous guidance was recognized as a cumulative effect to the beginning balance of retained earnings as of April 1, 2008 in the amount of ¥27,317 million, net of taxes.

In February 2008, the FASB issued new guidance on the application of fair value measurements for purposes of lease classification or measurement and new guidance on the effective date of the application of fair value measurements. The first guidance amends the fair value measurement guidance to exclude lease accounting, and other accounting topics that address fair value measurements for the purposes of lease classification or measurement. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value, regardless of whether those assets and liabilities are related to leases. The second guidance applies to nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis and defers the effective date of the fair value measurement guidance to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for those items. The MUFG Group adopted the guidance on April 1, 2008 to all financial assets and liabilities measured and disclosed on a fair value basis, excluding the nonfinancial assets and liabilities. For the nonrecurring nonfinancial assets and nonfinancial liabilities, including premises and equipment, intangible assets and goodwill measured at fair value for impairment, the MUFG Group adopted the fair value measurement guidance on April 1, 2009. The adoption of this new guidance did not have a material impact on the MUFG Group's financial position and results of operations.

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In October 2008, the FASB issued new guidance to clarify how an entity would determine fair value in a market that is not active. This guidance was effective upon issuance and did not have a material impact on the MUFG Group's financial position and results of operations.

In April 2009, the FASB staff issued an amendment to the fair value measurement guidance, providing additional guidance for estimating fair value when the volume and level of activity for the asset or liability has significantly decreased, including guidance on identifying circumstances that indicate a transaction is not orderly. This amendment requires entities to disclose, in both interim and annual periods, the inputs and valuation techniques used to measure fair value and provide by major categories of debt and equity securities, the fair value hierarchy and Level 3 roll-forward disclosures. This amendment was effective prospectively for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The MUFG Group adopted this amendment on April 1, 2009, which had no material impact on its financial position and results of operations.

See Note 31 for a further discussion of the adoption of the new fair value measurement guidance.

*Fair Value Option for Financial Assets and Financial Liabilities*—In February 2007, the FASB issued new guidance which provided an option for measuring certain financial assets and financial liabilities using fair value. This guidance allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities and certain other items at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. This guidance was effective for fiscal years beginning after November 15, 2007. Early adoption is permitted subject to certain conditions. The MUFG Group adopted this guidance on April 1, 2008. The MUFG Group elected the fair value option for foreign securities classified as available-for-sale held by BTMU and MUTB in the amount of ¥10,448,079 million, whose unrealized gains and losses were reported within accumulated other changes in equity from nonowner sources as of March 31, 2008. BTMU and MUTB economically manage, through their asset and liability management activities, risks associated with their foreign currency-denominated financial assets and liabilities related to fluctuation of foreign exchange rates. However, prior to the adoption of this guidance for these securities, gains and losses on translation of these securities were reflected in other changes in equity from nonowner sources, while gains and losses on translation of foreign currency-denominated financial liabilities were included in current earnings. The MUFG Group elected the fair value option for these securities to mitigate accounting mismatches related to fluctuations of foreign exchange rates. As a result of adopting the fair value option on these securities, MUFG recorded an increase in the beginning balance of retained earnings as of April 1, 2008 of ¥20,150 million, net of taxes. In addition, the MUFG Group elected the fair value option for certain financial instruments held by MUS's foreign subsidiaries, which increased the beginning balance of retained earnings as of April 1, 2008 of ¥12,829 million, net of taxes.

*Business Combinations*—In December 2007, the FASB issued new guidance that significantly changes the accounting for business combinations while retaining the fundamental requirements that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. This guidance further expands the definitions of a business and the fair value measurement and reporting in a business combination. This guidance states that all business combinations (whether full, partial or step acquisitions) will result in all the assets acquired and liabilities assumed and any noncontrolling (minority) interests in the acquiree being recorded at their acquisition-date fair values with limited exceptions. Certain forms of contingent considerations and certain acquired contingencies will be recorded at their acquisition-date fair value. This guidance also states acquisition costs will generally be expensed as incurred, restructuring costs will be expensed in periods after the acquisition date, and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. A substantial number

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of new disclosure requirements are required to disclose all information necessary to evaluate and understand the nature and financial effect of the business combination. The accounting requirements of this guidance are applied on a prospective basis for all business combination transactions completed on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The MUFG Group adopted this guidance on April 1, 2009.

*Noncontrolling Interests*—In December 2007, the FASB issued new guidance which requires companies to clearly identify and present ownership interests in subsidiaries held by parties other than the parent in the consolidated financial statements within the equity section but separate from the parent's equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interests be clearly identified and presented on the face of the consolidated statements of operations; changes in parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for similarly as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. This guidance is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. The MUFG Group adopted this guidance on April 1, 2009. As a result, effective April 1, 2009, ¥ 232,225 million of noncontrolling interests as of March 31, 2009 was reclassified from Other liabilities to Equity on its consolidated balance sheets. Net income (loss) attributable to noncontrolling interests was ¥38,476 million, ¥(36,259) million and ¥15,257 million for the fiscal years ended March 31, 2008, 2009 and 2010, respectively.

*Disclosure about Derivative Instruments and Hedging Activities*—In March 2008, the FASB issued new guidance regarding a company's disclosures on derivative instruments. This guidance requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under existing accounting guidance for derivatives and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The significant additional disclosures required by this guidance include (1) a tabular summary of the fair values of derivative instruments and their gains and losses, (2) disclosure of credit-risk-related contingent features in order to provide more information regarding an entity's liquidity from using derivatives, and (3) cross-referencing within footnotes to make it easier for financial statement users to locate important information about derivative instruments. This guidance is effective for fiscal years beginning after November 15, 2008, with early application encouraged. The MUFG Group adopted this guidance on April 1, 2009, and it affected the MUFG Group's disclosures of derivative instruments and related hedging activities, and did not affect its financial position and results of operations. See Note 23 for the details of disclosures required by this guidance.

*Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*—In February 2008, the FASB issued new guidance, which requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction unless certain criteria are met. This guidance is effective for the fiscal years beginning on or after November 15, 2008. The MUFG Group adopted this guidance on April 1, 2009, which had no material impact on its financial position and results of operations.

*Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*—In June 2008, the FASB issued guidance for participating securities, which clarifies that unvested share based payment awards which contain nonforfeitable rights to dividends should be considered equivalent to participating securities and included in the computation of EPS using the two-class method currently prescribed under existing accounting guidance. This guidance is effective retrospectively for the fiscal years beginning on or after December 15, 2008. The MUFG Group adopted this guidance retrospectively effective April 1, 2009, which had no impact on its results of operations or basic and diluted EPS.

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*Recognition and Presentation of Other-Than-Temporary Impairments*—In April 2009, the FASB staff issued guidance, which amends the other than temporary impairment model for debt securities. This guidance requires an entity to recognize an other than temporary impairment of a debt security if the entity has the intent to sell the debt security or if it is more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis. In addition, this guidance requires an entity to recognize the credit component of an other-than-temporary impairment of a debt security in earnings or the noncredit component in accumulated other changes in equity from nonowner sources when the entity does not intend to sell the debt security and if it is more likely than not that the entity will not be required to sell the debt security before recovery of its amortized cost basis. This guidance also requires additional disclosures, such as the calculation of credit losses, as well as factors considered in reaching a conclusion that an investment is not other than temporarily impaired by major security types. This guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The MUFG Group adopted this guidance on April 1, 2009. The cumulative effect of the change included a decrease in the opening balance of Accumulated deficit at April 1, 2009 of ¥118,210 million, net of taxes with a corresponding adjustment to accumulated other changes in equity from nonowner sources. See Note 4 for a further discussion on this guidance.

*Interim disclosures about Fair Value of Financial Instruments*—In April 2009, the FASB staff issued guidance that requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance also requires those disclosures in summarized financial information at interim reporting periods. This amendment is effective for interim reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The MUFG Group adopted this guidance from the condensed consolidated financial statements for the six months ended September 30, 2009, which did not have a significant impact on its financial position and results of operations.

*Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*—In April 2009, the FASB staff issued new guidance on disclosures and accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. This guidance requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if the acquisition date fair value can be reasonably determined. If the acquisition date fair value of such an asset or liability cannot be reasonably determined, the asset or liability would be measured using existing accounting guidance for contingencies. This guidance is effective on a prospective basis for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The MUFG Group adopted this guidance on April 1, 2009.

*Subsequent Events*—In May 2009, the FASB issued new guidance on subsequent events. This guidance established general guidance of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance is effective for interim or annual financial periods ending after June 15, 2009. The MUFG Group adopted this guidance, which had no impact on its financial position or results of operations.

In February 2010, the FASB issued new guidance to amend the disclosure requirements on subsequent events that an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued and is not required to disclose the date through which subsequent events are evaluated. This guidance is effective upon issuance of the guidance. The MUFG Group adopted this guidance immediately upon the issuance, which had no impact on its financial position or results of operations.

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*Employers' Disclosures and Postretirement Benefit Plan Assets*—In December 2008, the FASB issued guidance to revise disclosures related to employers' postretirement benefit plan assets. The guidance contains amendments to enhance the transparency surrounding the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan. It expands on the existing disclosure requirements by adding required disclosures about: (1) how investment allocation decisions are made by management, (2) major categories of plan assets, and (3) significant concentrations of risk. In addition, the guidance requires an employer to disclose information about the valuation techniques used to measure fair value. The new disclosures are required to be included in financial statements for fiscal years ending after December 15, 2009 with early application permitted. The MUFG Group adopted this guidance on March 31, 2010. These additional disclosures did not affect the MUFG Group's financial position or results of operations. See Note 15 for details of the additional disclosures required by this guidance.

*Investments in Certain Entities That Calculate Net Asset Value per Share*—In September 2009, the FASB issued new guidance which amends the guidance on the measurement of fair value of an alternative investment which does not have a readily determinable fair value. This guidance permits entities to use net asset value per share as a practical expedient to measure the fair value of certain alternative investments. This guidance also requires disclosures about the attributes of investments by major category, determined based on the nature and risks of the investment. This guidance is effective for interim and annual reporting periods ending after December 15, 2009, with early application permitted. The MUFG Group adopted this guidance on March 31, 2010, which had no material impact on the MUFG Group's financial position or results of operations. See Note 31 for the details of disclosures required by this guidance.

*Accounting and Reporting for Decreases in Ownership of a Subsidiary*—In January 2010, the FASB issued new guidance which provides clarity over application of accounting and reporting for decreases in ownership of a subsidiary. This guidance clarifies that the scope of accounting and reporting for decreases in ownership of a subsidiary includes a subsidiary or group of assets that is a business or nonprofit activity, but excludes sales of in-substance real estate. This guidance also requires additional disclosures for fair value measurements relating to retained investments in a deconsolidated subsidiary or a preexisting interest held by an acquirer in a business combination. This guidance is effective beginning in the period that an entity adopts the new guidance on noncontrolling interests noted above, or if the new guidance on noncontrolling interests was adopted previously, it is effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The MUFG Group adopted this guidance for the annual period ended March 31, 2010, which had no material impact on its financial position or results of operations. See Note 20 for details of the additional disclosures required by this guidance.

***Recently Issued Accounting Pronouncements***

*Amendment of Accounting for Transfers of Financial Assets*—In June 2009, the FASB issued new guidance which clarifies the application of certain derecognition concepts and eliminates the concept of a qualifying special purpose entity. The guidance also clarifies the concept of "surrendered control" to consider any continuing involvement with the transferred assets regardless of when the terms were agreed. In addition, the guidance introduces the term "participating interest" to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. Finally, the guidance eliminated certain alternatives with respect to initial recognition and measurement and replaced them with a requirement that a transferor recognize and initially measure all assets obtained including a transferor's beneficial interest and liabilities incurred as a result of a transfer of financial assets accounted for as a sale, at fair value. This guidance is effective for the first annual reporting period beginning after November 15, 2009, and interim periods within that year. Early adoption is prohibited. The MUFG Group has not completed the study of what effect this guidance will have on its financial position and results of operations.



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*Amendment of Accounting for Consolidation of Variable Interest Entities*—In June 2009, the FASB issued new guidance which amends the accounting for consolidation of variable interest entities. This guidance changes the current guidance by modifying the characteristics for assessing a primary beneficiary to include entities that have the power to direct the activities of the variable interest entity which significantly impact its economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the entity. This must be reassessed on an ongoing basis. In addition, this guidance amends the identification of variable interest entities by eliminating the scope exception for qualified special purpose entities and adding an additional reconsideration event for determining whether an entity is a variable interest entity. This guidance is effective for the first annual reporting period beginning after November 15, 2009, and interim periods within that year. Early adoption is prohibited. The MUFG Group adopted this guidance on April 1, 2010. In February 2010, the FASB issued new guidance which amends this consolidation guidance to defer the requirements of the consolidation guidance for determining beneficiary of variable interest entities for certain investment funds including mutual funds, private equity funds, hedge funds, venture capital funds, mortgage real estate investment funds and certain real estate investment funds. See Note 25 for the additional information upon the adoption.

*Measuring Liabilities at Fair Value*—In August 2009, the FASB issued new guidance which provides amendments for the fair value measurements of liabilities. In situations where a quoted price in an active market for an identical liability is not available, a reporting entity is required to measure fair value using one of two prescribed valuation techniques. There is no requirement to consider transfer restrictions on the liability. This guidance is effective for the first interim and annual reporting periods beginning after August 26, 2009. The MUFG Group has not completed the study of what effect this guidance will have on its financial position and results of operations.

*Disclosure about Fair Value Measurements*—In January 2010, the FASB issued new guidance which requires a new disclosure and clarifies existing disclosure requirements on fair value measurements. The guidance requires additional disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and activity in Level 3 fair value measurement. This guidance also clarifies existing disclosure requirements regarding level of disaggregation and valuation inputs and techniques. This guidance is effective for interim and annual reporting period beginning after December 15, 2009, except for the disclosure of the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which is effective for interim and annual reporting beginning after December 15, 2010. Early adoption of the guidance is permitted. The MUFG Group does not expect the provisions of this new guidance to have a material effect on its financial position and results of operations.

*Technical Corrections to Various Topics*—In February 2010, the FASB issued new guidance which eliminates inconsistencies and outdated provisions and provides needed clarifications, for example, for guidance on embedded derivatives and hedging and guidance on income tax accounting in a reorganization. The amendments are effective for the first interim and annual reporting periods beginning after issuance, except for certain amendments. The clarifications of the guidance on the embedded derivatives and hedging are effective for fiscal years beginning after December 15, 2009, and should be applied to existing contracts (hybrid instruments) containing embedded derivative features at the date of adoption. The amendments to the guidance on accounting for income taxes in a reorganization should be applied to reorganizations for which the date of the reorganization is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. For those reorganizations reflected in interim financial statements issued before the amendments in this new guidance are effective, retrospective application is required. The MUFG Group does not expect the provisions of this new guidance to have a material effect on its financial position and results of operations.

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*Amendments to Accounting Scope of Embedded Credit Derivatives*—In March 2010, the FASB issued new guidance which clarifies the scope exception related to embedded credit derivatives. This guidance addresses how to determine which embedded credit derivative features, including those in collateralized debt obligations and synthetic collateralized debt obligations, are considered to be embedded derivatives that are exempt from potential bifurcation and separate accounting requirement. This guidance is effective for the first interim reporting period beginning after June 15, 2010 with early application permitted at the beginning of the first interim reporting period beginning after the issuance of this new guidance. In initially adopting this new guidance, an entity may elect the fair value option for any investment in a beneficial interest in a securitized financial asset. The election of the fair value option is irrevocable and should be determined on an instrument-by-instrument basis at the beginning of the reporting period of initial adoption. The MUFG Group has not completed the study of what effect this guidance will have on its financial position and results of operations.

*Amendment of Accounting for Impaired Loan when the Pool of Loan is Accounted for as a Single Asset*—In April 2010, the FASB issued new guidance which amends the accounting for modifications of loans that are acquired with evidence of credit deterioration and accounted for as a pool. The amendment provides that modifications of such loan, which are acquired with evidence of credit deterioration and accounted for as a pool, do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. No additional disclosures are required as a result of this guidance. This guidance is effective for modifications of loans accounted for within pools occurring in the first interim or annual period ending on or after July 15, 2010. Upon initial adoption of the guidance, an entity may make a one-time election to terminate accounting for loans as a pool. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. Early adoption is permitted. The MUFG Group has not completed the study of what effect this guidance will have on its financial position and result of operations.

*Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*—In July 2010, the FASB issued new guidance which requires additional disclosures and amends existing disclosure requirements on allowances for credit losses and the credit quality of financial receivables. The guidance requires additional disclosures on credit quality indicators of financing receivables, aging of past due financing receivables, nature and extent of troubled debt restructuring and modifications, and significant purchases and sales of financing receivables on a disaggregate basis. Existing guidance is amended to require disclosure of financing receivables on a more disaggregated basis. This guidance will be required for interim and annual reporting periods ending on or after December 15, 2010. Specific items regarding activity that occurs during a reporting period, such as the allowance rollforward and modification disclosures will be required for interim and annual reporting periods beginning on or after December 15, 2010. This new guidance will only affect the MUFG Group's disclosures about the credit quality of financing receivables and allowances for credit losses, and will not affect its financial position and results of operations.

## **2. DISCONTINUED OPERATIONS**

The MUFG Group accounted for discontinued operations in accordance with the accounting guidance for impairment or disposal of long-lived assets and presented the results of discontinued operations as a separate line item in the consolidated statements of operations.

During the fiscal year ended March 31, 2008, UnionBanCal Corporation (“UNBC”) entered into a Deferred Prosecution Agreement with the United States Department of Justice (“DOJ”) relating to past violations of Bank Secrecy Act and other anti-money laundering regulations that occurred in UNBC's now discontinued international banking business. As part of this agreement, UNBC paid the DOJ ¥2,545 million for the fiscal year

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ended March 31, 2008. The ¥2,545 million payment and ¥194 million of related legal and other outside services costs were allocated to discontinued operations as these past violations pertained to UNBC's international banking business. The income tax benefit of ¥69 million for the fiscal year ended March 31, 2008 reflects the nondeductibility of the ¥2,545 million payment to the DOJ.

The components of loss from discontinued operations for the fiscal years ended March 31, 2008, 2009 and 2010 were as follows:

	<b>2008</b>	<b>2009</b>	<b>2010</b>
	(in millions)		
Loss from discontinued operations . . . . .	¥(2,739)	¥ —	¥ —
Income tax benefit . . . . .	(69)	—	—
Loss from discontinued operations—net . . . . .	(2,670)	—	—
Net loss attributable to noncontrolling interests . . . . .	(924)	—	—
Net loss from discontinued operations attributable to Mitsubishi UFJ Financial Group . . . . .	¥(1,746)	¥ —	¥ —

**3. BUSINESS DEVELOPMENTS**

*Mitsubishi UFJ NICOS Co., Ltd.*

On April 1, 2007, the merger between UFJ NICOS Co., Ltd. (“UFJ NICOS”) and DC Card Co., Ltd. (“DC Card”), two credit card subsidiaries of BTMU, came into effect with UFJ NICOS being the surviving entity and UFJ NICOS renamed Mitsubishi UFJ NICOS. Each share of DC Card’s common stock was exchanged for 30 shares of UFJ NICOS’s common stock. The assets and liabilities acquired through the purchase of the noncontrolling interest in DC Card were measured based on their fair value as of April 1, 2007. The MUFG Group initially recorded approximately ¥4 billion of intangible assets.

On November 6, 2007, MUFG acquired ¥120 billion of new common shares in Mitsubishi UFJ NICOS. As a result, the MUFG Group has approximately 76% ownership of Mitsubishi UFJ NICOS compared with its prior holding of approximately 66%. The assets and liabilities acquired through the purchase of Mitsubishi UFJ NICOS shares were measured based on their fair value. The MUFG Group initially recorded approximately ¥19 billion of goodwill and approximately ¥16 billion of intangible assets. The objectives of this additional investment are to strengthen the financial base of Mitsubishi UFJ NICOS, utilize its financial resources effectively, and develop a new credit business strategy due to the changing business environment for consumer finance companies in Japan.

The MUFG Group reorganized the capital structure of Mitsubishi UFJ NICOS, a 76%-owned subsidiary, by eliminating the only outstanding class of capital stock other than the common stock and by having The Norinchukin Bank (“Norinchukin”) become the sole noncontrolling shareholder. This reorganization was carried out in order to further enhance the strategic integrity and flexibility of the MUFG Group and to strive for effective utilization of managerial resources within the MUFG Group.

Pursuant to such reorganization, on August 1, 2008, MUFG acquired, through a share exchange, all the outstanding Mitsubishi UFJ NICOS common stock and all the outstanding Mitsubishi UFJ NICOS Class 1 stock whereby MUFG issued MUFG common stock at a ratio of 0.37 shares of MUFG common stock for every one share of Mitsubishi UFJ NICOS common stock and 1.39 shares of MUFG common stock for every one share of Mitsubishi UFJ NICOS Class 1 stock. MUFG, then, sold 244 million shares of Mitsubishi UFJ NICOS common stock to Norinchukin. Furthermore, MUFG converted all of Mitsubishi UFJ NICOS Class 1 stock acquired from Norinchukin into Mitsubishi UFJ NICOS common stock. As a result, the ownership by MUFG of Mitsubishi UFJ NICOS decreased to approximately 85% from 100%.

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The foregoing reorganization was accounted for as follows:

The assets and liabilities acquired through the purchase of the noncontrolling interest of Mitsubishi UFJ NICOS were accounted for using the purchase method of accounting and were recorded based on their fair value as of August 1, 2008. The MUFG common stock issued in the share exchange was valued at ¥131 billion based on the average market price for a reasonable period before and after the date the terms of the acquisition were agreed to and announced. As a result, MUFG owned all the outstanding Mitsubishi UFJ NICOS common stocks. The MUFG Group recorded approximately ¥23 billion of goodwill and ¥27 billion of intangible assets.

The acquisition of Mitsubishi UFJ NICOS Class 1 stock and the sale of Mitsubishi UFJ NICOS common stock were treated as one unit of account within the context of MUFG's conversion of the Class 1 stock. The foregoing transactions were accounted for as: (i) a capital transaction representing an induced conversion by Norinchukin of Mitsubishi UFJ NICOS Class 1 stock for approximately 186.6 million shares of Mitsubishi UFJ NICOS common stock, and (ii) the sale by MUFG of approximately 57.4 million shares of Mitsubishi UFJ NICOS common stock, and (iii) the issuance of 69.5 million shares of MUFG common stock. As a result, MUFG recognized a credit to capital surplus of ¥71 billion and recognized ¥8 billion as a direct charge to retained earnings representing the effect of the inducement calculated based on the excess number of Mitsubishi UFJ NICOS common stock deemed received by Norinchukin (over the number of Mitsubishi UFJ NICOS common stock that it would have otherwise received had it converted Mitsubishi UFJ NICOS Class 1 stock under its contractual terms). In addition, gains on the sale of the 57.4 million shares of Mitsubishi UFJ NICOS common stock of ¥6 billion were recognized in the statements of operations. Furthermore, net loss available to common shareholders of Mitsubishi UFJ Financial Group was increased by ¥8 billion attributable to the effect of the induced conversion in the calculation of EPS.

All the MUFG common stock issued to effect the foregoing transactions were previously held as treasury stock. The difference between their carrying amounts and the amount at which the corresponding reissuance was measured was respectively recorded in capital surplus and unappropriated retained earnings.

***kabu.com Securities Co., Ltd.***

BTMU acquired approximately 20% ownership of kabu.com Securities Co., Ltd. ("kabu.com Securities"), a retail online securities company in Japan through tender offers, valuing the transaction at approximately ¥41 billion, resulting in increasing MUFG's ownership to approximately 51% during the fiscal year ended March 31, 2008. The assets and liabilities acquired through purchases of the noncontrolling interest of kabu.com Securities were measured based on their fair value. The MUFG Group recorded approximately ¥78 billion of goodwill and approximately ¥10 billion of intangible assets. The purpose of the acquisition is to strengthen the retail online securities business and enhance the comprehensive Internet-based financial services the MUFG Group provides.

***Mitsubishi UFJ Securities Co., Ltd.***

On September 30, 2007, MUFG and MUS executed a share exchange. The share exchange ratio was set at 1.02 shares of MUFG common stock to one share of MUS common stock, valuing the transaction at approximately ¥370 billion. The share exchange ratio was calculated based on the MUFG's stock after the stock split, which was effective on September 30, 2007. MUFG's treasury stock was exchanged for the shares of MUS common stock and there was no issuance of new shares. Losses on the share exchange were charged to Capital surplus for the fiscal year ended March 31, 2008. As a result of the share exchange, MUS became a wholly owned subsidiary of MUFG. MUFG previously owned approximately 60% of MUS. The assets and liabilities acquired through the purchase of the noncontrolling interest of MUS were measured based on their fair value as

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of September 30, 2007. The MUFG Group initially recorded approximately ¥23 billion of goodwill and ¥98 billion of intangible assets. The purpose of making MUS a wholly-owned subsidiary is, among other factors, to seize the opportunities presented by the deregulation of the Japanese financial markets and further enhance cooperation between group companies.

***UnionBanCal Corporation***

BTMU acquired approximately 36% ownership of UNBC through cash tender offers, valuing the transaction at approximately ¥389 billion. The offer expired on September 26, 2008, with purchase of the shares being effective on October 1, 2008. After the offer, BTMU owned approximately 97 % of UNBC's outstanding common stock and acquired the remaining common stock on November 4, 2008. As a result of the tender offers, followed by the second-step merger, UNBC became a wholly owned subsidiary of BTMU. BTMU previously owned approximately 64% of UNBC. The assets and liabilities acquired through the purchase of the noncontrolling interest of UNBC were measured based on their fair value as of October 1, 2008. The MUFG Group initially recorded approximately ¥175 billion of goodwill and ¥67 billion of intangible assets. The purpose of making UNBC a wholly-owned subsidiary is to achieve greater management flexibility and aim to further strengthen the MUFG Group's presence in the United States.

**4. INVESTMENT SECURITIES**

The amortized costs, gross unrealized gains and losses and estimated fair values of investment securities available for sale and being held to maturity at March 31, 2009 and 2010 were as follows:

<u>At March 31, 2009:</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Estimated fair value</u>
	(in millions)			
Securities available for sale:				
Debt securities:				
Japanese national government and Japanese government agency bonds . . . . .	¥23,846,153	¥ 55,409	¥ 8,788	¥23,892,774
Japanese prefectural and municipal bonds . . . . .	277,895	4,684	101	282,478
Foreign governments and official institutions bonds . . . . .	185,561	5,247	177	190,631
Corporate bonds . . . . .	3,791,045	86,310	8,327	3,869,028
Mortgage-backed securities . . . . .	676,326	8,232	16,320	668,238
Other debt securities . . . . .	576,298	5,151	54,292	527,157
Marketable equity securities . . . . .	3,340,339	730,038	110,596	3,959,781
Total . . . . .	<u>¥32,693,617</u>	<u>¥895,071</u>	<u>¥198,601</u>	<u>¥33,390,087</u>
Securities being held to maturity:				
Debt securities:				
Japanese national government and Japanese government agency bonds . . . . .	¥ 1,352,213	¥ 19,032	¥ 1,593	¥ 1,369,652
Japanese prefectural and municipal bonds . . . . .	51,961	753	—	52,714
Foreign governments and official institutions bonds . . . . .	204,954	2,337	246	207,045
Corporate bonds . . . . .	143,236	1,647	7	144,876
Other debt securities . . . . .	1,059,989	11,208	19,038	1,052,159
Total . . . . .	<u>¥ 2,812,353</u>	<u>¥ 34,977</u>	<u>¥ 20,884</u>	<u>¥ 2,826,446</u>

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<u>At March 31, 2010:</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>		<u>Gross unrealized losses</u>	<u>Estimated fair value</u>
		(in millions)			
Securities available for sale:					
Debt securities:					
Japanese national government and Japanese government agency bonds . . . . .	¥39,431,089	¥	63,871	¥62,099	¥39,432,861
Japanese prefectural and municipal bonds . . . . .	272,829		8,148	77	280,900
Foreign governments and official institutions bonds . . . . .	1,340,750		8,882	4,406	1,345,226
Corporate bonds . . . . .	3,394,320		88,762	8,434	3,474,648
Residential mortgage-backed securities . . . . .	934,203		16,004	8,796	941,411
Commercial mortgage-backed securities . . . . .	57,098		2	3,805	53,295
Asset-backed securities, excluding mortgage- backed securities . . . . .	329,590		773	2,545	327,818
Other debt securities . . . . .	1,037		—	—	1,037
Marketable equity securities . . . . .	3,082,948		1,477,616	5,884	4,554,680
Total . . . . .	<u>¥48,843,864</u>		<u>¥1,664,058</u>	<u>¥96,046</u>	<u>¥50,411,876</u>
Securities being held to maturity:					
Debt securities:					
Japanese national government and Japanese government agency bonds . . . . .	¥ 1,076,900	¥	17,250	¥ —	¥ 1,094,150
Japanese prefectural and municipal bonds . . . . .	42,348		585	—	42,933
Foreign governments and official institutions bonds . . . . .	607,558		8,309	300	615,567
Corporate bonds . . . . .	127,369		2,280	—	129,649
Asset-backed securities, excluding mortgage- backed securities . . . . .	1,086,788		56,245	253 <sup>(1)</sup>	1,142,780
Other debt securities . . . . .	2,838		4	—	2,842
Total . . . . .	<u>¥ 2,943,801</u>	¥	<u>84,673</u>	¥ 553	<u>¥ 3,027,921</u>

Note:

- (1) UNBC reclassified CLOs, which totaled ¥111,895 million at fair value, from securities available for sale to securities being held to maturity during the fiscal year ended March 31, 2010. As a result of the reclassification, the unrealized losses at the date of transfer remained in accumulated other changes in equity from nonowner sources in the accompanying consolidated balance sheets was ¥48,914 million before taxes at March 31, 2010 and not included in the table above.

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In the second half of the fiscal year ended March 31, 2009, it was observed that there was a rare circumstance where the liquidity of certain foreign investment securities was significantly reduced due to the global financial market turmoil lasting for a substantial period of time, and resulted in difficulties selling these securities at prices that would be realized under normal market conditions. In light of this rare circumstance, the MUFG Group changed its intent to hold certain foreign investment securities until their maturities. According to this change of the intent, BTMU reclassified these investment securities, which consist of asset-backed securities, from the trading category to the securities being held to maturity category on January 30, 2009. These securities, which were classified as “Other debt securities” of the held to maturity category at March 31, 2009, are classified as “Asset-backed securities, excluding mortgage-backed securities” of the held to maturity category at March 31, 2010. The reclassification of these investment securities was made at fair value of ¥1,053,029 million on the date of reclassification. While these trading securities were measured at fair value with their unrealized holding gains and losses recognized in earnings, the reclassified securities being held to maturity are measured at amortized cost as of the balance sheet date. The carrying amounts of the reclassified investment securities were ¥1,056,339 million and ¥972,327 million at March 31, 2009 and 2010, respectively.

Investment securities other than securities available for sale or being held to maturity (i.e., nonmarketable equity securities presented in Other investment securities) were primarily carried at cost of ¥1,390,315 million and ¥1,655,812 million, at March 31, 2009 and 2010, respectively, because their fair values were not readily determinable. The MUFG Group periodically monitors the status of each investee including the credit ratings and changes in the MUFG Group’s share of net assets in the investees as compared with its shares at the time of investment, or utilizes commonly accepted valuation models for certain nonmarketable equity securities issued by public companies which are convertible to marketable common stock in the future, to determine if impairment losses exist. The impairment losses recognized on these nonmarketable securities were ¥43,451 million, ¥42,620 million and ¥24,751 million in the fiscal years ended March 31, 2008, 2009 and 2010, respectively.

The impairment of cost-method investments is not evaluated when valuation models are not applicable if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. Accordingly, the MUFG Group did not estimate the fair value of such investments which had aggregated costs of ¥163,813 million and ¥532,419 million, at March 31, 2009 and 2010, respectively, since it was not practical. Investment securities held by certain subsidiaries subject to specialized industry accounting principles for investment companies and brokers and dealers presented in Other investment securities were carried at fair value of ¥43,809 million and ¥35,026 million at March 31, 2009 and 2010, respectively.

See Note 31 for the methodologies and assumptions used to estimate the fair values.

The amortized cost and estimated fair values of debt securities being held to maturity and the estimated fair values of debt securities available for sale at March 31, 2010 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties. Securities not due at a single maturity date and securities embedded with call or prepayment options, such as mortgage-backed securities, are included in the table below based on their original final maturities.

	Held-to-maturity		Available for sale
	Amortized cost	Estimated fair value	Estimated fair value
	(in millions)		
Due in one year or less . . . . .	¥ 341,996	¥ 344,909	¥16,191,114
Due from one year to five years . . . . .	1,523,489	1,548,319	22,602,840
Due from five years to ten years . . . . .	358,809	385,880	3,815,240
Due after ten years . . . . .	719,507	748,813	3,248,002
Total . . . . .	<u>¥2,943,801</u>	<u>¥3,027,921</u>	<u>¥45,857,196</u>

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For the fiscal years ended March 31, 2008, 2009 and 2010, gross realized gains on sales of investment securities available for sale were ¥324,715 million, ¥224,507 million and ¥344,353 million, respectively, and gross realized losses on sales of investment securities available for sale were ¥239,635 million, ¥75,165 million and ¥47,117 million, respectively.

For the fiscal years ended March 31, 2008, 2009 and 2010, losses resulting from impairment of investment securities to reflect the decline in value considered to be other than temporary were ¥1,543,779 million, ¥858,874 million and ¥117,485 million, respectively, which were included in Investment securities gains (losses)—net in the consolidated statements of operations. The losses of ¥1,543,779 million for the fiscal year ended March 31, 2008 included losses of ¥1,169,069 million from debt securities available for sale mainly classified as Foreign governments and official institutions bonds and Mortgage-backed securities, and ¥331,259 million from marketable equity securities. The losses of ¥858,874 million for the fiscal year ended March 31, 2009 included losses of ¥155,489 million from debt securities available for sale mainly classified as Japanese national government bonds and corporate bonds, and ¥660,719 million from marketable equity securities. The losses of ¥117,485 million for the fiscal year ended March 31, 2010 primarily included losses of ¥29,822 million from debt securities available for sale mainly classified as corporate bonds and ¥62,912 million from marketable equity securities.

The following table shows the unrealized gross losses and estimated fair values of investment securities available for sale and being held to maturity at March 31, 2009 by length of time that individual securities in each category have been in a continuous loss position:

<b>At March 31, 2009:</b>	<b>Less than 12 months</b>		<b>12 months or more</b>		<b>Total</b>		
	<b>Estimated fair value</b>	<b>Unrealized losses</b>	<b>Estimated fair value</b>	<b>Unrealized losses</b>	<b>Estimated fair value</b>	<b>Unrealized losses</b>	<b>Number of securities</b>
	(in millions)						
Securities available for sale:							
Debt securities:							
Japanese national government and Japanese government agency bonds ..	¥ 8,449,806	¥ 8,788	¥ —	¥ —	¥ 8,449,806	¥ 8,788	97
Japanese prefectural and municipal bonds .....	33,437	101	—	—	33,437	101	30
Foreign governments and official institutions bonds .....	7,860	176	152	1	8,012	177	19
Corporate bonds .....	667,722	8,327	—	—	667,722	8,327	5,178
Mortgage-backed securities .....	108,635	8,535	72,017	7,785	180,652	16,320	138
Other debt securities .....	29,804	1,077	98,703	53,215	128,507	54,292	228
Marketable equity securities .....	820,181	110,564	48	32	820,229	110,596	225
Total .....	<u>¥10,117,445</u>	<u>¥137,568</u>	<u>¥170,920</u>	<u>¥61,033</u>	<u>¥10,288,365</u>	<u>¥198,601</u>	<u>5,915</u>
Securities being held to maturity:							
Debt securities:							
Japanese national government and Japanese government agency bonds ..	¥ 2,524	¥ 81	¥ 23,244	¥ 1,512	¥ 25,768	¥ 1,593	5
Foreign governments and official institutions bonds .....	34,316	246	—	—	34,316	246	6
Corporate bonds .....	1,603	4	2,701	3	4,304	7	8
Other debt securities .....	670,774	19,038	—	—	670,774	19,038	75
Total .....	<u>¥ 709,217</u>	<u>¥ 19,369</u>	<u>¥ 25,945</u>	<u>¥ 1,515</u>	<u>¥ 735,162</u>	<u>¥ 20,884</u>	<u>94</u>



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The following table shows the unrealized gross losses and estimated fair values of investment securities available for sale and being held to maturity at March 31, 2010 by length of time that individual securities in each category have been in a continuous loss position:

<b>At March 31, 2010:</b>	<b>Less than 12 months</b>		<b>12 months or more</b>		<b>Total</b>		
	<b>Estimated fair value</b>	<b>Unrealized losses</b>	<b>Estimated fair value</b>	<b>Unrealized losses</b>	<b>Estimated fair value</b>	<b>Unrealized losses</b>	<b>Number of securities</b>
	(in millions)						
Securities available for sale:							
Debt securities:							
Japanese national government and Japanese government agency bonds .....	¥21,109,870	¥25,459	¥1,806,501	¥36,640	¥22,916,371	¥62,099	114
Japanese prefectural and municipal bonds .....	10,009	77	—	—	10,009	77	3
Foreign governments and official institutions bonds .....	822,500	4,404	138	2	822,638	4,406	122
Corporate bonds .....	431,826	4,709	292,544	3,725	724,370	8,434	5,314
Residential mortgage-backed securities .....	269,805	2,269	76,545	6,527	346,350	8,796	123
Commercial mortgage-backed securities .....	2,946	250	47,396	3,555	50,342	3,805	28
Asset-backed securities, excluding mortgage-backed securities .....	12,546	1,672	20,705	873	33,251	2,545	26
Marketable equity securities .....	96,997	5,711	1,554	173	98,551	5,884	119
Total .....	¥22,756,499	¥44,551	¥2,245,383	¥51,495	¥25,001,882	¥96,046	5,849
Securities being held to maturity:							
Debt securities:							
Foreign governments and official institutions bonds .....	¥ 85,069	¥ 300	¥ —	¥ —	¥ 85,069	¥ 300	9
Asset-backed securities, excluding mortgage-backed securities .....	9,571	20	138,402	233	147,973	253	226
Total .....	¥ 94,640	¥ 320	¥ 138,402	¥ 233	¥ 233,042	¥ 553	235

In April 2009, the FASB staff issued guidance, which amended the other-than-temporary impairment (“OTTI”) model for debt securities. Under the new guidance, OTTI losses must be recognized in earnings if an investor has the intent to sell the debt security, if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost basis, or if an investor does not expect to recover the entire amortized cost basis of the security. Any impairment on securities an investor intends to sell or is more likely than not required to sell is recognized in earnings for the entire difference between the amortized cost and its fair value. Any impairment on securities an investor does not intend to sell or it is not more likely than not that the investor will be required to sell before recovery is separated into an amount representing the credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other changes in equity from nonowner sources.

The following describes the nature of the MUFG Group’s investments and the conclusions reached on the temporary or other than temporary status of the unrealized losses.

*Japanese and foreign governments, agency, or municipal bonds*

As of March 31, 2010, the unrealized losses associated with Japanese and foreign governments and agency bonds are not expected to have any credit losses due to the guarantees provided by the governments or such unrealized losses are primarily driven by changes in interest rates, not due to credit losses. Therefore, the MUFG Group expects to recover the entire amortized cost basis of these securities and as such has not recorded any impairment losses in the accompanying consolidated statements of operations.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Residential and commercial mortgage-backed securities*

As of March 31, 2010, the unrealized losses associated with federal agency residential mortgage-backed securities, which are issued by Government-Sponsored Enterprises (“GSE”) of the United States and collateralized by residential mortgage loans, are expected to be primarily driven by changes in interest rates and not due to credit losses. The unrealized losses associated with other non-agency residential and commercial mortgage-backed securities issued by financial institutions with no guarantee from GSEs are primarily rated investment grade, and with consideration of other factors, such as expected cash flow analysis, the MUFG Group expects to recover the entire amortized cost basis of these securities. As such, no impairment was recorded in the accompanying consolidated statements of operations.

*Asset-backed securities, excluding mortgage-backed securities*

As of March 31, 2010, the unrealized losses associated with asset-backed securities are primarily related to certain CLOs, which are structured finance products that securitize diversified pool of loan assets into multiple classes of notes from the cash flows generated by such loans, and pay the note holders through the receipt of interest and principal repayments from the underlying loans. Certain of these CLOs are highly illiquid securities for which fair values are difficult to obtain. Unrealized losses arise from widening credit spreads, credit quality of the underlying collateral, uncertainty regarding the valuation of such securities and the market’s opinion of the performance of the fund managers. Cash flow analysis of the underlying collateral provides an estimate of other-than-temporary impairment, which is performed when the fair value of a security is lower than its amortized cost. Any security with a change in credit rating is also subject to cash flow analysis to determine whether or not an other-than-temporary impairment exists. The fair value of the CLO portfolio was adversely impacted during the fiscal years ended March 31, 2009 and 2010 by the overall financial market crisis. The MUFG Group monitored performance of securities and performed expected cash flow analysis, which indicated no observable credit quality issues on such securities at March 31, 2010. As a result, no impairment was recorded in the accompanying consolidated statements of operations.

*Corporate bonds*

As of March 31, 2010, the unrealized losses associated with the corporate bonds are primarily related to private placement bonds issued by Japanese non-public companies. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the bonds as estimated using the MUFG Group’s cash flow projections using its base assumptions. The key assumptions include probability of default based on credit rating of the bond issuers and loss given default.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table presents a roll-forward of the credit loss component recognized in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in the periods prior to April 1, 2009. The additions represent the first time a debt security was credit impaired or when subsequent credit impairments have occurred. The credit loss component is reduced when the MUFG Group sells or the corporate bonds mature. Additionally, the credit loss component is reduced if the MUFG Group receives or expects to receive cash flows in excess of what the MUFG Group previously expected to receive over the remaining life of the credit-impaired debt securities.

	<u>Fiscal year ended</u> <u>March 31, 2010</u>
	<u>(in millions)</u>
Beginning balance as of April 1, 2009 .....	¥ 40,556
Additions:	
Initial credit impairments .....	24,587
Subsequent credit impairments .....	5,235
Reductions:	
Realized losses for securities sold or matured .....	(33,787)
Ending balance as of March 31, 2010 .....	<u>¥ 36,591</u>

The cumulative decline in fair value of the credit impaired corporate bonds held at March 31, 2010 was ¥29,228 million. Of which, the credit loss component recognized in earnings was ¥36,591 million, and the remaining related to all other factors recognized in accumulated other changes in equity from nonowner sources before taxes was ¥7,363 million at March 31, 2010.

*Marketable equity securities*

The MUFG Group has determined that unrealized losses on marketable equity securities are temporary based on its ability and positive intent to hold the investments for a period of time sufficient to allow for any anticipated recovery and the results of its review conducted to identify and evaluate investments that have indications of possible impairments. Impairment is evaluated considering various factors, and their relative significance varies from case to case. The MUFG Group's review includes, but is not limited to, consideration of the following factors:

*The length of time that fair value of the investment has been below cost*—The MUFG Group generally deems a continued decline of fair value below cost for six months or more to be other than temporary.

*The extent to which the fair value of investments has been below cost as of the end of the reporting period*—The MUFG Group's investment portfolio is exposed to volatile equity prices affected by many factors including investors' perspectives as to future economic factors and the issuers' performance. The MUFG Group generally deems the decline in fair value below cost of 20% or more as an indicator of an other than temporary decline in fair value.

*The financial condition and near-term prospects of the issuer*—The MUFG Group considers the financial condition and near-term prospects of the issuer primarily based on the credit standing of the issuers as determined by its credit rating system.

At March 31, 2010, unrealized losses on marketable equity securities which have been in a continuous loss position are considered temporary based on the evaluation as described above, and since the MUFG Group primarily makes these investments for strategic purposes to maintain long-term relationship with its customers.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**5. LOANS**

Loans at March 31, 2009 and 2010, by domicile and type of industry of borrowers are summarized below:

Classification of loans by industry is based on the industry segment loan classification as defined by the Bank of Japan.

	2009	2010
	(in millions)	
Domestic:		
Manufacturing . . . . .	¥ 12,922,822	¥12,027,795
Construction . . . . .	1,803,541	1,427,933
Real estate <sup>(1)</sup> . . . . .	10,436,795	12,261,588
Services <sup>(1)</sup> . . . . .	6,750,442	3,714,148
Wholesale and retail . . . . .	9,760,805	8,597,192
Banks and other financial institutions <sup>(2)</sup> . . . . .	4,836,047	4,159,603
Communication and information services . . . . .	732,652	1,339,753
Other industries . . . . .	9,515,861	9,393,031
Consumer . . . . .	20,542,398	19,096,832
Total domestic . . . . .	77,301,363	72,017,875
Foreign:		
Governments and official institutions . . . . .	351,134	490,376
Banks and other financial institutions <sup>(2)</sup> . . . . .	2,687,004	2,970,470
Commercial and industrial . . . . .	17,550,544	14,252,704
Other . . . . .	2,510,521	2,554,209
Total foreign . . . . .	23,099,203	20,267,759
Unearned income, unamortized premiums—net and deferred loan fees—net . . . . .	(90,225)	(99,724)
Total <sup>(3)</sup> . . . . .	¥100,310,341	¥92,185,910

Notes:

- (1) Since the classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes was changed, loans to lease financing companies of ¥2,392,425 million were included in “Real estate” at March 31, 2010. At March 31, 2009, the related balances had been included in “Services.”
- (2) Loans to the so-called non-bank finance companies are generally included in the “Banks and other financial institutions” category. Non-bank finance companies are primarily engaged in consumer lending, factoring and credit card businesses.
- (3) The above table includes loans held for sale of ¥119,596 million and ¥102,268 million at March 31, 2009 and 2010, respectively, which are carried at the lower of cost or estimated fair value.

Nonaccrual and restructured loans were ¥1,771,110 million and ¥1,981,201 million at March 31, 2009 and 2010, respectively. Had interest on these loans been accrued pursuant to the original terms, gross interest income on such loans for the fiscal years ended March 31, 2009 and 2010 would have been approximately ¥93.4 billion and ¥96.2 billion, respectively, of which approximately ¥47.5 billion and ¥38.8 billion, respectively, were included in interest income on loans in the accompanying consolidated statements of operations. Accruing loans contractually past due 90 days or more were ¥21,487 million and ¥26,418 million at March 31, 2009 and 2010, respectively.

The MUFG Group provided commitments to extend credit to customers with restructured loans. The amounts of such commitments were ¥40,001 million and ¥23,885 million at March 31, 2009 and 2010, respectively. See Note 24 for further discussion of commitments to extend credit.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Impaired Loans***

The MUFG Group's impaired loans primarily include nonaccrual loans and restructured loans. A summary of the recorded balances of impaired loans and related impairment allowance at March 31, 2009 and 2010 is shown below:

	2009		2010	
	Recorded loan balance	Impairment allowance	Recorded loan balance	Impairment allowance
	(in millions)			
Requiring an impairment allowance . . . . .	¥1,168,477	¥618,560	¥1,465,040	¥770,262
Not requiring an impairment allowance <sup>(1)</sup> . . . . .	407,755	—	360,812	—
Total <sup>(2)</sup> . . . . .	<u>¥1,576,232</u>	<u>¥618,560</u>	<u>¥1,825,852</u>	<u>¥770,262</u>

Notes:

- (1) These loans do not require an allowance for credit losses under the guidance on accounting by creditors for impairment of a loan since the fair values of the impaired loans equal or exceed the recorded investments in the loans.
- (2) In addition to impaired loans presented in the above table, there were loans held for sale that were impaired of nil and ¥14,524 million at March 31, 2009 and 2010, respectively.

The average recorded investments in impaired loans were approximately ¥1,397 billion, ¥1,556 billion and ¥1,717 billion, respectively, for the fiscal years ended March 31, 2008, 2009 and 2010.

For the fiscal years ended March 31, 2008, 2009 and 2010, the MUFG Group recognized interest income of approximately ¥48.3 billion, ¥40.0 billion and ¥33.4 billion, respectively, on impaired loans. Interest income on nonaccrual loans was recognized on a cash basis when ultimate collectibility of principal was certain; otherwise, cash receipts were applied as principal reductions. Interest income on accruing impaired loans, including restructured loans, was recognized on an accrual basis to the extent that the collectibility of interest income was reasonably certain based on management's assessment.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Loans Acquired in a Transfer***

In accordance with the guidance on loans and debt securities acquired with deteriorated credit quality, the following table sets forth information primarily about loans of the UFJ Holdings Group acquired in connection with the merger, for which it is probable, at acquisition, that the MUFG Group will be unable to collect all contractually required payments receivable.

	<u>2009</u>	<u>2010</u>
	(in millions)	
Loans acquired during the fiscal year:		
Contractually required payments receivable at acquisitions . . . . .	¥ 28,827	¥ 807
Cash flows expected to be collected at acquisitions . . . . .	6,366	90
Fair value of loans at acquisition . . . . .	6,366	90
Accrutable yield for loans within the scope of the guidance on loans and debt securities acquired with deteriorated credit quality:		
Balance at beginning of fiscal year . . . . .	¥122,063	¥ 82,219
Additions . . . . .	—	—
Accretion . . . . .	(50,386)	(32,121)
Disposals . . . . .	—	—
Reclassifications from nonaccretable difference . . . . .	10,542	11,035
Deconsolidation of a subsidiary . . . . .	—	(208)
Balance at end of fiscal year . . . . .	<u>¥ 82,219</u>	<u>¥ 60,925</u>
Loans within the scope of the guidance on loans and debt securities acquired with deteriorated credit quality:		
Outstanding balance at beginning of fiscal year . . . . .	¥879,762	¥654,150
Outstanding balance at end of fiscal year . . . . .	654,150	522,015
Carrying amount at beginning of fiscal year . . . . .	287,322	248,511
Carrying amount at end of fiscal year . . . . .	248,511	188,719
Nonaccruing loans within the scope of the guidance on loans and debt securities acquired with deteriorated credit quality:		
Carrying amount at acquisition date during fiscal year . . . . .	¥ 6,366	¥ 90
Carrying amount at end of fiscal year . . . . .	73,260	53,459
Provisions within the scope of the guidance on loans and debt securities acquired with deteriorated credit quality:		
Balance of allowance for loan losses at beginning of fiscal year . . . . .	¥ 19,779	¥ 23,443
Additional provisions during fiscal year <sup>(1)</sup> . . . . .	15,109	8,987
Reductions of allowance during fiscal year . . . . .	6,960	4,047
Balance of allowance for loan losses at end of fiscal year . . . . .	23,443	25,906

The MUFG Group considered prepayments in the determination of contractual cash flows and cash flows expected to be collected based on historical results.

Note:

(1) Additional provisions during the fiscal year ended March 31, 2009 have been restated from ¥36,862 million to ¥15,109 million.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Lease Receivable***

As part of its financing activities, the MUFG Group enters into leasing arrangements with customers. The MUFG Group's leasing operations are performed through leasing subsidiaries and consist principally of direct financing leases involving various types of data processing equipment, office equipment and transportation equipment.

As of March 31, 2009 and 2010, the components of the investment in direct financing leases were as follows:

	2009	2010
	(in millions)	
Minimum lease payment receivable	¥889,521	¥744,027
Estimated residual values of leased property	34,097	33,339
Less—unearned income	(68,493)	(61,398)
Net investment in direct financing leases	¥855,125	¥715,968

Future minimum lease payment receivables under noncancelable leasing agreements as of March 31, 2010 were as follows:

	Direct financing leases
	(in millions)
Fiscal year ending March 31:	
2011	¥248,649
2012	198,061
2013	131,452
2014	80,850
2015	36,357
2016 and thereafter	48,658
Total minimum lease payment receivables	¥744,027

***Government-led Loan Restructuring Program***

Under the legislation enacted by the Japanese Diet in June 1996, which incorporates the restructuring program for the loans of seven failed housing-loan companies (the "Jusen"), the Deposit Insurance Corporation ("DIC") established a Housing Loan Administration Corporation ("HLAC") to collect and dispose of the loans of the liquidated Jusen. In 1999, HLAC merged with the Resolution and Collection Bank Limited to create the Resolution and Collection Corporation ("RCC"), which is wholly owned by the DIC.

Financial institutions, including the MUFG Group, waived the repayment of substantial amounts of the loans to the Jusen and transferred the remaining balances to HLAC. Financial institutions were requested to make loans to HLAC to finance its collection activities, and in the fiscal year ended March 31, 1997, the MUFG Group made loans of ¥407,078 million with an original maturity term of 15 years. The 15-year term loans to HLAC, which are guaranteed by the DIC under the legislation and the loan agreements, mature in 2011 and earn interest at TIBOR (Tokyo Interbank Offered Rate) plus 0.125%. On October 1, 2005, the MUFG Group acquired, at fair value, loans of the UFJ Holdings Group to HLAC in connection with the merger with UFJ Holdings. During the fiscal years ended March 31, 2009 and 2010, certain of these loans were repaid before maturity. At March 31, 2009 and 2010, outstanding loans to RCC were ¥193,628 million and ¥179,270 million, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Under this restructuring program, a Financial Stabilization Fund (the “Special Fund”) was established within the DIC, and the Bank of Japan and other financial institutions established another fund (the “New Fund”). These funds are principally invested in Japanese government bonds. The MUFG Group made non-interest-earning deposits of ¥176,089 million with the Special Fund and the New Fund in the fiscal year ended March 31, 1997. The deposit balances as of March 31, 2009 and 2010, which are included in Other assets, were ¥372,114 million and ¥378,119 million, respectively, reflecting a present value discount and subsequent accretion of the discount during the period until the expected maturity date. The non-interest-earning deposits with these funds are expected to mature in 15 years from the deposit dates, which coincides with the planned operational lifespan of RCC.

It is uncertain what losses (so-called “stage two loss”), if any, may ultimately be incurred by the RCC through the collection of the Jusen loans during the 15-year term. If any such losses ultimately occur, the Japanese government will be liable for half of such losses, and the investment income to be earned by the Special Fund during the 15 years is to be used to cover the remaining losses. The investment income to be earned by the New Fund during the 15 years is to be used to compensate for a portion of the public funds used for the Jusen restructuring.

At this time management believes all loans and deposits will be collectible according to their respective terms.

***Sales of Loans***

The MUFG Group originates various types of loans to corporate and individual customers in Japan and overseas in the normal course of its business. In order to improve its loan quality, BTMU and MUTB actively disposed of nonperforming loans. Most of such nonperforming loans were disposed of by sales to third parties without any continuing involvement. Management of BTMU and MUTB generally approves disposals after significant sales terms, including prices, are negotiated. As such, loans are disposed of by sales shortly after the loans are transferred to the held-for-sale classification. The net gains on the sales of loans were ¥14,771 million and ¥17,764 million for the fiscal years ended March 31, 2008 and 2010, respectively. The net losses on the sales of loans was ¥1,728 million for the fiscal year ended March 31, 2009.

***Loan Securitization***

The MUFG Group securitized loans without recourse of ¥68,090 million to the special purpose entity which was in form of trust accounting and which issued senior beneficial interests and subordinated beneficial interests in the fiscal year ended March 31, 2009. The MUFG Group had no significant securitization transactions accounted for as sales for the fiscal year ended March 31, 2010.

For the fiscal year ended March 31, 2009, the MUFG Group’s retained interests consisted of senior beneficial interests of ¥60,671 million which were recorded as investment securities. The subordinated beneficial interests of ¥7,419 million were sold and the gains or losses recognized were not material. The carrying amount of the investment securities was allocated between the senior beneficial interests and the subordinated beneficial interests based on their relative fair values at the date of the securitization. The senior beneficial interests are carried at their fair values and the unrealized holding gains and losses are excluded from earnings and reported as a net amount in a separate component of equity until realized. The fair value of the senior beneficial interests at March 31, 2010 was ¥38,227 million. The purpose of the special purpose entity is to hold and manage only loans without recourse. The MUFG Group provides servicing for beneficial interests in the securitized loans. However no servicing assets or liabilities were recorded as a result of this transaction since the MUFG Group received adequate compensation. The MUFG Group did not provide contractual or noncontractual financial support to the special purpose entity or subordinated beneficial interests holders. Also, there were no liquidity arrangements,



**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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guarantees or other commitments provided by third parties related to the transferred financial assets. At March 31, 2009 and 2010, key economic assumptions used in measuring the fair value of the senior beneficial interests were as follows:

	2009	2010
One month forward rate . . . . .	0.21 - 1.15%	(0.20) - 0.90%
Credit spread . . . . .	1.84 - 5.33%	3.11 - 7.89%

At March 31, 2009 and 2010, the sensitivities of the fair value to an immediate adverse change of 10 basis points (“bp”) and 20bp, and 10% and 20% were as follows:

	2009	2010
One month forward rate:		
Impact of 10bp adverse change . . . . .	99.72 - 99.85%	99.70 - 99.91%
Impact of 20bp adverse change . . . . .	99.44 - 99.70%	99.42 - 99.84%
Credit spread:		
Impact of 10% adverse change . . . . .	98.99 - 99.53%	97.99 - 99.65%
Impact of 20% adverse change . . . . .	97.97 - 99.07%	96.00 - 99.31%

The sensitivities are hypothetical. In this table, the effect of a variation in a particular assumption on the fair value of the senior beneficial interests was calculated without changing any other assumption; in reality, changes could be correlated and changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

The table below summarizes certain cash flows between the MUFG Group and the special purpose entity for the fiscal year ended March 31, 2010.

	March 31, 2010
	(in millions)
Cash flows from collections received on senior beneficial interests . . . . .	19,799
Cash flows from dividends on senior beneficial interests . . . . .	419
Servicing fees collected . . . . .	3

There were no other loans that were managed with the securitized loans, and both the transferred assets and the retained assets had no delinquencies at the end of March 31, 2010. No credit losses had been incurred from those loans for the fiscal year ended March 31, 2010.

***Related Party Loans***

In some cases, the banking subsidiaries of MUFG make loans to related parties, including their directors and executive officers, in the course of their normal commercial banking business. At March 31, 2009 and 2010, outstanding loans to such related parties were not significant.

In the opinion of management, these related party loans were made on substantially the same terms, including interest rates and collateral requirements, as those terms prevailing at the date these loans were made. For the fiscal years ended March 31, 2008, 2009 and 2010, there were no loans to related parties that were charged-off. Additionally, at March 31, 2008, 2009, and 2010, there were no loans to related parties that were impaired.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**6. ALLOWANCE FOR CREDIT LOSSES**

Changes in the allowance for credit losses for the fiscal years ended March 31, 2008, 2009 and 2010 are shown below:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
		(in millions)	
Balance at beginning of fiscal year . . . . .	¥1,112,453	¥1,134,940	¥1,156,638
Provision for credit losses . . . . .	385,740	626,947	647,793
Charge-offs . . . . .	386,484	603,298	520,772
Less—Recoveries . . . . .	30,592	26,446	52,372
Net charge-offs . . . . .	355,892	576,852	468,400
Others <sup>(1)</sup> . . . . .	(7,361)	(28,397)	(20,416)
Balance at end of fiscal year . . . . .	<u>¥1,134,940</u>	<u>¥1,156,638</u>	<u>¥1,315,615</u>

Note:

(1) Others principally include losses (gains) from foreign exchange translation. In addition, for the fiscal year ended March 31, 2010, others include adjustments related to restructuring of business operations.

As explained in Note 5, nonperforming loans were actively disposed of by sales during recent years. The allocated allowance for credit losses for such loans was removed from the allowance for credit losses and transferred to the valuation allowance for loans held for sale upon a decision to sell. Net charge-offs in the above table include the decrease in the allowance for credit losses due to loan disposal activity amounting to ¥5.9 billion, ¥13.2 billion and ¥6.8 billion for the fiscal years ended March 31, 2008, 2009 and 2010, respectively.

**7. PREMISES AND EQUIPMENT**

Premises and equipment at March 31, 2009 and 2010 consisted of the following:

	<u>2009</u>	<u>2010</u>
	(in millions)	
Land . . . . .	¥ 413,257	¥ 399,893
Buildings <sup>(1)</sup> . . . . .	673,011	680,085
Equipment and furniture . . . . .	653,211	681,886
Leasehold improvements <sup>(1)</sup> . . . . .	250,284	235,807
Construction in progress . . . . .	16,290	17,206
Total . . . . .	<u>2,006,053</u>	<u>2,014,877</u>
Less accumulated depreciation . . . . .	<u>962,637</u>	<u>1,019,710</u>
Premises and equipment-net . . . . .	<u>¥1,043,416</u>	<u>¥ 995,167</u>

Note:

(1) The balances of Buildings and Leasehold improvements at March 31, 2009 have been restated as follows:

	<u>As previously reported</u>	<u>As restated</u>
	(in millions)	
Buildings . . . . .	566,310	673,011
Leasehold improvements . . . . .	356,985	250,284

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Premises and equipment include capitalized leases, principally related to data processing equipment, which amounted to ¥113,188 million and ¥92,175 million at March 31, 2009 and 2010, respectively. Accumulated depreciation on such capitalized leases at March 31, 2009 and 2010 amounted to ¥77,777 million and ¥70,284 million, respectively.

BTMU has entered into sales agreements to sell its buildings and land and, under separate agreements, leased those properties back for its business operations, including bank branches. BTMU either provided nonrecourse financings to the buyers for the sales proceeds or invested in the equities of the buyers. As a result, BTMU was considered to have continuing involvement with the properties. For accounting and reporting purposes, these transactions were accounted for under the financing method with the sales proceeds recognized as a financing obligation. The properties were reported on the consolidated balance sheets and depreciated. The financing obligation at March 31, 2009 and 2010 were ¥56,053 million and ¥52,189 million, respectively.

For the fiscal years ended March 31, 2008, 2009 and 2010, the MUFG Group recognized ¥4,732 million, ¥7,480 million and ¥9,198 million, respectively, of impairment losses for long-lived assets, primarily real estate which was either formerly used for its banking operations and is no longer used or real estate that is being used where recovery of the carrying amount is doubtful. In addition, ¥60 million, ¥2,955 million and ¥1,350 million of impairment losses were recognized for real estate held for sale for the fiscal years ended March 31, 2008, 2009 and 2010, respectively. These losses are included in Other non-interest expenses. In computing the amount of impairment losses, fair value was determined primarily based on market prices, if available, or the estimated price based on an appraisal.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**8. GOODWILL AND OTHER INTANGIBLE ASSETS**

*Goodwill*

The table below presents the changes in the carrying amount of goodwill by business segment during the fiscal years ended March 31, 2009 and 2010:

	Integrated Corporate Banking Business Group						Integrated Trust Assets Business Group	Global Markets	Total
	Domestic		Overseas			Total			
			Other than UNBC	UNBC	Overseas Total				
<b>(in millions)</b>									
<b>Balance at March 31, 2008:</b>									
Goodwill	¥ 814,655	¥ 883,567	¥152,203	¥ 93,138	¥245,341	¥1,128,908	¥ 22,527	¥2,300	¥ 1,968,390
Accumulated impairment losses	(10,154)	(883,567)	(532)	—	(532)	(884,099)	—	—	(894,253)
	¥ 804,501	¥ —	¥151,671	¥ 93,138	¥244,809	¥ 244,809	¥ 22,527	¥2,300	¥ 1,074,137
Goodwill acquired during the fiscal year <sup>(2)</sup>	25,860	1,713	—	175,262	175,262	176,975	—	—	202,835
Impairment loss	(829,901)	(1,206)	—	—	—	(1,206)	(14,735)	—	(845,842)
Reduction due to elimination of valuation allowance for deferred tax assets	(103)	—	—	—	—	—	—	—	(103)
Reduction due to sales of subsidiaries	—	—	—	(9,666)	(9,666)	(9,666)	—	—	(9,666)
Foreign currency translation adjustments and other	(357)	(46)	—	(41,532)	(41,532)	(41,578)	—	—	(41,935)
<b>Balance at March 31, 2009:</b>									
Goodwill	840,055	885,234	152,203	217,202	369,405	1,254,639	22,527	2,300	2,119,521
Accumulated impairment losses	(840,055)	(884,773)	(532)	—	(532)	(885,305)	(14,735)	—	(1,740,095)
	¥ —	¥ 461	¥151,671	¥217,202	¥368,873	¥ 369,334	¥ 7,792	¥2,300	¥ 379,426
Impairment loss	—	(461)	—	—	—	(461)	—	—	(461)
Foreign currency translation adjustments and other	—	—	—	2,533	2,533	2,533	—	—	2,533
<b>Balance at March 31, 2010:</b>									
Goodwill	840,055	885,234	152,203	219,735	371,938	1,257,172	22,527	2,300	2,122,054
Accumulated impairment losses	(840,055)	(885,234)	(532)	—	(532)	(885,766)	(14,735)	—	(1,740,556)
	¥ —	¥ —	¥151,671	¥219,735	¥371,406	¥ 371,406	¥ 7,792	¥2,300	¥ 381,498

Notes:

- (1) See Note 29 for the business segment information of the MUFG Group.
- (2) See Note 3 for the goodwill acquired in connection with various acquisitions.

Goodwill impairment losses of ¥893,721 million, ¥845,842 million and ¥461 million were recognized for the fiscal years ended March 31, 2008, 2009 and 2010, respectively. Reporting units for which impairment losses were recognized are as follows:

Business Segment	Reporting Unit	Impairment loss		
		2008	2009	2010
(in millions)				
Integrated Retail Banking Business Group	MUS-Retail	¥ 10,154	¥ —	¥ —
Integrated Retail Banking Business Group	BTMU-Retail	—	636,322	—
Integrated Retail Banking Business Group	Mitsubishi UFJ NICOS-Retail	—	193,579	—
Integrated Corporate Banking Business Group—Domestic	BTMU-Corporate	828,786	—	461
Integrated Corporate Banking Business Group—Domestic	MUTB-Real Estate	14,950	—	—
Integrated Corporate Banking Business Group—Domestic	MUS-Corporate	39,831	1,206	—
Integrated Trust Assets Business Group	MUTB-Trust	—	14,735	—
		¥893,721	¥845,842	¥461

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

For the fiscal year ended March 31, 2008, the MUFG group recognized ¥893,721 million as an impairment of goodwill, mainly due to the global financial market instability. MUFG's stock price declined from ¥1,330 at March 31, 2007 to ¥860 at March 31, 2008. It led to a decrease in market capitalization and negatively affected the fair value of reporting units for the purpose of periodical goodwill impairment testing. As a result, goodwill relating to the MUS-Retail, BTMU-Corporate, MUTB-Real Estate and MUS-Corporate reporting units was impaired.

For the fiscal year ended March 31, 2009, MUFG's stock price decreased to ¥476 and its market capitalization continuously diminished. The continuing financial crisis weakened our financial forecast, which resulted in further negative impacts to the fair value of our reporting units. As a result of the readjustment of future projections performed by management, the fair value of most reporting units, which is based on discounted cash flows, fell below their carrying amount. Based on these situations, the MUFG group recognized ¥845,842 million as an impairment of goodwill relating to the BTMU-Retail, Mitsubishi UFJ NICOS-Retail, MUS-Corporate and MUTB-Trust reporting units.

The fair value of those reporting units was estimated using the present value of expected future cash flows.

***Other Intangible Assets***

The table below presents the gross carrying amount, accumulated amortization and net carrying amount, in total and by major class of intangible assets at March 31, 2009 and 2010:

	2009			2010		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	(in millions)					
Intangible assets subject to amortization:						
Software .....	¥1,119,020	¥583,143	¥ 535,877	¥1,263,031	¥ 707,888	¥ 555,143
Core deposit intangibles .....	637,568	265,402	372,166	638,290	329,163	309,127
Customer relationships ..	208,061	85,533	122,528	208,118	100,419	107,699
Trade names .....	62,740	8,007	54,733	60,058	8,616	51,442
Other .....	6,428	2,782	3,646	4,006	2,282	1,724
Total .....	¥2,033,817	¥944,867	1,088,950	¥2,173,503	¥1,148,368	1,025,135
Intangible assets not subject to amortization:						
Indefinite-lived customer relationships .....			64,162			61,491
Indefinite-lived trade names .....			4,459			4,459
Other .....			34,370			25,032
Total .....			102,991			90,982
Total .....			¥1,191,941			¥1,116,117

Intangible assets subject to amortization acquired during the fiscal year ended March 31, 2009 amounted to ¥263,129 million, which primarily consisted of ¥157,291 million of software, ¥50,138 million of core deposit intangibles and ¥44,153 million of customer relationships. The weighted average amortization periods for these

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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assets are 6 years, 5 years and 16 years, respectively. There is no significant residual value estimated for these assets. Intangible assets not subject to amortization acquired during the fiscal year ended March 31, 2009 amounted to ¥24,577 million.

Intangible assets subject to amortization acquired during the fiscal year ended March 31, 2010 amounted to ¥168,722 million, which primarily consisted of ¥168,423 million of software. The weighted average amortization periods for these assets are 5 years. There is no significant residual value estimated for these assets. Intangible assets not subject to amortization acquired during the fiscal year ended March 31, 2010 amounted to ¥1,667 million.

For the fiscal years ended March 31, 2008, 2009 and 2010, the MUFG Group recognized ¥78,679 million, ¥126,885 million and ¥12,400 million, respectively, of impairment losses for intangible assets whose carrying amount exceeded their fair value. In computing the amount of impairment losses, fair value was determined primarily based on the present value of expected future cash flows, if available, the estimated value based on appraisals, or market prices.

The impairment loss for the fiscal year ended March 31, 2008 included a loss of ¥77,107 million relating to customer relationships in the Integrated Retail Banking Business Group and Integrated Corporate Banking Business Group—Domestic, which were subject to amortization. These intangible assets were valued based on the present value of expected future cash flows. Estimated future cash flows were revised downwards due to the global financial market instability. Accordingly, the MUFG Group reevaluated these intangible assets and recognized impairment losses.

The impairment loss for the fiscal year ended March 31, 2009 included losses of ¥83,088 million and ¥36,672 million relating to customer relationships in the Integrated Retail Banking Business Group and Integrated Trust Assets Business Group, which were subject to and not subject to amortization, respectively. These intangible assets were valued based on the present value of expected future cash flows. Estimated future cash flows were revised downwards due to the global financial market instability. Accordingly, the MUFG Group reevaluated these intangible assets and recognized impairment losses.

The impairment loss for the fiscal year ended March 31, 2010 included a loss of ¥9,239 million relating to the contractual rights on business alliance, which was reported under the Integrated Retail Banking Business Group. The intangible asset was not subject to amortization and was aggregated in Other intangible assets. The fair value of the intangible asset was calculated based on the present value of expected future cash flows. Estimated future cash flows were revised downwards due to a change in the business environment within our credit card business. Accordingly, the MUFG Group reevaluated the intangible asset and recognized an impairment loss.

The estimated aggregate amortization expense for intangible assets for the next five fiscal years is as follows:

	<u>(in millions)</u>
Fiscal year ending March 31:	
2011 .....	¥220,047
2012 .....	188,936
2013 .....	155,484
2014 .....	112,051
2015 .....	78,079

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**9. INCOME TAXES**

The detail of current and deferred income tax expense (benefit) for the fiscal years ended March 31, 2008, 2009 and 2010 were as follows:

	<u>2008<sup>(1)</sup></u>	<u>2009<sup>(1)</sup></u>	<u>2010</u>
		(in millions)	
Current:			
Domestic .....	¥ 41,437	¥ 27,180	¥ 36,993
Foreign .....	<u>65,355</u>	<u>114,259</u>	<u>53,659</u>
Total .....	<u>106,792</u>	<u>141,439</u>	<u>90,652</u>
Deferred:			
Domestic .....	470,859	(293,849)	297,989
Foreign .....	<u>(24,606)</u>	<u>(107,518)</u>	<u>18,399</u>
Total .....	<u>446,253</u>	<u>(401,367)</u>	<u>316,388</u>
Income tax expense (benefit) from continuing operations .....	553,045	(259,928)	407,040
Income tax benefit from discontinued operations .....	(69)	—	—
Income tax expense (benefit) reported in equity relating to:			
Investment securities <sup>(1)</sup> .....	(918,229)	(585,322)	350,507
Derivatives qualifying for cash flow hedges <sup>(1)</sup> .....	2,890	2,725	(3,295)
Pension liability adjustments <sup>(1)</sup> .....	(34,286)	(288,856)	157,720
Foreign currency translation adjustments <sup>(1)</sup> .....	<u>(31,665)</u>	<u>(15,004)</u>	<u>2,594</u>
Total <sup>(1)</sup> .....	<u>(981,290)</u>	<u>(886,457)</u>	<u>507,526</u>
Total <sup>(1)</sup> .....	<u>¥(428,314)</u>	<u>¥(1,146,385)</u>	<u>¥914,566</u>

Note:

- (1) Effective April 1, 2009, the MUFG Group adopted new guidance regarding noncontrolling interests in subsidiaries. See Note 1 "Noncontrolling Interests" under "Accounting Changes" section for the detail. As a result, income tax expense (benefit) reported in equity and total income tax benefit for the fiscal years ended March 31, 2008 and 2009 were reclassified.

***Reconciliation of Effective Income Tax Rate***

Income taxes in Japan applicable to the MUFG Group are imposed by the national, prefectural and municipal governments, and in the aggregate resulted in a normal effective statutory rate of approximately 40.6% for the fiscal years ended March 31, 2008, 2009 and 2010. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

A reconciliation of the effective income tax rate reflected in the accompanying consolidated statements of operations to the combined normal effective statutory tax rate for the fiscal years ended March 31, 2008, 2009 and 2010 are as follows:

	<u>2008<sup>(1)</sup></u>	<u>2009<sup>(1)</sup></u>	<u>2010</u>
Combined normal effective statutory tax rate . . . . .	40.6%	40.6%	40.6%
Nondeductible expenses . . . . .	5.9	(0.2)	0.2
Dividends from foreign subsidiaries . . . . .	24.3	(0.3)	0.0
Foreign tax credit and payments . . . . .	2.4	(0.7)	0.7
Lower tax rates applicable to income of subsidiaries . . . . .	(18.9)	0.0	(0.7)
Change in valuation allowance . . . . .	334.3	(2.3)	(5.8)
Realization of previously unrecognized tax effects of subsidiaries . . . . .	(1.2)	(1.7)	(0.9)
Nontaxable dividends received . . . . .	(36.3)	0.4	(0.1)
Impairment of goodwill . . . . .	701.2	(19.5)	0.0
Undistributed earnings of subsidiaries . . . . .	8.7	(1.5)	(1.6)
Tax and interest expense for uncertainty in income taxes . . . . .	2.0	(1.0)	0.6
Other—net . . . . .	<u>5.6</u>	<u>0.9</u>	<u>(1.3)</u>
Effective income tax rate . . . . .	<u>1068.6%</u>	<u>14.7%</u>	<u>31.7%</u>

Note:

- (1) Effective April 1, 2009, the MUFG Group adopted new guidance regarding noncontrolling interests in subsidiaries. See Note 1 “*Noncontrolling Interests*” under “*Accounting Changes*” section for the detail. As a result, a reconciliation of the effective income tax rate for the fiscal years ended March 31, 2008 and 2009 were adjusted.



**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Deferred Tax Assets and Liabilities***

Deferred tax assets and liabilities are computed for each tax jurisdiction using currently enacted tax rates applicable to periods when the temporary differences are expected to reverse. The tax effects of the items comprising the MUFG Group's net deferred tax assets at March 31, 2009 and 2010 were as follows:

	2009	2010
	(in millions)	
Deferred tax assets:		
Allowance for credit losses . . . . .	¥ 798,020	¥ 902,282
Operating loss carryforwards . . . . .	775,298	518,948
Loans . . . . .	22,637	12,746
Accrued liabilities and other . . . . .	394,606	397,255
Premises and equipment, including sale-and-leaseback transactions . . . . .	124,582	128,158
Derivative financial instruments . . . . .	44,868	28,861
Investment securities (including trading account assets at fair value under fair value option) . . . . .	809,996	82,470
Accrued severance indemnities and pension plans . . . . .	269,799	100,804
Valuation allowance <sup>(1)</sup> . . . . .	(729,874)	(641,619)
Total deferred tax assets . . . . .	2,509,932	1,529,905
Deferred tax liabilities:		
Intangible assets . . . . .	247,003	212,845
Lease transactions . . . . .	50,965	50,611
Other . . . . .	76,972	55,055
Total deferred tax liabilities . . . . .	374,940	318,511
Net deferred tax assets . . . . .	¥2,134,992	¥1,211,394

Note:

- (1) At March 31, 2009, ¥329 billion of the valuation allowance related to gross deferred tax assets was attributable to the merger with UFJ Holdings and to the acquisition of noncontrolling interests of Mitsubishi UFJ NICOS and MUS. For the fiscal year ended March 31, 2009, the tax benefit of less than ¥1 billion, attributed to the merger or the acquisition was recognized by eliminating the valuation allowance and was applied to reduce goodwill.

The valuation allowance was provided primarily against deferred tax assets recorded at MUFG and its subsidiaries with operating loss carryforwards. The amount of the valuation allowance is determined based on a review of future taxable income (exclusive of reversing temporary differences and carryforwards) and future reversals of existing taxable temporary differences. Future taxable income is developed from forecasted operating results, based on recent historical trends and approved business plans, the eligible carryforward periods and other relevant factors. For certain subsidiaries where strong negative evidence exists, such as the existence of significant amounts of operating loss carryforwards, cumulative losses and the expiration of unused operating loss carryforwards in recent years, a valuation allowance was recognized against the deferred tax assets as of March 31, 2009 and 2010 to the extent that it is more likely than not that they will not be realized.

Income taxes are not provided on undistributed earnings of certain foreign subsidiaries that are considered to be indefinitely reinvested in the operations of such subsidiaries. At March 31, 2010, the undistributed earnings of such foreign subsidiaries amounted to approximately ¥26,179 million. Determination of the amount of unrecognized deferred tax liabilities with respect to these undistributed earnings is not practicable because of the complexity associated with its hypothetical calculation including foreign withholding taxes and foreign tax credits. MUFG has neither plans nor the intention to dispose of investments in such foreign subsidiaries and, accordingly, does not expect to record capital gains or losses, or otherwise monetize the undistributed earnings of such foreign subsidiaries.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Operating Loss and Tax Credit Carryforwards***

At March 31, 2010, the MUFG Group had operating loss carryforwards of ¥1,175,452 million and tax credit carryforwards of ¥5,976 million for tax purposes. Such carryforwards, if not utilized, are scheduled to expire as follows:

	<u>Operating loss carryforwards</u>	<u>Tax credit carryforwards</u>
	(in millions)	
Fiscal year ending March 31:		
2011 .....	¥ 96,799	¥ —
2012 .....	697,417	—
2013 .....	205,803	—
2014 .....	28,096	—
2015 .....	47,801	—
2016 .....	52,801	—
2017 and thereafter .....	30,420	5,158
No definite expiration date .....	<u>16,315</u>	<u>818</u>
Total .....	<u>¥1,175,452</u>	<u>¥5,976</u>

***Uncertainty in Income Tax***

The MUFG Group adopted new guidance on accounting for uncertainty in income taxes on April 1, 2007. The following is a roll-forward of the MUFG Group's unrecognized tax benefits based on this guidance for the fiscal years ended March 31, 2008, 2009 and 2010:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(in millions)		
Balance at beginning of fiscal year .....	¥34,969	¥44,764	¥72,857
Gross amount of increases for current year's tax positions .....	14,764	23,960	2,771
Gross amount of increases for prior years' tax positions .....	4,202	15,104	15,208
Gross amount of decreases for prior years' tax positions .....	(3,861)	(5,459)	(5,506)
Net amount of changes relating to settlements with tax authorities .....	179	447	(6,695)
Decreases due to lapse of applicable statutes of limitations .....	(1,291)	(14)	(1,281)
Foreign exchange translation .....	(4,198)	(5,945)	(1,875)
Balance at end of fiscal year .....	<u>¥44,764</u>	<u>¥72,857</u>	<u>¥75,479</u>

The total amount of unrecognized tax benefits at March 31, 2008, 2009 and 2010 that, if recognized, would affect the effective tax rate are ¥11,013 million, ¥25,471 million and ¥27,192 million, respectively. The remainder of the uncertain tax positions has offsetting amounts in other jurisdictions or is a temporary difference.

The MUFG Group classifies accrued interest and penalties, if applicable, related to income taxes as Income tax expenses. Interest and penalties (not included in the "unrecognized tax benefits" above) are a component of Other liabilities. The following is a roll-forward of the interest and penalties recognized in the consolidated financial statements for the fiscal years ended March 31, 2008, 2009 and 2010:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(in millions)		
Balance at beginning of fiscal year .....	¥ 3,540	¥4,047	¥ 5,842
Total interest and penalties in the consolidated statements of operations .....	1,532	2,588	4,490
Total cash settlements and foreign exchange translation .....	<u>(1,025)</u>	<u>(793)</u>	<u>(3,059)</u>
Balance at end of fiscal year .....	<u>¥ 4,047</u>	<u>¥5,842</u>	<u>¥ 7,273</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The MUFG Group is subject to ongoing tax examinations by the tax authorities of the various jurisdictions in which it operates. The following are the major tax jurisdictions in which the MUFG Group operates and the status of years under audit or open to examination:

<u>Jurisdiction</u>	<u>Tax years</u>
Japan .....	2010
United States—Federal .....	2003 and forward
United States—California .....	2004 and forward
United States—New York .....	2001 and forward
United States—New York City .....	2000 and forward

The MUFG Group does not anticipate any significant increases or decreases to unrecognized tax benefits within the next 12 months. However, the MUFG Group is under continuous examinations by the tax authorities in various domestic and foreign jurisdictions and many of these examinations are resolved every year. Therefore, the MUFG Group's estimate of unrecognized tax benefits is subject to change based on new developments and information.

***Income (Loss) from Continuing Operations before Income Tax Expense (Benefit)***

Income (loss) from continuing operations before income tax expense (benefit) by jurisdiction for the fiscal years ended March 31, 2008, 2009 and 2010 was as follows:

	<u>2008<sup>(1)</sup></u>	<u>2009<sup>(1)</sup></u>	<u>2010</u>
		(in millions)	
Domestic income (loss) .....	¥(128,501)	¥(1,776,405)	¥ 870,192
Foreign income .....	180,256	12,178	411,924
Total .....	<u>¥ 51,755</u>	<u>¥(1,764,227)</u>	<u>¥1,282,116</u>

Note:

- (1) Effective April 1, 2009, the MUFG Group adopted new guidance regarding noncontrolling interests in subsidiaries. See Note 1 "Noncontrolling Interests" under "Accounting Changes" section for the detail. As a result, income (loss) from continuing operations before income tax expense (benefit) for the fiscal years ended March 31, 2008 and 2009 was reclassified.

**10. PLEDGED ASSETS AND COLLATERAL**

***Pledged Assets***

At March 31, 2010, assets mortgaged, pledged, or otherwise subject to lien were as follows:

	<u>(in millions)</u>
Trading account securities .....	¥ 9,190,298
Investment securities .....	6,750,923
Loans .....	4,257,115
Other .....	59,165
Total .....	<u>¥20,257,501</u>

**mitsubishi UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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The above pledged assets were classified by type of liabilities to which they related as follows:

	<b>(in millions)</b>
Deposits .....	¥ 481,007
Call money and funds purchased .....	545,127
Payables under repurchase agreements and securities lending transactions .....	12,449,725
Other short-term borrowings and long-term debt .....	6,744,977
Other .....	36,665
Total .....	¥20,257,501

In addition, at March 31, 2010, certain investment securities, principally Japanese national government and Japanese government agency bonds and loans, and other assets aggregating ¥16,033,900 million were pledged as collateral for acting as a collection agent of public funds, for settlement of exchange at the Bank of Japan and Tokyo Bankers Association, for derivative transactions and for certain other purposes.

The MUFG Group engages in on-balance sheet securitizations. These securitizations of mortgage and apartment loans, that do not qualify for sales treatment, are accounted for as secured borrowings. The amount of loans in the table above represents, the carrying amount of these transactions with the carrying amount of the associated liabilities included in other short-term borrowings and long-term debt.

Under Japanese law, Japanese banks are required to maintain certain reserves on deposit with the Bank of Japan based on the amount of deposit balances and certain other factors. There are similar reserve deposit requirements for foreign offices engaged in banking businesses in foreign countries. At March 31, 2009 and 2010, the reserve funds maintained by the MUFG Group, which are included in Cash and due from banks and Interest-earning deposits in other banks, were ¥2,015,698 million and ¥2,041,048 million, respectively. Average reserves during the fiscal years ended March 31, 2009 and 2010 were ¥1,682,655 million and ¥1,961,783 million, respectively.

***Collateral***

The MUFG Group accepts and provides financial assets as collateral for transactions, principally commercial loans, repurchase agreements and securities lending transactions, call money, and derivatives. Financial assets eligible for such collateral include, among others, marketable equity securities, trade and notes receivable and certificates of deposit.

Secured parties, including creditors and counterparties to certain transactions with the MUFG Group, may sell or repledge financial assets provided as collateral. Certain contracts, however, may not be specific about the secured party's right to sell or repledge collateral under the applicable statutes and, therefore, whether or not the secured party is permitted to sell or repledge collateral would differ depending on the interpretations of specific provisions of the existing statutes, contract or certain market practices. If the MUFG Group determines, based on available information, that a financial asset provided as collateral might not be sold or repledged by the secured parties, such collateral is not separately reported in the consolidated balance sheets. If a secured party is permitted to sell or repledge financial assets provided as collateral by contract or custom under the existing statutes, the MUFG Group reports such pledged financial assets separately on the face of the consolidated balance sheets. At March 31, 2010, the MUFG Group pledged ¥19,370 billion of assets that may not be sold or repledged by the secured parties.

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Certain banking subsidiaries accept collateral for commercial loans and certain banking transactions under a standardized agreement with customers, which provides that these banking subsidiaries may require the customers to provide collateral or guarantees with respect to the loans and other banking transactions. Financial assets pledged as collateral are generally negotiable and transferable instruments, and such negotiability and transferability is authorized by applicable legislation. In principle, Japanese legislation permits these banking subsidiaries to repledge financial assets accepted as collateral unless otherwise prohibited by contract or relevant statutes. Nevertheless, the MUFG Group did not sell or repledge nor does it plan to sell or repledge such collateral accepted in connection with commercial loans before a debtor's default or other credit events specified in the agreements as it is not customary within the banking industry in Japan to dispose of collateral before a debtor's default and other specified credit events. Derivative agreements commonly used in the marketplace do not prohibit a secured party's disposition of financial assets received as collateral, and in resale agreements and securities borrowing transactions, securities accepted as collateral may be sold or repledged by the secured parties. At March 31, 2009 and 2010, the fair value of the collateral accepted by the MUFG Group that is permitted to be sold or repledged was approximately ¥21,632 billion and ¥19,093 billion, respectively, of which approximately ¥6,730 billion and ¥6,983 billion, respectively, was sold or repledged. The amount includes the collateral that may be repledged under the current Japanese legislation but the MUFG Group does not dispose of before the counterparties' default in accordance with the customary practice within the Japanese banking industry.

At March 31, 2009 and 2010, the cash collateral paid for derivative transactions, which is included in other assets, were ¥625,931 million and ¥634,299 million, respectively and the cash collateral received for derivative transactions, which is included in other liabilities, were ¥389,238 million and ¥260,233 million, respectively.

**11. DEPOSITS**

The balances of time deposits, including certificates of deposit ("CDs"), issued in amounts of ¥10 million (approximately US\$107 thousand at the Federal Reserve Bank of New York's noon buying rate on March 31, 2010) or more with respect to domestic deposits and issued in amounts of US\$100,000 or more with respect to foreign deposits were ¥27,257,532 million and ¥11,546,556 million, respectively, at March 31, 2009, and ¥27,253,035 million and ¥14,411,085 million, respectively, at March 31, 2010.

The maturity information at March 31, 2010 for domestic and foreign time deposits, including CDs, is summarized as follows:

	<u>Domestic</u>	<u>Foreign</u>
	(in millions)	
Due in one year or less . . . . .	¥36,868,570	¥14,171,222
Due after one year through two years . . . . .	5,503,162	163,568
Due after two years through three years . . . . .	3,041,640	44,745
Due after three years through four years . . . . .	667,648	67,549
Due after four years through five years . . . . .	661,462	14,580
Due after five years . . . . .	154,558	6,756
Total . . . . .	<u>¥46,897,040</u>	<u>¥14,468,420</u>

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**12. CALL LOANS AND FUNDS SOLD, AND CALL MONEY AND FUNDS PURCHASED**

A summary of funds transactions for the fiscal years ended March 31, 2008, 2009 and 2010 is as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(in millions, except percentages and days)		
Average balance during the fiscal year:			
Call money and funds purchased . . . . .	¥ 3,426,605	¥ 3,051,725	¥ 2,349,445
Call loans and funds sold . . . . .	990,473	1,080,630	651,778
Net funds purchased position . . . . .	<u>¥ 2,436,132</u>	<u>¥ 1,971,095</u>	<u>¥ 1,697,667</u>
Call money and funds purchased:			
Outstanding at end of fiscal year:			
Amount . . . . .	¥ 2,288,720	¥ 2,235,858	¥ 1,883,824
Principal range of maturities . . . . .	1 day to 30 days	1 day to 30 days	1 day to 30 days
Weighted average interest rate . . . . .	1.71%	0.33%	0.28%
Maximum balance at any month-end during the fiscal year . . . . .	¥ 4,081,646	¥ 4,133,609	¥ 2,611,306
Weighted average interest rate paid during the fiscal year . . . . .	1.32%	0.82%	0.24%

Average balances are generally based on a daily average while a month-end average is used for certain average balances when it is not practicable to obtain applicable daily averages.

**13. DUE TO TRUST ACCOUNT**

MUTB holds assets on behalf of its customers in an agent, fiduciary or trust capacity. Such trust account assets are not the MUFG Group's proprietary assets and are managed and accounted for separately.

However, excess cash funds of individual trust accounts are often placed with MUTB which manages the funds together with its own funds in its proprietary account. Due to trust account reflects a temporary placement of the excess funds from individual trust accounts and, in view of the MUFG Group's funding, due to trust account is similar to short-term funding, including demand deposits and other overnight funds purchased. The balance changes in response to the day-to-day changes in the excess funds placed by the trust accounts. A summary of due to trust account transactions for the fiscal years ended March 31, 2008, 2009 and 2010 is as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(in millions, except percentages)		
Average balance outstanding during the fiscal year . . . . .	¥1,653,717	¥1,479,736	¥1,683,607
Maximum balance at any month-end during the fiscal year . . . . .	2,171,467	1,796,846	1,795,280
Weighted average interest rate during the fiscal year . . . . .	0.48%	0.46%	0.36%

**14. SHORT-TERM BORROWINGS AND LONG-TERM DEBT**

At March 31, 2009 and 2010, the MUFG Group had unused lines of credit for short-term financing amounting to ¥13,242,174 million and ¥9,802,803 million, respectively. The amounts principally consist of the lines of collateralized intraday overdrafts without interest charges and collateralized overnight loans on bills at the official discount rate granted by the Bank of Japan, which are used to cover shortages in the Bank of Japan account and to meet liquidity needs. The MUFG Group may borrow from the Bank of Japan on demand up to the total amount of collateral eligible for credit extension.

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Other short-term borrowings at March 31, 2009 and 2010 were comprised of the following:

	<u>2009</u>	<u>2010</u>
	(in millions, except percentages)	
Domestic offices:		
Commercial paper .....	¥1,228,573	¥1,208,690
Borrowings from the Bank of Japan .....	3,473,323	2,861,400
Borrowings from other financial institutions .....	357,150	209,030
Other .....	<u>122,578</u>	<u>73,560</u>
Total domestic offices .....	<u>5,181,624</u>	<u>4,352,680</u>
Foreign offices:		
Commercial paper .....	1,141,938	907,641
Borrowings from other financial institutions .....	1,518,991	819,633
Other .....	<u>24,845</u>	<u>17,416</u>
Total foreign offices .....	<u>2,685,774</u>	<u>1,744,690</u>
Total .....	7,867,398	6,097,370
Less unamortized discount .....	<u>20</u>	<u>34</u>
Other short-term borrowings—net .....	<u>¥7,867,378</u>	<u>¥6,097,336</u>
Weighted average interest rate on outstanding balance at end of fiscal year .....	0.85%	0.27%

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Long-term debt (with original maturities of more than one year) at March 31, 2009 and 2010 was comprised of the following:

	<u>2009</u>	<u>2010</u>
	(in millions)	
<b>MUFG:</b>		
Obligations under capital leases	¥ 51	¥ 45
Unsubordinated debt <sup>(1)</sup> :		
Fixed rate bonds, payable in Japanese yen, due 2010-2011, principally 0.59%-1.21%	330,000	230,000
Subordinated debt <sup>(1)</sup> :		
Adjustable rate bonds, payable in Japanese yen, no stated maturity, principally 3.92%-4.42%	—	380,500
Adjustable rate borrowings, payable in Japanese yen, no stated maturity, principally 2.42%-4.78%	2,500	2,500
Adjustable rate borrowings, payable in US dollars, no stated maturity, principally 6.25%	491	465
Adjustable rate borrowings, payable in Euro, no stated maturity, principally 4.75%-5.17%	1,298	1,251
Adjustable rate borrowings, payable in other currencies excluding Japanese yen, US dollars, Euro, no stated maturity, principally 6.20% <sup>(2)</sup>	421	421
Floating rate borrowings, payable in Japanese yen, no stated maturity, principally 3.17%-3.58%	16,210	16,208
Total	<u>350,971</u>	<u>631,390</u>
<b>BTMU:</b>		
Obligations under capital leases	¥ 41,158	¥ 27,888
Obligation under sale-and-leaseback transactions	56,053	52,189
Unsubordinated debt <sup>(1)</sup> :		
Fixed rate bonds, payable in Japanese yen, due 2010 - 2027, principally 0.40% - 2.69%	1,495,272	1,626,600
Fixed rate bonds, payable in US dollars, due 2012 - 2015, principally 2.51% - 3.85%	—	219,574
Fixed rate bonds, payable in other currencies excluding Japanese yen, US dollars, due 2012, principally 5.40% <sup>(2)</sup>	—	17,056
Fixed rate borrowings, payable in Japanese yen, due 2010 - 2023, principally 0.25% - 3.45%	30,824	18,327
Fixed rate borrowings, payable in US dollars, due 2018, principally 7.49%	2,260	586
Fixed rate borrowings, payable in other currencies excluding Japanese yen, US dollars, due 2010 - 2013, principally 1.15% - 5.65% <sup>(2)</sup>	3,781	4,687
Adjustable rate bonds, payable in Japanese yen, due 2014, principally 1.88%	20,000	20,000
Floating rate borrowings, payable in Japanese yen, due 2015, principally 1.02% - 1.24%	5,000	—
Floating rate borrowings, payable in US dollars, due 2014 - 2015, principally 0.68% - 0.73%	—	325,640
Floating rate borrowings, payable in other currencies excluding Japanese yen, US dollars, due 2009, principally 1.72% - 7.00% <sup>(2)</sup>	1,995	—
Total	<u>1,559,132</u>	<u>2,232,470</u>
Subordinated debt <sup>(1)</sup> :		
Fixed rate bonds, payable in Japanese yen, due 2010 - 2029, principally 1.13% - 2.91%	1,244,737	1,649,855
Fixed rate borrowings, payable in Japanese yen, due 2010 - 2017, principally 1.73% - 3.62%	201,446	129,433
Fixed rate bonds, payable in US dollars, due 2010 - 2011, principally 7.40% - 8.40%	396,111	371,098
Fixed rate borrowings, payable in US dollars, due 2013, principally 6.76%	280,177	122,714
Adjustable rate bonds, payable in Japanese yen, due 2018 - 2019, principally 1.12% - 1.88%	142,000	93,700
Adjustable rate borrowings, payable in Japanese yen, due 2014 - 2025, principally 0.60% - 2.90%	800,500	544,100
Adjustable rate borrowings, payable in Japanese yen, no stated maturity, principally 0.96% - 4.78%	992,900	1,392,700
Adjustable rate borrowings, payable in US dollars, due 2015 - 2017, principally 0.66% - 1.01%	241,943	229,157
Adjustable rate borrowings, payable in US dollars, no stated maturity, principally 1.08% - 6.25%	245,577	232,600
Adjustable rate bonds, payable in Euro, due 2015, principally 3.50%	129,840	124,920
Adjustable rate borrowings, payable in Euro, due 2015 - 2017, principally 1.09% - 1.46%	116,856	112,428
Adjustable rate borrowings, payable in Euro, no stated maturity, principally 4.75% - 5.17%	170,740	164,270
Adjustable rate borrowings, payable in other currencies excluding Japanese yen, US dollars, Euro, due 2017, principally 1.14% <sup>(2)</sup>	38,624	38,610
Adjustable rate borrowings, payable in other currencies excluding Japanese yen, US dollars, Euro, no stated maturity, principally 6.20% <sup>(2)</sup>	79,355	79,326
Floating rate borrowings, payable in Japanese yen, due 2010 - 2035, principally 0.47% - 1.52%	18,000	52,800
Floating rate borrowings, payable in Japanese yen, no stated maturity, principally 3.58%	150,700	—
Total	<u>5,249,506</u>	<u>5,337,711</u>
Obligations under loan securitization transaction accounted for as secured borrowings, due 2010 - 2044, principally 0.50% - 7.02%	<u>3,040,196</u>	<u>2,847,735</u>
Total	<u>9,946,045</u>	<u>10,497,993</u>



**mitsubishi UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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	<u>2009</u>	<u>2010</u>
	(in millions)	
Other subsidiaries:		
Obligations under capital leases	¥ 24,072	¥ 16,551
Unsubordinated debt <sup>(1)</sup> :		
Fixed rate borrowings, bonds and notes, payable in Japanese yen, due 2010-2038 principally 0.00% - 16.2%	507,042	491,310
Fixed rate borrowings, bonds and notes, payable in US dollars, due 2010 - 2038, principally 0.00% - 10.00%	142,906	193,447
Fixed rate borrowings, bonds and notes, payable in other currencies excluding Japanese yen, US dollars, Euro, due 2010-2038, principally 0.50% - 19.50% <sup>(2)</sup>	3,061	3,518
Floating/Adjustable rate borrowings, bonds and notes, payable in Japanese yen, due 2010 - 2040, principally 0.00% - 27.70%	1,171,095	1,205,153
Floating/Adjustable rate borrowings, bonds and notes, payable in US dollars, due 2010 - 2038, principally 0.00% - 14.00%	168,207	131,494
Floating rate bonds and notes, payable in Euro, due 2014, principally 0.00%	348	504
Floating rate borrowings, bonds and notes, payable in other currencies excluding Japanese yen, US dollars, Euro, due 2010-2038, principally 0.00-11.50% <sup>(2)</sup>	2,823	3,740
Other institutions, due 2035, principally 1.64% - 3.58%	5,725	4,684
Total	<u>2,001,207</u>	<u>2,033,850</u>
Subordinated debt <sup>(1)</sup> :		
Fixed rate borrowings, bonds and notes, payable in Japanese yen, due 2010 - 2020, principally 1.28% - 4.00%	154,732	298,163
Fixed rate bonds and notes, payable in US dollars, due 2013 - 2030, principally 5.25% - 10.88%	116,494	111,923
Adjustable rate borrowings, bonds and notes, payable in Japanese yen, due 2015 - 2020, principally 0.48% - 2.70%	190,800	157,600
Adjustable rate borrowings, bonds and notes, payable in Japanese yen, no stated maturity, principally 0.90% - 3.50%	147,400	125,900
Floating rate borrowings, bonds and notes, payable in Japanese yen, due 2010-2014, principally 0.91% - 1.91%	192,890	176,330
Floating rate bonds and notes, payable in US dollars, due 2010, principally 1.39%	1,381	461
Other miscellaneous debt	2	3
Total	<u>803,699</u>	<u>870,380</u>
Obligations under loan securitization transaction accounted for as secured borrowings, due 2010 - 2015, principally 0.44% - 3.02%	147,294	112,260
Total	<u>2,976,272</u>	<u>3,033,041</u>
Total	<u>¥13,273,288</u>	<u>¥14,162,424</u>

Notes:

- (1) Adjustable rate debts are debts where interest rates are reset in accordance with the terms of the debt agreements, and floating rate debts are debts where interest rates are repriced in accordance with movements of markets indices.
- (2) Minor currencies, such as British pound, Brazilian real, Chinese yuan, Indonesian rupiah, Hong Kong dollars etc, have been summarized into the "Other currencies" classification.

The MUFG Group uses derivative financial instruments for certain debts to manage its interest rate and currency exposures. The derivative financial instruments include swaps, forwards, options and other types of derivatives. As a result of these derivative instruments, the effective rates reflected in the table above may differ from the coupon rates. The interest rates for the adjustable and floating rate debt shown in the above table are those in effect at March 31, 2009 and 2010.

Certain debt agreements permit the MUFG Group to redeem the related debt, in whole or in part, prior to maturity at the option of the issuer on terms specified in the respective agreements.

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The following is a summary of maturities of long-term debt subsequent to March 31, 2010:

	<u>MUFG</u>	<u>BTMU</u>	<u>Other subsidiaries</u>	<u>Total</u>
	(in millions)			
Fiscal year ending March 31:				
2011 .....	¥230,020	¥ 1,126,950	¥ 669,720	¥ 2,026,690
2012 .....	13	863,110	468,682	1,331,805
2013 .....	5	1,017,152	314,439	1,331,596
2014 .....	3	766,321	258,044	1,024,368
2015 .....	2	958,867	156,287	1,115,156
2016 and thereafter .....	401,347	5,765,593	1,165,869	7,332,809
Total .....	<u>¥631,390</u>	<u>¥10,497,993</u>	<u>¥3,033,041</u>	<u>¥14,162,424</u>

**15. SEVERANCE INDEMNITIES AND PENSION PLANS**

***Defined Benefit Pension Plans***

The MUFG Group has funded contributory and non-contributory defined benefit pension plans (“pension benefits”), which cover substantially all of their employees and provide for lifetime annuity payments commencing at age 65 based on eligible compensation at the time of severance, rank, years of service and other factors.

BTMU and certain domestic subsidiaries, MUS, Mitsubishi UFJ NICOS and some subsidiaries of MUFG have non-contributory Corporate Defined Benefit Pension plans (“CDBPs”) which provide benefits to all their domestic employees. MUTB has a contributory CDBP similar to these non-contributory CDBPs.

In addition to the CDBPs, BTMU and MUTB have non-contributory closed Tax-Qualified Pension Plans (“closed TQPPs”), which are defined benefit pension plans that provide benefits to certain retired employees, excluding directors in Japan, based on eligible compensation at the time of severance, years of service and other factors. MUTB also has a contributory closed TQPP in addition to the non-contributory closed TQPPs.

The MUFG Group also offers qualified and nonqualified defined benefit pension plans in foreign offices and subsidiaries for their employees. The qualified plans are non-contributory defined pension plans, which provide benefits upon retirement based on years of service and average compensation and cover substantially all of the employees of such foreign offices and subsidiaries. With respect to the offices and subsidiaries in the United States of America, the qualified plans are funded on a current basis in compliance with the requirement of the Employee Retirement Income Security Act of the United States of America. The nonqualified plans are non-contributory defined benefit pension plans, under which certain employees earn pay and interest credits on compensation amounts above the maximum stipulated by applicable laws under the qualified plans.

***Severance Indemnities Plans***

The MUFG Group has severance indemnities plans (“SIP”s) under which their employees in Japan, other than those who are directors, are entitled, under most circumstances, upon mandatory retirement at normal retirement age or earlier termination of employment, to lump-sum severance indemnities based on eligible compensation at the time of severance, rank, years of service and other factors. Under SIPs, benefit payments in the form of a lump-sum cash payment with no option to receive annuity payments, upon mandatory retirement at normal retirement age or earlier termination of employment, are provided. When a benefit is paid in a single payment to a benefit payee under the plans, the payment represents final relief of the obligation.

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**Other Postretirement Plans**

The MUFG Group's foreign offices and subsidiaries, primarily in the United States of America, provide their employees with certain postretirement medical and life insurance benefits ("other benefits").

Net periodic cost of pension benefits and other benefits for the fiscal years ended March 31, 2008, 2009 and 2010 include the following components:

	Domestic subsidiaries			Foreign offices and subsidiaries					
	2008	2009	2010	2008		2009		2010	
	Pension benefits and SIP	Pension benefits and SIP	Pension benefits and SIP	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
	(in millions)								
Service cost—benefits earned									
during the fiscal year . . . . .	¥ 38,247	¥ 39,443	¥ 41,823	¥ 7,894	¥ 1,103	¥ 7,448	¥ 945	¥ 6,414	¥ 872
Interest costs on projected benefit									
obligation . . . . .	36,861	32,926	29,071	11,976	1,502	11,301	1,369	10,587	1,226
Expected return on plan assets . . .	(72,884)	(68,710)	(49,826)	(18,396)	(1,639)	(16,820)	(1,373)	(15,309)	(936)
Amortization of net actuarial loss									
(gain) . . . . .	(5,591)	1,653	51,980	2,978	500	2,133	320	2,682	678
Amortization of prior service									
cost . . . . .	(7,543)	(7,373)	(9,801)	125	(87)	77	(78)	39	(67)
Amortization of net obligation at									
transition . . . . .	493	(5)	(1)	—	240	—	192	—	123
Loss (gain) on settlements and									
curtailment . . . . .	(6,282)	4,463	3,037	—	—	—	—	—	—
Net periodic benefit cost . . . . .	¥(16,699)	¥ 2,397	¥ 66,283	¥ 4,577	¥ 1,619	¥ 4,139	¥ 1,375	¥ 4,413	¥ 1,896

The following table summarizes the assumptions used in computing the present value of the projected benefit obligations and the net periodic benefit cost:

	Domestic subsidiaries			Foreign offices and subsidiaries					
	2008	2009	2010	2008		2009		2010	
	Pension benefits and SIP	Pension benefits and SIP	Pension benefits and SIP	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
Weighted-average assumptions used:									
Discount rates in determining									
expense . . . . .	2.27%	1.93%	1.66%	5.87%	6.02%	5.74%	6.01%	5.70%	5.77%
Discount rates in determining									
benefit obligation . . . . .	2.07	1.66	2.05	5.74	6.01	5.70	5.77	6.10	6.04
Rates of increase in future									
compensation level for									
determining expense . . . . .	2.98	3.10	3.07	4.64	—	4.51	—	4.64	—
Rates of increase in future									
compensation level for									
determining benefit									
obligation . . . . .	3.10	3.07	3.06	4.51	—	4.64	—	4.72	—
Expected rates of return on plan									
assets . . . . .	3.09	3.13	3.02	8.04	8.25	7.84	8.00	7.50	8.00

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The following tables present the assumed health care cost trend rates for foreign offices and subsidiaries, which are used to measure the expected cost of benefits for the next year, and the effect of a one-percentage-point change in the assumed health care cost trend rate:

	UNBC		Other than UNBC	
	2009 <sup>(1)</sup>	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	2010 <sup>(1)</sup>
Initial trend rate . . . . .	9.36%	9.38%	8.00%	8.00%
Ultimate trend rate . . . . .	5.00%	5.00%	5.00%	5.00%
Year the rate reaches the ultimate trend rate . .	2014	2018	2012	2016

	UNBC		Other than UNBC	
	One-percentage-point increase	One-percentage-point decrease	One-percentage-point increase	One-percentage-point decrease
	(in millions)			
Effect on total of service and interest cost components . . . . .	¥ 266	¥ (220)	¥ 29	¥ (36)
Effect on postretirement benefit obligation . . .	2,291	(1,945)	462	(380)

Note:

(1) Fiscal periods of UNBC and foreign subsidiaries end on December 31. Therefore, above tables present the rates and amounts at December 31, 2008 and 2009, respectively.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table sets forth the combined funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2009 and 2010:

	Domestic subsidiaries				Foreign offices and subsidiaries			
	2009		2010		2009		2010	
	Non-contributory pension benefits and SIP	Contributory pension benefits	Non-contributory pension benefits and SIP	Contributory pension benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
	(in millions)							
<b>Change in benefit obligation:</b>								
Benefit obligation at beginning of fiscal year . . . . .	¥1,332,116	¥ 382,611	¥1,408,695	¥389,060	¥215,559	¥ 26,028	¥179,523	¥22,990
Adjustments due to adoption of new guidance on measurement date provisions <sup>(1)</sup> . . . . .	36,715	—	—	—	—	—	—	—
Service cost . . . . .	34,044	5,399	35,593	6,230	7,448	945	6,414	872
Interest cost . . . . .	25,778	7,148	22,569	6,502	11,301	1,369	10,587	1,226
Plan participants' contributions . . . . .	—	1,088	—	1,065	10	439	14	408
Acquisitions/ Divestitures . . . . .	598	—	(19,084)	—	—	—	—	—
Amendments . . . . .	(13)	—	(19)	—	267	—	—	—
Actuarial loss (gain) . . . . .	50,900	5,645	(75,323)	(22,251)	8,915	1,745	766	(349)
Benefits paid . . . . .	(54,832)	(12,831)	(51,789)	(13,105)	(6,811)	(1,717)	(6,922)	(1,762)
Lump-sum payment . . . . .	(16,993)	—	(17,630)	—	(156)	(18)	(79)	(12)
Curtailed loss . . . . .	382	—	—	—	—	—	—	—
Fair value adjustment amount related to UNBC's privatization . . . . .	—	—	—	—	(7,817)	(738)	—	—
Translation adjustments . . . . .	—	—	—	—	(49,193)	(5,063)	2,705	179
Benefit obligation at end of fiscal year . . . . .	<u>1,408,695</u>	<u>389,060</u>	<u>1,303,012</u>	<u>367,501</u>	<u>179,523</u>	<u>22,990</u>	<u>193,008</u>	<u>23,552</u>
<b>Change in plan assets:</b>								
Fair value of plan assets at beginning of fiscal year . . . . .	1,854,921	541,751	1,249,747	407,340	249,337	19,817	145,529	11,383
Adjustments due to adoption of new guidance on measurement date provisions <sup>(1)</sup> . . . . .	(175,680)	—	—	—	—	—	—	—
Actual return (loss) on plan assets . . . . .	(420,174)	(128,307)	211,838	73,637	(37,479)	(3,366)	30,292	2,912
Employer contributions . . . . .	45,131	5,639	33,599	5,550	3,051	1,017	12,452	1,209
Acquisitions/ Divestitures . . . . .	381	—	(7,060)	—	—	—	—	—
Plan participants' contributions . . . . .	—	1,088	—	1,065	10	439	14	408
Benefits paid . . . . .	(54,832)	(12,831)	(51,789)	(13,105)	(6,811)	(1,717)	(6,922)	(1,762)
Fair value adjustment amount related to UNBC's privatization . . . . .	—	—	—	—	(13,843)	(1,395)	—	—
Translation adjustments . . . . .	—	—	—	—	(48,736)	(3,412)	2,080	90
Fair value of plan assets at end of fiscal year . . . . .	<u>1,249,747</u>	<u>407,340</u>	<u>1,436,335</u>	<u>474,487</u>	<u>145,529</u>	<u>11,383</u>	<u>183,445</u>	<u>14,240</u>
<b>Amounts recognized in the consolidated balance sheets:</b>								
Prepaid benefit cost . . . . .	¥ 7,335	¥ 18,280	¥ 176,107	¥106,986	¥ 2,912	¥ —	¥ 7,732	¥ —
Accrued benefit cost . . . . .	(166,283)	—	(42,784)	—	(36,906)	(11,607)	(17,295)	(9,312)
Net amount recognized . . . . .	<u>¥ (158,948)</u>	<u>¥ 18,280</u>	<u>¥ 133,323</u>	<u>¥106,986</u>	<u>¥(33,994)</u>	<u>¥(11,607)</u>	<u>¥ (9,563)</u>	<u>¥(9,312)</u>

Note:

- (1) For the fiscal year ended March 31, 2009, benefit obligations and plan assets are measured at March 31 in accordance with the measurement date provisions of new guidance on defined benefit pension and other postretirement plans. However, for prior fiscal years, benefit obligations and plan assets of BTMU and certain domestic subsidiaries were measured at December 31. The change in benefit obligation and fair value of plan assets during the period from January 1, 2008 to March 31, 2008 are reflected in "Adjustments due to adoption of new guidance on measurement date provisions."

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The aggregated accumulated benefit obligations of these plans at March 31, 2009 and 2010 were as follows:

	Domestic subsidiaries		Foreign offices and subsidiaries	
	2009	2010	2009	2010
	(in millions)			
Aggregated accumulated benefit obligations . . . . .	¥1,781,607	¥1,654,197	¥170,293	¥176,662

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for the plans with accumulated benefit obligations in excess of plan assets at March 31, 2009 and 2010 were as follows:

	Domestic subsidiaries		Foreign offices and subsidiaries	
	2009	2010	2009	2010
	(in millions)			
Projected benefit obligations . . . . .	¥1,374,296	¥112,287	¥157,314	¥40,061
Accumulated benefit obligations . . . . .	1,359,075	107,247	141,260	38,926
Fair value of plan assets . . . . .	1,214,578	69,503	120,403	23,855

BTMU, MUTB, MUS, Mitsubishi UFJ NICOS and other subsidiaries paid special lump-sum termination benefits which are not a part of pension plans to certain early-terminated employees. The amounts charged to operations for such early termination benefits for the fiscal years ended March 31, 2008, 2009 and 2010 were ¥49,054 million, ¥11,247 million and ¥13,617 million, respectively. The ¥49,054 million charged to operations for the fiscal year ended March 31, 2008 mainly consists of ¥36,613 million related to Mitsubishi UFJ NICOS of which ¥9,361 million is included in accrued benefit costs.

For the fiscal year ended March 31, 2009, the MUFG Group adopted the measurement date provision of the pension accounting guidance which changed the measurement date for the plan assets and benefit obligations of BTMU and certain domestic subsidiaries to coincide with the MUFG Group's fiscal year-end date. The MUFG Group recorded a decrease in the beginning balance of retained earnings by ¥132 million, net of taxes, and a decrease in the beginning balance of accumulated other changes in equity from nonowner sources by ¥131,574 million, net of taxes, as a result of adopting this provision.

The following table presents the amounts recognized in accumulated other changes in equity from nonowner sources of the MUFG Group at March 31, 2009 and 2010:

	Domestic subsidiaries		Foreign offices and subsidiaries			
	2009	2010	2009		2010	
	Pension benefits and SIP	Pension benefits and SIP	Pension benefits	Other benefits	Pension benefits	Other benefits
	(in millions)					
Net actuarial loss . . . . .	¥ 729,352	¥ 336,910	¥ 71,275	¥ 9,572	¥ 55,454	¥ 6,690
Prior service cost . . . . .	(72,388)	(62,083)	260	(385)	229	(304)
Net obligation at transition . . . . .	(1)	—	—	478	—	363
Gross pension liability adjustments . . .	656,963	274,827	71,535	9,665	55,683	6,749
Taxes . . . . .	(261,442)	(110,688)	(28,200)	(3,756)	(21,930)	(2,607)
Net pension liability adjustments . . . . .	¥ 395,521	¥ 164,139	¥ 43,335	¥ 5,909	¥ 33,753	¥ 4,142

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table presents the changes in equity from nonowner sources in the fiscal year ended March 31, 2009 and 2010:

	Domestic subsidiaries		Foreign offices and subsidiaries			
	2009	2010	2009		2010	
	Pension benefits and SIP	Pension benefits and SIP	Pension benefits	Other benefits	Pension benefits	Other benefits
	(in millions)					
Adjustment due to adoption of new guidance on measurement date provisions . . . . .	¥221,504	¥ —	¥ —	¥ —	¥ —	¥ —
Net actuarial loss (gain) arising during the year . . . . .	673,815	(337,425)	62,766	6,481	(14,070)	(2,330)
Prior service cost arising during the year . .	320	504	271	1	1	—
Amortization of net actuarial gain . . . . .	(1,653)	(51,980)	(2,133)	(320)	(2,682)	(678)
Amortization of prior service cost . . . . .	7,373	9,801	(77)	78	(39)	67
Amortization of net obligation at transition . . . . .	5	1	—	(192)	—	(123)
Curtailed and settlement . . . . .	(4,468)	(3,037)	—	—	—	—
Fair value adjustment amount related to UNBC's privatization . . . . .	—	—	(7,976)	(1,994)	—	—
Foreign currency translation adjustments . .	—	—	(12,190)	(1,999)	938	148
Total changes in Accumulated other changes in equity from nonowner sources . . . . .	<u>¥896,896</u>	<u>¥(382,136)</u>	<u>¥ 40,661</u>	<u>¥ 2,055</u>	<u>¥(15,852)</u>	<u>¥(2,916)</u>

The following table presents the expected amounts that will be amortized from accumulated other changes in equity from nonowner sources as components of net periodic benefit cost, before taxes, for the fiscal year ending March 31, 2011:

	Domestic subsidiaries	Foreign offices and subsidiaries	
	Pension benefits and SIP	Pension benefits	Other benefits
	(in millions)		
Net actuarial loss . . . . .	¥ 14,405	¥1,691	¥513
Prior service cost . . . . .	(10,823)	33	(67)
Net obligation at transition . . . . .	—	—	121
Total . . . . .	<u>¥ 3,582</u>	<u>¥1,724</u>	<u>¥567</u>

*Investment policies*

MUFG's investment policy for plan assets is based on an asset liability matching strategy which is intended to maintain adequate liquidity for benefit payments and to achieve a stable increase in the plan assets in the medium and long term through proper risk control and return maximization. As a general rule, investment policies for plan assets are reviewed periodically for some plans and in the following situations for all plans: (1) large fluctuations in pension plan liabilities caused by modifications to pension plans, or (2) changes in the market environment. The plan assets allocation strategies are the principal determinant in achieving expected investment returns on the plan assets. Actual asset allocations may fluctuate within acceptable ranges due to market value variability. Plan assets are managed by a combination of internal and external asset management companies and are rebalanced when

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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market fluctuations cause an asset category to fall outside of its strategic asset allocation range. Performance of each plan asset category is compared against established indices and similar plan asset groups to evaluate whether the risk associated with the portfolio is appropriate for the level of return.

The weighted-average target asset allocation of plan assets for the pension benefits and other benefits at March 31, 2010 was as follows:

<u>Asset category</u>	<u>Domestic subsidiaries</u>	<u>Foreign offices and subsidiaries</u>	
	<u>Pension benefits and SIP</u>	<u>Pension benefits</u>	<u>Other benefits</u>
Japanese equity securities . . . . .	26.7%	0.3%	—%
Japanese debt securities . . . . .	46.2	—	—
Non-Japanese equity securities . . . . .	15.4	59.9	70.0
Non-Japanese debt securities . . . . .	7.4	29.2	30.0
Real estate . . . . .	—	8.0	—
Short-term assets . . . . .	4.3	2.6	—
Total . . . . .	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Basis and procedure for estimating long-term return of each asset category*

MUFG's expected long-term rate of return on plan assets for domestic defined benefit pension plans and SIPs is based on a building-block methodology, which calculates the total long-term rate of return of the plan assets by aggregating the weighted rate of return derived from both long-term historical performance and forward-looking return expectations from each asset category.

MUFG has determined the expected long-term rate of return for each asset category as below:

- Japanese equity securities: the rate for Japanese debt securities plus a premium for the risk associated with Japanese equity securities
- Japanese debt securities: economic growth rate of Japan
- Non-Japanese equity securities: the rate for non-Japanese debt securities plus a premium for the risk associated with non-Japanese equity securities
- Non-Japanese debt securities: global economic growth rate

Foreign offices and subsidiaries periodically reconsider the expected long-term rate of return for their plan assets. They evaluate the investment return volatility of different asset categories and compare the liability structure of their pension and other benefits to those of other companies, while considering their funding policy to maintain a funded status sufficient to meet participants' benefit obligations, and reduce long-term funding requirements and pension costs. Based on this information, foreign offices and subsidiaries update the expected long-term rate of return.

*Cash flows*

The MUFG Group expects to contribute to the plan assets for the fiscal year ending March 31, 2011 based upon its current funded status and expected asset return assumptions as follows:

For the pension benefits of domestic subsidiaries . . . . .	¥33.2 billion
For the pension benefits of foreign offices and subsidiaries . . . . .	11.6 billion
For the other benefits of foreign offices and subsidiaries . . . . .	1.1 billion



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*Estimated future benefit payments*

The following table presents benefit payments expected to be paid, which include the effect of expected future service for the fiscal years indicated:

	<u>Domestic subsidiaries</u>	<u>Foreign offices and subsidiaries</u>	
	<u>Pension benefits and SIP</u>	<u>Pension benefits</u>	<u>Other benefits</u>
	(in millions)		
Fiscal year ending March 31:			
2011 .....	¥ 76,462	¥ 6,398	¥ 1,433
2012 .....	78,937	6,980	1,545
2013 .....	80,974	7,342	1,636
2014 .....	83,178	8,182	1,741
2015 .....	85,261	8,724	1,832
Thereafter (2016-2020) .....	442,320	57,121	10,569

*Fair value measurement of the plan assets*

The following is a description of the valuation methodologies used for plan assets measured at fair value as well as the classification of the plan assets pursuant to the valuation hierarchy described in Note 31 “Fair Value.”

*Government bonds and other debt securities*

When quoted market prices are available in an active market, the MUFG Group adopts the quoted market prices to measure the fair value of securities and such securities are classified in Level 1 of the valuation hierarchy. Level 1 securities include Japanese government bonds, most of non-Japanese government bonds and certain corporate bonds. When quoted market prices are available but not traded actively, such securities are classified in Level 2 of the valuation hierarchy. When quoted prices are not available, the MUFG Group generally estimates fair values by using non-binding prices obtained from independent pricing vendors. Such securities are generally classified in Level 2 of the valuation hierarchy. Level 2 securities include certain non-Japanese government bonds, official institutions bonds and corporate bonds. When there is lack of liquidity for securities or significant inputs adopted to the fair value measurements are unobservable, such securities are classified in Level 3 of the valuation hierarchy. Such Level 3 securities mainly consist of non-Japanese corporate bonds.

*Marketable equity securities*

When quoted market prices are available in an active market, the MUFG Group adopts the quoted market prices to measure the fair value of marketable equity securities and such securities are classified in Level 1 of the valuation hierarchy. When quoted market prices are available but not traded actively, such securities are classified in Level 2 of the valuation hierarchy.

*Japanese pooled funds*

Japanese pooled funds are investment fund vehicles designed for Japanese pension plan investments under Japanese pension trust fund regulations. Based upon the nature of the funds’ investments, Japanese pooled funds are categorized into four major fund types; Japanese marketable equity securities type, Japanese debt securities type, Non-Japanese marketable equity securities type and Non-Japanese debt securities type. The other types of funds invest in short-term financial instruments or loans receivable. Japanese pooled funds are generally readily

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
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redeemable at their net asset values. The fair values of Japanese pooled funds are measured at their net asset values and generally classified in Level 2 of the valuation hierarchy. Japanese pooled funds classified in Level 3 of the valuation hierarchy have underlying investments in non-Japanese debt securities and loans receivable whose fair values are measured by using significant unobservable inputs and there is inherent lack of the funds' liquidity.

*Other investment funds*

Other investment funds include mutual funds, private investments funds, common collective funds, private equity funds and real estate funds. The fair values are generally measured at their net asset values. The listed investment funds or mutual funds are valued at quoted market prices and generally classified in Level 1 or Level 2 of the valuation hierarchy. When there is no available market quotation, the fair values are determined at net asset values. These funds are classified either in Level 2 or Level 3 depending on the level of price observability of the underlying investments in the funds and the funds' liquidity. Other investment funds classified in Level 3 of the valuation hierarchy mainly consist of certain private investment funds and real estate funds where their fair values are measured by using significant unobservable inputs and there is inherent lack of the funds' liquidity.

*Japanese general accounts of life insurance companies*

These instruments are contracts with life insurance companies that guarantee return of a certain level of fixed income, which are mainly invested in assets with low market risk such as Japanese debt securities. They are measured at conversion value and classified in Level 2 in the valuation hierarchy.

*Other investments*

Other investments mainly consist of call loans and the rest consist of miscellaneous accounts such as deposits with banks and short term investments. These instruments are generally classified in Level 1 or Level 2 of the valuation hierarchy depending on observability of the inputs to measure their fair values.

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The following table presents the fair value of each major category of plan assets as of March 31, 2010:

**Pension benefits and SIP Investments:**

<u>Assets category</u>	<u>Domestic subsidiaries</u>				<u>Foreign offices and subsidiaries</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in millions)							
Japanese government bonds . . . . .	¥105,424	¥ —	¥ —	¥ 105,424	¥ —	¥ —	¥ —	¥ —
Non-Japanese government bonds . . . . .	30,787	2,217	—	33,004	3,793	—	—	3,793
Other debt securities <sup>(1)</sup> . . . . .	2,675	51,562	2,813	57,050	—	14,849	—	14,849
Japanese marketable equity securities <sup>(2)</sup> . . . . .	700,991	1,372	—	702,363	—	—	—	—
Non-Japanese marketable equity securities . . . . .	34,265	1,262	—	35,527	13,284	—	—	13,284
Japanese Pooled funds:								
Japanese marketable equity securities <sup>(2)</sup> . . . . .	—	119,103	—	119,103	—	—	—	—
Japanese debt securities <sup>(1)</sup> . . . . .	—	243,673	—	243,673	—	—	—	—
Non-Japanese marketable equity securities . . . . .	—	146,050	—	146,050	—	—	—	—
Non-Japanese debt securities . . . . .	—	96,557	6,209	102,766	—	—	—	—
Other . . . . .	—	11,958	2,501	14,459	—	—	—	—
Total pooled funds . . . . .	—	617,341	8,710	626,051	—	—	—	—
Other investment funds . . . . .	—	77,682	26,934	104,616	67,284	77,368	5,085	149,737 <sup>(4)</sup>
Japanese general account of life insurance companies <sup>(3)</sup> . . . . .	—	153,644	—	153,644	—	—	—	—
Other investments . . . . .	1,584	91,559	—	93,143	451	768	563	1,782
<b>Total . . . . .</b>	<b>¥875,726</b>	<b>¥996,639</b>	<b>¥38,457</b>	<b>¥1,910,822</b>	<b>¥84,812</b>	<b>¥92,985</b>	<b>¥5,648</b>	<b>¥183,445</b>

Notes:

- (1) These debt securities include debt securities issued by the MUFG Group in the amount of ¥1,904 million (0.11% of plan assets) and ¥1,331 million (0.07% of plan assets) to the pension benefits and SIPs at March 31, 2009 and March 31, 2010, respectively.
- (2) Japanese marketable equity securities include common stocks issued by the MUFG Group in the amount of ¥6,203 million (0.37% of plan assets) and ¥7,169 million (0.38% of plan assets) to the pension benefits and SIPs at March 31, 2009 and March 31, 2010, respectively.
- (3) “Japanese general accounts of life insurance companies” is a contract with life insurance companies that guarantees a return of approximately 1.17% (from April 2008 to March 2009) and 1.18% (from April 2009 to March 2010).
- (4) Other investment funds of the foreign offices and subsidiaries are mainly comprised of ¥62,688 million of mutual funds and ¥31,003 million of common collective funds which were held by UNBC.

**Other post retirement plan investments:**

<u>Assets category</u>	<u>Foreign offices and subsidiaries</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in millions)			
Other investment funds <sup>(1)</sup> . . . . .	¥7,897	¥6,343	¥—	¥14,240

Note:

- (1) Other investment funds mainly consist of mutual funds and common collective funds.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following tables present a reconciliation of plan assets measured at fair value using significant unobservable inputs (Level 3) during the fiscal year ended March 31, 2010:

**Pension benefits and SIP Investments:**

<u>Assets category</u>	<u>Domestic subsidiaries</u>						<u>March 31, 2010</u>
	<u>March 31, 2009</u>	<u>Realized gains (losses)</u>	<u>Unrealized gains (losses)</u>	<u>Purchase, sales and settlements</u>	<u>Transfer into Level 3—beginning of year</u>	<u>Transfer out of Level 3—end of year</u>	
				(in millions)			
Other debt securities . . . . .	¥ 5,348	¥ 387	¥ 107	¥(3,270)	¥303	¥(62)	¥ 2,813
Non-Japanese marketable equity securities . . . . .	7	—	—	(7)	—	—	—
Japanese Pooled funds:							
Non-Japanese debt securities . .	5,081	—	1,128	—	—	—	6,209
Other . . . . .	2,503	—	(2)	—	—	—	2,501
Total pooled funds . . . . .	7,584	—	1,126	—	—	—	8,710
Other investment funds . . . . .	17,848	(100)	2,885	6,301	—	—	26,934
<b>Total . . . . .</b>	<b>¥30,787</b>	<b>¥ 287</b>	<b>¥ 4,118</b>	<b>¥ 3,024</b>	<b>¥303</b>	<b>¥(62)</b>	<b>¥38,457</b>
<u>Assets category</u>	<u>Foreign offices and subsidiaries</u>						<u>March 31, 2010</u>
<u>March 31, 2009</u>	<u>Realized gains (losses)</u>	<u>Unrealized gains (losses)</u>	<u>Purchase, sales and settlements</u>	<u>Transfer into Level 3—beginning of year</u>	<u>Transfer out of Level 3—end of year</u>		
				(in millions)			
Other investment funds . . . . .	¥ 7,481	¥ —	¥(2,501)	¥ 105	¥ —	¥ —	¥ 5,085
Other investments . . . . .	400	—	27	136	—	—	563
<b>Total . . . . .</b>	<b>¥ 7,881</b>	<b>¥ —</b>	<b>¥(2,474)</b>	<b>¥ 241</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ 5,648</b>

**Defined Contribution Plans**

The MUFG Group maintains several qualified defined contribution plans in its domestic and foreign offices and subsidiaries, all of which are administered in accordance with applicable local laws and regulations. Each office and subsidiary matches eligible employee contributions up to a certain percentage of benefits-eligible compensation per pay period, subject to plan and legal limits. Terms of the plan, including matching percentage and vesting periods, are individually determined by each office and subsidiary.

The cost of these defined contribution plans charged to operations for the fiscal years ended March 31, 2008, 2009 and 2010 were ¥4,951 million, ¥5,242 million and ¥4,735 million, respectively.

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**16. OTHER ASSETS AND LIABILITIES**

Major components of other assets and liabilities at March 31, 2009 and 2010 were as follows:

	<u>2009</u>	<u>2010</u>
	(in millions)	
Other assets:		
Accounts receivable:		
Receivables from brokers, dealers and customers for securities transactions . . . . .	¥ 727,644	¥ 725,490
Other . . . . .	885,921	768,120
Investments in equity method investees . . . . .	555,745	585,459
Non-interest-earning deposits with the Special Fund and the New Fund (Note 5) . . . . .	372,114	378,119
Prepaid benefit cost (Note 15) . . . . .	28,527	290,825
Cash collateral paid (Note 10) . . . . .	625,931	634,299
Other . . . . .	<u>1,767,599</u>	<u>1,587,026</u>
Total . . . . .	<u>¥4,963,481</u>	<u>¥4,969,338</u>
Other liabilities:		
Accounts payable:		
Payables to brokers, dealers and customers for securities transactions . . . . .	¥1,456,738	¥ 996,985
Other . . . . .	691,256	775,149
Deferred tax liabilities . . . . .	37,797	76,217
Allowance for off-balance-sheet credit instruments . . . . .	84,609	85,651
Accrued benefit cost (Note 15) . . . . .	214,796	69,391
Guarantees and indemnifications . . . . .	63,386	52,655
Cash collateral received (Note 10) . . . . .	389,238	260,233
Accrued and other liabilities . . . . .	<u>1,886,783</u>	<u>1,823,611</u>
Total . . . . .	<u>¥4,824,603<sup>(1)</sup></u>	<u>¥4,139,892</u>

Note:

(1) Effective April 1, 2009, the MUFG Group adopted new guidance regarding noncontrolling interests in subsidiaries. See Note 1 “Noncontrolling Interests” under “Accounting Changes” section for the detail. As a result, the total balance at March 31, 2009 was changed.

Investments in equity method investees include marketable equity securities carried at ¥242,263 million and ¥219,867 million at March 31, 2009 and 2010, respectively. Corresponding aggregated market values were ¥251,481 million and ¥262,519 million, respectively.

The MUFG Group periodically evaluates whether a loss in value of investments in equity method investees is other than temporary. As a result of evaluations, the MUFG Group recognized other than temporary declines in the value of an investment and recorded impairment losses related to certain affiliated companies of ¥57,113 million, ¥60,871 million and ¥104,045 million for the fiscal years ended March 31, 2008, 2009 and 2010, respectively. The impairment losses are included in Equity in losses of equity method investees in the consolidated statements of operations.

**17. PREFERRED STOCK**

Pursuant to the Articles of Incorporation, MUFG was authorized to issue 120,000,000 shares of Class 3 Preferred Stock, 400,000,000 shares of Class 5 Preferred Stock, 200,000,000 shares of Class 6 Preferred Stock, 200,000,000 shares of Class 7 Preferred Stock and 1,000 share of Class 11 Preferred Stock without par value.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

All classes of preferred stock are non-voting and have preference over common stock for the payment of dividends and the distribution of assets in the event of a liquidation or dissolution of MUFG. They are all non-cumulative and non-participating with respect to dividend payments. Shareholders of Class 3, Class 5 and Class 11 Preferred Stock have the right to receive a liquidation distribution at ¥2,500, ¥2,500 and ¥1,000 per share, respectively, and do not have the right to participate in any further liquidation distributions.

The number of shares of preferred stock issued and outstanding at March 31, 2008, 2009 and 2010 was as follows:

	<u>Outstanding at March 31, 2008</u>	<u>Net change</u>	<u>Outstanding at March 31, 2009</u>	<u>Net change</u>	<u>Outstanding at March 31, 2010</u>
	(number of shares)				
Preferred stock:					
Class 3 .....	100,000,000	—	100,000,000	—	100,000,000
Class 5 .....	—	156,000,000	156,000,000	—	156,000,000
Class 8 .....	17,700,000	(17,700,000)	—	—	—
Class 11 .....	1,000	—	1,000	—	1,000
Class 12 .....	33,700,000	(33,700,000)	—	—	—
Total .....	<u>151,401,000</u>	<u>104,600,000</u>	<u>256,001,000</u>	<u>—</u>	<u>256,001,000</u>

None of the Class 6 and 7 Preferred Stock has been issued.

The aggregate liquidation preference of preferred stock issued and outstanding at March 31, 2008, 2009 and 2010 was as follows:

	<u>Aggregate amount at March 31, 2008</u>	<u>Net change</u>	<u>Aggregate amount at March 31, 2009</u>	<u>Net change</u>	<u>Aggregate amount at March 31, 2010</u>
	(in millions)				
Preferred stock:					
Class 3 .....	¥250,000	¥ —	¥250,000	¥ —	¥250,000
Class 5 .....	—	390,000	390,000	—	390,000
Class 8 .....	53,100	(53,100)	—	—	—
Class 11 .....	1	—	1	—	1
Class 12 .....	33,700	(33,700)	—	—	—
Total .....	<u>¥336,801</u>	<u>¥303,200</u>	<u>¥640,001</u>	<u>¥ —</u>	<u>¥640,001</u>

Preferred stock included in Capital stock on the consolidated balance sheets at March 31, 2008 was ¥247,100 million, which consisted of ¥122,100 million of Class 1 and ¥125,000 million of Class 3 Preferred Stock. Preferred stock included in Capital stock on the consolidated balance sheets at March 31, 2009 and 2010 was ¥442,100 million, which consisted of ¥122,100 million of Class 1, ¥125,000 million of Class 3 and ¥195,000 million of Class 5 Preferred Stock.

The portion of proceeds from the sale of shares that is designated as capital stock is determined by resolution of the Board of Directors of MUFG, however, at least 50% of the issue price of newly issued shares is required to be designated as capital stock at the time of incorporation or share issuance under the Company Law. Proceeds in excess of amounts designated as capital stock are designated as capital surplus. However, these provisions are not applied in company reorganization, such as a merger, company split and share exchange. Preferred Stock Classes 8 through 12 were issued in exchange for UFJ Holdings' preferred stock and recorded in Capital surplus.

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On April 2, 2001, MUFG issued 81,400 shares of Class 1 Preferred Stock at an aggregate issue price of ¥244,200 million. ¥122,100 million was included in Preferred stock and the remaining amount was included in Capital surplus, net of stock issue expenses. MUFG redeemed 40,700 shares during the fiscal year ended March 31, 2005 and the remaining 40,700 shares during the fiscal year ended March 31, 2006. At each redemption, Capital surplus decreased by ¥122,100 million, totaling ¥244,200 million, as provided in the Commercial Code of Japan (“Code”) and the Articles of Incorporation of MUFG.

On February 17, 2005, MUFG issued 100,000 shares of Class 3 Preferred Stock at ¥2.5 million per share, the aggregate amount of the issue price being ¥250.0 billion.

On October 3, 2005, MUFG issued 200,000 shares of Class 8 Preferred Stock, 150,000 shares of Class 9 Preferred Stock, 150,000 shares of Class 10 Preferred Stock, 1 share of Class 11 Preferred Stock and 200,000 shares of Class 12 Preferred Stock in exchange for Class II, IV, V, VI and VII Preferred Stock of UFJ Holdings at an exchange ratio of 1 share of MUFG’s Class 8, 9, 10, 11 and 12 Preferred Stock for each share of UFJ Holdings’ Class II, IV, V, VI and VII Preferred Stock, respectively.

On October 4, 2005, 69,300 shares of Class 8 Preferred Stock and 57,850 shares of Class 9 Preferred Stock were converted into 122,763.51 and 127,096.45 shares of common stock, respectively, for the repayment of public funds.

On December 6, 2005, 51,900 shares of Class 8 Preferred Stock and 24,700 shares of Class 12 Preferred Stock were converted into 91,939.77 and 31,030.15 shares of common stock, respectively, for the repayment of public funds.

On February 28, 2006, 51,800 shares of Class 8 Preferred Stock and 12,450 shares of Class 9 Preferred Stock were converted into 91,762.63 and 22,733.70 shares of common stock, respectively, for the repayment of public funds.

On April 27, 2006, 45,400 shares of Class 12 Preferred Stock were converted into 57,035.18 shares of common stock.

On May 23, 2006, 9,300 shares of Class 8 Preferred Stock and 89,357 shares of Class 10 Preferred Stock originally issued by UFJ Holdings and held by the RCC were exchanged for 179,639 shares of common stock. The aggregate face amounts of the preferred stock exchanged were ¥27,900 million and ¥178,714 million, respectively. Subsequent to the exchanges, MUFG purchased 179,639 shares of common stock and an additional 7,923 shares of common stock as treasury stock for an aggregate amount of ¥286,970 million.

On June 8, 2006, 79,700 shares of Class 9 Preferred Stock, 60,643 shares of Class 10 Preferred Stock and 16,700 shares of Class 12 Preferred Stock were exchanged for 277,245 shares of common stock. The aggregate face amounts of the preferred stock exchanged were ¥159,400 million, ¥121,286 million and ¥16,700 million, respectively. Subsequent to the exchanges, these shares of common stock were sold in the open market. As a result, MUFG completed the repayment of all public funds received by the MUFG Group in accordance with the Law Concerning Emergency Measures for the Early Strengthening of Financial Functions.

On June 29, 2006, 9,300 shares of Class 8 Preferred Stock, 79,700 shares of Class 9 Preferred Stock, 150,000 shares of Class 10 Preferred Stock and 16,700 shares of Class 12 Preferred Stock, which had been recorded as treasury stock, were retired.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

On February 14, 2007, 22,800 shares of Class 12 Preferred Stock were exchanged for 28,643 shares of common stock.

On February 19, 2007, 45,400 shares of Class 12 Preferred Stock were exchanged for 57,035 shares of common stock.

On March 13, 2007, 11,300 shares of Class 12 Preferred Stock were exchanged for 14,195 shares of common stock.

On March 29, 2007, 79,500 shares of Class 12 Preferred Stock, which had been recorded as treasury stock, were retired.

On September 30, 2007, a share of all classes of Preferred Stock was divided into 1,000 shares.

On August 1, 2008, 17,700,000 shares of Class 8 Preferred Stock were exchanged for 43,895,180 shares of common stock.

On September 25, 2008, 17,700,000 shares of Class 8 Preferred Stock, which had been recorded as treasury stock, were retired.

On September 30, 2008, 22,400,000 shares of Class 12 Preferred Stock were exchanged for 28,140,710 shares of common stock.

On October 31, 2008, 22,400,000 shares of Class 12 Preferred Stock, which had been recorded as treasury stock, were retired.

On November 17, 2008, MUFG issued 156,000,000 shares of Class 5 Preferred Stock at ¥ 2,500 per share, the aggregate amount of the issue price being ¥390.0 billion.

Through the period from February 3, 2009 to February 16, 2009, 11,300,000 shares of Class 12 Preferred Stock were exchanged for 14,681,040 shares of common stock.

On February 27, 2009, 11,300,000 shares of Class 12 Preferred Stock, which had been recorded as treasury stock, were retired.

Subsequent to March 31, 2010, on April 1, 2010, MUFG acquired 100,000,000 shares of Class 3 Preferred Stock. On the same day, these 100,000,000 shares of Class 3 Preferred Stock were retired.

***Preferred Stock Outstanding as of March 31, 2010***

***Class 3 Preferred Stock***

Class 3 Preferred Stock is redeemable at the option of MUFG. At the time of issuance, the Board of Directors determines an issue price, an annual dividend, and redemption terms, including a redemption price.

Class 3 Preferred Stock was issued by means of a third party allocation to Meiji Yasuda Life Insurance Company, Tokio Marine & Nichido Fire Insurance Co., Ltd. and Nippon Life Insurance Company. The preferred stock does not have voting rights at any general meetings of shareholders, unless otherwise provided by applicable laws and regulations. Preferred dividends are set to be ¥60 per share annually.



**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Class 5 Preferred Stock*

Class 5 Preferred Stock is redeemable at the option of MUFG. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥250 per share), and redemption terms, including a redemption price.

Class 5 Preferred Stock was issued by means of a third party allocation to Nippon Life Insurance Company, Meiji Yasuda Life Insurance Company, TAIYO LIFE INSURANCE COMPANY, DAIDO LIFE INSURANCE COMPANY, Tokio Marine & Nichido Fire Insurance Co., Ltd., NIPPONKOA Insurance Company, Limited and Aioi Insurance Company, Limited. The preferred stock does not have voting rights at any general meetings of shareholders, unless otherwise provided by applicable laws and regulations. Preferred dividends are set to be ¥115 per share annually, except as of March 31, 2009. Preferred dividends were ¥43 per share as of March 31, 2009.

*Class 11 Preferred Stock*

Class 11 preferred stockholders are entitled to receive annual non-cumulative dividends of ¥5.30 per share with priority over common stockholders.

Class 11 Preferred Stock is convertible into fully paid shares of MUFG common stock at the election of holders from establishment of MUFG to July 31, 2014, except during certain excluded periods, at an initial conversion price of ¥918.70 per share of common stock, subject to anti-dilution adjustments. The conversion price was subject to reset annually on July 15 from 2006 to 2013 to the average market price of the common stock for the 30 trading day period, if the average market price was less than the conversion price prior to the reset but not less than ¥918.70 per share. The acquisition price and the acquisition floor price of Class 11 Preferred Stock were adjusted as ¥889.60 per share on December 15, 2008, ¥888.40 per share on January 14, 2009, ¥867.60 per share on December 21, 2009, and ¥865.90 per share on December 25, 2009, in accordance with the provisions relating to the adjustment of the acquisition price set forth in the terms and conditions of Class 11 Preferred Stock.

All Class 11 Preferred Stock outstanding on August 1, 2014 will be mandatorily converted into shares of common stock at a conversion ratio of ¥1,000 divided by the higher of the average market price of the common stock for the 30 trading day period beginning 45 trading days prior to August 1, 2014 or ¥802.60.

***Beneficial Conversion Feature***

Convertible preferred stock contains a beneficial conversion feature if the effective conversion price (either initially or after being reset) for a share of common stock upon conversion is less than the market price of a share of common stock when the preferred stock was issued.

Beneficial conversion feature discounts are measured as the excess of the market price of a share of common stock when the preferred stock is issued over the initial or reset preferred stock conversion price per share of common stock. Beneficial conversion feature discounts are charged to Capital surplus when recognized and amortized to retained earnings as non-cash preferred dividends using the effective yield method. Initial beneficial conversion feature discounts are amortized over the period from the issuance date of the preferred stock to the mandatory conversion date. Contingent beneficial conversion feature discounts are recognized when the reset conversion price is determinable and amortized over the period from the conversion price reset date to the mandatory conversion date. Any remaining unamortized beneficial conversion feature discount when preferred stock is converted at the option of the holder before the mandatory conversion date is immediately charged to retained earnings as a non-cash preferred dividend.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The changes in the unamortized discount arising from beneficial conversion features of the preferred stock during the fiscal year ended March 31, 2009 were as follows:

	<u>Class 8</u>	<u>Class 11</u>	<u>Class 12</u>	<u>Total</u>
	(in millions)			
<b>Fiscal year ended March 31, 2009:</b>				
Balance at March 31, 2008	¥ 1,160	¥ 1	¥ 7,658	¥ 8,819
Addition on conversion price/ratio reset	—	—	659	659
Amortization to retained earnings	(1,160)	(1)	(3,618)	(4,779)
Charged to retained earnings on conversion of preferred stock	—	—	(4,699)	(4,699)
Balance at March 31, 2009	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>

The above balances at March 31, 2008 were fully amortized to retained earnings or charged to retained earnings on conversion of preferred stock by March 31, 2009

**18. COMMON STOCK AND CAPITAL SURPLUS**

The changes in the number of issued shares of common stock during the fiscal years ended March 31, 2008, 2009 and 2010 were as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(shares)		
Balance at beginning of fiscal year	10,861,643,790	10,861,643,790	11,648,360,720
Issuance of new shares of common stock by conversion of Class 8 Preferred Stock	—	43,895,180	—
Issuance of new shares of common stock by conversion of Class 12 Preferred Stock	—	42,821,750	—
Issuance of new shares of common stock by way of Offering (Public Offering)	—	634,800,000	2,337,000,000
Issuance of new shares of common stock by way of Third-Party Allotment	—	65,200,000	163,000,000
Issuance of new shares of common stock by way of exercise of the stock acquisition rights	—	—	54,200
Balance at end of fiscal year	<u>10,861,643,790</u>	<u>11,648,360,720</u>	<u>14,148,414,920</u>

Under the Company Law, issuances of common stock, including conversions of bonds and notes, are required to be credited to the common stock account for at least 50% of the proceeds and to the legal capital surplus account (“legal capital surplus”) for the remaining amounts.

The Company Law permits Japanese companies, upon approval by the Board of Directors, to issue shares in the form of a “stock split,” as defined in the Company Law (see Note 1). Also, prior to April 1, 1991, Japanese companies were permitted to issue free share distributions. BTMU and MUTB from time to time made free share distributions. These free distributions usually ranged from 5% to 10% of outstanding common stock and publicly-owned corporations in the United States issuing shares in similar transactions would be required to account for them as stock dividends as of the shareholders’ record date by reducing retained earnings and increasing the appropriate capital accounts by an amount equal to the fair value of the shares issued. The application of such United States accounting practice to the cumulative free distributions made by BTMU and MUTB at March 31, 2010, would have increased capital accounts by ¥1,910,106 million with a corresponding decrease in unappropriated retained earnings (accumulated deficit).

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The Company Law permits that common stock, legal reserve, additional paid-in capital, and other capital surplus and retained earnings can be transferred among these accounts under certain conditions upon the approval of a shareholders' meeting. The Company Law limits the increase of paid in capital in case disposition of treasury stock and issuance of common stock are performed at the same time.

***Common Stock Issued during the fiscal year ended March 31, 2009***

On December 15, 2008, MUFG issued 634,800,000 shares of common stock by way of offering and sold 300,000,000 shares of common stock through a secondary offering of shares by way of sale of Treasury stock. Both types of stock were offered at ¥399.80 per share (issue price and selling price at ¥417.00 per share) for ¥253,793 million and ¥119,940 million, respectively. As a result, ¥29,811 million was included in Capital stock, and the same amount was also included in Capital surplus.

On December 16, 2008, MUFG sold 65,200,000 shares of common stock through a secondary offering of shares by way of over-allotment, in which an underwriter borrows securities from certain shareholder(s) of MUFG to sell the shares, at a selling price of ¥417.00 per shares for ¥27,188 million. In connection with the secondary offering by way of over-allotment, on January 14, 2009, MUFG issued 65,200,000 new shares of common stock by way of third-party allotment at ¥399.80 per share for ¥26,067 million. As a result, ¥13,033 million was included in Capital stock, and the same amount was also included in Capital surplus.

As for Capital surplus, the fee retained by MUFG's subsidiary as underwriting compensation, net of stock issue expense, was included in the total Capital surplus balance in addition to the balance mentioned above.

***Common Stock Issued during the fiscal year ended March 31, 2010***

On December 21, 2009, MUFG issued 2,337,000,000 shares of common stock by way of offering. This type of stock was offered at ¥412.53 per share (issue price and selling price at ¥428.00 per share) for ¥964,082 million. As a result, ¥482,041 million was included in Capital stock, and the same amount was also included in Capital surplus.

On December 22, 2009, MUFG sold 163,000,000 shares of common stock through a secondary offering of shares by way of over-allotment, in which an underwriter borrows securities from certain shareholder(s) of MUFG to sell the shares, at a selling price of ¥428.00 per shares for ¥69,764 million. In connection with the secondary offering by way of over-allotment, on December 25, 2009, MUFG issued 163,000,000 new shares of common stock by way of third-party allotment at ¥412.53 per share for ¥67,242 million. As a result, ¥33,621 million was included in Capital stock, and the same amount was also included in Capital surplus.

As for Capital surplus, the fee retained by MUFG's subsidiary as underwriting compensation, net of stock issue expense, was included in the total Capital surplus balance in addition to the balance mentioned above.

***Treasury Stock***

The Company Law permits Japanese companies to effect purchases of their own shares pursuant to a resolution by the shareholders at an annual general meeting until the conclusion of the following ordinary general meeting of shareholders, and to hold such shares as their treasury stock indefinitely regardless of purpose. However, the Company Law requires the amount of treasury stock purchased should be within the amount of retained earnings available for dividends. Disposition of treasury stock is subject to the approval of the Board of Directors and is to follow the procedures similar to a public offering of shares for subscription.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Parent Company Shares Held by Subsidiaries and Affiliated Companies***

At March 31, 2010, certain subsidiaries and affiliated companies owned shares of common stock of MUFG. Such shares are included in treasury stock in the consolidated balance sheets and deducted from the MUFG's shareholders' equity.

**19. RETAINED EARNINGS, LEGAL RESERVE AND DIVIDENDS**

In addition to the Company Law, Japanese banks, including BTMU and MUTB, are required to comply with the Banking Law of Japan (the "Banking Law").

***Legal Reserve Set Aside as Appropriation of Retained Earnings and Legal Capital Surplus***

*Under the Company Law*

The Company Law provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated and set aside as a legal reserve until the aggregate amount of legal reserve set aside as an appropriation of retained earnings and the legal capital surplus equals 25% of stated capital as defined in the Company Law.

*Under the Banking Law*

The Banking Law provides that an amount at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each fiscal period shall be appropriated and set aside as a legal reserve until the aggregate amount of legal reserve set aside as an appropriation of retained earnings and the legal capital surplus equals 100% of stated capital as defined in the Company Law.

***Transfer of Legal Reserve***

*Under the Company Law*

Under the Company Law, Japanese companies, including MUFG, were permitted, pursuant to a resolution by the shareholders at a general meeting, to make legal reserve set aside as appropriation of retained earnings and legal capital surplus available for dividends until the aggregate amount of the legal reserve and legal capital surplus equals 25% of stated capital as defined in the Company Law.

Under the Company Law, Japanese companies, including MUFG, BTMU and MUTB, are permitted, primarily pursuant to a resolution by the shareholders at a general meeting, to transfer legal capital surplus and legal reserve to stated capital and/or retained earnings without limitations of thresholds, thereby effectively removing the thresholds provided for in the Company Law and Banking Law at the company's discretion.

*Under the Banking Law*

Under the Banking Law, Japanese banks, including BTMU and MUTB, were permitted, pursuant to a resolution by the shareholders at a general meeting, to make legal reserve set aside as an appropriation of retained earnings and legal capital surplus available for dividends until the aggregate amount of the legal reserve and legal capital surplus equals 100% of stated capital as defined in the Company Law.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Unappropriated Retained Earnings (Accumulated Deficit) and Dividends***

In addition to the provision that requires an appropriation for legal reserve as described above, the Company Law and the Banking Law impose certain limitations on the amount available for dividends.

Under the Company Law, the amount available for dividends is based on the amount recorded in MUFG's general books of account maintained in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"). The adjustments included in the accompanying consolidated financial statements but not recorded in MUFG's general books of account, as explained in Note 1, have no effect on the determination of retained earnings available for dividends under the Company Law. Under the Banking Law, MUFG, BTMU and MUTB have to meet the minimum capital adequacy requirements and distributions of retained earnings of MUFG, BTMU and MUTB, which are otherwise distributable to shareholders, are restricted in order to maintain the minimum 4.0% Tier I capital for capital adequacy purpose.

MUFG was established on April 2, 2001 with common stock of ¥924,400 million, preferred stock of ¥222,100 million, legal capital surplus of ¥2,838,693 million and no retained earnings in accordance with the Code and Japanese GAAP.

On October 1, 2005, MUFG started with common stock and preferred stock of ¥1,383,052 million, legal capital surplus of ¥3,577,570 million and retained earnings of ¥757,458 million in accordance with the Code and Japanese GAAP.

MUFG's amount available for dividends, at March 31, 2010, was ¥4,421,862 million, which is based on the amount recorded in MUFG's general books of account under Japanese GAAP.

Annual dividends, including those for preferred stock, are approved by the shareholders at an annual general meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, a semi-annual interim dividend payment may be made by resolution of the Board of Directors, subject to limitations imposed by the Company Law and the Banking Law.

In the accompanying consolidated statements of equity, dividends and appropriations to legal reserve shown for each fiscal year represent dividends approved and paid during the fiscal year and the related appropriation to legal reserve.

## **20. NONCONTROLLING INTERESTS**

***Deconsolidation of the Subsidiaries***

The amount of gains (losses) recognized due to deconsolidation of subsidiaries for the fiscal years ended March 31, 2008, 2009 and 2010 were ¥(778) million, ¥(320) million and ¥32,420 million, respectively, and gains related to the remeasurement of retained investments were ¥18,782 million for the fiscal year ended March 31, 2010. These gains and losses were recognized under "Other non-interest income" and "Other non-interest expenses," respectively in the consolidated statements of operations.

On October 1, 2009, Senshu Bank, a former consolidated subsidiary of MUFG Group, and The Bank of Ikeda Ltd. ("Bank of Ikeda") incorporated Senshu Ikeda Holdings, Inc. through share exchange transaction based on the business integration agreement entered into by BTMU, Senshu Bank and Bank of Ikeda on May 25, 2009. As a result of the business integration, MUFG Group acquired shares of Senshu Ikeda Holdings, Inc. in exchange for MUFG Group's shares of Senshu Bank and ceased to have a controlling financial interest in Senshu Bank.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Senshu Bank was deconsolidated and Senshu Ikeda Holdings, Inc. became an equity method investee of MUFG from October 1, 2009. MUFG recorded the retained investment at fair value, as measured by the quoted market price of Senshu Ikeda Holdings, Inc. and recognized a gain of ¥29,004 million in the consolidated statement of operations.

***Supplemental Schedule***

Transactions between Mitsubishi UFJ Financial Group and the noncontrolling interests for the fiscal year ended March 31, 2010 were as follow:

	<b>2010</b>
	<b>(in millions)</b>
Net income attributable to Mitsubishi UFJ Financial Group .....	¥859,819
Transactions between Mitsubishi UFJ Financial Group and the noncontrolling interests:	
Conversion of preferred stock to common stock issued by a subsidiary .....	(641)
Other .....	221
Net transfers to noncontrolling interests .....	(420)
Change from net income attributable to Mitsubishi UFJ Financial Group and transactions between Mitsubishi UFJ Financial Group and the noncontrolling interests .....	¥859,399

**21. REGULATORY CAPITAL REQUIREMENTS**

***Japan***

MUFG, BTMU, MUTB and MUS are subject to various regulatory capital requirements promulgated by the regulatory authorities of the countries in which they operate. Failure to meet minimum capital requirements will initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on MUFG's consolidated financial statements.

In Japan, MUFG, BTMU, and MUTB are subject to regulatory capital requirements promulgated by the Financial Services Agency of Japan ("FSA") in accordance with the provisions of the Banking Law and related regulations. A banking institution is subject to the minimum capital requirements both on a consolidated basis and a stand-alone basis, and is required to maintain the minimum capital irrespective of whether it operates independently or as a subsidiary under the control of another company. When a bank holding company manages operations of its banking subsidiaries, it is required to maintain the minimum capital adequacy ratio on a consolidated basis in the same manner as its subsidiary banks. The FSA provides two sets of capital adequacy guidelines. One is a set of guidelines applicable to Japanese banks and bank holding companies with foreign offices conducting international operations, as defined, and the other is applicable to Japanese banks and bank holding companies that are not engaged in international operations conducted by foreign offices.

Under the capital adequacy guidelines applicable to a Japanese banking institution with international operations conducted by foreign offices, a minimum capital ratio of 8.0% is required.

The Basel Committee on Banking Supervision of the Bank for International Settlements ("BIS") sets capital adequacy standards for all internationally active banks to ensure minimum level of capitals.

The Basel Committee worked over recent years to revise the 1988 Accord, and in June 2004, "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" called Basel II was released. MUFG calculated capital ratios as of March 31, 2009 and 2010 in accordance with Basel II.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Basel II is based on “three pillars”: (1) minimum capital requirements, (2) the self-regulation of financial institutions based on supervisory review process, and (3) market discipline through the disclosure of information. The framework of the 1988 Accord, Basel I, is improved and expanded to be included in “minimum capital requirements” as the first pillar of Basel II.

As for the denominator of the capital ratio, retaining the Basel I Framework, Basel II provides more risk-sensitive approaches and a range of options for determining the risk-weighted assets.

“Credit Risk”

The revised Framework provides options for determining the risk-weighted assets for credit risk to allow banks to select approaches that are most appropriate for their level of risk assessment while the Basel I Framework provided a sole measurement approach. Banks choose one of three approaches: “Standardized Approach”, “Foundation Internal Ratings-Based Approach (“FIRB”)” or “Advanced Internal Ratings-Based Approach (“AIRB”).”

“Market Risk”

In the “Amendment to the Capital Accord to incorporate market risks” of the year 1996, a choice between two methodologies “the Standardized Methodology” and “Internal Models Approach” is permitted. “Combination of Internal Models Approach and the Standardized Methodology” is also allowed under certain conditions. This is unchanged in Basel II.

“Operational Risk”

Operational risk, which is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, is newly added in Basel II. Basel II presents three methods for calculating operational risk capital charges: (i) the Basic Indicator Approach; (ii) the Standardized Approach; or (iii) Advanced Measurement Approaches (“AMA”). Banks adopt one of the three approaches to determine the risk-weighted assets for operational risk.

Banks need to obtain approval from their supervisors prior to adopting the following approaches to calculate capital requirements for each risk:

- the Internal Ratings-Based (“IRB”) Approach for credit risk
- the Internal Models Approach for market risk
- the Standardized Approach and AMA for operational risk

On the other hand, as for the numerator of the capital ratio, Basel II takes over in principle the eligible regulatory capital stipulated in Basel I.

Capital is classified into three tiers, referred to as Tier I, Tier II and Tier III capital and deductions from capital.

Tier I capital generally consists of equity items, including common stock, preferred stock, capital surplus, noncontrolling interests and retained earnings, less any recorded goodwill and other items such as treasury stock. Tier II capital generally consists of general reserves for credit losses up to 1.25% of risk-weighted assets, 45% of the unrealized gains on investment securities available for sale, 45% of the land revaluation excess, the balance of perpetual subordinated debt and the balance of subordinated term debt with an original maturity of over five

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

years subject to some limitations, up to 50% of Tier I capital. Preferred stock is includable in Tier I capital unless the preferred stock has a fixed maturity, in which case, such preferred stock will be a component of Tier II capital. Tier III capital generally consists of short-term subordinated debt with an original maturity of at least two years, subject to certain limitations. At least 50% of a bank's capital base must be maintained in the form of Tier I capital.

Deductions include a banks' holdings of capital issued by other banks, or deposit-taking institutions and investments in subsidiaries engaged in banking and financial activities which are not consolidated in accordance with Japanese GAAP.

Due to a change in credit risk measurement by adopting Basel II, general provisions for credit losses can be included in Tier II capital according to the proportion of credit risk-weighted assets subject to the Standardized Approach only. Under the IRB approach, the capital is adjusted by the amount of the difference between total eligible provisions and total expected losses calculated within the IRB approach. Under certain conditions, banks are also required to deduct from regulatory capital securitization exposure, any increase in equity capital resulting from a securitization transaction and expected losses on equity exposures under the Probability of Default/Loss Given Default approach.

If a banking institution is not engaged in international operations conducted by foreign offices, it is subject to another set of capital adequacy requirements with a minimum capital ratio of 4.0%. Such guidelines incorporate measures of risk under the risk-weighted approach similar to the guidelines applicable to banking institutions with international operations. Qualifying capital is classified into Tier I and Tier II capital.

The Banking Law and related regulations require that one of three categories be assigned to banks and bank holding companies, based on its risk-adjusted capital adequacy ratio if the bank fails to meet the minimum target capital adequacy ratio. These categories indicate capital deterioration, which may be subject to certain prompt corrective action by the FSA.

MUFG, BTMU and MUTB have international operations conducted by foreign offices, as defined, and are subject to the 8.0% capital adequacy requirement.

The MUFG Group's proprietary assets do not include trust assets under management and administration in a capacity of agent or fiduciary and, accordingly trust account assets are generally not included in the capital measure. However, guarantees for trust principal are counted as off-balance-sheet items requiring a capital charge in accordance with the capital adequacy guidelines.

In Basel II, MUFG and most of its major subsidiaries adopt AIRB to calculate capital requirements for credit risk. MUFG and most of its major subsidiaries adopt the Standardized Approach to calculate capital requirements for operational risk. As for market risk, MUFG and most of its major subsidiaries adopt the Internal Models Approach mainly to calculate general market risk and adopt the Standardized Methodology to calculate specific risk.



**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The risk-adjusted capital amounts and ratios of MUFG, BTMU and MUTB presented in the following table are based on amounts calculated in accordance with Japanese GAAP as required by the FSA:

	<u>Actual</u>		<u>For capital adequacy purposes</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(in millions, except percentages)				
Consolidated:				
At March 31, 2009:				
Total capital (to risk-weighted assets):				
MUFG .....	¥11,478,440	11.77%	¥7,799,477	8.00%
BTMU .....	9,637,052	12.02	6,413,908	8.00
MUTB .....	1,447,919	12.70	911,627	8.00
Tier I capital (to risk-weighted assets):				
MUFG .....	7,575,189	7.76	3,899,738	4.00
BTMU .....	6,127,624	7.64	3,206,954	4.00
MUTB .....	1,159,785	10.17	455,814	4.00
At March 31, 2010:				
Total capital (to risk-weighted assets):				
MUFG .....	¥13,991,766	14.87%	¥7,526,507	8.00%
BTMU .....	11,965,085	15.54	6,158,125	8.00
MUTB .....	1,737,210	16.02	867,354	8.00
Tier I capital (to risk-weighted assets):				
MUFG .....	10,009,643	10.63	3,763,253	4.00
BTMU .....	8,349,500	10.84	3,079,062	4.00
MUTB .....	1,352,012	12.47	433,677	4.00
Stand-alone:				
At March 31, 2009:				
Total capital (to risk-weighted assets):				
BTMU .....	¥ 9,431,674	12.74%	¥5,920,101	8.00%
MUTB .....	1,411,772	12.49	903,726	8.00
Tier I capital (to risk-weighted assets):				
BTMU .....	6,175,439	8.34	2,960,050	4.00
MUTB .....	1,112,966	9.85	451,863	4.00
At March 31, 2010:				
Total capital (to risk-weighted assets):				
BTMU .....	¥11,667,072	16.34%	¥5,711,394	8.00%
MUTB .....	1,738,081	16.10	863,354	8.00
Tier I capital (to risk-weighted assets):				
BTMU .....	8,276,159	11.59	2,855,697	4.00
MUTB .....	1,305,511	12.09	431,677	4.00

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

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

At March 31, 2009 and 2010, MUS's capital accounts less certain fixed assets of ¥502,823 million and ¥505,693 million, were 353.7% and 342.9 % of the total amounts equivalent to market, counterparty credit and operations risks, respectively.

Management believes, as of March 31, 2010, that MUFJ, BTMU, MUTB and other regulated securities subsidiaries met all capital adequacy requirements to which they are subject.

***United States of America***

In the United States of America, UNBC and its banking subsidiary Union Bank, N.A. (On December 18, 2008, Union Bank changed its name from Union Bank of California, N.A.), BTMU's largest subsidiaries operating outside Japan, are subject to various regulatory capital requirements administered by U.S. Federal banking agencies, including minimum capital requirements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, UNBC and Union Bank must meet specific capital guidelines that involve quantitative measures of UNBC's and Union Bank's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. regulatory accounting practices. UNBC's and Union Bank's capital amounts and Union Bank's prompt corrective action classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require UNBC and Union Bank to maintain minimum ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to quarterly average assets (as defined).

The figures on the tables below are calculated according to Basel I as UNBC and Union Bank do not meet the criteria in the new U.S. rules which would make adoption of the new Basel II rules mandatory. UNBC's and the Union Bank's actual capital amounts and ratios are presented as follows:

	Actual		For capital adequacy purposes	
	Amount	Ratio	Amount	Ratio
	(in millions, except percentages)			
UNBC:				
At December 31, 2008:				
Total capital (to risk-weighted assets) . . . . .	\$7,240	11.63%	\$4,980	8.00%
Tier I capital (to risk-weighted assets) . . . . .	5,467	8.78	2,490	4.00
Tier I capital (to quarterly average assets) <sup>(1)</sup> . . . . .	5,467	8.42	2,597	4.00
At December 31, 2009:				
Total capital (to risk-weighted assets) . . . . .	\$9,203	14.54%	\$5,064	8.00%
Tier I capital (to risk-weighted assets) . . . . .	7,485	11.82	2,532	4.00
Tier I capital (to quarterly average assets) <sup>(1)</sup> . . . . .	7,485	9.45	3,169	4.00

Note:

(1) Excludes certain intangible assets.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<u>Actual</u>		<u>For capital adequacy purposes</u>		<u>Ratios OCC requires to be "well capitalized"</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(in millions, except percentages)						
Union Bank:						
At December 31, 2008:						
Total capital (to risk-weighted assets) . . . . .	\$6,831	11.01%	\$4,962	8.00%	\$6,203	10.00%
Tier I capital (to risk-weighted assets) . . . . .	5,380	8.67	2,481	4.00	3,722	6.00
Tier I capital (to quarterly average assets) <sup>(1)</sup> . . . . .	5,380	8.31	2,590	4.00	3,237	5.00
At December 31, 2009:						
Total capital (to risk-weighted assets) . . . . .	\$8,686	13.73%	\$5,062	8.00%	\$6,327	10.00%
Tier I capital (to risk-weighted assets) . . . . .	7,207	11.39	2,531	4.00	3,796	6.00
Tier I capital (to quarterly average assets) <sup>(1)</sup> . . . . .	7,207	9.05	3,184	4.00	3,980	5.00

Note:

(1) Excludes certain intangible assets.

Management believes, as of December 31, 2009, that UNBC and Union Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2008 and 2009, the most recent notification from the U.S. Office of the Comptroller of the Currency ("OCC") categorized Union Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," Union Bank must maintain a minimum total risk-based capital ratio of 10%, a Tier I risk-based capital ratio of 6%, and a Tier I leverage ratio of 5% as set forth in the table. There are no conditions or events since that notification that management believes have changed Union Bank's category.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**22. EARNINGS (LOSS) PER COMMON SHARE APPLICABLE TO COMMON SHAREHOLDERS OF MUFG**

Reconciliations of net income (loss) and weighted average number of common shares outstanding used for the computation of basic earnings (loss) per common share to the adjusted amounts for the computation of diluted earnings (loss) per common share for the fiscal years ended March 31, 2008, 2009 and 2010 are as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(in millions)		
<b>Income (loss) (Numerator):</b>			
Income (loss) from continuing operations . . . . .	¥ (501,290)	¥ (1,504,299)	¥ 875,076
Loss from discontinued operations—net . . . . .	(2,670)	—	—
Net income (loss) before attribution of noncontrolling interests . . . . .	(503,960)	(1,504,299)	875,076
Net income (loss) attributable to noncontrolling interests . . . . .	38,476	(36,259)	15,257
Net income (loss) attributable to Mitsubishi UFJ Financial Group . . . . .	(542,436)	(1,468,040)	859,819
Income allocable to preferred shareholders:			
Cash dividends paid . . . . .	(6,669)	(6,399)	(21,678)
Beneficial conversion feature . . . . .	(7,909)	(9,478)	—
Effect of induced conversion of Mitsubishi UFJ NICOS Co., Ltd. Class 1 stock (Note 3) . . . . .	—	(7,676)	—
Net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group . . . . .	(557,014)	(1,491,593)	838,141
Effect of dilutive instruments:			
Convertible preferred stock—Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd. . . . .	—	—	(1,123)
Stock options—kabu.com Securities . . . . .	—	—	(1)
Net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group and assumed conversions . . . . .	¥ (557,014)	¥ (1,491,593)	¥ 837,017
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(thousands of shares)		
<b>Shares (Denominator):</b>			
Weighted average common shares outstanding . . . . .	10,305,911	10,821,091	12,324,315
Effect of dilutive instruments:			
Convertible preferred stock . . . . .	—	—	1
Stock options . . . . .	—	—	8,365
Weighted average common shares for diluted computation . . . . .	10,305,911	10,821,091	12,332,681

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<b>2008</b>	<b>2009</b>	<b>2010</b>
		(in yen)	
<b>Earnings (loss) per common share applicable to common shareholders of Mitsubishi UFJ Financial Group:</b>			
Basic earnings (loss) per common share:			
Income (loss) from continuing operations available to common shareholders of Mitsubishi UFJ Financial Group . . . . .	¥(53.79)	¥(137.84)	¥68.01
Loss from discontinued operations . . . . .	(0.26)	—	—
Net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group . . . . .	<u>¥(54.05)</u>	<u>¥(137.84)</u>	<u>¥68.01</u>
Diluted earnings (loss) per common share:			
Income (loss) from continuing operations available to common shareholders of Mitsubishi UFJ Financial Group . . . . .	¥(53.79)	¥(137.84)	¥67.87
Loss from discontinued operations . . . . .	(0.26)	—	—
Net income (loss) available to common shareholders of Mitsubishi UFJ Financial Group . . . . .	<u>¥(54.05)</u>	<u>¥(137.84)</u>	<u>¥67.87</u>

For the fiscal year ended March 31, 2008, Class 8, Class 11 and Class 12 Preferred Stock, convertible preferred stock issued by Senshu Bank and Mitsubishi UFJ NICOS, 1/4% Convertible Bonds due 2014 issued by MUS and stock options issued by MUFG, MUS, kabu.com Securities, UNBC, MU Hands-on Capital Ltd. and Palace Capital Partners A Co., Ltd. could potentially dilute earnings per common share but were not included in the computation of diluted earnings per common share due to their antidilutive effects.

For the fiscal year ended March 31, 2009, Class 11 Preferred Stock, convertible preferred stock issued by Senshu Bank and Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd. and stock options issued by MUFG, kabu.com Securities, MU Hands-on Capital Ltd. and FOODSNET Corporation could potentially dilute earnings per common share but were not included in the computation of diluted earnings per common share due to their antidilutive effects.

For the fiscal year ended March 31, 2010, stock options issued by MU Hands-on Capital Ltd. could potentially dilute earnings per common share but were not included in the computation of diluted earnings per common share due to their antidilutive effects.

In computing the number of the potentially dilutive common shares for the fiscal year ended March 31, 2010, Class 11 Preferred Stock has been based on the conversion price at March 31, 2010 (i.e., ¥865.9).

**23. DERIVATIVE FINANCIAL INSTRUMENTS**

The MUFG Group uses various derivative financial instruments both for trading purposes and for purposes other than trading (primarily risk management purposes) in the normal course of business to meet the financial needs of its customers, as a source of revenue and to manage its exposures to a variety of risks. Market risk is the possibility that future changes in market indices make the financial instruments less valuable. The MUFG Group is a party to derivatives, including swaps, forwards, options and other types of derivatives, dealing primarily with market risk associated with interest rate, foreign currency, equity and commodity prices, and credit risk associated with counterparty's nonperformance of transactions.

Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract, which may exceed the value of underlying collateral. To reduce credit risk,

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

the MUFG Group may require collateral or guaranties based on a case-by-case assessment of creditworthiness of each customer and evaluation of the instrument. The MUFG Group also uses master netting agreements in order to mitigate overall counterparty credit risk.

***Trading Activities***

The MUFG Group's trading activities include dealing and customer accommodation activities. As part of its trading activities, the MUFG Group offers a variety of derivative financial instruments and debt instruments for managing interest rate and foreign exchange risk to its domestic and foreign corporate and financial institution customers. The MUFG Group also enters into other types of derivative transactions, including equity and credit-related contracts, for its own account.

***Risk Management Activities***

As part of MUFG's risk management activities, asset and liability management is viewed as one of the methods for the MUFG Group to manage its interest rate exposures on interest-bearing assets and liabilities. The MUFG Group uses certain derivative financial instruments in order to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. For example, an increase or a decrease of interest income and interest expense on hedged variable-rate assets and liabilities as a result of interest rate fluctuations are expected to substantially offset the variability in earnings by gains and losses on the derivative instruments that are linked to these hedged assets and liabilities.

The MUFG Group enters into interest rate swaps and other contracts primarily to manage the interest rate volatility of its loans, investment securities and deposit liabilities. Interest rate contracts, which are generally non-leveraged generic interest rate and basis swaps, options and futures, allow the MUFG Group to effectively manage its interest rate risk position. Option contracts primarily consist of caps, floors, swaptions and options on index futures. Futures contracts used for asset and liability management activities are primarily index futures providing for cash payments based upon the movement of an underlying rate index. The MUFG Group enters into forward exchange contracts, currency swaps and other contracts in response to currency exposures resulting from on-balance-sheet assets and liabilities denominated in foreign currencies in order to limit the net foreign exchange position by currency to an appropriate level.

***Derivatives Designated as Hedges***

The MUFG Group adopts hedging strategies and applies hedge accounting to certain derivative transactions entered by UNBC whose fiscal periods end on December 31.

***Cash Flow Hedges***

***Hedging Strategies for Variable Rate Loans, Borrowings and Certificates of Deposit ("CD") and Other Time Deposits***

UNBC engages in several types of cash flow hedging strategies related to forecasted future interest payments, with the hedged risk being the variability in those payments due to changes in the designated benchmark rate, e.g., U.S. dollar LIBOR. In these strategies, the hedging instruments are matched with groups of similar variable rate instruments such that the reset tenor of the variable rate instruments and that of the hedging instrument are identical. Cash flow hedging strategies include the utilization of purchased floor, cap, collars and corridor options and interest rate swaps. At December 31, 2009, the weighted average remaining life of the currently active (excluding any forward positions) cash flow hedges was approximately 2.2 years.

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UNBC uses purchased interest rate floors to hedge the variable cash flows associated with 1-month or 3-month LIBOR indexed loans. Payments received under the floor contract offset the decline in loan interest income if the relevant LIBOR index falls below the floor's strike rate.

UNBC uses interest rate floor corridors to hedge the variable cash flows associated with 1-month or 3-month LIBOR indexed loans. Net payments to be received under the floor corridor contracts offset the decline in loan interest income if the relevant LIBOR index falls below the corridor's upper strike rate, but only to the extent the index remains above the lower strike rate. The corridor will not provide protection from declines in the relevant LIBOR index to the extent it falls below the corridor's lower strike rate.

UNBC uses interest rate collars to hedge the variable cash flows associated with 1-month or 3-month LIBOR indexed loans. Net payments received under the collar contract offset declines in loan interest income if the relevant LIBOR index falls below the collar's floor strike rate, while net payments paid reduce the increase in loan interest income if the LIBOR index rises above the collar's cap strike rate.

UNBC uses interest rate swaps to hedge the variable cash flows associated with 1-month or 3-month LIBOR indexed loans. Payments received (or paid) under the swap contract offset fluctuations in loan interest income caused by changes in the relevant LIBOR index. As such, these instruments hedge all fluctuations in the loans' interest income caused by changes in the relevant LIBOR index.

UNBC uses purchased interest rate caps to hedge the variable interest cash flows associated with 1-month or 3-month LIBOR indexed borrowings. Payments received under the cap contract offset the increase in borrowing interest expense if the relevant LIBOR index rises above the cap's strike rate.

UNBC uses purchased interest rate caps to hedge the variable interest cash flows associated with the forecasted issuance and rollover of short-term, fixed rate CDs. In these hedging relationships, UNBC hedges the change in interest rates based on 1-month, 3-month, and 6-month LIBOR, which is consistent with the CDs' original term to maturity and reflects their repricing frequency. Net payments to be received under the cap contract offset increases in interest expense caused by the relevant LIBOR index rising above the cap's strike rate.

UNBC uses interest rate cap corridors to hedge the variable cash flows associated with the forecasted issuance and rollover of short-term, fixed rate CDs. In these hedging relationships, UNBC hedges changes in interest rates, either 1-month, 3-month, or 6-month LIBOR, based on the original term to maturity of the CDs. Net payments received under the cap corridor contract offset increases in deposit interest expense caused by the relevant LIBOR index rising above the corridor's lower strike rate, but only to the extent the index does not exceed the upper strike rate. The corridor will not provide protection from increases in the relevant LIBOR index to the extent it rises above the corridor's upper strike rate.

Hedging transactions are structured at inception so that the notional amounts of the hedging instruments are matched to an equal principal amount of loans, CDs, or borrowings, the index and repricing frequencies of the hedging instruments match those of the loans, CDs, or borrowings and the period in which the designated hedged cash flows occurs is equal to the term of the hedge instruments. As such, most of the ineffectiveness in the hedging relationship results from the mismatch between the timing of reset dates on the hedging instruments versus those of the loans, CDs or borrowings.

For cash flow hedges, the effective portion of the gain or loss on the hedging instruments is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged cash flows are recognized in net interest income. Gains and losses representing hedge ineffectiveness or hedge components excluded from the assessment of hedge effectiveness are recognized in

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noninterest expense in the period in which they arise. Based upon amounts included in accumulated other changes in equity from nonowner sources at March 31, 2010, the MUFG Group expects to realize approximately ¥3.3 billion in net interest income for the fiscal year ending March 31, 2011. This amount could differ from amounts actually realized due to changes in interest rates and the addition of other hedges subsequent to March 31, 2010.

*Fair Value Hedges*

*Hedging Strategy for Subordinated Debt*

In the first quarter of 2009, UNBC terminated all of its interest rate swaps, which were previously used to hedge subordinated debt. The notional amount of the terminated swaps was ¥87.5 billion. These swaps were not replaced. As a result of the termination, UNBC received ¥15.4 billion in cash, which is treated as a deferred gain and recognized over the remaining contractual life of the subordinated debt.

*Economic Hedging*

In 2008, UNBC began offering markets-linked certificates of deposit. The terms of the market-linked CD allow the client to earn the higher of either a minimum fixed rate of interest or a return tied to the Standard and Poor's 500 index ("S&P 500") or the Dow Jones UBS Commodity Index. UNBC hedges its exposure to the embedded derivative contained in market-linked CDs with a perfectly matched over-the-counter call option. Both the embedded derivative and call option are recorded at fair value with the realized and unrealized changes in fair value recorded in noninterest income within trading account activities.

***Impact of Derivatives on the Consolidated Balance Sheet***

The following table summarizes the notional amount of derivative contracts at March 31, 2010:

<u>At March 31, 2010:</u>	<u>Notional amounts<sup>(1)</sup></u> <u>(in trillions)</u>
Interest rate contracts . . . . .	¥692.2
Foreign exchange contracts . . . . .	112.7
Equity contracts . . . . .	2.0
Commodity contracts . . . . .	1.4
Credit derivatives . . . . .	7.9
Others . . . . .	1.1
Total . . . . .	<u>¥817.3</u>

Note:

(1) Represents the total notional amount of derivative contracts and includes both written and purchased options.



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The following table summarizes fair value information on derivative instruments that are recorded on the MUFG Group's consolidated balance sheet at March 31, 2010:

<b>At March 31, 2010:</b>	<b>Fair Value of Derivative Instruments<sup>(1)(5)</sup></b>		
	<b>Not designated as hedges<sup>(2)</sup></b>	<b>Designated as hedges<sup>(3)</sup></b>	<b>Total derivatives<sup>(4)</sup></b>
	(in billions)		
<b>Derivative assets:</b>			
Interest rate contracts . . . . .	¥6,372	¥ 9	¥6,381
Foreign exchange contracts . . . . .	2,200	—	2,200
Equity contracts . . . . .	46	—	46
Commodity contracts . . . . .	172	—	172
Credit derivatives . . . . .	65	—	65
Total derivative assets . . . . .	¥8,855	¥ 9	¥8,864
<b>Derivative liabilities:</b>			
Interest rate contracts . . . . .	¥6,118	¥ 1	¥6,119
Foreign exchange contracts . . . . .	2,094	—	2,094
Equity contracts . . . . .	121	—	121
Commodity contracts . . . . .	118	—	118
Credit derivatives . . . . .	69	—	69
Others <sup>(6)</sup> . . . . .	(108)	—	(108)
Total derivative liabilities . . . . .	¥8,412	¥ 1	¥8,413

Notes:

- (1) The fair value of derivative instruments is presented on a gross basis even when derivative instruments are subject to master netting agreements. Cash collateral payable and receivables associated with derivative instruments are not added to or netted against the fair value amounts.
- (2) The derivative instruments which are not designated as a hedging instrument are held for trading and risk management purpose, and are classified in Trading account assets/liabilities except for (6).
- (3) The MUFG Group adopts hedging strategies and applies hedge accounting to certain derivative transactions entered by UNBC. The derivative instruments which are designated as a hedging instrument are classified in Other assets or Other liabilities.
- (4) This table does not include contracts with embedded derivatives for which the fair value option has been elected.
- (5) For more information about fair value measurement and assumptions used to measure the fair value of derivatives, see Note 31.
- (6) Others include bifurcated embedded derivatives carried at fair value which are classified in deposits and long-term debt.

***Impact of Derivatives and Hedged Items on the Consolidated Statement of Operations and on Accumulated Other Changes in Equity from Nonowner Sources***

The following tables reflect more detailed information regarding the derivative-related impact on the consolidated statement of operations by accounting designation for the fiscal year ended March 31, 2010:

Gains and losses for trading and risk management derivatives (not designated as hedging instruments)

<b>For the fiscal year ended March 31, 2010:</b>	<b>Trading and Risk Management Derivatives gains and losses (Not designated as hedging instruments)</b>		
	<b>Foreign exchange gains (losses)—net</b>	<b>Trading account profits (losses)—net</b>	<b>Total</b>
	(in billions)		
Interest rate contracts . . . . .	¥—	¥ 213	¥ 213
Foreign exchange contracts . . . . .	33	—	33
Equity contracts . . . . .	—	(217)	(217)
Commodity contracts . . . . .	—	(9)	(9)
Credit derivatives . . . . .	—	(97)	(97)
Others . . . . .	(2)	22	20
Total . . . . .	¥31	¥ (88)	¥ (57)

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Gains and losses for derivatives designated as cash flow hedges

	Gains and losses for derivatives designated as cash flow hedges			
	The amount of gains (losses) recognized in Accumulated other changes in equity from nonowner sources on derivative instruments (Effective portion)	Gains (Losses) reclassified from Accumulated other changes in equity from nonowner sources into income (Effective portion)		Gains (Losses) recognized in income on derivative instruments (Ineffective portion and amount excluded from effectiveness testing)
		Classification	Amount	
<b>For the fiscal year ended March 31, 2010:</b>		(in billions)		
Interest rate contracts .....	¥4	Interest income	¥12	¥—
Total .....	¥4		¥12	¥—

***Embedded Derivatives***

Features embedded in other non-derivative hybrid contracts are separated from the host contracts and measured at fair value when they are not clearly and closely related to the host contracts and meet the definition of a derivative. The change in the fair value of such an embedded derivative is recognized currently in earnings, unless it qualifies as a hedge. The fair value of the embedded derivative is presented in the consolidated balance sheets with the host contract. The MUFJ Group accounts for credit-linked notes as host contracts with embedded derivatives and measures the entire contracts at fair value.

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**Credit Derivatives**

The MUFG Group enters into credit derivatives to manage credit risk exposures, to facilitate client transactions, and for proprietary trading purpose, under which they provide counterparty protection against the risk of default on a set of debt obligations issued by a specified reference entity or entities. Types of these credit derivatives include principally single name credit default swaps, index and basket credit default swaps and credit-linked notes. The MUFG Group will have to perform under a credit derivative if a credit event as defined under the contract occurs. Such credit events include bankruptcy, dissolution or insolvency of the referenced entity, default and restructuring of the obligations of the referenced entity. The MUFG Group's counterparties are banks, broker-dealers, insurance and other financial institutions. The contractual or notional amounts of these instruments represent the maximum potential amounts of future payments without consideration of possible recoveries under recourse provisions or from collateral held or pledged. The table below summarizes certain information regarding protection sold through credit default swaps and credit-linked notes as of March 31, 2009 and 2010:

	Protection sold				Estimated fair value (Asset)/ Liability <sup>(1)</sup>
	Maximum potential/Notional amount by expiration period				
	Less than 1 year	1-5 years	Over 5 years (in millions)	Total	
<b>At March 31, 2009:</b>					
Single name credit default swaps:					
Investment grade <sup>(2)</sup> . . . . .	¥212,209	¥1,895,384	¥ 57,741	¥2,165,334	¥ 136,879
Non-investment grade . . . . .	29,923	257,401	1,277	288,601	38,339
Not rated . . . . .	—	15,911	—	15,911	595
Total . . . . .	242,132	2,168,696	59,018	2,469,846	175,813
Index and basket credit default swaps held by					
BTMU:					
Investment grade <sup>(2)</sup> . . . . .	45,429	450,247	7,835	503,511	27,096
Non-investment grade . . . . .	1,991	39,555	—	41,546	4,521
Not rated . . . . .	—	17,342	—	17,342	9,922
Total . . . . .	47,420	507,144	7,835	562,399	41,539
Index and basket credit default swaps held by					
MUS:					
Investment grade <sup>(2)</sup> . . . . .	10,000	393,922	2,000	405,922	40,838
Non-investment grade . . . . .	—	5,000	—	5,000	1,920
Not rated . . . . .	—	1,291	—	1,291	(3)
Total . . . . .	10,000	400,213	2,000	412,213	42,755
Index and basket credit default swaps held by					
MUTB:					
Normal . . . . .	42,000	30,000	—	72,000	3,241
Close Watch <sup>(3)</sup> . . . . .	3,000	3,000	—	6,000	1,361
Total . . . . .	45,000	33,000	—	78,000	4,602
Total index and basket credit default swaps sold . . . . .	102,420	940,357	9,835	1,052,612	88,896
Total credit default swaps sold . . . . .	¥344,552	¥3,109,053	¥ 68,853	¥3,522,458	¥ 264,709
Credit-linked notes <sup>(4)</sup> . . . . .	¥ 1,455	¥ 71,597	¥229,800	¥ 302,852	¥(220,416)

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	Protection sold				Estimated fair value  (Asset)/ Liability <sup>(1)</sup>
	Maximum potential/Notional amount by expiration period				
	Less than 1 year	1-5 years	Over 5 years	Total	
<b>At March 31, 2010:</b>			(in millions)		
Single name credit default swaps:					
Investment grade <sup>(2)</sup> . . . . .	¥611,227	¥1,990,256	¥ 46,345	¥2,647,828	¥ (13,822)
Non-investment grade . . . . .	66,900	173,671	279	240,850	4,035
Not rated . . . . .	5,499	11,334	—	16,833	13
Total . . . . .	<u>683,626</u>	<u>2,175,261</u>	<u>46,624</u>	<u>2,905,511</u>	<u>(9,774)</u>
Index and basket credit default swaps held by					
BTMU:					
Investment grade <sup>(2)</sup> . . . . .	80,460	177,249	149,174	406,883	923
Non-investment grade . . . . .	71,950	45,017	—	116,967	1,656
Not rated . . . . .	10,420	—	—	10,420	(25)
Total . . . . .	<u>162,830</u>	<u>222,266</u>	<u>149,174</u>	<u>534,270</u>	<u>2,554</u>
Index and basket credit default swaps held by					
MUS:					
Investment grade <sup>(2)</sup> . . . . .	980	298,140	4,000	303,120	(5,380)
Non-investment grade . . . . .	—	30,867	—	30,867	455
Not rated . . . . .	—	35,116	—	35,116	(926)
Total . . . . .	<u>980</u>	<u>364,123</u>	<u>4,000</u>	<u>369,103</u>	<u>(5,851)</u>
Index and basket credit default swaps held by					
MUTB:					
Normal . . . . .	30,000	—	—	30,000	(103)
Close Watch <sup>(3)</sup> . . . . .	3,000	—	—	3,000	26
Total . . . . .	<u>33,000</u>	<u>—</u>	<u>—</u>	<u>33,000</u>	<u>(77)</u>
Total index and basket credit default swaps sold . . . . .	<u>196,810</u>	<u>586,389</u>	<u>153,174</u>	<u>936,373</u>	<u>(3,374)</u>
Total credit default swaps sold . . . . .	<u>¥880,436</u>	<u>¥2,761,650</u>	<u>¥199,798</u>	<u>¥3,841,884</u>	<u>¥ (13,148)</u>
Credit-linked notes <sup>(4)</sup> . . . . .	¥ —	¥ 39,240	¥195,005	¥ 234,245	¥(199,863)

Notes:

- (1) Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.
- (2) The MUFG Group considers ratings of Baa3/BBB- or higher to meet the definition of investment grade.
- (3) Reference entities classified as “Close Watch” require close scrutiny because their business performance is unstable or their financial condition is unfavorable.
- (4) Fair value amounts shown represent the fair value of the hybrid instruments.

*Single name credit default swaps*—A credit default swap protects the buyer against the loss of principal on a bond or loan in case of a default by the issuer. The protection buyer pays a periodic premium over the life of the contracts and is protected for the period. The MUFG Group in turn will have to perform under a credit default swap if a credit event as defined under the contracts occurs. In order to provide an indication of the current payment/performance risk of the credit default swaps, the external credit ratings, primarily Moody’s and S&P credit ratings, of the underlying reference entity of the credit default swaps are disclosed.

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*Index and basket credit default swaps*—Index and basket credit default swaps are credit default swaps that reference multiple names through underlying baskets or portfolios of single name credit default swaps. Typically, in the event of a default on one of underlying names, the MUFG Group will have to pay a pro rata portion of the total notional amount of the credit default index or basket contract. In order to provide an indication of the current payment/performance risk of these credit default swaps, BTMU and MUS rating scale based upon the internal ratings, which generally corresponds to ratings defined primarily by Moody's and S&P, of the underlying reference entities comprising the basket or index were calculated and disclosed. As for the current payment/performance risk of these credit default swaps, MUTB rating scale is based upon the entity's internal ratings, which is the same credit rating system utilized for estimating probabilities of default within its loan portfolio.

*Credit-linked notes ("CLNs")*—The MUFG Group has invested in CLNs, which are hybrid instruments containing embedded derivatives, in which credit protection has been sold to the issuer of the note. If there is a credit event of a reference entity underlying the CLN, the principal balance of the note may not be repaid in full to the MUFG Group. As part of its financing activities, MUS and other securities subsidiaries in Japan and overseas issue CLNs.

The MUFG Group may economically hedge its exposure to credit derivatives by entering into offsetting derivative contracts. The carrying value and notional value of credit protection sold in which the MUFG Group held purchased protection with identical underlying referenced entities were approximately ¥201 billion and ¥2,605 billion, respectively, at March 31, 2009, and approximately ¥12 billion and ¥2,948 billion, respectively, at March 31, 2010.

Collateral is held by the MUFG Group in relation to these instruments. Collateral requirements are determined at the counterparty level and cover numerous transactions and products as opposed to individual contracts.

***Credit Risk, Liquidity Risk and Credit-risk-related Contingent Features***

Certain of the MUFG Group's derivative instruments contain provisions that require the MUFG Group's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the MUFG Group's debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2010, is approximately ¥3.3 trillion for which the MUFG Group has posted collateral of approximately ¥295 billion in the normal course of business. As of March 31, 2010, additional collateral and termination payments pursuant to bilateral agreements with certain counterparties are approximately ¥170 billion and ¥73 billion, respectively, which could have been called by counterparties, if all of the credit-risk-related contingent features underlying these agreements were triggered.

**24. OBLIGATIONS UNDER GUARANTEES AND OTHER OFF-BALANCE-SHEET INSTRUMENTS**

***Obligations under Guarantees***

The MUFG Group provides customers with a variety of guarantees and similar arrangements, including standby letters of credit, financial and performance guarantees, credit protections, liquidity facilities, other off-balance-sheet credit-related supports and similar instruments, in order to meet the customers' financial and business needs. The table below summarizes the contractual or notional amounts with regard to obligations under guarantees and similar arrangements at March 31, 2009 and 2010. The contractual or notional amounts of these instruments represent the maximum potential amounts of future payments without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

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For certain types of derivatives, such as written interest rate options and written currency options, the maximum potential future payments are unlimited. Accordingly, it is impracticable to estimate the maximum potential amount of future payments. As such, the notional amounts of the related contracts, other than the maximum potential payments, are included in the table.

The MUFG Group mitigates credit risk exposure resulting from guarantees by utilizing various techniques, including collateralization in the form of cash, securities, and real properties based on management's credit assessment of the guaranteed parties and the related credit profile. In order to manage the credit risk exposure, the MUFG Group also enters into sub-participation contracts with third parties who will fund a portion of the credit facility and bear its share of the loss to be incurred in the event that the borrower fails to fulfill its obligations. The following table includes guarantees of ¥189.0 billion and ¥195.7 billion at March 31, 2009 and 2010, respectively, which are participated out to third parties. The contractual or notional amounts summarized in the following table do not necessarily bear any direct relationship to the future actual credit exposure, primarily because of those risk management techniques.

	Maximum potential/ Contractual or Notional amount	Amount by expiration period		
		Less than 1 year	1-5 years	Over 5 years
		(in billions)		
<b>At March 31, 2009:</b>				
Standby letter of credit and financial guarantees . . . . .	¥ 4,550	¥ 2,095	¥ 1,113	¥1,342
Performance guarantees . . . . .	2,489	1,573	785	131
Derivative instruments . . . . .	67,954	29,656	34,946	3,352
Guarantee for repayment of trust principal . . . . .	1,234	173	1,055	6
Liabilities of trust accounts . . . . .	3,158	2,098	382	678
Others . . . . .	128	128	—	—
Total . . . . .	<u>¥79,513</u>	<u>¥35,723</u>	<u>¥38,281</u>	<u>¥5,509</u>

	Maximum potential/ Contractual or Notional amount	Amount by expiration period		
		Less than 1 year	1-5 years	Over 5 years
		(in billions)		
<b>At March 31, 2010:</b>				
Standby letter of credit and financial guarantees . . . . .	¥ 4,223	¥ 2,147	¥ 1,036	¥1,040
Performance guarantees . . . . .	2,242	1,438	682	122
Derivative instruments . . . . .	81,244	29,371	48,502	3,371
Guarantee for repayment of trust principal . . . . .	1,104	89	1,007	8
Liabilities of trust accounts . . . . .	4,326	3,393	293	640
Others . . . . .	183	180	1	2
Total . . . . .	<u>¥93,322</u>	<u>¥36,618</u>	<u>¥51,521</u>	<u>¥5,183</u>

*Nature of Guarantee Contracts*

Standby letters of credit and financial guarantees generally include an obligation of an issuer or a designated third party to guarantee the performance of the customer to the beneficiary under the terms of contracts such as lending contracts and other similar financial transactions. The MUFG Group is required to make payments to the guaranteed parties in the events that the customers fail to fulfill the obligations under the contracts. The guarantees whose contractual maturities are over 5 years are mainly comprised of guarantees of housing loans.

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Performance guarantees are the contracts that contingently require the MUFG Group to make payments to the guaranteed party based on another party's failure to perform under an obligating agreement, except financial obligation. For example, performance guarantees include guarantees of completion of construction projects.

Derivative instruments that are deemed to be included within the definition of guarantees as prescribed in the guidance on guarantees include certain written options and credit default swaps. In order for the MUFG Group to determine if those derivative instruments meet the definition of guarantees as prescribed in the guidance on guarantees, the MUFG Group has to track whether the counterparties are actually exposed to the losses that will result from the adverse change in the underlyings. Accordingly, the MUFG Group has disclosed information on all credit default swaps and certain written options for which there is a possibility of meeting the definition of guarantees as prescribed in the guidance on guarantees, regardless of whether the counterparties have assets or liabilities related to the underlyings of the derivatives. However, credit derivatives sold by the MUFG Group at March 31, 2009 and 2010 are excluded from this presentation, as they are disclosed in Note 23.

Guarantees for the repayment of trust principal include guarantees which the MUFG Group provides for the repayment of principal of certain types of trust products, including certain jointly operated designated money in trusts and loan trusts. The MUFG Group manages and administers trust assets in a capacity of agent or fiduciary on behalf of its customers and trust assets are segregated from the assets of the MUFG Group, which keeps separate records for the trust activities. The MUFG Group, in principle, does not assume any risks associated with the trust assets under management, however, as permitted by applicable laws, the MUFG Group provides guarantees for the repayment of principal of such trust products. At March 31, 2009 and 2010, the contract amounts of such guarantees for repayment of trust principal were ¥1,235 billion and ¥1,104 billion, respectively. The accounting methods used for the segregated records of trust activities are different from financial accounting principles and practices. However, the MUFG Group follows an approach similar to those used for its own assets to identify an impairment of an asset included in the trusts with guaranteed principal, with inherent variations applicable to trust accounting. Amounts of loans deemed to be impaired are written off directly and are charged to the trust account profits earned during the trust accounting period. Write-downs of securities are also directly charged to the trust account profits. The amounts of trust assets written-off in the segregated records were ¥9 million and nil, for the fiscal years ended March 31, 2009 and 2010, respectively. These amounts were reflected in the segregated records as deductions before net profits earned by trust accounts for the accounting period. In addition, a part of trust account profits is set aside as a reserve to absorb losses in the trust asset portfolios in the segregated records in accordance with relevant legislation concerning the trust business and/or trust agreements. Statutory reserves for loan trusts are established at a rate of 4.0% of the trust fees up to the amounts of 0.5% of the trust principal in accordance with the legislation. Reserves for jointly operated designated money in trusts are established at a rate of 0.3% of the balance of loans and other assets in the trust account assets in accordance with the related trust agreement. The amounts of such reserves set aside in the segregated records were ¥1,196 million and ¥727 million at March 31, 2009 and 2010, respectively. The MUFG Group is required to provide an allowance for off-balance-sheet instruments on such guarantees in the financial statements only when the principal is deemed to be impaired. Management believes that the MUFG Group will not incur any losses on the guarantees.

Liabilities of trust accounts represent the trustee's potential responsibility for temporary payments to creditors of liabilities of trust accounts making use of funds of the MUFG Group, unless there are the certain agreements with trust creditors that have provisions limiting the MUFG Group's responsibility as a trustee to the trust account assets. A trust may incur external liabilities to obtain certain services during the terms of the trust arrangement. While, in principle, any liabilities of a trust are payable by the trust account and its beneficiaries, a trustee's responsibility may be interpreted to encompass temporary payments for the trust account liabilities when the trust account does not maintain sufficient liquidity available for such liabilities unless the agreement

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with trust creditors does not limit the trustee's responsibility to the trust account assets. At March 31, 2009 and 2010, there were liabilities of ¥3,158 billion and ¥4,326 billion, respectively, in the segregated records of trust accounts including the amounts related to liabilities with provisions limiting trustee responsibility. Liabilities of trust accounts principally included obligations to return collateral under security lending transactions. The MUFG Group has experienced no significant losses on such responsibilities and its exposure to the risk associated with the temporary payments is judged to be remote because trust account liabilities are generally covered by the corresponding trust account assets; the MUFG Group continuously monitors the liabilities of trust accounts and assesses the trust account's ability to perform its obligations to prevent any unfavorable outcomes; and the MUFG Group claims its recourse for its temporary payments against the trust account assets and the beneficiaries.

Other includes security lending indemnifications. Security lending indemnifications are the indemnifications for institutional customers of securities lending transactions against counterparty default. All lending transactions are collateralized, primarily by cash.

*Carrying Amount*

At March 31, 2009 and 2010, the carrying amounts of the liabilities related to guarantees and similar instruments set forth above were ¥1,364,620 million and ¥1,171,417 million, respectively, which are included in Other liabilities and Trading account liabilities. However, credit derivatives sold by the MUFG Group at March 31, 2009 and 2010 are excluded from this presentation, as they are disclosed in Note 23. In addition, Other liabilities also include an allowance for off-balance-sheet instruments of ¥46,757 million and ¥41,991 million, respectively, related to these transactions.

*Performance Risk*

The MUFG Group monitors the performance risk of its guarantees using the same credit rating system utilized for estimating probabilities of default within its loan portfolio. The MUFG Group credit rating system is consistent with both the method of evaluating credit risk under Basel II and those of third-party credit rating agencies. On certain underlying referenced credits or entities, ratings are not available. Such referenced credits are included in the "Not rated" category.

Presented in the table below is the maximum potential amount of future payments classified based upon internal credit ratings as of March 31, 2009 and 2010. The determination of the maximum potential future payments is based on the notional amount of the guarantees without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Such amounts bear no relationship to the anticipated losses, if any, on these guarantees.

	Maximum potential/ Contractual or Notional amount	Amount by borrower grade			
		Normal	Close watch <sup>(1)</sup>	Likely to become Bankrupt or Legally/ Virtually/ Bankrupt <sup>(2)</sup>	Not rated
<b>At March 31, 2009:</b>					
		(in billions)			
Standby letters of credit and financial guarantees . . . . .	¥4,550	¥4,213	¥307	¥18	¥12
Performance guarantees . . . . .	2,489	2,368	106	5	10
Total . . . . .	<u>¥7,039</u>	<u>¥6,581</u>	<u>¥413</u>	<u>¥23</u>	<u>¥22</u>



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	<u>Maximum potential/ Contractual or Notional amount</u>	<u>Amount by borrower grade</u>			
		<u>Normal</u>	<u>Close watch<sup>(1)</sup></u>	<u>Likely to become Bankrupt or Legally/ Virtually Bankrupt<sup>(2)</sup></u>	<u>Not rated</u>
<b>At March 31, 2010:</b>					
		(in billions)			
Standby letters of credit and financial guarantees . . . . .	¥4,223	¥3,876	¥301	¥17	¥29
Performance guarantees . . . . .	<u>2,242</u>	<u>2,173</u>	<u>55</u>	<u>2</u>	<u>12</u>
Total . . . . .	<u>¥6,465</u>	<u>¥6,049</u>	<u>¥356</u>	<u>¥19</u>	<u>¥41</u>

Notes:

- (1) Borrowers classified as “Close watch” require close scrutiny because their business performance is unstable or their financial condition is unfavorable.
- (2) Borrowers classified as “Likely to become Bankrupt” are not yet bankrupt, but are in financial difficulty with poor progress in achieving their business restructuring plans or are likely to bankrupt in the future. Borrowers classified as “Legally or Virtually Bankrupt” are considered to be legally bankrupt or are virtually bankrupt.

The guarantees the MUFG Group does not classify based upon internal credit ratings are as follows.

The MUFG Group records all derivative contracts at fair value. Aggregate market risk limits have been established, and market risk measures are routinely monitored against these limits. The MUFG Group also manages its exposure to these derivative contracts through a variety of risk mitigation strategies, including, but not limited to, offsetting economic hedge positions. The MUFG Group expects the risk of loss to be remote and believes that the notional amounts of the derivative contracts generally exceed its exposure.

Guarantees for the repayment of trust principal include guarantees which the MUFG Group provides for the repayment of principal of certain types of trust products, including certain jointly operated designated money in trusts and loan trusts. The MUFG Group stably manages and administers such trust products with attention to risk and the profitability of trust assets. Management believes that the MUFG Group will not incur any losses on the guarantees.

Liabilities of trust accounts represent the trustee’s potential responsibility for temporary payments to creditors of liabilities of trust accounts making use of funds of the MUFG Group. The MUFG Group has experienced no significant losses on such responsibilities and its exposure to the risk associated with the temporary payments is judged to be remote because trust account liabilities are generally covered by the corresponding trust account assets.

The MUFG Group conducts securities lending transactions for institutional customers as a fully disclosed agent. At times, securities lending indemnifications are issued to guarantee that a security lending customer will be made whole in the event the borrower does not return the security subject to the lending agreement and collateral held is insufficient to cover the market value of the security. All lending transactions are collateralized, primarily by cash. At March 31, 2010, the MUFG Group had no exposure that would require it to pay under this securities lending indemnification, since the collateral market value exceeds the securities lent.

***Other Off-balance-sheet Instruments***

In addition to obligations under guarantees and similar arrangements set forth above, the MUFG Group issues other off-balance-sheet instruments to meet the financial needs of its customers and for purposes other than trading. Such off-balance-sheet instruments consist of lending-related commitments, including commitments to extend credit and commercial letters of credit that the MUFG Group provides to meet the financing needs of

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its customers. Once the MUFG Group issues these financial instruments, the MUFG Group is required to extend credit to or make certain payments to the customers or beneficiaries specified pursuant to the underlying contracts unless otherwise provided in the contracts. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At March 31, 2010, approximately 76% of these commitments will expire within one year, 23% from one year to five years and 1% after five years. The table below summarizes the contractual amounts with regard to these commitments at March 31, 2009 and 2010:

	<u>2009</u>	<u>2010</u>
	(in billions)	
Commitments to extend credit . . . . .	¥59,373	¥61,020
Commercial letters of credit . . . . .	530	628
Commitments to make investments . . . . .	144	126
Other . . . . .	8	6

Commitments to extend credit, which generally have fixed expiration dates or other termination clauses, are legally binding agreements to lend to customers. Commitments are different from guarantees in that the commitments are generally revocable or have provisions that enable the MUFG Group to avoid payments in the event of violations of any conditions of the contracts and certain deterioration of the potential borrowers' financial condition. Commitments to extend credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements.

Commercial letters of credit, used for facilitating trade transactions, are generally secured by underlying goods. The MUFG Group continually monitors the type and amount of collateral and other security, and requires counterparties to provide additional collateral or guarantors as necessary.

Commitments to make investments are legally binding contracts to make additional contributions to corporate recovery or private equity investment funds in accordance with limited partnership agreements. Some of these funds, in which the MUFG Group has significant variable interests, are described in Note 25.

**25. VARIABLE INTEREST ENTITIES**

In the normal course of its business, the MUFG Group has financial interests in various entities which may be deemed to be variable interest entities ("VIEs") such as asset-backed conduits, various investment funds, special purpose entities created for structured financing, repackaged instruments, and entities created for the securitization of the MUFG Group's assets.

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The following tables present the assets and liabilities of consolidated VIEs, the total assets of non-consolidated VIEs, the maximum exposure to loss resulting from its involvement with non-consolidated VIEs, and the assets and liabilities of non-consolidated VIEs recorded on the consolidated balance sheet at March 31, 2009 and 2010.

Consolidated VIEs	Consolidated assets						Consolidated liabilities			
	Total	Cash	Trading account assets	Investment securities	Loans	All other assets	Total	Other short-term borrowings	Long-term debt	All other liabilities
(in millions)										
Asset-backed conduits . . . . .	¥ 6,450,238	¥125,301	¥ 904	¥400,038	¥5,912,685	¥ 11,310	¥ 6,456,798 <sup>(1)</sup>	¥5,816,673	¥ 395,614	¥244,511 <sup>(1)</sup>
Investment funds . . . . .	1,284,010	51,016	965,110	25,998	1,782	240,104	98,876 <sup>(1)</sup>	2,461	34,006	62,409 <sup>(1)</sup>
Special purpose entities created for structured financing . . . . .	164,614	1,515	—	—	159,990	3,109	165,726	12,736	152,740	250
Repackaged instruments . . . . .	85,679	71	84,569	1,039	—	—	91,866	540	84,743	6,583
Securitization of the MUFG group's assets . . . . .	2,994,713	2,282	—	—	2,900,834	91,597	3,049,217	—	3,046,444	2,773
Others . . . . .	195,709	37,017	823	—	121,377	36,492	194,873	121,643	36,889	36,341
<b>Total . . . . .</b>	<b>¥11,174,963</b>	<b>¥217,202</b>	<b>¥1,051,406</b>	<b>¥427,075</b>	<b>¥9,096,668</b>	<b>¥382,612</b>	<b>¥10,057,356<sup>(1)</sup></b>	<b>¥5,954,053</b>	<b>¥3,750,436</b>	<b>¥352,867<sup>(1)</sup></b>

Note:

(1) Effective April 1, 2009, the MUFG Group adopted new guidance regarding noncontrolling interests in subsidiaries. See Note 1 "Noncontrolling Interests" under "Accounting Changes" section for the detail. As a result, the amounts of All other liabilities in Asset-backed conduits and Investment funds, and Total balance at March 31, 2009 were reclassified.

Consolidated VIEs	Consolidated assets						Consolidated liabilities			
	Total	Cash	Trading account assets	Investment securities	Loans	All other assets	Total	Other short-term borrowings	Long-term debt	All other liabilities
(in millions)										
Asset-backed conduits . . . . .	¥5,185,451	¥ 83,516	¥ 949	¥305,942	¥4,786,104	¥ 8,940	¥5,193,733	¥4,534,058	¥ 340,999	¥318,676
Investment funds . . . . .	1,383,520	45,890	1,174,889	19,114	1,670	141,957	64,791	717	31,070	33,004
Special purpose entities created for structured financing . . . . .	199,005	1,831	—	2,025	191,868	3,281	199,432	26,352	172,871	209
Repackaged instruments . . . . .	55,047	—	42,032	13,015	—	—	55,319	—	54,743	576
Securitization of the MUFG group's assets . . . . .	2,692,795	213	3,851	—	2,603,024	85,707	2,710,615	13,000	2,696,043	1,572
Others . . . . .	166,652	31,774	799	—	102,858	31,221	165,930	103,131	31,695	31,104
<b>Total . . . . .</b>	<b>¥9,682,470</b>	<b>¥163,224</b>	<b>¥1,222,520</b>	<b>¥340,096</b>	<b>¥7,685,524</b>	<b>¥271,106</b>	<b>¥8,389,820</b>	<b>¥4,677,258</b>	<b>¥3,327,421</b>	<b>¥385,141</b>

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A portion of the assets and liabilities of consolidated VIEs presented in the tables above were derived from transactions between consolidated VIEs and the MUFG Group, the primary beneficiary, and were eliminated as intercompany transactions. The eliminated amounts of assets were ¥176,185 million of Cash and due from banks and Interest-earning deposits in other banks, ¥902 million of Trading account assets, ¥25,708 million of Investment securities, ¥259,838 million of Loans and ¥8,428 million of All other assets at March 31, 2009, and ¥125,813 million of Cash and due from banks and Interest-earning deposits in other banks, ¥711 million of Trading account assets, ¥415 million of Investment securities, ¥193,953 million of Loans and ¥7,414 million of All other assets at March 31, 2010. The eliminated amounts of liabilities were ¥4,137,196 million of Other short-term borrowings, ¥1,640,992 million of Long-term debt and ¥70,369 million of All other liabilities at March 31, 2009, and ¥3,335,342 million of Other short-term borrowings, ¥1,518,273 million of Long-term debt and ¥57,591 million of All other liabilities at March 31, 2010.

In general, the creditors or beneficial interest holders of consolidated VIEs have recourse only to the assets of those VIEs and do not have recourse to other assets of the MUFG Group, except where the MUFG Group provides credit support as in the case of certain asset-backed conduits.

Significant Non-consolidated VIEs	On-balance sheet assets							On-balance sheet liabilities		
	Assets	Maximum exposure	Total	Trading account assets	Investment securities	Loans	Other assets	Total	Trading account liabilities	Other liabilities
(in millions)										
At March 31, 2009:										
Asset-backed conduits . . . . .	¥ 11,055,771	¥2,091,098	¥1,305,466	¥ 1,540	¥ 50,569	¥1,253,357	¥ —	¥ —	¥ —	¥—
Investment funds . . . . .	12,175,644	940,640	877,816	177,933	246,644	407,313	45,926	—	—	—
Special purpose entities created for structured financing . . . . .	12,328,660	1,816,391	1,529,732	20,580	84,932	1,417,528	6,692	—	—	—
Repackaged instruments . . . . .	57,393,642	1,823,526	1,738,573	430,501	799,351	508,721	—	—	—	—
Others . . . . .	8,906,982	1,612,938	1,183,634	4,055	349,426	830,153	—	565	565	—
Total . . . . .	<u>¥101,860,699</u>	<u>¥8,284,593</u>	<u>¥6,635,221</u>	<u>¥634,609</u>	<u>¥1,530,922</u>	<u>¥4,417,072</u>	<u>¥52,618</u>	<u>¥565</u>	<u>¥565</u>	<u>¥—</u>

Significant Non-consolidated VIEs	On-balance sheet assets							On-balance sheet liabilities		
	Assets	Maximum exposure	Total	Trading account assets	Investment securities	Loans	Other assets	Total	Trading account liabilities	Other liabilities
(in millions)										
At March 31, 2010:										
Asset-backed conduits . . . . .	¥ 5,060,968	¥1,972,562	¥1,073,035	¥ 1,375	¥ 77,742	¥ 993,918	¥ —	¥ —	¥—	¥ —
Investment funds . . . . .	15,681,299	833,828	810,295	43,638	432,264	319,712	14,681	—	—	—
Special purpose entities created for structured financing . . . . .	12,022,760	1,834,411	1,596,711	20,858	83,563	1,479,700	12,590	—	—	—
Repackaged instruments . . . . .	36,848,306	1,430,813	1,426,517	256,111	716,754	453,652	—	—	—	—
Others . . . . .	8,135,057	1,511,718	1,065,275	3,438	331,826	730,011	—	5,547	—	5,547
Total . . . . .	<u>¥77,748,390</u>	<u>¥7,583,332</u>	<u>¥5,971,833</u>	<u>¥325,420</u>	<u>¥1,642,149</u>	<u>¥3,976,993</u>	<u>¥27,271</u>	<u>¥5,547</u>	<u>¥—</u>	<u>¥5,547</u>

Maximum exposure to loss on each type of entity is determined, based on the carrying amount of any on-balance-sheet assets and any off-balance-sheet liability held, net of any recourse liabilities. Therefore, the maximum exposure to loss represents the theoretical maximum loss the MUFG Group could possibly incur at each balance sheet date and does not reflect the likelihood of ever incurring such a loss. The difference between the amount of on-balance-sheet assets and the maximum exposure to loss primarily comprises the remaining undrawn commitments.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Analysis of Each Transaction Category**

***Asset-Backed Conduits***

This category primarily comprises the following:

*Multi-Seller Conduits (MUFG-sponsored Asset-Backed Commercial Paper (“ABCP”) Conduits and Other ABCP Conduits)*

The MUFG Group administers several conduits under asset-backed financing programs under which the conduits purchase financial assets from the MUFG Group’s customers, primarily trade accounts receivables, by issuing short-term financing instruments, primarily commercial paper, to third-party investors. Under the asset-backed financing programs, the MUFG Group acts as an agent for the conduits, which enter into agreements with the MUFG Group’s customers where the customers transfer assets to the conduits in exchange for monetary consideration. The MUFG Group also underwrites commercial paper for the conduits that is secured by the assets held by them and provides program-wide liquidity and credit support facilities to the conduits. The MUFG Group receives fees related to the services it provides to the conduits and the program-wide liquidity and credit support. Because of the program-wide credit support that the MUFG Group provides as a sponsor in respect to the financing by the conduits, it is exposed to the majority of the expected variability of the conduits. Therefore, the MUFG Group considers itself to be the primary beneficiary and consolidates the multi-seller conduits. While the MUFG Group has significant involvement with the conduits, it has never provided financial or any other support that are not contractually required to provide in the past. In addition, the assets purchased by the conduits are of high quality in their credit standing and mostly short-term in nature. Therefore, the MUFG Group believes the risks involved in these transactions are significantly limited relative to the transaction size.

In addition to the entities described above, the MUFG Group participates as a provider of financing to several conduits that are administered by third parties. Most of these conduits are established under a multi-seller asset-backed financing program and the MUFG Group provides financing along with other financial institutions. With respect to these conduits, the MUFG Group is not considered as the primary beneficiary because the MUFG Group’s participation in the financing is not significant relative to the total financing provided by third parties or there is sufficient funding or financial support that is subordinate to the financing provided by the MUFG Group.

*Asset-Backed Conduits (MUFG-sponsored Asset-Backed Loan (“ABL”) Programs and Other Programs)*

The MUFG Group administers several conduits under asset-backed financing program where the MUFG Group provides financing to fund the conduits’ purchases of financial assets, comprising primarily trade accounts receivables, from its customers. The MUFG Group acts as an agent and sponsor for the conduits, which enter into agreements with the MUFG Group’s customers where the customers transfer assets to the conduits in exchange for monetary consideration. In most cases the MUFG Group is the sole provider of financing that is secured by the assets held by the conduits and because of this reason, the MUFG Group is considered as the primary beneficiary. The MUFG Group has never provided financial or any other support that are not contractually required to provide in the past. In addition, the assets purchased by the conduits are of high quality in their credit standing and mostly short-term in nature. Therefore, the MUFG Group believes the risks involved in these transactions are significantly limited relative to the transaction size.

In addition, the MUFG Group is involved with entities, which take in most cases, the form of a trust, where originators of financial assets, which primarily comprise lease receivables, entrust the assets with trust banks and receive beneficial certificates in exchange. The originators then transfer the beneficiary certificates to the MUFG Group in exchange for cash. Because the MUFG Group participates in a majority of the economics generated from these entities through the beneficiary certificates that it holds, it is considered as the primary beneficiary and the MUFG Group consolidates these trusts.

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The MUFG Group also participates as a provider of financing the ABL programs that are managed by third parties. The MUFG Group is not considered as the primary beneficiary of the entities used in these programs as the MUFG Group's participation to financing is not significant relative to the total financing provided by the third parties or there is sufficient funding or financial support that is subordinate to the financing provided by the MUFG Group.

***Investment Funds***

This category primarily comprises the following:

***Corporate Recovery Funds***

These entities are established by fund managers, which are unrelated to the MUFG Group, for the purpose of investing in debt or equity instruments issued by distressed companies. After investment, the fund managers work closely with the management of the issuers and attempt to enhance corporate value by various means including corporate restructuring and reorganization. Their exit strategies include, among other things, sales to others and Initial Public Offerings ("IPOs").

Typically, these entities take the form of a limited partnership which is entirely funded by general and limited partner interests. In some cases, the general partners of the partnerships are entities that have no substantive decision making ability. The fund managers that establish these partnerships assume investment management and day-to-day operation by entering into asset management contracts with the general partners. These partnerships are, therefore, financing vehicles and as such are considered as VIEs. In other cases, the general partners have substantive decision making ability but the partnerships are considered as VIEs when the general partners' investments in the partnerships are considered as non-substantive, usually based on the percentage interest held, and they do not have substantive limited partner interests.

The MUFG Group participates in these partnerships as a limited partner. While the MUFG Group's share in partnership interests is limited in most cases, the MUFG Group is the only limited partner in some cases and it consolidates these partnerships as the primary beneficiary.

***Private Equity Funds***

The MUFG Group is involved in venture capital funds that are established by either the MUFG Group's entities or fund managers unrelated to the MUFG Group. These entities have specific investment objectives in connection with their acquisition of equity interests, such as providing financing and other support to start-up businesses, medium and small entities in a particular geographical area, and to companies with certain technology or companies in a high-growth industry.

These entities typically take the form of limited partnerships and usually are entirely funded by general and limited partner interests. The general partners of the partnerships in some cases are entities that have no substantive decision making ability. The fund managers that establish these partnerships assume investment management and day-to-day operation by entering into asset management contracts with the general partners. These partnerships are therefore financing vehicles and as such are considered as VIEs. In other cases, the general partners have substantive decision making ability and the partnerships are considered as VIEs even when the general partners' investments in the partnerships are considered as non-substantive, usually based on the percentage interest held, and they do not have substantive limited partner interests.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The MUFG Group participates in these partnerships as a general partner or a limited partner. While the MUFG Group's share in partnership interests is limited in most cases, the MUFG Group provides most of the financing to the partnerships in some cases and it consolidates them as the primary beneficiary.

*Investment Trusts*

The MUFG Group invests in investment trusts that are professionally managed collective investment schemes which pool money from many investors and invest in, among others, equity and debt securities. Most of these funds take the form of a trust where there is a separation in investment decisions, which is assumed by an investment manager who has no investment in a trust, and ownership through beneficiary interests issued by a trust are owned by investors. Therefore, these investment trusts are considered as VIEs. The MUFG Group consolidates investment trusts when it owns a majority of the interests issued by investment trusts.

*Buy-out Financing Vehicles*

The MUFG Group provides financing to buy-out vehicles. The vehicles are established by equity investments from, among others, private equity funds or the management of target companies for the purpose of purchasing equity shares of target companies. Along with other financial institutions, the MUFG Group provides financing to buy-out vehicles in the form of loans. While the buy-out vehicles' equity is normally substantive in amount and the rights and obligations associated with it, in some cases the vehicles have equity that is insufficient to absorb variability primarily because the amount provided by equity investors is nominal in nature. These vehicles are considered as VIEs and an assessment as to whether the MUFG Group is the primary beneficiary is required. In most cases, however, the MUFG Group mitigates its risk by requiring third-party guarantees with collateral or reducing its exposure to an adequate level by providing loans as one of several lenders. As a result, the MUFG Group is not considered as the primary beneficiary of these entities.

***Special Purpose Entities Created for Structured Financing***

This category primarily comprises the following:

*Leveraged Leasing Vehicles*

These entities are established to raise funds to purchase or build equipment and machinery including commercial vessels, passenger and cargo aircrafts, production equipment and other machinery, for the purpose of leasing them to lessees who use the equipment and machinery as part of their business operations. These entities typically take the form of a limited partnership or a special purpose company where they fund their purchases of equipment and machinery via senior and subordinate financing. In some cases, the entities are funded only by senior financing or there is a guarantee provided to the senior financing by parties unrelated to those providing the senior financing. In most cases, the MUFG Group participates in the senior financing and does not participate in the subordinate financing or provide guarantees. The subordinate financing or the third-party guarantee is substantive and would absorb expected variability generated by the assets held by the entities. In exceptional cases where there is no guarantee from a third-party or there is not sufficient subordinate financing, the MUFG Group consolidates the entities as the primary beneficiary. In some limited cases, the MUFG Group provides a residual value guarantee to the leased assets. Based on expected loss analysis, the MUFG Group determined that it does not participate in the majority of expected variability of the entities involved and does not consolidate these entities.

*Project Financing Vehicles*

These entities are established to raise funds in connection with, among other things, production of natural resources, construction and development of urban infrastructure (including power plants and grids, highways and

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ports), and the development of real estate properties or complexes. These projects typically involve special purpose companies which issue senior and subordinate financing to raise funds in connection with the various projects. The subordinate financing is usually provided by parties that will ultimately make use of the assets constructed or developed. By contrast, the senior financing is typically provided by financial institutions, including the MUFG Group. Because the MUFG Group's participation in the financing is limited or there is sufficient subordinate financing, the MUFG Group is not considered as the primary beneficiary of these entities and does not consolidate these entities.

*Sale and Leaseback Vehicles*

The MUFG Group is involved with vehicles that acquire assets, primarily real estate, from the MUFG Group's clients and other unrelated parties where the sellers of the assets continue to use the assets through leaseback agreements. These vehicles typically take the form of a limited partnership where the general partner has effectively no decision making ability because an equity holder of the general partner serves a perfunctory role. Therefore, these vehicles are considered as VIEs. The subordinated financing of these vehicles is usually provided by the sellers of the assets, with the MUFG Group providing senior financing for the vehicles. The subordinated financing of these entities absorbs the expected variability generated from the assets held and as such, the MUFG Group is not considered as the primary beneficiary.

*Securitization of Client Real Estate Properties*

These entities are established for the purpose of securitizing real estate properties held by the MUFG Group's customers. In most cases, these entities take the form of a limited partnership or a special purpose company. These entities are designed to have non-substantive decision making ability because the general partner or an equity holder serves a perfunctory role. The entities are typically funded by senior and subordinated financing where the original owners of the properties provide the subordinated financing, primarily in the form of partnership interests or subordinated notes, and financial institutions, including the MUFG Group, provide senior financing in the form of senior loans. The subordinated financing of these entities absorbs the expected variability generated from the assets held and as such, the MUFG Group is not considered as the primary beneficiary.

***Repackaged Instruments***

This category primarily comprises the following:

*Investments in Financially-Engineered Products*

The MUFG Group is involved in special purpose entities that have been established to issue financial products through the engineering and repackaging of existing financial instruments, such as collateralized debt obligations ("CDOs") and synthetic CDOs. These special purpose entities are considered as VIEs because they do not have substantive decision making ability. These special purpose entities are arranged and managed by parties that are not related to the MUFG Group. The MUFG Group's involvement with these entities is for investment purposes. In most cases, the MUFG Group participates as one of many other investors and the MUFG Group typically holds investments in senior tranches or tranches with high credit ratings. Therefore, the MUFG Group is not considered as the primary beneficiary except in limited circumstances where the MUFG Group holds the majority of instruments issued by a single-tranche vehicle.

*Investments in Securitized Financial Instruments*

The MUFG Group holds investments in special purpose entities that issue securitized financial products. The assets held by the special purpose entities include credit card receivables and residential mortgage loans.



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These entities are established and managed by parties that are unrelated to the MUFG Group and the MUFG Group's involvement with these entities is for its own investment purposes. In all cases, the MUFG Group participates as one of many other investors and the MUFG Group holds investments with high credit ratings. Therefore, the MUFG Group is not considered as the primary beneficiary of these entities.

***Securitization of the MUFG Group's Assets***

The MUFG Group establishes entities to securitize its own financial assets that include, among others, corporate and retail loans and lease receivables. The entities used for securitization, which typically take the form of special purpose company and trusts, are established by the MUFG Group and, in most cases, issue senior and subordinate interests or financing. Where the MUFG Group retains subordinate interests or financing, it is considered as the primary beneficiary of the entities and the MUFG Group consolidates them. In some cases, all financing is provided by the MUFG Group but there is a substantive third-party guarantee, or most of the interests or financing issued by the entities is transferred to investors unrelated to the MUFG Group. In these cases, the MUFG Group does not consider itself as the primary beneficiary.

***Others***

This category primarily comprises the following:

***Financing Vehicles of the MUFG Group's Customers***

The MUFG Group is involved with several entities that are established by the MUFG Group's customers. These entities borrow funds from financial institutions and extend loans to their group entities. These entities effectively work as fund-raising vehicles for their respective group companies and enable the groups to achieve efficient financing by integrating their financing activities into a single entity. In all cases the MUFG Group is not considered as the primary beneficiary, either because it participates as one of two or more lenders, and therefore, its participation is less than a majority, and/or there is a substantive third-party guarantee provided with respect to the MUFG Group's loans.

***Funding Vehicles***

The MUFG Group has established several wholly-owned, off-shore vehicles which issue securities, typically preferred stock that is fully guaranteed by the MUFG Group, to investors unrelated to us to fund purchases of debt instruments issued by the MUFG Group. These entities are considered as VIEs because the MUFG Group's investment in the vehicles' equity is not considered at risk and substantive as the entire amount raised by the vehicles was used to purchase debt instruments issued by the MUFG Group. As the third-party investors participate in the economics of these financing vehicles, as well as the vehicles themselves, these financing vehicles are not considered as the MUFG Group's subsidiaries.

***Trust Arrangements***

The MUFG Group offers, primarily through its wholly-owned trust banking subsidiary, MUTB, a variety of trust products and services including securities investment trusts, pension trusts and trusts used as securitization vehicles. In a typical trust arrangement, however, the MUFG Group manages and administers assets on behalf of the customers in an agency, fiduciary and trust capacity and does not assume risks associated with the entrusted assets. The trusts are generally considered as VIEs because the trust beneficiaries, who provide all of the equity at risk, usually do not have substantive decision making ability. The MUFG Group, however, is not considered as the primary beneficiary because the trust beneficiaries receive and absorb expected losses and residual returns on the performance and operations of trust assets under management of the MUFG Group.

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With respect to the jointly operated designated money in trusts, however, MUTB is exposed to the risks involved with the entrusted assets, where MUTB provides the trust beneficiaries with guarantees on the repayment of trust principal through face value guarantees. In these products, MUTB pools money from general investors and invests it in financial assets that are of high credit standing, including bank deposits, government bonds, high-quality corporate bonds and high-quality corporate loans including loans to banking account of MUTB. MUTB manages and administers the trust assets in the capacity of a trustee and receives fees as compensation for services it provides. With respect to most of the jointly operated designated money in trusts, MUTB provides, as a sponsor of the products, the face value guarantees under which it is required to compensate a loss on the stated principal of the trust beneficial interests. MUTB is not considered as the primary beneficiary of these products because the event of loss is highly remote and in fact the face value guarantee has never been called upon in the trusts' operational history that extends over decades. In addition, the trusts have substantial investments in loans to banking account of MUTB and MUTB's face value guarantee is considered as non-substantive to the extent of the self guarantee.

*Troubled Borrowers*

During the normal course of business, the borrowers from the MUFG Group may experience financial difficulties and sometimes enter into certain transactions that require the MUFG Group to assess whether they would be considered as VIEs due to their difficult financial position. While in most cases such borrowers are not considered as VIEs when the transactions take place, in limited circumstances they are considered as VIEs due to insufficient equity. In all cases, however, the MUFG Group is not considered as the primary beneficiary based on its assessment of scenario-based probability-weighted cash flow analysis.

**The Adoption of New Accounting Guidance for Consolidation of Variable Interest Entities**

In June 2009, the FASB issued new accounting guidance that amends the existing guidance for consolidation of variable interest entities. This new accounting guidance, which was effective for the MUFG Group on April 1, 2010, significantly changes the way an enterprise determines whether to consolidate a variable interest entity. The adoption of this new accounting guidance on April 1, 2010 resulted in the consolidation and deconsolidation of certain variable interest entities. The net increase of the MUFG Group's consolidated assets and liabilities, on a preliminary basis, were approximately ¥242 billion and ¥219 billion, respectively, as of April 1, 2010. The impact of the newly consolidated variable interest entities were ¥268 billion and ¥240 billion of assets and liabilities, respectively. These newly consolidated variable interest entities primarily consist of jointly operated designated money in trusts of which the MUFG Group has the power to direct the activities as an asset manager and the obligation to absorb losses through the face value guarantee. See *Analysis of Each Transaction Category—Others—Trust Arrangements* for the accounting for the jointly operated designated money in trust under the existing guidance.

**26. COMMITMENTS AND CONTINGENT LIABILITIES**

*Lease Commitments*

The MUFG Group leases certain technology systems, office space and equipment under noncancelable agreements expiring through the fiscal year 2046.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Future minimum rental commitments for noncancelable leases at March 31, 2010 were as follows:

	<u>Capitalized leases</u>	<u>Operating leases</u>
	(in millions)	
Fiscal year ending March 31:		
2011 .....	¥21,327	¥ 65,673
2012 .....	15,578	55,754
2013 .....	8,036	49,437
2014 .....	5,433	40,385
2015 .....	4,549	36,440
2016 and thereafter .....	<u>30,217</u>	<u>296,368</u>
Total minimum lease payments .....	85,140	<u>¥544,057</u>
Amount representing interest .....	<u>(7,793)</u>	
Present value of minimum lease payments <sup>(1)</sup> .....	<u>¥77,347</u>	

Note:

- (1) One of our subsidiaries entered into a lease agreement in February 2009. The lease term will commence in February 2011 and will be accounted for as a capital lease in accordance with the relevant lease accounting guidance. The present value of minimum lease payments of ¥32,864 million under this commitment have been included in the above table.

Total rental expense for the fiscal years ended March 31, 2008, 2009 and 2010 was ¥107,289 million, ¥110,433 million and ¥108,591 million, respectively.

***Repayment of Excess Interest***

The Japanese government implemented regulatory reforms affecting the consumer lending industry. In December 2006, the Diet passed legislation to reduce the maximum permissible interest rate under the Investment Deposit and Interest Rate Law, which was formerly 29.2% per annum, to 20% per annum. The reduction in interest rates was implemented in June 2010. Under the reforms, all interest rates for loans originated after this reform are subject to the lower limits imposed by Interest Rate Restriction Law, which compel lending institutions to lower the interest rates they charge borrowers.

Formerly, consumer finance companies were able to charge interest rates exceeding the limits stipulated by the Interest Rate Restriction Law so long as the payment was made voluntarily by the borrowers and the lender complied with various notice and other requirements. Accordingly, MUFG's consumer finance subsidiaries and equity method investee offered loans at interest rates above the Interest Rate Restriction Law. Upon the implementation in June 2010, they lowered the interest rates for loans originated after this reform to below the Interest Rate Restriction Law.

In 2006, the Supreme Court of Japan passed decisions in a manner more favorable to borrowers requiring reimbursement of previously paid interest exceeding the limits stipulated by the Interest Rate Restriction Law in certain circumstances. Due to such decisions and other regulatory changes, borrowers' claims for reimbursement of excess interest significantly increased during the fiscal year ended March 31, 2007. As a result, MUFG's consumer finance subsidiaries increased the allowance for repayment of excess interest for the fiscal year ended March 31, 2007. At March 31, 2009 and 2010, the allowance for repayment of excess interest established by MUFG's consumer finance subsidiaries, which was included in Other liabilities, was ¥76,876 million and ¥84,216 million, respectively. See provision for repayment of excess interest in the consolidated statements of

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operations for the expenses recognized in relation to the allowance. For the fiscal years ended March 31, 2008, 2009 and 2010, an MUFG's equity method investee had a negative impact of ¥2,982 million, ¥15,829 million and ¥23,109 million, respectively, on Equity in losses of equity method investees in the consolidated statement of operations.

***Litigation***

The MUFG Group is involved in various litigation matters. Management, based upon their current knowledge and the results of consultation with counsel, makes appropriate levels of litigation reserve. Management believes that the amounts of the MUFG Group's liabilities, when ultimately determined, will not have a material adverse effect on the MUFG Group's results of operations and financial position.

**27. FEES AND COMMISSIONS INCOME**

Details of fees and commissions income for the fiscal years ended March 31, 2008, 2009 and 2010 were as follows:

	<u>2008</u>	<u>2009</u> (in millions)	<u>2010</u>
Trust fees . . . . .	¥ 156,302	¥ 125,451	¥ 107,175
Fees on funds transfer and service charges for collections . . . . .	152,902	147,658	145,865
Fees and commissions on international business . . . . .	69,717	64,128	61,201
Fees and commissions on credit card business . . . . .	137,970	141,421	137,394
Service charges on deposits . . . . .	36,109	31,586	27,420
Fees and commissions on securities business . . . . .	130,738	112,143	129,730
Fees on real estate business . . . . .	44,461	19,770	19,876
Insurance commissions . . . . .	43,023	28,065	22,869
Fees and commissions on stock transfer agency services . . . . .	72,292	62,878	53,040
Guarantee fees . . . . .	86,317	77,592	70,489
Fees on investment funds business . . . . .	161,467	130,654	127,329
Other fees and commissions . . . . .	225,749	247,166	237,155
Total . . . . .	<u>¥1,317,047</u>	<u>¥1,188,512</u>	<u>¥1,139,543</u>

Trust fees consist primarily of fees earned by fiduciary asset management and administration services for corporate pension plans, investment funds, etc. Fees on funds transfer and service charges for collection are earned by providing settlement services such as domestic fund remittances and domestic collection services. Fees and commissions on international business primarily consist of fees from international fund transfer and collection services, and trade-related financing services. Fees and commissions on credit card business are composed of interchange income, annual fees, royalty and other service charges from franchisees. Service charges on deposits are fees charged for deposits such as checking account deposits. Fees and commissions on securities business include underwriting, brokerage and advisory services and arrangement fees on securitizations. Fees on real estate business primarily consist of fees from real estate agent services. Insurance commissions are earned by acting as agent for insurance companies to sell insurance products. Fees and commissions on stock transfer agency services consist of fees earned primarily by stock title transfers and agency services for the calculation and payment of dividends. Guarantee fees are earned by providing guarantees on residential mortgage loans. Fees on investment funds business primarily consist of management fees for investment funds. Other fees and commissions include various arrangement fees and agent fees excluding the fees mentioned above.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**28. TRADING ACCOUNT PROFITS AND LOSSES**

The MUFG Group performs trading activities through market-making, sales and arbitrage, while maintaining risk levels within appropriate limits in accordance with its risk management policy.

The MUFG Group has trading securities and trading derivative assets and liabilities for this purpose. In addition, the trading securities include foreign currency denominated debt securities such as foreign government or official institution bonds, corporate bonds and mortgage-backed securities, which are mainly comprised of securities measured at fair value under fair value option.

Net trading gains (losses) for the fiscal years ended March 31, 2008, 2009 and 2010 were comprised of the following:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
		(in millions)	
Interest rate and other derivative contracts . . . . .	¥ 520,564	¥ 555,505	¥ (88,486)
Trading account securities, excluding derivatives . . . . .	<u>(122,168)</u>	<u>(813,312)</u>	<u>849,958</u>
Trading account profits (losses)—net . . . . .	398,396	(257,807)	761,472
Foreign exchange derivative contracts . . . . .	<u>26,832</u>	<u>(829,605)</u>	<u>31,154</u>
Net trading gains (losses) . . . . .	<u>¥ 425,228</u>	<u>¥(1,087,412)</u>	<u>¥792,626</u>

For further information on the methodologies and assumptions used to estimate fair value, see Note 31, which also shows fair values of trading securities by major category. Note 23 discloses further information on fair value of derivative assets and liabilities by major category.

**29. BUSINESS SEGMENTS**

The business segment information, set forth below, is derived from the internal management reporting system used by management to measure the performance of the MUFG Group's business segments. The business segment information, set forth below, is based on the financial information prepared in accordance with Japanese GAAP as adjusted in accordance with internal management accounting rules and practices. Accordingly, the format and information is not consistent with the consolidated financial statements prepared on the basis of US GAAP. A reconciliation is provided for the total amounts of segments' total operating profit with income from continuing operations before income tax expense (benefit) under US GAAP.

See Note 30 for financial information relating to the MUFG Group's operations by geographic area. The geographic financial information is consistent with the basis of the accompanying consolidated financial statement.

The following is a brief explanation of the MUFG Group's business segments.

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

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*Integrated Corporate Banking Business Group*—Covers all domestic and overseas corporate businesses, including commercial banking, investment banking, trust banking and securities businesses as well as UNBC. Through the integration of these business lines, diverse financial products and services are provided to our corporate clients. The business group has clarified strategic domains, sales channels and methods to match the different growth stages and financial needs of our corporate customers. UNBC is a bank holding company, whose primary subsidiary, Union Bank, is one of the largest commercial banks in California by both total assets and total deposits. Union Bank provides a wide range of financial services to consumers, small businesses, middle market companies and major corporations, primarily in California, Oregon and Washington but also nationally and internationally. As a result of the tender offer that was completed in September 2008, and the second-step merger that was completed in November 2008, UNBC became MUFG's wholly owned subsidiary.

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

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

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

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Effective April 1, 2009, there were changes made in the managerial accounting methods, including those regarding revenue and expense distribution among the MUFG Group's business segments. The table set forth below has been reclassified to conform to the new basis of managerial accounting:

(in billions)	Integrated Retail Banking Business Group	Integrated Corporate Banking Business Group				Integrated Trust Assets Business Group	Global Markets	Other	Total	
	Domestic	Overseas		Total						
		Other than UNBC	UNBC	Overseas total						
<b>Fiscal year ended March 31, 2008:</b>										
Net revenue	¥1,345.2	¥1,192.5	¥302.3	¥296.4	¥598.7	¥1,791.2	¥198.5	¥300.0	¥ (18.7)	¥3,616.2
BTMU and MUTB:	742.2	1,034.7	192.3	—	192.3	1,227.0	82.1	295.4	(86.3)	2,260.4
Net interest income	578.6	515.8	105.3	—	105.3	621.1	—	187.3	(25.5)	1,361.5
Net fees	144.9	362.8	51.3	—	51.3	414.1	82.1	(4.8)	(25.3)	611.0
Other	18.7	156.1	35.7	—	35.7	191.8	—	112.9	(35.5)	287.9
Other than BTMU and MUTB*	603.0	157.8	110.0	296.4	406.4	564.2	116.4	4.6	67.6	1,355.8
Operating expenses	953.9	557.1	183.7	187.6	371.3	928.4	98.5	59.0	205.2	2,245.0
Operating profit (loss)	¥ 391.3	¥ 635.4	¥118.6	¥108.8	¥227.4	¥ 862.8	¥100.0	¥241.0	¥(223.9)	¥1,371.2
<b>Fiscal year ended March 31, 2009:</b>										
Net revenue	¥1,320.0	¥1,045.0	¥358.7	¥256.8	¥615.5	¥1,660.5	¥171.1	¥396.3	¥(213.7)	¥3,334.2
BTMU and MUTB:	732.5	918.8	254.3	—	254.3	1,173.1	70.8	388.1	(265.8)	2,098.7
Net interest income	614.9	474.5	110.5	—	110.5	585.0	—	246.0	6.5	1,452.4
Net fees	107.5	343.3	94.4	—	94.4	437.7	70.8	(10.9)	(41.1)	564.0
Other	10.1	101.0	49.4	—	49.4	150.4	—	153.0	(231.2)	82.3
Other than BTMU and MUTB*	587.5	126.2	104.4	256.8	361.2	487.4	100.3	8.2	52.1	1,235.5
Operating expenses	975.1	554.0	173.6	157.3	330.9	884.9	93.3	62.2	192.9	2,208.4
Operating profit (loss)	¥ 344.9	¥ 491.0	¥185.1	¥ 99.5	¥284.6	¥ 775.6	¥ 77.8	¥334.1	¥(406.6)	¥1,125.8
<b>Fiscal year ended March 31, 2010:</b>										
Net revenue	¥1,433.3	¥ 945.4	¥348.4	¥265.3	¥613.7	¥1,559.1	¥157.2	¥528.5	¥ (73.0)	¥3,605.1
BTMU and MUTB:	658.1	790.3	229.2	—	229.2	1,019.5	61.2	517.5	(97.5)	2,158.8
Net interest income	541.2	442.8	140.5	—	140.5	583.3	—	355.1	(27.9)	1,451.7
Net fees	105.4	335.8	105.6	—	105.6	441.4	61.2	(13.3)	(44.5)	550.2
Other	11.5	11.7	(16.9)	—	(16.9)	(5.2)	—	175.7	(25.1)	156.9
Other than BTMU and MUTB*	775.2	155.1	119.2	265.3	384.5	539.6	96.0	11.0	24.5	1,446.3
Operating expenses	988.2	511.7	204.6	168.1	372.7	884.4	91.4	61.3	179.2	2,204.5
Operating profit (loss)	¥ 445.1	¥ 433.7	¥143.8	¥ 97.2	¥241.0	¥ 674.7	¥ 65.8	¥467.2	¥(252.2)	¥1,400.6

\* Includes MUFG and its subsidiaries other than BTMU and MUTB.

**Reconciliation**

As set forth above, the measurement bases and the income and expenses items covered are very different between the internal management reporting system and the accompanying consolidated statements of operations. Therefore, it is impracticable to present reconciliations of the business segments' total information, other than operating profit, to corresponding items in the accompanying consolidated statements of operations.

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A reconciliation of the operating profit under the internal management reporting system for the fiscal years ended March 31, 2008, 2009 and 2010 above to income (loss) from continuing operations before income tax expense (benefit) shown on the consolidated statements of operations is as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(in billions)		
Operating profit: . . . . .	¥ 1,371	¥ 1,126	¥1,401
Provision for credit losses . . . . .	(386)	(627)	(648)
Trading account profits (losses)—net . . . . .	81	(392)	387
Equity investment securities gains (losses)—net . . . . .	(224)	(538)	207
Debt investment securities losses—net . . . . .	(1,197)	(104)	(11)
Foreign exchange gains (losses)—net . . . . .	1,433	(48)	118
Equity in losses of equity method investees . . . . .	(34)	(60)	(104)
Impairment of goodwill . . . . .	(894)	(846)	—
Impairment of intangible assets . . . . .	(79)	(127)	(12)
Provision for repayment of excess interest . . . . .	(3)	(48)	(45)
Other—net . . . . .	(16)	(100)	(11)
Income (loss) from continuing operations before income tax expense (benefit) . . .	<u>¥ 52<sup>(1)</sup></u>	<u>¥(1,764)<sup>(1)</sup></u>	<u>¥1,282</u>

Note:

- (1) Effective April 1, 2009, the MUFG Group adopted new guidance regarding noncontrolling interests in subsidiaries. See Note 1 “Noncontrolling Interests” under “Accounting Changes” section for the detail. As a result, income (loss) from continuing operations before income tax expense (benefit) for the fiscal years ended March 31, 2008 and 2009 were reclassified.

**30. FOREIGN ACTIVITIES**

Foreign operations include the business conducted by overseas offices, as well as international business conducted from domestic offices, principally several international banking-related divisions of BTMU’s and MUTB’s Head Office in Tokyo, and involve various transactions with debtors and customers residing outside Japan. Close integration of the MUFG Group’s foreign and domestic activities makes precise estimates of the amounts of assets, liabilities, income and expenses attributable to foreign operations difficult and necessarily subjective. Assets, income and expenses attributable to foreign operations are allocated to geographical areas based on the domicile of the debtors and customers.



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Generally, interest rates with respect to funds borrowed and loaned between domestic and foreign operations are based on prevailing money market rates appropriate for the transactions. In general, the MUFG Group has allocated all direct expenses and a proportionate share of general and administrative expenses to income derived from foreign loans and other transactions by the MUFG Group's foreign operations. The following table sets forth estimated total assets at March 31, 2008, 2009 and 2010, and estimated total revenue, total expense, income (loss) from continuing operations before income tax expense (benefit) and net income (loss) attributable to Mitsubishi UFJ Financial Group for the respective fiscal years then ended:

	Domestic		Foreign			Total
	Japan	United States of America	Europe	Asia/Oceania excluding Japan	Other areas <sup>(1)</sup>	
	(in millions)					
<b>Fiscal year ended March 31, 2008:</b>						
Total revenue <sup>(2)</sup> . . . . .	¥ 4,690,998	¥ 228,069	¥ 699,785	¥ 442,056	¥ 84,017	¥ 6,144,925
Total expense <sup>(3) (4)</sup> . . . . .	4,374,796	744,179	608,839	258,116	107,240	6,093,170
Income (loss) from continuing operations before income tax expense (benefit) <sup>(4)</sup> . . . . .	316,202	(516,110)	90,946	183,940	(23,223)	51,755
Net income (loss) attributable to Mitsubishi UFJ Financial Group . . . . .	(227,095)	(637,319)	121,257	232,242	(31,521)	(542,436)
Total assets at end of fiscal year . . . . .	140,607,568	20,620,865	19,970,118	8,318,426	6,249,106	195,766,083
<b>Fiscal year ended March 31, 2009:</b>						
Total revenue <sup>(2)</sup> . . . . .	¥ 2,924,414	¥ 568,655	¥ 233,703	¥ 329,672	¥ 14,449	¥ 4,070,893
Total expense <sup>(3) (4)</sup> . . . . .	4,281,841	778,956	471,273	218,851	84,199	5,835,120
Income (loss) from continuing operations before income tax expense (benefit) <sup>(4)</sup> . . . . .	(1,357,427)	(210,301)	(237,570)	110,821	(69,750)	(1,764,227)
Net income (loss) attributable to Mitsubishi UFJ Financial Group . . . . .	(1,064,387)	(223,501)	(229,462)	119,442	(70,132)	(1,468,040)
Total assets at end of fiscal year . . . . .	142,996,407	23,092,047	14,981,793	7,473,868	4,955,302	193,499,417
<b>Fiscal year ended March 31, 2010:</b>						
Total revenue <sup>(2)</sup> . . . . .	¥ 3,604,965	¥ 604,395	¥ 355,005	¥ 482,588	¥ 165,416	¥ 5,212,369
Total expense <sup>(3)</sup> . . . . .	3,065,026	396,009	130,576	209,560	129,082	3,930,253
Income from continuing operations before income tax expense . . . . .	539,939	208,386	224,429	273,028	36,334	1,282,116
Net income attributable to Mitsubishi UFJ Financial Group . . . . .	189,751	192,970	199,093	241,445	36,560	859,819
Total assets at end of fiscal year . . . . .	149,023,436	21,624,397	15,804,022	8,421,156	5,211,386	200,084,397

Notes:

- (1) Other areas primarily include Canada, Latin America and the Caribbean.
- (2) Total revenue is comprised of Interest income and Non-interest income.
- (3) Total expense is comprised of Interest expense, Provision for credit losses and Non-interest expense.
- (4) Effective April 1, 2009, the MUFG Group adopted new guidance regarding noncontrolling interests in subsidiaries. See Note 1 "Noncontrolling Interests" under "Accounting Changes" section for the detail of the changes. As a result, Total expenses and Income (loss) from continuing operations before income tax expense (benefit) for the fiscal years ended March 31, 2008 and 2009 were reclassified.

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The following is an analysis of certain asset and liability accounts related to foreign activities at March 31, 2009 and 2010:

	<u>2009</u>	<u>2010</u>
	(in millions)	
Cash and due from banks . . . . .	¥ 384,326	¥ 347,773
Interest-earning deposits in other banks . . . . .	2,696,266	4,039,789
Total . . . . .	<u>¥ 3,080,592</u>	<u>¥ 4,387,562</u>
Trading account assets . . . . .	<u>¥16,486,676</u>	<u>¥14,826,329</u>
Investment securities . . . . .	<u>¥ 3,223,798</u>	<u>¥ 5,648,126</u>
Loans—net of unearned income, unamortized premiums and deferred loan fees . . .	<u>¥23,024,766</u>	<u>¥20,161,551</u>
Deposits . . . . .	<u>¥17,117,994</u>	<u>¥22,672,788</u>
Funds borrowed:		
Call money, funds purchased . . . . .	¥ 569,563	¥ 173,829
Payables under repurchase agreements . . . . .	4,075,552	6,559,641
Payables under securities lending transactions . . . . .	75,467	261,270
Other short-term borrowings . . . . .	2,672,063	1,744,690
Long-term debt . . . . .	<u>3,848,553</u>	<u>3,913,889</u>
Total . . . . .	<u>¥11,241,198</u>	<u>¥12,653,319</u>
Trading account liabilities . . . . .	<u>¥ 4,138,599</u>	<u>¥ 2,778,540</u>

**31. FAIR VALUE**

Effective April 1, 2008, the MUFG Group adopted new guidance on the measurement of fair value for all financial assets and liabilities measured and disclosed on a fair value basis. Effective April 1, 2009, the MUFG Group has applied new guidance on the measurement of fair value for all the nonrecurring nonfinancial assets and nonfinancial liabilities including premises and equipment, intangible assets and goodwill measured at fair value for impairment. Under the new guidance, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The new guidance on the measurement of fair value establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Based on the observability of the inputs used in the valuation techniques, the following three-level hierarchy is established by the new guidance:

- Level 1—Unadjusted quoted prices for identical instruments in active markets.
- Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the instruments.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the instruments.

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A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The MUFG Group has an established and documented process for determining fair values in accordance with the new guidance. When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair value is based upon valuation techniques that use, where possible, current market-based or non-market-based parameters, such as interest rates, yield curves, foreign exchange rates, volatilities and credit curves. The fair values of liabilities are determined by discounting future cash flows at a rate which incorporates the MUFG Group's own creditworthiness. In addition, valuation adjustments may be made to ensure the financial instruments are recorded at fair value. These adjustments include, but not limited to, amounts that reflect counterparty credit quality, liquidity risk and model risk.

The following section describes the valuation methodologies adopted by the MUFG Group to measure fair values of certain financial instruments. The discussion includes the general classification of such financial instruments in accordance with the valuation hierarchy, a brief explanation of the valuation techniques, the significant inputs to those models, and any additional significant assumptions.

***Interest-earning Deposits in Other Banks***

Certain interest-earning deposits are measured at fair value by using discounted cash flows due to election of the fair value option. Cash flows are estimated based on the terms of the contracts and discounted by markets rates applicable to the maturity of the contracts, which are adjusted to reflect credit risks on counterparties. As the inputs into the valuation are readily observable, these deposits are classified in Level 2 of the valuation hierarchy.

***Receivables Under Resale Agreements***

Certain receivables under resale agreements are measured at fair value by using discounted cash flows due to election of the fair value option. Cash flows are estimated based on the terms of the contracts and discounted by the interest rates applicable to the maturity of the contracts, which are adjusted to reflect credit risks on counterparties. These receivables are classified in Level 2 of the valuation hierarchy.

***Trading Accounts Assets and Liabilities—Trading Securities***

When quoted prices are available in an active market, the MUFG Group adopts the quoted market prices to measure the fair values of securities and such securities are classified in Level 1 of the valuation hierarchy. Examples of Level 1 securities include certain Japanese and foreign government bonds, residential mortgage-backed securities and marketable equity securities.

When quoted market prices are available but not traded actively, such securities are classified in Level 2 of the valuation hierarchy. When quoted market prices are not available, the MUFG Group estimates fair values by using internal valuation techniques, quoted price of securities with similar characteristics or non-binding prices obtained from independent pricing vendors. Examples of such instruments include commercial paper, corporate bonds and residential mortgage-backed securities. Such securities are generally classified in Level 2 of the valuation hierarchy.

When there is less liquidity for securities or significant inputs adopted to the fair value measurements are less observable, such securities are classified in Level 3 of the valuation hierarchy. Examples of such Level 3

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securities include CLOs backed by general corporate loans that are measured by weighting the estimated amounts from the internal models and the non-binding quotes from the independent broker-dealers. The weight of the broker-dealer quote is determined based on the result of inquiries to the broker-dealers for their basis of the fair value calculation with consideration of activity level of the market. Key inputs of the internal models include projected cash flow through an analysis of underlying loans, probability of default which incorporates market indices such as LCDX which is an index of loan credit default swaps, repayment rate and discount rate reflecting liquidity premiums based on historical market data. The MUFG Group has adopted this valuation method for CLOs backed by general corporate loans from the second half of the fiscal year ended March 31, 2009. See Note 1, “*Change in Accounting Estimates*” section for details of the change in valuation method.

***Trading Accounts Assets and Liabilities—Derivatives***

Exchange-traded derivatives valued using quoted prices are classified in Level 1 of the valuation hierarchy. Examples of Level 1 derivative include security future transactions and interest rate future transactions. However, the majority of the derivative contracts entered into by the MUFG Group are traded over-the-counter and valued using internally developed techniques as there are no quoted market prices for such instruments. The valuation models and inputs vary depending on the types and contractual terms of the derivative instruments. The principal models adopted to value those instruments include discounted cash flows, Black-Scholes model and Hull-White model. The key inputs include interest rate yield curve, foreign currency exchange rate, volatility, credit quality of the counterparty or the MUFG Group and spot price of the underlying. These models are commonly accepted in the financial industry and key inputs to the models are readily observable from an actively quoted market. Derivative instruments valued by such models and inputs are generally classified in Level 2 of the valuation hierarchy. Examples of such Level 2 derivatives include plain interest rate swaps, foreign currency forward contracts and currency option contracts.

Derivatives that are valued based on models with significant unobservable input are classified in Level 3 of the valuation hierarchy. Examples of Level 3 derivatives include long-term interest rate or currency swaps and certain credit derivatives, where significant inputs such as volatility, credit curves and the correlation of such inputs are unobservable.

***Investment Securities***

Investment securities include available for sale debt and equity securities, whose fair values are measured using the same methodologies as the trading securities described above except for certain private placement bonds issued by Japanese non-public companies. Fair values of certain private placement bonds issued by Japanese non-public companies are measured based on discounted cash flow methods by using discount rate applicable to the maturity of the bonds, which are adjusted to reflect credit risk of issuers. From the second half of fiscal year ended March 31, 2010, the credit risk of issuers are included in the future cash flows being discounted at the date applicable to the maturity of the bonds. The private placement bonds are generally utilized to finance medium or small size non-public companies as an alternative of loans. These bonds are classified as either Level 2 or Level 3 of the valuation hierarchy depending on the significance of the adjustments for unobservable credit worthiness input. This account also includes investments in nonmarketable equity securities which are subject to specialized industry accounting practice. The valuation of such nonmarketable equity securities involves significant management judgment due to the absence of quoted market prices, lack of liquidity and the long term nature of these assets. Further, there may be restriction of transfer on nonmarketable equity securities. The MUFG Group values such securities initially at transaction price and subsequently adjusts valuations considering evidence such as current sales transactions of similar securities, initial public offerings, recent equity issuances and change in financial condition of an investee company. Nonmarketable equity securities are included in Level 3 of the valuation hierarchy.

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***Other Assets***

Other assets measured at fair value mainly consist of securities that may be sold or repledged under securities lending transactions, money in trust for segregating cash deposited by customers on security transactions and derivative assets designated as hedging instruments. The securities under lending transaction mainly consist of certain Japanese and foreign government bonds which are valued using the methodologies described in the “Trading Accounts Assets and Liabilities—Trading Securities” above.

Money in trust for segregating cash deposited by customers on security transactions mainly consists of certain Japanese government bonds which are valued using the methodologies described in the “Trading Accounts Assets and Liabilities—Trading Securities” above and is included in Level 1 or Level 2 of the valuation hierarchy depending on the component assets.

The fair values of derivatives designated as hedging instruments are measured using the methodologies described in the “Trading Accounts Assets and Liabilities—Derivatives” above.

***Obligations to Return Securities Received as Collateral***

Obligations to return securities received as collateral under the securities lending transactions are measured at fair values of securities received as collateral. The securities received as collateral consist primarily of certain Japanese and foreign government bonds, whose fair values are measured using the methodologies described in the “Trading Accounts Assets and Liabilities—Trading Securities” above.

***Deposits, Other Short-term Borrowings and Long-term Debt***

Certain deposits, other short-term borrowings and long-term debt are measured at fair values due to election of the fair value option. These instruments under the fair value option are measured principally using internally developed models such as the discounted cash flow method. Where the inputs into the valuation are mainly based on observable inputs, these instruments are classified in Level 2 of the valuation hierarchy. Where significant inputs are unobservable, they are classified in Level 3 of the valuation hierarchy.

***Market Valuation Adjustments***

Counterparty credit risk adjustments are applied to certain financial assets such as over-the-counter derivatives. As not all counterparties have the same credit rating, it is necessary to take into account the actual credit rating of a counterparty to arrive at the fair value. In addition, the counterparty credit risk adjustment takes into account the effect of credit risk mitigates such as pledged collateral and legal right of offsets with the counterparty.

Own credit risk adjustments which reflect own creditworthiness are applied to financial liabilities measured at fair value.

Liquidity adjustments are applied mainly to the instruments classified in Level 3 of the fair value hierarchy when recent prices of such instruments are not able to be observable in inactive or less active market. The liquidity adjustments are based on the facts and circumstances of the markets including the availability of external quotes and the time since the latest available quote.

Model valuation adjustments such as unobservable parameter valuation adjustments may be provided when the fair values of instruments are determined based on internally developed models. Examples of such

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adjustments include adjustments to the model price of certain derivative financial instruments where parameters such as correlation are unobservable. Unobservable parameter valuation adjustments are applied to mitigate the possibility of error in the model based estimate value.

***Investments in Certain Entities That Calculate Net Asset Value per Share***

The MUFG Group has investments mainly in hedge funds, private equity funds, and real estate funds included in recurring and nonrecurring items.

Hedge funds are primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies. The MUFG Group's investments in these funds are generally redeemable on monthly-quarterly basis with 30-90 days notice.

Private equity funds have specific investment objectives in connection with their acquisition of equity interests, such as providing financing and other support to start-up businesses, medium and small entities in a particular geographical area, and to companies with certain technology or companies in a high-growth industry. Generally, these investments cannot be redeemed with the funds and the return of invested capital and its gains are derived from distributions received upon the liquidation of the underlying assets of the fund. It is estimated that the underlying assets of the fund would be liquidated within ten year period.

Real estate funds invest globally, primarily in real estate companies, debt recapitalizations and direct property. These investments are generally not redeemable with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

The following table presents the financial instruments carried at fair value by level within the fair value hierarchy as of March 31, 2009 and 2010:

	March 31, 2009			Fair Value
	Level 1	Level 2	Level 3	
	(in millions)			
<b>Assets</b>				
Trading account assets:				
Trading securities <sup>(1)</sup> . . . . .	¥13,132,900	¥ 5,256,792	¥1,906,009	¥20,295,701
Trading derivative assets . . . . .	24,073	9,596,896	364,855	9,985,824
Investment securities:				
Securities available for sales . . . . .	26,909,603	3,144,820	3,335,664	33,390,087
Other investment securities . . . . .	—	1,128	42,681	43,809
Others <sup>(2)</sup> . . . . .	597,822	238,905	18,312	855,039
Total . . . . .	<u>¥40,664,398</u>	<u>¥18,238,541</u>	<u>¥5,667,521</u>	<u>¥64,570,460</u>
<b>Liabilities</b>				
Trading account liabilities:				
Trading securities sold, not yet purchased . .	¥ 98,114	¥ 4,842	¥ —	¥ 102,956
Trading derivative liabilities . . . . .	86,412	8,942,829	360,364	9,389,605
Obligation to return securities received as collateral . . . . .				
Others <sup>(3)</sup> . . . . .	2,557,116	151,684	—	2,708,800
Total . . . . .	<u>¥ 2,741,642</u>	<u>¥ 9,631,979</u>	<u>¥ 227,277</u>	<u>¥12,600,898</u>

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	March 31, 2010			
	Level 1	Level 2	Level 3	Fair Value
	(in millions)			
<b>Assets</b>				
Trading account assets:				
Trading securities <sup>(1)</sup> . . . . .	¥ 13,308,112	¥ 4,332,959	¥ 1,166,538	¥ 18,807,609
Debt securities				
Japanese national government and Japanese government agency bonds . . . . .	4,480,316	94,718	—	4,575,034
Japanese prefectural and municipal bonds . . . . .	—	91,076	—	91,076
Foreign governments and official institutions bonds . . . . .	6,237,215	487,898	171,534	6,896,647
Corporate bonds . . . . .	—	1,072,625	494,987	1,567,612
Residential mortgage-backed securities . . . . .	1,402,188	200,096	56,468	1,658,752
Commercial mortgage-backed securities . . . . .	—	—	17,315	17,315
Asset-backed securities . . . . .	—	127,301	389,061	516,362
Other debt securities . . . . .	—	5,166	—	5,166
Commercial paper . . . . .	—	1,473,625	—	1,473,625
Equity securities <sup>(4)</sup> . . . . .	1,188,393	780,454	37,173	2,006,020
Trading derivative assets . . . . .	25,878	8,446,637	382,952	8,855,467
Investment securities:				
Securities available for sale . . . . .	43,871,776	4,176,491	2,363,609	50,411,876
Debt securities				
Japanese national government and Japanese government agency bonds . . . . .	38,324,775	1,108,086	—	39,432,861
Japanese prefectural and municipal bonds . . . . .	—	277,831	3,069	280,900
Foreign governments and official institutions bonds . . . . .	1,223,777	33,852	87,597	1,345,226
Corporate bonds . . . . .	—	1,311,183	2,163,465	3,474,648
Residential mortgage-backed securities . . . . .	3,839	910,745	26,827	941,411
Commercial mortgage-backed securities . . . . .	—	38,820	14,475	53,295
Asset-backed securities . . . . .	—	260,723	67,095	327,818
Other debt securities . . . . .	—	47	990	1,037
Marketable equity securities . . . . .	4,319,385	235,204	91	4,554,680
Other investment securities . . . . .	—	1,122	33,904	35,026
Others <sup>(2)(5)</sup> . . . . .	442,086	206,447	17,217	665,750
<b>Total</b> . . . . .	<b>¥ 57,647,852</b>	<b>¥ 17,163,656</b>	<b>¥ 3,964,220</b>	<b>¥ 78,775,728</b>
<b>Liabilities</b>				
Trading account liabilities:				
Trading securities sold, not yet purchased . . . . .	¥ 166,020	¥ 2,629	¥ —	¥ 168,649
Trading derivative liabilities . . . . .	77,470	8,031,143	411,564	8,520,177
Obligation to return securities received as collateral . . . . .	3,071,320	158,001	—	3,229,321
Others <sup>(3)</sup> . . . . .	—	467,590	45,347	512,937
<b>Total</b> . . . . .	<b>¥ 3,314,810</b>	<b>¥ 8,659,363</b>	<b>¥ 456,911</b>	<b>¥ 12,431,084</b>

Notes:

- (1) Include securities under fair value option.
- (2) Include interest-earning deposits in other banks, receivables under resale agreements, securities under lending transactions, money in trust for segregating cash deposited by customers on security transactions and derivative assets designated as hedging instruments.
- (3) Include deposits, other short-term borrowings, long-term debt, bifurcated embedded derivatives carried at fair value and derivative liabilities designated as hedging instruments.
- (4) Include investments valued at net asset value of ¥304,120 million. The unfunded commitments related to these investments are ¥6,455 million. These investments are mainly hedge funds.
- (5) Include investments valued at net asset value of real estate funds, hedge funds and private equity funds, valued at ¥7,050 million, ¥4,002 million and ¥3,972 million, respectively. The unfunded commitments related to these real estate funds, hedge funds and private equity funds are ¥2,758 million, ¥3,325 million and ¥3,532 million, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Changes in Level 3 Recurring Fair Value Measurements***

The following table presents a reconciliation of the assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the fiscal years ended March 31, 2009 and 2010. When a determination is made to classify a financial instrument within Level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. The following tables reflect gains and losses for the fiscal years ended March 31, 2009 and 2010 for all assets and liabilities categorized as Level 3, including those transferred from or into Level 3 during the period.

	April 1, 2008	Included in earnings	Total realized/ unrealized gains (losses) Included in other comprehensive income	Purchases, sales, and settlements	Transfer into Level 3— beginning of period	Transfer out of Level 3— end of period	March 31, 2009	Change in unrealized gains (losses) included in earnings for assets and liabilities still held at March 31, 2009
(in millions)								
<b>Assets</b>								
Trading account assets:								
Trading securities <sup>(1)</sup> . . . . .	¥3,883,824	¥(719,313) <sup>(2)</sup>	¥ —	¥(215,528)	¥ 12,400	¥(1,055,374)	¥1,906,009	¥(375,940) <sup>(2)</sup>
Trading derivatives (Net) . . . . .	77,620	29,733 <sup>(2)</sup>	(19,430)	(49,772)	5,577	(39,237)	4,491	26,838 <sup>(2)</sup>
Investment securities:								
Securities available for sale . . . . .	3,542,099	(10,654) <sup>(3)</sup>	(116,335)	(271,657)	285,054	(92,843)	3,335,664	(31,977) <sup>(3)</sup>
Other investment securities . . . . .	65,090	(18,321) <sup>(4)</sup>	(894)	(5)	—	(3,189)	42,681	(18,800) <sup>(4)</sup>
Others . . . . .	76,845	21,336 <sup>(4)</sup>	(24,347)	(19,456)	—	(36,066)	18,312	175 <sup>(4)</sup>
Total . . . . .	<u>¥7,645,478</u>	<u>¥(697,219)</u>	<u>¥(161,006)</u>	<u>¥(556,418)</u>	<u>¥303,031</u>	<u>¥(1,226,709)</u>	<u>¥5,307,157</u>	<u>¥(399,704)</u>
<b>Liabilities</b>								
Others . . . . .	¥ 432,149	¥(164,782) <sup>(4)</sup>	¥ 285,349	¥ 374	¥ —	¥ (445,043)	¥ (133,087)	¥ 28,826 <sup>(4)</sup>
Total . . . . .	<u>¥ 432,149</u>	<u>¥(164,782)</u>	<u>¥ 285,349</u>	<u>¥ 374</u>	<u>¥ —</u>	<u>¥ (445,043)</u>	<u>¥ (133,087)</u>	<u>¥ 28,826</u>



**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	March 31, 2009 <sup>(6)</sup>	Total realized/ unrealized gains (losses)			Purchases, issuances and settlements	Transfer into Level 3— beginning of period	Transfer out of Level 3— end of period	March 31, 2010	Change in unrealized gains (losses) included in earnings for assets and liabilities still held at March 31, 2010
		Included in earnings	Included in other changes in equity from nonowner sources						
(in millions)									
<b>Assets</b>									
Trading account assets:									
Trading securities <sup>(1)</sup> . . . . .	¥1,906,009	¥182,968 <sup>(2)</sup>	¥ —	¥ (580,019)	¥ 14,582	¥ (357,002)	¥1,166,538	¥ 91,316 <sup>(2)</sup>	
Debt securities									
Foreign governments and official institutions bonds . . . . .	193,673	1,420	—	(4,367)	—	(19,192)	171,534	(1,041)	
Corporate bonds . . . . .	509,257	29,123	—	3,631	14,582	(61,606)	494,987	22,984	
Residential mortgage-backed securities . . . . .	113,495	17,091	—	(74,118)	—	—	56,468	11,328	
Commercial mortgage-backed securities . . . . .	16,401	7,387	—	(6,473)	—	—	17,315	6,763	
Asset-backed securities . . . . .	702,996	70,737	—	(330,899)	—	(53,773)	389,061	45,512	
Other debt securities . . . . .	—	—	—	—	—	—	—	—	
Commercial paper . . . . .	—	—	—	—	—	—	—	—	
Equity securities . . . . .	370,187	57,210	—	(167,793)	—	(222,431) <sup>(5)</sup>	37,173	5,770	
Trading derivatives (Net) . . . . .	4,491	(16,391) <sup>(2)</sup>	(45)	(37,378)	24,767	(4,056)	(28,612)	30,262 <sup>(2)</sup>	
Investment securities:									
Securities available for sale . . . . .	3,335,664	(4,857) <sup>(3)</sup>	30,835	(349,625)	308,526	(956,934)	2,363,609	(24,775) <sup>(3)</sup>	
Debt securities									
Japanese prefectural and municipal bonds . . . . .	4,471	13	—	(1,415)	—	—	3,069	8	
Foreign governments and official institutions bonds . . . . .	24,148	(6)	4,235	59,220	—	—	87,597	(6)	
Corporate bonds . . . . .	3,043,083	(4,845)	23,113	(382,381)	308,526	(824,031)	2,163,465	(24,792)	
Residential mortgage-backed securities . . . . .	32,302	(1)	38	(5,512)	—	—	26,827	(1)	
Commercial mortgage-backed securities . . . . .	18,086	1	(503)	(3,109)	—	—	14,475	1	
Asset-backed securities . . . . .	205,271	(85)	2,543	(7,731)	—	(132,903)	67,095	(16)	
Other debt securities . . . . .	1,357	56	40	(463)	—	—	990	31	
Marketable equity securities . . . . .	6,946	10	1,369	(8,234)	—	—	91	—	
Other investment securities . . . . .	42,681	(7,757) <sup>(4)</sup>	46	(328)	—	(738)	33,904	(8,089) <sup>(4)</sup>	
Others . . . . .	18,312	(1,212) <sup>(4)</sup>	—	117	—	—	17,217	(1,027) <sup>(4)</sup>	
Total . . . . .	<u>¥5,307,157</u>	<u>¥152,751</u>	<u>¥ 30,836</u>	<u>¥(967,233)</u>	<u>¥347,875</u>	<u>¥(1,318,730)</u>	<u>¥3,552,656</u>	<u>¥ 87,687</u>	
<b>Liabilities</b>									
Others . . . . .	¥ (133,087)	¥ (1,526) <sup>(4)</sup>	¥(17,391)	¥ 5,955	¥153,524	¥ 38	¥ 45,347	¥ 6,876 <sup>(4)</sup>	
Total . . . . .	<u>¥ (133,087)</u>	<u>¥ (1,526)</u>	<u>¥(17,391)</u>	<u>¥ 5,955</u>	<u>¥153,524</u>	<u>¥ 38</u>	<u>¥ 45,347</u>	<u>¥ 6,876</u>	

Notes:

- (1) Include trading securities under fair value option.
- (2) Included in trading account profits (losses)—net and in foreign exchange gains (losses)—net.
- (3) Included in investment securities gains (losses)—net.
- (4) Included in trading account profits (losses)—net.
- (5) The MUFJ Group reclassified investments in certain hedge funds from Level 3 to Level 2 because they were redeemable at net asset value at the measurement date or in the near future.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

- (6) The amounts of assets categorized in Level 3 at March 31, 2009, which were reported in the Form 6-K for the six months ended September 30, 2009, have been restated as follows:

	As previously reported (Unaudited)	As restated
	(in millions)	
<b>Assets</b>		
Trading account assets:		
Trading securities		
Debt securities		
Residential mortgage-backed securities .....	¥ 10,643	¥113,495
Commercial mortgage-backed securities .....	13,948	16,401
Asset-backed securities .....	808,301	702,996

***Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis***

Certain assets and liabilities may be measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition. These assets are subject to fair value adjustments that result from the application of the lower of cost or fair value accounting or write-downs of individual assets. The following table presents the carrying value of assets measured at fair value on a nonrecurring basis by level within the fair value hierarchy as of March 31, 2009 and 2010:

	March 31, 2009			
	Level 1	Level 2	Level 3	Total carrying value
	(in millions)			
<b>Assets</b>				
Investment securities .....	¥ —	¥ —	¥ 24,912	¥ 24,912
Loans .....	6,117	42,391	394,677	443,185
Other assets .....	222,563	1,905	35,487	259,955
Total .....	¥228,680	¥44,296	¥455,076	¥728,052
March 31, 2010				
	Level 1	Level 2	Level 3	Total carrying value
	(in millions)			
<b>Assets</b>				
Investment securities <sup>(1)</sup> .....	¥ —	¥ —	¥ 14,127	¥ 14,127
Loans .....	10,346	37,247	385,979	433,572
Premises and equipment .....	—	—	11,025	11,025
Intangible assets .....	—	—	52,262	52,262
Other assets <sup>(1)</sup> .....	144,659	—	29,781	174,440
Total .....	¥155,005	¥37,247	¥493,174	¥685,426

Note:

- (1) Include investments valued at net asset value of ¥22,686 million. The unfunded commitments related to these investments of ¥12,269 million. These investments are private equity funds.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table presents the nonrecurring changes in fair value which have been recorded during the fiscal years ended March 31, 2009 and 2010:

	Fiscal years ended March 31	
	2009	2010
	(in millions)	
Investment securities .....	¥ 40,640	¥ 26,262
Loans .....	229,889	211,471
Premises and equipment <sup>(1)</sup> .....	—	10,548
Intangible assets <sup>(1)</sup> .....	—	12,400
Other assets .....	67,656	110,722
Total .....	<u>¥338,185</u>	<u>¥371,403</u>

Note:

(1) Effective April 1, 2009, the MUFG Group has applied new guidance on the measurement of fair value for premises and equipment and intangible assets measured at fair value for impairment.

Investment securities include mainly impaired cost method nonmarketable equity securities which were written down to fair value during the period. The fair values are determined based on recent financial position and projected future cash flows of investees.

Loans include loans held for sale and collateral dependent loans. Loans held for sale are recorded at the lower of cost or fair value. The fair value of the loans held for sale is based on secondary market, recent transaction or discounted cash flows. These loans are principally classified in Level 3 of the valuation hierarchy, and when quoted prices are available but not traded actively, such loans held for sale are classified in Level 2 of the valuation hierarchy.

Collateral dependent loans are measured at fair value of the underlying collateral. Collaterals are comprised mainly of real estate and exchange traded equity securities. The MUFG Group maintains an established process for determining the fair value of real estate, using valuation techniques, including, but not limited to, the valuation derived mainly from current transaction prices of comparable assets and discounted cash flow models. Loans impaired that are measured based on underlying real estate collateral are classified in Level 3 of the valuation hierarchy.

Premises and equipment consist of those assets which were written down to fair value. The fair values are determined based on price obtained from an appraiser or discounted cash flows. These impaired premises and equipment are classified as Level 3 of the valuation hierarchy.

Intangible assets consist of those assets which were written down to fair values. The fair values are determined based on discounted cash flows. These impaired intangible assets are classified as Level 3 of the valuation hierarchy.

Other assets mainly consist of investments in equity method investees which were written down to fair value due to impairment. The MUFG Group recorded impairment losses on investments to certain affiliated companies, mainly the consumer finance company, of ¥104,045 million for the fiscal year ended March 31, 2010. The investment in such affiliated company is marketable equity security, and MUFG determined a decline in fair value below cost is other-than-temporary based on the quoted market price. The impairment losses are included in Equity in losses of equity method investees in the consolidated statements of operations.

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When investments in equity method investees are marketable equity securities, the fair values are determined based on quoted market price. Impaired investments in equity method investees which are marketable equity securities are classified in either Level 1 or Level 2 of the valuation hierarchy. When investments in equity method investees are nonmarketable equity securities, the fair values are determined using the same methodologies as impaired nonmarketable equity securities described above. Impaired investments in equity method investees which are nonmarketable equity securities are classified in Level 3 of the valuation hierarchy.

***Fair Value Option***

Entities are permitted to choose, at specified election dates, to measure eligible financial assets and liabilities and certain other items at fair value that are not otherwise required to be measured at fair value. Subsequent changes in fair value for designated items are required to be reported in earnings. Effective April 1, 2008, the MUFG Group elected the fair value option for foreign currency denominated debt securities and equity securities held by BTMU and MUTB in the amount of ¥10,448,079 million, which were previously classified as securities available for sale. The election was made to mitigate accounting mismatches related to fluctuations of foreign exchange rates as the gains and losses on translation of these securities were reflected in other changes in equity from nonowner sources, while the gains and losses on translation of foreign currency-denominated financial liabilities were included in current earnings.

The MUFG Group also elected the fair value option for certain financial instruments held by MUS's foreign subsidiaries, because those financial instruments are managed on a fair value basis, and these exposures are considered to be trading-related positions. These financial assets are included in Interest-earning deposits in other banks and Receivables under resale agreements. These financial liabilities are included in Interest-bearing deposits, Other short-term borrowings and Long-term debt. Unrealized gains and losses on such financial instruments are recognized in the consolidated statements of operations.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table presents the gains or losses recorded during the fiscal years ended March 31, 2009 and 2010 related to the eligible instruments for which the MUFG Group elected the fair value option:

	For the fiscal year ended March 31,					
	2009			2010		
	Trading account profits (losses)	Foreign exchange gains (losses)	Total changes in fair value	Trading account profits (losses)	Foreign exchange gains (losses)	Total changes in fair value
	(in millions)					
Financial assets:						
Interest-earning deposits in other banks .....	¥ 115	¥ —	¥ 115	¥ (1,277)	¥ —	¥ (1,277)
Receivables under resale agreements <sup>(1)</sup> .....	21,382	—	21,382	(5,240)	—	(5,240)
Trading account securities (Previously classified as securities available for sale) .....	<u>(301,077)</u>	<u>(565,247)</u>	<u>(866,324)</u>	<u>327,338</u>	<u>(371,660)</u>	<u>(44,322)</u>
Total .....	<u>¥(279,580)</u>	<u>¥(565,247)</u>	<u>¥(844,827)</u>	<u>¥320,821</u>	<u>¥(371,660)</u>	<u>¥(50,839)</u>
Financial liabilities:						
Deposits in overseas offices: principally interest-bearing deposits <sup>(1)</sup> .....	¥ (3,485)	¥ —	¥ (3,485)	¥ —	¥ —	¥ —
Other short-term borrowings <sup>(1)</sup> .....	(1,331)	—	(1,331)	530	—	530
Long-term debt <sup>(1)</sup> .....	<u>(234,614)</u>	<u>—</u>	<u>(234,614)</u>	<u>56,282</u>	<u>—</u>	<u>56,282</u>
Total .....	<u>¥(239,430)</u>	<u>¥ —</u>	<u>¥(239,430)</u>	<u>¥ 56,812</u>	<u>¥ —</u>	<u>¥ 56,812</u>

Note:

(1) Change in value attributable to the instrument-specific credit risk related to those financial assets and liabilities are not material.

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The following table presents the differences between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of March 31, 2009 and 2010, for long-term receivables and debt instruments for which the fair value option has been elected:

	March 31, 2009		
	Remaining aggregate contractual amounts outstanding	Fair value  (in millions)	Fair value over (under) remaining aggregate contractual amounts outstanding
Financial Assets:			
Receivables under resale agreements .....	¥ 35,909	¥ 36,066	¥ 157
Total .....	¥ 35,909	¥ 36,066	¥ 157
Financial Liabilities:			
Deposits in overseas offices: Interest-bearing deposits .....	¥ 4,214	¥ 4,235	¥ 21
Long-term debt .....	719,697	532,641	(187,056)
Total .....	¥723,911	¥536,876	¥(187,035)
	March 31, 2010		
	Remaining aggregate contractual amounts outstanding	Fair value  (in millions)	Fair value over (under) remaining aggregate contractual amounts outstanding
Financial Assets:			
Receivables under resale agreements .....	¥ 31,500	¥ 30,832	¥ (668)
Total .....	¥ 31,500	¥ 30,832	¥ (668)
Financial Liabilities:			
Long-term debt .....	¥792,059	¥615,618	¥(176,441)
Total .....	¥792,059	¥615,618	¥(176,441)

Interest income and expense and dividend income related to the assets and liabilities for which the fair value option is elected are measured based on the contractual rates specified in the transactions and reported in the consolidated statements of operations as either interest income or expense, depending on the nature of the related asset or liability.

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***Estimated Fair Value of Financial Instruments***

In addition to financial instruments measured and disclosed on a fair value basis, the disclosure of the estimated fair value of financial instruments that are not carried at fair value is also required. The following is a summary of carrying amounts and estimated fair values of financial instruments at March 31, 2009 and 2010:

	2009		2010	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
(in billions)				
Financial assets:				
Cash and due from banks, call loans and funds sold, and receivables under resale agreements and securities borrowing transactions . . . . .	¥ 16,350	¥ 16,350	¥ 17,465	¥ 17,465
Trading account assets, excluding derivatives . . . . .	20,296	20,296	18,808	18,808
Investment securities . . . . .	37,491	37,728	54,514	55,058
Loans, net of allowance for credit losses . . . . .	99,154	100,455	90,870	91,812
Other financial assets . . . . .	4,667	4,670	4,361	4,361
Derivative financial instruments:				
Trading activities . . . . .	9,986	9,986	8,855	8,855
Activities qualifying for hedges . . . . .	27	27	9	9
Financial liabilities:				
Non-interest-bearing deposits, call money and funds purchased, and payables under repurchase agreements and securities lending transactions . . . . .	¥ 35,663	¥ 35,663	¥ 34,969	¥ 34,969
Interest-bearing deposits . . . . .	111,095	111,215	117,868	117,972
Trading account liabilities, excluding derivatives . . . . .	103	103	169	169
Obligations to return securities received as collateral . . . . .	2,709	2,709	3,229	3,229
Due to trust account . . . . .	1,797	1,797	1,560	1,560
Other short-term borrowings . . . . .	7,867	7,867	6,097	6,097
Long-term debt . . . . .	13,273	13,191	14,162	14,369
Other financial liabilities . . . . .	4,633	4,633	3,981	3,981
Derivative financial instruments:				
Trading activities . . . . .	9,390	9,390	8,520	8,520
Activities qualifying for hedges . . . . .	—	—	1	1

Not all of the financial instruments held by the MUFG Group are recorded at fair value on the consolidated balance sheets. The methodologies and assumptions used to estimate fair value of financial instruments that are not recorded at fair value on the consolidated balance sheets are summarized below:

***Cash and Due from Banks, Call Loans and Funds Sold, and Receivables Under Resale Agreements and Securities Borrowing Transactions***—For cash, due from banks including interest-earning deposits, call loans and funds sold, and receivables under resale agreements and securities borrowing transactions, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature and limited credit risk.

***Investment Securities***—The fair values of investment securities other than those classified as available for sale or being held to maturity (i.e., nonmarketable equity securities) are not readily determinable as they do not have quoted market prices or secondary market prices available. The fair values of certain nonmarketable equity securities, such as preferred stock convertible to marketable common stock in the future, issued by public

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companies are determined by utilizing commonly accepted valuation models, such as option pricing models. It is not practicable for the MUFG Group to estimate the fair value of other nonmarketable securities issued by nonpublic companies for which a quoted market price is not available. For these securities, the MUFG Group is unable to estimate fair value without incurring undue cost because they comprise investments in numerous unlisted companies and each investment represents an insignificant percentage relative to each company. Therefore, the above summary does not include the carrying amounts of such investment securities. The amounts not included in the above summary are ¥146 billion and ¥532 billion at March 31, 2009 and 2010, respectively.

**Loans**—The fair value of loans are estimated by discounting expected future cash flows based on types of loans, internal ratings and possibility of prepayment using the discount rates which include adjustments to reflect the expectations about possible variations to the current market rates. For certain residential loans with variable interest rates provided to individual home owners, the carrying amount is presented as the fair value since such carrying amount approximates the fair value, unless the creditworthiness of the borrower has changed significantly since the loan origination. Where quoted market prices or estimated fair values are available, primarily for loans to refinancing countries, loans held for sales and certain other foreign loans, the fair values are based on such market prices and estimated fair values, including secondary market prices. For receivables from bankrupt, virtually bankrupt, and likely to become bankrupt borrowers, credit loss is estimated based on the present value of expected future cash flow or the expected amount to be collected from collaterals and guarantees. The carrying amount is presented as the fair value since the fair value approximates such carrying amount.

**Other Financial Assets**—The estimated fair values of other financial assets, which primarily include accrued interest receivable, customers' acceptance liabilities and accounts receivable, approximate their carrying amounts. The above summary does not include the carrying amounts of investments in equity method investees amounting to ¥556 billion and ¥585 billion at March 31, 2009 and 2010, respectively.

**Non-interest-bearing Deposits, Call Money and Funds Purchased, Payables Under Repurchase Agreements and Securities Lending Transactions, and Obligations to Return Securities Received as Collateral**—For non-interest-bearing deposits, the amount payable on demand as of the consolidated balance sheet date (i.e., the carrying amount) is considered to be the fair value. For call money and funds purchased, payables under repurchase agreements and securities lending transactions and obligations to return securities received as collateral, the carrying amount are reasonable estimate of the fair value because of their short-term nature and limited credit risk.

**Interest-bearing Deposits**—For variable rate time deposits, the carrying amount is presented as the fair value because the market interest rate is reflected in such deposits within a short time period. Fixed rate time deposits are grouped by certain maturity lengths. The fair value of such deposits are estimated by discounting expected future cash flows using the discount rates that would be applied to newly accepted deposits.

**Due to Trust Account**—Since these are cash deposits with no maturity, the carrying amount is presented as the fair value as the fair value approximates such carrying amount.

**Other Short-term Borrowings**—For most other short-term borrowings, the carrying amount is presented as the fair value since such carrying amount approximates the fair value because of their short-term nature and limited credit risk.

**Long-term Debt**—The fair value of corporate bonds issued by the MUFG Group is determined based on MUFG's market price. The fair value of fixed rate corporate bonds without market prices is the present value of



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expected future cash flow from these borrowings, which is discounted at an interest rate generally applicable to similar borrowings reflecting premium applicable to the MUFG Group. For variable rate corporate bonds without market prices, the carrying amount of such bonds is presented as the fair value since such carrying amount approximates the fair value. This is on the basis that the market interest rate is reflected in the fair value of such corporate bonds because such bond terms were set within a short time period and that there has been no significant impact on the fair value of those bonds.

**Other Financial Liabilities**—The estimated fair values of other financial liabilities, which primarily include accrued interest payable, bank acceptances, accounts payable and obligations under standby letters of credit and guarantees, approximate their carrying amounts. The fair values of obligations under standby letters of credit and guarantees are based on fees received or receivable by the MUFG Group.

The fair values of certain off-balance-sheet financial instruments held for purposes other than trading, including commitments to extend credit and commercial letters of credit, are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the credit quality. The aggregate fair value of such instruments at March 31, 2009 and 2010 was not material.

The fair value estimates presented herein are based on pertinent information available to management at March 31, 2009 and 2010. These amounts have not been comprehensively revalued since that date and, therefore, current estimates of fair values may have changed significantly from the amounts presented herein.

### **32. STOCK-BASED COMPENSATION**

The following describes stock-based compensation plans of MUFG, BTMU, MUTB, MUS and UNBC.

#### ***MUFG, BTMU, MUTB and MUS***

MUFG, BTMU, MUTB and MUS elected to introduce a stock-based compensation plan for directors, executive officers and corporate auditors (“officers”) and obtained the necessary shareholder approval at their respective ordinary general meetings held in June 2007, while abolishing the retirement gratuities program for these officers.

Following the approval, MUFG resolved at the meeting of the Board of Directors to issue stock compensation type stock options (“Stock Acquisition Rights”) to officers of MUFG, BTMU, MUTB and MUS. Usually, the Stock Acquisition Rights would be issued and granted to these officers once a year as a replacement of the former retirement gratuities program.

The class of shares to be issued or transferred on exercise of the Stock Acquisition Rights is common stock of MUFG. The number of shares to be issued or transferred on exercise of each Stock Acquisition Right (“number of granted shares”) is 100 shares. In the event of stock split or stock merger of common stock of MUFG, the number of granted shares shall be adjusted in accordance with the ratio of stock split or stock merger. If any events occur that require the adjustment of the number of granted shares (e.g., mergers, consolidations, corporate separations or capital reductions of MUFG), MUFG shall appropriately adjust the number of granted shares to a reasonable extent.

The contractual term of the Stock Acquisition Rights is approximately 30 years from the date of grant. Some of the Stock Acquisition Rights vest on the date of grant and the rest of the rights graded-vest depending on the

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holder's service period as officers. The Stock Acquisition Rights are only exercisable after the date on which the following conditions are met: (1) holder as a director or an executive officer loses the status of both director and executive officer, (2) holder as a corporate auditor loses the status of a corporate auditor. The exercise price is ¥1 per share.

The following is a summary of the Stock Acquisition Rights transactions of MUFG, BTMU, MUTB and MUS for the fiscal year ended March 31, 2010:

	For the fiscal year ended March 31, 2010			
	Number of shares	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in millions)
Outstanding, beginning of the period . . . . .	5,392,600	¥ 1		
Granted . . . . .	5,655,800	1		
Exercised . . . . .	(1,025,100)	1		
Forfeited or Expired . . . . .	(48,500)	1		
Outstanding, end of the period . . . . .	<u>9,974,800</u>	¥ 1	28.75	¥4,878
Exercisable, end of the period . . . . .	<u>—</u>	¥ —	—	¥ —

The fair value of the Stock Acquisition Rights is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions described in the following table. The risk-free rate is based on the Japanese government bonds yield curve in effect at the date of grant based on the expected term. The expected volatility is based on the historical data from traded common stock of MUFG. The expected term is based on the average service period of officers of MUFG, BTMU, MUTB and MUS, which represents the expected outstanding period of the Stock Acquisition Rights granted. The expected dividend yield is based on the dividend rate of common stock of MUFG at the date of grant.

	For the fiscal year ended March 31,	
	2009	2010
Risk-free interest rate . . . . .	1.03%	0.53%
Expected volatility . . . . .	33.07%	44.46%
Expected term (in years) . . . . .	4	4
Expected dividend yield . . . . .	1.43%	2.25%

The weighted-average grant-date fair value of the Stock Acquisition Rights granted during the fiscal years ended March 31, 2009 and 2010 was ¥92,300 and ¥48,700, respectively.

The MUFG Group recognized ¥2,583 million and ¥2,638 million of compensation cost related to the Stock Acquisition Rights with ¥1,051 million and ¥1,073 million of corresponding tax benefit during the fiscal years ended March 31, 2009 and 2010, respectively. As of March 31, 2010, the total unrecognized compensation cost related to the Stock Acquisition Rights was ¥545 million and it is expected to be recognized over a period of 3 months.

Cash received from exercise of the Stock Acquisition Rights for the fiscal year ended March 31, 2010 was ¥1 million. The actual tax benefit realized for the tax deductions from exercise of the Stock Acquisition Rights was ¥404 million for the fiscal year ended March 31, 2010.

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***UNBC***

On November 4, 2008, all outstanding awards under the management stock plans discussed below were canceled in exchange for the right to receive the cash value of those awards. These plans were terminated in December 2008, and no additional awards were granted under these plans in 2009. The discussion that follows relates to the management stock plan activities through termination in December 2008.

Prior to their termination, UNBC had two management stock plans. The Year 2000 UnionBanCal Corporation Management Stock Plan, as amended (the 2000 Stock Plan), and the UnionBanCal Corporation Management Stock Plan, restated effective June 1, 1997 (the 1997 Stock Plan), had 20.0 million and 6.6 million shares, respectively, of UNBC's common stock authorized for awards to key employees, outside directors and consultants of UNBC at the discretion of the Executive Compensation and Benefits Committee of the Board of Directors (the Committee). Employees on rotational assignment from BTMU were not eligible for stock awards.

The Committee determined the term of each stock option grant, up to a maximum of ten years from the date of grant. The exercise price of the options issued under the stock plans could not be less than the fair market value on the date the option was granted. Beginning in 2006, the value of options was recognized as compensation expense over the vesting period during which the employees were required to provide service. Prior to January 1, 2006, UNBC's unrecognized compensation expense for nonvested restricted stock reduced retained earnings. Subsequent to January 1, 2006, \$19 million was reclassified from retained earnings to additional paid-in capital. The value of the restricted stock at the date of grant was recognized as compensation expense over its vesting period with a corresponding credit adjustment to additional paid-in capital. All cancelled or forfeited options and restricted stock became available for future grants.

Under the 2000 Stock Plan, UNBC granted stock options and restricted stock. Additionally under the Plan, UNBC issued shares of common stock upon the vesting and settlement of restricted stock units, stock units and performance shares settled in common stock. Under the 1997 Stock Plan, UNBC issued shares of common stock upon exercise of outstanding stock options. UNBC issued new shares of common stock for all awards under the stock plans. After taking into account the outstanding stock options and restricted stock, as well as the maximum number of shares that might be issued upon vesting and settlement of outstanding restricted stock units, stock units and performance shares settled in common stock, a total of 1,095,526 shares and zero shares were available for future grants under the 2000 Stock Plan at December 31, 2007 and 2008, respectively. The remaining shares under the 1997 Stock Plan were not available for future grants.

The Committee determined that performance share awards granted in 2006 and later were to be redeemed in shares.

*Stock Options*

Prior to UNBC's privatization, UNBC granted options under the 2000 Stock Plan, to various key employees, including policy-making officers, and to non-employee directors for selected years. Under both the 1997 and 2000 Stock Plans, options granted to employees vested pro-rata on each anniversary of the grant date and became fully exercisable three years from the grant date, provided that the employee had completed the specified continuous service requirement. Generally, the options could vest earlier if the employee died, was permanently disabled, or retired under certain grant, age, and service conditions or terminated employment under certain conditions. Options granted to non-employee directors were fully vested on the grant date and exercisable 33 1/3 percent on each anniversary under the 1997 Stock Plan, and were fully vested and exercisable on the grant date under the 2000 Stock Plan.

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The fair value of each option grant was estimated on the date of grant utilizing the Black-Scholes option pricing model and using the assumptions noted in the following table. The Black-Scholes option pricing model was applied to option tranches based on expected terms that result in ranges of input assumptions, such ranges are disclosed below. Expected volatilities were based on historical data and implied volatilities from traded options on UNBC's stock, and other factors. UNBC used historical data to estimate option exercise and employee terminations within the valuation model. The expected term of an option granted was derived from the output of the option valuation model, which was based on historical data and represented the period of time that the option granted was expected to be outstanding. The risk-free rate for periods within the contractual life of the option was based on the U.S. Treasury yield curve in effect at the time of grant based on the expected term.

	<b>For the years ended December 31,</b>	
	<b>2007</b>	<b>2008</b>
Weighted-average fair value—per share . . . . .	\$ 7.04	\$ 7.21
Risk-free interest rates (a range for 1 to 7 year tenors) . . . . .	3.71%	2.2 - 3.3%
Expected volatility . . . . .	16.9 - 21.0%	22.2 - 27.4%
Weighted-average expected volatility . . . . .	19.8%	24.3%
Expected term (in years) . . . . .	3.8 - 4.4	3.9 - 4.4
Weighted-average expected dividend yield . . . . .	4.3%	4.4%

The total intrinsic value of options exercised during 2007 and 2008 was \$16.0 million and \$44.5 million, with a corresponding tax benefit of \$5.7 million and \$15.9 million, respectively. The total intrinsic value of options that were canceled and settled in cash during 2008 as a result of UNBC's privatization was \$173.4 million with a corresponding tax benefit of \$61.6 million. The total fair value of options vested during the years ended December 31, 2007 and 2008 was \$20.5 million and \$13.0 million, respectively.

UNBC recognized \$13.0 million and \$23.8 million of compensation cost for share-based payment arrangements related to stock option awards with \$5.0 million and \$9.2 million of corresponding tax benefit during the years ended December 31, 2007 and 2008, respectively. In 2008, compensation cost of \$12.8 million with a corresponding tax benefit of \$4.9 million was recorded for the acceleration of expense due to UNBC's privatization. As of December 31, 2008, there was no unrecognized compensation cost related to nonvested stock option awards as a result of the termination of the management stock plans in December 2008.

*Restricted Stock*

In general, restricted stock awards were granted under the 2000 Stock Plan to key employees, and in 2005, to non-employee directors. The awards of restricted stock granted to employees vested pro-rata on each anniversary of the grant date and became fully vested four years from the grant date, provided that the employee had completed the specified continuous service requirement. Generally, they vested earlier if the employee died, was permanently and totally disabled, retired under certain grant, age, and service conditions or terminated employment under certain conditions. The awards of restricted stock granted to existing non-employee directors in 2005 vested in full in July 2006. Restricted stockholders had the right to vote their restricted shares and receive dividends. The grant date fair value of awards was equal to the closing price on date of grant.

The total fair value of the restricted stock awards vested was \$15.6 million during 2007 and \$52.5 million during 2008, with a corresponding tax benefit of \$5.0 million and \$22.6 million, respectively. In 2008, the fair value of the restricted stock awards vested included \$44.4 million, with a corresponding tax benefit of \$20.1 million, related to UNBC's privatization.

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UNBC recognized \$14.4 million and \$41.6 million of compensation cost for share-based payment arrangements related to restricted stock awards with \$5.5 million and \$16.0 million of corresponding tax benefit during the years ended December 31, 2007 and 2008, respectively. In 2008, compensation cost of \$29.1 million with a corresponding tax benefit of \$11.2 million was recorded for the acceleration of expense due to UNBC's privatization. As of December 31, 2008, there was no unrecognized compensation cost related to nonvested restricted awards as a result of the termination of the management stock plans in December 2008.

*Restricted Stock Units and Stock Units*

Starting in 2006, UNBC granted restricted stock units to non-employee directors. These restricted stock units consisted of an annual grant, and in the case of new non-employee directors, an annual grant and an initial grant. In general, the annual grant vested in full on the first anniversary of the grant date, and the initial grant vested in three equal installments on each of the first three anniversaries of the grant date. The grant date fair value of awards was equal to the closing price on date of grant. UNBC recognized \$1.0 million and \$2.4 million of compensation cost with a corresponding \$0.4 million and \$0.9 million in tax benefits related to these grants in 2007 and 2008, respectively. In 2008, compensation cost of \$1.1 million with a corresponding tax benefit of \$0.4 million was recorded for the acceleration of expense due to UNBC's privatization. As of December 31, 2008, there was no unrecognized compensation cost related to these restricted stock units as a result of the termination of the management stock plans in December 2008.

The restricted stock unit participants did not have voting or other stockholder rights. However, the participants' stock unit accounts received dividend equivalents, reflecting the aggregate dividends earned based on the total number of restricted stock units outstanding, in the form of additional restricted stock units. Participants could elect to defer the delivery of vested shares of common stock at predetermined dates as defined in the plan agreements. UNBC issued new shares under the 2000 Stock Plan upon vesting and settlement of these grants, which were redeemable only in shares.

Non-employee directors could irrevocably elect to defer all or a portion of the cash retainer and/or fees payable to them for services on the Board of Directors and its committees in the form of stock units. At the time of deferral, a bookkeeping account was established on behalf of the director and credited with a number of fully vested stock units. The director received a number of stock units equal to the number of shares of common stock when the deferred compensation was payable. Dividend equivalents were credited to the stock unit accounts. Stock units had no voting rights. UNBC issued new shares under the 2000 Stock Plan upon settlement of the stock units.

As a result of UNBC's privatization, all restricted stock units and stock units were canceled and either paid out in cash in 2008 or deferred based on the participant's prior elections or applicable tax requirements and recorded as a liability.

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*Performance Share Plan*

Effective January 1, 1997, UNBC established a Performance Share Plan. At the discretion of the Committee, eligible participants would earn performance share awards to be redeemed in cash and/or shares three years after the date of grant. Performance shares were linked to stockholder value in two ways: (1) the market price of UNBC's common stock; and (2) return on equity, a performance measure closely linked to value creation. Eligible participants generally received grants of performance shares annually. The plan was amended in 2004 increasing the total number of shares that could be granted under the plan to 2.6 million shares. The following is a summary of shares granted and available for future grants under the Performance Share Plan:

	<b>For the years ended December 31,</b>	
	<b>2007</b>	<b>2008</b>
Performance shares:		
Granted . . . . .	70,614	91,750
Available for future grant, year end . . . . .	2,063,219	—

*Performance Shares—Redeemable in Cash*

All performance shares granted prior to 2006 were redeemable in cash and therefore were accounted for as liabilities. The value of a performance share under the liability method was equal to the average month-end closing price of UNBC's common stock for the final six months of the performance period. All cancelled or forfeited performance shares would become available for future grants. The following is a summary of performance shares that are redeemable in cash under the Performance Share Plan:

	<b>For the years ended December 31,</b>	
	<b>2007</b>	<b>2008</b>
	(in millions)	
Performance shares granted . . . . .	—	—
Performance shares forfeited . . . . .	—	—
Fair value of performance shares that vested . . . . .	\$6.7	—
Cash payments made for performance shares that vested . . . . .	\$7.8	\$5.7
Fair value of performance shares that vested and deferred . . . . .	—	—
Performance shares compensation expense . . . . .	\$1.7	—
Tax benefit related to compensation expense . . . . .	\$0.6	—
Liability for cash settlement of performance shares, year end . . . . .	\$5.7	—

The compensation cost related to these grants that are redeemable in cash was fully recognized as of December 31, 2007.

*Performance Shares—Redeemable in Shares*

Prior to UNBC's privatization, performance shares granted in 2006 and thereafter were redeemable in shares. UNBC issued new shares under the 2000 Stock Plan upon vesting and settlement of these grants that were redeemable in shares.

As a result of UNBC's privatization, performance shares that were redeemable in shares under the Performance Share Plan were canceled in 2008. In 2009, UNBC paid \$25.2 million for the settlement of these grants and deferred \$0.1 million. As of December 31, 2008, there was no unrecognized compensation cost related to grants that were redeemable in shares as a result of the termination of the management stock plans in December 2008.

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The following is a summary of performance shares that are redeemable in shares under the Performance Share Plan:

	<b>For the years ended December 31,</b>	
	<b>2007</b>	<b>2008</b>
	<b>(in millions, except the number of shares and per share amounts)</b>	
Performance shares granted . . . . .	70,614	91,750
Weighted average grant date fair value—per share . . . . .	\$ 63.10	\$ 51.42
Performance shares forfeited . . . . .	1,500	—
Fair value of performance shares that vested or cancelled during the year . . . . .	\$ 0.6	\$ 21.0
Performance shares compensation expense . . . . .	\$ 4.8	\$ 14.0
Tax benefit related to compensation expense . . . . .	\$ 1.8	\$ 5.4
Liability for cash settlement of performance shares, year end . . . . .	—	\$ 25.3

**33. PARENT COMPANY ONLY FINANCIAL INFORMATION**

Distributions of retained earnings of BTMU and MUTB are restricted in order to meet the minimum capital adequacy requirements under the Banking Law. Also, retained earnings of these banking subsidiaries are restricted, except for ¥3,951,062 million, in accordance with the statutory reserve requirements under the Company Law at March 31, 2010 (see Notes 19 and 21).

The following table presents the parent company only financial information of MUFG:

***Condensed Balance Sheets***

	<b>2009</b>	<b>2010</b>
	<b>(in millions)</b>	
<b>Assets:</b>		
Cash and interest-earning deposits with banks . . . . .	¥ 33,602	¥ 86,491
Investments in subsidiaries and affiliated companies . . . . .	7,329,382	10,240,801
Investment in Morgan Stanley . . . . .	927,944	988,731
Other assets . . . . .	82,150	73,868
<b>Total assets . . . . .</b>	<b>¥8,373,078</b>	<b>¥11,389,891</b>
<b>Liabilities and Shareholders' equity:</b>		
Short-term borrowings from subsidiaries . . . . .	¥1,032,670	¥ 1,129,452
Long-term debt from subsidiaries and affiliated companies . . . . .	720,373	1,088,149
Long-term debt . . . . .	330,051	230,045
Other liabilities . . . . .	55,089	75,327
<b>Total liabilities . . . . .</b>	<b>2,138,183</b>	<b>2,522,973</b>
<b>Total shareholders' equity . . . . .</b>	<b>6,234,895</b>	<b>8,866,918</b>
<b>Total liabilities and shareholders' equity . . . . .</b>	<b>¥8,373,078</b>	<b>¥11,389,891</b>

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*Condensed Statements of Operations*

	<u>2008</u>	<u>2009</u>	<u>2010</u>
		(in millions)	
Income:			
Dividends from subsidiaries and affiliated companies . . . . .	¥ 514,883	¥ 241,129	¥ 203,443
Dividends from Morgan Stanley . . . . .	—	43,041	78,244
Management fees from subsidiaries . . . . .	13,970	16,985	17,522
Interest income . . . . .	477	651	8
Foreign exchange gains—net . . . . .	139	42,531	43,461
Other income . . . . .	452	6,043	5,946
Total income . . . . .	<u>529,921</u>	<u>350,380</u>	<u>348,624</u>
Expense:			
Operating expenses . . . . .	13,000	15,404	15,296
Interest expense to subsidiaries and affiliated companies . . . . .	10,660	34,436	41,921
Interest expense . . . . .	6,301	5,247	4,087
Other expense . . . . .	1,193	1,758	1,326
Total expense . . . . .	<u>31,154</u>	<u>56,845</u>	<u>62,630</u>
Equity in undistributed net income (loss) of subsidiaries and affiliated companies . . . . .	<u>(1,044,933)</u>	<u>(1,740,354)</u>	<u>613,264</u>
Income (loss) before income tax expense (benefit) . . . . .	(546,166)	(1,446,819)	899,258
Income tax expense (benefit) . . . . .	(3,730)	21,221	39,439
Net income (loss) . . . . .	<u>¥ (542,436)</u>	<u>¥(1,468,040)</u>	<u>¥ 859,819</u>

*Condensed Statements of Cash Flows*

	<u>2008</u>	<u>2009</u>	<u>2010</u>
		(in millions)	
Operating activities:			
Net income (loss) . . . . .	¥ (542,436)	¥(1,468,040)	¥ 859,819
Adjustments and other . . . . .	1,035,759	1,793,971	(634,891)
Net cash provided by operating activities . . . . .	<u>493,323</u>	<u>325,931</u>	<u>224,928</u>
Investing activities:			
Proceeds from sales of stock investment in subsidiaries and affiliated companies . . . . .	1,792	24,002	1,526
Purchases of equity investments in subsidiaries and affiliated companies . . . . .	(148,541)	(941,617)	(1,406,479)
Purchases of other investment securities . . . . .	—	(927,944)	(5)
Net decrease (increase) in interest-earning deposits with banks . .	(3,406)	21,267	(49,663)
Proceeds from capital repayment by a subsidiary . . . . .	118,018	—	—
Other—net . . . . .	5,988	(1,495)	(52,481)
Net cash used in investing activities . . . . .	<u>(26,149)</u>	<u>(1,825,787)</u>	<u>(1,507,102)</u>



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	<u>2008</u>	<u>2009</u> (in millions)	<u>2010</u>
Financing activities:			
Net increase in short-term borrowings from subsidiaries . . . . .	¥ 116,620	¥ 879,460	¥ 143,403
Proceeds from issuance of long-term debt to subsidiaries and affiliated companies . . . . .	500	391,997	380,499
Repayment of long-term debt . . . . .	(125,000)	(220,000)	(100,007)
Repayment of long-term debt to subsidiaries and affiliated companies . . . . .	(163,998)	(3,700)	(12,800)
Proceeds from issuance of common stock, net of stock issue expenses . . . . .	—	278,725	1,026,341
Proceeds from issuance of preferred stock, net of stock issue expenses . . . . .	—	388,623	—
Proceeds from sales of treasury stock . . . . .	781	184,617	30
Payments to acquire treasury stock . . . . .	(151,365)	(238,842)	(246)
Dividends paid . . . . .	(141,182)	(153,260)	(149,551)
Other—net . . . . .	979	(3,035)	(2,269)
Net cash provided by (used in) financing activities . . . . .	<u>(462,665)</u>	<u>1,504,585</u>	<u>1,285,400</u>
Net increase in cash and cash equivalents . . . . .	4,509	4,729	3,226
Cash and cash equivalents at beginning of fiscal year . . . . .	4,024	8,533	13,262
Cash and cash equivalents at end of fiscal year . . . . .	<u>¥ 8,533</u>	<u>¥ 13,262</u>	<u>¥ 16,488</u>

**34. SEC REGISTERED FUNDING VEHICLES ISSUING NON-DILUTIVE PREFERRED SECURITIES**

In February 2006, MUFG established MUFG Capital Finance 1 Limited, MUFG Capital Finance 2 Limited and MUFG Capital Finance 3 Limited, wholly owned funding vehicles in the Cayman Islands, for the issuance of preferred securities to enhance the flexibility of its capital management.

On March 17, 2006, MUFG Capital Finance 1 Limited, MUFG Capital Finance 2 Limited and MUFG Capital Finance 3 Limited registered with the SEC and issued \$2,300,000,000 in 6.346% non-cumulative preferred securities, €750,000,000 in 4.850% non-cumulative preferred securities and ¥120,000,000,000 in 2.680% non-cumulative preferred securities (collectively, the “Preferred Securities”), respectively. Total net proceeds before expenses were approximately \$4.17 billion. All of the ordinary shares of MUFG Capital Finance 1 Limited, MUFG Capital Finance 2 Limited and MUFG Capital Finance 3 Limited are owned by MUFG. MUFG fully and unconditionally guarantees the payment of dividends and payments on liquidation or redemption of the obligations under the Preferred Securities.

The Preferred Securities entitle holders to receive a non-cumulative preferential cash dividend starting on July 25, 2006 and on January 25 and July 25 of each year thereafter. These funding vehicles will not be obligated to pay dividends on the Preferred Securities upon the occurrence of certain events relating to the financial condition of MUFG. From July 25, 2016, dividends on the Preferred Securities will be re-calculated at a floating rate per annum.

The dollar-denominated and euro-denominated preferred securities are subject to redemption on any dividend payment date on or after July 25, 2016. The yen-denominated preferred securities are subject to redemption on any dividend payment date on or after July 25, 2011. All the Preferred Securities are subject to

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redemption in whole (but not in part) at any time upon the occurrence of specified events, in each case at the option of each of the funding vehicles and subject to necessary government approvals.

The Preferred Securities are non-dilutive and not convertible into MUFG's common shares. The Preferred Securities were included as part of MUFG's Tier I capital at March 31, 2009 and 2010 under its capital adequacy requirements.

These funding vehicles are not consolidated as the MUFG Group's subsidiaries. See Note 25 for discussion. The funds raised through such funding vehicles are primarily loaned to the MUFG Group and presented as Long-term debt in the consolidated balance sheet at March 31, 2009 and 2010.

**35. RESTATEMENT OF CONSOLIDATED STATEMENTS OF CASH FLOWS**

Subsequent to the issuance of the consolidated financial statements for the fiscal year ended March 31, 2009, MUFG's management determined that the MUFG Group erroneously presented certain transactions and adjustments in the consolidated statements of cash flows, which resulted in the misstatements of various line items. The significant portion of these misstatements was attributed to erroneous elimination of non-cash foreign currency adjustments and non-cash securities transactions at certain foreign subsidiaries, and intercompany balances of trading account assets and liabilities. The restatement of the consolidated statements of cash flows did not affect previously reported amounts in the consolidated balance sheets, consolidated statements of operations, consolidated statements of changes in equity from nonowner sources, consolidated statements of equity, and cash and cash equivalents in the consolidated statements of cash flows. The following tables set forth the effects of the restatement for the fiscal years ended March 31, 2008 and 2009.

	Fiscal year ended March 31, 2008			
	As previously reported	Restatement amounts	Reclassification amounts <sup>(1)</sup>	As restated and reclassified
	(in millions)			
Net loss	¥ (542,436)	¥ —	¥ 38,476	¥ (503,960)
Loss from discontinued operations—net	1,746	—	924	2,670
Foreign exchange gains-net	(1,544,073)	77,774	—	(1,466,299)
Increase in trading account assets, excluding foreign exchange contracts	(3,996,790)	68,027	—	(3,928,763)
Increase in trading account liabilities, excluding foreign exchange contracts	2,904,153	(28,360)	—	2,875,793
Increase in accrued interest receivable and other receivables	(79,266)	(6,309)	—	(85,575)
Increase in accrued interest payable and other payables	90,984	14,458	—	105,442
Net decrease in collaterals for derivative transactions	82,720	50,802	—	133,522
Other—net	(138,105)	(6,207)	(39,400)	(183,712)
Net cash provided by operating activities	383,207	170,185	—	553,392
Purchases of investment securities available for sale	(74,640,265)	(10,901)	—	(74,651,166)
Net increase in loans	(5,942,696)	15,985	—	(5,926,711)
Net increase in interest-earning deposits in other banks	(806,005)	13,665	—	(792,340)
Net increase in call loans, funds sold, and receivable under resale agreement and securities borrowing transactions	(4,071,034)	(15,531)	—	(4,086,565)
Proceeds from sales of premises and equipment	71,671	(7,604)	—	64,067
Purchases of intangible assets	(231,300)	1,164	—	(230,136)
Other—net	86,391	(33,366)	—	53,025
Net cash used in investing activities	(7,833,129)	(36,588)	—	(7,869,717)

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	Fiscal year ended March 31, 2008			
	As previously reported	Restatement amounts	Reclassification amounts <sup>(1)</sup>	As restated and reclassified
	(in millions)			
Net increase in deposits . . . . .	5,472,395	(33,880)	—	5,438,515
Net increase in call money, funds purchased, and payables under repurchase agreements and securities lending transactions . . . . .	3,731,613	(32,331)	—	3,699,282
Net increase in other short-term borrowings . . . . .	202,589	6,873	—	209,462
Proceeds from issuance of long-term debt . . . . .	2,344,448	(1,624)	—	2,342,824
Repayment of long-term debt . . . . .	(2,662,527)	(38,083)	—	(2,700,610)
Other—net . . . . .	28,174	(34,552)	—	(6,378)
Net cash provided by financing activities . . . . .	8,723,384	(133,597)	—	8,589,787
	Fiscal year ended March 31, 2009			
	As previously reported	Restatement amounts	Reclassification amounts <sup>(1)</sup>	As restated and reclassified
	(in millions)			
Net loss . . . . .	¥ (1,468,040)	¥ —	¥(36,259)	¥ (1,504,299)
Foreign exchange losses-net . . . . .	983,290	321,148	—	1,304,438
Increase in trading account assets, excluding foreign exchange contracts . . . . .	(4,334,635)	(55,543)	—	(4,390,178)
Increase in trading account liabilities, excluding foreign exchange contracts . . . . .	1,541,797	(48,735)	—	1,493,062
Decrease in accrued interest receivable and other receivables . . . . .	37,407	35,967	—	73,374
Decrease in accrued interest payable and other payables . . . . .	(76,143)	(27,430)	—	(103,573)
Net increase in collaterals for derivative transactions . . . . .	(414,933)	(82,696)	—	(497,629)
Other—net . . . . .	163,507	31,605	36,259	231,371
Net cash used in operating activities . . . . .	(1,140,503)	174,316	—	(966,187)
Purchases of investment securities available for sale . . . . .	(114,572,826)	10,930	—	(114,561,896)
Net increase in loans . . . . .	(6,266,505)	(20,408)	—	(6,286,913)
Net decrease in interest-earning deposits in other banks . . . . .	2,264,774	(28,282)	—	2,236,492
Net decrease in call loans, funds sold, and receivable under resale agreement and securities borrowing transactions . . . . .	4,556,274	42,223	—	4,598,497
Purchases of intangible assets . . . . .	(191,834)	(3,648)	—	(195,482)
Other—net . . . . .	(60,111)	11,637	—	(48,474)
Net cash used in investing activities . . . . .	(8,266,031)	12,452	—	(8,253,579)
Net increase in deposits . . . . .	2,619,867	44,335	—	2,664,202
Net increase in call money, funds purchased, and payables under repurchase agreements and securities lending transactions . . . . .	2,621,516	(278,324)	—	2,343,192
Net increase in other short-term borrowings . . . . .	2,566,975	9,165	—	2,576,140
Proceeds from issuance of long-term debt . . . . .	2,876,261	41,312	—	2,917,573
Repayment of long-term debt . . . . .	(2,752,600)	(4,125)	—	(2,756,725)
Dividends paid to noncontrolling interests . . . . .	(16,429)	3,565	—	(12,864)
Other—net . . . . .	(54,326)	(2,696)	—	(57,022)
Net cash provided by financing activities . . . . .	8,487,047	(186,768)	—	8,300,279

Note:

(1) Effective April 1, 2009, the MUFG Group adopted new guidance regarding noncontrolling interests in subsidiaries. See Note 1 “Noncontrolling Interests” under “Accounting Changes” section for the detail. As a result, Net loss, Loss from discontinued operations—net and Other—net in Cash flows from operating activities for the fiscal years ended March 31, 2008 and 2009 were reclassified.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**36. SUBSEQUENT EVENTS**

MUFG has evaluated subsequent events requiring recognition or disclosure in the consolidated financial statements through the date these consolidated financial statements were issued.

*Approval of Dividends*

On June 29, 2010, the shareholders approved the payment of cash dividends to the shareholders of record on March 31, 2010, of ¥30.00 per share of Class 3 Preferred Stock, ¥57.50 per share of Class 5 Preferred Stock, ¥2.65 per share of Class 11 Preferred Stock, totaling ¥11,970 million, and ¥6.00 per share of Common stock, totaling ¥84,887 million.

*Securities Joint Ventures with Morgan Stanley*

On May 1, 2010, MUFG and Morgan Stanley created two companies comprising their joint venture, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (“MUMSS”), and Morgan Stanley MUFG Securities Co., Ltd. (“MSMS”). MUMSS continued the existing Japan-based retail, middle markets, capital markets, and sales and trading businesses of MUS. The investment banking team of Morgan Stanley Japan Securities Co., Ltd. (“MSJS”) was integrated with the investment banking team of MUS to create the preeminent investment banking organization in Japan, serving both MUFG’s and Morgan Stanley’s significant local and global client networks. MUFG holds a 60 percent interest in MUMSS while Morgan Stanley holds a 40 percent interest.

MSMS comprises the existing sales and trading and capital markets operations of MSJS. While the economic interests of MUFG and Morgan Stanley in MSMS are 60 percent and 40 percent respectively, Morgan Stanley has a 51 percent voting interest in MSMS and MUFG has 49 percent. The two joint venture companies will collaborate in providing capital markets services to investment banking clients of MUFG and Morgan Stanley and in offering a wide range of products and services, including Morgan Stanley’s global products and services to MUFG’s retail and middle market customers in Japan as well as to investment banking clients of both parties. The two joint venture companies will continue to offer products and services in sales and trading and research areas separately.

In relation to the integration of the securities companies in Japan, MUFG and Morgan Stanley determined to form a partnership under the Civil Code of Japan, (“MM Partnership”). Upon the integration, Mitsubishi UFJ Securities Holdings Co., Ltd., (“MUSHD”), MUFG’s intermediate holding company, and Morgan Stanley Japan Holdings Co., Ltd., (“MSJHD”), Morgan Stanley’s intermediate holding company, directly hold shares representing controlling voting interests in MUMSS and MSMS, respectively with MUSHD holding a 60% voting interest in MUMSS and MSJHD holding a 51% voting interest in MSMS, and contribute to MM Partnership all other shares issued by MUMSS and MSMS. Economic interests in MUMSS and MSMS were allocated 60:40 between MUSHD and MSJHD as a result of their acquisitions of a 60% interest and a 40% interest in MM Partnership, respectively. MM Partnership was formed for such purpose. A cash adjustment was made between MUSHD and MSJHD based on the partnership interests in MM Partnership (MUSHD: 60%, MSJHD: 40%), taking into account the agreed value of the shares contributed into MM Partnership and the net asset value of each of MUMSS and MSMS as of the closing. Pursuant to an agreement in the partnership agreement regarding exercise of the voting rights attached to the MUMSS and MSMS shares held by MM Partnership, MUSHD acquired in substance 49% of the voting rights with respect to MSMS in addition to rights to receive 60% of dividends distributed by MUMSS and MSMS, and MSJHD acquired in substance 40% of the voting rights with respect to MUMSS in addition to rights to receive 40% of dividends distributed by MUMSS and MSMS.

**MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Acquisition and Cancellation of First Series of Class 3 Preferred Stock***

On April 1, 2010, MUFG acquired and cancelled the First Series of Class 3 Preferred Stock. The preferred stock was reflected as part of MUFG's Tier 1 capital as of March 31, 2010.

***Stock Compensation Type Stock Options (Stock Acquisition Rights)***

On July 16, 2010, MUFG allotted the directors, executive officers and corporate auditors of MUFG, BTMU, MUTB, MUSHD and MUMSS stock acquisition rights to acquire an aggregate amount of 7,911,800 shares of MUFG's common stock. The stock acquisition rights have an exercise price of ¥1 per common share, and are exercisable until July 15, 2040.

\* \* \* \* \*

**Signature**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

MITSUBISHI UFJ FINANCIAL GROUP, INC.

By:           /s/ KATSUNORI NAGAYASU            
Name: **Katsunori Nagayasu**  
Title: **President and Chief Executive Officer**

Date: August 16, 2010

## EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
1(a)	Articles of Incorporation of Mitsubishi UFJ Financial Group, Inc., as amended on June 26, 2009. (English translation)*
1(b)	Board of Directors Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 29, 2006. (English translation)**
1(c)	Corporation Meetings Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on July 31, 2006. (English translation)**
1(d)	Share Handling Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 26, 2009. (English Translation)*
2(a)	Form of American Depositary Receipt.**
2(b)	Form of Deposit Agreement, amended and restated as of December 22, 2004, among Mitsubishi Tokyo Financial Group, Inc. (subsequently renamed Mitsubishi UFJ Financial Group, Inc.), The Bank of New York Mellon and the holders from time to time of American Depositary Receipts issued thereunder.**
4(a)	Agreement and Plan of Merger among UnionBanCal Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Merger Sub, dated as of August 18, 2008.***
4(b)	Securities Purchase Agreement dated as of September 29, 2008 by and between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc., the first amendment thereto entered into on October 3, 2008, the second amendment thereto entered into on October 8, 2008 and the third amendment thereto entered into on October 13, 2008, and Amended Certificate of Designations of Preferences and Rights of the 10% Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock (\$1,000 Liquidation Preference per Share) of Morgan Stanley and Certificate of Designations of Preferences and Rights of the 10% Series C Non-Cumulative Non-Voting Perpetual Preferred Stock (\$1,000 Liquidation Preference per Share) of Morgan Stanley.*
4(c)	Investor Agreement dated as of October 13, 2008 by and between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc., and the first amendment thereto entered into on October 27, 2008.*
4(d)	Registration Rights Agreement dated as of October 13, 2008 by and between Morgan Stanley and Mitsubishi UFJ Financial Group, Inc.*
4(e)	Integration and Investment Agreement, dated as of March 30, 2010, by and between Mitsubishi UFJ Financial Group, Inc. and Morgan Stanley.
8	Subsidiaries of the Company—see “Item 4.C. Information on the Company—Organizational Structure.”
11	Ethical framework and code of conduct, compliance rules, compliance manual and rules of employment of Mitsubishi UFJ Financial Group, Inc. applicable to its directors and managing officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. (English translation of relevant sections)****
12	Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)).
13	Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
15	Consent of independent registered public accounting firm.

<b>Exhibit</b>	<b>Description</b>
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

Notes:

- \* Incorporated by reference to our annual report on Form 20-F (File No. 333-98061-99) filed on September 2, 2009.
- \*\* Incorporated by reference to our annual report on Form 20-F (File No. 333-98061-99) filed on September 28, 2006.
- \*\*\* Incorporated by reference to our annual report on Form 20-F (File No. 333-98061-99) filed on September 19, 2008.
- \*\*\*\* Incorporated by reference to our annual report on Form 20-F (File No. 333-98061-99) filed on September 21, 2007.



**INTEGRATION AND INVESTMENT AGREEMENT**

dated as of

March 30, 2010

by and between

MITSUBISHI UFJ FINANCIAL GROUP, INC.

and

MORGAN STANLEY

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## INTEGRATION AND INVESTMENT AGREEMENT

This INTEGRATION AND INVESTMENT AGREEMENT (this “*Agreement*”), dated as of March 30, 2010, is entered into by and between MITSUBISHI UFJ FINANCIAL GROUP, INC., a Japanese *kaisha*, (“*MUFG*”) and MORGAN STANLEY, a Delaware corporation (“*MS*”).

### RECITALS

A. MUFG and MS are each diversified financial services companies, operating in Japan and other jurisdictions directly and through their respective subsidiaries;

B. MUFG operates investment banking, securities and certain related businesses in Japan through Mitsubishi UFJ Securities Co., Ltd., a wholly owned subsidiary of MUFG (“*MUS*”);

C. MS operates investment banking, securities and certain related businesses in Japan through Morgan Stanley Japan Securities Co., Ltd., an indirect wholly owned subsidiary of MS (“*MSJS*”);

D. Each Party desires to integrate its respective Japan Related Securities Business, including its investment banking, securities and certain related businesses in Japan with the other Party’s respective businesses, as follows:

(i) the current wholesale and retail businesses of MUS and the current investment banking operations of MSJS shall, to the extent provided in this Agreement and the Transaction Documents contemplated hereby, be transferred to Mitsubishi UFJ Securities Spin-off Preparation Co., Ltd. (*Mitsubishi UFJ Shōken Bunkatsu Jumbi Kabushiki Kaisha*), a currently existing wholly owned subsidiary of MUS (“*MUSBJ*”) which, upon the Closing (as defined below), shall change its registered company name to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (*Mitsubishi UFJ Morgan Stanley Shōken Kabushiki Kaisha*) (“*MUMSS*”);

(ii) the current sales, trading and other operations of MSJS, excluding its current investment banking operations, shall remain in MSJS, which, upon the Closing, shall change its registered company name to Morgan Stanley MUFG Securities Co., Ltd. (*Morgan Stanley MUFG Shōken Kabushiki Kaisha*) (“*MSMS*”, and each of MUMSS and MSMS may be referred to herein as a “*Company*”); and

(iii) upon consummation of the Closing,

(a) all of the issued Class A Stock and the issued Class D Stock of MUMSS, together representing 40% of the voting rights, all of the dividend rights (*haitō-seikyūken*) and 99.940% of the liquidation rights (*zanyozaisan-bunpai-seikyūken*) in MUMSS, shall be held by a Japanese general partnership (*nin’i kumiai*) (the “*Partnership*”), and all of the issued Class B Stock of MUMSS, representing 60% of the voting rights and 0.060% of the liquidation rights (*zanyozaisan-bunpai-seikyūken*) in MUMSS, shall be held by MUS, which shall change its registered company name to Mitsubishi UFJ Securities Holdings Co., Ltd. (*Mitsubishi UFJ Shōken Holdings Kabushiki Kaisha*) (“*MUSHD*”);

(b) all of the issued Class X Stock and the issued Class W Stock of MSMS, together representing 49% of the voting rights, all of the dividend rights (*haitō-seikyūken*) and 99.949% of the liquidation rights (*zanyozaisan-bunpai-seikyūken*) in MSMS, shall be held by the Partnership, and all of the issued Class Y Stock of MSMS, representing 51% of the voting rights and 0.051% of the liquidation rights (*zanyozaisan-bunpai-seikyūken*) in MSMS, shall be held by Morgan Stanley Japan Holdings Co., Ltd., an indirect wholly owned subsidiary of MS (“*MSHD*”);

(c) all interests in the Partnership shall be held 60% by MUSHD and 40% by MSHD;

E. Each of MUMSS and MSMS shall be operated as a “financial instruments business entity” (*kin’yū shōhin torihiki gyōsha*) engaged in, amongst other things, the first-type financial instruments business as defined in the Financial Instruments and Exchange Law and as a “company specialized in the securities business” (*shōken senmon kaisha*) under the Banking Law; and

F. The Parties desire to set forth the terms and conditions for the integration of their Japan Related Securities Businesses in MUMSS and MSMS, as applicable, including certain pre-Closing reorganizations of each Party's Contributed Business and Excluded Business.

NOW, THEREFORE, the Parties agree as follows:

## ARTICLE I

### PRE-CLOSING ACTIONS; CLOSING; RELATED TRANSACTIONS

1.1 MUFG Pre-Closing Reorganization. Following execution of this Agreement and prior to the Closing, MUFG shall (and shall procure that its Affiliates shall) implement the following pre-Closing reorganization steps (collectively and together with MUSBJ's issuance of additional shares by allotment (*kabunushi wariate*), which was completed on January 20, 2010, the "**MUFG Pre-Closing Reorganization**"):

(a) General. MUFG shall use its reasonable best efforts to obtain and to cause MUSBJ to obtain Consents for MUSBJ to conduct the Japan Related Securities Business, including applicable registration as a "financial instruments business entity" (*kin'yū shōhin torihiki gyōsha*) engaged in, amongst others, the first-type financial instruments business as defined in the Financial Instruments and Exchange Law, and to take all actions reasonably requested by a Party in order to permit such Party to comply with Applicable Law or otherwise reasonably appropriate to prepare for the Closing, subject to reimbursement by the requesting Party of any costs imposed on MUSBJ by such actions.

(b) MUS Corporate Split. After obtaining the Consents described in Section 1.1(a) and prior to the Closing, by effecting an absorption-type corporate split (*kyūshū bunkatsu*) in accordance with the terms of that certain Absorption-type Corporate Split Agreement, dated December 25, 2009, by and between MUS and MUSBJ and the Corporation Law (the "**MUS Corporate Split**"):

(i) MUS Contributed Assets. MUFG shall cause MUS to transfer, convey, assign and deliver to MUSBJ all Assets (including Business Information) of MUS that are utilized or held or developed for use in the conduct of the MUS Contributed Business and which are reflected in MUS's Interim Pro Forma Financial Statements, but excluding the MUS Excluded Assets (such contributed Assets, the "**MUS Contributed Assets**");

(ii) MUS Contributed Liabilities. MUFG shall cause MUS to assign to MUSBJ, and MUSBJ shall assume, all Liabilities of MUS related to the MUS Contributed Business other than the MUS Excluded Liabilities (such contributed Liabilities, the "**MUS Contributed Liabilities**"). Thereafter, MUSBJ (or from and after the Closing, MUMSS) shall pay and discharge all such MUS Contributed Liabilities as and when such Liabilities become due and payable or are to otherwise be performed;

(iii) MUS Excluded Assets. Notwithstanding Section 1.1(b)(i), the following Assets shall not be included in the MUS Contributed Assets: (A) any Asset listed on Schedule 1.1(b)(iii), (B) all membership and trading privileges held or used by MUS to the extent not transferable and (C) any Asset otherwise expressly contemplated by any provision of this Agreement not to be contributed to MUSBJ (collectively, the "**MUS Excluded Assets**"); and

(iv) MUS Excluded Liabilities. MUS shall not assign to MUSBJ, and MUSBJ shall not assume or be liable or responsible for, any Liability set forth in Schedule 1.1(b)(iv) (collectively, the "**MUS Excluded Liabilities**").

(v) Consideration. As consideration for the MUS Corporate Split, MUFG shall cause MUSBJ to issue additional shares of its common stock to MUS, such that upon completion of the MUS Corporate Split, MUS shall own 60 shares of the common stock of MUSBJ.

(c) Registered Company Names from MUS Corporate Split until Closing. Promptly after consummation of the MUS Corporate Split (which MUFG anticipates will occur on April 1, 2010), MUFG shall cause MUS to change its registered company name to Mitsubishi UFJ Securities Holdings Co., Ltd. (*Mitsubishi UFJ Shōken Holdings Kabushiki Kaisha*) or other name acceptable to MUFG in its sole discretion, and shall cause MUSBJ to change its registered company name to Mitsubishi UFJ Securities Co., Ltd. (*Mitsubishi UFJ Shōken Kabushiki Kaisha*).

(d) Principal Investments Business. Without limiting the foregoing, MUFG shall procure prior to the Closing that all the interests (and Liabilities) of MUS in respect of its principal investment business that is outside of the MUS Contributed Business, including all MUS Excluded Assets and MUS Excluded Liabilities, remain in MUS, or are otherwise not transferred to MUSBJ.

1.2 MS Pre-Closing Reorganization. Following execution of this Agreement and prior to the Closing, MS shall (and shall procure that its Affiliates shall) implement the following pre-Closing reorganization steps (collectively, the “*MS Pre-Closing Reorganization*”):

(a) General. Prior to the Closing, MS shall cause MSJS to use its reasonable best efforts to take all actions reasonably requested by a Party in order to permit such Party to comply with Applicable Law or otherwise reasonably appropriate to prepare for the Closing, subject to reimbursement by the requesting Party of any costs imposed on MSJS by such actions.

(b) MSJS Pre-Closing Reorganization Actions. MS shall procure that, immediately prior to and as of the Closing, the businesses of MSJS shall have been modified as set forth in Schedule 1.2(b).

(c) MSJS Assets and Liabilities. Without limiting the foregoing, MS shall procure that, immediately prior to and as of the Closing:

(i) MSJS Contributed Assets. MSJS (or from and after the Closing, MSMS) owns all Assets (including Business Information) of MSJS and its Affiliates that are utilized, held or developed for use in the conduct of the MSJS Contributed Business and which are reflected in MSJS’s Interim Pro Forma Financial Statements, but excluding the MSJS Excluded Assets (such contributed Assets, the “*MSJS Contributed Assets*”);

(ii) MSJS Contributed Liabilities. MSJS is liable or responsible for all Liabilities of MSJS and its Affiliates related to the MSJS Contributed Business other than the MSJS Excluded Liabilities (such contributed Liabilities, “*MSJS Contributed Liabilities*”). Thereafter, MSJS shall pay and discharge all such MSJS Contributed Liabilities as and when such Liabilities become due and payable or are otherwise to be performed;

(iii) MSJS Excluded Assets. Notwithstanding Section 1.2(c)(i), the following Assets shall not be included in the MSJS Contributed Assets: (A) any Asset listed on Schedule 1.2(c)(iii), (B) any Asset not utilized, or held or developed for use, exclusively or primarily in the conduct of the MSJS Contributed Business, and (C) any Asset otherwise expressly contemplated by any provision of this Agreement not to be held by MSJS or contributed to MSJS or, in the case of IBD Contributed Assets, MUSBJ (it being understood that IBD Excluded Assets shall still constitute MSJS Contributed Assets) (collectively, the “*MSJS Excluded Assets*”); and

(iv) MSJS Excluded Liabilities. In accordance with Section 6.2(c), MS shall indemnify MSJS in respect of any Liability set forth in Schedule 1.2(c)(iv) (the “*MSJS Excluded Liabilities*”).

1.3 Transactions at Closing. At Closing, the Parties shall cause the following transactions to occur consecutively:

(a) Partnership. The Partnership Agreement shall become effective in accordance with its terms.

(b) MUMSS Reorganization. MUFG shall cause MUMSS to:

(i) adopt the Amended and Restated Articles of Incorporation and Regulations of the Board of MUMSS, attached as Exhibits A and B, respectively, to the MUMSS Shareholders Agreement (together, the “*MUMSS Articles*”);

(ii) reclassify its common stock as MUMSS Class B Stock, 60 shares of which shall be authorized for issuance, to change the terms of the MUMSS Class B Stock in accordance with the MUMSS Articles, and to newly establish (A) the MUMSS Class A Stock, 40 shares of which shall be authorized for issuance, (B) the MUMSS Class C Stock, 200,000 shares of which shall be authorized for issuance (none of which shall be issued at the Closing), and (C) the MUMSS Class D Stock, 199,900 shares of which shall be authorized for issuance and 99,900 shares of which will be issued at Closing; and

(iii) issue 40 shares of MUMSS Class A Stock and 99,900 shares of MUMSS Class D Stock to MUSHD by way of an allotment of shares without contribution (*kabushiki mushō wariate*).

(c) MSMS Reorganization. MS shall cause MSMS to:

(i) adopt the Amended and Restated Articles of Incorporation and Regulations of the Board of MSMS, attached as Exhibits A and B, respectively, to the MSMS Shareholders Agreement (together, the “**MSMS Articles**”);

(ii) with the consents of the holders of relevant classes of its stock or as otherwise necessary, newly establish Class W, X, Y and Z Stock in accordance with the MSMS Articles;

(iii) amend the terms of its current common stock so that such common stock is fully redeemable in exchange for shares of MSMS Class W Stock, MSMS Class X Stock and MSMS Class Y Stock;

(iv) amend the terms of its current class A, B and C stock (or such other classes of stock as may be established and issued by MSMS prior to Closing) so that they are converted into shares of its common stock which are fully redeemable;

(v) redeem and cancel all the shares of the then current common stock (or such other classes of stock as may be established and issued by MSMS prior to Closing) held by MSHD in exchange for 99,900 shares of MSMS Class W Stock, 49 shares of MSMS Class X Stock and 51 shares of MSMS Class Y Stock; and

(vi) abolish its current common stock.

(d) Partnership Contributions and Cash Consideration.

(i) Approvals for Share Transfers. At the Closing, MS shall cause MSMS, and MUFG shall cause MUMSS, to approve respectively the share transfers to the Partnership as provided in (ii) below.

(ii) Partnership Contributions. At the Closing:

(A) MUFG shall cause MUSHD to contribute to the Partnership 40 shares of MUMSS Class A Stock and 99,900 shares of MUMSS Class D Stock as consideration for a 60% (the “**MUFG Ownership Percentage**”) interest in the Partnership, as provided in the Partnership Agreement;

(B) MS shall cause MSHD to contribute to the Partnership 49 shares of MSMS Class X Stock and 99,900 shares of MSMS Class W Stock as consideration for a 40% (the “**MS Ownership Percentage**”) interest in the Partnership, as provided in the Partnership Agreement.

(iii) Stockholder registration. At the Closing MS shall cause MSMS and MUFG shall cause MUMSS to register respectively the change of stockholder as provided in the MSMS Shareholders Agreement, in the case of MSMS, and the MUMSS Shareholders Agreement, in the case of MUMSS, in the shareholder’s lists (*kabunushi meibo*) of MUMSS and MSMS.

(iv) Cash Payment. MUFG shall procure the payment by MUSHD to MSHD of the amount of JPY 26,000,000,000 for value on the first Business Day following the Closing Date in immediately available funds plus interest on such amount at the Agreed Interest Rate from the Closing Date through the date of such payment to such account as MS may previously have notified MUFG as additional consideration for the MUFG Ownership Percentage.

(e) IBD Corporate Split. In accordance with the terms of this Agreement and a corporate split agreement between MSJS and MUSBJ (or MSMS and MUMSS, as the case may be) on terms consistent



with the terms of this Agreement and otherwise typical for the type of transaction contemplated (the “**IBD Demerger Agreement**”), by effecting an absorption-type corporate split (*kyūshū bunkatsu*) in accordance with the Corporation Law (the “**IBD Corporate Split**”) immediately following the partnership contributions set forth in Section 1.3(d)(ii):

(i) IBD Contributed Assets. MS shall cause MSMS to transfer, convey, assign and deliver to MUMSS all Assets (including Business Information) of MSMS that are utilized, or held or developed for use, in the conduct of the IBD Contributed Business, including the Assets set forth in Schedule 1.3(e)(i), other than the IBD Excluded Assets (such contributed Assets, the “**IBD Contributed Assets**”);

(ii) IBD Contributed Liabilities. MS shall cause MSMS to assign to MUMSS, and MUMSS shall assume, all Liabilities of the IBD Contributed Business, including the Liabilities set forth in Schedule 1.3(e)(ii), other than the IBD Excluded Liabilities (such contributed Liabilities, the “**IBD Contributed Liabilities**”). Thereafter, MUMSS shall pay and discharge all such IBD Contributed Liabilities as and when such Liabilities become due and payable or are to otherwise be performed;

(iii) IBD Excluded Assets. Notwithstanding Section 1.3(e)(i), the Assets of the IBD Contributed Business listed on Schedule 1.3(e)(iii) shall not be included in the IBD Contributed Assets (the “**IBD Excluded Assets**”); and

(iv) IBD Excluded Liabilities. MSMS shall not assign, and MUMSS shall not assume or be liable or responsible for, any Liability of the IBD Contributed Business set forth in Schedule 1.3(e)(iv) (collectively, the “**IBD Excluded Liabilities**”).

(v) No Consideration. MUMSS shall pay to MSMS no consideration for the IBD Corporate Split.

1.4 Registered Company Names of MUMSS and MSMS. The Parties agree that, at the Closing, the registered company name of MUSBJ (the registered company name of which will be Mitsubishi UFJ Securities Co., Ltd. (Mitsubishi UFJ Shōken Kabushiki Kaisha) immediately before the Closing) will be changed to “三菱UFJモルガン・スタンレー証券株式会社” (Mitsubishi UFJ Morgan Stanley Shōken Kabushiki Kaisha) in Japanese and “Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.” in English, and the registered company name of MSJS will be changed to “モルガン・スタンレーMUFG証券株式会社” (Morgan Stanley MUFG Shōken Kabushiki Kaisha) in Japanese and “Morgan Stanley MUFG Securities Co., Ltd.” in English.

1.5 Date of the Closing. Subject to the provisions of Article V, the consummation of the transactions contemplated hereby (the “**Closing**”) shall take place at the offices of Morrison & Foerster, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo, Japan, on May 1, 2010, or such other date or time after the conditions set forth in Article V have been satisfied or waived (excluding conditions that by their terms are to be satisfied on the Closing Date) as may be agreed upon by the Parties. The date on which the Closing occurs is herein called the “**Closing Date**”. At the Closing:

(a) each Party shall, and shall cause their respective applicable Subsidiaries to, execute and deliver:

(i) Transaction Documents. Each of the other Transaction Documents to which it is a party that have not previously been executed;

(ii) Consents. Evidence of Governmental Approvals as identified in Schedules 5.1(e) and listed under such Party’s name;

(iii) Certificates. The officers’ certificates identified in Sections 5.1(g) and 5.2(g); and

(iv) Other Documents. Any other documents reasonably necessary to effect the transactions contemplated hereby in accordance with the terms of this Agreement; and

(b) MUFG shall procure the payment by MUSHD to MSHD of the amount set forth in Section 1.3(d)(iv).

## 1.6 Post-Closing Adjustment.

(a) Interim Pro Forma Balance Sheet and Target Net Asset Value. The respective interests in the Partnership held by MUSHD and MSHD and the respective shareholdings of the Companies by MUSHD and MSHD immediately following the Closing, and the amount of the cash payment provided for at Section 1.3(d)(iv) have been agreed by reference to each Party's *pro forma* balance sheet for its Contributed Business as of December 31, 2009 included in Schedules 2.1(g)(iii)-1 and 2.1(g)(iii)-2, as applicable (its "***Interim Pro Forma Balance Sheet***"), and the target net asset value of the MUS Contributed Business as at April 30, 2010. The target net asset value of the MUS Contributed Business as at April 30, 2010 is JPY 303,700,000,000 and that of the MSJS Contributed Business is JPY 158,100,000,000 (in each case, such Party's "***Target Net Asset Value***"). Each Party has prepared prior to the date of this Agreement its Interim Pro Forma Balance Sheet on a basis consistent with such Party's Interim Financial Statements and in accordance with GAAP and the principles, assumptions and methodologies, and subject to the exceptions and limitations, set forth in Schedules 1.6(a)-1 and 1.6(a)-2, as applicable (its "***Agreed Principles***"). Such principles and methodologies shall, in relation to transfer pricing, be consistent with past practice, except as specified in its Agreed Principles.

(b) Net Asset Value at Closing. Each Party will use commercially best efforts to ensure that the net asset value at Closing of its Contributed Business is not less than its Target Net Asset Value. Each Party will ensure that a dividend or other distribution is paid from MUSBJ to MUSHD (in the case of MUFJ) or MSJS to MSHD (in the case of MS) immediately prior to Closing of an amount by which the equity capital of MUSBJ or MSJS, as applicable, exceeds the greater of its Target Net Asset Value or an amount equal to 10% above its Minimum Required Tier 1 Capital as determined by such Party in good faith.

(c) Preliminary Closing Balance Sheet. Within one hundred twenty (120) days after the Closing Date, each Party shall prepare and deliver (or cause to be prepared and delivered) to the other Party an audited balance sheet for such Party's Contributed Business as of the Closing Date (immediately prior to giving effect to the Closing) (its "***Preliminary Closing Balance Sheet***"), which shall be prepared on a basis consistent with such Party's Interim Pro Forma Financial Statements and in accordance with GAAP and Agreed Principles as were applied by such Party in the preparation of Interim Pro Forma Balance Sheet, and shall be accompanied by the auditors' report thereon from such Party's accountants. For the avoidance of doubt, (i) the Preliminary Closing Balance Sheets and the Final Closing Balance Sheets shall reflect only the respective Contributed Businesses, Contributed Assets and Contributed Liabilities and shall not reflect any of Excluded Businesses, Excluded Assets or Excluded Liabilities, and (ii) the Interim Pro Forma Financial Statements shall be deemed to have been prepared in accordance with GAAP and the Agreed Principles, and neither Party (nor any representative thereof) shall make any Claim to the contrary, nor shall the Accounting Firm be entitled to make any finding to the contrary, for any purpose of this Section 1.6. Each of the Parties shall pay the fees and disbursements of its accountants.

(d) Objection to Preliminary Closing Balance Sheet. In the event that, within sixty (60) days after delivery by one Party (the "***Preparing Party***") to the other Party (the "***Receiving Party***") of the Preparing Party's Preliminary Closing Balance Sheet, such Receiving Party determines that the Preliminary Closing Balance Sheet received by it has not been prepared on a basis consistent with the requirements of Section 1.6(b), the Receiving Party shall have the right, within such sixty (60)-day period, to deliver a written objection (an "***Objection***") to the Preparing Party, setting forth, in reasonable detail, the basis of the Objection and the adjustments which the Receiving Party believes should be made to such Preliminary Closing Balance Sheet, and the Receiving Party shall be deemed to have accepted any items not specifically disputed in the Objection; *provided*, that, within a period of thirty (30) days following a Preparing Party's receipt of an Objection, the Preparing Party (in its capacity as the Receiving Party) shall have the right to deliver to the Receiving Party (in its capacity as the Preparing Party) a new or additional Objection, as the case may be, to the Receiving Party's Preliminary Closing Balance Sheet that is based on similar arguments and is of the same type as the Receiving Party's Objection to the Preparing Party's Preliminary Closing Balance Sheet. The Parties shall then have sixty (60) days following the date the Preparing Party receives any Objection and the date the Receiving Party (in its capacity as the Preparing Party) receives an Objection

from the Preparing Party (in its capacity as the Receiving Party), to review and respond to and resolve the Objection(s). If the Parties do not resolve all of their disagreements within the applicable sixty (60)-day period following delivery and receipt of the Objection(s), they shall refer their remaining differences to an internationally recognized firm of independent public accountants (the “**Accounting Firm**”), selected in accordance with Section 1.6(g), who shall, acting as experts in accounting and not as arbitrators, determine on a basis consistent with the requirements of Section 1.6(b), and only with respect to the specific remaining accounting-related differences set forth in the applicable Objection and so submitted to the Accounting Firm, whether and to what extent, if any, any relevant Preliminary Closing Balance Sheet requires adjustment in order to comply with the provisions of Section 1.6(b). In the event that Objections are pending with respect to both Preliminary Closing Balance Sheets, the Parties shall submit all such Objections to the Accounting Firm to be considered and resolved at the same time. The Parties shall request the Accounting Firm to use its best efforts to render its determination within sixty (60) days of its engagement. The Accounting Firm’s determination shall be conclusive and binding upon the Parties. The Parties shall, and shall cause MUMSS and MSMS to, make reasonably available to the Accounting Firm and to each other all relevant books and records, any work papers (including those of the Parties’ respective accountants) and supporting documentation relating to the Preliminary Closing Balance Sheets and all other items reasonably requested by the Accounting Firm or the other Party in connection herewith.

(e) Final Closing Balance Sheet. The “**Final Closing Balance Sheet**” of each Party’s Contributed Business shall be (i) the applicable Preliminary Closing Balance Sheet if (A) no Objection is delivered within the initial sixty (60)-day period (or, if applicable, the subsequent thirty (30)-day period) specified above or (B) the Parties so agree; (ii) the applicable Preliminary Closing Balance Sheet, adjusted in accordance with the Objection, in the event that (A) the Preparing Party does not respond to the Objection within the sixty (60)-day period specified above following receipt of the Objection or (B) the Parties so agree; or (iii) the applicable Preliminary Closing Balance Sheet, as adjusted pursuant to the agreement of the Parties or as adjusted by the Accounting Firm as provided above.

(f) Adjustment Based on Final Closing Balance Sheet. Upon determination of both Final Closing Balance Sheets:

(i) MUS Net Asset Value Adjustment. If the net asset value reflected in the Final Closing Balance Sheet of the MUS Contributed Business is less than its Target Net Asset Value, then MUSHD shall owe to MSHD an amount equal to the MS Ownership Percentage multiplied by the amount of such deficiency, plus interest on such amount at the Agreed Interest Rate from the Closing Date through the date of payment. If the net asset value reflected in the Final Closing Balance Sheet of the MUS Contributed Business is more than its Target Net Asset Value, then MSHD shall owe to MUSHD an amount equal to the MS Ownership Percentage multiplied by such excess, plus interest on such amount at the Agreed Interest Rate from the Closing Date through the date of payment;

(ii) MSJS Net Asset Value Adjustment. If the net asset value reflected in the Final Closing Balance Sheet of the MSJS Contributed Business is less than its Target Net Asset Value, then MSHD shall owe to MUSHD an amount equal to the MUFG Ownership Percentage multiplied by the amount of such deficiency, plus interest on such amount at the Agreed Interest Rate from the Closing Date through the date of such payment. If the net asset value reflected in the Final Closing Balance Sheet of the MSJS Contributed Business is more than its Target Net Asset Value, then MUSHD shall owe to MSHD an amount equal to the MUFG Ownership Percentage multiplied by such excess, plus interest on such amount at the Agreed Interest Rate from the Closing Date through the date of such payment;

(iii) Setoff of Payments. The amounts owed by MSHD to MUSHD or by MUSHD to MSHD pursuant to the preceding clauses (i) and (ii) shall be set off against each other and MS shall pay to MUSHD (or cause MSHD to pay to MUSHD), or MUFG shall pay to MSHD (or cause MUSHD to pay to MSHD), as applicable, the net amount remaining after such setoffs in immediately available funds within three (3) Business Days after the determination of the last of the Final Closing Balance Sheets; and

(iv) Any payment required to be made to a Party pursuant to Section 1.3(d)(iv) or this Section 1.6 shall, to the extent possible, be effected in a manner that does not result in the recognition of income or gain to that Party or its Subsidiaries for Japanese or US Tax purposes.

(g) Selection of Accounting Firm. The Parties shall appoint an Accounting Firm reasonably acceptable to each of them, unaffiliated with either of them and not having been retained by either of them for audit services within the two (2)-year period prior to the Closing, to make the determinations described in Section 1.6(d). If the Parties fail to agree upon an Accounting Firm within a reasonable period of time, then such Accounting Firm shall be appointed by the International Centre for Expertise in accordance with the provisions for the appointment of experts under the Rules for Expertise of the International Chamber of Commerce. The costs of any Accounting Firm appointed hereunder shall be shared equally by the Parties.

(h) Tax Refund Adjustment. If (1) there shall be any amount of Tax (or Liability in respect thereof) (A) paid prior to Closing by MSJS, or (B) by which the net asset value of the MSJS Contributed Business is reduced in MS's Final Closing Balance Sheet (including through a reduction attributable to a reduction of deferred tax assets of MSJS due to such Tax), in each case by reason of an assessment or demand (or anticipated assessment or demand) for Tax by the Japanese tax authorities made or expected to be made as a result of the tax audit of MSJS referred to in the MS Disclosure Letter, and (2) MSMS shall subsequently receive a refund of or otherwise recover all or a portion of such Tax (for which purposes a refund or recovery shall include an increase in deferred tax assets of MSMS and any reversal of any accrual for such Tax in the financial statements of MSMS), then, within forty (40) Business Days of notice from MSMS to MUFU that it has received such refund or other recovery or such refund or recovery has occurred, in addition to the other payments provided for in this Section 1.6, MUFU shall cause MUSHD to pay to MSHD an amount equal to the MUFU Ownership Percentage multiplied by the amount of such refund or recovery (including any interest or premium paid or credited by any Governmental Authority thereon). Any payment made pursuant to this Section 1.6(h) shall be treated as a further adjustment (without interest) to any amount payable based on Final Closing Balance Sheets.

(i) Notwithstanding the proviso to the definition of Pre-Closing Liability, any Liability (a "**Relevant Liability**" and together "**Relevant Liabilities**") incurred by MSMS due to the issue of any amended assessment by the Japanese tax authorities to Relevant Foreign Nationals (as defined in the MS Disclosure Letter) as a result of the tax audit of foreign nationals referred to in the MS Disclosure Letter shall be deemed to be an MSJS Pre-Closing Liability; *provided*, however, that if:

(i) a provision or accrual is made in respect of any Relevant Liability in MS's Final Closing Balance Sheet; and

(ii) MSMS subsequently reverses any profit and loss expense related to such provision or accrual or otherwise recognizes income attributable to a refund received by it in respect of such expense,

then, within forty (40) Business Days of notice from MSMS to MUFU that such reversal or recognition has been made, in addition to any other payments provided for in this Section 1.6, MUFU shall cause MUSHD to pay to MSHD an amount equal to the MUFU Ownership Percentage multiplied by the amount of any such reversal or recognition (including any element representing any interest or premium paid or credited by any Governmental Authority on Taxes paid). Any payment pursuant to this Section 1.6(i) shall be treated as a further adjustment (without interest) to any amount payable based on the Final Closing Balance Sheets.

## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties of Each Party. Each Party represents and warrants to the other Party on the date of this Agreement and, in respect of the Closing Warranties, on the Closing Date that, except as clearly and unambiguously set forth in such Party's Disclosure Letter:

(a) Organization, Standing and Power.

(i) Such Party is a corporation duly organized, validly existing and, to the extent applicable, in good standing under Applicable Law. Such Party has all requisite corporate power and authority to execute and deliver this Agreement and each other Transaction Document to which it is a party, to perform its obligations hereunder and thereunder, and to consummate the transactions contemplated hereby and thereby.

(ii) Each Subsidiary of such Party (including each of its Contributing Subsidiaries) that is or will become a party to a Transaction Document has (or in the case of Transaction Documents not yet executed, prior to Closing, will have) all requisite corporate power and authority to execute and deliver each such Transaction Document, to perform its obligations thereunder, and to consummate the transactions contemplated thereby.

(iii) Each of such Party's Contributing Subsidiaries is duly organized and validly existing under Applicable Law and will, at the Closing, have all requisite corporate power and authority to own, operate and conduct its Contributed Assets, its Contributed Liabilities, and its Contributed Business as they are owned, operated or conducted at the date of this Agreement or, as applicable, proposed to be owned, operated or conducted at Closing.

(b) Authority and Validity. The execution and delivery of this Agreement and each other Transaction Document to be executed and delivered by such Party or any of its Subsidiaries, the performance of their respective obligations hereunder and thereunder, and the consummation of the transactions contemplated by this Agreement and by the other Transaction Documents have been (or in the case of Transaction Documents not yet executed, prior to Closing, will be) duly and validly authorized by all necessary corporate action on the part of such Person. This Agreement and each other Transaction Document to be executed and delivered by such Party or any of its Subsidiaries have been (or prior to Closing will be) duly executed and delivered and are (or prior to Closing will be) valid and binding obligations of such Party or such Subsidiary, as applicable, enforceable against it in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and general principles of law such as prohibition of abuse of rights (*kenri ran'yō-no-kinshi*) and principles of trust (*shingiseijitsu-no-gensoku*).

(c) No Conflicts. Subject to obtaining the Governmental Approvals and Third Party Approvals contemplated in Section 2.1(f), the execution and delivery of this Agreement and the other Transaction Documents to be executed by such Party and its Subsidiaries, the performance of their respective obligations under this Agreement and under the other Transaction Documents, and the consummation of the transactions contemplated by this Agreement and by the other Transaction Documents (including the contribution by its Contributing Subsidiaries of the Contributed Assets, Contributed Liabilities and the Contributed Business at Closing) do not (or in the case of Transaction Documents not yet executed, prior to Closing, will not) (i) conflict with or result in a breach of any provision of any of their respective articles of incorporation, bylaws, if applicable, or comparable organizational documents, (ii) with or without notice or the lapse of time, conflict with, result in a breach of any provision of, constitute a default under, give any Third Party a right of termination, cancellation, amendment or acceleration in respect of, or result in the creation of a Lien on any of their respective properties under, any note, bond, mortgage, indenture, license, lease, contract, agreement or other instrument or obligation, to which any of

them is a party, or by which any of them or any of their properties may be bound, or (iii) violate or conflict with Applicable Law, except, in the case of clauses (ii) and (iii), as would not, individually or in the aggregate, be reasonably expected to result in a Material Adverse Effect on, with respect to MUFG or its Subsidiaries, MUMSS, MUSHD or the MUS Contributed Business or, with respect to MS or its Subsidiaries, MSMS, MSHD, the MSJS Contributed Business or the IBD Contributed Business.

(d) Charter Documents; Books and Records.

(i) Such Party has delivered to the other Party true, accurate and complete copies of (A) the articles of incorporation of each of such Party's Contributing Subsidiaries and any company included in such Party's Contributed Business, including all amendments thereto through the date hereof, as presently in effect; (B) all stock records of any company included in such Party's Contributed Business, including its stock ledger and, if applicable, copies of any stock certificates issued by it; (C) all minutes and other records of all meetings held within 12 months prior to the date of this Agreement (including any actions taken by written consent or otherwise without a meeting) of: (1) the stockholders of each of such Party's Contributing Subsidiaries and any company included in such Party's Contributed Business, and (2) each of such Party's Contributing Subsidiaries' Board and the Board of any company included in such Party's Contributed Business (collectively, the "**Resolutions**"); and (D) all financial statements of such Party's Contributing Subsidiaries as of March 31, 2009 prepared based on the requirements of the Corporation Law.

(ii) Each of such Party's Contributing Subsidiaries and any company included in such Party's Contributed Business is not in violation of any of the provisions of its articles of incorporation or Resolutions, and no condition or circumstance exists that likely constitutes such a violation.

(e) Capitalization. Each of such Party's Contributing Subsidiaries is wholly owned, directly or indirectly, by such Party. Schedules 2.1(e)-1 and 2.1(e)-2, respectively, set forth the capitalization of MUSBJ, in the case of MUFG, and of MSJS, in the case of MS, in each case as of the date hereof and immediately following Closing. There is no (i) outstanding preemptive right, subscription, option, call, warrant or other right to acquire any securities of any of such Party's Contributing Subsidiaries; (ii) outstanding security, instrument or obligation that is or may become convertible into or exchangeable for any securities of any of such Party's Contributing Subsidiaries; (iii) contract under which it is or may become obligated to sell, issue or otherwise dispose of or redeem, purchase or otherwise acquire any of its securities; or (iv) stockholder agreement, voting trust or other agreement or understanding that may affect the exercise of voting or any other rights with respect to the capital stock of any of such Party's Contributing Subsidiaries. All issued shares of capital stock of, or beneficial interests in, each of such Party's Contributing Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable, have been issued in full compliance with Applicable Law, and are free and clear of Liens.

(f) Governmental and Third Party Approvals. No Governmental Approval or Third Party Approval is required in connection with the execution and delivery by such Party and its Subsidiaries of this Agreement and the other Transaction Documents, the performance of their respective obligations hereunder or thereunder, or their consummation of the transactions contemplated hereby and thereby, except for (i) the Governmental Approvals and Third Party Approvals identified in its Disclosure Letter, (ii) approvals from clients with respect to the transfer of such Party's and such Party's Contributing Subsidiaries' brokerage and advisory accounts to MUMSS or MSMS, as applicable, the absence of which would not, individually or in the aggregate, be reasonably expected to result in a Material Adverse Effect on the relevant Contributed Business, and (iii) any other Governmental Approval or Third Party Approval the absence of which would not, individually or in the aggregate, be reasonably expected to result in a Material Adverse Effect on, with respect to MUFG, MUMSS or, with respect to MS, MSMS. As of the date hereof, no Governmental Authority or Third Party has indicated to such Party or any of its Affiliates an intent to and no Party has reason to believe that any Governmental Authority or Third Party may (A) take or fail to take any action that is reasonably likely to prohibit, materially delay, or materially impair the consummation of the transactions contemplated by this Agreement, or (B) impose any obligation or condition thereon that is reasonably likely

to result, individually or in the aggregate, in a material Liability of, or material impairment on, MUMSS or MSMS or their respective operations after the Closing. For purpose of this Section 2.1(f), Third Party Approvals shall not include any requirement for report or notice to a Person.

(g) Financial Statements; Undisclosed Liabilities; No Material Adverse Effect.

(i) Audited Financial Statements. The audited, non-consolidated financial statements (consisting of a balance sheet, profit and loss statement, shareholder's equity statement and schedules thereto) of its Contributing Subsidiaries for the fiscal year ended March 31, 2009 attached hereto as Schedules 2.1(g)(i)-1 and 2.1(g)(i)-2, as applicable (the "**FY2008 Financial Statements**"), present fairly in all material respects the financial position and results of operations of such Contributing Subsidiaries, and were prepared in accordance with GAAP applied on a consistent basis, as of the date or for the period presented (except as may be otherwise indicated in the notes thereto). The FY2008 Financial Statements have been derived from the accounting books and records of such Contributing Subsidiaries, which books and records are true, accurate, and complete in all material respects.

(ii) Unaudited Interim Financial Statements. The unaudited, non-consolidated financial statements (consisting of a balance sheet and profit and loss statement) of its Contributing Subsidiaries for the nine-month period ended December 31, 2009 (the "**Balance Sheet Date**") attached hereto as Schedules 2.1(g)(ii)-1 and 2.1(g)(ii)-2, as applicable (the "**Interim Financial Statements**"), present fairly in all material respects the financial position and results of operations of such Contributing Subsidiaries, and were prepared in accordance with GAAP applied on a consistent basis, as of the date or for the period presented (except as may be otherwise indicated in the notes thereto). The Interim Financial Statements have been derived from the accounting books and records of such Contributing Subsidiaries, which books and records are true, accurate, and complete in all material respects.

(iii) Pro Forma Financial Statements. The unaudited, non-consolidated financial statements (consisting of a balance sheet and profit and loss statement) of such Party's Contributed Business for the nine-month period ended December 31, 2009 attached hereto as Schedules 2.1(g)(iii)-1 and 2.1(g)(iii)-2, as applicable (the "**Interim Pro Forma Financial Statements**"), present fairly on the basis set out therein in all material respects the financial position and results of operations of such Contributed Business, and were prepared based upon GAAP and the Agreed Principles applied on a consistent basis, as of the date or for the period presented. The Interim Pro Forma Financial Statements have been derived from the accounting books and records of such Contributing Subsidiaries and their consolidated Subsidiaries, which books and records are true, accurate, and complete in all material respects.

(iv) No Undisclosed Liabilities. Such Party's Contributed Business has no Liabilities, whether known, absolute, accrued, contingent or otherwise and whether due or to become due, except for Liabilities (A) reflected on, accrued or reserved against in the balance sheet contained in the Interim Pro Forma Financial Statements or Interim Financial Statements, as applicable, (to the extent so reflected, accrued or reserved), (B) incurred after the Balance Sheet Date in the ordinary course of business consistent with past practice, (C) disclosed to the other Party in such Party's Disclosure Letter, (D) expressly contemplated herein to be incurred by such Party's Contributed Business in connection with such Party's Pre-Closing Reorganization or (E) for customary operating expenses falling due after Closing (including but not limited to operating leases); *provided* that for these purposes costs with respect to employees (including, without limitation, compensation and benefits, social insurance contributions, applicable workers insurance premiums and other employment-related taxes in accordance with past practice) seconded by MS or any of its Affiliates to MSMS or MUMSS which are payable after Closing and charged to MSMS or MUMSS shall be deemed not to be Liabilities. This shall include deferred compensation (consisting of stock units, stock options, LCIP, MSCIP and contributions to CBP and the like (together "**Deferred Compensation**")) granted prior to Closing and payable after Closing.

(v) Position since Balance Sheet Date. Since the Balance Sheet Date, other than in connection with such Party's Pre-Closing Reorganization:

(A) there has occurred no Material Adverse Effect on such Party's Contributed Business nor any event or occurrence which would reasonably be expected to result in a Material Adverse Effect on the Contributed Business;

(B) the Contributed Business of such Party has been conducted in all material respects in the ordinary course of business consistent with past practice;

(C) there has been no material change or divergence from the payment procedures, policies and timescales normally observed by such Party's Contributed Business in respect of any debts incurred by such Party's Contributed Business in the usual and ordinary course of business;

(D) other than for the purposes of an adjustment to be made under Section 1.6, none of such Party's Contributing Subsidiaries or any Subsidiary of its Contributing Subsidiaries included in such Party's Contributed Business has declared, authorized, made or paid any dividend or other distribution (whether in cash, stock or in kind) or reduced, purchased or redeemed any part of its paid-up share capital;

(E) there has been no reorganization of any part of such Party's Contributed Business, or a discontinuance of any part of it;

(F) other than in the ordinary course of business consistent with past practice, no Person within such Party's Contributed Business has given any guarantee, indemnity or has entered into any agreement to secure an obligation of a Third Party which if called or otherwise enforced would result in a cost to such Party's Contributed Business of JPY 100,000,000 or more;

(G) neither such Party nor any of its Subsidiaries, directly or indirectly, has acquired or held (or has an option or rights to acquire or hold) more than fifteen percent (15%) of the equity securities of, or otherwise operates, a Securities Company in Japan, except for MUFG's interests in MUS, Kabu.com Securities Co., Ltd., and Mitsubishi UFJ Merrill Lynch PB Securities Co., Ltd., and MS's interest in MSJS;

(H) no material Contributed Liability has become due and payable, or capable of being declared due and payable, before its normal or originally stated maturity or payment date and neither the Party nor any of its Affiliates has received a demand or other notice requiring any material Contributed Liability to be paid or repaid before its normal or originally stated maturity or payment date (other than on the exercise of a put option or a call option as originally provided); and

(I) no event of default or any other event or circumstance which would entitle any person to call for early repayment of any material Contributed Liability or to enforce any security given by the Party in relation to any material Contributed Liability (or, in either case, any event or circumstance which with the giving of notice would constitute such an event or circumstance) has occurred.

(h) Debts owed to such Party's Contributed Business. Such Party's Contributed Business is in compliance in all material respects with its risk management policies related to counterparty credit limits and exposure to debts and other obligations owed to it by Third Parties.

(i) Compliance with Laws.

(i) Such Party, its Contributing Subsidiaries and any Subsidiary from which employees are or will be seconded to a Contributed Business is conducting and since January 1, 2008 has conducted such Party's Contributed Business (including for the avoidance of doubt with respect to such Party's Contributed Business Individuals) in compliance with Applicable Law except as would not reasonably be expected to result in a Material Adverse Effect on such Party's Contributed Business. Neither such Party nor its Subsidiaries has since January 1, 2008 received any written communication from (A) any Third Party alleging any actual or potential violation of Applicable Law, except as would not reasonably be expected to result in a Material Adverse Effect on such Party's Contributed Business, or (B) any Governmental



Authority alleging any actual or potential material violation of Applicable Law, in each case arising out of or relating to the conduct of such Party's Contributed Business. Each Governmental Approval required to conduct its Contributed Business in the manner currently conducted is (A) held by such Party's applicable Contributing Subsidiary and (B) valid and in full force and effect, and no Claim is pending or threatened that could result in the suspension, termination, revocation, cancellation, limitation or impairment of any such Governmental Approval, and no written communication has been received by such Party or any of its Subsidiaries alleging or asserting a violation by such Party or any of its Subsidiaries of any such Governmental Approval. All Handled Products which a Contributing Subsidiary has directly sold as a party to the relevant sales agreements to, or has directly solicited its client or customer to buy, have met appropriate standards for suitability in light of the characteristics of the applicable clients or customers and have been accompanied by timely and full disclosure in accordance with Applicable Law.

(ii) Without limiting the generality of the foregoing, none of the disclosure materials prepared by such Party's Contributed Business in respect of Handled Products, nor any documents, instruments, or other written or oral information provided by such Party's Contributed Business to its clients or customers in connection with such Handled Products, has contained any untrue statement of material fact, or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, prepared or presented, not misleading.

(j) Assets; Services; Title. Except as set forth in such Party's Disclosure Letter (and giving effect to the rights and services expressly contemplated to be provided to MUMSS and/or MSMS, as applicable, from and after the Closing under the Transaction Documents to which its Contributed Business is a party in accordance with their terms (such rights, "***Rights under Related Agreements***")), such Party's Contributed Assets taken together with the Rights under Related Agreements constitute all of the Assets used in or otherwise necessary for the conduct of such Party's Contributed Business in all material respects, as presently conducted and as contemplated to be conducted as of the Closing and to perform its Material Contracts. Immediately after the Closing, MUMSS and MSMS, as applicable, will have good and marketable title to, or have a valid right to use or occupy, all of the Assets material to such Party's Contributed Business, including all of the Assets shown on the Interim Pro Forma Financial Statements for such Party's Contributed Business, in each case free and clear of any Liens, except for Permitted Liens, other than (A) Excluded Assets and (B) Rights under Related Agreements. All Rights under Related Agreements to be provided by such Party to MUMSS or MSMS shall be available to MUMSS or MSMS, as applicable, from and after the Closing at a level that is substantially comparable to the level of such rights as were available to such Party's Contributed Business on the date hereof and the Balance Sheet Date, on the same or substantially comparable terms, subject only to the transitional terms of the relevant Transaction Documents. There are no circumstances which would be reasonably expected to result in a Lien arising over its Contributed Assets in favor of a Third Party (other than Permitted Liens) or any Governmental Authority expropriating any of its Contributed Assets, in each case that would be reasonably expected to have a Material Adverse Effect on such Party's Contributed Business.

(k) Material Contracts. Each Material Contract of such Party's Contributed Business is currently valid and in full force and effect and enforceable in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and general principles of Applicable Law such as prohibition of abuse of rights (*kenri ran'yō-no-kinshi*) and principles of trust (*shingiseijitsu-no-gensoku*). No event has occurred, and no circumstance or condition exists, with respect to any Material Contract of such Party's Contributed Business that might (with or without notice or the lapse of time) (i) result in a breach of any such Material Contract, (ii) give any Person the right to terminate or declare a default or exercise any remedy under such Material Contract, (iii) give any Person the right to accelerate the maturity or performance of such Material Contract, or (iv) otherwise be reasonably expected to have a Material Adverse Effect on its Contributed Business. Such Party's Contributed Business is not restricted from selling,

licensing or otherwise distributing any products or services to any group or class of clients, in any geographic area, during any period of time or in any segment of the market, by any contract or agreement.

(l) Certain Contracts. None of such Party or any of its Subsidiaries has entered into any contract or other arrangement with respect to its Contributed Business which is outstanding and:

(i) which is outside the ordinary course of business or not on arm's length terms and when taken together with all other contracts or arrangements which are outside the ordinary course of business or not on arm's length terms is material to the business, financial condition or results of operations of such Party's Contributed Business, except for, to the extent permitted by Applicable Law, any contract or arrangement which is with such Party's Subsidiary and in accordance with such Party's policies and procedures governing transactions between members of such Party's group applied on a consistent basis;

(ii) which establishes or governs any joint venture, consortium, partnership or profit (or loss) sharing agreement or arrangement with a Third Party;

(iii) under which such Party or any of its Subsidiaries has sold or disposed of any company or business where it remains subject to any Liability (whether contingent or otherwise) which is a Contributed Liability;

(iv) which involves or is likely to involve Liability or commitment in respect of capital expenditure, Real Property or information technology in relation to such Party's Contributed Business which is of more than JPY 100,000,000, or is otherwise an obligation of a material nature or magnitude, in each case which is a Contributed Liability;

(v) which prohibits or materially restricts the ability of such Party or any of its Subsidiaries to conduct its Contributed Business in any geographical area, or any business area, or compete with any Person, or that contain exclusivity, preferred provider, most favored nation, take or pay or similar restrictions;

(vi) which requires the referral of any business or requires such Party's Contributed Business to make available investment or other business opportunities or products or services on a priority or exclusive basis to the extent material to such Party's Contributed Business;

(vii) as to which any benefits will be reduced, increased, accelerated, delayed or otherwise modified by virtue of the consummation of the transactions contemplated hereby;

(viii) which is a recognition, procedural or other agreement between such Party's Contributed Business and any labor union; or

(ix) which is a bid, tender, proposal or offer which, if accepted, would result in such Party's Contributed Business being committed to any agreement or arrangement of a kind described in paragraphs (i) to (vi) above.

(m) Contributed Business Individuals and Consultants.

(i) Contributed Business Individuals and Contracts. Other than such rights to continued employment or notice of termination as may exist under Applicable Law, no Contributed Business Individual has the right to continued employment with the Contributed Business or the right to any material compensation following termination of employment.

(ii) Compensation. Such Party has previously disclosed to the other Party true, accurate and complete information with respect to (A) the total compensation of the Contributed Business Individuals, or, in the case of MS, employees of MSJS, for the year ended December, 2009 and (B) total Deferred Compensation of the Contributed Business Individuals under incentive plans as at February 28, 2010 whether or not such Deferred Compensation is required to be disclosed under GAAP.

(n) Disputes with Contributed Business Individuals. There are no Claims, disputes or controversies pending or, to the knowledge of such Party and its Contributing Subsidiaries, threatened in writing,

involving any Contributed Business Individual or group that includes any such Person. Such Party's Contributed Business has not suffered or sustained any work stoppage, and, to the knowledge of such Party and its Contributing Subsidiaries, no such work stoppage is officially threatened by any organization representing such Contributed Business' employees or the employees themselves.

(o) Benefit Plans. All Benefit Plans of such Party's Contributed Business (including, as applicable and for the avoidance of doubt, benefit plans provided and/or serviced by MSJG or MSJBG for employees who are seconded to the MSJS Contributed Business and/or benefit plans provided and/or serviced by MUFG for its subsidiaries for employees who are seconded to the MUS Contributed Business) are in material compliance with and satisfy all material requirements under Applicable Law and all Consents by or to be given to Governmental Authorities as may be applicable have been duly obtained or given and no written notice of non-compliance or otherwise (including any guidance for action) has been received as to any such Benefit Plan from any such Governmental Authority. With respect to any Benefit Plan of such Party's Contributed Business (including, for the avoidance of doubt, benefit plans provided and/or serviced by MSJG or MSJBG for employees who are seconded to the MSJS Contributed Business) that is not required to be funded on a current basis under Applicable Law but as to which either GAAP or Applicable Law requires that reserves be recorded, reserves have been recorded on such Party's FY2008 Financial Statements, Interim Financial Statements and Interim Pro Forma Financial Statements in a manner that is consistent with GAAP and Applicable Law. With respect to any Benefit Plan of such Party's Contributed Business that is required to be currently funded under Applicable Law, such plans have been funded in accordance with Applicable Law. Each Benefit Plan of such Party's Contributed Business that is intended to qualify for any Tax benefit under Applicable Law has received any required confirmation of such qualification from an appropriate Governmental Authority and is in material compliance with all requirements of Applicable Law, as to both form and operation, to the extent required to maintain such qualification. Such Party's Contributed Business (in the case of MSJS, including MSJG and MSJBG) has performed all of its material obligations in relation to its Benefit Plans in accordance with the governing documentation of such Benefit Plans and the requirements of Applicable Law.

(p) Claims.

(i) Except as set forth in such Party's Disclosure Letter, there is no Claim by any Person pending against or affecting the Contributed Business (including any Contributed Asset or Contributed Liability thereof) of such Party or any of its Contributing Subsidiaries, where the amount of any claim or series of related claims exceeds ¥100,000,000. As to each Claim set forth in such Party's Disclosure Letter, the Disclosure Letter includes a description of such Claim and the status of such Claim as of the date hereof, including amounts in controversy, background or history and parties to such Claim, details of any settlement offers extended or received, and any settlement or similar agreements (whether or not legally binding) entered into in connection therewith. No insurance company has asserted in writing that any such Claim is not covered by any Insurance Policy.

(ii) Since March 31, 2009, no current or former client of such Party's Contributed Business has, in written communications, made any request for repurchase, repricing or reimbursement with respect to any product or service of such Contributed Business, or alleged or asserted (A) any failure to disclose any material fact with respect to, (B) any false or misleading representation or projection as to performance or anticipated performance of, or (C) any lack of suitability of, any such product or service, where the amount claimed or in controversy exceeds ¥100,000,000 in respect of any request, allegation or assertion, or series of related requests, allegations or assertions, of any current or former client or clients.

(q) Insolvency.

(i) Winding up. No Order has been made, petition presented or meeting convened for the winding up of such Party or any of its Contributing Subsidiaries, or for the appointment of any provisional liquidator or in relation to any other process whereby the business of such Party or any of its Contributing

Subsidiaries is terminated and the Assets of the company concerned are distributed amongst the creditors and/or shareholders or other contributors, and there are no Claims related to any of the foregoing under any Applicable Law, including insolvency, reorganization or similar laws, in any relevant jurisdiction, and no events have occurred which, under Applicable Law, would be reasonably likely to justify any such Claims.

(ii) Administration and receivership. No Person has taken any step, legal proceeding or other procedure with a view to the appointment of an administrator, manager, custodian or other similar official, whether out of court or otherwise, in relation to such Party in respect of the whole or any part of any of the Assets and/or undertaking of such Party's Contributed Business nor has any Order been made (including, in any relevant jurisdiction, any other Order by which, during the period it is in force, the affairs, business and Assets of the company concerned are managed by a Person appointed for the purpose by a Governmental Authority).

(iii) Voluntary arrangement etc. Such Party has not taken any step with a view to a suspension of payments or a moratorium of any indebtedness or made any voluntary arrangement with any of its creditors and is not insolvent or unable to pay its debts as they fall due.

(r) Taxes.

(i) Each of such Party's Contributing Subsidiaries has timely filed all required Tax Returns, and such Tax Returns are true, accurate and complete in all respects. All Taxes shown to be payable on such Tax Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and no other Taxes are payable by any of such Party's Contributing Subsidiaries with respect to any period ending prior to the date of this Agreement, whether or not shown due or reportable on such Tax Returns, other than Taxes for which adequate accruals have been provided in its Interim Pro Forma Financial Statements. Each of such Party's Contributing Subsidiaries has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other Third Party. There are no Liens for Taxes on the Assets of any of such Party's Contributing Subsidiaries, other than Liens for Taxes not yet due and payable.

(ii) No audit of any Tax Return is currently pending or threatened. No Claim has ever been made by any Governmental Authority in a jurisdiction where any of such Party's Contributing Subsidiaries does not file Tax Returns that such Contributing Subsidiary is or may be subject to taxation by that jurisdiction. Such Party has delivered or made available to the other Party true, accurate and complete copies of all Tax Returns filed, examination reports, and statements of deficiencies assessed or agreed to by any of such Party's Contributing Subsidiaries since its inception. None of such Party's Contributing Subsidiaries has waived any statute of limitations in respect of any Tax or agreed to an extension of time with respect to any Tax assessment or deficiency.

(iii) None of such Party's Contributing Subsidiaries is a party to or bound by any Tax indemnity agreement, Tax-sharing agreement or similar contract.

(s) Intellectual Property and Information Technology.

(i) No Infringement. To the knowledge of such Party and its Contributing Subsidiaries, such Party's Contributed Business as currently conducted (including the services provided by such Party's Contributed Business as currently provided) does not infringe or misappropriate, and has not at any time during the previous 18 months infringed or misappropriated, and, to the knowledge of such Party and its Contributing Subsidiaries, such Contributed Business when conducted by the Company immediately following the Closing, will not infringe or misappropriate any IP Right of any Person, or violate any right to privacy or publicity, or constitute unfair competition or unfair trade or marketing practices under Applicable Law. To the knowledge of such Party and its Contributing Subsidiaries, no Person is infringing or misappropriating any of such Party's Contributed IP.

(ii) No Infringement Claims. Except as set forth in such Party's Disclosure Letter, neither such Party nor any of such Party's Contributing Subsidiaries has received written notice of any Claim (or any related action, investigation or proceeding) that such Party's Contributed IP infringes any IP Rights of any Person, or violates any rights to privacy or publicity, or constitutes unfair competition or trade or marketing practices under Applicable Law.

(iii) IP Sufficiency. Upon Closing, each of the Companies shall own or have the right to use all IP and IP Rights used to conduct such Party's Contributed Business as conducted on the date hereof and the Balance Sheet Date, on terms identical to or more favorable than those under which such rights are currently available to such Party's Contributed Business, provided that this Section 2.1(s)(iii) will not apply to any MSA Consent which is to be addressed in accordance with any of the Master Services Agreements.

(iv) Adequacy of Information Technology. Except as set forth in such Party's Disclosure Letter, the information technology systems and services currently utilized, held for use or developed for use in such Party's Contributed Business are the subject of warranty, support, maintenance, business continuity, disaster recovery and logical and physical security arrangements which are reasonably adequate for the current requirements of such Contributed Business with regard to its business operational, data processing and communications requirements and will remain so reasonably adequate when such Contributed Business is conducted by the Company immediately following the Closing.

(v) Disruptions to Information Technology. Except as set forth in such Party's Disclosure Letter, such Party's Contributed Business has not in the past 18 months suffered or experienced any: (A) material loss of performance or functionality of its information technology systems or services; or (B) any material loss of or damage to data due to any defect or malfunction in its information technology systems or services, in either case resulting in a material adverse impact for customers or requiring notification to be made to a Governmental Authority.

(vi) Information Technology Sufficiency. Upon Closing, each of the Companies shall own or have the right to use all information technology systems and services which are used to conduct such Party's Contributed Business as conducted on the date hereof and the Balance Sheet Date, on terms identical to or more favorable than those under which such rights are currently available to such Party's Contributed Business, provided that this Section 2.1(s)(vi) will not apply to any MSA Consent which is to be addressed in accordance with any of the Master Services Agreements.

(t) Insurance. Each material insurance policy, self-insurance arrangement and fidelity bond with respect to its Contributed Business and/or Contributed Assets (collectively, the "**Insurance Policies**") is valid, binding, and in full force and effect, and such Party's Disclosure Letter sets forth each claim made by such Party or any of its Contributing Subsidiaries with respect to its Contributed Business thereunder in the three (3)-year period prior to the date hereof that exceeds JPY 100,000,000. Neither such Party nor any of its Contributing Subsidiaries has received any written notice of cancellation or non-renewal of any Insurance Policy. There is no Claim under any Insurance Policy as to which any insurer has questioned, disputed or denied Liability. Neither such Party nor any of its Contributing Subsidiaries has received any notice of a material increase in the premium for any Insurance Policy. No coverage under any Insurance Policy will terminate with respect to its Contributed Business or any of its Contributed Assets as a result of the consummation of the transactions contemplated under this Agreement.

(u) Real Property Leases. Such Party's Disclosure Letter sets forth a true, accurate and complete list of all such Party's Relevant Contributed Real Property Leases (including the address of each Contributed Leased Real Property leased thereunder). For these purposes a "**Relevant Contributed Real Property Lease**" is a lease of Contributed Leased Real Property under which, when aggregated with the rental and ancillary payments on an aggregate annual basis or, as applicable, the deposit paid, on other leases of Contributed Leased Real Property at the same location or in the same building, the rental and ancillary payments on an aggregate annual basis or the deposit paid exceed ¥100,000,000. Each of such Party's Contributing Subsidiaries has been in lawful possession of the premises covered by each of its Real Property

Leases since the commencement of the original term of such lease. Such Party has delivered to the other Party true, accurate and complete copies of each Real Property Lease of each of its Contributing Subsidiaries. All such Real Property Leases are valid and effective in accordance with their terms, and there exists no default on the part of the tenant or sub-lessor which is either such Party or its Affiliate or, to the knowledge of such Party and its Contributing Subsidiaries, the landlord thereunder or occurrence or condition which could, with or without notice or the lapse of time, result in a default on the part of the tenant or sub-lessor which is either such Party or its Affiliate or, to the knowledge of such Party and its Contributing Subsidiaries, the landlord thereunder or termination thereof.

(v) Business Practices. With respect to each Party's Contributed Business, (i) neither the Contributed Business nor any of its officers, directors, employees or business partners has offered, promised or given, or will offer, promise or give, to a Government Official, directly or through a third party, anything of value, for the Government Official himself or herself or another person or entity, in order to influence official action or otherwise secure an improper business advantage; and (ii) the Contributed Business has taken appropriate steps to assure that none of the Contributed Business' directors, officers or employees has, is or will be in a position as a Government Official to affect or influence the award of business or other advantages to the Contributed Business, in each case excepting lawful contributions to political parties in Japan. For purposes of this Section 2.1(v), "**Government Official**" shall mean any official or employee of any government department, agency, or instrumentality (including any government controlled enterprise) or of any public international organization, or any person acting in an official (as opposed to merely advisory) capacity for or on behalf of any of the foregoing, or any political party, party official or candidate for political office.

2.2 Additional Representations and Warranties of MUFG. MUFG represents and warrants to MS, MUMSS and MSMS on the date of this Agreement and, in respect of the Closing Warranties, on the Closing Date that, except as set forth in its Disclosure Letter:

(a) Organization, Standing and Power of MUMSS. At the Closing, MUMSS will be an entity duly organized and validly existing under the laws of Japan and will have all requisite corporate power and authority to own and operate, as applicable, the MUS Contributed Assets, the MUS Contributed Liabilities, the MUS Contributed Business, the IBD Contributed Assets, the IBD Contributed Liabilities and the IBD Contributed Business as currently conducted or as proposed to be conducted from and after the Closing.

(b) No Broker. Except for Lazard Ltd. and MUS (whose fees and expenses shall be paid exclusively by MUFG), neither MUFG nor MUS has incurred any Liability for any brokers', finders' or similar fees in connection with the transactions contemplated hereby.

(c) Mitsubishi Name. The use by MUMSS of the Mitsubishi Name to the full extent and for the duration permitted in accordance with the terms of the MUFG-MUMSS Trade Mark and Trade Name License Agreement will, prior to the Closing, have been consented to by the Mitsubishi Corporate Name and Trademark Committee (*Mitsubishi Shamei Shōhyō Inkai*), in each case, in accordance with all applicable rules and procedures.

(d) MUS Contributed Real Property. Schedule 2.2(d) sets forth each piece of Real Property included in the MUS Contributed Assets with a value reflected in the Interim Financial Statements of at least ¥100,000,000 (the "**MUS Contributed Real Property**"). MUS has good and marketable title to each piece of MUS Contributed Real Property and all original documents necessary to evidence or prove such title are in the possession or under the control of MUS. No Person has or has asserted any Lien, option, right of pre-emption or other similar interest (including any arising under Applicable Law) in or over any MUS Contributed Real Property or any relevant documents, other than Permitted Liens. The MUS Contributed Real Property and all uses of, and developments on, the MUS Contributed Real Property comply with all Applicable Law in all material respects. To the knowledge of MUFG and its Contributing Subsidiaries, MUS does not have any actual or contingent obligation or liabilities in relation to any MUS Contributed Real Properties and the buildings and other structures on, under or over the MUS Contributed Real Properties, which are in good and substantial repair and condition and fit for the purposes for which they are

presently used and there is no material defect (whether latent, inherent or otherwise) in the construction or condition of any of such buildings or other structures. Except as set forth in MUFG's Disclosure Letter, there is no pollution or contamination of the environment on, in, at, under or migrating to or from any MUS Contributed Real Property with respect to asbestos, polychlorinated biphenyl, or radioactive materials at any MUS Contributed Real Property.

**2.3 Additional Representations and Warranties of MS.** MS represents and warrants to MUFG, MUMSS and MSMS on the date of this Agreement and, in respect of the Closing Warranties, on the Closing Date that, except as set forth in its Disclosure Letter:

(a) **Organization, Standing and Power of MSJS.** At the Closing, MSJS will be an entity duly organized and validly existing under the laws of Japan and will have all requisite corporate power and authority to own and operate, as applicable, the MSJS Contributed Assets, the MSJS Contributed Liabilities, and the MSJS Contributed Business (other than the IBD Contributed Assets, the IBD Contributed Liabilities and the IBD Contributed Business) as currently conducted or as proposed to be conducted from and after the Closing.

(b) **No Broker.** Neither MS nor MSJS has incurred any Liability for any brokers', finders' or similar fees in connection with the transactions contemplated hereby.

(c) **MSJS Real Property.** MSJS does not currently own, nor has it ever owned, any Real Property.

(d) **RMBS and Related Assets and Liabilities.** Except as disclosed in the MS Disclosure Letter or in connection with the exclusion of Securitization Products as part of the Pre-Closing Reorganization, MSJS is not currently conducting any business related to the origination on a principal basis of any residential mortgage related loans or the arrangement of RMBS backed by such loans originated by MSJS.

(e) **Securitization Products.**

(i) The transfer of all Securitization Products other than Retained Securitization Products from MSJS to any other Affiliate of MS shall at Closing have been accounted for as a "true sale" under both GAAP and generally accepted accounting principles as in effect in the United States ("**U.S. GAAP**") from time to time.

(ii) MSJS does not consolidate any securitization vehicle or other entity that has issued any Securitization Product other than Retained Securitization Products under GAAP and, as of the Closing, will not consolidate any such securitization vehicle or other entity under U.S. GAAP.

**2.4 Representations and Warranties Generally.** Each representation and warranty set forth in this Article II (i) is not qualified in any way whatsoever except as expressly provided herein, (ii) will not merge on the Closing or by reason of the execution and delivery of any other Transaction Document at the Closing, (iii) will remain in force and effect after the Closing Date as and to the extent provided in Section 6.1, and (iv) is given with the intention that Liability is not limited to breaches discovered before the Closing.

### **ARTICLE III**

#### **CERTAIN INTERIM AND OTHER COVENANTS**

**3.1 Conduct of Business Prior to the Closing.**

(a) **Ordinary Course of Business.** Except (x) as expressly contemplated or permitted hereby or by any of the Transaction Documents, (y) to the extent required by Applicable Law, or (z) with the prior written consent of the other Party (which consent shall not be unreasonably withheld), from the date hereof until Closing, each Party will, and will cause each of its respective Subsidiaries to:

(i) conduct its Contributed Business, in all material respects, in the ordinary course of business consistent with past practice;

(ii) use their respective reasonable best efforts to preserve the current business organization of, and goodwill associated with, such Contributed Business, including maintaining in effect all Consents (including all Governmental Approvals), licenses, franchises, and authorizations of such Contributed Business; and

(iii) ensure that all transactions between (i) any of the Party's Contributing Subsidiaries and any of the companies included in the Party's Contributed Business, on the one hand, and (ii) the Party and its other Subsidiaries, on the other hand, take place on arm's length terms or in accordance with existing transfer pricing policies or existing agreements.

(b) Prohibitions. Notwithstanding Section 3.1(a), and except (i) as expressly contemplated or permitted hereby or by any of the Transaction Documents, (ii) to the extent required by Applicable Law or (iii) with the prior written Consent of the other Party (which Consent shall not be unreasonably withheld), from the date hereof until Closing, each Party shall ensure that, none of such Party or its Subsidiaries, in each case with respect to such Party's Contributed Business does, allows or procures any act or omission by its Contributing Subsidiary which would constitute a Shareholder Reserved Matter (as defined in each Shareholders Agreement) or otherwise require the consent of the other Party under either Shareholders Agreement if such act or omission took place following Closing.

### 3.2 Access to Information.

(a) General Rules. Between the date hereof and the Closing, each Party (the "**Delivering Party**") shall, and shall cause its Subsidiaries to (i) provide the other Party (the "**Requesting Party**") and its representatives with such information and documents in its possession relating to such Contributed Business and other related businesses or operations of the Delivering Party or such Subsidiary providing material services to such Party's Contributed Business as the Requesting Party may from time to time reasonably request in such form it may reasonably request (including in electronic form), including information on business, properties, contracts, other Assets, Liabilities, personnel (in the case of MS, to the extent relating to IBD Contributed Business Individuals) and other aspects of the Delivering Party's Contributed Business and other related businesses or operations of the Delivering Party or such Subsidiary providing material services to such Party's Contributed Business, in connection with the consummation of the transactions contemplated hereby and the performance of the Requesting Party's obligations hereunder; and (ii) keep the Requesting Party and its representatives informed, on a current basis, of any events, discussions, notices or changes with respect to any tax, criminal or regulatory investigation or action or any material Claims in relation to the Delivering Party's Contributed Business and other related businesses or operations of the Delivering Party and any breach of representations and warranties contained in Article II; *provided*, that the Requesting Party shall not unreasonably interfere with the conduct of business of the Delivering Party or any of its Subsidiaries; *provided, further*, that the furnishing of such documents or information shall not violate confidentiality obligations to a client or other Third Party or jeopardize the attorney-client privilege of the Delivering Party or any of its Subsidiaries (in which case the Parties will use their reasonable best efforts to institute appropriate substitute disclosure arrangements, to the extent practical in the circumstances); *provided, further*, that access to such information shall be subject to any appropriate firewalls or other restrictions to prevent disclosure of information unrelated to the Contributed Businesses; *provided, further*, that no Party shall be required to disclose information that is, in its reasonable judgment, competitively sensitive; and *provided, further*, that neither Party shall be required to disclose information in violation of Applicable Law. No information provided or investigation conducted pursuant to this Section 3.2 shall affect or be deemed to modify any representation or warranty made in this Agreement.

(b) Preservation of Records; Access by Advisors. Each of MUFG and MS agrees (i) to hold all of the books and records related to the MUS and MSJS Contributed Businesses, respectively, that are not transferred to MUMSS or MSMS hereunder, as applicable, and not to destroy or dispose of any thereof, for a period of seven (7) years (unless a longer period is required by Applicable Law) from the Closing Date and (ii) following the Closing Date, to provide the other Party, its accountants and legal counsel, during normal business hours, upon reasonable request, reasonable access to such books and records, to the extent



that such access may be requested as required to respond to any inquiry or investigation by any Governmental Authority. Each of MUFG and MS shall have the same rights, and MUMSS, MSMS and their respective Subsidiaries shall have the same obligations, as are set forth above in this Section 3.2(b) with respect to any non-privileged records pertaining to their respective Contributed Businesses that are transferred to MUMSS or MSMS, as applicable.

### 3.3 Confidentiality.

(a) Confidentiality Agreement. Each Party has agreed that the contemplated transaction in connection with this Agreement or the Transaction Documents shall be considered a Strategic Initiative (as defined in the Confidentiality Agreement) and acknowledges that the Confidentiality Agreement shall continue to apply with respect to the subject matter thereof pursuant to its terms. However, the confidentiality obligations of the Parties under this Agreement shall be as set forth in this Section 3.3.

(b) Treatment of Confidential Information. Each Party agrees to keep confidential, and not disclose to any Person (other than for purposes of filing such Party's Tax Returns, to enable such Party to comply with Applicable Law or for other routine matters required by Applicable Law), any business, financial or marketing information, or other confidential or proprietary information of any other Party or any Affiliate thereof that is received by it in connection with this Agreement or the transactions contemplated hereby (collectively, the "**Confidential Information**") (other than disclosure to such Party's Affiliates or such Party's or any Affiliate's employees, agents, advisors, or representatives, in each case, responsible for matters relating to the Contributed Business or relating or incidental to the purposes of this Agreement or the Transaction Documents and matters relating to such Party's compliance with Applicable Law (such Affiliates and each such Person being hereinafter referred to as an "**Authorized Representative**")); *provided*, that such Party and its Authorized Representatives may make disclosures to the extent that:

(i) the Confidential Information being disclosed is publicly known at the time of disclosure by such Party or Authorized Representative;

(ii) the Confidential Information otherwise is known to such Party other than through disclosure by either Party or by a third party in breach of a duty of confidentiality;

(iii) such Confidential Information is required to be included in one or more regulatory reports or filings or is otherwise required to be disclosed under Applicable Law, including reports, filings or disclosures required by any Governmental Entity;

(iv) such Confidential Information was developed by such Party or Authorized Representative independent of any Confidential Information of either Company or the other Party; or

(v) such Confidential Information is in relation to the existence and terms of this Agreement and any Transaction Document and the Party considers it necessary or desirable to disclose such Confidential Information to the Governmental Entity;

(vi) such Confidential Information relates to the tax treatment and tax structure of the transaction in connection with this Agreement or any Transaction Document or any materials of any kind (including opinions or other tax analysis) and is provided to such other Person in relation to such tax treatment and tax structure.; or

(vii) such disclosure, in the opinion of legal counsel of such Party or Authorized Representative, is required by Applicable Law.

(c) Prior Notification of Disclosure. Prior to making any disclosure required by or advisable under Applicable Law, to the extent practicable and permitted by Applicable Law, each Party shall notify the other Party of such disclosure together with a copy of the opinion referred to above. Prior to any disclosure to any Authorized Representative, each Party shall advise such Authorized Representative of the obligations set forth in this Section 3.3 and direct such Authorized Representative to treat such Confidential Information in accordance herewith (but shall, nonetheless remain responsible for any breach by such Authorized Representative).

(d) Client Information. Confidential client information of either Party or its Contributed Business, and any other Business Information forming part of the Contributed Assets of either Party or any of its Contributing Subsidiaries a copy of which is retained by such Party or such Contributing Subsidiary as the case may be, shall be maintained and kept confidential in accordance with Applicable Law and any confidentiality obligation.

(e) Precautionary Measures. Each Party will take adequate security and precautionary measures to effect compliance with this Section 3.3 by its Authorized Representatives who shall be given access to Confidential Information as permitted herein and will be responsible for such compliance by such Persons.

(f) Return of Information. If this Agreement terminates, either Party may by notice require the other to return the first Party's Confidential Information. If so, the other Party shall (and shall ensure that its Authorized Representatives shall) (i) return all documents containing Confidential Information which have been provided by or on behalf of the Party demanding the return of Confidential Information or its Authorized Representatives and (ii) destroy any copies of such documents and any document reproducing, containing or made from or with reference to the Confidential Information (except, in each case, for any submission to or filings with Tax or Governmental Authority). The other Party shall return or destroy the Confidential Information as soon as practicable after receiving notice. Notwithstanding the foregoing, each Party and their respective Subsidiaries may retain copies of such Confidential Information as is required by Applicable Law or the document retention policy of such Party or to the extent such copies are electronically stored, in accordance with the retention or back-up policies or procedures of such Party (including those regarding electronic communications).

#### 3.4 Action to Facilitate the Integration.

(a) Reasonable Best Efforts to Consummate Transactions. From the date hereof until the Closing, each Party shall use its reasonable best efforts to do or cause to be done all things necessary, proper or advisable, in accordance with Applicable Law, to consummate and make effective at the Closing the transactions contemplated by this Agreement and by the other Transaction Documents, and to cooperate with the other Party in good faith in connection with the foregoing, including:

(i) to obtain, and to cause its Subsidiaries to obtain prior to the Closing, any and all Governmental Approvals and Third Party Approvals required for the consummation of the transactions contemplated by this Agreement and by the other Transaction Documents (including any Governmental Approvals and Third Party Approvals required to separate the Excluded Businesses);

(ii) to comply, and cause its Subsidiaries to comply, with all conditions and covenants applicable to such Party hereunder or under the other Transaction Documents;

(iii) to defend any Claims, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated hereby or by the other Transaction Documents;

(iv) to administer, coordinate and otherwise manage each Party's compliance with Section 3.2 and to effectively plan for the practical implementation of the integration following Closing; and

(v) to do, and cause its Subsidiaries to do, all such other acts as are necessary or advisable in order to consummate the transactions contemplated hereby and by the other Transaction Documents;

*provided*, that no Party shall be obligated to take any such action if it would alter or affect any of the substantive rights or obligations of such Party as contemplated by this Agreement or by the other Transaction Documents. Notwithstanding the foregoing (i), in the case of any Third Party Approval, in no event shall MUFG or MS be obligated to pay any money to any Person or to offer or grant other financial or other accommodations to any Person in connection with its obligations under this Section 3.4(a).

(b) Governmental Approvals for Transactions pursuant to the Transaction Documents. Without limiting the foregoing, between the date of this Agreement and the Closing, each Party shall file, or cause to be filed,

as promptly as practicable, in each case in form and content in compliance with Applicable Law, each registration, report, statement, notice, form, or other filing requested, required or desirable to be filed by any such Party or its Subsidiaries with any Governmental Authority or in order to obtain any Governmental Approvals required or desirable in order to complete the transactions contemplated by this Agreement or the other Transaction Documents or for MUMSS or MSMS to conduct its business as contemplated in this Agreement or the other Transaction Documents.

(c) Filings; Cooperation. Subject to Applicable Law, each Party shall use reasonable best efforts to keep the other Party apprised of the status of any Governmental Approvals relating to the completion of the transactions contemplated by this Agreement or the other Transaction Documents or for MUMSS or MSMS to conduct its business as contemplated in this Agreement, the Shareholders Agreements or the other Transaction Documents and each Party shall coordinate and cooperate prior to the Closing with the other Party in exchanging such information and supplying such assistance as may be reasonably requested by the other Party in connection with any of the actions contemplated by this Section 3.4(c), including:

(i) cooperating with the other Party in connection with any filings or reports required to be made under the Banking Law, the Financial Instruments and Exchange Law, the Bank Holding Company Act, the Japan Anti Monopoly Act, or other antitrust, competition, trade, or securities regulations, or other Applicable Law, including, with respect to the Party making a filing, taking into account any reasonable objections of the other Party with respect to making such a filing and, where desirable, providing a draft of a proposed filing, communication or application and inviting representatives of the other Party to participate in communications with the relevant Governmental Authority;

(ii) furnishing to the other Party (or, if the Party reasonably believes that such information is commercially sensitive, the advisers to the other Party on the basis that such information will not be provided to the other Party) all information required for any such application or filing with a Governmental Authority;

(iii) promptly notifying the other Party of, and furnishing the other Party with copies of, any material written communications from or with any Governmental Authority with respect to the transactions contemplated hereby; and

(iv) regularly reviewing with the other Party the progress of any notifications or filings (including, where necessary, seeking to identify appropriate means to address any regulatory or antitrust concerns identified by any Governmental Authority) and discussing with the other Party tactics for obtaining clearance from the Governmental Authority at the earliest reasonable opportunity.

(d) Conditional Regulatory Approvals. If any Governmental Approval required for fulfillment of any of the Closing conditions contained in Section 5.2, in the case of MUFG, and Section 5.1, in the case of MS, is granted subject to any condition, term or undertaking to be given by MUFG, MS, MUMSS or MSMS, such Governmental Approval shall be deemed to fulfill the Closing condition if that condition, term or undertaking is not (i) in the reasonable mutual opinion of the Parties, unduly and materially onerous to MUMSS, MSMS or any Affiliate of MUMSS or MSMS after Closing, (ii) in the reasonable opinion of MUFG, unduly and materially onerous to MUFG or any Affiliate of MUFG either before or after Closing, or (iii) in the reasonable opinion of MS, unduly and materially onerous to MS or any Affiliate of MS either before or after Closing. In such circumstances, MUMSS or MSMS or, if applicable, MUFG or MS, and any relevant Affiliate of any of them shall give any such undertaking in the form required by the Governmental Authority. MS and MUFG shall discuss in good faith to agree whether or not this Section 3.4(d) applies in respect of any such condition, term or undertaking and, if it does not apply, to agree on an alternative proposal to fulfill the relevant Closing condition as promptly as is reasonably practicable in order to implement the Closing as far as practicable on the same terms as otherwise contemplated by this Agreement and the other Transaction Documents.

(e) Failure of Condition; Notification; Updated Disclosure Letter.

(i) At all times prior to the Closing Date, each Party shall promptly notify the other Party in writing of any fact, condition, event or occurrence that would reasonably be expected to result in the failure of any of the conditions contained in Section 5.2, in the case of MUFG, and Section 5.1, in the case of MS, promptly upon becoming aware of the same.

(ii) In the event that Closing is scheduled to occur after May 1, 2010, then no later than fifteen (15) Business Days prior to the Closing Date, each Party shall update and supplement in good faith its initial Disclosure Letter (each, an “**Updated Disclosure Letter**”), and deliver its Updated Disclosure Letter to the other Party, with respect to any matter not existing or, to the extent that a representation or warranty is qualified by a reference to the knowledge of such Party, not known as of the date of this Agreement which, if existing or known by such Party as of the date of this Agreement, would have been required to be set forth or described in such Party’s initial Disclosure Letter. Such Party’s Updated Disclosure Letter (together with the initial Disclosure Letter) shall be deemed to have qualified the Closing Warranties, except for Section 2.1(g)(v)(A) (No MAE Since Balance Sheet Date), made in this Agreement for purposes of determining whether or not the conditions set forth in Section 5.2(a), in the case of MUFG, or 5.1(a), in the case of MS, have been satisfied as of the Closing Date, but not for purposes of determining whether or not any other conditions set forth in Section 5.2, in the case of MUFG, or 5.1, in the case of MS, have been satisfied. (For the avoidance of doubt, no matter disclosed in the Updated Disclosure Letter shall qualify Section 2.1(g)(v)(A) (No MAE Since Balance Sheet Date) for any purposes in connection with this Agreement.) Such Party’s Updated Disclosure Letter shall be deemed not to have been disclosed for purposes of qualifying any representations and warranties made in or pursuant to this Agreement as of the Closing Date for purposes of determining whether the other Party (including its related Indemnitees) is entitled to indemnification pursuant to Section 6.2(a) (it being understood that all such representations and warranties set forth in Article II are being remade as of the Closing Date for purposes of Section 6.2(a)).

(f) Legal Developments. Without limiting the foregoing provisions of this Section 3.4, if (i) an Applicable Law is enacted or (ii) a Governmental Authority issues, or seeks the issuance of, an Order of the type that would cause any of the Closing conditions set forth in Sections 5.1(d) and 5.2(d) not to be satisfied, the Parties shall, and shall cause their respective Subsidiaries to, use their reasonable best efforts to obtain the elimination of, or exemption from, such Applicable Law or the lifting, withdrawal or termination of such Order or the termination of the efforts by such Governmental Authority to obtain the issuance of such an Order at the earliest practicable time and/or to negotiate in good faith to implement alternative arrangements that will permit the Closing and the transactions contemplated hereby and by the other Transaction Documents to be consummated without a violation of such Applicable Law or Order and without altering in any material respect the rights or obligations of the Parties under this Agreement or any other Transaction Document.

(g) Excluded Liabilities, Consents and Approvals. Prior to and after the Closing, each Party, at the request of the other, shall use its reasonable best efforts to obtain, or to cause to be obtained, any Consent, substitution, approval or amendment required to novate or assign all obligations under agreements, leases, licenses and other Liabilities of any nature whatsoever that constitute Excluded Liabilities, or to obtain in writing the unconditional release of all parties to such arrangements so that, in any such case, neither MUMSS nor MSMS will have any liability or responsibility for such Liabilities; *provided, however*, that no Party shall be obligated to pay any consideration therefor to any Third Party (who is not a Subsidiary or Affiliate of such Party) from whom such Consents, approvals, substitutions and amendments are requested provided that MS will not seek to assign rights and obligations in respect of the Retained Securitization Product set forth in Table 1 of Schedule 1.2(b) and will not seek consent with respect thereto. If the applicable Party is unable to obtain, or to cause to be obtained, any such required Consent, approval, release, substitution or amendment, it shall continue to pay, perform and discharge fully all such Liabilities and shall indemnify MUMSS, MSMS, the other Party and the Indemnitees in accordance with the terms of this Agreement. For the avoidance of doubt, if either Party is unable to obtain, or cause to be obtained, any such

required Consent, approval, release, substitution or amendment or any Consent, approval or amendment required to assign or transfer any Excluded Asset prior to Closing despite such Party's reasonable best efforts to do so, such failure shall not be treated as or constitute a breach of any provision of this Agreement.

(h) Retained Securitization Products. MS shall transfer or shall have transferred the economic interest in all Retained Securitization Products out of MSJS prior to the Closing by either (i) having MS or an Affiliate of MS enter into a total return swap in a customary form with MSJS in respect of such Retained Securitization Product such that any gains or losses in the values of such Retained Securitization Products relative to their values on the date on which the total return swap was or is entered into is or will be for the account of MS, and/or (ii) by assigning the economic rights and benefits of such Retained Securitization Products to an Affiliate of MS or a Third Party by way of an assignment, sub-participation arrangement or otherwise.

(i) Specific Obligations. To the extent that the form of any documents required to implement the MUFG Pre-Closing Reorganization or the MS Pre-Closing Reorganization are not attached as Exhibits to this Agreement, MUFG or MS (respectively) shall each consult with the other in advance of any material step proposed to be taken as part of such Pre-Closing Reorganization and shall provide the other in advance drafts of any material documents relevant to the implementation of such Pre-Closing Reorganization, in each case in sufficient time to enable the other adequately to consider and comment thereon, to the extent that such document is not consistent with any terms in respect of such document set forth in the Exhibits to this Agreement, the terms of this Agreement, the Shareholders Agreements and the other Transaction Documents.

(j) Contribution in Error. To the extent that, after the Closing, MUMSS, MSMS or either Party and/or any of its Affiliates discovers that an Asset or Liability was erroneously included as a Contributed Asset or Contributed Liability, as applicable: (i) MUMSS or MSMS, as applicable, shall transfer such Asset to the applicable transferor thereof in exchange for a payment by such transferor of an amount in cash equal to the reported value (if any) of such Asset on the applicable Final Closing Balance Sheet or (ii) MUMSS or MSMS, as applicable, shall, subject to Section 3.4(g), transfer such Liability to the applicable transferor thereof and shall make a payment to such transferor of an amount in cash equal to the reported value of such Liability on the applicable Final Closing Balance Sheet.

(k) Exclusion in Error. To the extent that, after the Closing, MUMSS, MSMS or either Party and/or any of its Affiliates discovers an Asset or Liability that should have been included as a Contributed Asset or Contributed Liability (including as necessary to make the representations set forth in Sections 2.1(j) (Assets; Services; Title) and Section 2.1(s)(iii) (IP Sufficiency) accurate): (i) the Party that should have transferred or procured the transfer of such Asset shall transfer or procure the transfer of such Asset to MUMSS or MSMS, as applicable, and in exchange receive a payment from MUMSS or MSMS, as applicable, of an amount in cash equal to the value of such Asset as of the Closing Date (as initially determined in good faith by MUMSS or MSMS, as applicable, and notified to both Parties) as if it had been included in the applicable Final Closing Balance Sheet or (ii) the Party that should have transferred or procured the transfer of such Liability shall, subject to Section 3.4(g), transfer or procure the transfer of such Liability to MUMSS or MSMS, as applicable, and such Party shall pay to MUMSS or MSMS, as applicable, an amount in cash equal to the value of such Liability as of the Closing Date (as agreed between MUMSS or MSMS, as applicable, and such Party) as if it had been included in the applicable Final Closing Balance Sheet; *provided*, that any disagreement between the Parties as to the value of any such Asset or Liability shall be resolved by following the procedures set forth in Section 1.6.

(l) Additional Post-Closing Assurances. Following the Closing Date, each Party shall, and shall cause each of its Affiliates to, from time to time, execute and deliver such additional instruments, documents, conveyances or assurances and take such other actions as shall be necessary, or otherwise reasonably be requested by MUMSS, MSMS or the other Party, to confirm and assure the rights and obligations provided for in the Transaction Documents and render effective the consummation of the transactions contemplated by the Transaction Documents, or otherwise to carry out the intent and purposes of the Transaction Documents.

3.5 Non-Solicitation of Employees. Each Party agrees that between the date of this Agreement and Closing, neither it nor any of its Affiliates shall employ or solicit in order to offer to employ, directly or indirectly, any employee of its Contributed Business, MUMSS or MSMS, as applicable, *provided however* that engaging or hiring of an employee will not be considered a violation of this Section 3.5 if (a) it is contemplated under this Agreement as part of a Pre-Closing Reorganization, (b) it is the return of a seconded employee to the seconding entity or secondment to an Affiliate, in each case in the ordinary course of business consistent with past practice, (c) it involves only general solicitation of employment not specifically directed toward personnel employed in its Contributed Business or either Company, or (d) the employment relationship between the relevant Company and the employee was terminated at least three (3) months prior to the commencement of employment discussions between the relevant Party and such employee, or (e) the employee contacted the relevant Party entirely on his or her own initiative and without any direct or indirect solicitation by relevant Party.

3.6 Tax Matters.

(a) Cooperation. Each of MUFG, MS, MUMSS and MSMS shall reasonably cooperate, and shall cause their respective Affiliates, officers, employees, agents, auditors and representatives to reasonably cooperate, with respect to Tax matters. MUFG, MS, MUMSS and MSMS agree to furnish or cause to be furnished to each other, upon request, as promptly as practicable, such information and assistance relating to the Contributed Businesses as is reasonably necessary for the filing of any Tax Return, the preparation for any audit and the prosecution or defense of any Claim relating to any proposed adjustment, in each case, with respect to a Pre-Closing Tax Period or a Straddle Period. The Parties shall reasonably cooperate to (i) identify all Tax-related information with respect to the Contributed Businesses that is held by MUFG, MS or their respective Affiliates and is reasonably necessary for the preparation of any Tax Return of MUMSS or MSMS, (ii) agree on the format in which such documentation will be provided to MUMSS or MSMS, as applicable, and (iii) take all actions reasonably necessary to transfer such information to MUMSS or MSMS, as applicable, at the Closing.

(b) Transfer Taxes. Any consumption, excise, sales, use, transfer, Real Property transfer, documentary, stamp or similar Taxes (“*Transfer Taxes*”) resulting from the transfer of the Contributed Assets to MUMSS or MSMS, as applicable, and the transactions described in Section 1.6 shall be borne by the Party or its Contributing Subsidiary that is responsible or otherwise liable therefor under Applicable Law. Except as otherwise provided in the Transaction Documents (other than this Agreement) with respect to the transactions contemplated thereby, all other Transfer Taxes arising from the transactions contemplated in this Agreement shall be the responsibility of the Party that incurs such Tax. The Parties shall reasonably cooperate to minimize the aggregate amount of Transfer Taxes.

3.7 Actions by Subsidiaries. Each of MUFG and MS shall ensure that each of its respective Subsidiaries takes all actions necessary to be taken by such Subsidiaries in order to fulfill the obligations of MUFG and MS, as the case may be, hereunder. From the date of this Agreement until the Closing, MUFG will not permit MUMSS to engage in any activities or incur any Liabilities other than in connection with the transactions contemplated by this Agreement.

3.8 Negotiations with Others. Until the Closing or the earlier termination of this Agreement, each of MUFG and MS will not and will cause each of its respective Subsidiaries and representatives, as the case may be, not to, directly or indirectly, without the prior written Consent of the other, initiate discussions or engage in negotiations concerning, or discuss, with any Person other than the other Party hereto and its representatives, any proposal (a) that is reasonably likely to prevent or materially delay the consummation of or otherwise have a Material Adverse Effect on the transactions contemplated by this Agreement or the other Transaction Documents, including proposals regarding the acquisition of, or joint venture with respect to, all or part of the MUS Contributed Assets or the MUS Contributed Business, or the MSJS Contributed Assets or the MSJS Contributed Business, as the case may be or (b) that would involve the direct or indirect acquisition by MUS or MSJS or their respective Affiliates of an interest greater than 15% in, or their entering into a joint venture with respect to, a Securities Company in Japan.

## ARTICLE IV

### ADDITIONAL TRANSACTION DOCUMENTS

Concurrent with the execution of this Agreement, the Parties shall enter into (or procure that their relevant Affiliates enter into) the Transaction Documents listed in Section 1 of Schedule 4 hereto, and at Closing, the Parties shall enter into (or procure that their relevant Affiliates enter into) the Transaction Documents listed in Section 2 of Schedule 4 hereto in the forms of Exhibits A through G attached hereto.

## ARTICLE V

### CONDITIONS TO CLOSING

5.1 Conditions to MUFG's Obligations. The obligation of MUFG to perform its obligations set forth in Section 1.5 and to consummate the Closing is subject to the fulfillment, at or prior to the Closing, of the following conditions:

(a) Representations and Warranties. The representations and warranties of MS set forth in this Agreement shall be true and correct as of the date of this Agreement and, in the case of Closing Warranties set forth in Sections 2.1 and 2.3 only, also as of the Closing Date as though made on and as of such date (except to the extent that any such representation or warranty expressly speaks as of an earlier date, in which case such representation or warranty shall be true and correct as of such earlier date); *provided, however*, that, notwithstanding anything to the contrary contained herein, the condition set forth in this Section 5.1(a) shall be deemed to have been satisfied even if any representations or warranties of MS (other than those contained in Section 2.1(b) (Authority and Validity), which must be true and correct in all material respects, or Section 2.1(g)(v)(A) (No MAE since Balance Sheet Date), which must be true and correct in all respects) are not so true and correct unless the failure of such representations and warranties of MS to be so true and correct, individually or in the aggregate, has had or would be reasonably expected to have a Material Adverse Effect on the MSJS Contributed Business.

(b) Performance of Agreements. MS shall, and shall have caused its Subsidiaries to, have performed and complied in all material respects with the obligations and covenants applicable to MS to be performed and complied with by MS or MS's Subsidiaries at or prior to the Closing in accordance with this Agreement.

(c) Pre-Closing Reorganization. MS shall, and shall have caused its Subsidiaries to, have completed the MS Pre-Closing Reorganization *provided, however*, for these purposes that the failure to obtain any Third Party Consent to any transfer of any MSJS Excluded Asset or MSJS Excluded Liability which may be required shall not give rise to a failure to complete the MS Pre-Closing Reorganization.

(d) No Injunction. At the Closing Date, there shall be no Order of any Governmental Authority of competent jurisdiction in effect, nor any pending Claim brought by any Governmental Authority of competent jurisdiction which seeks the issuance or entry of an Order, (i) that restrains or prohibits or renders illegal either (A) the Closing or (B) the consummation of the other transactions contemplated by the Transaction Documents, other than, in the case of clause (B), such other transactions the failure of which to be so consummated would not reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect on either Company or MUFG, or (ii) that would otherwise reasonably be expected to have a Material Adverse Effect on either Company or MUFG if the Closing were to occur.

(e) Consents and Approvals. The Governmental Approvals set forth in Schedule 5.1(e) shall have been obtained and shall be in full force and effect without any condition or requirement, and all other Governmental Approvals necessary to effect the consummation of the transactions contemplated by this Agreement and the other Transaction Documents and for each Company to conduct its business as contemplated in this Agreement and the other Transaction Documents shall have been obtained and shall be

in full force and effect, in each case without any condition or requirement that would reasonably be expected to have a Material Adverse Effect on either Company, or MUFG or its Subsidiary or Affiliate, and any applicable waiting periods in respect thereof shall have expired or been terminated.

(f) Transaction Documents; Articles. Each of the Transaction Documents shall have been finalized to the reasonable satisfaction of both Parties, executed, delivered and performed (to the extent required/ obligated to be performed by the Closing, if any) by all parties thereto other than MUFG and its Subsidiaries, and the MSMS Articles shall have been approved by a general meeting of the shareholders of MSMS and, to the extent required, by general meetings of any class shareholders of MSMS.

(g) Certificate. MUFG shall have received a certificate signed by a duly authorized executive officer of MS to the effect that the conditions set forth in Sections 5.1(a) and (b) have been satisfied.

**5.2 Conditions to MS's Obligations.** The obligation of MS to perform its obligations set forth in Section 1.5 and to consummate the Closing is subject to the fulfillment, at or prior to the Closing, of the following conditions:

(a) Representations and Warranties. The representations and warranties of MUFG set forth in this Agreement shall be true and correct as of the date of this Agreement and, in the case of Closing Warranties set forth in Sections 2.1 and 2.2 only, also as of the Closing Date as though made on and as of such date (except to the extent that any such representation or warranty expressly speaks as of an earlier date, in which case such representation or warranty shall be true and correct as of such earlier date); *provided, however*, that notwithstanding anything to the contrary contained herein, the condition set forth in this Section 5.2(a) shall be deemed to have been satisfied even if any representations or warranties of MUFG (other than those contained in Section 2.1(b) (Authority and Validity), which must be true and correct in all material respects, or Section 2.1(g)(v)(A) (No MAE since Balance Sheet Date), which must be true and correct in all respects) are not so true and correct unless the failure of such representations and warranties of MUFG to be so true and correct, individually or in the aggregate, has had or would be reasonably expected to have a Material Adverse Effect on the MUS Contributed Business.

(b) Performance of Agreements. MUFG shall, and shall have caused its Subsidiaries to, have performed and complied in all material respects with the obligations and covenants applicable to MUFG to be performed and complied with by MUFG or MUFG's Subsidiaries at or prior to the Closing in accordance with this Agreement.

(c) Pre-Closing Reorganization. MUFG shall, and shall have caused its Subsidiaries to, have completed the MUFG Pre-Closing Reorganization *provided, however*, for these purposes that the failure to obtain any Third Party Consent to any transfer of any MUS Excluded Asset or MUS Excluded Liability which may be required shall not give rise to a failure to complete the MUFG Pre-Closing Reorganization.

(d) No Injunction. At the Closing Date, there shall be no Order of any Governmental Authority of competent jurisdiction in effect, and no pending Claim brought by any Governmental Authority of competent jurisdiction which seeks the issuance or entry of an Order (i) that restrains or prohibits or renders illegal either (A) the Closing or (B) the consummation of the other transactions contemplated by the Transaction Documents, other than, in the case of clause (B), such other transactions the failure of which to be so consummated would not reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect on either Company or MS, or (ii) that would otherwise reasonably be expected to have a Material Adverse Effect on either Company or MS if the Closing were to occur.

(e) Consents and Approvals. The Governmental Approvals set forth in Schedule 5.1(e) shall have been obtained and shall be in full force and effect without any condition or requirement, and all other Governmental Approvals necessary to effect the consummation of the transactions contemplated by this Agreement and the other Transaction Documents and for each Company to conduct its business as contemplated in this Agreement and the other Transaction Documents shall have been obtained and shall be in full force and effect without any condition or requirement that would reasonably be expected to have a



Material Adverse Effect on either Company, or MS or its Subsidiary or Affiliate, and any applicable waiting periods in respect thereof shall have expired or been terminated.

(f) Transaction Documents; Articles. Each of the Transaction Documents shall have been finalized to the reasonable satisfaction of both Parties, executed, delivered and performed (to the extent required/ obligated to be performed by the Closing, if any) by all parties thereto other than MS and its Subsidiaries, and the MUMSS Articles shall have been approved by a general meeting of the shareholders of MUMSS and, to the extent required, by general meetings of any class shareholders of MUMSS.

(g) Certificate. MS shall have received a certificate signed by a representative director of MUFG to the effect that the conditions set forth in Sections 5.2(a) and (b) have been satisfied.

## ARTICLE VI

### INDEMNIFICATION

#### 6.1 Assertion of Claims.

(a) Survival of Representations and Warranties. The representations and warranties contained in Article II will survive the Closing until the second anniversary of the Closing; *provided, however*, that (i) the representations and warranties contained in Sections 2.1(r) (Taxes) shall survive until six (6) months following expiration of any applicable statute of limitations and (ii) the representations and warranties contained in Sections 2.1(a) (Organization, Standing and Power) and 2.1(b) (Authority and Validity) shall survive indefinitely, following which times no claim for any breach of such representations and warranties may be commenced, unless the Party making such a Claim has been notified to the other Party prior to such date.

(b) Asserted Claims. Notwithstanding the foregoing, any representation or warranty shall, to the extent that a Claim with respect thereto is timely asserted in writing on or prior to the expiration thereof, survive until a final adjudication or resolution of such Claim.

(c) Survival of Other Indemnity Rights. The right of an Indemnitee to indemnification or to otherwise receive payments pursuant to Section 6.2(b), (c) or (d) or Section 6.3 shall be separate and in addition to, and shall not be limited by, such Person's right to indemnification pursuant to Section 6.2(a), and shall survive any termination or expiration of the representations and warranties set forth in this Agreement pursuant to this Section 6.1.

6.2 Indemnification Generally. Subject to the limitations set forth in this Article VI, each Party (the "**Indemnitor**") shall indemnify, defend and hold harmless the other Party, the other Party's Affiliates and the Companies and their respective Subsidiaries, and the directors, officers, employees, managers, agents and representatives of each of the foregoing (collectively, the "**Indemnitees**"), from and against any losses, damages, Liabilities, costs, expenses (including legal fees and expenses), fees, penalties, fines, Taxes, judgments, settlements and Claims of whatever kind and nature (each a "**Loss**") incurred by an Indemnitee arising out of or in connection with:

(a) Breach of Representation or Warranty. The failure of any representation or warranty to be true and correct when made (or when deemed to be made) by the Indemnitor in this Agreement, and the failure of any Closing Warranty that was true and correct when made by the Indemnitor in this Agreement to continue to be true and correct as of the Closing (or as of such other date as is expressly specified in such representation and warranty as the date at which such representation and warranty is true) as if such representation and warranty were made again at the Closing (or such other specified date) (in each case, without giving effect to any limitation as to "materiality" or "Material Adverse Effect" or similar qualification set forth therein). For purposes of this Section 6.2(a), the representations and warranties of each of MUFG and MS set forth in Article II of this Agreement shall be deemed made to and in favor of

each Company as of the date of this Agreement, and the Closing Warranties shall be deemed made to and in favor of each Company also on and as of the Closing Date (except to the extent that any such Closing Warranty expressly speaks as of an earlier date, in which case such Closing Warranty shall be deemed made on and as of such earlier date);

(b) Breach of Covenant or Agreement. The failure by the Indemnitor or any of its Subsidiaries to perform any of its or their covenants or agreements contained in this Agreement (including any failure to comply with any provision hereof or any failure to satisfy any Liability assumed or retained by such Indemnitor or its Subsidiaries); or

(c) Excluded Liabilities. In the case of MUFU as Indemnitor, the MUS Excluded Liabilities (including any and all Liabilities deemed to be owed by MUMSS by virtue of law arising out of or in connection with the MUS Excluded Liabilities), and in the case of MS as Indemnitor, the MSJS Excluded Liabilities (including any and all Liabilities deemed to be owed by MSMS by virtue of law arising out of or in connection with the MSJS Excluded Liabilities).

(d) Pre-Closing Liabilities. In the case of MUFU as Indemnitor, the MUS Pre-Closing Liabilities, and in the case of MS as Indemnitor, the MSJS Pre-Closing Liabilities.

### 6.3 Other Indemnification.

(a) Tax. Each Indemnitor shall indemnify, defend and hold harmless the Indemnitees, from and against any Losses incurred by an Indemnitee arising out of or in connection with unpaid Taxes relating to the Indemnitor's Contributed Business accruing as to any period prior to Closing, including between the date of its Interim Pro Forma Financial Statements and Closing except to the extent provided for in the Final Closing Balance Sheet.

(b) Other. Each Indemnitor shall indemnify, defend and hold harmless the Indemnitees, from and against any Losses incurred by an Indemnitee arising out of any asbestos, polychlorinated biphenyl, or radioactive materials present at Closing at any of such Indemnitor's Contributed Leased Real Property or Contributed Real Property.

### 6.4 Limitations on Amounts.

(a) Thresholds. An Indemnitor shall have no Liability under Section 6.2(a), 6.2(d) and 6.3:

(i) for any Loss or series of related Losses unless the amount thereof exceeds ¥100,000,000 (each, a "*De Minimis Loss*"); and

(ii) until the amount of Losses (other than any De Minimis Losses) that would be subject to indemnification by the Indemnitor but for this sentence exceeds an aggregate amount equal to ¥1,000,000,000 (the "*Deductible*");

in which case the Indemnitees shall be entitled to indemnification of all Losses in excess of the Deductible (other than any De Minimis Losses).

(b) Indemnification Liability Capped. An Indemnitor's aggregate Liability under Section 6.2(a), 6.2(b), 6.2(d) and 6.3 shall in no event exceed ¥150 billion.

### 6.5 Other Indemnification Provisions.

(a) Amount of Loss. For purposes of Section 6.2(a), the amount of Losses arising out of any breach of a representation or warranty shall be determined without regard to qualifications of materiality or Material Adverse Effect or similar qualifications (other than specified dollar thresholds) and without regard to whether the matter giving rise to such Losses was disclosed to the other Party (or its representatives) (other than in the applicable Disclosure Letter). The representations and warranties contained in Article II and the rights and remedies that may be exercised by any Person seeking indemnification hereunder, shall not be limited or otherwise affected by or as a result of any information furnished to, or any investigation made by, any such Person or its representatives.

(b) Limitation on Damages. Notwithstanding anything to the contrary contained in this Article VI, no Indemnitor shall be liable for any indirect, special, consequential, exemplary or punitive damages related to or arising in connection with any indemnification in this Article VI, except in cases where such damages are recovered from an Indemnitee by a Third Party. In no event shall any Indemnitee recover more than once for any Loss, regardless of whether alternative theories of recovery exist under this Agreement or Applicable Law.

(c) Exclusive Remedy. This Article VI sets forth the Parties' exclusive remedy, following the Closing, for any Loss that may result from the breach of any of the representations or warranties, covenants or agreements contained in this Agreement or any other matter arising under this Agreement, except for Losses resulting from fraud of an Indemnitor or its Affiliates.

(d) Valuation. Notwithstanding anything to the contrary contained herein, no Indemnitor shall be required to indemnify any Party (or its Affiliates) for any Loss relating to a reduction in the value of a Contributed Business to the extent such Loss was provided for or accrued in the Final Closing Balance Sheet or a reduction in value of either Company to the extent that such Company has been held harmless therefor in accordance with the terms hereof.

(e) Distribution of Subsequent Awards. If any Indemnitee receives any amounts in respect of Losses previously paid by the Indemnitor or obtains any judgment or award in any litigation relating to an Excluded Liability or Excluded Claim of such Indemnitor which was previously paid by such Indemnitor, the Indemnitee shall distribute such amounts received to the Indemnitor. Any Losses shall be net of any (i) amounts actually recovered by any Indemnitee under applicable insurance policies and (ii) Tax benefits actually realized by any Indemnitee by reason of the incurrence or payment of any such Losses, and shall be increased by any Tax costs incurred by any Indemnitee as a result of the receipt of the indemnification payment.

(f) Other Indemnification Agreements. This Agreement shall not be deemed to amend or otherwise modify the provisions or application of any indemnification or similar agreement between (i) any broker or other employee of a Party, any of its Subsidiaries or either Company, and (ii) such Party, any of its Subsidiaries, or either Company. In addition, notwithstanding any provision in this Agreement to the contrary, nothing in this Agreement shall (A) require the Indemnitor to indemnify the brokers or other employees of the Indemnitor, any of its Subsidiaries, MUMSS or MSMS, or (B) be deemed to waive any right of the Indemnitor to receive reimbursement from such brokers or other employees for, among other things, Losses caused by their criminal conduct, willful misconduct or bad faith.

(g) Mitigation. Each Indemnitee must use reasonable efforts to mitigate any Loss for which such Indemnitee seeks indemnification under this Agreement.

(h) Claims by MUFG or MS on behalf of the Companies. If MUFG becomes aware of any Loss for which MUMSS or MSMS may be entitled to seek indemnification from MS under this Agreement, MUFG shall be entitled to seek such indemnification on behalf of such Company and may exercise or cause to be exercised all of the rights of such Company with respect to such Loss as if MUFG were the Indemnitee with respect to such Loss; *provided*, that any amounts recovered from MS with respect to such Loss shall be paid to such Company. If MS becomes aware of any Loss for which MUMSS or MSMS may be entitled to seek indemnification from MUFG under this Agreement, MS shall be entitled to seek such indemnification on behalf of such Company and may exercise or cause to be exercised all of the rights of such Company with respect to such Loss as if MS were the Indemnitee with respect to such Loss; *provided*, that any amounts recovered from MUFG with respect to such Loss shall be paid to such Company.

6.6 Procedures. In the event any Indemnitee should have a Claim under this Article VI against any Indemnitor that does not involve a Claim being asserted against or sought to be collected from such Indemnitee by a Third Party, the Indemnitee shall deliver reasonably prompt notice of such Claim, specifying in reasonable detail the basis therefor, to the Indemnitor. The failure or delay by any Indemnitee to so notify the Indemnitor shall not relieve the Indemnitor from any Liability which it may have to such Indemnitee, except to the extent

that the Indemnitor has been actually prejudiced by such failure or delay. If the Indemnitor does not notify the Indemnitee within sixty (60) Business Days following its receipt of such notice that the Indemnitor disputes its Liability to the Indemnitee, such Claims specified by the Indemnitee in such notice shall be conclusively deemed a Liability of the Indemnitor, and the Indemnitor shall pay the amount of such Liability to the Indemnitee on demand or, in the case of any notice in which the amount of the Claims (or any portion thereof) is estimated, on such later date when the amount of such Claim (or such portion thereof) becomes finally determined.

6.7 Procedures for Non-Party Claims. The following procedures shall apply to all matters or circumstances that may result in a Loss by reason of a Claim brought by a Third Party, including any Claim asserted by a Governmental Authority (“**Non-Party Claims**,” including any Claim asserted by an employee of a Party, such Party’s Subsidiary or either Company):

(a) Notice. Promptly after an Indemnitee receives written notice of any matter or circumstance that may reasonably be expected to result in a Loss to such Indemnitee by reason of a Non-Party Claim, the Indemnitee shall give written notice thereof to the Indemnitor. The right to indemnification hereunder will not be affected by any failure of an Indemnitee to give such notice (or delay by any Indemnitee in giving such notice) unless (and then only to the extent that) the rights and remedies of the Indemnitor have been actually prejudiced as a result of the failure to give, or the delay in giving, such notice. The notice of the Non-Party Claim shall describe the Non-Party Claim in reasonable detail.

(b) Control of Non-Party Claims. Subject in all cases to Section 6.6 and except for Pre-Closing Litigation referred to in Section 6.7(f), which shall be administered in accordance with that section, the Indemnitor shall be entitled, at its election, to control the defense of such Non-Party Claim (the “**Controlling Party**”) and if the Indemnitor so elects, it shall: (i) retain counsel of its own choosing, which counsel shall be reasonably acceptable to the Indemnitee; (ii) control and direct the defense of any such Non-Party Claim, including the development and implementation of legal strategy for such Non-Party Claim, subject to Section 6.7(c); and (iii) pay, and indemnify the Indemnitee against, any costs or expenses incurred in such defense (whether or not such defense is wholly or partially successful).

(c) Settlements. No Party shall have any Liability for any settlement or compromise effected without its Consent, which Consent shall not be unreasonably withheld. No Controlling Party may effect any settlement or compromise unless the Indemnitee has no Liability in connection therewith which is not fully satisfied by the Controlling Party.

(d) Conflicts of Interest. The Indemnitee in respect of any Claim shall be entitled to engage separate counsel of its choice to participate in the defense of such Claim; *provided*, that, except as set forth in the remainder of this Section 6.7(d), the fees and expenses of such separate counsel shall be borne solely by the Indemnitee and shall not be subject to reimbursement by the Indemnitor; and *provided, further*, that this sentence shall not affect, in any respect, the control of such Claim as provided in Section 6.7(b). Notwithstanding the foregoing, if the defendants in a Claim include both an Indemnitee and the Indemnitor, and counsel to the Indemnitee (or, if the Indemnitee is the Controlling Party, counsel to the Indemnitor) shall have reasonably concluded that joint representation would be inappropriate due to potential or actual conflicts of interest between the Controlling Party, the Indemnitor and/or the Indemnitee, the Indemnitee shall have the right to retain a single firm of separate counsel reasonably acceptable to the Controlling Party (and, if the Company is the Controlling Party, the Indemnitor) (each of which shall be timely sought and shall not be unreasonably withheld) to participate in the defense of that Claim on behalf of such Indemnitee and at the expense of the Indemnitor.

(e) Status. The Controlling Party shall at the request of the Indemnitee from time to time notify the Indemnitee regarding the status, including any significant developments, with respect to Non-Party Claims the defense of which is being conducted by the Controlling Party on behalf of an Indemnitee (or the Indemnitor, as the case may be).

(f) Pre-Closing Litigation. Without limiting any other provision in this Agreement, the Parties agree that (i) each Party shall remain responsible for, and control, all litigation with respect to its Contributed

Business and Contributing Subsidiaries pending or threatened in writing prior to the Closing, including any Claims pending or threatened in writing by a Party as plaintiff relating to its Contributed Business and Contributing Subsidiaries (the “*Pre-Closing Litigation*”) (which Claims such Party shall continue to prosecute and shall use good faith efforts to obtain a favorable judgment or settlement), and (ii) no Pre-Closing Litigation shall be the responsibility of either Company, which shall be treated as an Indemnitee for purposes of Article VI with respect to all such litigation (it being understood that any settlement of any Claim being pursued as plaintiff will not be settled without the Consent of such Company (which Consent shall not be unreasonably withheld) if such settlement would impair the value of any Contributed Asset in any respect and any proceeds of any such settlement with respect to any Contributed Asset shall be paid over to the applicable Company).

6.8 Mutual Assistance. The Indemnitor and Indemnitee shall reasonably cooperate with each other in the defense of any Claim subject to indemnity pursuant to this Article VI and with respect to any Pre-Closing Litigation. Without limiting the foregoing, after the Closing, MUFG agrees that it will, and that it will cause its Affiliates to; MS agrees that it will, and will cause its Affiliates to; and the Parties agree that they will cause the Companies to (i) cooperate with each of the Parties and their Subsidiaries and the Companies and its Subsidiaries, (ii) generally seek to avoid the imposition of regulatory sanctions on the Parties or their Subsidiaries and the Companies or their Subsidiaries to the extent reasonable under the circumstances and (iii) furnish to each of them access to such employees and other Persons under their control, and such information, documents, records, evidence, testimony and other assistance as any of them may reasonably request, in connection with any Claims, arrangements or disputes of any nature involving or affecting the Companies that reasonably relate to matters that occurred prior to the Closing and in which any of them, as the case may be, was involved or for which such Person has records, information or knowledge. The reasonable expenses incurred by any Person in complying with any request for cooperation pursuant to this Section 6.8 shall be borne by the Indemnitor or other Person requesting such cooperation; *provided, however*, that such expenses shall not include incidental time incurred by employees of any Party responding to such a request for cooperation. The Parties shall cause the Companies to assist, service and otherwise support any Pre-Closing Litigation.

## ARTICLE VII

### TERM AND TERMINATION

7.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by mutual written Consent of the Parties at any time;

(b) by either Party upon written notice to the other Party in the event that any Governmental Authority has issued an Order (i) denying a Governmental Approval required as a condition to Closing under Section 5.1(e) or 5.2(e) or (ii) causing the conditions set forth in Section 5.1(d) (in the case of MUFG) or 5.2(d) (in the case of MS) not to be satisfied, and in either case such Order shall have become final and non-appealable;

(c) by either Party, upon written notice to the other Party, at any time after 5:00 p.m., Japan time, on December 31, 2010, in the event that the Closing shall not have occurred on or prior to such time; *provided, however*, that such date shall be extended by an additional ninety (90) days if (i) the conditions set forth in Section 5.1(e) or 5.2(e) shall not have been satisfied prior to such date and time, and (ii) all other conditions to Closing in this Agreement have been satisfied or waived; *provided, further*, that a Party may not give notice under this Section 7.1(c) if a condition to the other Party’s obligation to proceed to Closing has not been fulfilled due to such Party’s breach of a material covenant, obligation or agreement in this Agreement; or

(d) by either Party, upon written notice to the other Party, if (i) there has been a material misrepresentation or breach of warranty or covenant or agreement made or to be performed by or on the part of such other Party pursuant to this Agreement, (ii) such misrepresentation or breach has not been or cannot

be cured within a period of sixty (60) days following the delivery of written notice to such other Party of such misrepresentation or breach, and (iii) the effect of such misrepresentation or breach is to prevent the satisfaction of a condition specified in Sections 5.1(a) or 5.1(b) (in the case of MUFG) or Sections 5.2(a) or 5.2(b) (in the case of MS).

7.2 Effect of Termination. If this Agreement is terminated in accordance with Section 7.1, no covenants, agreements, representations or warranties contained herein shall survive the termination of this Agreement except (a) Article VIII and (b) those provisions that by their express terms survive such termination; *provided, however,* that no termination of this Agreement shall release a breaching Party from any Liability with respect to any breach of this Agreement occurring prior to such termination.

## ARTICLE VIII

### MISCELLANEOUS

8.1 General Escalation Procedure. Prior to commencing any arbitration proceedings as provided in Section 8.2 the Parties will attempt to resolve any dispute arising out of this Agreement, including the breach, termination or invalidity thereof (a “*Dispute*”) through good faith negotiations, as follows:

(a) either Party may send written notice to the other with a copy to MSMS or MUMSS as appropriate, specifying the nature of the Dispute in reasonable detail and requesting negotiations in respect of such Dispute;

(b) for a period of twenty (20) Business Days after the receipt of any such notice, the Parties shall discuss the Dispute in an effort to resolve it; and

(c) failing resolution of such Dispute within the twenty (20) Business Day period referred to in Section 8.1(b), the representatives of either Party may promptly submit a written statement of the Dispute to the respective CEOs of MUFG and MS for joint resolution by them;

(d) failing resolution of a Dispute within twenty (20) Business Days after the submission of a written statement as referred to in Section 8.1(c), the Dispute shall be finally resolved by binding arbitration in accordance with Section 8.2.

#### 8.2 Arbitration.

(a) Arbitration; Rules; Location. Except as provided in Section 8.1, any Dispute shall be referred to and finally determined under the Rules of Arbitration of the International Chamber of Commerce then in effect (the “ICC Rules”). The place of arbitration shall be Tokyo, Japan.

(b) Arbitrators. There shall be three arbitrators. Two arbitrators shall be nominated by the Parties, with each Party nominating one arbitrator, in accordance with the ICC Rules. If a Party fails to nominate an arbitrator within the time limits set by the ICC Rules, the International Court of Arbitration (“ICC Court”) shall appoint an arbitrator for that Party. The third arbitrator, who will act as chairperson of the arbitral tribunal, shall be nominated by the other two arbitrators. If the two arbitrators are unable to agree on the nomination of the chairperson within thirty (30) days after the appointment of the second arbitrator, then the ICC Court shall appoint the chairperson forthwith. Each arbitrator on the arbitral tribunal shall be disinterested in the dispute and shall have no connection to either Party, and shall be fluent in English. The arbitrators shall not be required to be admitted to practice law in Japan.

(c) Award. The arbitral award shall be in writing, state the reasons for the award, and be the sole and exclusive binding remedy between and among the Parties. Judgment on the award rendered may be entered in any court having jurisdiction thereof. To the extent permitted by Applicable Law, the Parties hereby waive any right to refer any question of law and their right of appeal on the law and/or merits to any court,

except as provided by the Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958. For purposes of such convention, the award shall be deemed an award of Japan, the relationship between the Parties shall be deemed commercial in nature, and any Disputes shall be deemed commercial.

(d) Language of Proceedings. The language of the arbitral proceedings shall be English and all documents not in English submitted by any Party shall be accompanied by a translation into English prepared at the expense of the party producing the document.

(e) Confidentiality of Proceedings. The Parties agree that any arbitration hereunder shall be kept confidential, and that the existence of the proceeding and all of its elements (including any pleadings, briefs or other documents submitted or exchanged, any testimony or other oral submissions, and any awards) shall be deemed Confidential Information for purposes hereof, and shall not be disclosed beyond the tribunal, the ICC Court, the Parties, their counsel, and any person necessary to the conduct of the proceeding, except as and to the extent required to enforce any arbitral award, or as otherwise contemplated in Section 3.3(b).

(f) Equitable and Provisional Relief. Each of the Parties acknowledges and agrees that any breach by it of any provision of this Agreement would irreparably injure the other Party and that money damages would be an inadequate remedy therefor. Accordingly, each Party agrees that, in addition to any money damages, the other Party shall be entitled to one or more injunctions enjoining any such breach and requiring specific performance of this Agreement and consents to the entry thereof. In addition, nothing in this Section 8.2 or otherwise shall be construed as preventing either Party from seeking an interim injunction or any similar equitable relief in any court of competent jurisdiction.

(g) Limitations on Damages. In no event shall a Party have any liability to the other Party for such other Party's loss of profits, revenue or goodwill, loss or interruption of business, loss of data, or for any indirect, incidental, special, consequential or punitive damages, arising out of or relating to this Agreement or the subject matter hereof, no matter what theory of liability, and even if advised of the possibility or probability of such damages.

(h) Expenses. Each party to a Dispute shall bear its own legal fees and costs in connection therewith.

**8.3 Governing Law.** This Agreement shall be governed by, and construed in accordance with, the internal laws of Japan, without giving effect to its choice of law rules.

**8.4 Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under Applicable Law, but if any provision of this Agreement is held to be prohibited by or invalid or unenforceable in any respect under Applicable Law, such provision shall be ineffective only to the extent of such prohibition, invalidity or unenforceability, without invalidating the remainder of such provision or the remaining provisions of this Agreement and the Parties shall use all reasonable efforts to replace it in that respect with a valid and enforceable substitute provision the effect of which is as close to its intended effect as possible.

**8.5 Entire Agreement.** This Agreement, including the Appendices, Exhibits and Schedules hereto and the Disclosure Letters delivered herewith, which are expressly incorporated herein by this reference, together with the other Transaction Documents, contain the entire agreement between the Parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, between the Parties with respect to such subject matter. No Party shall have any claim or remedy in respect of any representation, inducement, promise, understanding, condition or warranty not set forth in this Agreement or the other Transaction Documents. Except for any liability in respect of breach of this Agreement or fraud, neither Party shall owe any duty of care or have any liability in tort or otherwise to the other Party.

**8.6 Language.** This Agreement is entered into in the English language; provided that each Party's Schedules attached hereto and Disclosure Letter may be in the Japanese language to the extent not available in the English

language. In the event of any dispute concerning the construction or meaning of this Agreement, the text of the Agreement as written in the English language shall prevail over any translation of this Agreement that may have been made.

8.7 No Amendments. This Agreement may not be amended or modified except by a written instrument, expressly referring to this Agreement, and signed by each of the Parties.

8.8 No Waivers. No waiver of any term or provision of this Agreement shall be effective unless it is in writing and is signed by the Party against which it is asserted. Neither the failure nor any delay by any Person in exercising any right, power or privilege under this Agreement shall operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege shall preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege.

8.9 No Assignments. Neither Party shall assign, or suffer or permit an assignment (by operation of law or otherwise) of, its rights or obligations under or interest in this Agreement without the prior written consent of the other Party. Any purported assignment or other disposition by a Party shall be null and void. For purposes of this Section 8.9, the terms "assign" and "assignment" shall be deemed to include (i) a merger in which a Party is not the surviving entity, (ii) a consolidation or division of a Party, (iii) a sale of all or substantially all of the Assets of a Party, or (iv) a change of control resulting from a sale or repurchase of shares or similar transaction involving a Party.

8.10 No Third Party Beneficiaries. Except as set forth in Article VI, nothing in this Agreement, expressed or implied, is intended to confer on any Person other than the Parties any rights, remedies, obligations or liabilities under or by reason of this Agreement.

8.11 Notices. Any notices and other communications required to be given pursuant to this Agreement shall be in writing and shall be effective upon delivery by hand or upon receipt if sent by mail (registered or certified mail, postage prepaid) or upon transmission if sent by facsimile (with request for confirmation of receipt in a manner customary for communications of such respective type), except that if notice is received after 5:00 p.m., local time, on a Business Day at the place of receipt, it shall be effective as of the following Business Day. Notices are to be addressed as follows:

If to MUFG, to:

MUFG/MS Strategic Alliance Office  
Mitsubishi UFJ Financial Group, Inc.  
7-1 Marunouchi 2-chome  
Chiyoda-ku  
Tokyo 100-8330, Japan  
Attention: General Manager  
Telephone: +81-3-3240-8111  
Facsimile: +81-3-3240-5324

and:

Corporate Planning Division  
Mitsubishi UFJ Financial Group, Inc.  
7-1 Marunouchi 2-chome  
Chiyoda-ku  
Tokyo 100-8330, Japan  
Attention: General Manager  
Telephone: +81-3-3240-8111  
Facsimile: +81-3-3240-6631



with a copy to:

Morrison & Foerster LLP  
Shin-Marunouchi Building, 29th Floor,  
5-1 Marunouchi 1-chome  
Chiyoda-ku,  
Tokyo 100-6529, Japan  
Attention: Ken Siegel  
Telephone: +81-3-3214-6522  
Facsimile: +81-3-3214-6512

and:

Nishimura & Asahi  
Ark Mori Building  
1-12-32 Akasaka  
Minato-ku  
Tokyo 107-6029, Japan  
Attention: Masakazu Iwakura  
Telephone: +81-3-5562-8500  
Facsimile: +81-3-5561-9711/12/13/14

If to MS, to:

Morgan Stanley  
1585 Broadway,  
New York, NY 10036, U.S.A.  
Attention: General Counsel  
Telephone: +1 (212) 761-4000  
Facsimile: +1 (212) 761-0331

with copies to:

Davis Polk & Wardwell LLP  
450 Lexington Avenue  
New York, NY 10017, U.S.A.  
Attention: John D. Amorosi  
Telephone: +1 (212) 450 4010  
Facsimile: +1 (212) 701 5010

and:

Morgan Stanley Japan Holdings Co., Ltd  
Yebisu Garden Place Tower  
20-3, Ebisu 4-Chome, Shibuya-ku  
Tokyo 150-6008, Japan  
Attention: The President  
Telephone: +81 (3) 5424-5000  
Facsimile: +81 (3) 5424-5099

or to such other respective addresses as either Party shall designate to the other by notice in writing; *provided*, that notice of a change of address shall be effective only upon receipt.

8.12 Definitions; Interpretation.

(a) Certain Definitions. Capitalized terms used but not defined in the main body of this Agreement shall have the meanings assigned to them in Appendix A.

(b) Treatment of Ambiguities. The Parties acknowledge that each Party has participated in the drafting of this Agreement and the other Transaction Documents, and that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in the construction or interpretation of this Agreement or any other Transaction Document.

(c) References; Construction. Unless otherwise indicated herein, with respect to any reference made in this Agreement to a Section (or Article, Subsection, Paragraph, Subparagraph or Clause), Appendix, Exhibit or Schedule, such reference shall be to a section (or article, subsection, paragraph, subparagraph or clause) of, or an appendix, exhibit or schedule to, this Agreement. The table of contents and any article, section, subsection, paragraph or subparagraph headings contained in this Agreement and the recitals at the beginning of this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any reference made in this Agreement to a statute or statutory provision shall mean such statute or statutory provision as it has been amended through the date as of which the particular portion of the Agreement is to take effect, or to any successor statute or statutory provision relating to the same subject as the statutory provision so referred to in this Agreement, and to any then applicable rules or regulations promulgated thereunder. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed, unless the context clearly indicates to the contrary, to be followed by the words “but (is/are) not limited to.” The words “herein,” “hereof,” “hereunder” and words of like import shall refer to this Agreement as a whole (including its Appendices, Exhibits and Schedules), unless the context clearly indicates to the contrary (for example, that a particular section, schedule or exhibit is the intended reference). Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context indicates is appropriate. Where specific language is used to clarify or illustrate by example a general statement contained herein, such specific language shall not be deemed to modify, limit or restrict the construction of the general statement which is being clarified or illustrated.

8.13 Expenses. Each of MUFG and MS shall bear the expenses incurred by it in connection with the negotiation and execution of this Agreement and the consummation of the transactions contemplated hereby.

8.14 Counterparts. This Agreement may be executed (including by facsimile signature) in one or more counterparts, with the same effect as if the Parties had signed the same document. Each counterpart so executed shall be deemed to be an original, and all such counterparts shall be construed together and shall constitute one agreement.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date and year first above written.

**mitsubishi UFJ FINANCIAL GROUP, INC.**

**By:** /s/ Nobuo Kuroyanagi

Name: Nobuo Kuroyanagi

Title: President and CEO

**MORGAN STANLEY**

**By:** /s/ Walid Chammah

Name: Walid Chammah

Title: Executive Vice President,  
Chairman and CEO of Morgan Stanley  
International

[Signature Page to Integration and Investment Agreement]

## Appendix A

### Definitions

In this Agreement, except where the context otherwise requires:

**“Accounting Firm”** has the meaning set forth in Section 1.6(d).

**“Affiliate”** means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control, with such Person. It is acknowledged that after the date of this Agreement, Persons who are not presently Affiliates of a Party may become Affiliates of such a Party, and Persons who are presently Affiliates of a Party may cease to be Affiliates of such Party. Unless otherwise specifically stated, the term **“Affiliate”** does not include: (x) any member of the MSMS Group when used with respect to either Party or its respective Affiliates, or (y) either Party or its respective Affiliates, when used with respect to any member of the MSMS Group. Neither MS nor any other Affiliate of MS shall be considered to be an Affiliate of MUFNG or an Affiliate of any member of the MUFNG Group, and vice versa. **“Affiliated”** and **“Affiliation”** shall have correlative meanings.

**“Agreed Interest Rate”** means 3-month TIBOR.

**“Agreed Principles”** has the meaning set forth in Section 1.6(a).

**“Agreement”** has the meaning set forth in the preamble hereto.

**“Applicable Law”** means all applicable provisions of all (i) constitutions, treaties, statutes, laws (including common law), rules, regulations, ordinances or codes of any Governmental Authority; (ii) orders, decisions, judgments, awards or decrees of any Governmental Authority; and (iii) requests, guidelines or directives (whether or not having the force of law) of any Governmental Authority.

**“Asset”** means any property, goodwill, right or asset of every nature, kind, and description, tangible and intangible, wherever located, regardless of whether such property, goodwill, right or asset would be required to be disclosed on a balance sheet prepared in accordance with GAAP.

**“Authorized Representative”** has the meaning set forth in Section 3.3(b).

**“Balance Sheet Date”** has the meaning set forth in Section 2.1(g)(ii).

**“Bank Holding Company Act”** means the U.S. Bank Holding Company Act of 1956, as amended.

**“Banking Law”** means the Banking Law of Japan (*ginkō-hō*, Law No. 59 of 1981, as amended) and regulations thereunder.

**“Benefit Plan”** means any employee benefit plan, program, policy or other arrangement providing benefits, whether or not written, Employment Agreement, bonus, incentive or deferred compensation, employee loan, severance, termination, retention, change of control, stock option, stock appreciation, stock purchase, phantom stock or other equity-based, performance or other employee or retiree benefit or compensation plan, program, arrangement, agreement or policy, that has been sponsored by any Contributing Subsidiary and that provides, has provided or will provide benefits or compensation (assuming any vesting, performance or other benefit requirements are met) (i) in respect of any Contributed Business Individual or (ii) in respect of which either Company has or may have any present or future Liability.

**“Board”** means the board of directors or similar body of a company or other legal entity.

“**Business Day**” means a day on which commercial banks are generally open to conduct their regular banking business in Tokyo.

“**Business Information**” means Trade Secrets, proprietary and confidential information, technical and business know how, and confidential client information.

“**Claim**” means any litigation, suit, complaint, demand, or legal, administrative, arbitral or criminal proceeding, information request or Order, in each case in the context of legal, arbitral or governmental proceedings.

“**Closing**” has the meaning and consists of the transactions set forth in Section 1.5.

“**Closing Date**” has the meaning set forth in Section 1.5.

“**Closing Warranties**” means each of the representations and warranties set forth in Article II other than Section 2.1(d)(i) (Charter Documents; Books and Records), and Sections 2.1(g)(i) (Audited Financial Statements), 2.1(g)(ii) (Interim Financial Statements) and 2.1(g)(iii) (Interim Pro Forma Financial Statements).

“**CMBS**” means commercial mortgage backed securities.

“**Company**” has the meaning set forth in the recitals hereto.

“**Confidential Information**” has the meaning set forth in Section 3.3(b).

“**Confidentiality Agreement**” means the letter agreement, dated as of November 4, 2008, by and between MUFG and MS, as it may be amended from time to time.

“**Consent**” means any consent, approval, authorization, waiver, grant, franchise, concession, agreement, license, exemption or other permit or Order of, registration, declaration or filing with, or report or notice to, any Person.

“**Contributed Assets**” means, with respect to MUFG or its Contributing Subsidiaries, the MUS Contributed Assets, and with respect to MS or its Contributing Subsidiaries, the MSJS Contributed Assets and the IBD Contributed Assets, as applicable.

“**Contributed Business**” means, with respect to MUFG or its Contributing Subsidiaries, the MUS Contributed Business, and with respect to MS or its Contributing Subsidiaries, the MSJS Contributed Business and the IBD Contributed Business, as applicable.

“**Contributed Business Individuals**” means, with respect to MUFG or MUS, the MUS Contributed Business Individuals, and with respect to MS or MSJS, the MSJS Contributed Business Individuals and the IBD Contributed Individuals.

“**Contributed IP**” means, with respect to MUFG, the MUS Contributed IP, and with respect to MS, the MSJS Contributed IP and the IBD Contributed IP.

“**Contributed Leased Real Property**” means, with respect to any Party, the Real Property occupied or used by any of such Party’s Contributing Subsidiaries in connection with such Party’s Contributed Business pursuant to a Contributed Real Property Lease.

“**Contributed Liabilities**” means, with respect to MUFG or its Contributing Subsidiaries, the MUS Contributed Liabilities, and with respect to MS or its Contributing Subsidiaries, the MSJS Contributed Liabilities and the IBD Contributed Liabilities, as applicable.

**“Contributed Real Property Lease”** means any lease or sublease (or allocable portion thereof) by or under which any Contributing Subsidiary holds a leasehold interest or uses or occupies or has the right to use or occupy any Contributed Leased Real Property or any portion thereof or interest therein.

**“Contributing Subsidiaries”** means, with respect to MUFG, MUS and MUSBJ, and with respect to MS, MSJS.

**“Controlling Party”** has the meaning set forth in Section 6.7(b).

**“Copyrights”** means any and all rights in or associated with works of authorship, including rights in computer programs (in source code and object code form), designs, documentation, and databases, including copyrights, copyright registrations, copyright applications and moral and other neighboring rights, however denominated.

**“Corporation Law”** means the Corporation Act of Japan (*kaisha-hō*, Law No. 86 of 2005, as amended) and regulations thereunder.

**“CREL”** means commercial real estate loans.

**“De Minimis Loss”** has the meaning set forth in Section 6.4(a)(i).

**“Deductible”** has the meaning set forth in Section 6.4(a)(ii).

**“Deferred Compensation”** has the meaning set forth in Section 2.1(g)(iv).

**“Delivering Party”** has the meaning set forth in Section 3.2(a).

**“Disclosure Letter”** means, (i) in the case of MUFG, the disclosure letter of MUFG dated the date hereof, and (ii) in the case of MS, the disclosure letter of MS dated the date hereof.

**“Dispute”** has the meaning set forth in Section 8.1.

**“Domain Names”** means domain names, uniform resource locators and other names and locators associated with the Internet and registrations thereof and applications therefor.

**“Employment Agreement”** means a contract, offer letter or agreement of an individual with or addressed to any individual who is rendering or has rendered services thereto as an employee or consultant (other than on an at-will basis) pursuant to which the Person or any of its Affiliates has any Liability to provide compensation and/or benefits in consideration for past, present or future services, or in respect of the termination of any such services.

**“Excluded Assets”** means the MUS Excluded Assets or the MSJS Excluded Assets, or both, as the context requires.

**“Excluded Businesses”** means the MUS Excluded Businesses or the MSJS Excluded Businesses, or both, as the context requires.

**“Excluded Claims”** means, with respect to either Party, Losses arising in connection with or relating to a Claim asserted against the other Party, MUMSS, MSMS, any of their respective Subsidiaries or Affiliates or with respect to any Contributed Assets or the Contributed Business of that Party, in any case which arise from or in connection with an action, omission to act, condition or event (or series of related actions, omissions, conditions or events) that first occurred at or prior to the Closing, including litigation referred to in Section 6.7(f), unless such action, omission, condition or event (or series of related actions, omissions, conditions or events) continues for more than one year after the Closing (in which case such Claim and any Losses arising therefrom shall be an Excluded Claim only to the extent relating to any pre-Closing period).

**“Excluded Liabilities”** means, in the case of MUS, the MUS Excluded Liabilities, and, in the case of MSJS, the MSJS Excluded Liabilities, or both of them, as the context requires.

**“Final Closing Balance Sheet”** has the meaning set forth in Section 1.6(e).

**“Financial Instruments and Exchange Law”** means the Financial Instruments and Exchange Law of Japan (*kin’yū shōhin torihiki-hō*, Law No. 25 of 1948, as amended) and related regulations thereunder.

**“FY2008 Financial Statements”** has the meaning set forth in Section 2.1(g)(i).

**“GAAP”** means generally accepted accounting principles as in effect in Japan from time to time.

**“Government Official”** has the meaning set forth in Section 2.1(v).

**“Governmental Approval”** means any Consent of, with or to any Governmental Authority, and includes any applicable waiting periods associated with any Governmental Approvals.

**“Governmental Authority”** means any government, any governmental or regulatory entity, including security exchanges, securities dealers associations, investor protection organizations, clearing houses, commodities exchanges, financial futures associations and futures protection funds, or body, department, commission, board, agency or instrumentality, and any court, tribunal or judicial body, in each case whether federal, state, prefectural, county, provincial, city, and whether local or foreign, and any arbitral, mediation or other dispute resolution body (public or private) and including for these purposes any registrar of Domain Names accredited by the Internet Corporation for Assigned Names and Numbers (*ICANN*).

**“Handled Products”** means all products (including Securitization Products) sold, distributed or otherwise offered, and all services rendered or offered to be rendered, in acting as an arranger, intermediary, broker, dealer, underwriter or other capacity to its clients or customers by a Party’s Contributed Business.

**“IBD Contributed Assets”** has the meaning set forth in Section 1.3(e)(i).

**“IBD Contributed Business”** means the investment banking business of MSJS to be demerged as described in the IBD Demerger Agreement.

**“IBD Contributed Business Individuals”** means the employees and independent contractors of MSJS or its Affiliates (including MSJG and MSJBG) who (i) primarily provide services in connection with the IBD Contributed Business or (ii) are individuals that the Parties agree prior to the Closing should be treated as IBD Contributed Business Individuals in light of such individuals’ duties and responsibilities.

**“IBD Contributed IP”** means any and all IP and/or IP Rights that is/are (i) owned, licensable or sublicensable by MSJS and (ii) primarily used or held or developed for use with respect to the IBD Contributed Business, but shall not include, in any event, the Trademarks “Morgan Stanley” and “モルガン・スタンレー”.

**“IBD Contributed Liabilities”** has the meaning set forth in Section 1.3(e)(ii).

**“IBD Corporate Split”** has the meaning set forth in Section 1.3(e).

**“IBD Demerger Agreement”** has the meaning set forth in Section 1.3(e).

**“IBD Excluded Assets”** has the meaning set forth in Section 1.3(e)(iii).

**“IBD Excluded Liabilities”** has the meaning set forth in Section 1.3(e)(iv).

**“Indemnitees”** has the meaning set forth in Section 6.2.

**“Indemnitor”** has the meaning set forth in Section 6.2.

**“Insurance Policies”** has the meaning set forth in Section 2.1(t).

**“Interim Financial Statements”** has the meaning set forth in Section 2.1(g)(ii).

**“Interim Pro Forma Balance Sheet”** has the meaning set forth in Section 1.6(a).

**“Interim Pro Forma Financial Statements”** has the meaning set forth in Section 2.1(g)(iii).

**“IP”** means any or all of the following: (i) inventions (whether patentable or not), invention disclosures, industrial designs, discoveries, improvements and technology, (ii) Trade Secrets, proprietary and confidential information, and know how; (iii) databases, data compilations and collections and technical data; (iv) works of authorship, including computer programs (in source code and object code, and any other form, including design and coding related thereto), development tools, architecture, documentation, files, records, and data; (v) devices, prototypes, schematics, breadboards, verilog files, netlists, emulation and simulation reports, test methodologies, test vectors and hardware development tools; (vi) logos, trade names, trade dress, trademarks and service marks; (vii) Domain Names and web sites; (viii) tools, methods, models and processes; (ix) any information, materials and property similar or equivalent to the foregoing (as applicable); and (x) any and all instantiations of any of the foregoing in any form or embodied in any media.

**“IP Rights”** means any and all rights (anywhere in the world, whether statutory, common or otherwise and whether registered or unregistered) relating to, arising from, or associated with IP, including all rights with respect to the following: (i) Patents and rights in invention disclosures, industrial designs, discoveries, improvements and technology; (ii) Copyrights; (iii) industrial design rights and registrations thereof and applications therefor; (iv) Trademarks; (v) rights to Domain Names; (vi) rights in Trade Secrets and other Business Information; (vii) rights in databases, data compilations, collection and technical data registrations thereof and applications therefor; and (viii) any rights equivalent or similar to the foregoing or other intellectual property, industry property or proprietary rights. “IP Rights” also includes the right to enforce (and to sue and recover damages and seek other remedies for the past, present or future infringement or misappropriation of) any of the foregoing.

**“Japan Anti Monopoly Act”** means the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (*Shiteki Dokusen-no-Kinshi Oyobi Kōsei Torihiki-no-Kakuho ni Kansuru Hōritsu*, Law No. 54 of 1947, as amended) and the rules and regulations promulgated thereunder.

**“Japan Related Securities Business”** has the meaning set forth in the Shareholders Agreements.

**“Japanese Products”** has the meaning set forth in each of the Shareholders Agreements.

**“Liability”** means any debt, obligation, duty or liability of any nature (including any unknown, undisclosed, unmatured, unaccrued, unasserted, contingent, indirect, conditional, implied, vicarious, derivative, joint, several or secondary liability), regardless of whether such debt, obligation, duty or liability would be required to be disclosed on a balance sheet prepared in accordance with GAAP and regardless of whether such debt, obligation, duty or liability is immediately due and payable.

**“Lien”** means any lien, security interest, pledge, charge, encumbrance, claim or similar right.

**“Loss”** has the meaning set forth in Section 6.2.

**“Master Services Agreements”** means the MS-MSMS Master Services Agreement, the MS-MUFG Master Services Agreement and the MUFG-MUMSS Master Services Agreement.



**“Material Adverse Effect”** means (i) with respect to a Person, a material and adverse effect on the business, operations, financial condition or results of operations of such Person and its Subsidiaries, taken as a whole, or (ii) with respect to a Contributed Business, a material and adverse effect on such Contributed Business or the business, operations, financial condition or results of operations of such Contributed Business, taken as a whole; *provided, however*, that, to the extent such effect results from any of the following, it shall not in and of itself constitute or be taken into account in determining whether there has been a Material Adverse Effect:

- (a) changes in Applicable Law;
- (b) matters that have been disclosed in the relevant Party’s Disclosure Letter;
- (c) matters that are provided for in the relevant FY2008 Financial Statements;
- (d) changes in general economic, financial market or political conditions; and
- (e) war, acts of terrorism, acts of God or other similar force majeure event;

except to the extent that any of the matters set out in (d) or (e) have an impact on the relevant Person or Contributed Business, as applicable, that is disproportionate to the effect on other similar companies or businesses operating in Japan.

**“Material Contracts”** means, with respect to a Party, each of the following to which such Party or any of its Subsidiaries (including its Contributing Subsidiaries) is a party or acts as if it is a party and that relate primarily to its Contributed Business, or by which its Contributed Assets are bound:

- (i) material agreements with a Third Party for the purchase of services, materials, supplies, merchandise or equipment other than in the ordinary course of business (A) in an aggregate amount for the unexpired term exceeding ¥100,000,000 or (B) providing for the payment (or potential Liability for payment) of a penalty (including any early termination fee, prepayment penalty or similar charge), fee or any other amount exceeding ¥100,000,000.
- (ii) broker’s or finder’s agreements as to which the total fees payable thereunder could reasonably be expected to exceed ¥100,000,000;
- (iii) material agreements under which administrative and other services are provided to or on behalf of a Third Party (other than agreements entered into in the ordinary course of business);
- (iv) material reimbursement agreements, material non-financial repurchase agreements and material equipment leases with a Third Party;
- (v) Relevant Contributed Real Property Leases;
- (vi) other than in the ordinary course of business agreements which create or govern a partnership, limited liability company, joint venture or other similar arrangement;
- (vii) confidentiality agreements breach of which would reasonably be expected to have a Material Adverse Effect on its Contributed Business or its Contributing Subsidiaries;
- (viii) distribution agreements providing for aggregate annual payments exceeding ¥100,000,000;
- (ix) mandates breach of which would reasonably be expected to have a Material Adverse Effect on its Contributed Business or its Contributing Subsidiaries;
- (x) agreements under which such Party or any of its Subsidiaries has the benefit of any non-compete obligation or other restriction on business with a Third Party the termination of which would reasonably be expected to have a Material Adverse Effect; and
- (xi) other agreements the termination of which would reasonably be expected to have a Material Adverse Effect on its Contributed Business.

“**Mitsubishi Name**” means the “Mitsubishi Trade Mark” and the “Mitsubishi Trade Name”, as those terms are defined in the MUFG-MUMSS Trade Mark and Trade Name License Agreement.

“**MS**” has the meaning set forth in the preamble hereto.

“**MS-MSMS Master Services Agreement**” means the master services agreement between MS and MSMS in substantially the form attached hereto as Exhibit C.

“**MS-MSMS Trade Mark and Trade Name License Agreement**” means the trade mark and trade name license agreement between MS and MSMS, executed as of Closing, pursuant to which MSMS shall acquire certain rights with respect to the use of certain corporate names and marks of MS.

“**MS-MUMSS Master Services Agreement**” means the master services agreement between MS and MUMSS in substantially the form attached hereto as Exhibit B.

“**MS-MUMSS Trade Mark and Trade Name License Agreement**” means the trade mark and trade name license agreement between MS and MUMSS, executed as of Closing, pursuant to which MUMSS shall acquire certain rights with respect to the use of certain corporate names and marks of MS.

“**MS Ownership Percentage**” has the meaning set forth in Section 1.3(d)(ii)(B).

“**MS Pre-Closing Reorganization**” has the meaning set forth in Section 1.2.

“**MSA Consent**” means a “Consent” as defined in the applicable Master Services Agreement.

“**MSHD**” has the meaning set forth in the recitals hereto.

“**MSJBG**” means Morgan Stanley Japan Business Group Co., Ltd., an indirect wholly owned subsidiary of MS.

“**MSJG**” means Morgan Stanley Japan Group Co., Ltd., an indirect wholly owned subsidiary of MS.

“**MSJS**” has the meaning set forth in the recitals hereto.

“**MSJS Contributed Assets**” has the meaning set forth in Section 1.2(c)(i).

“**MSJS Contributed Business**” means the business reflected in MSJS’s Interim Pro Forma Financial Statements, which comprises the existing operations of MSJS (including the revenues and costs allocated to MSJS as shown in Schedule 1.1 to the MSMS Shareholders Agreement) provided that the MSJS Contributed Business shall exclude the MSJS Excluded Assets, the MSJS Excluded Business and the MSJS Excluded Liabilities. The MSJS Contributed Business includes the IBD Contributed Business, unless the context requires otherwise.

“**MSJS Contributed Business Individuals**” means the employees and independent contractors of MSJS or its Affiliates (including MSJG and MSJBG) who (i) primarily provide services in connection with the MSJS Contributed Business or (ii) are individuals that the Parties agree prior to the Closing should be treated as MSJS Contributed Business Individuals in light of such individuals’ duties and responsibilities.

“**MSJS Contributed IP**” means any and all IP and/or IP Rights that is/are (i) owned, licensable or sublicensable by MSJS and (ii) primarily used or held or developed for use with respect to the MSJS Contributed Business, but shall not include, in any event, the Trademarks “Morgan Stanley” and “モルガン・スタンレー”.

“**MSJS Contributed Liabilities**” has the meaning set forth in Section 1.2(c)(ii).

***“MSJS Excluded Assets”*** has the meaning set forth in Section 1.2(c)(iii).

***“MSJS Excluded Businesses”*** means the businesses, activities and operations of MSJS and its Subsidiaries other than the MSJS Contributed Business.

***“MSJS Excluded Liabilities”*** has the meaning set forth in Section 1.2(c)(iv).

***“MSJS Pre-Closing Liability”*** means any Pre-Closing Liability of MSJS.

***“MSMS”*** has the meaning set forth in the recitals hereto.

***“MSMS Articles”*** has the meaning set forth in Section 1.3(c).

***“MSMS Class W Stock”*** means the Class W capital stock of MSMS with the dividend rights (which shall be the same per share amount and the same rank as the MSMS Class X Stock) and the liquidation rights (which shall be the same per share amount and the same rank as the MSMS Class X Stock, the MSMS Class Y Stock and the MSMS Class Z Stock) set forth in the MSMS Articles.

***“MSMS Class X Stock”*** means the Class X capital stock of MSMS with the dividend rights (which shall be the same per share amount and the same rank as the MSMS Class W Stock), the liquidation rights (which shall be the same per share amount and the same rank as the MSMS Class Y Stock, the MSMS Class Z Stock and the MSMS Class W Stock) and the voting rights (one vote per share) set forth in the MSMS Articles.

***“MSMS Class Y Stock”*** means the Class Y capital stock of MSMS with the liquidation rights (which shall be the same per share amount and the same rank as the MSMS Class X Stock, the MSMS Class Z Stock and the MSMS Class W Stock) and the voting rights (one vote per share) set forth in the MSMS Articles.

***“MSMS Class Z Stock”*** means the Class Z capital stock of MSMS with the liquidation rights (which shall be the same per share amount and the same rank as the MSMS Class X Stock, the MSMS Class Y Stock and the MSMS Class W Stock) set forth in the MSMS Articles.

***“MSMS Shareholders Agreement”*** means the Shareholders Agreement to be entered into on the date hereof.

***“MUFG”*** has the meaning set forth in the preamble hereto.

***“MUFG-MSMS Trade Mark and Trade Name License Agreement”*** means the trade mark and trade name license agreement between MUFG and MSMS, executed as of Closing, pursuant to which MSMS shall acquire certain rights with respect to the use of certain corporate names and marks of MUFG.

***“MUFG-MUMSS Master Services Agreement”*** means the master services agreement between MUFG and MUMSS in substantially the form attached hereto as Exhibit A.

***“MUFG-MUMSS Trade Mark and Trade Name License Agreement”*** means the trade mark and trade name license agreement between MUFG and MUMSS, executed as of Closing, pursuant to which MUMSS shall acquire certain rights with respect to the use of certain corporate names and marks of MUFG and Mitsubishi Corporation.

***“MUFG Ownership Percentage”*** has the meaning set forth in Section 1.3(d)(ii)(A).

***“MUFG Pre-Closing Reorganization”*** has the meaning set forth in Section 1.1.

***“MUMSS”*** has the meaning set forth in the recitals hereto.

***“MUMSS Articles”*** has the meaning set forth in Section 1.3(b)(i).

“**MUMSS Class A Stock**” means the Class A capital stock of MUMSS with the dividend rights (which shall be the same per share amount and the same rank as the MUMSS Class D Stock), the liquidation rights (which shall be the same per share amount and the same rank as the MUMSS Class B Stock, the MUMSS Class C Stock and the MUMSS Class D Stock) and the voting rights (one vote per share) set forth in the MUMSS Articles.

“**MUMSS Class B Stock**” means the Class B capital stock of MUMSS with the liquidation rights (which shall be the same per share amount and the same rank as the MUMSS Class A Stock, the MUMSS Class C Stock and the MUMSS Class D Stock) and the voting rights (one vote per share) set forth in the MUMSS Articles.

“**MUMSS Class C Stock**” means the Class C capital stock of MUMSS with the liquidation rights (which shall be the same per share amount and the same rank as the MUMSS Class A Stock, the MUMSS Class B Stock and the MUMSS Class D Stock) set forth in the MUMSS Articles.

“**MUMSS Class D Stock**” means Class D capital stock of MUMSS with the dividend rights (the same per share amount and the same rank as the MUMSS Class A Stock) and the liquidation rights (the same per share amount and the same rank as the MUMSS Class A Stock, the MUMSS Class B Stock and the MSMS Class C Stock) set forth in the MUMSS Articles.

“**MUMSS Shareholders Agreement**” means the Shareholders Agreement to be entered into on the date hereof.

“**MUS**” has the meaning set forth in the recitals hereto.

“**MUS Contributed Assets**” has the meaning set forth in Section 1.1(b)(i).

“**MUS Contributed Business**” means the business reflected in MUS’s Interim Pro Forma Financial Statements, which comprises the existing securities business, financial advisory business, securities lending business and other businesses which are conducted as of the date of this Agreement by MUS, provided that the MUS Contributed Business shall exclude the MUS Excluded Assets and the MUS Excluded Liabilities.

“**MUS Contributed Business Individuals**” means the employees and independent contractors of MUS or its Affiliates who (i) primarily provide services in connection with the MUS Contributed Business or (ii) are individuals that the Parties agree prior to the Closing should be treated as MUS Contributed Business Individuals in light of such individuals’ duties and responsibilities.

“**MUS Contributed IP**” means any and all IP and/or IP Rights that is/are (i) owned, licensable or sublicensable by MUS and (ii) primarily used or held or developed for use with respect to the MUS Contributed Business, but shall not include, in any event, the Trademarks “Mitsubishi UFJ” and “三菱UFJ”.

“**MUS Contributed Liabilities**” has the meaning set forth in Section 1.1(b)(ii).

“**MUS Contributed Real Property**” has the meaning set forth in Section 2.2(d).

“**MUS Corporate Split**” has the meaning set forth in Section 1.1(b).

“**MUS Excluded Assets**” has the meaning set forth in Section 1.1(b)(iii).

“**MUS Excluded Businesses**” means the businesses, activities and operations of MUS other than the MUS Contributed Business.

“**MUS Excluded Liabilities**” has the meaning set forth in Section 1.1(b)(iv).

“**MUS Pre-Closing Liability**” means any Pre-Closing Liability of MUS and MUSBJ.

“**MUSBJ**” has the meaning set forth in the recitals hereto.

“**MUSHD**” has the meaning set forth in the recitals hereto.

“**Non-Party Claims**” has the meaning set forth in Section 6.7.

“**Objection**” has the meaning set forth in Section 1.6(d).

“**Order**” means any order, writ, judgment, stipulation, decree, injunction, award or decision of, or consent agreement or similar arrangement with, any Governmental Authority.

“**Parties**” means each of MUFG and MS.

“**Partnership**” has the meaning set forth in the recitals hereto.

“**Partnership Agreement**” means the Partnership Agreement to be entered into on the date hereof.

“**Patents**” means patents and utility models, applications for patents or utility models, and inventors’ certificates.

“**Permitted Liens**” means (i) Liens for Taxes or other governmental charges which are not yet due and payable or the amount or validity of which are being contested in good faith by appropriate proceedings and for which adequate reserves have been made on the Financial Statements or the Final Closing Balance Sheet of the MUS Contributed Business or the Financial Statements or the Final Closing Balance Sheet of the MSJS Contributed Business, as the case may be, (ii) Liens of carriers, warehousemen, mechanics, materialmen or other similar Persons or otherwise imposed by Applicable Law arising or incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith by appropriate proceedings and for which adequate reserves have been made on the Financial Statements or the Final Closing Balance Sheet of the MUS Contributed Business or the Financial Statements or the Final Closing Balance Sheet of the MSJS Contributed Business, as the case may be, (iii) zoning, entitlement, building, land use and similar governmental restrictions, (iv) covenants, conditions, restrictions, easements, rights-of-way and other matters shown in public records and (v) Liens that, individually and in the aggregate with all other Permitted Liens, do not and will not materially detract from the value of any of the Contributed Assets or materially interfere with the use of any of the Contributed Assets as currently used or contemplated to be used.

“**Person**” means an individual, corporation, partnership, limited liability company, trust, joint venture, association, unincorporated organization or other entity or a Governmental Authority.

“**Pre-Closing Liability**” means except to the extent accrued or provided for in the relevant Party’s Final Closing Balance Sheet:

(i) any Liability arising in the ordinary course of business of that Party’s Contributed Business or Contributing Subsidiary to the extent payable before Closing;

(ii) fines and penalties arising from any breach by that Party’s Contributed Business or Contributing Subsidiary of any law or regulations arising from an act or omission which occurred prior to Closing; and

(iii) any other Liability to the extent that it results from any act, omission, transaction or circumstance occurring in relation to that Party’s Contributed Business or Contributing Subsidiary before Closing;

*provided* that for these purposes costs with respect to employees (including, without limitation, compensation and benefits, social insurance contributions, applicable workers insurance premiums and other employment-related taxes in accordance with past practice) seconded by MS or any of its Affiliates to MSMS or MUMSS which are payable after Closing and charged to MSMS or MUMSS shall be deemed not to be Pre-Closing Liabilities. This shall include Deferred Compensation granted prior to Closing and payable after Closing.

**“Pre-Closing Litigation”** has the meaning set forth in Section 6.7(f).

**“Pre-Closing Reorganization”** means the MUFG Pre-Closing Reorganization or the MS Pre-Closing Reorganization, or both, as the context requires.

**“Pre-Closing Tax Period”** means any taxable period (or portion thereof) ending on or before the Closing Date.

**“Preliminary Closing Balance Sheet”** has the meaning set forth in Section 1.6(c).

**“Preparing Party”** has the meaning set forth in Section 1.6(d).

**“Real Property”** means all land, buildings, structures, easements, appurtenances, improvements and fixtures located thereon.

**“Real Property Lease”** means a lease with respect to Real Property.

**“Receiving Party”** has the meaning set forth in Section 1.6(d).

**“Related Party”** means, with respect to any Person, an Affiliate of such Person, any director, partner or officer of such Person or any Affiliate thereof, or an Affiliate or immediate family member of any such director or officer.

**“Relevant Contributed Real Property Lease”** has the meaning set forth in Section 2.1(u).

**“Relevant Liability”** has the meaning set forth in Section 1.6(i).

**“Requesting Party”** has the meaning set forth in Section 3.2(a).

**“Resolutions”** has the meaning set forth in Section 2.1(d)(i).

**“Retained Securitization Product”** has the meaning set forth in Schedule 1.2(b).

**“Rights under Related Agreements”** has the meaning set forth in Section 2.1(j).

**“RMBS”** means residential mortgage-backed securities.

**“Securities Company in Japan”** means a *kinyū shōhin torihiki gyōsha* engaged in the first type financial instruments business as defined under the Financial Instruments and Exchange Law, as such laws may be amended from time to time.

**“Securitization Products”** means commercial mortgage-backed securities (CMBS), commercial real estate loans (CREL), residential mortgage-backed securities (RMBS) including those structured as bonds issued by *Tokutei Mokuteki Kaisha* (TMK), asset-backed securities (ABS), trust beneficiary interests in CREL and other similarly securitized debt instruments, as well as direct or indirect interests in real property assets that are held through *Tokumei Kumiai* (TK) interests, preferred and common member interests in TMK, trust beneficiary interests or other similar rights or interests in or relating to real property related securitized products.

**“Shareholders Agreements”** means the MSMS Shareholders Agreement and the MUMSS Shareholders Agreement.

**“Straddle Period”** means any taxable period ending after the Closing Date that includes the Closing Date.

“**Subsidiary**” means, with respect to any Person, (i) any corporation of which the issued and outstanding stock having at least a majority of votes entitled to be cast in the election of directors under ordinary circumstances shall at the time be owned, directly or indirectly, by such Person or by such Person and a Subsidiary or Subsidiaries of such Person or by a Subsidiary or Subsidiaries of such Person, (ii) any other Person (other than a corporation) of which at least a majority of voting interests, under ordinary circumstances is at the time, directly or indirectly, owned or controlled by such Person or by such Person and a Subsidiary or Subsidiaries of such Person or by a Subsidiary or Subsidiaries of such Person, or (iii) any entity which would be considered to be a subsidiary in Article 8, Paragraph 3 of the Regulation Concerning Terminology, Forms and Method of Preparation of Financial Statements, etc. (Ministry of Finance Ordinance No. 59, Nov. 27, 1963, as amended); *provided*, that, notwithstanding the foregoing, the neither MUMSS nor MSMS shall be deemed a Subsidiary of MUFG, MUS, MS, or MSJS on or after the Closing.

“**Target Net Asset Value**” has the meaning set forth in Section 1.6(a).

“**Tax Return**” means any return, declaration, report, claim for refund, or information return or statement relating to Taxes filed or required to be filed with a Governmental Authority, including any schedule or attachment thereto, and including any amendment thereof.

“**Taxes**” means any taxes, assessments, duties, imposts, fees, levies or other governmental charges, including all federal, state, local and foreign and other income, franchise, profits, capital gains, capital stock, transfer, sales, use, ad valorem, value added, goods and services, occupation, property, excise, gross receipts, stamp, license, employment, unemployment, withholding, alternative or minimum tax and other taxes of any kind whatsoever, together with any interest, penalties, and additions to tax imposed with respect thereto.

“**Third Party**” means any Person that is none of a Party, an Affiliate thereof, MUMSS or MSMS.

“**Third Party Approval**” means any Consent of, with or to any Person other than any Governmental Authority.

“**Trade Secrets**” means trade secrets, proprietary and confidential information, and know how, including rights to limit the use or disclosure thereof by any Person.

“**Trademarks**” means all rights with respect to trademarks, service marks, trade names, and trade dress, and other trading insignia or other designations of trade origin, and all goodwill related thereto and all registrations thereof and applications therefor.

“**Transaction Documents**” means this Agreement, the Related Agreements (as defined in the Shareholders Agreements), and those other documents listed in Schedule 4 hereto.

“**Transfer Taxes**” has the meaning set forth in Section 3.6(b).

“**Updated Disclosure Letter**” has the meaning set forth in Section 3.4(e)(ii).

“**U.S. GAAP**” has the meaning set forth in Section 2.3(e)(i).

**CERTIFICATION**

I, Katsunori Nagayasu, certify that:

1. I have reviewed this annual report on Form 20-F of Mitsubishi UFJ Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

August 16, 2010

/s/ KATSUNORI NAGAYASU

Katsunori Nagayasu  
President and Chief Executive Officer



## CERTIFICATION

I, Hiroshi Saito, certify that:

1. I have reviewed this annual report on Form 20-F of Mitsubishi UFJ Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

August 16, 2010

/s/ HIROSHI SAITO

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Hiroshi Saito  
Senior Managing Director and Chief Financial Officer

**mitsubishi ufj financial group, inc.**

CERTIFICATION REQUIRED BY  
RULE 13a-14(b) OR RULE 15d-14(b)  
AND 18 U.S.C. Section 1350

In connection with the Annual Report of Mitsubishi UFJ Financial Group, Inc. (the "Company") on Form 20-F for the fiscal year ended March 31, 2010 as filed with the US Securities and Exchange Commission on the date hereof (the "Report"), I, Katsunori Nagayasu, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350 that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ KATSUNORI NAGAYASU

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Name: Katsunori Nagayasu

Title: President and Chief Executive Officer

Dated: August 16, 2010

**MITSUBISHI UFJ FINANCIAL GROUP, INC.**

**CERTIFICATION REQUIRED  
BY RULE 13a-14(b) OR RULE 15d-14(b)  
AND 18 U.S.C. Section 1350**

In connection with the Annual Report of Mitsubishi UFJ Financial Group, Inc. (the “Company”) on Form 20-F for the fiscal year ended March 31, 2010 as filed with the US Securities and Exchange Commission on the date hereof (the “Report”), I, Hiroshi Saito, Senior Managing Director and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350 that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HIROSHI SAITO

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Name: Hiroshi Saito

Title: Senior Managing Director and Chief Financial Officer

Dated: August 16, 2010

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-155420 on Form F-3 of our reports dated August 16, 2010, relating to the consolidated financial statements of Mitsubishi UFJ Financial Group, Inc. (“MUFG”) (which report expresses an unqualified opinion and includes explanatory paragraphs relating to (i) the restatements of the consolidated statements of cash flows for the fiscal years ended March 31, 2008 and 2009 as discussed in Note 35 to the consolidated financial statements, (ii) the restatements of certain loans and premises and equipment disclosure information as discussed in Notes 5 and 7 to the consolidated financial statements, and (iii) the changes in methods of accounting for (a) uncertainty in income taxes, (b) leveraged leases, (c) defined benefit pension and other post retirement plans (measurement date provision), (d) fair value measurements, (e) fair value option for financial assets and financial liabilities, (f) noncontrolling interests, and (g) other-than-temporary impairments on investment securities, as described in Note 1 to the consolidated financial statements), and the effectiveness of MUFG’s internal control over financial reporting, appearing in the Annual Report on Form 20-F of MUFG for the year ended March 31, 2010.

/s/ Deloitte Touche Tohmatsu LLC  
**DELOITTE TOUCHE TOHMATSU LLC**

Tokyo, Japan

August 16, 2010