

**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, 2021**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from 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 000-54189**

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)

Masahisa Takahashi, +81-3-3240-8111, +81-3-5218-8666, 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

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

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

<u>Title of each class</u>	<u>Trading symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, without par value		New York Stock Exchange ⁽¹⁾
American depository shares, each of which represents one share of common stock	MUFG	New York Stock Exchange

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

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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:

As of March 31, 2021, 13,581,995,120 shares of common stock (including 737,282,154 shares of common stock held by the registrant and its consolidated subsidiaries as treasury stock)

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

Yes No

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

Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such 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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Yes No

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

U.S. GAAP 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

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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 U.S. GAAP, except for risk-adjusted capital ratios, capital components, risk-weighted assets, business segment financial information and some other specifically identified information.

In this Annual Report, unless otherwise indicated or the context otherwise requires, all figures are rounded to the figures shown except for the capital ratios, capital components, risk-weighted assets, leverage ratios and liquidity coverage ratios of MUFG and its domestic subsidiaries, which are rounded down and truncated to the figures shown. In some cases, figures presented in tables are adjusted to match the sum of the figures with the total amount, and such figures are also referred to in the related text.

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. In addition, our “commercial banking subsidiaries” refers to MUFG Bank, Ltd. and, as the context requires, its consolidated subsidiaries engaged in the commercial banking business. Our “trust banking subsidiaries” refers to Mitsubishi UFJ Trust and Banking Corporation and, as the context requires, its consolidated subsidiaries engaged in the trust banking business. Our “banking subsidiaries” refers to MUFG Bank and Mitsubishi UFJ Trust and Banking and, as the context requires, their respective consolidated subsidiaries engaged in the banking business. Our “securities subsidiaries” refers to Mitsubishi UFJ Securities Holdings Co., Ltd., and as the context requires, its consolidated subsidiaries engaged in the securities business.

References to “MUAH” are to MUFG Americas Holdings Corporation, as a single entity, as well as to MUFG Americas Holdings and its consolidated subsidiaries, as the context requires.

References to “Krungsri” are to Bank of Ayudhya Public Company Limited, as a single entity, as well as to Bank of Ayudhya Public Company Limited and its consolidated subsidiaries, as the context requires.

References to “Bank Danamon” are to PT Bank Danamon Indonesia, Tbk., as a single entity, as well as to PT Bank Danamon Indonesia, Tbk. and its consolidated subsidiaries, as the context requires.

References to “First Sentier Investors” are to First Sentier Investors Holdings Pty Ltd., as a single entity, as well as to First Sentier Investors Holdings Pty Ltd. and its consolidated subsidiaries, as the context requires.

References to the “FSA” are to the Financial Services Agency, an agency of the Cabinet Office of Japan.

Our fiscal year ends on March 31 of each year. References to years not specified as being fiscal years are to calendar years.

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 U.S. Securities and Exchange Commission, or SEC, including this Annual Report, and other reports to shareholders and other communications.

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

Forward-looking statements appear in a number of places in this Annual Report and include statements regarding our current intent, business plan, targets, belief or 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. Important factors that could cause such differences include, without limitation,

- deterioration in economic conditions in Japan and around the world,
- external events, such as natural disasters, COVID-19 and other health pandemics or epidemics, terrorism, and other political and social conflicts,
- reforms of London Interbank Offered Rate and other interest rate benchmarks,
- climate change and resulting physical damages and changes in the business environment,
- competitive pressures resulting from regulatory and market changes,
- failure to implement our business expansion strategy as planned and to manage new or expanded risks that entail such strategy, as well as incurrence of impairment or valuation losses on our acquired assets,
- negative developments relating to our strategic alliance with Morgan Stanley,
- failure to maintain our capital ratios and other regulatory ratios above minimum required levels,
- significant unexpected increases in credit costs,
- financial difficulties of other financial institutions that affect the overall banking environment and their borrowers,
- fluctuations in interest rates, foreign currency exchange rates and stock prices,
- reduction in foreign currency funding liquidity,
- failure to address regulatory or public concerns or to meet market or industry rules or standards, customer protection requirements, or corporate behavior expectations,
- cyber-attacks and other information security threats,
- problems with the proper functioning and development of information, communications and transaction management systems,

- transactions with counterparties in countries designated by the U.S. Department of State as state sponsors of terrorism,
- changes in laws, regulations, rules, policies, accounting standards or methods, voluntary codes of practices, and interpretations,
- changes in the business and regulatory environment for consumer finance companies,
- damage to our reputation resulting from our failure to prevent or properly address negative perceptions held by customers, investors, regulators and the general public regarding us and our operations, and
- other risks and uncertainties discussed 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 in this Annual Report.

Given these and other risks and uncertainties, you are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of the filing of this Annual Report. 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 unless required by law.

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 income data and selected balance sheet data set forth below has been derived from our audited consolidated financial statements.

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, the selected financial data set forth below are derived from our consolidated financial statements prepared in accordance with U.S. GAAP.

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(in millions, except per share data and number of shares)				
Statement of income data:					
Interest income	¥ 2,990,767	¥ 3,259,016	¥ 3,813,379	¥ 3,927,143	¥ 2,751,996
Interest expense	769,639	1,028,755	1,517,981	1,684,344	747,902
Net interest income	2,221,128	2,230,261	2,295,398	2,242,799	2,004,094
Provision for (reversal of) credit losses	253,688	(240,847)	34,330	321,713	484,210
Net interest income after provision for (reversal of) credit losses	1,967,440	2,471,108	2,261,068	1,921,086	1,519,884
Non-interest income	1,196,706	1,935,091	1,595,244	1,875,695	3,157,787
Non-interest expense	2,891,603	2,744,380	2,985,470	3,363,561	3,069,329
Income before income tax expense	272,543	1,661,819	870,842	433,220	1,608,342
Income tax expense	94,453	407,823	133,237	114,505	444,948
Net income before attribution of noncontrolling interests	178,090	1,253,996	737,605	318,715	1,163,394
Net income (loss) attributable to noncontrolling interests	(24,590)	25,836	18,960	12,760	46,096
Net income attributable to Mitsubishi UFJ Financial Group	¥ 202,680	¥ 1,228,160	¥ 718,645	¥ 305,955	1,117,298
Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	¥ 202,680	¥ 1,228,160	¥ 718,645	¥ 305,955	1,117,298
Amounts per share:					
Basic earnings per common share—Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	¥ 14.93	¥ 92.40	¥ 55.03	¥ 23.69	¥ 86.88
Diluted earnings per common share—Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	14.68	92.10	54.74	23.47	86.56
Number of shares used to calculate basic earnings per common share (in thousands)	13,574,314	13,291,842	13,058,698	12,912,790	12,859,737
Number of shares used to calculate diluted earnings per common share (in thousands) ⁽¹⁾	13,584,885	13,293,492	13,059,182	12,912,956	12,859,737
Cash dividends per share paid during the fiscal year:—Common stock	¥ 18.00 \$ 0.17	¥ 18.00 \$ 0.16	¥ 21.00 \$ 0.19	¥ 23.50 \$ 0.22	¥ 25.00 \$ 0.24
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(in millions)				
Balance sheet data:					
Total assets	¥297,185,019	¥300,570,312	¥305,228,899	¥331,753,283	¥353,824,625
Loans, net of allowance for credit losses	117,032,784	116,271,771	116,225,757	117,377,199	114,370,472
Total liabilities	282,420,311	284,924,497	289,244,151	316,008,767	337,580,071
Deposits	190,401,623	195,674,593	199,280,789	203,954,528	229,206,936
Long-term debt ⁽²⁾	26,131,527	27,069,556	27,990,543	27,926,763	35,157,651
Total equity	14,764,708	15,645,815	15,984,748	15,744,516	16,244,554
Capital stock	2,090,270	2,090,270	2,090,270	2,090,270	2,090,270

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(in millions, except percentages)				
Other financial data:					
Average balances:					
Interest-earning assets	¥239,192,449	¥239,048,981	¥241,407,356	¥246,283,676	¥268,916,481
Interest-bearing liabilities	223,522,296	233,857,052	234,643,197	238,861,520	265,912,928
Total assets	307,938,699	320,589,932	321,292,847	325,500,449	355,992,571
Total equity	15,010,829	15,423,078	16,076,679	15,417,885	15,681,527
Return on equity and assets:					
Earnings applicable to common shareholders as a percentage of average total assets	0.07%	0.38%	0.22%	0.09%	0.31%
Earnings applicable to common shareholders as a percentage of average total equity	1.35%	7.96%	4.47%	1.98%	7.12%
Dividends per common share as a percentage of basic earnings per common share	120.56%	19.48%	38.16%	99.20%	28.78%
Average total equity as a percentage of average total assets	4.87%	4.81%	5.00%	4.74%	4.41%
Net interest income as a percentage of average total interest-earning assets	0.93%	0.93%	0.95%	0.91%	0.75%
Credit quality data:					
Allowance for credit losses ⁽⁴⁾	¥ 1,182,188	¥ 764,124	¥ 658,184	¥ 809,540	¥ 1,348,391
Allowance for credit losses as a percentage of loans	1.00%	0.65%	0.56%	0.68%	1.17%
Net loan charge-offs	¥ 169,809	¥ 180,999	¥ 129,924	¥ 179,277	¥ 245,424
Net loan charge-offs as a percentage of average loans	0.14%	0.15%	0.11%	0.15%	0.21%
Average interest rate spread	0.91%	0.92%	0.93%	0.88%	0.74%
Risk-adjusted capital ratio calculated under Japanese GAAP ⁽³⁾	15.85%	16.56%	16.03%	15.87%	16.31%

Notes:

- (1) Includes the common shares that were potentially issuable upon exercise of stock acquisition rights. See “Item 6.B. Directors, Senior Management and Employees—Compensation.”
- (2) Reflects the changes in presentation adopted in the fiscal year ended March 31, 2018, where long-term payables under repurchase agreements are no longer included in long-term debt but are aggregated with short-term payables under repurchase agreements in payables under repurchase agreements, and applied to the fiscal year ended March 31, 2017.
- (3) Risk-adjusted capital ratios have been calculated in accordance with Japanese banking regulations as applicable on the relevant calculation date, based on information derived from our consolidated financial statements prepared in accordance with Japanese GAAP. For a description of the applicable capital ratio calculation and other requirements applicable, see “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—Japan—Capital adequacy” and “Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Adequacy.”
- (4) Adopted the new guidance on measurement of credit losses on financial instruments as of April 1, 2020, which resulted in an increase of allowance for credit losses as of the beginning of the fiscal year ended March 31, 2021. See Note 1 (Accounting Changes) to our consolidated financial statements for more information.

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 those described in this section and elsewhere in this Annual Report. See “Forward-Looking Statements.”

SUMMARY

The principal risks that could adversely affect our business, operating results, financial condition or capital position include:

- deterioration in economic conditions in Japan because a large portion of our assets as well as our business operations are in Japan,
- deterioration in economic conditions in Japan and around the world given our global operations,
- natural disasters, terrorism, pandemics and other disruptions caused by external events,
- reforms of London Interbank Offered Rate and other interest rate benchmarks,
- climate change risks such as physical damage caused by extreme weather conditions and natural disasters as well as governments’ measures to strengthen climate-related regulations and the transition to a decarbonized society,
- competitive pressures, which have partly increased due to regulatory changes and recent market changes in the financial industry domestically and globally,
- new or expanded risks, if and to the extent we are unable to anticipate or manage, that entail our global expansion strategy because of political and social instability, stagnation of the economy, fluctuations of the financial market, inability to obtain regulatory approvals, changes in the laws, regulations or accounting standards changes in the strategies or financial condition of our acquirees, investees or alliance partners that are inconsistent with our interests, unanticipated changes in the local market, industry or business environment affecting our acquirees, investees or alliance partners,
- synergies and other benefits expected from our strategic alliance with Morgan Stanley not being achieved,
- failure to maintain our capital ratios and other regulatory ratios above minimum required levels,
- fluctuations in foreign currency exchange rates,
- credit-related losses,
- financial difficulties relating to other financial institutions resulting in losses on our transactions with such financial institutions or systemic problems adversely affecting the financial market and the wider economy,
- declines in the Japanese stock market or other global markets,

- fluctuations in interest rates, foreign currency exchange rates and stock prices,
- a downgrade of our credit ratings adversely affecting our liquidity,
- regulatory actions or other legal proceedings,
- failure to safeguard personal and other confidential information resulting in liability, reputational damage or financial losses,
- cyber-attacks and other information security threats and improper functioning or development of our information, communications and transaction management systems,
- transactions with counterparties in countries designated by the U.S. Department of State as state sponsors of terrorism,
- legal and regulatory changes,
- changes in the business or regulatory environment for consumer finance companies in Japan,
- damage to our reputation,
- restrictions on U.S. investors to ability to effect service of process on us or to enforce U.S. court judgments against us,
- limitations on rights of holders of our American depository shares as shareholders.

Risks Related to Our Business Environment

Because a large portion of our assets as well as our business operations are in Japan, we may incur 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, 2021, 68.0% of our total assets were related to Japanese domestic assets, including Japanese national government and Japanese government agency bonds, which accounted for 63.5% of our total investment securities portfolio and 10.3% of our total assets, respectively. Interest and non-interest income in Japan represented 56.7% of our total interest and non-interest income for the fiscal year ended March 31, 2021. Furthermore, as of March 31, 2021, our loans in Japan accounted for 59.0% of our total loans outstanding.

There is significant uncertainty surrounding Japan's economy. For example, Japan's fiscal health and sovereign creditworthiness may deteriorate if the Japanese government's economic measures and the Bank of Japan's monetary policies prove ineffective or result in negative consequences. If the prices of Japanese government bonds decline rapidly, resulting in an unexpectedly sudden increase in interest rates, our investment securities portfolio as well as our lending, borrowing, trading and other operations may be negatively impacted. In addition, interest rates may suddenly increase as a result of a decision made by the Bank of Japan to end or modify its current interest rate policy, including the negative interest rate of minus 0.1% applied to certain current account amounts that financial institutions hold at the Bank of Japan and the Japanese government bond purchase program with an aim to keep the yield of 10-year Japanese government bonds around zero percent, or market expectations relating to any such decision.

Instability in the Japanese stock market and foreign currency exchange rates may also have an adverse impact on our asset and liability management as well as our results of operations. Various other factors, including the COVID-19 pandemic and measures being implemented in response to the pandemic such as restrictions on travel, store operations and other economic activities, the decreasing and aging demographics in Japan, stagnation or deterioration of economic and market conditions in other countries, growing global competition and trade conflicts, may also have a material negative impact on the Japanese economy. For a detailed discussion on the business environment in Japan and abroad, see "Item 5. Operating and Financial Review and Prospects—Business Environment."

Since our domestic loans in Japan accounted for a significant portion of our loan portfolio, deteriorating or stagnant economic conditions in Japan may cause adverse effects on our financial results, such as increases in

credit costs, as the credit quality of some borrowers could deteriorate, particularly borrowers in industries that are adversely affected by the COVID-19 pandemic. Our domestic loan portfolio may also be adversely affected by interest rate fluctuations in Japan. For example, as a result of the Bank of Japan's interest rate policy and measures to purchase Japanese government bonds in the market, the yield on many financial instruments and other market interest rates in Japan have declined to low or negative levels. If the Bank of Japan's policy and measures are maintained for an extended period, or if the Bank of Japan's negative interest rate is lowered from the current level, market interest rates may decline further, and our interest rate spread on our domestic loan portfolio may narrow further, reducing our net interest income.

Our results of operations may be materially affected by deterioration of economic conditions in Japan and around the world.

Economic conditions in Japan and around the world may deteriorate due to various factors such as the COVID-19 pandemic and measures being implemented in response to the pandemic, including restrictions on travel, store operations and other economic activities, in Japan and other countries and regions. Uncertainty over the Japanese and global economies still remain not only because of the unpredictability of the timing of containment of COVID-19 but also because of such other factors as concerns over political developments in the United States, the possible negative impact on international trade resulting from shifts in the trade policies of various countries and regions, concerns over the U.S.-China conflict, changes in the European economy after the United Kingdom's withdrawal from the European Union, and economic stagnation and political turmoil in various regions around the world. In addition, external events, such as earthquakes, typhoons, floods and other natural disasters, terrorism and other political and social conflicts, abduction, and health pandemics or epidemics, may cause deterioration in economic conditions and market instability in affected areas. As of March 31, 2021, based principally on the domicile of the obligors, assets related to the United States accounted for approximately 14.0% of our total assets, assets related to Asia and Oceania excluding Japan accounted for approximately 8.9% of our total assets, and assets related to Europe accounted for approximately 6.0% of our total assets.

Worsening economic conditions in Japan and around the world may result in, among other things, impairment or valuation losses on securities and other assets that we hold due to declines in the market value of such assets, an increase in our non-performing loans and credit costs due to deterioration in borrowers' business performance, a decrease in our profits due to deterioration in the creditworthiness of counterparties in market transactions, a reduction in foreign currency funding liquidity, an increase in our foreign currency funding costs, and an increase in the level of risk in the risk assets that we hold. Our profitability may be adversely affected by various other factors, including a decline in our net interest income caused by such factors as changes in the monetary policies of central banks in various jurisdictions. In addition, an economic downturn may result in a decline in new investments and business transactions by customers due to stagnation in economic activity, weak consumer spending, diminished investor appetite for making investments in uncertain financial markets, and a decrease in our assets under custody or management.

Our business operations are exposed to risks of natural disasters, terrorism and other disruptions caused by external events.

As a major financial institution incorporated in Japan and operating in major international financial markets, our business operations, ATMs and other information technology systems, personnel, and facilities and other physical assets are subject to the risks of earthquakes, typhoons, floods and other natural disasters, terrorism and other political and social conflicts, abduction, health pandemics or epidemics, and other disruptions caused by external events, which are beyond our control. Such external events may result in loss of facility and human and other resources, suspension or delay in all or part of our operations, inability to implement business strategic measures or respond to changes in the market or regulatory environment as planned, and other disruptions to our operations. In addition, we may be required to incur significant costs and expenses, including those incurred for preventive or remedial measures, to deal with the consequences of such external events. As a result, our business, operating results and financial condition may be materially and adversely affected.

For example, the COVID-19 pandemic has required us to temporarily close some of our business locations, resulted in reduction in our and our vendors' operational capacity due to restrictions on mobility, and had other negative impact on us. Although we have taken various measures designed to ensure the safety of our employees and vendors as well as the continuity of our operations, if a large number or concentrated groups of employees of us and our vendors become infected of the virus or if the pandemic continues to expand or is not sufficiently controlled, we may be further adversely affected.

As with other Japanese companies, we are exposed to heightened risks of large-scale natural disasters, particularly earthquakes. In particular, a large-scale earthquake occurring in the Tokyo metropolitan area and other areas where we have our important business functions may have a material adverse effect on our business, operating results and financial condition.

Our risk management policies and procedures may be insufficient to address the consequences of these external events, resulting in our inability to continue to operate a part or the whole of our business. In addition, our redundancy and backup measures may not be sufficient to avoid a material disruption in our operations, and our contingency and business continuity plans may not address all eventualities that may occur in the event of a material disruption caused by a large-scale natural disaster.

Reforms of London Interbank Offered Rate and other interest rate benchmarks could adversely affect our business, financial condition and results of operations.

We have various transactions, including derivatives, loans, bonds, and securitized products, that reference London Interbank Offered Rate, or LIBOR, and other interest rate benchmarks. On March 5, 2021, the U.K. Financial Conduct Authority announced its intention to cease the publication of LIBOR settings, including (a) in the case of all sterling, euro, Swiss franc and Japanese yen settings and the 1-week and 2-month U.S. dollar settings, immediately after December 31, 2021, and (b) in the case of the remaining U.S. dollar settings, immediately after June 30, 2023.

In anticipation of the discontinuation of the publication of LIBOR after the end of calendar year 2021, we are taking measures to deal with the reform of LIBOR and other interest rate benchmarks and the transition to alternative reference rates. However, such transition from LIBOR and other interest rate benchmarks to alternative reference rates is complex and entails uncertainty and may have various adverse impacts on our business, financial position and operating results. In particular, among other things,

- such transition may adversely affect the price, liquidity, profitability, and tradability of a wide range of financial instruments, such as loans and derivatives, included in our financial assets and liabilities that reference LIBOR and other interest rate benchmarks;
- we may be unable to modify contracts with our counterparties to replace the reference rate for existing contracts based on or linked to LIBOR and other interest rate benchmarks with alternative reference rates by the dates set for cessation of LIBOR and other interest rate benchmarks;
- such transition may result in disputes with customers and counterparties concerning the interpretation of affected contracts or economic adjustments to the alternative reference rate adopted in connection with the reform of LIBOR and other interest rate benchmarks and the transition to alternative reference rates, or disputes concerning inappropriate trade practices or abuse of a dominant bargaining position in transactions with customers;
- such transition may require us to respond to regulatory authorities in connection with the reform of LIBOR and other interest rate benchmarks and the transition to alternative reference rates; and
- we may be unable to sufficiently develop or enhance systems needed for risk management and other operations to effectively deal with the reform of LIBOR and other interest rate benchmarks and the transition to alternative reference rates and may incur additional system investment and other costs in connection with such reform and transition

Climate change could have a material adverse impact on us and our clients.

Physical damage caused by extreme weather conditions and natural disasters resulting from climate change, as well as governments' measures to strengthen climate-related regulations and the transition to a decarbonized society, may adversely affect the business and financial condition of us and our clients, including our credit portfolio. We recognize the importance of appropriately understanding, evaluating and disclosing climate change-related risks, and we intend to support the recommendations of the Climate Financial Disclosure Task Force, or TCFD, which has been established by the Financial Stability Board. To be in line with the TCFD, we intend to make a continued effort to improve our understanding and evaluation of the relevant risks and to enhance our related disclosure. However, if our effort to address climate change-related risks or to make appropriate disclosure proves or is deemed inappropriate and, as a result, we are considered to fail to fulfill our responsibility to society, our corporate value may be impaired and our business and results of operations may be adversely affected.

Risks Related to Our Strategies and Our Major Investees

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.

Competition in the financial services industry may further intensify due to the increase in the number of non-financial institutions entering the financial services industry with alternative services such as electronic settlement services as a result of development of new technologies such as artificial intelligence, or AI, and blockchain as well as significant changes in regulatory barriers. Competition may also further increase as other global financial institutions enhance their competitive strength through development or adoption of such new technologies as well as mergers, acquisitions, strategic alliances, and profit enhancement and other measures.

Under such circumstances, although we have been implementing various business strategies on a global basis designed to strengthen our competitive position and profitability, our business, financial condition and results of operations may be adversely affected if these strategies fail to produce the results we expect or if we are required to delay or otherwise change these strategies and result in the decline in our competitiveness because of various factors, including where:

- the volume of loans made to borrowers cannot be maintained or does not increase as anticipated;
- our income from interest spreads on the existing loans does not improve as anticipated;
- our loan interest spread further narrows as a result of the “quantitative and qualitative monetary easing with yield curve control” program being maintained in Japan for an extended period or the negative interest rate being lowered from the current level;
- our fee income does not increase as much or quickly as we aim to do;
- our strategy to build a business infrastructure for new services and products through digital transformation or otherwise does not proceed as planned;
- clients and business opportunities are lost, or costs and expenses significantly exceed our expectations, as a result of the ongoing or planned strategies to streamline our business portfolio, to integrate our systems, or to improve financial and operational efficiency not being achieved as expected;
- we are unable to hire or retain sufficient human resources;
- our foreign currency funding becomes limited or unavailable; and
- we are restricted in agility or flexibility in investing in non-financial institutions under applicable laws and regulations in and outside of Japan.

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 global expansion.

As we expand our business operations and operate our business as a global financial institution, we may become exposed to new and increasingly complex risks associated therewith. We may not be able to establish appropriate internal controls or risk management systems or to hire or retain necessary human resources to effectively deal with compliance, regulatory, market and other risks entailing the expanded scope of our operations, products and services in all cases and, as a consequence, our financial condition and results of operations may be adversely affected.

As a strategic measure implemented in an effort to become the world's most trusted financial group, we acquire businesses, make investments and enter into capital alliances globally. We may continue to pursue opportunities to acquire businesses, make investments and enter into capital alliances. Our major overseas subsidiaries include MUFG Americas Holdings, a wholly owned subsidiary in the United States, Krungsri, a subsidiary in Thailand, and Bank Danamon, a subsidiary in Indonesia. Our acquisition, investments and capital alliances may not proceed as planned or may be changed or dissolved, we may not achieve the synergies or other results that we expected, or we may incur impairment or valuation losses on securities acquired or intangible assets, including goodwill, recorded in connection with such business acquisitions, investments or business alliances, because of among other things, political and social instability, stagnation of the economy, fluctuations of the financial market, inability to obtain regulatory approvals, changes in the laws, regulations or accounting standards, changes in the strategies or financial condition of our acquirees, investees or alliance partners that are inconsistent with our interests, unanticipated changes in the local market, industry or business environment affecting our acquirees, investees or alliance partners. These and other similar circumstances may adversely affect our business strategies, financial condition and results of operations. In addition, we may be unable to achieve the benefits expected from our efforts to expand business operations if our expansion strategy does not proceed as planned.

If the goodwill recorded in connection with our acquisitions becomes impaired, we may be required to record impairment losses, which may adversely affect our financial results. We record the excess of the purchase price over the fair value of the assets and liabilities of the acquired companies as goodwill. As of March 31, 2021, the total balance of goodwill was ¥ 370.9 billion. U.S. 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. For further information, see Note 6 to our audited consolidated financial statements.

Our efforts to offer new products and services or penetrate new markets may not succeed due to any of the foregoing reasons or other reasons, including if product or market opportunities develop more slowly than expected, if our new products and services are not well accepted among customers, if the profitability of opportunities is undermined by competitive pressures, regulatory limitations or changes in our business environment, if our planned acquisitions, investments or capital alliances are not approved by regulators or do not proceed as planned, or if our acquisitions, investments or capital alliances fail to achieve the synergies or other results that we expect.

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

We have a global strategic alliance with Morgan Stanley, under which we operate two joint venture securities companies in Japan, engage in joint corporate finance operations in the United States and pursue other cooperative opportunities. We hold approximately 20.2% of the voting rights in Morgan Stanley as of March 31, 2021 and continue to hold approximately \$521.4 million of perpetual non-cumulative non-convertible preferred stock with a 10% dividend. In addition, we currently have two representatives on Morgan Stanley's board of directors. We maintain this strategic alliance with a view towards long-term cooperation with Morgan Stanley, and plan to deepen the strategic alliance. However, due to any unexpected changes in social, economic or financial conditions, changes in the regulatory environment, or any failure to integrate or share staff, products or

services, or to operate, manage or implement the business strategy of the securities joint venture companies or other cooperative opportunities as planned, we may be unable to achieve the expected synergies from this alliance.

If our strategic alliance with Morgan Stanley is terminated, it could have a material negative impact on our business strategy, financial condition, and results of operations. For example, because we conduct our securities operations in Japan through the joint venture companies we have with Morgan Stanley, such termination may result in our inability to attain the planned growth in this line of business.

In addition, with our current investment in Morgan Stanley, we have neither a controlling interest in, nor control over the business operations of, Morgan Stanley. If Morgan Stanley makes any business decisions that are inconsistent with our interests, we may be unable to achieve the goals initially set out for the strategic alliance. Furthermore, although we do not control Morgan Stanley, given the magnitude of our investment, if Morgan Stanley encounters financial or other business difficulties due to adverse changes in the economy, regulatory environment or other factors, we may suffer a financial loss on our investment or damage to our reputation.

We apply equity method accounting to our investment in Morgan Stanley in our consolidated financial statements. As a result, Morgan Stanley's performance affects our results of operations, and Morgan Stanley has contributed to a significant portion of our net income in recent periods. Rule 3-09 of Regulation S-X requires Morgan Stanley's financial statements to be included in this Annual Report. In addition, fluctuations in Morgan Stanley's stock price or in our equity ownership interest in Morgan Stanley may cause us to recognize losses on our investment in Morgan Stanley.

Risks Related to Our Ability to Meet Regulatory Capital Requirements

We may not be able to maintain our capital ratios and other regulatory ratios above minimum required levels, which could result in various regulatory actions, including 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 and leverage ratios above the levels specified in the guidelines adopted by the FSA to implement the Basel III framework. As of March 31, 2021, our total risk-adjusted capital ratio was 16.31% compared to the minimum risk-adjusted capital ratio required of 12.00%, our Tier 1 capital ratio was 13.96% compared to the minimum Tier 1 capital ratio required of 10.00%, and our Common Equity Tier 1 capital ratio was 12.33% compared to the minimum Common Equity Tier 1 capital ratio required of 8.50%, each including a capital conservation buffer of 2.50%, a G-SIB surcharge of 1.50% and a countercyclical buffer of 0.00%. As of the same date, our leverage ratio was 5.45% compared to the minimum leverage ratio required of 3.00%. Basel III risk measurement reforms are expected to be phased in from 2023. Our capital and leverage ratios are calculated in accordance with Japanese banking regulations based on information derived from our financial statements prepared in accordance with Japanese GAAP.

The Financial Stability Board has identified us as one of G-SIBs. The banks that are included in the list of G-SIBs are subject to a capital surcharge to varying degrees depending on the bucket to which each bank is allocated. As the list of G-SIBs is expected to be updated annually, we may be required to meet stricter capital ratio requirements. G-SIBs are currently expected to become subject to a leverage ratio surcharge in 2023.

If our or our Japanese banking subsidiaries' capital ratios or leverage ratios fall below the required levels, including various capital buffers, the FSA may require us to take a variety of corrective actions, including abstention from making capital distributions and suspension of our business operations. In addition, some of our banking subsidiaries are subject to the local capital adequacy ratio and other regulatory ratio requirements of various foreign countries, including the United States, and if their ratios fall below the required levels, the local regulators will require them to take a variety of corrective actions.

Factors that will affect our and our bank subsidiaries' capital ratios or leverage ratios include:

- fluctuations in our or our banking subsidiaries' portfolios due to deterioration in the creditworthiness of borrowers and the issuers of equity and debt securities;
- difficulty in refinancing or issuing instruments upon redemption or at maturity of such instruments to raise capital under terms and conditions similar to prior financings or issuances;
- declines in the value of our or our banking subsidiaries' securities portfolios;
- adverse changes in foreign currency exchange rates;
- adverse revisions to the capital ratio and other regulatory ratio requirements;
- reductions in the value of our or our banking subsidiaries' deferred tax assets; and
- other adverse developments.

In March 2019, we became subject to the FSA's new regulations requiring G-SIBs in Japan to maintain certain minimum levels of capital and liabilities that are deemed to have loss-absorbing and recapitalization capacity, or External TLAC, and allocate a certain minimum level of External TLAC to any material subsidiary within their respective groups of companies, or Internal TLAC. As of March 31, 2021, we maintained 18.94% of External TLAC on a risk-weighted assets basis compared to the required minimum ratio of 16.00% and 8.96% of External TLAC on a leverage exposure basis compared to the required minimum ratio of 6.00%. The applicable minimum ratio requirements are expected to be raised to 18.00% on a risk-weighted assets basis and 6.75% on a leverage exposure basis on March 31, 2022. Within the MUFG Group, MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. and MUFG Americas Holdings are designated as our material subsidiaries. We may become subject to various regulatory actions, including restrictions on capital distributions, if we are unable to maintain our External TLAC ratios or the amount of Internal TLAC allocated to any of our material subsidiaries in Japan above the minimum levels required by the standards imposed by the FSA, or if the capital buffers are used and reduced below the required level to make up for our required External TLAC ratio on a risk-weighted assets basis. Our External TLAC ratios and the amount of our Internal TLAC are affected by various factors that affect our capital ratios and leverage ratios described above. Although we plan to issue TLAC-qualified debt in an effort to meet the minimum required levels of External TLAC ratios and Internal TLAC amounts, we may fail to do so if we are unable to issue or refinance TLAC-qualified debt as planned.

For a discussion of the applicable regulatory guidelines and our capital ratios, see "Item 4.B. Information on the Company—Business Overview—Supervision and Regulation" and "Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Adequacy."

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, 2021, the average balance of our foreign interest-earning assets was ¥100,027.7 billion and the average balance of our foreign interest-bearing liabilities was ¥66,934.7 billion, representing 37.2% of our average total interest-earning assets and 25.2% of our average total interest-bearing liabilities during the same period. Due to foreign currency exchange rate fluctuations, we may incur losses attributable to net transaction losses on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies, net losses on currency derivative instruments entered into for trading purposes, and net losses on translation into Japanese yen of securities accounted for under the fair value option. 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.

Credit Risk

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.

If the economic conditions in Japan or other parts of the world, including emerging countries, or in particular industries, including the energy and real estate industries, to which we have significant credit risk exposure, or the air transportation and other industries that may be adversely affected by the COVID-19 pandemic, worsen, or if emerging market currencies depreciate against major currencies, our problem loans and credit-related expenses and losses may increase. An increase in problem loans and credit-related expenses and losses would adversely affect our results of operations, weaken our financial condition and erode our capital base. The effect of the pandemic on our credit portfolio has been significant, resulting in increases in our problem loans and credit-related expenses and losses. The full extent of the impact of the pandemic on our credit portfolio remains uncertain though more than a year has passed since the COVID-19 pandemic. For example, we have provided small and medium-sized entities adversely affected by the pandemic with loans to support their business and liquidity needs under government financial assistance programs. The loan losses related to such borrowers have been relatively small due to the credit support provided by the government. However, such loans provided in Japan mature during the fiscal year ending March 31, 2022, and we may recognize significant losses on loans outstanding after the government support expires.

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 restructurings. We may take these steps even when such steps might not be warranted from the perspective of our short-term or narrow economic interests or a technical analysis of our legal rights against those borrowers, in light of other factors such as our longer-term economic interests and our commitment to supporting the Japanese economy. 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.

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 of customers' creditworthiness and the value of collateral we hold. While we closely observe conditions of our individual borrowers and industry trends, we may need to provide for additional allowance for credit losses due to deterioration in domestic and global economic conditions as well as commodity price fluctuations or other conditions specific to certain borrowers.

Also, 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 example, as a result of our adoption on April 1, 2020 of an accounting methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates, we estimated that our allowance for credit losses and our allowance for off-balance sheet credit instruments increased by an aggregate of approximately ¥380 billion to ¥450 billion as of the opening balance sheet date. See Note 1 to our consolidated financial statements.

Our efforts to diversify our portfolio to avoid any concentration of credit risk exposures to particular industries or counterparties may prove insufficient. For example, our credit exposures to the energy and real estate industries are relatively high in comparison to other industries. The credit quality of borrowers in this sector do not necessarily correspond to general economic conditions in Japan or other parts of the world, and adverse fluctuations in oil and other commodity prices or adverse developments in the real estate market may disproportionately increase our credit losses.

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.

Declining asset quality and other financial problems may exist, arise or worsen at some domestic and foreign financial institutions, including banks, non-bank lending and credit institutions, securities companies and insurance companies. Financial difficulties relating to financial institutions may not only lead to liquidity and insolvency problems for such financial institutions but also result in systemic problems adversely affecting the financial market and the wider economy. Financial difficulties relating to financial institutions could adversely affect us because we have extended loans, some of which may need to be classified as impaired 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 10% of our total loans as of each year-end in the three fiscal years ended March 31, 2021, with the percentage being 14.8% as of March 31, 2021. 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 companies and other financial institutions for managing credit risk exposures, for facilitating client transactions, and for proprietary trading purposes. In addition, we may be adversely affected because:

- we are shareholders of financial institutions;
- financial institutions that face difficulties may terminate or reduce financial support to borrowers, putting such borrowers under financial stress and causing our loans to such borrowers to be impaired;
- we may be requested to participate in providing support to distressed financial institutions;
- the government may elect to provide regulatory, tax, funding or other benefits to financial institutions under its supervision or control to strengthen their capital or increase their profitability or for other purposes, causing our competitiveness against such financial institutions to weaken;
- our deposit insurance premiums may rise if deposit insurance funds prove to be inadequate;
- bankruptcies or government control or other intervention of financial institutions may generally undermine the confidence of depositors in, or adversely affect the overall business environment for, financial institutions; and
- negative media coverage of the financial industry or system, regardless of its accuracy and applicability to us, may harm our reputation as well as market confidence in the financial industry and system.

Risk Relating to Our Strategic Equity Portfolio

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.

Our strategic equity investments in Japan accounted for a vast majority of our total domestic marketable equity securities of ¥5.72 trillion as of March 31, 2021. A decline in stock prices may also reduce our regulatory capital ratios because unrealized gains and losses on the equity securities we hold are reflected in the calculation of such ratios. Weakening or stagnant economic conditions in Japan, the United States, China, the Eurozone and Asian countries may have a significant negative impact on Japanese companies, which in turn will cause their stock prices to decline. Japanese stock prices may fluctuate significantly and negatively in future periods, as the global economy remains volatile and investors continue to observe the changes in economic, monetary and trade policies mainly in these countries and regions. Concerns over the impact of geopolitical tensions and conflicts in various parts of the world on Japanese companies may also adversely affect stock prices in Japan. In addition, the global trend towards further reduction in risk assets could result in lower stock prices.

Market Risk

Fluctuations in interest rates, foreign currency exchange rates and stock prices could adversely affect the value or the yield of our portfolio.

We undertake extensive financial market operations involving a variety of financial instruments, including derivatives, and hold large volumes of such financial instruments. As a result, our financial condition and results of operations are subject to the risks relating to these operations and holdings. The primary risks are fluctuations in interest rates, foreign currency exchange rates and stock prices in and outside of Japan. As of March 31, 2021, approximately 27.8% of our total assets were financial instruments which we measure at fair value. The aggregate carrying amount of the Japanese government and corporate bonds and foreign bonds, including U.S. Treasury bonds, that we held as of March 31, 2021 was 11.5% of our total assets. In particular, the Japanese national government and Japanese government agency bonds accounted for 10.3% of our total assets as of March 31, 2021. If market interest rates decline due to such factors as changes in the monetary policies of central banks in various jurisdictions, the yield on the Japanese government bonds and foreign government bonds that we hold may also decline. Furthermore, if short-term interest rates rise to a larger extent than long-term interest rates, our interest income may be adversely affected. If interest rates in and outside of Japan rise, we may incur significant losses on sales of, and valuation losses on, our bond portfolio.

Appreciation of the Japanese yen against the U.S. dollar and other major currencies causes the yen-converted value of our foreign currency-denominated investments to decline and may cause us to recognize significant losses on sales of, or valuation losses on, such investments in our financial statements. Furthermore, if stock prices decline, the value of marketable equity securities and trading account securities that we hold also declines, we may incur significant losses on sales of, and valuation losses on, our equity securities and trading account securities portfolios. In addition, the derivative financial instruments in our trading portfolio may cause us to record significant gains or losses, when sold or marked to market, and may fluctuate from period to period due to numerous factors that are beyond our control, including interest rate levels, foreign currency exchange rates, stock price fluctuations, the credit risk of our counterparties, and general market volatility. Our assessment and management of market risks, including those related to fluctuations in interest rates, foreign currency exchange rates and securities prices, may prove insufficient and, as a result, our actual losses in the future may exceed our estimated market risk exposure.

Funding Liquidity Risk

A downgrade of our credit ratings could adversely affect our ability to access and maintain liquidity.

Any downgrade of the credit ratings assigned to us or our debt securities by Moody's, Fitch, Standard & Poor's or any other credit rating agency could increase the cost, or decrease the availability, of our funding, particularly in U.S. dollars and other foreign currencies, adversely affect our liquidity position or net interest margin, trigger additional collateral or funding obligations, and result in losses of depositors, investors and counterparties willing or permitted to transact with us, thereby reducing our ability to generate income and weakening our financial position. Assuming all of the relevant credit rating agencies downgraded the credit ratings of MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings as of March 31, 2021 by one-notch on the same date, we estimate that MUFG and its three main subsidiaries would have been required to provide of approximately ¥100.2 billion of additional collateral under their derivative contracts. Assuming a two-notch downgrade by all of the same credit rating agencies occurring on the same date, we estimate that the additional collateral requirements for the same MUFG group companies under their derivative contracts would have been approximately ¥134.2 billion.

Rating agencies regularly evaluate us and our major subsidiaries as well as our and their respective debt securities. Their ratings are based on a number of factors, including their assessment of the relative financial strength of MUFG or of the relevant subsidiary, as well as conditions generally affecting the financial services industry in Japan or on a global basis, some of which are not entirely within our control. As a result of changes in

their evaluation of these factors or in their rating methodologies, rating agencies may downgrade our ratings or our subsidiaries' ratings. In April 2020, Fitch downgraded the long-term credit ratings of MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking by one-notch from A to A-. In addition, in April 2020, Standard and Poor's changed the credit rating outlook for MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking from "Positive" to "Stable". Fitch changed the credit rating outlook for MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Morgan Stanley Securities from "stable" to "negative" in August 2020, although Fitch changed the outlook for the same companies from "negative" back to "stable" in September 2020.

Operational Risk

We may become subject to regulatory actions or other legal proceedings relating to our transactions or other aspects of our operations, which could result in significant financial losses, restrictions on our operations and damage to our reputation.

We conduct our business subject to ongoing regulation and associated regulatory and legal risks. Global financial institutions, including us, currently face heightened regulatory scrutiny as a result of the concerns developing in the global financial sector, and growing public pressure to demand even greater regulatory surveillance following several high-profile scandals and risk management failures in the financial industry. In the current regulatory environment, we are subject to various regulatory inquiries or investigations from time to time in connection with various aspects of our business and operations. In addition, multiple government authorities with overlapping jurisdiction more frequently conduct investigations and take other regulatory actions in coordination with one another or separately on the same or related matters. Our controls may be found insufficient in addressing regulatory or public concerns relating to money laundering, economic sanctions, bribery, corruption, financial crimes, or unfair or inappropriate business practices, or in meeting market or industry rules or standards, customer protection requirements, or corporate behavior expectations.

In November 2017, MUFG Bank agreed to the entry by the U.S. Office of the Comptroller of the Currency, or OCC, of a consent order that includes remedial terms and conditions that are substantively the same as those included in the consent agreements that MUFG Bank had reached with the New York Department of Financial Services in 2013 and 2014 pertaining to compliance with OFAC sanctions requirements. The consent order was a condition for the conversion of MUFG Bank's branches and agencies in the United States from state-licensed branches and agencies under the supervision of state regulatory agencies to federally licensed branches and agencies under the supervision of the OCC. In February 2019, MUFG Bank entered into a consent order with the OCC, relating to deficiencies identified by the OCC in the Bank Secrecy Act/Anti-Money Laundering compliance program of MUFG Bank's U.S. branches in New York, Los Angeles, and Chicago. The consent order requires MUFG Bank and its U.S. branches to implement various remedial measures to address the deficiencies found in the OCC examination, including a comprehensive action plan satisfactory to the OCC, implementation of measures to ensure effective compliance management and qualified staffing, the adoption of comprehensive Bank Secrecy Act/Anti-Money Laundering risk assessment policies and procedures, and other remedial actions. MUFG Bank is undertaking necessary actions relating to the consent orders. We have received requests and subpoenas for information from government agencies in some jurisdictions that are conducting investigations into past submissions made by panel members, including us, to the bodies that set various interbank benchmark rates as well as investigations into foreign exchange related practices of global financial institutions. Some of the investigations into foreign exchange related practices resulted in our payment of monetary penalties to the relevant government agencies. We are cooperating with the ongoing investigations and have been conducting an internal investigation, among other things. In connection with these matters, we and other financial institutions are involved as defendants in a number of civil lawsuits, including putative class actions, in the United States.

These developments or other similar matters may result in additional regulatory actions against us or agreements to make significant additional settlement payments. These developments or other matters to which we are subject from time to time may also expose us to substantial monetary damages, legal defense costs,

criminal and civil liability, and restrictions on our business operations as well as damage to our reputation. Our ability to obtain regulatory approvals for future strategic initiatives may also be adversely affected. The outcome of such matters, including the extent of the potential impact of any unfavorable outcome on our financial results, however, is inherently uncertain and difficult to predict. The extent of financial, human and other resources required to conduct any investigations or to implement any corrective or preventive measures is similarly uncertain and could be significant. Such resources may also be difficult for us to secure in a timely manner.

Failure to safeguard personal and other confidential information may result in liability, reputational damage or financial losses.

As our operations expand in volume, complexity and geographic scope, we are exposed to increased risk of confidential information in our possession being lost, leaked, altered or falsified as a result of human or system error, misconduct, unlawful behavior or scheme, unauthorized access or natural or human-caused disasters. Our information systems and information management policies and procedures may not be sufficient to safeguard confidential information against such risks. As a financial institution in possession of customer information, we are obligated to treat personal and other confidential information as required by the Act on the Protection of Personal Information, the Act on the Use of Personal Identification Numbers in the Administration of Government Affairs, the Banking Law and the Financial Instruments and Exchange Act of Japan, as well as other similar laws and regulations of other jurisdictions in which we operate. In the event that personal information in our possession about our customers or employees is leaked or improperly accessed and subsequently misused, we may be subject to liability and regulatory action. We may have to provide compensation for economic loss and emotional distress arising out of a failure to protect such information. In addition, such incidents could create a negative public perception of our operations, systems or brand, which may in turn decrease customer and market confidence and materially and adversely affect our business, operating results and financial condition. Moreover, any loss, leakage, alteration or falsification of confidential information, or any malfunction or failure of our information systems, may result in significant disruptions to our business operations or plans or may require us to incur significant financial, human and other resources to implement corrective measures or enhance our information systems and information management policies and procedures.

Our operations are highly dependent on our information, communications and transaction management systems and are subject to an increasing risk of cyber-attacks and other information security threats and to changes in the business and regulatory environment.

Our information, communications and transaction management systems, which include not only our own proprietary systems but also those third-party systems that are provided for our use or to which our systems are connected, constitute a core infrastructure for our operations. The proper functioning of our information, communications and transaction management systems is critical to our ability to efficiently and accurately process a large volume of transactions, ensure adequate internal controls, appropriately manage various risks, and otherwise service our clients and customers, particularly in the current business environment with increasing dependence on remote or online networks and our strategy to promote digitization.

Cyber-attacks, unauthorized access and computer viruses are becoming increasingly more sophisticated and more difficult to predict, detect and prevent. For instance, bank internal financial transaction systems or automatic teller machines may become the target of cyber-attacks for monetary gain, and bank internal information systems may become the target of confidential information theft. In addition, banks' websites or customer internet banking systems may become the target of cyber-attacks for political and other purposes. These cyber threats, as well as our failure to appropriately and timely anticipate and deal with changes associated with technological advances and new systems and tools introduced in response to industry, regulatory and other developments, could cause disruptions to, and malfunctions of, information, communications and transaction management systems and result in fraud or other misconduct, unintended releases of confidential and proprietary information stored in or transmitted through the systems, interruptions in the operations of our clients, customers, counterparties and service providers, and deterioration in our ability to service our clients and customers. In

addition, our banking and other transaction management systems may not meet all applicable business and regulatory requirements in an environment where such requirements are becoming increasingly sophisticated and complicated. Furthermore, our system development or improvement projects, many of which are critical to our ability to operate in accordance with market and regulatory standards, may not be completed as planned due to the complexity and other difficulty relating to such projects. These consequences could result in financial losses, including costs and expenses incurred in connection with countermeasures and improvements as well as compensation to affected parties, lead to regulatory actions, diminish our clients' and customers' satisfaction with and confidence in us, and harm our reputation in the market, which could in turn adversely affect our business, financial condition and results of operations. Moreover, significant financial, human and other resources may be required to design, implement and enhance measures to manage cyber and information security risks and comply with regulatory requirements.

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

We, through our subsidiaries, engage in limited business activities with entities in or affiliated with Iran, including transactions with counterparties owned or controlled by the Iranian government, and our commercial banking subsidiary has a representative office in Iran for information gathering purposes only. The U.S. Department of State has designated Iran and other countries as "state sponsors of terrorism," and U.S. law generally prohibits U.S. persons from doing business with such countries. We currently have limited business activities conducted with entities in or affiliated with such countries. Such business activities are conducted in accordance with our policies and procedures designed to ensure compliance with regulations applicable in the jurisdictions in which we operate and with exemptions and general licenses available under U.S. law. We have transactions with counterparties in or affiliated with countries designated as state sponsors of terrorism which consist of receiving deposits or holding assets on behalf of individuals residing in Japan who are citizens of countries designated as state sponsors of terrorism and processing payments to or from entities in or affiliated with these countries on behalf of our customers. These transactions do not have a material impact on our business or financial condition. For a further discussion of transactions required to be disclosed under the U.S. Iran Threat Reduction and Syria Human Rights Act of 2012, see "Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—United States—Disclosure pursuant to Section 13(r) of the Securities Exchange Act of 1934."

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

Global financial institutions, including us, have become subject to an increasingly complex set of sanctions laws and regulations in recent years, and this regulatory environment is expected to continue. Moreover, the measures proposed or adopted vary across the major jurisdictions, increasing the cost and resources necessary to design and implement an appropriate global compliance program. The U.S. federal government and some state governments in the United States have enacted legislation designed to limit economic and financial transactions with Iran by limiting the ability of financial institutions that may have engaged in any one of a broad range of activities related to Iran to conduct various transactions in the relevant jurisdictions. In addition, in May 2018, the United States withdrew from participation in the Joint Comprehensive Plan of Action. Under subsequently issued executive orders, the United States may impose secondary sanctions against non-U.S. persons who engage in or facilitate a broad range of transactions and activities involving Iran. The Japanese government has also

implemented a series of measures under the Foreign Exchange and Foreign Trade Act, such as freezing the assets of persons involved in Iran's sensitive nuclear activities and development of nuclear weapon delivery systems, and our most recently modified policies and procedures take into account the current Japanese regulatory requirements. We continue to implement measures to enhance our policies and procedures to comply with such legislative and regulatory requirements. There remains a risk of potential regulatory action against us, however, if regulators perceive the modified policies and procedures not to be in compliance with applicable legislation and regulations.

Legal and regulatory changes could have a negative impact on our business, financial condition and results of operations.

As a global financial services provider, our business is subject to ongoing changes in laws, regulations, rules, policies, accounting standards or methods, voluntary codes of practice and interpretations in Japan and other markets where we operate. Major global financial institutions currently face an increasingly stricter set of laws, regulations and standards as a result of the concerns enveloping the global financial sector. There is also growing political pressure to demand even greater internal compliance and risk management systems following several high-profile scandals and risk management failures in the financial industry. See "Item 4.B. Information on the Company—Business Overview—Supervision and Regulation." Future developments or changes in laws, regulations, rules, policies, accounting standards or methods, voluntary codes of practice and their effects are expected to require greater capital, human and technological resources as well as significant management attention, and may require us to modify our business strategies and plans. We may be unable to enhance our compliance management programs and systems, which, in some cases, are supported by third-party service providers, as required or planned. Our failure or inability to comply fully with applicable laws and regulations may lead to penalties, fines, public reprimands, damage to reputation, issuance of business improvement and other administrative orders, enforced suspension of operations, our ability to obtain regulatory approvals for future strategic initiatives or, in extreme cases, withdrawal of authorization to operate, adversely affecting our business and results of operations.

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-seventh of our total outstanding loans. Of this amount, the consumer loans provided by Mitsubishi UFJ NICOS, Co., Ltd., which is our primary consumer financing subsidiary, were ¥502.2 billion as of March 31, 2021, compared to ¥565.6 billion as of March 31, 2020.

Mitsubishi UFJ NICOS's consumer loan portfolio has been adversely affected by a series of regulatory reforms that were introduced in Japan between 2006 and 2010, which have negatively affected the domestic consumer lending industry. In December 2006, the Japanese Diet passed legislation to reform the regulations relating to the consumer lending business, including amendments to the Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates, 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 Money Lending Business Act, 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 Act (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 Money Lending Business Act. As a result of the regulatory reforms, all interest rates are now subject to the lower limits imposed by the Interest Rate Restriction Act, compelling lending institutions, including our consumer finance subsidiaries and equity method investees, to lower the interest rates they charge borrowers.

In addition, as a result of decisions by the Supreme Court of Japan prior to June 18, 2010 imposing stringent requirements under the Money Lending Business Act 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 Act.

Following the various legal developments in June 2010 and other industry developments, Mitsubishi UFJ NICOS revised its estimate of allowance for repayment of excess interest by updating management's future forecast to reflect new reimbursement claims information and other data. As of March 31, 2019, 2020 and 2021, we had ¥25.0 billion, ¥29.4 billion and ¥24.9 billion of allowance for repayment of excess interest, respectively.

These developments have adversely affected, and these and any future developments may further adversely affect, the operations and financial condition of our subsidiaries, equity method investees and borrowers which are engaged in consumer lending, which in turn may affect the value of our related shareholdings and loan portfolio.

Damage to our reputation could harm our businesses.

We are one of the leading financial institutions in Japan and one of the handful G-SIBs in the world, and we aim to be the world's most trusted financial group. Our ability to conduct business is indispensably dependent on the trust and confidence of our customers, as well as regional and global communities. Our reputation is critical in maintaining our relationships with customers, investors, regulators and the general public. Our reputation may be damaged by their negative perceptions of us and our operations in light of their concerns over human rights, the environment, public health and safety, or other corporate social responsibilities, or by our transactions or operations if they are deemed repugnant to the intent and policy underlying applicable laws and regulations such as anti-money laundering, economic sanctions and competition laws as well as the prohibition on dealing with anti-social forces. Failure to prevent or properly address these issues may result in impairment of our corporate brand, loss of our existing or prospective customers or investors, or increased public or regulatory scrutiny, and may adversely affect our business, financial condition and results of operations.

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 or management members, or to enforce against us or those persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the U.S. federal or state securities laws.

We are a joint stock company incorporated under the laws of Japan. Almost all of our directors or 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 U.S. investors to effect service of process within the United States upon us or these persons or to enforce, against us or these persons, judgments obtained in the U.S. courts predicated upon the civil liability provisions of the U.S. 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 U.S. courts, of claims predicated solely upon the U.S. 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 U.S. courts predicated upon the civil liability provisions of the U.S. federal or state securities laws may not satisfy these requirements.

Risks Related to Owning Our American Depositary Shares

As a holder of American Depositary Shares, 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 ADS holders' consent, notice, or any reason. As a result, ADS holders may be prevented from having the rights in connection with the deposited shares exercised in the way ADS holders 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 Exhibit 2(c) to this Annual Report.

Item 4. Information on the Company.

A. History and Development of the Company

MUFG is a bank holding company incorporated as a joint stock company (*kabushiki kaisha*) under the Companies Act of Japan. We are the holding company for MUFG Bank, Ltd. (formerly, The Bank of Tokyo-Mitsubishi UFJ, Ltd.), Mitsubishi UFJ Trust and Banking Corporation, Mitsubishi UFJ Securities Holdings Co., Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., Mitsubishi UFJ NICOS Co., Ltd., 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 and Banking Co., Ltd. established Mitsubishi Tokyo Financial Group, Inc., or MTFG, to be a holding company for the three entities. Before that, each of the banks had been a publicly traded 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 and Banking was later merged into Mitsubishi Trust Bank.

On June 29, 2005, the merger agreement between MTFG and UFJ Holdings, Inc. was approved at the general shareholders meetings of MTFG and UFJ Holdings. As the surviving entity, MTFG 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, Mitsubishi UFJ Securities Holdings, which was then called “Mitsubishi UFJ Securities Co., Ltd.,” or MUS, became our wholly-owned subsidiary through a share exchange transaction.

On October 13, 2008, we formed a global strategic alliance with Morgan Stanley and, as part of the alliance, made an equity investment in Morgan Stanley in the form of convertible and non-convertible preferred stock, and subsequently appointed a representative to Morgan Stanley’s board of directors.

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, Bank of Tokyo-Mitsubishi UFJ completed the acquisition of all of the shares of common stock of UnionBanCal Corporation, or UNBC, not previously owned by Bank of Tokyo-Mitsubishi UFJ and, as a result, UNBC became a wholly-owned indirect subsidiary of MUFG.

On May 1, 2010, we and Morgan Stanley integrated our securities and investment banking businesses in Japan into two joint venture securities companies, one of which is Mitsubishi UFJ Morgan Stanley Securities. Mitsubishi UFJ Morgan Stanley Securities was created by spinning off the wholesale and retail securities businesses conducted in Japan from Mitsubishi UFJ Securities Holdings and subsequently assuming certain operations in Japan from a subsidiary of Morgan Stanley.

On June 30, 2011, we converted all of our Morgan Stanley’s convertible preferred stock into Morgan Stanley’s common stock, resulting in our holding approximately 22.4% of the voting rights in Morgan Stanley. Further, we appointed a second representative to Morgan Stanley’s board of directors on July 20, 2011. Following the conversion on June 30, 2011, Morgan Stanley became our equity-method affiliate. As of March 31, 2021, we held approximately 20.2% of the voting rights in Morgan Stanley and had two representatives appointed to Morgan Stanley’s board of directors. We and Morgan Stanley continue to pursue a variety of business opportunities in Japan and abroad in accordance with the global strategic alliance.

On December 18, 2013, we acquired approximately 72.0% of the total outstanding shares of Krungsri through Bank of Tokyo-Mitsubishi UFJ. As a result of the transaction, Krungsri has become a consolidated subsidiary of Bank of Tokyo-Mitsubishi UFJ.

On July 1, 2014, we integrated Bank of Tokyo-Mitsubishi UFJ's operations in the Americas region with UNBC's operations and changed UNBC's corporate name to "MUFG Americas Holdings Corporation." On the same day, Union Bank, N.A., which is MUFG Americas Holdings' principal subsidiary and our primary operating subsidiary in the United States, was also renamed "MUFG Union Bank, N.A.." On July 1, 2016, MUFG Americas Holdings was designated as our U.S. intermediate holding company to comply with the FRB's enhanced prudential standards.

On January 5, 2015, Bank of Tokyo-Mitsubishi UFJ integrated its Bangkok branch with Krungsri through a contribution in kind of the Bank of Tokyo-Mitsubishi UFJ Bangkok branch business to Krungsri, and Bank of Tokyo-Mitsubishi UFJ received newly issued shares of Krungsri common stock. As a result of this transaction, Bank of Tokyo-Mitsubishi UFJ's ownership interest in Krungsri increased to 76.9%.

On October 1, 2017, we acquired all of the shares of common stock of Mitsubishi UFJ NICOS which we did not previously own and, as a result, Mitsubishi UFJ NICOS became a wholly-owned subsidiary of MUFG.

On December 29, 2017, Bank of Tokyo-Mitsubishi UFJ initially acquired 19.9% of the shares of common stock of PT Bank Danamon Indonesia, Tbk. On May 1, 2019, MUFG Bank, Ltd. completed a series of transactions to increase its ownership interest in Bank Danamon to 94.1%, as a result of which Bank Danamon became MUFG Bank's consolidated subsidiary.

On April 1, 2018, we changed Bank of Tokyo-Mitsubishi UFJ's corporate name to "MUFG Bank, Ltd."

On August 2, 2019, Mitsubishi UFJ Trust and Banking completed its acquisition of 100% of the shares in each of nine subsidiaries of Colonial First State Group Limited which collectively represent the global asset management business known as Colonial First State Global Asset Management, or CFSGAM, from Australian financial group Commonwealth Bank of Australia and its wholly-owned subsidiary Colonial First State Group Limited. As a result of the acquisition, the nine subsidiaries became our consolidated subsidiaries. In September 2019, CFSGAM was rebranded as First Sentier Investors.

On April 2, 2021, Mitsubishi UFJ NICOS announced a plan to integrate its credit card settlement systems that have been maintained separately for various credit card brands. Specifically, Mitsubishi UFJ NICOS plans to integrate the systems currently used for the DC credit card brand and the NICOS credit card brand into the system currently used for the MUFG card brand. The plan has an estimated budget of approximately ¥140 billion through the end of calendar year 2030. The plan may be modified to flexibly respond to changes in the business environment.

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."

B. Business Overview

We are one of the world's largest and most diversified financial groups with total assets of ¥353.82 trillion as of March 31, 2021. The Group is comprised of MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Morgan Stanley Securities (through Mitsubishi UFJ Securities Holdings), 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. In Japan, we operate through over 500 business locations as of March 31, 2021. In addition, as of the same date, the Group had the largest overseas network among Japanese banks, consisting of approximately 2,500 business locations in more than 50 countries, including MUFG Union Bank in the United States, Krungsri in Thailand and Bank Danamon in Indonesia. MUFG's role as the holding company is to strategically manage and coordinate the activities of our business groups. Group-wide strategies are determined by the holding company and executed by our subsidiaries.

Medium-Term Business Plan

We believe Japan faces challenges such as a declining birth rate, an aging society and a shrinking population, while low economic growth has become the norm throughout the world. More recently, the environment we operate in has been affected by issues including the COVID-19 pandemic, growing awareness of environmental and social issues, and advances in digital technologies that enable the entry of new competitors into the financial sector. These developments are changing our business environment in significant ways and with unprecedented speed.

MUFG seeks to meet these changes with clear visions and to make the most of these challenges as opportunities for growth to become a leading force in the new era. It is with this goal that we have defined our purpose: "Empowering a brighter future." Our plan for the three years starting in the fiscal year ending March 31, 2022, outlining how we intend to leverage our financial and digital strengths to help our stakeholders around the world, is set out in the new Medium-term Business Plan.

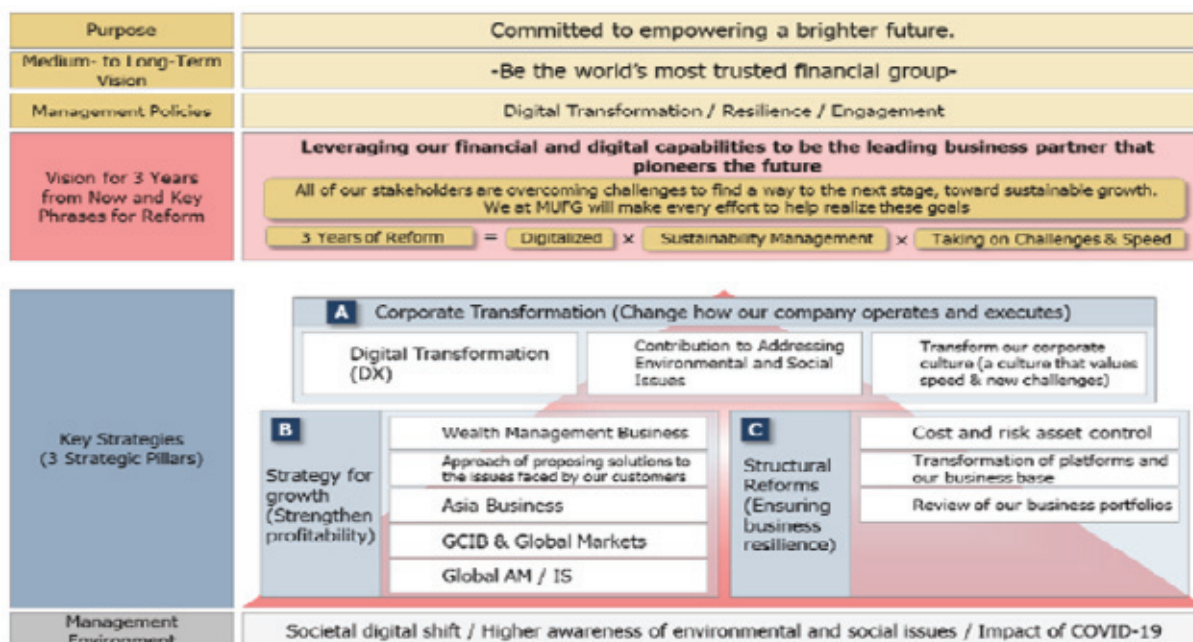
We are positioning the three-year term of this new Medium-term Business Plan as the "Three Years of New Challenges and Transformation." We will strive to meet the expectations of all our stakeholders—including customers, shareholders and employees—by structuring our business model to suit the changes in our environment and seeking to achieve higher profitability and improved return on equity.

Basic Company Policy

In our Medium-term Business Plan, our goal at the end of its three-year span is to leverage our financial and digital capabilities to be the leading business partner that pioneers the future. We set this goal with a desire to help all our stakeholders take the next step forward in a time of constant change. The key words for the transformative changes we will be pursuing are (1) Digital Transformation, (2) Sustainability Management, and (3) New Challenges/Speed. We seek to address issues that confront our customers and wider society, working to provide optimal financial solutions.

Under the Medium-term Business Plan, we will continue with our initiatives to secure business stability (focusing on business resilience) and maintain our management policy that is attractive to employees and fosters greater motivation for employee participation (engagement-focused management)

Group Business Strategy



In order to attain our vision for the next three years to leverage our financial and digital capabilities to be the leading business partner that pioneers the future, we have identified three strategic pillars of “Corporate Transformation,” “Strategy for Growth,” and “Structural Reforms.”

Under our “Corporate Transformation” strategy, we will seek to change how we operate and execute. While focusing on “Digital transformation” and “Contribution to addressing environmental and social issues,” we will also aim to “Transform our corporate culture” in order to accelerate decision making.

Under our “Strategy for Growth” strategy, in order to strengthen profitability, we will seek to promote our “Wealth Management Business,” “Approach of proposing solutions to issues faced by our corporate customers,” “Asia Business,” “GCIB and Global Markets” and “Global Asset Management / Investor Services.”

Under our “Structural Reforms” strategy, to ensure resilience, we will seek to promote “Cost and risk asset control,” “Transformation of platforms and our business base,” and a “Review of our business portfolios” by reconsidering businesses that do not meet our profitability expectations and undertaking to find new business opportunities.

Progress on some of our strategic measures may be delayed due to the impact of policies implemented to deal with the current COVID-19 situation, and we will carefully identify the extent of the impact on our measures.

Key Strategies

(1) Corporate Transformation

Main strategies	Main initiatives
Digital transformation	<ul style="list-style-type: none"> Strengthen digital service contact points with all customers and promote the digitalization of products and services. Use digital technologies to reduce operation volume.
Contribution to addressing environmental and social issues	<ul style="list-style-type: none"> Prioritize issues of “climate change,” “the aging population and low birth rate,” and “inclusion & diversity,” while implementing business strategies, risk management, and social contribution measures.
Transform our corporate culture (Speed / Challenge)	<ul style="list-style-type: none"> Promote activities based on our Purpose, cultivate a free and natural corporate culture, accelerate strategies, and encourage employees to actively take on new challenges on their own.

(2) Strategy for Growth

Main strategies	Main initiatives
Wealth Management Business	<ul style="list-style-type: none"> Develop infrastructure and assign personnel to support comprehensive asset management. Strengthen business by providing solutions to corporate owners.
Approach of proposing solutions to issues faced by our corporate customers	<ul style="list-style-type: none"> Take on management issues of our corporate customers, enhance our risk-taking capabilities, and work as a united Group to solve problems.
Asia Business	<ul style="list-style-type: none"> Achieve growth through Asia as a whole and promote digital transformation, focusing primarily on our consolidated subsidiaries of Krungsri (Bank of Ayudhya) and Bank Danamon.
GCIB and Global Markets	<ul style="list-style-type: none"> Enhance asset velocity and flow business (O&D/O to D* and cross-selling) by increasing transactions with institutional investors.
Global Asset Management/Investor Services	<ul style="list-style-type: none"> Promote contract business by leveraging our strengths in overseas asset operation and management fields with potential for industry growth.

(3) Structural Reforms

Main strategies	Main initiatives
Cost and risk asset control	<ul style="list-style-type: none"> Make necessary growth investments, while thoroughly cutting base costs. Control risk-weighted assets by switching to highly profitable investments.
Transformation of our platforms and business base	<ul style="list-style-type: none"> Implement effective and efficient investments necessary for digital shifts. Streamline procedures and rules necessary for transformation and review decision-making processes.
Review of our business portfolios	<ul style="list-style-type: none"> Improve ROE by reconsidering low-profitable businesses. Enhance business capabilities through collaborations with other companies, including companies in other industries.

* Abbreviation for “Origination & Distribution/Origination to Distribution,” which is a business strategy involving structuring financing and sales of receivables to investors. While “O&D” is a general term for all such business strategy, “O to D” refers specifically to efforts to structure deals based on investor needs.

Establishment of New Business Group

A new Digital Service Business Group was established on April 1, 2021, joining the Retail & Commercial Banking Business Group, the Japanese Corporate & Investment Banking Business Group, the Global Corporate & Investment Banking Business Group, the Global Commercial Banking Business Group, the Asset Management & Investor Services Business Group, and the Global Markets Business Group. With our seven business groups, we will implement our newly formulated Medium-term Business Plan.

Business Groups

Under the current Medium-term Business Plan, our business groups are reorganized as follows in an effort to further integrate the expertise and capabilities of our subsidiaries to respond to the needs of our customers more effectively and efficiently.

Digital Service Business Group

In light of the societal digital shift, the Digital Service Business Group, which was newly established on April 1, 2021, will take the lead on and advance the digital transformation described above. The business group focuses on providing digital-based financial services to “mass-segment” customers (*i.e.*, retail customers and small and medium-sized enterprise customers) and on introducing digital technologies into MUFG.

Establishment of the new business group

The digital transformation is one of our most important strategies. Particularly in the current mass-segment customers market, user interface and user experience (UI/UX) enhancement and cost structure reform are quite significant. In order to ensure thorough implementation of strategies and speed of decision-making, MUFG determined that it was essential to organize a new business group under the integrated leadership of the existing business groups and Digital Transformation Division, which would enable MUFG to accelerate the digital transformation by upgrading its mass-segment strategies and sharing knowledge and expertise with the other business groups.

The primary mission of the business group is to strengthen the competitiveness and customer base of the mass-segment customer business by creating “new customer experiences that are integrated into everyday life” through a variety of flexible channels. In order to achieve this mission, this business group aims to thoroughly refine our channels, products, services, and marketing by using digital technology, and provides the most advanced and optimal financial services for our customers. By freeing customers and employees from complicated flows of actions by simplifying workflow and utilizing digital technology, this business group seeks to provide our customers with convenience and high-value-added services. In addition, the business group continues leading the company-wide digital transformation to become a financial digital platformer.

Grab Holdings Inc.

In February 2020, we entered into a strategic alliance agreement with Grab Holdings Inc., or Grab, which is headquartered in Singapore and provides on-demand transport services, food and package delivery services, digital payments and financial services in Southeast Asia. Under the agreement, we have invested a total of \$706 million in Grab to jointly develop next-generation financial services in Southeast Asia to promote financial inclusion in the region. While Grab is not our subsidiary or equity method investee, Grab will confer “First Choice Bank” status on us and our Southeast Asian partner banks, including Krungsri, Bank Danamon, VietinBank and Security Bank. MUFG and Grab are collaborating to co-develop innovative financial products and services by bringing together customer insights and digital expertise to better cater to the financial needs of Grab’s users, driver-partners and merchant-partners as well as our customers.

For instance, Krungsri and Grab launched new loan products in Thailand to Grab drivers in September 2020 and to Grab food merchants in October 2020. As of March 2021, the number of loans disbursed to such drivers and merchants reached more than 53,000 and more than 5,000, respectively, enabling Krungsri to obtain opportunities to meet the financial needs from the underserved segment and to acquire insights to develop digital financial products. Specifically, those insights include transactional lending processing powered by behavioral data and auto-collection on an application, seamless UI/UX that allows target customers with pre-approved loan amounts to complete loan disbursements with a few taps on an application, and the use of sophisticated AI technologies for credit decisions. We aim to utilize those insights and experience to accelerate MUFG's digital transformation.

Retail & Commercial Banking Business Group

The Retail & Commercial Banking Business Group integrates the domestic retail and commercial banking businesses of MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings and other group companies of MUFG. This business group offers retail customers (with a strategic focus on high net-worth individuals) and small and medium-sized enterprise customers in Japan an extensive array of commercial banking, trust banking and securities products and services.

Business Environment and Strategy

In the domestic market in which we operate, unfavorable conditions remain such as the negative impact of the Bank of Japan's negative interest rate policy on the financial market and intensified competition. In addition, demographic changes, including Japan's aging population with a declining birthrate, further acceleration of digital transformation and promotion of work style reforms resulting from the COVID-19 pandemic can change the way banking and other financial services are used in Japan. With the goals of "being Japan's leading financial professional group" and "contributing to the development of the Japanese economy and the people's livelihood and wealth," we seek to enhance and integrate the capabilities of our group companies to deliver value that exceeds customer expectations and improve customer satisfaction.

In the wealth management business, which is one of our key strategic focus areas, we are implementing measures to improve our group company structure for offering wealth management solutions, including asset management, asset and business succession transfer, and real estate services. For example, with an aim to strengthen our wealth management business, we merged Mitsubishi UFJ Morgan Stanley Securities and Mitsubishi UFJ Morgan Stanley PB Securities.

For customers affected by the COVID-19 pandemic, the business group seeks to provide flexible and prompt financing support through a dedicated lending program and to focus on continuing to provide services through its branches and back-office centers while implementing measures designed to ensure the safety of our customers and employees.

Japanese Corporate & Investment Banking Business Group

The Japanese Corporate & Investment Banking Business Group provides services to help large Japanese corporate customers seeking global expansion achieve growth in their corporate value. We are engaged in the lending, fund settlement, and foreign exchange businesses and also provide comprehensive solutions for M&As and real estate-related services, fully employing the expertise of each group entity.

We seek to provide speedy financial support amid the COVID-19 pandemic, and our commercial banking and securities subsidiaries have worked together to provide various solutions that meet customers' needs for capital reinforcement. By establishing a structure of integrated operations of these subsidiaries, the business group has made further progress on measures for solving issues faced by our customers, and has strengthened its real estate-related business and support for our customers' dialogue with investors such as shareholder relations and investor relations activities.

We also seek to enhance our efforts for solving environmental and social issues. We have expanded our efforts for financing that aims to realize a sustainable society, such as our Sustainability Linked Loans, which are designed to provide financial support for the attainment of targets in line with ESG strategies of customers.

Asset Management & Investor Services Business Group

The Asset Management & Investor Services Business Group covers the asset management and asset administration businesses of Mitsubishi UFJ Trust and Banking and MUFG Bank. By integrating the trust banking expertise of Mitsubishi UFJ Trust and Banking and the global strengths of MUFG Bank, the business group offers a full range of asset management and administration services for corporations and pension funds, including pension fund management and administration, advice on pension structures, and payments to beneficiaries, and also offers investment trusts for retail customers.

We aim to expand our asset management and asset administration services business by enhancing the quality of our products and services, effectively utilizing the broad customer base of the MUFG Group and improving our operational efficiency through IT technology.

Global Corporate & Investment Banking Business Group

The Global Corporate & Investment Banking Business Group covers the corporate, investment and transaction banking businesses of MUFG Bank and Mitsubishi UFJ Securities Holdings. Through a global network of offices and branches, we provide non-Japanese large corporate and financial institution customers with a comprehensive set of solutions that meet their increasingly diverse and sophisticated financing needs.

Through the integrated business management structure between the Global Corporate & Investment Banking Business Group and the Global Markets Business Group, we aim to offer a wide range of financial services to meet the diverse needs of both corporate and institutional investor customers.

The expansion of the global corporate and investment banking and global markets businesses has been an important pillar of the MUFG Group's growth strategy. We continue to work to strengthen the strategic alignment and collaboration among our group companies and across global geographies in order to best deploy our comprehensive expertise to provide our customers with value-added solutions and services.

Corporate Banking

Through our global network of offices and branches, we provide a full range of corporate banking solutions, such as project finance, export credit agency finance, and financing through asset-backed commercial paper. Our primary customers include large corporations, financial institutions, sovereign and multinational organizations, and institutional investors that are headquartered outside of Japan.

Investment Banking

We provide investment banking services such as debt and equity issuance and M&A-related services, to help our customers develop their financial strategies and realize their business goals. In order to meet customers' various financing needs, we have established a customer-oriented coverage model through which our product experts coordinate with one another to offer innovative financing services globally. We have further integrated the management of the operations of our commercial banking and securities subsidiaries to enhance collaboration. We are one of the world's top providers of project finance, one of the core businesses of the Global Corporate & Investment Banking Business Group. We provide sophisticated professional services in arranging limited-recourse finance and offering financial advice in various sectors, including natural resources, power, and infrastructure, backed by our experience, expertise, knowledge, and global network.

Transaction Banking

We provide commercial banking products and services for large corporations and financial institutions in managing and processing domestic and cross-border payments, mitigating risks in international trade, and providing working capital optimization. We provide customers with support for their domestic, regional and global trade finance and cash management programs through our extensive global network.

Global Commercial Banking Business Group

The Global Commercial Banking Business Group provides a comprehensive array of financial products and services such as loans, deposits, fund transfers, investments and asset management services for local retail, small and medium-sized enterprise, and corporate customers across the Asia-Pacific region through our major local commercial banking subsidiaries and affiliates outside of Japan referred to as “Partner Banks.” Our Partner Banks include MUFG Union Bank in the United States, Krungsri in Thailand, Bank Danamon in Indonesia, VietinBank in Vietnam and Security Bank in the Philippines.

The network among the Partner Banks covers a vast market, consisting of five countries with population totaling approximately 847 million. The market is expected to expand further in the medium to long term as the GDP growth rates are relatively high in these countries and financial needs are expected to increase as average income rise in the ASEAN countries. We believe that our network, which combines the global reach of the MUFG Group companies with strong regional presence of the Partner Banks each carrying an established brand, provides us with unique competitive advantages. Through sharing and integration of the expertise and capabilities of the Partner Banks, we seek to achieve synergy effects and capture the business opportunities arising from the economic growth of the region.

MUFG Union Bank, N.A.

MUFG Union Bank is the primary subsidiary of MUFG Americas Holdings, which is our wholly owned subsidiary and which is our intermediate holding company in the United States. MUFG Union Bank is the primary operating entity of MUFG Bank in the United States. MUFG Union Bank provides a comprehensive range of banking, consumer finance, investment, asset management, and other financial products and services to individual consumers, small and medium-sized enterprises, and large corporations primarily in California, Oregon, Washington, and Texas as well as nationally and internationally through 302 branches.

Bank of Ayudhya Public Company Limited (Krungsri)

Krungsri is a strategic subsidiary of MUFG Bank in Thailand. Krungsri provides a comprehensive range of banking, consumer finance, investment, asset management, and other financial products and services to retail consumers, small and medium-sized enterprises, and large corporations mainly in Thailand through 665 branches (consisting 626 banking branches, 39 automobile finance business branches and two overseas branches) and other service outlets nationwide. In addition, Krungsri’s consolidated subsidiaries include the largest credit card issuer in Thailand with a total of 9.5 million credit card, sales finance and personal loan accounts in its portfolio, a major auto finance provider, a fast growing asset management company and a leading microfinance service provider in Thailand.

MUFG owns a 76.88% ownership interest in Krungsri through MUFG Bank as of March 31, 2021. By combining Krungsri’s local franchise with competitive presence in the retail and small and medium-sized enterprise banking markets in Thailand with MUFG Bank’s global financial expertise, we seek to offer a wider range of high-value financial products and services to a more diverse and larger customer base.

PT Bank Danamon Indonesia, Tbk. (“Bank Danamon”)

Bank Danamon is a strategic subsidiary of MUFG Bank in Indonesia. Bank Danamon provides a comprehensive range of banking and other financial products and services to retail consumers, small and

medium-sized enterprises, and large corporations in Indonesia. It operates an extensive distribution network spread out from Aceh to Papua, with more than 810 branches and service outlets. In addition, Bank Danamon provides financing for automotive and consumer goods through PT Adira Dinamika Multi Finance Tbk, a subsidiary of Bank Danamon.

MUFG made an initial investment in December 2017 and currently owns a 92.47% ownership interest in Bank Danamon through MUFG Bank as of March 31, 2021. This investment in Bank Danamon represents another milestone for our growth strategy in Indonesia and Southeast Asia. We aim to offer a unique and unparalleled retail and small and medium-sized enterprise banking business model based on the established local networks of our Partner Banks and MUFG's global network to provide holistic financial services to a wider range of customers.

Other Activities in Southeast Asia

We have been expanding our operations in Southeast Asia with an effort to further develop our businesses abroad. In addition to MUFG Union Bank, Krungsri and Bank Danamon, we have strategic business and capital alliances with other banks in Southeast Asia, including VietinBank in Vietnam and Security Bank in the Philippines, as our Partner Banks.

VietinBank provides a wide range of financial services to consumers, small businesses, middle-market and large companies through its branch network predominantly in Vietnam. We own a 19.73% equity interest in VietinBank.

Security Bank provides a wide range of financial services to consumers, small businesses, middle-market and large companies through its branch network in the Philippines. We own a 20% equity interest in Security Bank.

See “Item 5. Operating and Financial Review and Prospects—Recent Developments” and “Item 3.D. Key Information—Risk Factors—Risks Related to Our Strategies and Our Major Investees—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.”

Global Markets Business Group

The Global Markets Business Group covers the customer business and the treasury operations of MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings. The customer business includes sales and trading in fixed income instruments, currencies and equities as well as other investment products, and origination and distribution of financial products. The treasury operations include asset and liability management as well as global investments for the MUFG Group. In the fiscal year ending 2022, we seek to start a new investment business in the Global Markets Business Group involving long-term diversified investments as a new sustainable revenue source.

Customer Business

Sales and Trading in Fixed Income Instruments, Currencies and Equities. We provide financing, hedging, and investment solutions to our retail, corporate, institutional, and governmental customers through sales and trading in financial market products such as fixed income instruments, currencies, and equities.

Investment Products for Non-Institutional Customers in Japan. We provide investment products such as mutual funds, and structured bonds, notes and deposits to non-institutional customers in Japan. We offer solutions using these investment products to help customers better manage their assets and liabilities. This business is conducted through the integrated operations management structure among the Global Markets Business Group, the Asset Management & Investor Service Business Group, the Retail & Commercial Banking Business Group, and the Japanese Corporate and Investment Banking Business Group.

Origination and Distribution. We provide financing solutions to institutional customers through origination and distribution of financial products such as syndicated loans and securities issuances. This business is conducted through the integrated operations management structure between the Global Markets Business Group and the Global Corporate and Investment Banking Business Group.

Treasury Operations

Asset and Liability Management. Through our treasury operations, we seek to manage interest rate and liquidity risks residing in our balance sheets through, among other things, transactions designed to manage the profit and loss impact attributable to market movements based on our balance sheet analyses and forecasts. Such transactions include investments in high quality liquid securities such as Japanese government bonds and U.S. Treasury bonds and trading in other financial products such as interest rate swaps and cross currency swaps.

Global Investment. Through our treasury operations, we also seek to enhance our profitability by diversifying our portfolio and strategically investing in financial products including corporate bonds and funds.

Global Strategic Alliance with Morgan Stanley

As of March 31, 2021, we held approximately 377 million shares of Morgan Stanley's common stock representing approximately 20.2% of the voting rights in Morgan Stanley and Series C Preferred Stock with a face value of approximately \$521.4 million and 10% dividend. As of the same date, we had two representatives appointed to Morgan Stanley's board of directors. We adopted the equity method of accounting for our investment in Morgan Stanley beginning with the fiscal year ended March 31, 2012.

In conjunction with Morgan Stanley, we formed two securities joint venture companies in May 2010 to integrate our respective Japanese securities companies. We converted the wholesale and retail securities businesses conducted in Japan by Mitsubishi UFJ Securities into Mitsubishi UFJ Morgan Stanley Securities. Morgan Stanley contributed the investment banking operations conducted in Japan by its former wholly-owned subsidiary, Morgan Stanley Japan, to Mitsubishi UFJ Morgan Stanley Securities, and converted the sales and trading and capital markets businesses conducted in Japan by Morgan Stanley Japan into an entity called Morgan Stanley MUFG Securities, Co., Ltd. We hold a 60% economic interest in Mitsubishi UFJ Morgan Stanley Securities and Morgan Stanley MUFG Securities, and Morgan Stanley holds a 40% economic interest in Mitsubishi UFJ Morgan Stanley Securities and Morgan Stanley MUFG Securities. We hold a 60% voting interest and Morgan Stanley holds a 40% voting interest in Mitsubishi UFJ Morgan Stanley Securities, and we hold a 49% voting interest and Morgan Stanley holds a 51% voting interest in Morgan Stanley MUFG Securities. Morgan Stanley's and our economic and voting interests in the securities joint venture companies are held through intermediate holding companies. We have retained control of Mitsubishi UFJ Morgan Stanley Securities and we account for our interest in Morgan Stanley MUFG Securities under the equity method due to our significant influence over Morgan Stanley MUFG Securities. The board of directors of Mitsubishi UFJ Morgan Stanley Securities has fifteen members, nine of whom are designated by us and six of whom are designated by Morgan Stanley. The board of directors of Morgan Stanley MUFG Securities has ten members, six of whom are designated by Morgan Stanley and four of whom are designated by us. The CEO of Mitsubishi UFJ Morgan Stanley Securities is designated by us and the CEO of Morgan Stanley MUFG Securities is designated by Morgan Stanley.

We have also expanded the scope of our global strategic alliance with Morgan Stanley into other geographies and businesses, including (1) a loan marketing joint venture that provides clients in the United States with access to the world-class lending and capital markets services from both companies, (2) business referral arrangements in Asia, Europe, the Middle East and Africa, covering capital markets, loans, fixed income sales and other businesses, (3) global commodities referral arrangements whereby MUFG Bank and its affiliates 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. Key Information—Risk Factors—Risks Related to Our Strategies and Our Major Investees—If our strategic alliance with Morgan Stanley fails, we could suffer financial or reputational loss.”

Competition

We face strong competition in all of our principal areas of operation. The structural reforms in financial industry regulations and recent developments in financial markets have resulted in some significant changes in the Japanese financial system and prompted banks to merge or reorganize their operations. In addition, development of new technologies such as artificial intelligence and blockchain has also allowed non-financial institutions to enter the financial services industry with alternative services, thus changing the nature of competition from other financial institutions as well as from other types of businesses. See “Item 3.D. Key Information—Risk Factors—Risks Related to Our Strategies and Our Major Investees—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.”

Japan

Our major competitors in Japan include:

- Japan’s other major banking groups: Mizuho Financial Group and Sumitomo Mitsui Financial Group;
- Government financial institutions: Japan Finance Corporation, Japan Post Bank, Development Bank of Japan and Japan Bank for International Cooperation;
- Other commercial banking institutions: Resona Bank, Shinsei Bank, regional banks, credit associations (*shinkin banks*);
- Securities companies and investment banks: Nomura group and Daiwa group; and
- Asset management companies.

Foreign

In foreign markets, we face competition from local and global commercial banks, money center banks, regional banks, thrift institutions, asset management companies, investment advisory companies, credit unions and other similar 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 FSA available as of April 5, 2021):

- ordinary banks (121 ordinary banks and 55 foreign commercial banks with ordinary banking operations); and
- trust banks (13 trust banks, including two Japanese subsidiaries of foreign financial institutions).

Ordinary banks in turn are classified as city banks, of which there are four, including MUFG Bank, and regional banks, of which there are 103 and other banks, of which there are 15. 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 and Osaka, and operate nationally through networks of branch offices. The city banks provide a wide variety of banking and other financial products and services to large corporate customers, including the major industrial companies in Japan, as well as small and medium-sized companies and retail customers.

With some exceptions, the regional banks tend to be much smaller in terms of total assets than the city banks. Historically, each of the regional banks has been based in one of the Japanese prefectures and has extended its operations into neighboring prefectures. Their customers are mostly regional enterprises and local public utilities. Trust banks, including Mitsubishi UFJ Trust and Banking, 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.

Government Financial Institutions

There are a number of government financial institutions in Japan, which are corporations wholly owned or majority-owned by the government and operate under the government's 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 privatizations 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, with the government being required by law to continue to hold 50% or more of the shares in the bank until the completion of certain specified investment operations, which the bank is required to endeavor to achieve by March 2026, and more than one-third for an unspecified period thereafter;
- 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, for the primary purposes of supplementing and encouraging the private financing of exports, imports, overseas investments and overseas economic cooperation, and supplementing private financing to the general public, small and medium-sized enterprises and those engaged in agriculture, forestry and fishery. In April 2012, Japan Finance Corporation spun off its international operations to create Japan Bank for International Cooperation as a separate government-owned entity;
- 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, and which was reorganized as an incorporated administrative agency and started to specialize 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 part of the Japanese government's privatization plan for the former Japan Post, a government-run public services corporation, which had been the Postal Service Agency until March 2003. In November 2015, approximately 11% of the outstanding shares of each of Japan

Post Bank, Japan Post Insurance and Japan Post Holdings were sold to the public, and these companies are currently listed on the Tokyo Stock Exchange. In September 2017, an additional 22% of the outstanding shares of Japan Post Holdings were sold to the public.

Supervision and Regulation

Japan

Supervision. The 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 capital adequacy, inspections and reporting of banks and bank holding companies, as well as the scope of business activities, disclosure, accounting, limitation on granting credit and standards for arm's length transactions for them. Bank holding companies, banks and other financial institutions are required to establish an appropriate system to better cope with conflicts of interest that may arise from their business operations.

The Banking Law and various other financial regulation related laws have recently been amended, including certain deregulations on restrictions for shareholdings by banks. For example, although a bank is generally prohibited from holding more than 5% of the outstanding shares of another company (other than certain financial businesses) under the Banking Law, an amendment to the Banking Law which took effect in April 2017 allows banks to acquire and hold more than 5% of the voting rights in certain financial technology companies if approved by the FSA. An additional amendment to the Banking Law which took effect in June 2018 introduced a framework for affiliation and cooperation between financial institutions and financial technology companies while adding measures designed to ensure customer protection. A further amendment to the Banking Law which took effect in May 2020 allows banks to engage in certain information provision services relating to customer and other information. In addition, an amendment to the Banking Law, which was enacted in May 2021 and which will take effect by the end of November 2021, will allow banks to engage in certain services contributory to the construction of a sustainable society such as regional revitalization or productivity enhancement and will allow banks, with the FSA's approval, to acquire and hold more than 5% of the voting rights in companies which engage in certain services contributory to the construction of a sustainable society such as regional revitalization or productivity enhancement.

Bank holding company regulations. A bank holding company is prohibited from carrying out 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, a foreign subsidiary that is engaged in the banking, securities or insurance business and any company that is engaged in a finance-related business, such as a credit card company, a leasing company, investment advisory company, or financial technology company as permitted by the April 1, 2017 amendments to the Banking Law. Certain companies that are designated by a ministerial ordinance as those that cultivate new business fields may also become the subsidiaries of a bank holding company.

In addition, under the April 1, 2017 amendments to the Banking Law, a bank holding company (i) is required to perform certain specified functions as a bank holding company to ensure effective management of its subsidiaries and (ii) is allowed to engage in certain specified common operations of its subsidiaries so as to improve the efficiency of the operations of its group companies.

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.

Basel II, as adopted by the FSA, has been applied to Japanese banks since March 31, 2007. Basel III, as adopted by the FSA, has been applied to Japanese banking institutions with international operations conducted through their foreign offices since March 31, 2013. Basel III is built 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 Group of Central Bank Governors and Heads of Supervision reached an agreement on the new global regulatory framework, which has been referred to as “Basel III,” in July and September 2010. In December 2010, the Basel Committee agreed on the details of the Basel III rules. The agreement on Basel III includes the following: (1) raising the quality of capital to ensure banks are able to better absorb losses both on a going concern basis and on a gone concern basis, (2) increasing the risk coverage of the capital framework, in particular for trading activities, securitizations, exposures to off-balance sheet vehicles and counterparty credit exposures arising from derivatives, (3) raising the level of minimum capital requirements, including an increase in the minimum common equity requirement from 2% to 4.5%, which was phased in between January 1, 2013 and the end of the calendar year 2014, and a capital conservation buffer of 2.5%, which was phased in between January 1, 2016 and the end of the calendar year 2018, bringing the total common equity requirement to 7%, (4) introducing an internationally harmonized leverage ratio to serve as a backstop to the risk-based capital measure and to contain the build-up of excessive leverage in the system, (5) raising standards for the supervisory review process (Pillar 2) and public disclosures (Pillar 3), together with additional guidance in the areas of valuation practices, stress testing, liquidity risk management, corporate governance and compensation, (6) introducing minimum global liquidity standards consisting of both a short term liquidity coverage ratio and a longer term structural net stable funding ratio, and (7) promoting the build-up of capital buffers that can be drawn down in periods of stress, including both a capital conservation buffer and a countercyclical buffer to protect the banking sector from periods of excess credit growth.

Under Basel III, Common Equity Tier 1, Tier 1 and total capital ratios are used to assess capital adequacy, which ratios are determined by dividing applicable capital components by risk-weighted assets. Total capital is defined as the sum of Tier 1 and Tier 2 capital.

Under Basel III, Tier 1 capital is defined to include Common Equity Tier 1 and Additional Tier 1 capital. Common Equity Tier 1 capital is a new category of capital primarily consisting of:

- common stock,
- capital surplus,
- retained earnings, and
- accumulated other comprehensive income.

Regulatory adjustments including certain intangible fixed assets, such as goodwill, and defined benefit pension fund net assets (prepaid pension costs) will be deducted from Common Equity Tier 1 capital.

Additional Tier 1 capital generally consists of Basel III compliant preferred securities and, during the transition period, other capital that meets Tier I requirements under the former Basel II standards, net of regulatory adjustments.

Tier 2 capital generally consists of:

- Basel III compliant subordinated obligations,
- during the transition period, capital that meets Tier II requirements under the former Basel II standards,
- allowances for credit losses, and
- non-controlling interests in subsidiaries’ Tier 2 capital instruments.

In order to qualify as Tier 1 or Tier 2 capital under Basel III, applicable instruments such as preferred shares and subordinated debt must have a clause in their terms and conditions that requires them to be written-off or forced to be converted into common stock upon the occurrence of certain trigger events.

Risk-weighted assets are the sum of risk-weighted assets compiled for credit risk purposes, quotient of dividing the amount equivalent to market risk by 8%, and quotient of dividing the amount equivalent to operational risk by 8%, and also include any amount to be added due to transitional measures as well as floor adjustments, if necessary. Risk-weighted assets include the capital charge of the credit valuation adjustment, or CVA, the credit risk related to asset value correlation multiplier for large financial institutions, the 250% risk-weighted threshold items not deducted from Common Equity Tier 1 capital, and certain Basel II capital deductions that were converted to risk-weighted assets under Basel III, such as securitizations and significant investments in commercial entities. Certain Basel III provisions were adopted by the FSA with transitional measures and became effective March 31, 2013.

The capital ratio standards applicable to us are as follows:

- a minimum total capital ratio of 8.0%,
- a minimum Tier 1 capital ratio of 6.0%, and
- a minimum Common Equity Tier 1 capital ratio of 4.5%.

These minimum capital ratios are applicable to MUFG on a consolidated basis and to MUFG Bank and Mitsubishi UFJ Trust and Banking on a consolidated as well as stand-alone basis.

We have been granted an approval by the FSA to exclude the majority of our investment in Morgan Stanley from being subject to double gearing adjustments. The approval was granted for a 10-year period, but the approval amount will be phased out by 20% each year starting from March 31, 2019. As of March 31, 2021, a full application of double gearing adjustments with respect to our investment in Morgan Stanley would have reduced our Common Equity Tier 1 capital ratio by approximately 0.4 percentage points.

The Financial Stability Board identified us as a global systematically important bank, or G-SIB, in its most recent annual report published in November 2020, and is expected to update the list of G-SIB annually. In December 2015, the FSA also designated us as a G-SIB as well as a domestic systemically important bank generally referred to as a “D-SIB.”

Effective March 31, 2016, the FSA’s capital conservation buffer, countercyclical buffer and G-SIB surcharge requirements became applicable to Japanese banking institutions with international operations conducted through foreign offices, including us. The requirements as of March 31, 2021 consist of a capital conservation buffer of 2.5%, a G-SIB surcharge of 1.5% and a countercyclical buffer of 0.00% in addition to the 4.50% minimum Common Equity Tier 1 capital ratio.

In December 2017, the Group of Central Bank Governors and Heads of Supervision released final Basel III reforms. The reforms are designed, among other things, to help reduce excessive variability in risk-weighted assets among banks and improve the comparability and transparency of banks’ risk-based capital ratios. The reforms endorsed by the Group of Central Bank Governors and Heads of Supervision include the following elements:

- a revised standardized approach for credit risk, which is designed to improve the robustness and risk sensitivity of the existing approach;
- revisions to the internal ratings-based approach for credit risk, where the use of the most advanced internally modelled approaches for low-default portfolios will be limited;
- revisions to CVA framework, including the removal of the internally modelled approach and the introduction of a revised standardized approach;

- a revised standardized approach for operational risk, which will replace the existing standardized approaches and the advanced measurement approaches;
- revisions to the measurement of the leverage ratio and a leverage ratio buffer for G-SIBs, which will take the form of a Tier 1 capital buffer set at 50% of a G-SIB's risk-weighted capital buffer; and
- an aggregate output floor, which is designed to ensure that banks' risk-weighted assets generated by internal models are no lower than 72.5% of risk-weighted assets as calculated by the Basel III framework's standardized approaches. Banks will also be required to disclose their risk-weighted assets based on these standardized approaches.

Most of the reforms was scheduled to become effective on January 1, 2022, subject to implementation through legislation and regulation in each of the relevant jurisdictions, including Japan. In March 2020, the implementation date was deferred by one year to January 1, 2023 in light of the COVID-19 pandemic.

In January 2019, the Group of Central Bank Governors and Heads of Supervision approved the Basel Committee on Banking Supervision's finalized market risk capital framework. The approved market risk framework was scheduled to become effective on January 1, 2022, subject to implementation through legislation and regulation in each of the relevant jurisdictions, including Japan. In March 2020, the implementation date was deferred by one year to January 1, 2023 in light of the COVID-19 pandemic.

For a discussion on our capital ratios, see "Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Adequacy."

Leverage ratio. Japanese banks and bank holding companies with international operations are required to disclose their leverage ratios calculated in accordance with the methodology prescribed in the FSA guidance that has been adopted to implement the relevant Basel III standard. The leverage ratio is designed for monitoring and preventing the build-up of excessive leverage in the banking sector and is expressed as the ratio of Tier 1 capital to total balance sheet assets adjusted in accordance with the FSA guidance. In December 2017, the Group of Central Bank Governors and Heads of Supervision announced final Basel III reforms. The announced reforms include the revisions to the measurement of the leverage ratio and a 3.00% minimum leverage ratio requirement, plus a G-SIB leverage ratio buffer equal to 50% of the applicable G-SIB capital surcharge. The announcement sets forth implementation dates of January 1, 2018 for the minimum leverage ratio requirement and January 1, 2022 for the G-SIB leverage ratio buffer requirement. In Japan, the FSA adopted the minimum leverage ratio requirement effective March 31, 2019, and the minimum leverage ratio requirement as of March 31, 2020 is 3.00%. In March 2020, the implementation date for the G-SIB leverage ratio buffer requirement was deferred by one year to January 1, 2023 in light of the COVID-19 pandemic. On June 30, 2020, in coordination with the Bank of Japan in implementing its monetary policy in response to the COVID-19 pandemic, the FSA published amendments to the leverage ratio regulations, effective June 30, 2020. Under the amendments, deposits with the Bank of Japan are excluded from the calculation of the leverage ratio during the period from June 30, 2020 to March 31, 2021. On March 31, 2021, the FSA announced an extension of the effective period of such amendments until March 31, 2022.

Total loss-absorbing capacity. In November 2015, the Financial Stability Board issued the final Total Loss-Absorbing Capacity, or TLAC, standard for G-SIBs, including us. The Financial Stability Board's TLAC standard is designed to ensure that if a G-SIB fails, it has sufficient loss-absorbing and recapitalization capacity available in resolution to implement an orderly resolution that minimizes impacts on financial stability, ensures the continuity of critical functions, and avoids exposing public funds to loss. The Financial Stability Board's TLAC standard defines a minimum requirement for the instruments and liabilities that should be readily available to absorb losses in resolution.

The TLAC standard which was set forth in the regulatory notices and related materials for the implementation of the Financial Stability Board's TLAC standard in Japan published by the FSA in March 2019

and which became applicable to (i) G-SIBs in Japan and (ii) a domestic systemically important bank designated by the FSA, or D-SIB, in Japan deemed to be in particular need for a cross-border resolution arrangement and of particular systemic significance to the Japanese financial system if it fails (such G-SIBs and D-SIB, collectively, “Covered SIBs”) on March 31, 2019, and March 31, 2021, respectively, or the Japanese TLAC Standard, requires entities designated by the FSA as Domestic Resolution Entities for Covered-SIBs to meet certain minimum external total loss-absorbing capacity, or External TLAC, requirements. The Japanese TLAC Standard and the Financial Stability Board’s TLAC standard also require the Domestic Resolution Entities to cause any of their material subsidiaries in Japan designated as systemically important by the FSA or their foreign subsidiaries subject to TLAC or similar requirements in the relevant jurisdictions to maintain certain minimum level of capital and debt having internal total loss-absorbing and recapitalization capacity, or Internal TLAC.

In the Japanese TLAC Standard, the FSA has designated the relevant ultimate holding companies in Japan as Domestic Resolution Entities for the Covered SIBs and, in our case, MUFG as the Domestic Resolution Entity for our Group, making MUFG subject to the External TLAC requirements in Japan. The FSA has also designated MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Morgan Stanley Securities as MUFG’s material subsidiaries in Japan, which are subject to the Internal TLAC requirements applicable to MUFG.

External TLAC debt generally consists of Basel III compliant regulatory capital, including, during the transition period, capital that meets the applicable regulatory capital requirements under the former Basel II standards, and the Japanese TLAC Standard compliant obligations, net of regulatory adjustments. Internal TLAC debt generally consists of Basel III compliant regulatory capital, including, during the transition period, capital that meets the applicable regulatory capital requirements under the former Basel II standards, and the Japanese TLAC Standard compliant subordinated obligations, net of regulatory adjustments. The Japanese TLAC Standard does not require that, in order for unsecured senior debt issued by the Domestic Resolution Entity of a Japanese G-SIB to qualify as External TLAC debt, such debt be subject to any contractual write-down, write-off or conversion provisions or to any subordination provisions so long as its creditors are recognized as structurally subordinated to the creditors of its subsidiaries and affiliates by the FSA on the ground that the amount of excluded liabilities of such Domestic Resolution Entity ranking *pari passu* with, or junior to, its unsecured senior liabilities does not, in principle, exceed 5% of the aggregate amount of its External TLAC. In contrast, Internal TLAC debt incurred by a material subsidiary of a Japanese G-SIB is required to be subject to contractual loss absorption provisions and to be subordinated to such subsidiary’s excluded liabilities.

The Japanese TLAC Standard requires a Japanese G-SIB, including us, to issue and maintain TLAC debt in an amount not less than 16% of its consolidated risk-weighted assets and 6% of the applicable Basel III leverage ratio denominator on and after March 31, 2019, and not less than 18% of its consolidated risk-weighted assets and 6.75% of the applicable Basel III leverage ratio denominator on and after March 31, 2022. In addition, under the Japanese TLAC Standard, Japanese G-SIBs are or will be allowed to count the Japanese Deposit Insurance Fund Reserves in an amount equivalent to 2.5% of their consolidated risk-weighted assets from March 31, 2019 and 3.5% of their consolidated risk-weighted assets from March 31, 2022 as external TLAC.

On June 30, 2020, in coordination with the Bank of Japan in implementing its monetary policy in response to the COVID-19 pandemic, the FSA published amendments to the Japanese TLAC Standard, together with amendments to the leverage ratio regulations, effective June 30, 2020. Under the amendments, deposits with the Bank of Japan are excluded from the calculation of External TLAC ratio and Internal TLAC amounts on a total exposure basis as well as the leverage ratio during the period from June 30, 2020 to March 31, 2021 as temporary measures. On March 31, 2021, the FSA announced an extension of the effective period of such temporary measures until March 31, 2022.

Under the Japanese TLAC Standard, the FSA may order the Domestic Resolution Entity of a Covered SIB to submit a report outlining an improvement plan if the External TLAC ratio of the Domestic Resolution Entity or the Internal TLAC of its material subsidiaries in Japan falls below the minimum requirements. If the FSA further deems it necessary to ensure improvement, the FSA may issue a business improvement order to such Domestic Resolution Entity.

The Domestic Resolution Entity may also be subject to a capital distribution constraints plan if the capital buffers are used and reduced below the required level to make up for its required External TLAC on a risk-weighted assets basis.

See “Item 3.D Key Information—Risk Factors—Risks Related to Our Ability to Meet Regulatory Capital Requirements—We may not be able to maintain our capital ratios and other regulatory ratios above minimum required levels, which could result in various regulatory actions, including the suspension of some or all of our operations.”

Prompt corrective action system. Under the prompt corrective action system, the FSA may take corrective action, if a bank or a bank holding company fails to meet the minimum capital adequacy ratio or leverage ratio. These actions include requiring such bank or bank holding company to formulate and implement capital improvement measures, requiring it to reduce assets or the bank’s business operations or take other specific actions, and issuing an order to dispose of shares of its subsidiaries or suspend all or part of the bank’s business operations.

Capital distribution constraints system. Under the capital distribution constraints system, the FSA may order a bank or a bank holding company to submit and carry out a capital distribution constraints plan, if the bank or the bank holding company fails to maintain Common Equity Tier 1 capital required as applicable capital buffers. A capital distribution plan must be determined to be reasonably designed to restore the required capital buffers by restricting capital distributions, such as dividends, share buybacks and bonus payments, up to a certain amount depending on the level of the deficit in the required capital buffers of the bank or the bank holding company.

Prompt warning system. Under the prompt warning system, the FSA may take precautionary measures to maintain and promote the sound operations of financial institutions, even before those financial institutions become subject to prompt corrective actions. These measures require a financial institution to enhance profitability, credit risk management, stability and cash flows.

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

City banks, including MUFG Bank, regional banks, trust banks, including Mitsubishi UFJ Trust and Banking, and various other credit institutions participate in the deposit insurance system on a compulsory basis.

Under the Deposit Insurance Act, the maximum amount of protection is ¥10 million per customer within one bank. The ¥10 million maximum applies to all deposits except for non-interest bearing deposits, which are non-interest bearing deposits redeemable on demand and maintained by depositors primarily in settlement accounts for payment and settlement purposes. Deposits in settlement 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. As of April 1, 2021, the Deposit Insurance Corporation charged an insurance premium equal to 0.042% per year on the deposits in the settlement accounts, and a premium equal to 0.029% per year on the deposits in other accounts.

Under the Deposit Insurance Act, a Financial Reorganization Administrator can be appointed by the Prime Minister if a bank’s liabilities exceed its obligations or has suspended, or is likely to suspend, 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 the troubled bank’s business. The troubled bank’s business may also be transferred to a “bridge bank” established by the Deposit Insurance Corporation to enable the troubled bank’s operations to be maintained and continue temporarily, 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 debt, subscription for preferred stock, or loss sharing.

The Deposit Insurance Act also provides for exceptional measures to cope with systemic risk in the financial industry. Where the Prime Minister recognizes that the failure of a bank which falls into any of (i) through (iii) below may cause an extremely grave problem to the maintenance of the financial order in Japan or the region where such bank is operating, or systemic risk, if none of the measures described in (i) through (iii) below is implemented, the Prime Minister may, following deliberation by the Financial Crisis Response Council, confirm (*nintei*) the need to take any of the following measures: (i) if the bank does not fall into either of the categories described in (ii) or (iii) below, the Deposit Insurance Corporation may subscribe for shares or subordinated bonds of, or extend subordinated loans to the bank, or subscribe for shares of the bank holding company of the bank, in order to enhance the bank's regulatory capital ("Item 1 measures" (*dai ichigo sochi*)); (ii) if the bank has suspended, or is likely to suspend, repayment of deposits, or its liabilities exceed its assets, financial aid exceeding the pay-off cost may be made available to such bank ("Item 2 measures" (*dai nigo sochi*)); and (iii) if the bank has suspended, or is likely to suspend, repayment of deposits, and its liabilities exceed its assets, and the systemic risk cannot be avoided by the measures mentioned in (ii) above, the Deposit Insurance Corporation may acquire all of the bank's shares ("Item 3 measures" (*dai sango sochi*)). The expenses for the implementation of the above measures will be borne by the banking industry, with an exception under which the Japanese government may provide partial subsidies for such expenses.

Under the new orderly resolution regime established by amendments to the Deposit Insurance Act that were promulgated in June 2013 and became effective on March 6, 2014, financial institutions, including banks, insurance companies and securities companies and their holding companies, are subject to the regime. Further, where the Prime Minister recognizes that the failure of a financial institution which falls into either of (a) or (b) below may cause a significant disruption to the Japanese financial market or system in Japan if measures described in (a) or measures described in (b) are not taken, the Prime Minister may, following deliberation by the Financial Response Crisis Council, confirm (*nintei*) that any of the following measures need to be applied to the financial institution:

- (a) if the financial institution is not a financial institution whose liabilities exceed its assets, the financial institution shall be placed under the special supervision by the Deposit Insurance Corporation over the financial institution's business operations and management and the disposal of the financial institution's assets, and the Deposit Insurance Corporation may provide the financial institution with loans or guarantees necessary to avoid the risk of significant disruption to the financial system in Japan, or subscribe for shares or subordinated bonds of, or extend subordinated loans to, the financial institution, taking into consideration the financial condition of the financial institution ("Specified Item 1 measures" (*tokutei dai ichigo sochi*) under Article 126-2, Paragraph 1, Item 1 of the Deposit Insurance Act); or
- (b) if the financial institution is a financial institution whose liabilities exceed, or are likely to exceed, its assets or which has suspended, or is likely to suspend, payments on its obligations, the financial institution shall be placed under the special supervision by the Deposit Insurance Corporation over the financial institution's business operations and management and the disposal of the financial institution's assets, and the Deposit Insurance Corporation may provide financial aid necessary to assist a merger, business transfer, corporate split or other reorganization in respect of such failed financial institution ("Specified Item 2 measures" (*tokutei dai nigo sochi*) under Article 126-2, Paragraph 1, Item 2 of the Deposit Insurance Act).

If the Prime Minister confirms that any of the measures set out in (b) above needs to be applied to a failed financial institution, the Prime Minister may order that the failed financial institution's business operations and

management and the disposal of the failed financial institution's assets be placed under the special control of the Deposit Insurance Corporation. The business or liabilities of the financial institution subject to the special supervision or the special control of the Deposit Insurance Corporation as set forth above may also be transferred to a "bridge financial institution" established by the Deposit Insurance Corporation to enable the financial institution's operations to be maintained and continue temporarily, or the financial institution's liabilities to be repaid, and the bridge financial institution will seek to transfer the financial institution's business or liabilities to another financial institution or dissolve the financial institution. The financial aid provided by the Deposit Insurance Corporation to assist a merger, business transfer, corporate split or other reorganization in respect of the failed financial institution set out in (b) above may take the form of a monetary grant, loan or deposit of funds, purchase of assets, guarantee or assumption of debts, subscription for preferred stock or subordinated bonds, subordinated loan, or loss sharing. If the Deposit Insurance Corporation has provided such financial assistance, the Prime Minister may designate the movable assets and claims of the failed financial institution as not subject to attachment, and such merger, business transfer, corporate split or other reorganization may be conducted outside of the court-administrated insolvency proceedings. If the financial institution subject to the special supervision or the special control by the Deposit Insurance Corporation as set forth above has liabilities that exceed, or are likely to exceed, its assets, or has suspended, or is likely to suspend, payments on its obligations, the financial institution may transfer all or a material portion of its business or all or a material portion of shares of its subsidiaries or implement corporate split or certain other corporate actions with court permission in lieu of any shareholder resolutions. In addition, the Deposit Insurance Corporation must request other financial institution creditors of the failed financial institution to refrain from exercising their rights against the failed financial institution until measures necessary to avoid the risk of significant disruption to the financial system in Japan have been taken, if it is recognized that such exercise of their rights is likely to make the orderly resolution of the failed financial institution difficult.

The expenses for implementation of the measures under this regime will be borne by the financial industry, with an exception under which the Japanese government may provide partial subsidies for such expenses within the limit to be specified in the government budget in cases where it is likely to cause extremely serious hindrance to the maintenance of the credit system in Japan or significant turmoil in the Japanese financial market or system if such expenses are to be borne only by the financial industry.

According to the announcement made by the FSA in March 2014, (i) Additional Tier 1 instruments and Tier 2 instruments under Basel III issued by a bank must be written down or converted into common shares when the Prime Minister confirms (*nintei*) that Item 2 measures (*dai nigo sochi*), Item 3 measures (*dai sango sochi*), or Specified Item 2 measures (*tokutei dai nigo sochi*) need to be applied to the bank and (ii) Additional Tier 1 instruments and Tier 2 instruments under Basel III issued by a bank holding company must be written down or converted into common shares when the Prime Minister confirms (*nintei*) that Specified Item 2 measures (*tokutei dai nigo sochi*) need to be applied to the bank holding company.

Further, in an explanatory paper outlining the FSA's approach for the introduction of the TLAC framework in Japan published by the FSA in April 2016 and revisions to the paper published by the FSA in April 2018, collectively the FSA TLAC Approach, as well as in the Japanese TLAC Standard, the FSA expressed its view that single point of entry, or SPE, resolution, in which a single national resolution authority applies its resolution tools to the ultimate holding company in Japan of a financial group, would be the preferred strategy for resolution of the Covered SIBs. However, it is uncertain which measure is to be taken in a given case, including whether or not the SPE resolution strategy will actually be elected and implemented in a given case, and the actual measures to be taken will be determined on a case-by-case basis considering the actual condition of the relevant Japanese G-SIB in distress. Under a possible model of resolution of a Japanese G-SIB based on the SPE resolution strategy as described in the Japanese TLAC Standard, if the FSA determines that a material subsidiary in Japan of a financial institution that is a Japanese G-SIB is non-viable due to material deterioration in its financial condition and issues an order concerning restoration of financial soundness, including recapitalization and restoration of liquidity of such material subsidiary, to the ultimate holding company in Japan designated by the FSA as Domestic Resolution Entity for the financial institution under the Banking Act of Japan (Act No. 59

of 1981), the material subsidiary's Internal TLAC instruments will be written off or, if applicable, converted into equity in accordance with the applicable contractual loss absorption provisions of such Internal TLAC instruments. Following the write-off or conversion of Internal TLAC instruments, if the Prime Minister recognizes that the financial institution's liabilities exceed, or are likely to exceed, its assets, or that it has suspended, or is likely to suspend, payments on its obligations, as a result of the financial institution's loans to, or other investment in, the material subsidiary becoming subject to loss absorption or otherwise, and further recognizes that the failure of such financial institution is likely to cause a significant disruption to the Japanese financial market or system, the Prime Minister may, following deliberation by the Financial Crisis Response Council, confirm that Specified Item 2 Measures (*tokutei dai nigo sochi*) need to be applied to the financial institution for its orderly resolution. Any such confirmation by the Prime Minister also triggers the point of non-viability clauses of Additional Tier 1 and Tier 2 instruments issued by the financial institution, causing such instruments to be written off or, if applicable, converted into equity, as described above.

Upon the application of Specified Item 2 Measures (*tokutei dai nigo sochi*), a financial institution will be placed under the special supervision by, or if the Prime Minister so orders, under the special control of, the Deposit Insurance Corporation. In an orderly resolution, the Deposit Insurance Corporation would control the operation and management of a financial institution's business, assets and liabilities, including the potential transfer to a bridge financial institution established by the Deposit Insurance Corporation as its subsidiary, or such other financial institution as the Deposit Insurance Corporation may determine, of the financial institution's systemically important assets and liabilities, which we expect in the case of MUFG would include the shares of our material subsidiaries based on the Japanese TLAC Standard. The Prime Minister may prohibit creditors of the financial institution from attaching any of our assets and claims which are to be transferred to a bridge financial institution or another financial institution. Based on the Japanese TLAC Standard, it is currently expected that the External TLAC eligible senior notes issued by the financial institution will not be transferred to a bridge financial institution or other transferee in the orderly resolution process but will remain as such financial institution's liabilities subject to court-administered insolvency proceedings. On the other hand, in an orderly resolution process, the shares of material subsidiaries of such financial institution may be transferred to a bridge financial institution or other transferee, and such financial institution would only be entitled to receive consideration representing the fair value of such shares, which could be significantly less than the book value of such shares. Following such business transfer, the recoverable value of such financial institution's residual assets in court-administered insolvency proceedings may not be sufficient to fully satisfy any payment obligations that such financial institution may have under its liabilities, including the External TLAC eligible senior notes.

Recovery and resolution plan. In November 2020, the Financial Stability Board published the latest list of G-SIBs, which includes us. The list is annually updated by the Financial Stability Board. A recovery and resolution plan must be put in place for each G-SIB, and the plans must be regularly reviewed and updated. In Japan, under the Banking Law and the Comprehensive Guidelines for Supervision of Major Banks, etc., financial institutions identified as G-SIBs must, as part of their crisis management, prepare and submit a recovery plan, including triggers for the recovery plan and an analysis of recovery options, to the FSA. The Comprehensive Guidelines also provide that resolution plans for such financial institutions are prepared by the FSA. We have submitted our most recent recovery plan to the FSA in a timely manner.

Liquidity Coverage Ratio. Japanese banks and bank holding companies with international operations are required to disclose their LCRs calculated in accordance with the methodology prescribed in the FSA guidance that has been adopted to implement the relevant Basel III standard. The LCR is a measure to determine whether a bank has a sufficient amount of high-quality liquid assets, which are assets that can be converted easily and immediately into cash in private markets in order to meet the bank's liquidity needs, to survive in a 30-day financial stress scenario, including sizable deposit outflows, inability to issue new bonds or access the interbank market, stoppage of the collateralized funding market, need for additional collateral in connection with derivative transactions, and significant outflows of cash under commitment lines to customers. Once a bank or bank holding company fails to meet the minimum LCR of 100%, it is required to immediately report such failure to the FSA. If

the FSA deems the financial condition of the bank or bank holding company to be serious, the FSA may issue a business improvement order. A minimum LCR of 100% is currently required.

Net Stable Funding Ratio. The NSFR is a measure to determine whether a bank has sustainable and long-term liabilities and capital for its assets and activities. The Basel Committee on Banking Supervision issued the final standard of NSFR in October 2014. In Japan, the FSA promulgated its NSFR standard on March 31, 2021, which is expected to become applicable on September 30, 2021, requiring a minimum NSFR of 100%.

Inspection and reporting. The FSA has the authority to order reporting from, and inspect, banks and banking holding companies in Japan. Based on its “Principles and Approaches of Inspection and Supervision,” the FSA seeks to evaluate the effectiveness of the operations and functions of financial institutions, supervise financial institutions based on proactive and forward-looking analyses, facilitate best practices among financial institutions, focus monitoring on high-priority issues, and integrate on- and off-site monitoring. The FSA abolished the Financial Institutions Inspection Manual which had traditionally been understood to set forth the minimum standard for the operations of financial institutions in Japan in December 2019.

Furthermore, the Securities and Exchange Surveillance Commission of Japan, or SESC, 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. 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 Antimonopoly Act that generally 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. There have recently been amendments to various financial regulation related laws, including the Banking Law, which includes certain deregulations on restrictions for shareholdings by banks, as described above.

In addition, a bank is prohibited from holding shares in other companies exceeding the aggregate of its Common Equity Tier 1 capital amount and Additional Tier 1 capital amount.

Restrictions on exposures to single large counterparties. The Banking Law prohibits banks and bank holding companies (on a consolidated basis with their subsidiaries and affiliates) from having large exposure exceeding 25% of their Tier 1 capital to a single counterparty and also prohibits a G-SIB’s exposure to another G-SIB exceeding 15% of its Tier 1 capital.

Financial Instruments and Exchange Act. The Financial Instruments and Exchange Act provides protection for investors and also regulates sales of a wide range of financial instruments and services, requiring financial institutions to improve their sales rules and strengthen compliance frameworks and procedures. Among the instruments that the Japanese banks deal in, derivatives, foreign currency-denominated deposits, and variable insurance and annuity products are subject to regulations covered by the sales-related rules of conduct under the law.

Article 33 of the Financial Instruments and Exchange Act 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 businesses, 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.

Subsidiaries of bank holding companies engaging in the securities business are subject to the supervision of the FSA as financial instruments business operators. The Prime Minister has the authority to regulate the securities industry and securities companies, which authority is delegated to the Commissioner of the FSA under the Financial Instruments and Exchange Act. In addition, the SESC, an external agency of the FSA, is independent from the FSA's other bureaus and is vested with the authority to conduct day-to-day monitoring of the securities markets and to investigate irregular activities that hinder fair trading of securities, including inspections of securities companies as well as banks in connection with their securities business. Furthermore, the Commissioner of the FSA delegates certain authority to the Director General of the Local Finance Bureau to inspect local securities companies and their branches. A violation of applicable laws and ordinances may result in various administrative sanctions, including revocation of registration, suspension of business, administrative monetary penalty or an order to discharge any director or executive officer who has failed to comply with applicable laws and ordinances. Securities companies are also subject to the rules and regulations of the Japanese stock exchanges and the Japan Securities Dealers Association, a self-regulatory organization of securities companies.

Act on Sales, etc. of Financial Instruments. The Act on Sales, etc. of Financial Instruments was enacted to protect customers from incurring unexpected losses as a result of purchasing financial instruments. Under this act, sellers of financial instruments have a duty to their potential customers to explain important matters such as the nature and magnitude of risks involved regarding the financial instruments that they intend to sell. If a seller fails to comply with the duty, there is a rebuttable presumption that the loss suffered by the customer due to the seller's failure to explain is equal to the amount of decrease in the value of the purchased financial instruments.

In June 2020, certain amendments to the act were promulgated, and will become effective within one and a half years from the date of promulgation, by which amendments the name of the act will be changed to "the Act of Provision of Financial Services" and the "financial services intermediary business" will be newly introduced. Under a single registration for financial services intermediary business, registrants will become able to provide intermediary services of each of banking, securities and insurance. The amendments to the act will not require any provider of financial services intermediary business to belong to a specific financial institution, but will impose certain regulations to protect customers, including limitations on the type of services that they may provide, prohibitions on the acceptance of assets of customers and the lodging of a security deposit.

Anti-money laundering laws. Under the Act on Prevention of Transfer of Criminal Proceeds, specified business operators, including financial institutions, are required to verify customer identification data, preserve transaction records, and file suspicions transaction reports with the FSA or other regulatory authorities in cases where any asset received through their business operations is suspected of being criminal proceeds.

Based on "Guidelines on Anti-Money Laundering and Terrorist Financing", the FSA requires financial institutions to strengthen their management of anti-money laundering and terrorist financing functions and their risk-based approach used in such functions.

Recent amendments to the Enforcement Ordinance of the Act introduced requirements relating to online KYC processes in November 2018 and strengthened the requirements for KYC processes for customers residing in remote areas in April 2020.

Acts concerning trust business conducted by financial institutions. Under the Trust Business Act, joint stock companies that are licensed by the Prime Minister as trust companies, including non-financial companies, are allowed to conduct trust business. In addition, under the Act on Provision, etc. of 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 Act provides for a separate type of registration for trustees who conduct only administration type trust business. The Trust Business Act also provides for various duties imposed on the trustee in accordance with and in addition to the Trust Act.

Act on the Protection of Personal Information. With regard to protection of personal information, the Act on the Protection of Personal Information requires, among other things, Japanese banking institutions to limit the use of personal information to the stated purposes 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 act, the Personal Information Protection Commission of Japan may advise or order the bank to take proper action. In addition, the Banking Law and the Financial Instruments and Exchange Act contain certain provisions with respect to appropriate handling of customer information.

Act on the Use of Personal Identification Numbers in the Administration of Government Affairs. Pursuant to the Act on the Use of Personal Identification Numbers in the Administration of Government Affairs, which became effective in October 2015, the Japanese government has adopted a Social Security and Tax Number System, which is designed to (1) improve social security services, (2) enhance public convenience in obtaining government services, and (3) increase the efficiency of the administration of government affairs. Under this system, a 12-digit unique number is assigned to each resident of Japan to identify and manage information relating to the resident for government service and tax purposes. Financial institutions are required to implement measures to ensure that such customer information will be protected from inappropriate disclosure and other unauthorized use.

Act Concerning Protection of Depositors from Illegal Withdrawals Made by Counterfeit or Stolen Cards. The Act on Protection, etc. of Depositors and Postal Saving Holders from Unauthorized Automated Withdrawal, etc. Using Counterfeit Cards, etc. and Stolen Cards, etc. requires financial institutions to establish internal systems to prevent illegal withdrawals of deposits made using counterfeit or stolen bank cards. The act also requires a financial institution to compensate depositors for any amount illegally withdrawn using stolen bank cards except in certain cases, including those where the financial institution can verify that it acted in good faith without negligence and there was gross negligence on the part of the relevant depositor. In addition, the act provides that illegal withdrawals with counterfeit bank cards are invalid unless the financial institution acted in good faith without negligence and there was gross negligence on the part of the relevant account holder.

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 Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates 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 Money Lending Business Act 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 Act (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 Money Lending Business Act. As a result of the regulatory reforms, all interest rates are now subject to the lower limits imposed by the Interest Rate Restriction Act, 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 limit their lending to a single customer to a maximum of one third of the customer’s annual income regardless of the customer’s repayment capability.

In addition, as a result of decisions made by the Supreme Court of Japan prior to June 18, 2010, imposing stringent requirements for charging such gray-zone interest rates, consumer finance companies have been responding to borrowers’ claims for reimbursement of previously collected interest payments in excess of the limits stipulated by the Interest Rate Restriction Act. See “Item 3.D. Key Information—Risk Factors—Operational Risk—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.”

Act on Special Provisions of the Income Tax Act, the Corporation Tax Act and the Local Tax Act Incidental to Enforcement of Tax Treaties. Pursuant to the Amendments to the Act on Special Provisions of the Income

Tax Act, the Corporation Tax Act and the Local Tax Act Incidental to Enforcement of Tax Treaties, which became effective in January 2017, financial institutions are required to collect certain information from their accountholders, including jurisdictions of tax residence, and report such information to the National Tax Agency in accordance with the Common Reporting Standard as developed by the Organization for Economic Co-operation and Development.

United States

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

Overall supervision and regulation. We are subject to supervision, regulation and examination with respect to our U.S. operations by the FRB pursuant to the U.S. Bank Holding Company Act of 1956, as amended, or the BHCA, and the International Banking Act of 1978, as amended, or the IBA, because we and MUFG Bank are bank holding companies and foreign banking organizations, as defined pursuant to those statutes. The FRB 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 non-bank 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 FRB by specifying new relationships between the FRB and the functional regulators of non-bank 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 non-banking 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 FRB has determined, by order or regulation, that such activities are so closely related to banking as to be a proper incident thereto and has granted its approval to the bank holding company or foreign banking organization for such an acquisition. The BHCA also requires a bank holding company or foreign banking organization that maintains branches or agencies in the United States to obtain the prior approval of an appropriate federal banking authority before acquiring, directly or indirectly, the ownership of more than 5% of the voting shares or control of any U.S. bank or bank holding company. In addition, under the BHCA, a U.S. bank or a U.S. branch or agency of a foreign bank is prohibited from engaging in various tying arrangements involving it or its affiliates in connection with any extension of credit, sale or lease of any property or provision of any services.

In October 2008, we, MUFG Bank, Mitsubishi UFJ Trust and Banking and MUFG Americas Holdings initially attained financial holding company status. In August 2016, Mitsubishi UFJ Trust and Banking relinquished its financial holding company status. Financial holding company status is subject to periodic regulatory review. A financial holding company is authorized to engage in an expanded list of activities deemed to be financial in nature or incidental to such financial activity as well as certain specified non-banking activities deemed to be closely related to banking. In order to maintain the status as a financial holding company, a bank holding company must continue to meet certain standards established by the FRB. Those standards require that a financial holding company 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 FRB. Failure to meet these standards, due to inadequate capital management or shortcomings in operations, results in restrictions on the ability to engage in expanded activities as a financial holding company. In addition, a financial holding company must ensure that its U.S. banking subsidiaries meet certain minimum standards under the Community Reinvestment Act of 1977.

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

The IBA provides, among other things, that the FRB may examine U.S. branches and agencies of foreign banks, and each branch and agency shall be subject to on-site examination by the appropriate federal or state bank supervisor as frequently as would a U.S. bank. The IBA also provides that if the FRB 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 FRB may order the foreign bank to terminate activities conducted at a branch or agency in the United States.

U.S. branches and agencies of foreign banks must be licensed, and are also supervised and regulated, by a state or by the Office of the Comptroller of the Currency, or the OCC, the federal regulator of U.S. national banks. The OCC is an independent bureau of the U.S. Department of the Treasury. Effective November 7, 2017, all of the branches and agencies of MUFG Bank and Mitsubishi UFJ Trust and Banking in the United States converted from state-licensed branches and agencies to federally-licensed branches and agencies supervised and regulated by the OCC.

When opening a federal branch or agency, a foreign bank must establish and maintain a deposit account with an FRB member bank of at least (1) the amount of capital that would be required of a national bank being organized at the same location or (2) five percent of the total liabilities of the federal branch or agency, including acceptances but excluding (i) accrued expenses and (ii) amounts due and other liabilities to offices, branches, and subsidiaries of the foreign bank, whichever is greater. Federally-licensed branches and agencies must also submit written reports concerning their assets and liabilities and other matters, to the extent required by the OCC or the FRB, and are examined at periodic intervals by the OCC and the FRB.

U.S. banking subsidiaries. We indirectly own and control one U.S. bank, MUFG Union Bank, N.A. (known prior to July 1, 2014 as Union Bank, N.A.), through MUFG Bank and its subsidiary, MUFG Americas Holdings, a registered bank holding company.

MUFG Union Bank is a national bank subject to the supervision, examination and regulatory authority of the OCC pursuant to the National Bank Act.

In regulating national banks such as MUFG Union Bank, the OCC has the power to examine those banks; approve or deny applications for new charters, branches, capital, or other changes in corporate or banking structure; take supervisory actions against national banks that do not comply with laws and regulations or that otherwise engage in unsound practices; remove officers and directors, negotiate agreements to change banking practices, and issue cease and desist orders as well as civil money penalties; and issue rules and regulations, legal interpretations, and corporate decisions governing investments, lending, and other practices. The OCC's staff of bank examiners conducts on-site reviews and provides sustained supervision of national banks. Examiners analyze loan and investment portfolios, funds management, capital, earnings, liquidity, and sensitivity to market risk for national banks. Examiners also review internal controls, internal and external audit, and compliance with law, and evaluate management's ability to identify and control risk.

In addition, the FDIC insures the deposits of MUFG Union Bank up to legally specified maximum amounts. In the event of a 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. In the liquidation or other resolution of a failed FDIC-insured depository institution, deposits in its U.S. offices and other claims for

administrative expenses and employee compensation are afforded priority over other general unsecured claims, including deposits in offices outside the United States, non-deposit claims in all offices and claims of a parent company. Moreover, under longstanding FRB 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. MUFG Union Bank is subject to applicable risk-based and leverage capital guidelines issued by U.S. regulators for banks, bank holding companies and intermediate holding companies. In addition, MUFG Bank and Mitsubishi UFJ Trust and Banking, as foreign banking organizations that have U.S. branches and agencies and that are controlled by us, are subject to the FRB's requirements that they be "well-capitalized" based on Japan's risk based capital standards. MUFG Union Bank, MUFG Bank, Mitsubishi UFJ Trust and Banking, and MUFG Americas Holdings are all "well capitalized" as defined under, and otherwise comply with, all U.S. 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 be undercapitalized after making such distribution or paying such dividend or fee.

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

Other regulated U.S. subsidiaries. Our non-bank 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 non-bank subsidiaries are required to meet separate minimum capital standards as imposed by those regulatory authorities.

Anti-Money Laundering Initiatives, the Bank Secrecy Act, the USA PATRIOT Act. A major focus of U.S. governmental policy relating to financial institutions in recent years has been, and continues to be, aimed at preventing money laundering and terrorist financing. The USA PATRIOT Act of 2001, as incorporated into the Bank Secrecy Act, substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Department of the Treasury has issued a number of regulations that impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report potential money laundering and terrorist financing, including the collection of beneficial ownership information. The bank regulatory agencies carefully scrutinize the adequacy of an institution's compliance with these regulations and, as a result, there have been an increased number of regulatory enforcement actions. A financial institution's failure to maintain and implement adequate policies, procedures and controls to prevent and detect money laundering and terrorist financing could have serious legal and reputational consequences for the institution, including the incurrence of expenses to enhance the relevant programs, the imposition of limitations on the scope of its operations and the imposition of fines and other monetary penalties. See "Item 3.D. Key Information—Risk Factors—Operational Risk—We may become subject to regulatory actions or other legal proceedings relating to our transactions or other aspects of our operations, which could result in significant financial losses, restrictions on our operations and damage to our reputation."

Foreign Corrupt Practices Act. In recent years, U.S. regulatory and enforcement agencies including the SEC and the U.S. Department of Justice have significantly increased their enforcement efforts of the Foreign Corrupt Practices Act, or the FCPA. The FCPA prohibits U.S. securities issuers, U.S. domestic entities, and parties doing substantial business within the United States (including their shareholders, directors, agents, officers, and employees) from giving, offering, or promising anything of value to foreign public officials in order to obtain or retain any business advantage. The FCPA also requires U.S. securities issuers to maintain adequate books and records in such a way that they fairly reflect all transactions and dispositions of assets. Enforcement efforts have targeted a wide range of U.S. and foreign-based entities and have been based on a broad variety of alleged fact patterns, and in a number of cases have resulted in the imposition of substantial criminal and civil penalties or in agreed payments in settlement of alleged violations. Failure to maintain adequate anti-bribery policies, procedures, internal controls, and books and records globally could have serious legal and reputational consequences for the institution, including the incurrence of expenses to enhance the relevant programs, as well as the imposition of civil and criminal penalties.

Regulatory Reform Legislation. In response to the global financial crisis and the perception that lax supervision of the financial industry in the United States may have been a contributing cause, legislation designed to reform the system for supervision and regulation of financial firms doing business in the United States, the so-called 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 affect financial institutions operating in the United States, including our U.S. operations. Included among these provisions 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. Key provisions that impact our operations are summarized below. However, certain regulatory rules under the Dodd-Frank Act are not yet finalized, require further interpretive guidance by the relevant supervisory agencies, or do not yet require us to fully implement compliance procedures. Accordingly, while the legislation has an impact on our operations, including the imposition of significant compliance costs, we are unable to assess with certainty the full degree of impact of the Dodd-Frank Act on our operations at this time.

Among the components of the Dodd-Frank Act that have impacted or may impact our operations are the provisions relating to enhanced prudential standards, including capital, liquidity and structural requirements, the “Volcker Rule,” derivatives regulation, credit reporting, resolution plans, incentive-based compensation, the establishment of the Consumer Financial Protection Bureau, and debit interchange fees. Although certain of the regulatory rules regarding the foregoing components are still pending, as noted above, based on information currently available to us, other than the Volcker Rule and derivatives regulations as discussed below, the impact of these components is expected to be mainly limited to our U.S. operations and not to be material to us on a consolidated basis. We intend to continue to monitor developments relating to the Dodd-Frank Act and the potential impact on our activities inside and outside of the United States.

With respect to the Dodd-Frank Act provisions related to enhanced prudential standards, in February 2014 the FRB issued final rules that established enhanced prudential standards for the U.S. operations of foreign banking organizations such as MUFG. These rules required us to organize by July 1, 2016 all of our U.S. bank and non-bank subsidiaries, with certain limited exceptions, under a U.S. IHC that is subject to U.S. capital requirements and enhanced prudential standards comparable to those applicable to top-tier U.S. bank holding companies of the same size. Under these rules, we were required to change the structure of our U.S. operations, including the manner in which we oversee and manage those operations, and may be required to inject additional capital into our U.S. operations. We have designated MUFG Americas Holdings as our IHC.

MUFG Americas Holdings is subject to various U.S. prudential requirements and has become subject to others with the designation of MUFG Americas Holdings as our IHC as of July 1, 2016. MUFG Americas

Holdings was previously subject to risk-based and leverage capital requirements, liquidity requirements, and other enhanced prudential standards applicable to large U.S. bank holding companies. MUFG Americas Holdings was also subject to capital planning and stress testing requirements. MUFG Americas Holdings is now additionally subject to the capital planning and stress testing requirements and certain enhanced prudential standards applicable to IHCs. In calendar year 2020, MUFG Americas Holdings was subject to two FRB supervisory Dodd-Frank Act stress testing cycles, the results of which were initially released on June 25, 2020 and updated on July 27, 2020 (no change to MUFG Americas Holdings reported results for the first cycle) and on December 18, 2020 for the second cycle associated with industry-wide required capital plan resubmissions. Under both supervisory stress testing cycles, the FRB's released results found that under severely adverse, and an alternative severely adverse scenario as applicable, MUFG Americas Holdings would maintain capital ratios well above regulatory baseline required minimums. Under tailoring of regulations applicable to domestic and foreign banks to more closely match their risk profiles which became effective December 31, 2019, MUFG Americas Holdings is classified as a Category IV firm under which it is minimally subject to biennial supervisory stress testing every other year; however as afforded under regulations, MUFG Americas Holdings voluntarily elected to participate in FRB supervisory stress testing in 2021. On June 24, 2021, the FRB released the results of the 2021 Dodd-Frank Act supervisory stress tests for the 23 participating firms, finding that each firm, including MUFG Americas Holdings, would remain "well above" risk-based and leverage capital minimums under the FRB's "severely adverse" economic scenario. Accordingly, consistent with the FRB's March 2021 announcement, all industry additional temporary capital distribution restrictions imposed under COVID-19 expired on June 30, 2021. Afterwards, firms with \$100 billion or more in total assets will remain subject to the normal restrictions imposed by the FRB's regulatory capital framework, inclusive of the stress capital buffer ("SCB").

The FRB has the authority to examine an IHC and any of its subsidiaries. U.S. leverage requirements applicable to the IHC took effect beginning in January 2018. Our combined U.S. operations, including MUFG Bank's and Mitsubishi UFJ Trust and Banking's branches, are also subject to certain requirements related to liquidity and risk management.

The Volcker Rule was issued in final form by the Federal Reserve originally in December 2013, and substantive portions were subsequently amended in November 2019. Under the Volcker Rule, we are required to cease conducting certain proprietary trading activities, which means trading in securities and financial instruments for our own account, subject to certain exceptions, including market-making, hedging, and underwriting activities if such activities are conducted within a rigorous compliance framework. We are also restricted from engaging in certain activities regarding hedge funds and private equity funds known as covered funds. While the Volcker Rule excludes restrictions on such activities conducted solely outside of the United States, the regulatory definition of such exempted activities is narrow and complex. Our proprietary trading and covered funds activities are generally executed outside of the United States, but certain activities are conducted within the United States, and, therefore, we have undertaken steps that we believe are appropriate to bring our activities and investments into compliance with the Rule. Given the limited amount of restricted activities in which we engage within the United States, we believe the final changes to the Volcker Rule do not have a material negative impact on our operations.

U.S. regulators continue to issue final regulations and regulatory determinations governing swaps and derivatives markets as contemplated by the Dodd-Frank Act. To date, MUFG Bank and MUFG Securities EMEA plc, have registered as swap dealers with the U.S. Commodity Futures Trading Commission, or CFTC. Depending on the finalization of regulations and regulatory determinations governing swaps and derivatives markets under the Dodd-Frank Act, as well as the activities of our other subsidiaries located inside and outside of the United States, our other subsidiaries may have to register as swap dealers with, or be subject to the regulations of, the CFTC and/or SEC. Regulation of swap dealers by the CFTC and security-based swap dealers by the SEC imposes numerous corporate governance, business conduct, capital, margin, reporting, clearing, execution, and other regulatory requirements on our operations, which may adversely impact our derivatives businesses and make us less competitive than those competitors that are not subject to the same regulations. On December 18, 2019, the CFTC proposed rules that would modify and codify the cross-border application of

certain of its Title VII swap rules to both U.S. and non-U.S. registered swap dealers. Similarly, in December 2019, the SEC adopted a package of rule amendments, guidance, and a related order designed to expand and clarify the framework for regulating cross-border security-based swaps, including single-name credit default swaps. We are continuing to consider the effects of these proposed and final regulatory changes.

On June 14, 2018, the FRB approved a final rule regarding single counterparty credit limits, or SCCL, for large banking organizations. The SCCL final rule is considered the last major piece of regulatory action needed to implement Section 165(e) of the Dodd-Frank Act. Section 165(e) was a response to the concern that failure or financial distress of one large, interconnected financial institution could cascade through the U.S. financial system and impair the financial condition of that firm's counterparties, including other large, interconnected firms. Section 165(e) generally, and the SCCL final rule specifically, seek to mitigate this risk by limiting the aggregate exposure among such financial institutions and their counterparties.

The final rule establishes separate SCCLs, one applicable to the combined U.S. operations, or CUSO, of MUFG and another to MUAH, as MUFG's U.S. intermediate holding company, or IHC. Originally, MUFG CUSO was required to comply with its SCCL beginning on January 1, 2020, while IHC compliance was scheduled to begin on July 1, 2020, unless that time is extended by the FRB in writing. The SCCL final rule allows FBOs to satisfy its CUSO-level requirements by certifying as to home-country compliance with Basel Committee standards in lieu of complying with the final U.S. SCCL rule. The FRB extended the initial compliance dates of its SCCL rule as it applies to the CUSO of FBOs by 18 months to July 1, 2021, in order to provide additional time for foreign jurisdictions' implementation of the Basel standard to become effective.

Separately, based on the preliminary categorization of MUAH as a Category IV entity under the final rules tailoring prudential standards for large banking organization ("Tailoring Final Rules"), SCCL will no longer apply to MUAH. The following paragraphs discuss the Tailoring Final Rules in greater detail.

On October 10, 2019, the FRB issued two final rules that (1) tailor the framework for application of enhanced prudential standards to U.S. and foreign banking organizations and (2) modify the application of capital and liquidity requirements to the operations of U.S. banking organizations and the U.S. operations of foreign banking organizations. The final rules apply the same framework as to the U.S. and foreign BHCs but use a differing calibration for foreign BHCs. The final rules became effective on December 31, 2019.

The final rule, promulgated solely by the FRB, determined the applicability of certain enhanced prudential standards requirements, including liquidity stress testing and management, capital planning and stress testing, risk management, single counterparty credit limits requirements, and related regulatory reporting by categorizing all foreign banking organizations with \$100 billion or more in combined U.S. assets into three categories. The second final rule was issued jointly by the FRB, the OCC, and the FDIC, and similarly categorized foreign banking organizations and tailored the application of the agencies' regulatory capital and standardized liquidity requirements on that basis. Under the framework of the final rules, MUFG's U.S. operations are subject to a split category treatment: (i) the combined U.S. operations are classified as Category II, subject to the most stringent requirements other than those applicable to U.S. G-SIBs; and (ii) MUAH, the U.S. BHC and IHC, is classified as Category IV, a classification that provides certain capital and liquidity relief from prior requirements, taking into account the size and other risk characteristics of MUFG's U.S. subsidiary operations.

On October 10, 2019, the FRB jointly issued with the FDIC final rule amendments revising their joint resolution planning requirements of Section 165(d) of the Dodd-Frank Act. Resolution plans, also known as living wills, describe a firm's strategy for orderly resolution under bankruptcy in the event of material financial distress or failure of the firm. The final rule tailors the rule's requirements for firms that do not pose the same systemic risk as the largest institutions, requiring resolution plans to be submitted on a three-year cycle. MUFG is classified as a triennial full filer as applicable to large foreign and domestic banks classified within Category II and III, and MUFG is subject to alternating between submitting full and targeted resolution plans every three years. On May 6, 2020, the agencies, in recognition of immediate challenges of the COVID-19 pandemic,

extended the next submission date by 90 days to September 29, 2021, and subsequently extended the next submission date again to December 17, 2021 as a Targeted Information Request was added to industry required submissions. Pursuant to sections 243.6(c) and 381.6(c) of the Resolution Plan Rule, firms must be provided with no less than 12 months' notice prior to the date by which a covered company must submit a targeted resolution plan should a targeted information request be made. The agencies' Targeted Information Request for 2021 focuses on a covered company's actions in response to events surrounding the coronavirus. The agencies intend to use the covered company's response to the stress caused by the coronavirus to inform their assessment of the covered company's resolution-related capabilities and infrastructure.

On January 30, 2020 the Federal Reserve adopted a final rule revising the "controlling influence" prong of its "control" rules under the Bank Holding Company Act of 1956, as amended. The final rule largely adopts the proposed rule issued by the FRB in April 2019, reaffirms the Federal Reserve's conceptual framework for analyzing "controlling influence," and rejects a number of banking industry recommendations for liberalization of the "control" rules. The issue of "control" is a central concept under the Bank Holding Company Act. Among other things, control determines whether an investor in a banking organization is subject to the requirements and restrictions of the Bank Holding Company Act, whether a bank holding company's investment in a company is permissible and/or subjects the investee company to the requirements and restrictions of the Bank Holding Company Act, and whether an investor in any depository organization is subject to the Volcker Rule. As a result, a determination of whether or not an investment constitutes "control" is often determinative of whether an investment can be made (or, at least, must be restructured to avoid control). The final rule was effective as of September 30, 2020.

Foreign Account Tax Compliance Act. The Hiring Incentives to Restore Employment Act was enacted in March 2010 and contains provisions commonly referred to as the Foreign Account Tax Compliance Act, or FATCA. The U.S. Treasury, acting through the Internal Revenue Service, or the IRS, issued final FATCA regulations in January 2013. FATCA created a new reporting and withholding regime for U.S. and foreign financial institutions, or FFIs, and certain non-financial foreign entities, or NFFEs.

In addition, the FATCA framework has been expanded with the introduction of Intergovernmental Agreements between the U.S. Treasury and foreign governments, which pursue a framework for intergovernmental cooperation to facilitate the implementation of FATCA. The United States has entered into various Intergovernmental Agreements with non-U.S. jurisdictions including Japan. FATCA and the Intergovernmental Agreements became effective from July 1, 2014.

In connection with FATCA, we have assessed and determined if our group entities are U.S. withholding agents, FFIs, or NFFEs. Each identified U.S. withholding agent and FFI has also evaluated pre-existing and new entity accounts to the extent required to determine their respective FATCA classifications. We have continuously developed internal procedures and processes that we believe address the regulatory requirements under FATCA.

However, FATCA compliance has required us to develop extensive systems capabilities and internal processes to identify and report U.S. account holders who are subject to FATCA requirements, which has been a complex and costly process requiring significant internal resources. If our procedures and processes are determined not to be adequate to meet the requirements of FATCA, we could potentially be subject to serious legal and reputational consequences, including the imposition of withholding taxes on certain amounts payable to us from U.S. sources, and could be required to expend additional resources to enhance our systems, procedures and processes and take other measures in response to such consequences.

Capital Adequacy. MUFG Americas Holdings and MUFG Union Bank are required to maintain minimum capital ratios in accordance with rules issued by the U.S. Federal banking agencies. In July 2013, the U.S. Federal banking agencies issued final rules to implement the Basel Committee on Banking Supervision's capital guidance for U.S. banking organizations, or U.S. Basel III. These rules establish more restrictive capital definitions, create additional categories and higher risk weightings for certain asset classes and off-balance sheet

exposures, higher minimum capital and leverage ratios and capital conservation buffers that will be added to the minimum capital requirements. These rules supersede the U.S. federal banking agencies' general risk-based capital rules generally referred to as Basel I, the advanced approaches rules generally referred to as Basel II, which are applicable to firms classified as Category II under the tailoring rules issued October 10, 2019, and leverage rules. MUFG Americas Holdings and MUFG Union Bank continue to be subject to the U.S. Basel III capital rules which were substantially phased in by January 1, 2019. In addition, on July 22, 2019, U.S. federal banking agencies jointly issued a final rule which became effective on October 1, 2019. The final rule simplifies certain aspects of the Basel III capital rules that mostly apply to banking organizations that are not subject to the advanced approached rules.

The Federal Reserve issued amendments to the Regulatory Capital, Capital Plan, and Stress Test Rules which became effective on October 1, 2020. Under the amended rules, the Federal Reserve uses the results of its supervisory stress test to establish the size of a firm's stress capital buffer requirement, which replaces the static 2.5% of risk-weighted assets component of a firm's capital conservation buffer requirement. MUFG Americas Holdings is currently subject to a firm specific stress capital buffer (SCB) of 4.4%. A firm that does not maintain capital ratios above risk-based regulatory minimums plus its specified SCB requirements faces restrictions on its capital distributions and discretionary bonus payments. With the application of the specified SCB, MUFG Americas Holdings capital distributions and discretionary bonus payments are subject to the following regulatory minimum risk-based capital ratios: (1) 8.9% Common Equity Tier 1 capital ratio, (2) 10.4% Tier 1 capital ratio and (3) 12.4% total capital ratio. As MUFG Americas Holdings opted into Federal Reserve supervisory stress testing in 2021, it will receive an amended SCB to take effect on October 1, 2021 which will be informed by its firm specific 2021 supervisory stress testing results. MUFG Union Bank currently remains subject to the static 2.5% capital conservation buffer requirement. In addition, failure by MUFG Americas Holdings or MUFG Union Bank to meet minimum risk-based capital ratios of: (1) 4.5% Common Equity Tier 1 capital ratio, (2) 6.0% Tier 1 capital ratio and (3) 8.0% total capital ratio, or to a Tier 1 leverage ratio regulatory minimum requirement of 4% and a well-capitalized prompt corrective action standard of 5%, can result in additional certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a material effect on MUFG Americas Holdings' consolidated financial statements.

In October 2015, the FRB proposed long-term debt and TLAC requirements for U.S. globally systemically important bank holding companies and U.S. IHCs of non-U.S. globally systemically important banks, including MUFG Americas Holdings. In December 2016, the FRB finalized rules imposing such requirements. Under the final rules, a covered IHC such as MUFG Americas Holdings is required to maintain a minimum amount of eligible long-term debt issued to a non-U.S. parent entity that could be cancelled or converted to equity in order to absorb losses and recapitalize the IHC's operating subsidiaries at or near the point of resolution. A covered IHC is also required to maintain a minimum level of eligible TLAC issued to a non-U.S. parent entity consisting of regulatory capital and eligible long-term debt and maintain related buffers consisting of Common Equity Tier 1 capital. In addition, an IHC is restricted from issuing short-term debt and certain other types of liabilities that are structurally senior to eligible long-term debt. MUFG Americas Holdings became subject to these rules on January 1, 2019. Pursuant to 12 CFR § 252.164(a), we have certified to the FRB that MUFG plans to follow an SPE resolution strategy, and that MUFG Americas Holdings would therefore be considered a "non-resolution covered IHC." MUFG Americas Holdings met applicable TLAC long-term debt and associated additional TLAC requirements by the initial implementation date of January 1, 2019.

For more information, see "Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Adequacy" and Note 21 to our audited consolidated financial statements.

Disclosure pursuant to Section 13(r) of the US Securities Exchange Act of 1934

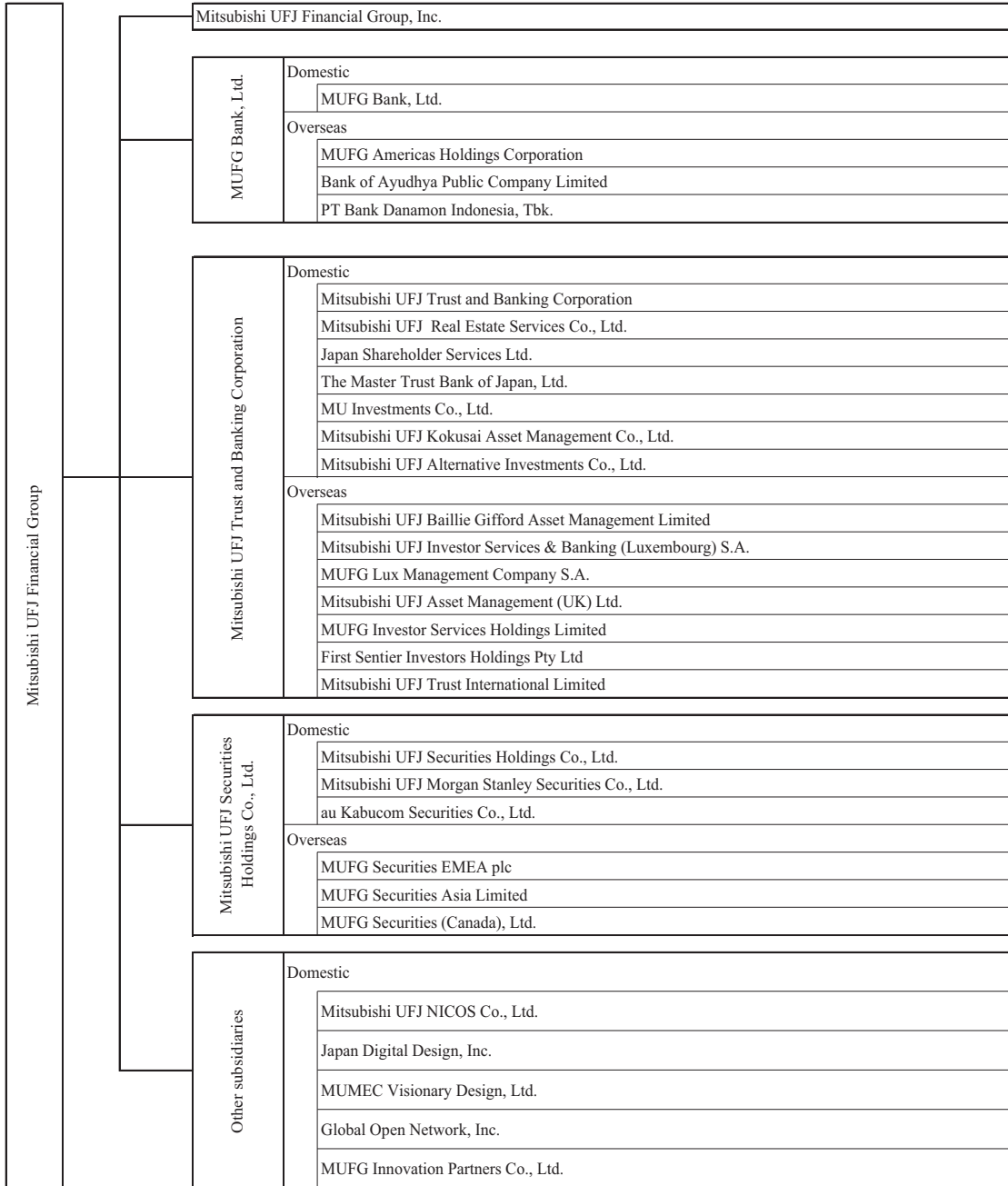
We are disclosing the following information pursuant to Section 13(r) of the Securities Exchange Act of 1934 (Exchange Act), which requires an issuer to disclose whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with natural persons or entities designated by the

U.S. government under specified Executive Orders. The scope of activities that must be reported includes activities not prohibited by U.S. law and conducted outside the United States in compliance with applicable local law.

During the fiscal year ended March 31, 2021, our non-U.S. subsidiary, MUFG Bank, engaged in certain limited business activities with entities in, or affiliated with, Iran, including counterparties owned or controlled by the Iranian government. Specifically, our non-U.S. banking subsidiary, MUFG Bank, issued letters of credit and guarantees and provided remittance and other settlement services mainly in connection with customer transactions related to the purchase and exportation of Iranian crude oil to Japan prior to the expiration of the Significant Reduction Exception granted to Japan, and in some cases, in connection with other petroleum-related transactions with Iran by its customers that were exempt from applicable Iran-related sanctions or otherwise permitted by OFAC. These transactions did not involve U.S. dollars or clearing services of U.S. banks for the settlement of payments. For the fiscal year ended March 31, 2021, the aggregate fee income relating to these transactions was less than ¥5 million, representing less than 0.001 percent of our total fee income. In addition, some Iranian financial institutions and other entities in, or affiliated with, Iran maintained non-U.S. dollar correspondent accounts and other similar settlement accounts with MUFG Bank outside the United States. In addition to such accounts, MUFG Bank received deposits in Japan from, and provided settlement services in Japan to, fewer than 10 Iranian government-related entities and fewer than 100 Iranian government-related individuals such as Iranian diplomats, and maintains settlement accounts outside the United States for certain other financial institutions specified in Executive Order 13382, which settlement accounts were frozen in accordance with applicable laws and regulations. For the fiscal year ended March 31, 2021, the average aggregate balance of deposits held in these accounts represented less than 0.05 percent of the average balance of our total deposits. The fee income from the transactions attributable to these account holders was less than ¥5 million, representing less than 0.001 percent of our total fee income.

MUFG Bank recognizes that following the withdrawal in May 2018 by the United States from the Joint Comprehensive Plan of Action, the United States has imposed secondary sanctions against non-U.S. persons who engage in or facilitate a broad range of transactions and activities involving Iran. MUFG Bank has taken the recent sanctions related developments into account and will continue to monitor transactions relating to Iran in order to comply with applicable U.S. and Japanese regulations as well as U.S., Japanese and other international sanctions.

C. Organizational Structure



Set forth below is a list of our principal consolidated subsidiaries as of March 31, 2021:

<u>Name</u>	<u>Country of Incorporation</u>	<u>Proportion of Ownership Interest (%)</u>	<u>Proportion of Voting Interest (%)</u>
MUFG Bank, Ltd.	Japan	100.00%	100.00%
Mitsubishi UFJ Home Loan CREDIT CO., LTD.	Japan	99.85%	99.85%
Mitsubishi UFJ Information Technology, Ltd.	Japan	100.00%	100.00%
The Mitsubishi UFJ Factors Limited	Japan	100.00%	100.00%
Mitsubishi UFJ Trust and Banking Corporation	Japan	100.00%	100.00%
Mitsubishi UFJ Real Estate Services Co., Ltd.	Japan	100.00%	100.00%
Japan Shareholder Services Ltd.	Japan	100.00%	100.00%
The Master Trust Bank of Japan, Ltd.	Japan	46.50%	46.50%
MU Investments Co., Ltd.	Japan	100.00%	100.00%
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	Japan	100.00%	100.00%
Mitsubishi UFJ Alternative Investments Co., Ltd.	Japan	100.00%	100.00%
Mitsubishi UFJ Securities Holdings Co., Ltd.	Japan	100.00%	100.00%
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	Japan	60.00%	60.00%
au Kabucom Securities Co., Ltd.	Japan	51.00%	51.00%
Mitsubishi UFJ NICOS Co., Ltd.	Japan	100.00%	100.00%
Japan Digital Design, Inc.	Japan	86.11%	86.11%
MUMEC Visionary Design, Ltd.	Japan	60.00%	60.00%
Global Open Network, Inc.	Japan	80.00%	80.00%
MUFG Innovation Partners Co., Ltd.	Japan	100.00%	100.00%
MUFG Americas Holdings Corporation	USA	100.00%	100.00%
Bank of Ayudhya Public Company Limited	Thailand	76.88%	76.88%
PT Bank Danamon Indonesia, Tbk.	Indonesia	92.47%	92.47%
MUFG Bank (China), Ltd.	China	100.00%	100.00%
MUFG Bank (Malaysia) Berhad	Malaysia	100.00%	100.00%
Mitsubishi UFJ Baillie Gifford Asset Management Limited	UK	51.00%	51.00%
Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A.	Luxembourg	100.00%	100.00%
MUFG Lux Management Company S.A.	Luxembourg	100.00%	100.00%
Mitsubishi UFJ Asset Management (UK) Ltd.	UK	100.00%	100.00%
MUFG Investor Services Holdings Limited	Bermuda	100.00%	100.00%
First Sentier Investors Holdings Pty Ltd	Australia	100.00%	100.00%
Mitsubishi UFJ Trust International Limited	UK	100.00%	100.00%
MUFG Securities EMEA plc	UK	100.00%	100.00%
MUFG Securities Asia Limited	China	100.00%	100.00%
MUFG Securities (Canada), Ltd.	Canada	100.00%	100.00%

D. Property, Plant and Equipment

	<u>As of March 31,</u>	
	<u>2020</u>	<u>2021</u>
	<u>(in millions)</u>	
Land	¥ 380,477	¥ 379,560
Buildings	782,367	765,341
Equipment and furniture	623,676	564,273
Leasehold improvements	310,957	303,164
Construction in progress	35,594	46,513
Total	2,133,071	2,058,851
Less accumulated depreciation	1,203,542	1,183,859
Premises and equipment—net	¥ 929,529	¥ 874,992

Our registered address is 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, Japan. As of March 31, 2021, we and our subsidiaries conducted our operations either in premises we owned or in properties we leased.

The following table presents the book values of our material offices and other properties as of March 31, 2021:

	<u>Book Value</u> <u>(in millions)</u>
Owned land	¥379,560
Owned buildings	236,003

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, 2021, we invested approximately ¥116,707 million in premises and equipment, primarily for office renovations and relocation.

Item 4A. Unresolved Staff Comments.

None.

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.

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Business Environment

Through our subsidiaries and affiliated companies, we engage in a broad range of financial businesses and services, including commercial banking, investment banking, trust assets and asset management services, securities businesses and credit card businesses, and provide related services to individuals primarily in Japan, the United States, Thailand and Indonesia 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,
- foreign currency exchange rates, and
- stock prices.

Recent Developments and Prospects

In the fiscal year ended March 31, 2021, our credit-related expenses increased as we provided for credit losses in light of economic uncertainty created by the COVID-19 pandemic, and our net interest income decreased as the central banks of major economies lowered interest rates as a measure to counter the negative impact of the COVID-19 pandemic. Despite these and other impacts of the pandemic, our results of operations improved, mainly reflecting higher stock prices at the end of March 2021 in Japan and the United States.

However the COVID-19 pandemic may have a further adverse impact on our business and results of operations as economic and corporate activity deteriorates in Japan and around the world and financial markets remain volatile. More specifically, we currently expect that the COVID-19 pandemic may have a further adverse impact on, among other things,

- net interest income, primarily due to lower interest rates in Japan or fluctuations in various markets,
- fees and commissions income mainly due to decreases in the value of assets under custody or management, declines in customer investments or other transactions, or changes in consumer spending trends, as any of these negative factors may be exacerbated by, among other things, weakened appetite for investments or other transaction under uncertain or volatile market conditions or governmental restrictions on business activities,
- net investment securities losses primarily due to losses on sales of securities or a decline in the value of our securities portfolio,
- net equity in earnings of equity method affiliates if the financial performance of our equity method affiliates deteriorates,
- other income and expenses, including impairment losses on goodwill or other intangible assets, due to weaker business prospects and other factors causing deterioration in the business environment, and
- regulatory capital ratios due to, among other factors, an increase in risk-weighted assets such as loans and a decrease in the value of our equity securities portfolio.

In addition, there is a risk that we will have to recognize credit losses if there is a further deterioration in the credit quality of our borrowers, including small and medium-sized enterprises to which we provided loans under temporary government financial assistance programs particularly after such programs expire.

While significant uncertainty remains as to the full extent of the impact of the COVID-19 pandemic, we currently expect the economy to be generally on a gradual recovering trend as economic activity resumes with the implementation of various preventive and remedial measures such as vaccination, restrictions on activity, and economic measures. However, as economic activity continues to be affected by the implementation and

effectiveness of measures to prevent the expansion of the pandemic, we expect the pace of economic recovery will be moderate and may be different from region to region. Under these uncertain circumstances, our current expectations may be significantly different from actual results. We intend to continue to closely monitor, and endeavor to effectively deal with, further developments relating to the pandemic. For more information, see “Item 3.D. Key Information—Risk Factors.” As well as “Forward-Looking Statements.”

General Economic Conditions

The global economy suffered a significant downturn in the first half of the fiscal year ended March 31, 2021 as a result of the introduction of strict public health measures to restrict economic activities, with the priority given to the prevention of the spread of the COVID-19 in each country and region. Following the first wave of economic downturns, public health measures were eased, and economic activities resumed. Shortly after the resumption, the economy began to rebound in many countries and regions. However, amid the remaining downward pressure on the economy due to concerns over the pandemic, the pace of economic recovery generally slowed down while the infection rate fluctuated to varying degrees depending on the country or region.

Japan’s economy generally followed the global economic trends, showing a mixture of negative and positive trends, during the fiscal year ended March 31, 2021. Japan’s real gross domestic product, or GDP, contracted by 8.3% for the quarter ended June 30, 2020, grew by 5.3% for the quarter ended September 30, 2020 and 2.8% for the quarter ended December 31, 2020, and contracted by 1.3% for the quarter ended March 31, 2021 on a quarter-on-quarter basis. These fluctuations mainly reflected a significant decrease in private consumption under the state of emergency declared by the national government during April 2020 and May 2020 due to the COVID-19 pandemic, a partial rebound under various private consumption stimulus measures implemented by the national and local governments during the subsequent months, and the national state of emergency reinstated during January 2021 and March 2021 following another wave of infection. On a year-on-year basis, Japan’s real GDP contracted by 10.1% for the quarter ended June 30, 2020, 5.6% for the quarter ended September 30, 2020, 1.1% for the quarter ended December 31, 2021, and 1.9% for the quarter ended March 31, 2021. Japan’s Consumer Price Index, or CPI, fluctuated between negative 0.5% and positive 0.5% on a month-on-month basis and between negative 1.2% and positive 0.4% on a year-over-year basis during the fiscal year ended March 31, 2021. The unemployment rate in Japan remained low while slightly increasing to 3.1% in October and subsequently decreasing to 2.7% in March 2021. According to Teikoku Databank, a Japanese research institution, the number of companies that filed for legal bankruptcy in Japan between April 2020 and March 2021 was 7,314, a 13.8% decrease from the same period of the previous year. The total liabilities of companies that filed for legal bankruptcy during the fiscal year ended March 31, 2021 were ¥1,217 billion, a decrease of 0.1% from the previous fiscal year. The Japanese economy remains subject to the impact of the COVID-19 pandemic, continuing deflationary pressure, increasing public debt, intensifying trade conflicts and global competition, declining domestic population, downward pressure on private consumption, and various other factors that could adversely affect economic conditions in Japan.

The U.S. economy underwent similar downward and upward trends but to larger degrees in some measures during the fiscal year ended March 31, 2021, with U.S. real GDP contracting by 31.4% for the quarter ended June 30, 2020 and growing by 33.4% for the quarter ended September 30, 2020, 4.3% for the quarter ended December 31, 2020, and 6.4% for the quarter ended March 31, 2021, on a quarter-on-quarter annualized basis. On a year-on-year basis, U.S. real GDP contracted by 9.0% for the quarter ended June 30, 2020, 2.8% for the quarter ended September 30, 2020 and 2.4% for the quarter ended December 31, 2020 and grew by 0.4% for the quarter ended March 31, 2021. The unemployment rate rose significantly to 14.8% in April 2020 due to the COVID-19 pandemic and subsequently improved but still remained relatively high at 6.0% in March 2021, particularly compared to 4.4% in March 2020. The long-term prospects of the U.S. economy remain uncertain in light of the impact of the COVID-19 pandemic, changes in the political leadership and the government’s economic, monetary, trade and foreign relations policies, and various other factors.

The Eurozone economy also contracted and then exhibited signs of expansion during the fiscal year ended March 31, 2021, with Eurozone real GDP contracting by 11.6% for the quarter ended June 30, 2020, growing by 12.5% for the quarter ended September 30, 2020, and contracting by 0.7% for the quarter ended December 31, 2021, and 0.6% for the quarter ended March 31, 2021, on a quarter-on-quarter basis. On a year-over-year basis, Eurozone real GDP contracted by 14.6% for the quarter ended June 30, 2020, 4.1% for the quarter ended September 30, 2020, 4.9% for the quarter ended December 31, 2021, and 1.8% for the quarter ended March 31, 2021. The unemployment rate in the Eurozone increased to 8.7% in September 2020 and subsequently improved but still remained relatively high at 8.1% in March 2021, particularly compared to 7.1% in March 2020. The Eurozone economy remains subject to various uncertainties, including the impact of the COVID-19 pandemic, the process and ramifications of the United Kingdom's withdrawal from the European Union, concerns over Italy's fiscal policy and health, and other factors.

In Asia excluding Japan, economic conditions in ASEAN (Association of Southeast Asian Nations) and NIEs (Newly Industrializing Economies) generally improved but the economic growth remained relatively modest during the fiscal year ended March 31, 2021. The economic conditions of these regions remain subject to various uncertainties, including the impact of the COVID-19 pandemic and fluctuations in the global and local economies as well as geopolitical developments.

Interest Rates

Interest rates remained at historical low levels in Japan under the Bank of Japan's monetary policy. The yield on 10-year Japanese government bonds fluctuated between negative 0.045% and positive 0.168% during the fiscal year ended March 31, 2021. In March 2020, the Bank of Japan introduced a package of COVID-19 emergency measures, including those designed to facilitate corporate financing through lending up to ¥8.0 trillion yen against corporate debt collateral at a 0% interest rate with maturities up to one year and to increase the limit on purchases of commercial paper and corporate bonds by ¥2.0 trillion to ¥7.4 trillion. In April 2020, the Bank of Japan expanded the emergency measure package by raising the lending limit to ¥23.0 trillion while adding household debt as eligible collateral, increasing the limit on purchases of commercial paper and corporate bonds by ¥13.0 trillion to ¥20.4 trillion, and eliminating the limit on purchases of Japanese government bonds.

In the United States, following the Federal Open Market Committee meeting in June 2020, most of the FRB members indicated their willingness to maintain the rate at the current level until the end of the calendar year 2022 in light of increasing uncertainty in the economic outlook. The 10-year U.S. Treasury bond yield increased from 0.670% at the end of March 2020 to 1.742% at the end of March 2021, while fluctuating between 0.508% and 1.742% during the period. The yield currently fluctuates around 1.631%.

Foreign Currency Exchange Rates

The Japanese yen depreciated against the U.S. dollar from ¥108.83 to the U.S. dollar as of March 31, 2020 to ¥110.71 to the U.S. dollar as of March 31, 2021. The Japanese yen has since been fluctuating around ¥109 to the U.S. dollar since April 2021.

The Japanese yen was on a generally depreciating trend against the euro during the fiscal year ended March 31, 2021, with the exchange rate being ¥129.80 to the euro as of March 31, 2021 compared to ¥119.55 to the euro as of March 31, 2020. The Japanese yen has been fluctuating around ¥133 to the euro since April 2021.

The Japanese yen was on a generally depreciating trend against the Thai baht during the fiscal year ended March 31, 2021, with the exchange rate being ¥3.54 to the Thai baht as of March 31, 2021 compared to ¥3.34 to the Thai baht as of March 31, 2020. The Japanese yen has been fluctuating around ¥3.47 to the Thai baht since April 2021.

Stock Prices

The closing price of the Nikkei Stock Average, which is the average of 225 blue chip stocks listed on the Tokyo Stock Exchange, increased from ¥18,917.01 on March 31, 2020 to ¥29,178.80 on March 31, 2021. The closing price of the Nikkei Stock Average reached ¥30,467.75, the highest closing price since August 1990, on February 16, 2021. The closing price of the Nikkei Stock Average has since risen and has been fluctuating around ¥28,300.

Recent Developments

During the fiscal year ended March 31, 2021, we engaged in transactions to ensure adequate capital base and structure, while pursuing strategies to improve our capital management and streamline our group companies. Japan faces some challenges such as a declining birth rate, an aging society and a shrinking population, while low growth has become normalized throughout the world. The environment we operate in has been affected by issues including the COVID-19 pandemic, growing awareness of environmental and social issues, and advances in digital technologies that enable the entry of new competitors in the financial sector. These developments are changing the business environment in significant ways and with unprecedented speed. MUFG seeks to meet these changes with clear visions and to make the most of these challenges as opportunities for growth. Under our medium-term business plan for the three years starting in the fiscal year ending March 31, 2022, we aim to leverage our financial and digital strengths to provide value to our stakeholders around the world.

Issuances and Repurchases of TLAC Eligible Senior Debt Securities

During and after the fiscal year ended March 31, 2021, we issued \$4.5 billion, or ¥498.2 billion, and €0.5 billion, or ¥64.9 billion, aggregate principal amount of external TLAC eligible senior debt securities. As of March 31, 2021, our external TLAC ratios were 18.94% on a risk-weighted assets basis and 8.96% on a leverage exposure basis. We are required to maintain external TLAC ratios of 16% on a risk-weighted assets basis and 6% on a leverage exposure basis as of March 31, 2021 and 18% on a risk-weighted assets basis and 6.75% on a leverage exposure basis from March 31, 2022. See “Capital Adequacy” below and “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—Japan—Total loss-absorbing capacity.”

In June 2021, we issued €0.5 billion, or ¥66.9 billion aggregate principal amount of external TLAC eligible senior debt securities under our medium term note programme.

Issuances of Basel III-Compliant Domestic Subordinated Bonds

In October 2020, we issued, in a public offering in Japan, ¥60.0 billion aggregate principal amount of unsecured perpetual subordinated Additional Tier 1 notes. These notes are subject to our discretion to cease interest payments and a write-down of the principal upon the occurrence of certain events, including when our Common Equity Tier 1 capital ratio declines below 5.125%, when we are deemed to be at risk of becoming non-viable or when we become subject to bankruptcy proceedings, but, following any write-down, the principal may be reinstated to the extent permitted by the Japanese banking regulator.

In May 2021, we issued, in a public offering in Japan, ¥20.0 billion aggregate principal amount of unsecured subordinated term Tier 2 notes. We can be exempted from the obligation to pay principal and interest on the notes upon reaching the point of non-viability (PONV). According to the FSA’s approach, PONV will be deemed to have been reached when the Prime Minister of Japan, following deliberation by Japan’s Financial Response Crisis Council pursuant to the Deposit Insurance Act of Japan (“DIA”), confirms that Specified Item 2 Measures need to be applied to MUFG under circumstances where its liabilities exceed or are likely to exceed its assets, or it has suspended or is likely to suspend payment of its obligations.

Sale of Shares in AMP Capital Holdings

In September 2020, Mitsubishi UFJ Trust and Banking sold all of the ordinary shares it held in AMP Capital Holdings Limited, an Australia-based asset manager, for approximately AU\$460 million, or approximately ¥35.9 billion. The sale was part of our strategy to improve our capital management in light of recent changes in international financial regulations and the business environment.

Merger between Mitsubishi UFJ Morgan Stanley Securities and Mitsubishi UFJ Morgan Stanley PB Securities

In August 2020, Mitsubishi UFJ Morgan Stanley Securities and its subsidiary, Mitsubishi UFJ Morgan Stanley PB Securities Co., Ltd., completed their merger whereby Mitsubishi UFJ Morgan Stanley Securities was the surviving company. Through the merger, Mitsubishi UFJ Morgan Stanley Securities aims to enhance its wealth management business.

Mitsubishi UFJ NICOS System Integration Plan

In April 2021, Mitsubishi UFJ NICOS announced a plan to integrate its credit card settlement systems that have been maintained separately for various credit card brands. Based on a fundamental review of its system integration plan in March 2019, Mitsubishi UFJ NICOS plans to integrate the systems currently used for the DC credit card brand and the NICOS credit card brand into the system currently used for the MUFG card brand. The plan has an estimated budget of approximately ¥140 billion through the end of calendar year 2030. The plan may be modified to flexibly respond to changes in the business environment.

Critical Accounting Estimates

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

Allowance for Credit Losses

The allowance for credit losses represents an estimate of the credit losses that are expected over the life of the financial instrument or exposure and has three components: the allowance for loans measured on a collective basis, when similar risk characteristics exist, the allowance for loans measured on an individual basis, for loans that do not share similar risk characteristics, and the allowance for losses on unfunded credit commitments, which is included in other liabilities.

The methodology for estimating credit losses uses relevant available information relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made over a forecast period to account for differences between current and expected future conditions and those reflected in historical loss information. Beyond the forecast period, estimated expected credit losses revert to average historical loss experience. The allowance for credit losses involves significant judgment on a number of assumptions including the assessment of risk characteristics, assignment of borrowers' internal credit ratings, valuation of collateral, expectations of future economic conditions and the development of qualitative adjustments. We divide our loan portfolio into the following segments—Commercial, Residential, Card, MUFG Americas Holdings, Krungsri, and Other—based on the segments used to determine the allowance for credit losses.

At March 31, 2021, we had ¥85,925.5 billion, ¥8,495.8 billion and ¥6,604.6 billion of loans in the Commercial segment, the MUFG Americas Holdings and the Krungsri segments respectively, and recorded an allowance for credit losses against these loans of ¥734.6 billion, ¥131.8 billion and ¥293.4 billion respectively.

The determination of the allowance for credit losses for the Commercial segment required management to make significant judgements, due to the subjectivity and uncertainty associated with the determination of borrowers' internal credit ratings, which were highly dependent on the estimation of borrower performance and business sustainability, particularly in cases in which the borrowers were experiencing weaknesses in their

business performance. Particularly significant judgment was required to be made when these borrower's performance and business sustainability were affected by changes in the borrowers' external and internal business environment, including the COVID-19 pandemic impacts on certain industries. Key elements relating to the policies and discipline used in determining the allowance for credit losses for the Commercial segment are our credit classification and the related borrower categorization process. Each of these components is determined based on estimates subject to change when actual events occur. 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 allowance, we evaluate the probable loss by category of the loan based on its type and characteristics.

The allowance for credit losses is estimated using quantitative models that incorporate economic forecast scenarios through the use of macroeconomic variables. These variables include, but are not limited to, unemployment rates and gross domestic product, which have been correlated with historical credit losses. The scenarios that are chosen, and the weightings given to each scenario, depend on a variety of factors including recent economic conditions and views of internal as well as third-party economists. The determination of the allowance for credit losses for the Commercial, the MUFG Americas Holdings and the Krungsri segments required management to make significant judgements due to the subjectivity and uncertainty associated with expectations of future economic conditions. Particularly significant judgment was required to be made to develop certain key macroeconomic variables in selected economic forecast scenarios and weightings given to each scenario, to capture the heightened volatility and uncertainty in future economic conditions including the duration and severity of the economic downturn caused by the COVID-19 pandemic.

The allowance for credit losses includes qualitative adjustments to cover losses that are expected but were not be reflected in the modeled allowance. The determination of the allowance for credit losses for the MUFG Americas Holdings and the Krungsri segment required management to make significant judgements due to the subjectivity and uncertainty associated with the development of qualitative adjustments, including model input adjustments and overlays implemented as a result of COVID-19. Particularly significant judgment was required to be made to develop certain qualitative adjustments to capture the heightened volatility and uncertainty in the economy and events due to the COVID-19 pandemic.

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. Our actual losses could be more or less than the estimates. 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. For further information regarding our methodologies used in establishing the allowance for credit losses by portfolio segments and allowance for credit losses policies, see Note 1 to our consolidated financial statements and "—B. Liquidity and Capital Resources—Financial Condition—Loan Portfolio." For more information on our credit and borrower ratings, see "Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk—Credit Risk Management."

Allowance for Repayment of Excess Interest

We maintain an allowance for repayment of excess interest based on our estimate of the potential liability exposure. Our estimate of the potential liability exposure represents the estimated amount of claims for repayment of excess interest to be received in the future. We expect that any such claim will be made on the basis of a 2006 ruling of the Japanese Supreme Court, or the Ruling. Under the Ruling, lenders are generally required to reimburse borrowers for interest payments made in excess of the limits stipulated by the Interest Rate Restriction Act upon receiving claims for reimbursement, despite the then-effective provisions of the Law Concerning Lending Business that exempted a lender from this requirement if the lender provided required notices to the borrower and met other specified requirements, and the borrower voluntarily made the interest payment.

While we have not entered into any consumer loan agreement after April 2007 that imposes an interest rate exceeding the limits stipulated by the Interest Rate Restriction Act, we need to estimate the number of possible claims for reimbursement of excess interest payments. To determine the allowance for repayment of excess interest, we analyze the historical number of repayment claims we have received, the amount of such claims, borrowers' profiles, the actual amount of reimbursements we have made, management's future forecasts, and other events that are expected to possibly affect the repayment claim trends in order to arrive at our best estimate of the potential liability. We believe that the provision for repayment of excess interest is adequate and the allowance is at the appropriate amount to absorb probable losses, so that the impact of future claims for reimbursement of excess interest will not have a material adverse effect on our financial position and results of operations. The allowance is recorded as a liability in Other liabilities.

For further information, see Note 26 to our consolidated financial statements and "Item 3.D. Key Information—Risk Factors—Operational Risk—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."

Impairment on Goodwill

As part of our global strategies, we have executed multiple large-scale acquisitions, investments and capital alliances, and recorded goodwill resulting from these business combinations. U.S. 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 process that compares the carrying amount of a reporting unit with its fair value. An impairment loss is recognized to the extent that the carrying amount of a reporting unit exceeds its fair value, but not exceeding the total amount of goodwill allocated to that reporting unit. 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. Our consolidated goodwill balance was ¥370.9 billion at March 31, 2021, which was allocated to our reporting units. We determined the fair values of the MUFG Americas Holdings Corporation ("MUAH") reporting units within the Global Commercial Banking Business Group segment and Global Corporate & Investment Banking Business Group segment ("MUAH reporting units") using a combination of the income and the market approaches. The income approach determined the fair value of the reporting units by discounting management's projections of each reporting unit's cash flows, including a terminal value to estimate the fair value of cash flows beyond the final year of projected results, using a discount rate derived from the Capital Asset Pricing Model. The market approach incorporates comparable public company price to tangible book value and price to earnings multiples. The principal factors used in the discounted cash flow analysis requiring judgment are the projected future operating cash flows based on forecasted future income. We determined that the carrying values of MUAH reporting units exceeded the fair values as of the measurement date, resulting in the impairment loss on goodwill of ¥147.6 billion for the fiscal year ended March 31, 2021.

The determination of the fair value of these reporting units requires management to make significant judgments related to significant assumptions due to the subjectivity and uncertainty associated with the assumptions. The significant assumptions included projected future operating cash flows based on forecasted future income in the income approach for MUAH reporting units, specifically the Commercial Banking and Real Estate Industries business unit and the Global Corporate & Investment Banking – U.S. business unit.

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 debt securities, whose unrealized gains and losses are reported in income, and marketable equity securities.

The guidance on the measurement of fair value 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 the fair value, we use quoted 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 the fair value of the instrument. We perform internal price verification procedures to ensure that the prices and quotes provided from the independent pricing vendors are reasonable. Such verification procedures include a comparison of pricing sources and analysis of variances among pricing sources. These verification procedures are periodically performed by independent risk management departments. For collateralized loan obligations, or 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 prices are not available to determine the 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, funding cost, 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 applied to the material assets or liabilities, see Note 31 to our consolidated financial statements.

Accounting Changes and Recently Issued Accounting Pronouncements

See “Accounting Changes” and “Recently Issued Accounting Pronouncements” in Note 1 to our consolidated financial statements.

A. Operating Results

The following discussion relates to our operating results for the fiscal years ended March 31, 2021 compared to our operating results for the fiscal year ended March 31, 2020, unless otherwise noted. For the discussion on our operating results for the fiscal year ended March 31, 2019, including certain comparative discussion on our operating results for the fiscal years ended March 31, 2019 and 2020, please refer to “Item 5. Operating and Financial Review and Prospectus—5.A. Operating Results” in our annual report on Form 20-F for the fiscal year ended March 31, 2020, filed with the SEC on July 10, 2020.

Results of Operations

	Fiscal years ended March 31,		% Change
	2020	2021	
	(in billions, except percentages)		
Interest income	¥3,927.1	¥2,752.0	(29.9)%
Interest expense	1,684.3	747.9	(55.6)
Net interest income	2,242.8	2,004.1	(10.6)
Provision for credit losses	321.7	484.2	50.5
Non-interest income	1,875.8	3,157.7	68.3
Non-interest expense	3,363.6	3,069.3	(8.7)
Income before income tax expense	433.3	1,608.3	271.3
Income tax expense	114.6	444.9	288.6
Net income before attribution of noncontrolling interests	¥ 318.7	¥1,163.4	265.0%
Net income attributable to noncontrolling interests	12.7	46.1	261.3
Net income attributable to Mitsubishi UFJ Financial Group	¥ 306.0	¥1,117.3	265.2%

Net income attributable to Mitsubishi UFJ Financial Group increased to over ¥1.0 trillion mainly due to an increase in non-interest income reflecting the higher fair value of marketable equity securities and a decrease in non-interest expense reflecting smaller goodwill impairment loss. The full-year consolidation of Bank Danamon and First Sentier Investors also contributed to the increase in net income.

Net interest income decreased 10.6% mainly due to declines in interest rates on loans and deposits in other banks. Average interest rate on total interest-earning assets declined 0.57 percentage points. Especially on foreign interest-earning assets, average interest rate declined 0.98 percentage point. In addition, average balance of foreign interest-earning assets decreased 1.0%.

Provision for credit losses increased 50.5% due to the effect of adopting new accounting guidance under which provisioning reflects credit losses that are expected over the life of financial instruments, including loans, with adjustments for macroeconomic variables and other factors. For the fiscal year ended March 31, 2021, such adjustments reflected increased volatility and uncertainty in the economy under the COVID-19 pandemic.

Non-interest income increased 68.3% while non-interest expense decreased 8.7% primarily for reasons discussed above.

Net Interest Income

	Fiscal years ended March 31,						% Change		
	2020			2021					
	Average balance ⁽²⁾	Interest income (expense)	Average rate	Average balance ⁽²⁾	Interest income (expense)	Average rate	Average balance ⁽²⁾	Interest income (expense)	Average rate 2021 minus 2020 (percentage points)
	(in billions, except percentages)								
Interest-earning assets:									
Domestic	¥145,258.9	¥ 998.4	0.69%	¥168,888.8	¥ 829.1	0.49%	16.3%	(17.0)%	(0.20)
Foreign	101,024.8	2,928.7	2.90	100,027.7	1,922.9	1.92	(1.0)	(34.3)	(0.98)
Total	<u>¥246,283.7</u>	<u>¥ 3,927.1</u>	1.59%	<u>¥268,916.5</u>	<u>¥2,752.0</u>	1.02%	9.2%	(29.9)%	(0.57)
Financed by:									
Interest-bearing liabilities:									
Domestic	¥172,878.9	¥ (473.4)	0.27%	¥198,978.3	¥ (283.2)	0.14%	15.1%	(40.2)%	(0.13)
Foreign	65,982.7	(1,210.9)	1.84	66,934.7	(464.7)	0.69	1.4	(61.6)	(1.15)
Total	238,861.6	(1,684.3)	0.71	265,913.0	(747.9)	0.28	11.3	(55.6)	(0.43)
Non-interest-bearing liabilities	7,422.1	—	—	3,003.5	—	—	(59.5)	—	—
Total	<u>¥246,283.7</u>		0.68%	<u>¥268,916.5</u>		0.28%	9.2%		(0.41)
Net interest income and interest rate spread		¥ 2,242.8	0.88%		¥2,004.1	0.74%		(10.6)%	(0.14)
Net interest income as a percentage of total interest-earning assets			0.91%			0.75%			(0.16)

Effect of Volume and Rate Changes on Net Interest Income

	Fiscal Year Ended March 31, 2020 versus Fiscal Year Ended March 31, 2021		
	Increase (decrease) due to changes in		
	Volume ⁽¹⁾	Rate ⁽¹⁾	Net change
Domestic	¥ 36,673	¥ (15,848)	¥ 20,825
Foreign	(86,895)	(172,635)	(259,530)
Total	<u>¥(50,222)</u>	<u>¥(188,483)</u>	<u>¥(238,705)</u>

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) 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.

Net interest income decreased 10.6% primarily due to lower average interest rates on interest-earning assets. Our average interest rate spread (which is the average interest rate on interest-earning assets less the average interest rate on interest-bearing liabilities) decreased 0.14 percentage points.

The central banks of major economies, including the FRB, lowered interest rates as a monetary policy measure in response to the COVID-19 pandemic. As a result, average interest rates on foreign interest-bearing assets decreased 0.98 percentage points, and foreign interest income on interest-earning assets decreased 34.3%. Foreign interest expense decreased 61.6% primarily as a result of a 1.15 percentage point decrease in average interest rates on foreign interest-bearing liabilities. However, the impact of the interest rate decrease on foreign interest income was larger than the impact of the interest rate decrease on foreign interest expense because the average balance of foreign interest-earning assets was approximately 1.5 times the average balance of foreign interest-bearing liabilities. The average balance of foreign interest-bearing liabilities increased 1.4%, while the average balance of foreign interest-earning assets decreased 1.0% mainly due to lower volumes of loans.

Domestic interest income decreased 17.0% due to lower average interest rates, despite a 16.3% increase in the average balance of domestic interest-earning assets, including short-term Japanese government bonds. Domestic interest expense decreased 40.2% due to lower short-term interest rates.

Provision for (reversal of) credit losses

We recorded ¥484.2 billion of provision for credit losses for the fiscal year ended March 31, 2021, compared to ¥321.7 billion of provision for credit losses for the previous fiscal year. Provision for credit losses increased by ¥162.5 billion mainly due to increases in the Commercial segment, the MUFG Americas Holdings segment and the Krungsri segment. The provision for credit losses for the fiscal year ended March 31, 2021 was recorded based on management's current estimate of expected credit losses on loans by considering a broader range of reasonable and supportable information, including macroeconomic variables such as GDP growth and unemployment rates, under new accounting guidance which we adopted on April 1, 2021. The increase in provision for credit losses was substantially driven by the impact of the COVID-19 pandemic and the expected deterioration in the economic environment. In the Commercial segment, we recorded provision for credit losses particularly for borrowers in industry sectors that are susceptible to the impact of the COVID-19 pandemic such as the retail services, aircraft finance, and oil and gas sectors. In addition, with a decline in car demand, we recorded provision for credit losses for large auto-related companies in Japan. In the MUFG Americas Holdings segment, provision for credit losses increased due to deterioration in the credit quality of borrowers in the residential real estate sector and other industry sectors adversely affected by the COVID-19 pandemic including the commercial real estate sector. In the Krungsri segment, provision for credit losses increased due to deterioration in the credit quality of retail customers such as borrowers of automobile loans and mortgage loans.

Non-Interest Income

	Fiscal years ended March 31,		
	2020	2021	% Change
(in billions, except percentages)			
Fees and commissions income:			
Fees and commissions on deposits	¥ 53.7	¥ 50.1	(6.7)%
Fees and commissions on remittances and transfers	169.4	165.3	(2.4)
Fees and commissions on foreign trading business	66.0	79.4	20.3
Fees and commissions on credit card business	238.1	199.6	(16.2)
Fees and commissions on security-related services	221.5	244.0	10.2
Fees and commissions on administration and management services for investment funds	184.6	235.5	27.6
Trust fees	119.9	125.7	4.8
Guarantee fees	46.3	43.9	(5.2)
Insurance commissions	44.4	42.1	(5.2)
Fees and commissions on real estate business	49.8	48.1	(3.4)
Other fees and commissions	308.4	293.6	(4.8)
Total	1,502.1	1,527.3	1.7
Foreign exchange gains (losses)—net	(281.8)	99.3	135.3
Trading account profits (losses)—net:			
Net losses on interest rate and other derivative contracts	(159.0)	(429.6)	(170.1)
Net profits on trading account securities, excluding derivatives	924.4	19.2	(97.9)
Total	765.4	(410.4)	(153.6)
Investment securities gains (losses)—net:			
Net gains (losses) on sales of available-for-sale debt securities	106.4	(6.5)	(106.1)
Impairment losses on available-for-sale debt securities	(1.6)	(0.6)	63.0
Net gains (losses) from marketable equity securities	(646.0)	1,454.9	325.2
Other	9.0	10.5	16.0
Total	(532.2)	1,458.3	374.0
Equity in earnings of equity method investees—net	282.7	355.7	25.8
Gains on sales of loans	10.0	17.9	80.1
Gain on remeasurement of previously held equity method investment ⁽¹⁾	41.2	—	(100.0)
Other non-interest income	88.4	109.6	24.0
Total non-interest income	<u>¥1,875.8</u>	<u>¥3,157.7</u>	68.4%

Note:

(1) Represents profits recognized in connection with our acquisition of Bank Danamon. See Note 2 to our consolidated financial statements.

Non-interest income increased mainly due to an increase in investment securities gains, partially offset by net trading account losses.

Fees and commissions income

Fees and commissions income increased slightly due to an increase in fees and commissions on administration and management services for investment funds, reflecting the full-year consolidation of First Sentier Investors as well as improved performance of the pension fund management business at our trust banking subsidiaries. This increase was partially off-set by a decrease in fees and commissions on credit card business of our commercial banking subsidiaries and Mitsubishi UFJ NICOS due to a decrease in consumer credit card use.

Net foreign exchange gains (losses)

	<u>Fiscal years ended March 31,</u>		<u>% Change</u>
	<u>2020</u>	<u>2021</u>	
	(in billions, except percentages)		
Foreign exchange gains (losses)—net:			
Net foreign exchange losses on derivative contracts	¥(434.1)	¥ (79.6)	81.7%
Net foreign exchange gains (losses) on other than derivative contracts	748.3	(544.6)	(172.8)
Net foreign exchange gains (losses) related to the fair value option	(596.0)	723.5	221.4
Total	<u>¥(281.8)</u>	<u>¥ 99.3</u>	135.3%

Net foreign exchange gains (losses) consists of the following:

- *Net foreign exchange gains (losses) on derivative contracts* are net gains (losses) primarily on currency derivative instruments entered into for trading purposes.
- *Net foreign exchange gains (losses) on other than derivative contracts* include foreign exchange trading gains (losses) as well as transaction gains (losses) on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies. The transaction gains (losses) on the translation into Japanese yen fluctuate from period to period depending upon the spot rates at the end of each fiscal year. In principle, all transaction gains (losses) on translation of monetary assets and liabilities denominated in foreign currencies are included in current earnings.
- *Net foreign exchange gains (losses) related to the fair value option* include transaction gains (losses) on the translation into Japanese yen of securities under the fair value option. See Note 31 to the consolidated financial statements.

Net foreign gains for the fiscal year ended March 31, 2021 mainly reflected net foreign exchange gains related to the fair value option applied to foreign currency-denominated trading account securities such as U.S. Treasury bonds as the Japanese yen depreciated against the U.S. dollar from ¥108.83 to the U.S. dollar as of March 31, 2020 to ¥110.71 to the U.S. dollar as of March 31, 2021, while the Japanese yen appreciated against the U.S. dollar during the previous fiscal year resulting in net foreign exchange losses on U.S. dollar-denominated trading account securities under the fair value option. The gains on such securities for the fiscal year ended March 31, 2021 were substantially offset by larger net foreign exchange losses on other than derivative contracts reflecting the negative impact of fluctuations in the foreign currency exchange rates on the Japanese yen translated amounts of assets and liabilities of our commercial banking subsidiaries as the Japanese yen depreciated against other major currencies on a spot rate basis between March 31, 2020 and March 31, 2021.

Net trading account profits (losses)

	<u>Fiscal years ended March 31,</u>		
	<u>2020</u>	<u>2021</u>	<u>% Change</u>
(in billions, except percentages)			
Trading account profits (losses)—net:			
Net profits (losses) on interest rate and other derivative contracts			
Interest rate contracts	¥(173.2)	¥ 70.1	140.5%
Equity contracts	29.8	(269.4)	N/M
Credit derivatives	14.9	(52.7)	(454.4)
Other	(30.5)	(177.6)	(482.4)
Total	<u>¥(159.0)</u>	<u>¥(429.6)</u>	(170.1)%
Net profits (losses) on trading account securities, excluding derivatives			
Trading account securities	¥ 86.6	¥ 389.4	349.8%
Trading account securities under the fair value option	<u>837.8</u>	<u>(370.2)</u>	(144.2)
Total	<u>¥ 924.4</u>	<u>¥ 19.2</u>	(97.9)%
Total	<u>¥ 765.4</u>	<u>¥(410.4)</u>	(153.6)%

Trading account assets and liabilities are carried at fair value and changes in the value of trading account assets and liabilities are recorded in net trading account profits (losses). Activities reported in our net trading account profits (losses) can generally be classified into two categories:

- trading purpose activities, which are conducted mainly for the purpose of generating profits either through transaction fees or arbitrage gains and involve frequent and short-term selling and buying of securities, commodities or others; and
- trading account assets relating to the application of certain accounting rules, which are generally not related to trading purpose activities, but simply classified as trading accounts due to the application of certain accounting rules.

Of the two categories, trading account assets relating to the application of certain accounting rules represent a larger portion of our trading account profits for the fiscal year ended March 31, 2021.

We generally do not separate, for financial reporting purposes, customer originated trading activities from non-customer related, proprietary trading activities. When an order for a financial product is placed by a customer, a dealer offers a price which includes certain transaction fees, often referred to as the “margin” to the market price. The margin is determined by considering factors such as administrative costs, transaction amount and liquidity of the applicable financial product. Once the customer agrees to the offered price, the deal is completed, and the position is recorded in our ledger as a single entry without any separation of components. To manage the risk relating to the customer side position, we often enter into an offsetting transaction with the market. Unrealized gains and losses as of the period-end for both the customer side position and the market side position are recorded within the same trading account profits and losses.

Net trading account profits (losses) consist of net profits (losses) on interest rate and other derivative contracts and net profits (losses) on trading account securities, excluding derivatives.

Net profits (losses) on interest rate and other derivative contracts are reported for net profits (losses) on derivative instruments which primarily relate to trading purpose activities and include:

- *Interest rate contracts*: Interest rate contracts are mainly utilized to manage interest rate risks which could arise from mismatches between assets and liabilities resulting from customer originated trading activities;

- *Equity contracts*: Equity contracts are mainly utilized to manage the risk that would arise from price fluctuations of stocks held in connection with customer transactions; and
- *Credit derivatives*: Credit derivatives are mainly utilized as a part of our credit portfolio risk management.

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 profits (losses) on trading account securities, excluding derivatives, consist of:

- *Net profits (losses) on trading account securities*, which primarily consist of gains and losses on trading and valuation of trading securities which relate to trading purpose activities. Net profits (losses) on investment securities held by certain consolidated variable interest entities, or VIEs, are included in accordance with the applicable accounting rules.
- *Net profits (losses) on trading account securities under the fair value option*, which are classified into trading accounts profits (losses) in accordance with certain accounting rules.

Net trading account losses for the fiscal year ended March 31, 2021 mainly reflected net losses on trading account securities under the fair value option. Between the beginning of the fiscal year and September 2020, U.S. interest rates were lower, but during the latter half of the fiscal year, long-term U.S. interest rates gradually increased, and the fair value of trading account securities under the fair value option decreased at the end of March 2021. Net losses on equity contracts were mainly due to losses on equity swap contracts for hedging purposes at our commercial banking subsidiaries. These losses were partially offset by net gains on trading account securities which reflected higher and relatively stable prices on domestic and U.S. stock markets.

Net investment securities gains (losses)

Net investment securities gains (losses) include net gains (losses) on sales of available-for-sale debt securities, impairment losses on available-for-sale debt securities, and net gains (losses) from marketable equity securities. Impairment loss on an available-for-sale debt security is recognized as part of investment securities losses if the fair value of such security is below its amortized cost basis and (1) such debt security is held by us with the intent to sell or (2) it is more likely than not that we will be required to sell such debt security before recovering its amortized cost basis. In other circumstances where the fair value of available-for-sale debt securities is less than the amortized cost basis, we recognize the credit component of the impairment loss as part of investment securities losses, and record an allowance for credit losses to the same extent, while recording the noncredit component of the impairment loss in accumulated other comprehensive losses. Net gains (losses) from marketable equity securities include net gains (losses) on sales of marketable equity securities as well as unrealized gains (losses) on such securities.

Net investment securities gains were ¥1,458.3 billion for the fiscal year ended March 31, 2021, compared to net losses of ¥532.2 billion for the fiscal year ended March 31, 2020. This was mainly due to ¥1,454.9 billion of net gains from marketable equity securities, reflecting higher stock prices towards March 31, 2021 in Japan and the United States.

Net equity in earnings of equity method investees

Net equity in earnings of equity method investees for the fiscal year ended March 31, 2021 was ¥355.7 billion, compared to ¥282.7 billion for the previous fiscal year, reflecting higher earnings of our equity method investees, including Morgan Stanley.

Non-Interest Expense

	<u>Fiscal years ended March 31,</u>		
	<u>2020</u>	<u>2021</u>	<u>% Change</u>
	(in billions, except percentages)		
Salaries and employee benefits	¥1,242.6	¥1,253.5	0.9%
Occupancy expenses—net	182.9	178.1	(2.6)
Fees and commissions expenses	332.0	318.8	(4.0)
Outsourcing expenses, including data processing	303.6	298.8	(1.6)
Depreciation of premises and equipment	113.5	87.3	(23.1)
Amortization of intangible assets	237.3	250.1	5.4
Impairment of intangible assets	3.7	21.7	480.9
Insurance premiums, including deposit insurance	98.4	90.5	(8.0)
Communications	60.0	59.8	(0.3)
Taxes and public charges	100.2	97.8	(2.4)
Impairment of goodwill	383.8	147.6	(61.6)
Reversal of off-balance sheet credit instruments	(62.3)	(56.7)	8.9
Other non-interest expenses	367.9	322.0	(12.4)
Total non-interest expense	<u>¥3,363.6</u>	<u>¥3,069.3</u>	(8.7)%

Non-interest expense decreased 8.7% mainly due to decreases in impairment of goodwill and depreciation of premises and equipment.

Impairment of goodwill

We recognized ¥147.6 billion of impairment loss on goodwill relating to MUFG Americas Holdings for the fiscal year ended March 31, 2021. The impairment loss mainly reflected decreases in the fair value of reporting units belonging to MUFG Americas Holdings below their carrying amounts in light of increases in observed market discount rates. The impairment loss also included the impact of an intervening event due to negative changes in the economic environment triggered by COVID-19 for the three months ended March 31, 2020. We recognized ¥383.8 billion of impairment loss on goodwill for the year ended March 31, 2020. The impairment loss was recognized on the goodwill recorded in connection with our acquisition of Bank Danamon. See Note 6 to our audited consolidated financial statements for further information.

Given the three-month difference between our consolidated reporting period and the reporting period of some of our subsidiaries, including MUFG Americas Holdings, our fair value assessment with respect to such subsidiaries after December 31 of each year is reflected in our consolidated financial statements for a period ending after March 31 of each year. See Note 1 to our consolidated financial statements.

Depreciation of 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. Depreciation of premises and equipment decreased 23.1% mainly due to one-time leasehold improvement adjustments that were recorded for the fiscal year ended March 31, 2020.

Income Tax Expense

	Fiscal years ended March 31,		% Change
	2020	2021	
	(in billions, except percentages)		
Income before income tax expense	¥433.2	¥1,608.3	271.3%
Income tax expense	114.5	444.9	288.6%
Effective income tax rate	26.4%	27.7%	—
Combined normal effective statutory tax rate	30.6%	30.6%	—

Reconciliation of Combined Normal Effective Statutory Tax Rate to Effective Income Tax Rate

	Fiscal years ended March 31,		Net Change (percentage points)
	2020	2021	
Combined normal effective statutory tax rate	30.6%	30.6%	—
Increase (decrease) in taxes resulting from:			
Nondeductible expenses	1.2	0.3	(0.9)
Impairment of goodwill	26.1	2.4	(23.7)
Foreign tax credit and payments	(9.2)	(0.9)	8.3
Lower tax rates applicable to income of subsidiaries	(3.2)	(1.0)	2.2
Change in valuation allowance	7.9	(0.9)	(8.8)
Realization of previously unrecognized tax effects of subsidiaries	(19.8)	0.0	19.8
Nontaxable dividends received	(15.6)	(1.9)	13.7
Undistributed earnings of subsidiaries	3.6	0.0	(3.6)
Tax and interest expense for uncertainty in income taxes	0.0	(0.1)	(0.1)
Noncontrolling interest income (loss)	(0.1)	0.1	0.2
Effect of changes in tax laws	—	(0.1)	(0.1)
Expiration of loss carryforward	1.9	0.1	(1.8)
Other—net	3.0	(0.9)	(3.9)
Effective income tax rate	<u>26.4%</u>	<u>27.7%</u>	<u>1.3</u>

Income taxes applicable to us in Japan are imposed by the national, prefectural and municipal governments, and the aggregate of these taxes resulted in a combined normal effective statutory tax rate of 30.6% for each of the fiscal years ended March 31, 2020 and 2021. Foreign subsidiaries are subject to income taxes of the jurisdictions in which they operate. These taxes are reflected in the effective income tax rate.

Fiscal Year Ended March 31, 2021

The effective income tax rate for the fiscal year ended March 31, 2021 was 27.7%, which was 2.9 percentage points lower than the combined normal effective statutory rate of 30.6%. This lower effective income tax rate was primarily due to our receipt of nontaxable dividends, which resulted in a decrease of ¥30.6 billion in income tax expense and a decrease of 1.9 percentage points in the effective income tax rate for the fiscal year ended March 31, 2021. Under Japanese tax law, a certain percentage of dividends received is considered nontaxable and excluded from gross revenue in computing taxable income. This creates a permanent difference between our taxable income for Japanese tax purposes and our income before income tax expense reported under U.S. GAAP. Another factor contributing to the lower effective income tax rate was due to lower tax rates applicable to income of subsidiaries, which resulted in a decrease of ¥15.4 billion in income tax expense and a decrease of 1.0 percentage points in the effective income tax rate for the fiscal year ended March 31, 2021. These impacts were partially offset by an increase of 2.4 percentage points in the effective income tax rate resulting

from recognition of the goodwill impairment loss discussed above, which had the effect of decreasing our income before income tax expense under U.S. GAAP by ¥38.7 billion for the fiscal year ended March 31, 2021, since such loss was not deductible in computing our taxable income under Japanese tax law.

Fiscal Year Ended March 31, 2020

The effective income tax rate for the fiscal year ended March 31, 2020 was 26.4%, which was 4.2 percentage points lower than the combined normal effective statutory rate of 30.6%. This was primarily due to the sale of a wholly owned subsidiary, as a result of which we recognized tax benefits from temporary differences not previously recognized as part of deferred tax assets, decreasing our income tax expense by ¥85.6 billion and our effective income tax rate by 19.8 percentage points for the fiscal year ended March 31, 2020. Another factor contributing to the lower effective income tax rate was our receipt of nontaxable dividends, which resulted in a decrease of ¥67.6 billion in income tax expense and a decrease of 15.6 percentage points in the effective income tax rate for the fiscal year ended March 31, 2020. Under Japanese tax law, a certain percentage of dividends received is considered nontaxable and excluded from gross revenue in computing taxable income. This creates a permanent difference between our taxable income for Japanese tax purposes and our income before income tax expense reported under U.S. GAAP. These impact were partially offset by an increase of 26.1 percentage points in the effective income tax rate resulting from recognition of the goodwill impairment loss discussed above, which had the effect of decreasing our income before income tax expense under U.S. GAAP by ¥113.1 billion for the fiscal year ended March 31, 2020, since such loss was not deductible in computing our taxable income under Japanese tax law.

Net income (loss) attributable to noncontrolling interests

We recorded ¥46.1 billion of net income attributable to noncontrolling interests for the fiscal year ended March 31, 2021, compared to ¥12.7 billion of net income attributable to noncontrolling interests for the previous fiscal year. This mainly reflected an increase in net income of Mitsubishi UFJ Morgan Stanley Securities.

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 in accordance with U.S. GAAP. For example, operating profit does not reflect items such as a component of the provision for (reversal of) credit losses (primarily equivalent to the formula allowance under U.S. GAAP), foreign exchange gains (losses) and investment securities gains (losses). For a reconciliation of operating profit under the internal management reporting system to income before income tax expense shown on the consolidated statements of income, see Note 29 to our consolidated financial statements. We do not use information on the segments’ total assets to allocate our resources and assess performance. Accordingly, business segment information on total assets is not presented.

Customer Business									
Fiscal year ended March 31, 2019	Retail & Commercial Banking Business Group	Japanese Corporate & Investment Banking Business Group	Global Corporate & Investment Banking Business Group	Global Commercial Banking Business Group	Asset Management & Investor Services Business Group	Total	Global Markets Business Group	Other	Total
(in billions)									
Net revenue	¥1,502.5	¥569.6	¥417.4	¥682.0	¥203.0	¥3,374.5	¥436.0	¥ (11.4)	¥3,799.1
BK and TB ⁽¹⁾ :	718.9	436.9	279.2	(1.3)	93.2	1,526.9	259.8	74.3	1,861.0
Net interest income	458.2	175.8	120.6	(1.3)	—	753.3	201.1	190.8	1,145.2
Net fees	229.8	202.9	158.0	—	93.2	683.9	(16.6)	(46.4)	620.9
Other	30.9	58.2	0.6	—	—	89.7	75.3	(70.1)	94.9
Other than BK and TB	783.6	132.7	138.2	683.3	109.8	1,847.6	176.2	(85.7)	1,938.1
Operating expenses	1,220.9	319.5	254.9	477.8	124.6	2,397.7	226.0	103.1	2,726.8
Operating profit (loss)	¥ 281.6	¥250.1	¥162.5	¥204.2	¥ 78.4	¥ 976.8	¥210.0	¥(114.5)	¥1,072.3

Note:

(1) “BK and TB” is a sum of MUFG Bank on a stand-alone basis and Mitsubishi UFJ Trust and Banking on a stand-alone basis.

Customer Business									
Fiscal year ended March 31, 2020	Retail & Commercial Banking Business Group	Japanese Corporate & Investment Banking Business Group	Global Corporate & Investment Banking Business Group	Global Commercial Banking Business Group	Asset Management & Investor Services Business Group	Total	Global Markets Business Group	Other	Total
(in billions)									
Net revenue	¥1,485.5	¥572.7	¥402.2	¥795.4	¥243.0	¥3,498.8	¥536.0	¥ 19.8	¥4,054.6
BK and TB ⁽¹⁾ :	706.6	439.1	287.1	(0.4)	94.6	1,527.0	319.3	31.9	1,878.2
Net interest income	444.4	185.7	121.4	0.4	2.5	754.4	129.5	46.4	930.3
Net fees	231.8	203.2	148.1	—	92.2	675.3	(14.8)	(55.1)	605.4
Other	30.4	50.2	17.6	(0.8)	(0.1)	97.3	204.6	40.6	342.5
Other than BK and TB	778.9	133.6	115.1	795.8	148.4	1,971.8	216.7	(12.1)	2,176.4
Operating expenses	1,195.9	324.4	260.8	564.3	171.7	2,517.1	233.2	129.3	2,879.6
Operating profit (loss)	¥ 289.6	¥248.3	¥141.4	¥231.1	¥ 71.3	¥ 981.7	¥302.8	¥(109.5)	¥1,175.0

Note:

(1) “BK and TB” is a sum of MUFG Bank on a stand-alone basis and Mitsubishi UFJ Trust and Banking on a stand-alone basis.

Customer Business									
Fiscal year ended March 31, 2021	Retail & Commercial Banking Business Group	Japanese Corporate & Investment Banking Business Group	Global Corporate & Investment Banking Business Group	Global Commercial Banking Business Group	Asset Management & Investor Services Business Group	Total	Global Markets Business Group	Other	Total
(in billions)									
Net revenue	¥1,389.4	¥559.9	¥426.3	¥783.2	¥293.5	¥3,452.3	¥634.8	¥ (4.8)	¥4,082.3
BK and TB ⁽¹⁾ :	645.1	448.8	269.3	0.8	99.4	1,463.4	389.0	30.4	1,882.8
Net interest income	405.2	183.8	133.2	1.5	5.5	729.2	213.1	34.1	976.4
Net fees	216.4	216.8	150.2	—	94.0	677.4	(4.3)	(66.8)	606.3
Other	23.5	48.2	(14.1)	(0.7)	(0.1)	56.8	180.2	63.1	300.1
Other than BK and TB	744.3	111.1	157.0	782.4	194.1	1,988.9	245.8	(35.2)	2,199.5
Operating expenses	1,130.4	319.3	269.8	509.0	210.1	2,438.6	234.0	161.1	2,833.7
Operating profit (loss)	¥ 259.0	¥240.6	¥156.5	¥274.2	¥ 83.4	¥1,013.7	¥400.8	¥(165.9)	¥1,248.6

Note:

(1) “BK and TB” is a sum of MUFG Bank on a stand-alone basis and Mitsubishi UFJ Trust and Banking on a stand-alone basis.

We made modifications to our internal management accounting rules and practices to clarify the responsibility for profits of each business segment, effective April 1, 2020. Major rule changes are (i) allocation of adjustments related to the derivative counterparty risk previously included in Other to the Global Markets Business Group, which holds the derivative assets, and (ii) reorganization of functions between the Retail & Commercial Banking Business Group, the Japanese Corporate & Investment Banking Business Group, the Global Corporate & Investment Banking Business Group and Other. These modifications had the following impact on our previously reported business segment information for the fiscal years ended March 31, 2019 and 2020:

- increasing the operating profits of Other, the Global Corporate & Investment Banking Business Group and the Japanese Corporate & Investment Banking Business Group by ¥33.8billion, ¥20.2billion and ¥14.2billion, respectively, for the fiscal year ended March 31, 2019,
- reducing the operating profits of the Global Markets Business Group, the Retail & Commercial Banking Business Group and the Global Commercial Banking Business Group by ¥46.3billion, ¥19.1billion and ¥2.8billion, respectively, for the fiscal year ended March 31, 2019,
- increasing the operating profits of Other, the Japanese Corporate & Investment Banking Business Group and the Global Corporate & Investment Banking Business Group by ¥25.5billion, ¥13.0billion and ¥12.4billion, respectively, for the fiscal year ended March 31, 2020, and
- reducing the operating profits of the Global Markets Business Group, the Retail & Commercial Banking Business Group and the Global Commercial Banking Business Group by ¥40.2billion, ¥9.0billion and ¥1.7billion, respectively, for the fiscal year ended March 31, 2020.

Prior period business segment information has been restated to enable comparison between the relevant amounts for the fiscal years ended March 31, 2019, 2020 and 2021.

For further information, see Note 29 to our consolidated financial statements.

Fiscal Year Ended March 31, 2021 Compared to Fiscal Year Ended March 31, 2020

Retail & Commercial Banking Business Group—Covers the domestic retail and commercial banking businesses. This business group offers retail and small and medium-sized enterprise customers in Japan an extensive array of commercial banking, trust banking and securities products and services. Its net revenue mainly consists of interest income from lending and deposit-taking operations and fees relating to credit card settlement, consumer financing, real estate and stock transfer services for Japanese domestic individual and small to medium-sized corporate customers.

Net revenue decreased mainly due to a decrease in revenue generated from deposited funds caused by declines in U.S. interest rates and Japanese short-term interest rates as well as a decrease in the volume of business, including the credit card, foreign exchange and consumer finance businesses. The decrease in operating expenses primarily resulted from our cost reduction measures under the “Channel Strategy and Business Process Re-engineering” project pursuant to our previous medium-term business plan and a decrease in performance-linked expenses of Mitsubishi UFJ NICOS.

Japanese Corporate & Investment Banking Business Group—Covers the large Japanese corporate businesses. This business group offers large Japanese corporations advanced financial solutions designed to respond to their diversified and globalized needs and to contribute to their business and financial strategies through the global network of our group companies. Its net revenue mainly consists of interest income from lending and deposit-taking operations and fees relating to financing, investment banking, real estate and stock transfer services for large Japanese corporate customers.

Net revenue decreased mainly due to a decrease in revenue generated from deposited funds caused by declines in U.S. interest rates and Japanese short-term interest rates while loan revenue increased following an increase in the loan balance especially in Japan. Overseas non-interest revenue declined, reflecting a decline in foreign exchange revenue due to the slowdown in trade transactions due to the COVID-19 pandemic. The decrease in operating expenses primarily resulted from our cost reduction measures and a decrease in overseas system development expenses.

Global Corporate & Investment Banking Business Group—Covers the global corporate, investment and transaction banking businesses of MUFG Bank and Mitsubishi UFJ Securities Holdings. Through a global network of offices and branches, this business group provides non-Japanese large corporate and financial institution customers outside Japan with a comprehensive set of solutions that meet their increasingly diverse and sophisticated financing needs. Its net revenue mainly consists of interest income from lending and deposit-taking operations and fees and commissions from investment banking services and foreign exchange and derivatives transactions for large non-Japanese corporate and institutional customers outside Japan.

Net revenue increased mainly due to an increase in debt capital markets revenue as the funding requirements of our customers increased, while revenue generated from deposited funds decreased due to declines in U.S. interest rates. The increase in operating expense was mainly attributable to increases in overseas business acquisition cost and system infrastructure development cost.

Global Commercial Banking Business Group—Covers the retail and commercial banking businesses of MUFG Union Bank and Krungsri. Starting in the quarter ended September 30, 2020, this business group also covers Bank Danamon. This business group offers a comprehensive array of financial products and services such as loans, deposits, fund transfers, investments and asset management services for local retail, small and medium-sized enterprise, and corporate customers across the Asia-Pacific region. Its revenue mainly consists of interest income from lending and deposit-taking operations and fees from remittances and transfers, consumer finance and wealth-related services for individual and small to medium-sized corporate customers of MUFG Union Bank, Krungsri and Bank Danamon.

Net revenue decreased mainly due to the lower net interest income in MUFG Union Bank reflecting declines in interest rates in the United States, partially offset by an increase in net revenue due to the full-year consolidation of Bank Danamon. The decrease in operating expense was mainly due to our cost reduction measures and a decrease in advertising fees.

Asset Management & Investor Services Business Group—Covers the asset management and asset administration businesses of Mitsubishi UFJ Trust and Banking, MUFG Bank. Starting in the quarter ended December 31, 2020, this business group also covers First Sentier Investors. By integrating the trust banking expertise of Mitsubishi UFJ Trust and Banking and the global strengths of MUFG Bank, the business group offers a full range of asset management and administration services for corporations and pension funds, including pension fund management and administration, advice on pension structures, and payments to beneficiaries, and also offer investment trusts for retail customers. Its net revenue mainly consists of fees from asset management and administration services for products, such as pension trusts and mutual funds.

Net revenue increased primarily due to the full-year consolidation of First Sentier Investors as well as an increase in the balance of investment products sold to domestic institutional investors, partially offset by the impact of reductions in our asset management fee rates. The increase in operating expense was mainly attributable to full-year consolidation of First Sentier Investors as well as higher personnel cost and system investments commensurate with business volume growth.

Global Markets Business Group—Covers the customer business and the treasury operations of MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings. The customer business includes sales and trading in fixed income instruments, currencies, equities and other investment products as well

as origination and distribution of financial products. The treasury operations include asset and liability management as well as global investments for the MUFG Group.

Net revenue increased mainly due to higher net revenue from trading for institutional investors as we profited from market volatility. Net revenue from the treasury operations increased as a result of our portfolio operations under volatile market conditions. The increase in operating expense primarily reflected increases in performance-linked expenses and compliance cost to meet regulation changes, substantially offset by the impact of our cost reduction measures, including overseas personnel cost reductions.

Other—Consists mainly of the corporate centers of MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Morgan Stanley Securities. The elimination of duplicated amounts of net revenues among business segments is also reflected in *Other*.

Fiscal Year Ended March 31, 2020 Compared to Fiscal Year Ended March 31, 2019

Retail & Commercial Banking Business Group

Net revenue decreased mainly due to a decrease in net interest income due to lower interest rate spreads on domestic loans due to competitive downward pressure on interest rates on such loans in the continued low interest rate environment in Japan. Operating expenses decreased primarily resulted from our cost reduction measures under the “Channel Strategy and Business Process Re-engineering” project pursuant to our previous medium-term business plan.

Japanese Corporate & Investment Banking Business Group

Net revenue increased mainly due to higher net interest income from both Japanese yen-dominated loans and foreign currency-denominated loans to large corporate customers. Operating expenses increased primarily due to higher expenses for financial regulatory compliance purposes in Europe and our investment to enhance the information system platform in the Asia and Oceania region

Global Corporate & Investment Banking Business Group

Net revenue decreased mainly due to a decrease in the translated Japanese yen value of foreign currency-denominated revenues reflecting the negative impact of the appreciation of the Japanese yen against other major currencies on a spot rate basis between March 31, 2019 and 2020 as well as losses on sales of high yield bonds in our securities business. Operating expenses increased primarily due to the cost for our acquisition from DVB Bank SE in Germany of DVB Bank’s aviation finance lending portfolio.

Global Commercial Banking Business Group

Net revenue increased mainly due to the consolidation of Bank Danamon and higher net interest income reflecting an increase in Krungsri’s loan portfolio. Operating expenses increased primarily due to the consolidation of Bank Danamon and an increase in expenses in Krungsri primarily reflecting larger volumes of business. The increase in operating expenses was also attributable to an increase in expenses for IT system development projects in the United States.

Asset Management & Investor Services Business Group

Net revenue increased mainly due to higher fees from asset management services reflecting the consolidation of First Sentier Investors as well as an increase in investment products sales to domestic corporate investors. The increase in operating expenses was primarily attributable to the one-time cost for our acquisition of First Sentier Investors as well as higher cost commensurate with business volume growth.

Global Markets Business Group

Net revenue increased mainly due to higher net revenue from our overseas sales and trading business as we continued to work to improve our business model to better capture customer business opportunities abroad to increase volume as well as higher net revenue from our asset and liability management operations particularly reflecting our effort to deal with the declining interest rate environment. Operating expenses increased primarily due to the amortization cost for IT system development projects and the cost for our business model improvement measures.

Geographic Segment Analysis

Assets, income and expenses attributable to foreign operations are allocated to geographical areas based on the domicile of the debtors and customers. In general, we have allocated all direct expenses and a proportionate share of general and administrative expenses to income derived from foreign loans and other transactions by our foreign operations to the relevant foreign geographical areas. Certain charges, such as most impairment charges on goodwill, are recognized as domestic expenses. For further information, see Note 30 to our consolidated financial statements.

	Fiscal years ended March 31,		% Change
	2020	2021	
	(in billions)		
Total revenue (interest income and non-interest income):			
Domestic	¥ 1,596.8	¥3,348.7	109.7%
Foreign:			
United States of America	2,224.0	741.1	(66.7)
Europe	89.4	356.1	298.3
Asia/Oceania excluding Japan	1,326.4	1,134.3	(14.5)
Other areas ⁽¹⁾	566.2	329.6	(41.8)
Total foreign	<u>4,206.0</u>	<u>2,561.1</u>	(39.1)
Total	<u>¥ 5,802.8</u>	<u>¥5,909.8</u>	1.8%
Income (loss) before income tax expense (benefit):			
Domestic	¥ (969.1)	¥1,032.4	206.5%
Foreign:			
United States of America	1,172.8	27.7	(97.6)
Europe	(129.2)	92.4	171.6
Asia/Oceania excluding Japan	152.2	244.7	60.8
Other areas ⁽¹⁾	206.6	211.1	2.3
Total foreign	<u>1,402.4</u>	<u>575.9</u>	(58.9)
Total	<u>¥ 433.3</u>	<u>¥1,608.3</u>	271.3%
Net income (loss) attributable to Mitsubishi UFJ Financial Group			
Domestic	¥(1,001.5)	¥ 627.1	162.6%
Foreign:			
United States of America	1,114.0	(231.1)	(120.7)
Europe	(140.4)	74.2	152.9
Asia/Oceania excluding Japan	142.6	366.9	157.3
Other areas ⁽¹⁾	191.3	280.2	46.4
Total foreign	<u>1,307.5</u>	<u>490.2</u>	(62.5)
Total	<u>¥ 306.0</u>	<u>¥1,117.3</u>	265.2%

Note:

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

Domestic revenue (interest income and non-interest income) increased primarily due to foreign exchange gains and gains on net trading account securities. In addition to the increase in domestic revenue, the improvements in domestic income before income tax expense and domestic net income attributable to Mitsubishi UFJ Financial Group reflected a decrease in goodwill impairment losses. Domestic net loss for the fiscal year ended March 31, 2020 was mainly attributable to investment securities losses and the impairment losses on goodwill relating to Bank Danamon, MUFG Americas Holdings and Krungsri.

Foreign net income before income tax expense decreased mainly due to trading account losses, reflecting net losses from trading account securities under the fair value option in the United States. During the latter half of the fiscal year, long-term U.S. interest rates gradually increased, and the fair value of trading account securities under the fair value option decreased at the end of March 2021.

Effect of Change in Exchange Rates on Foreign Currency Translation

The average exchange rate for the fiscal year ended March 31, 2021 was ¥106.06 per U.S.\$1.00, compared to the average exchange rate of ¥108.74 per U.S.\$1.00 for the previous fiscal year. The average exchange rate for the conversion of the U.S. dollar financial statements of some of our foreign subsidiaries for the fiscal year ended December 31, 2020 was ¥106.82 per U.S.\$1.00, compared to the average exchange rate for the fiscal year ended December 31, 2019 of ¥109.05 per U.S.\$1.00.

The change in the average exchange rate of the Japanese yen against the U.S. dollar and other foreign currencies had the effect of decreasing total revenue by ¥62.1 billion, net interest income by ¥38.0 billion and income before income tax expense by ¥11.3 billion, respectively, for the fiscal year ended March 31, 2021.

B. Liquidity and Capital Resources

Financial Condition

Total Assets

Our total assets as of March 31, 2021 were ¥353,824.6 billion, an increase of ¥22,071.3 billion from ¥331,753.3 billion as of March 31, 2020. The increase in domestic total assets was mainly due to a ¥16,575.8 billion increase in cash and due from banks and a ¥13,839.6 billion increase in investment securities in Japan. The decrease in total foreign assets was mainly due to a ¥3,522.4 billion decrease in loans, net of unearned income, unamortized premiums and deferred loan fees in United States.

	As of March 31,		% Change
	2020	2021	
	(in billions, except percentages)		
Japan	¥207,532.3	¥240,603.9	15.9%
Foreign ⁽¹⁾ :			
United States	60,587.9	49,478.9	(18.3)
Europe	19,099.4	21,126.6	10.6
Asia/Oceania excluding Japan	30,845.9	31,368.4	1.7
Other areas ⁽²⁾	13,687.8	11,246.8	(17.8)
Total foreign	124,221.0	113,220.7	(8.9)
Total	¥331,753.3	¥353,824.6	6.7%

Note:

(1) Foreign assets are denominated primarily in the U.S. dollar. Geographic regions are based principally on the domicile of the obligors.

(2) Other areas primarily include Canada, Latin America, the Caribbean and the Middle East.

Loan Portfolio

The following table sets forth our loans outstanding, before deduction of allowance for credit losses, based on the industry segment loan classifications as defined by the Bank of Japan for regulatory reporting purposes, which is not necessarily based on the use of proceeds:

	As of March 31,		% Change
	2020	2021	
(in billions, except percentages)			
Domestic:			
Manufacturing	¥ 11,448.8	¥ 13,133.4	14.7%
Construction	733.2	764.0	4.2
Real estate	12,054.7	11,997.3	(0.5)
Services	2,585.1	2,909.0	12.5
Wholesale and retail	7,504.6	7,766.1	3.5
Banks and other financial institutions ⁽¹⁾	5,161.1	6,443.3	24.8
Communication and information services	1,572.3	1,407.7	(10.5)
Other industries	8,673.9	8,838.7	1.9
Consumer	15,319.7	15,066.9	(1.6)
Total domestic	65,053.4	68,326.4	5.0
Foreign:			
Governments and official institutions	726.3	655.4	(9.8)
Banks and other financial institutions ⁽¹⁾	11,788.2	10,649.0	(9.7)
Commercial and industrial	32,565.0	29,574.1	(9.2)
Other	8,404.1	6,822.8	(18.8)
Total foreign	53,483.6	47,701.3	(10.8)
Unearned income, unamortized premium—net and deferred loan fees— net	(350.3)	(308.8)	11.8
Total ⁽²⁾	¥118,186.7	¥115,718.9	(2.1)%

Notes:

- (1) Loans to so-called “non-bank finance companies” are generally included in the “Banks and other financial institutions” category. Non-bank finance companies are primarily engaged in consumer lending, factoring and credit card businesses.
- (2) The above table includes loans held for sale of ¥344.8 billion and ¥353.1 billion as of March 31, 2020 and 2021, respectively, which are carried at the lower of cost or fair value.

Our total loan balance decreased 2.1%. As of March 31, 2021, our total loans accounted for 32.7% of total assets, compared to 35.6% of total assets as of March 31, 2020. Our domestic loan balance increased mainly due to the increased funding needs of customers that were adversely affected by the COVID-19 pandemic. Our foreign loan balance decreased mainly due to decreases in mortgage loans and automobile loans. As a percentage of total loans before unearned income, net unamortized premiums and net deferred loan fees, between March 31, 2020 and March 31, 2021, domestic loans increased from 54.9% to 58.9%, while foreign loans decreased from 45.1% to 41.1%.

We classify our loan portfolio into the following portfolio segments—Commercial, Residential, Card, MUFG Americas Holdings, Krungsri, and Other based on the grouping to determine the allowance for credit losses. The Other segment consists primarily of Bank Danamon. We further classify the Commercial segment into Domestic and Foreign classes based on initial measurement attributes, risk characteristics, and method of monitoring and assessing credit risk. Effective as of April 1, 2020, all of the domestic classes within the Commercial segment were combined into one Domestic class. Prior period domestic classes have been combined into one Domestic class to conform to the current presentation.

Credit quality indicator

As of March 31, 2020:	Normal	Close Watch	Likely to become Bankrupt or Legally/Virtually Bankrupt		Total ⁽¹⁾	
			Accrual	Nonaccrual		
(in billions)						
Commercial						
Domestic	¥49,695.9	¥1,186.1	¥220.2		¥51,102.2	
Foreign ⁽²⁾	34,719.1	636.5	128.1		35,483.7	
Loans acquired with deteriorated credit quality	8.2	9.7	19.0		36.9	
Total	<u>¥84,423.2</u>	<u>¥1,832.3</u>	<u>¥367.3</u>		<u>¥86,622.8</u>	
			Accrual	Nonaccrual	Total ⁽¹⁾	
			(in billions)			
Residential			¥13,256.8	¥61.7	¥13,318.5	
Card			¥ 504.3	¥61.3	¥ 565.6	
	Credit Quality Based on the Number of Delinquencies		Credit Quality Based on Internal Credit Ratings			
	Accrual	Nonaccrual	Pass	Special Mention	Classified	Total ⁽¹⁾⁽³⁾
	(in billions)					
MUFG Americas Holdings	¥4,590.8	¥15.1	¥4,877.9	¥87.6	¥84.0	¥9,655.4
			Performing	Under-Performing	Non-Performing	Total ⁽¹⁾
			(in billions)			
Krungsri			¥6,241.7	¥508.9	¥161.0	¥6,911.6
			Accrual	Nonaccrual	Total ⁽¹⁾	
			(in billions)			
Other			¥1,086.5	¥31.4	¥1,117.9	
As of March 31, 2021:	Normal	Close Watch	Likely to become Bankrupt or Legally/Virtually Bankrupt		Total ⁽¹⁾	
(in billions)						
Commercial						
Domestic	¥52,580.4	¥1,806.7	¥246.1		¥54,633.2	
Foreign ⁽²⁾	30,249.2	788.9	254.2		31,292.3	
Total	<u>¥82,829.6</u>	<u>¥2,595.6</u>	<u>¥500.3</u>		<u>¥85,925.5</u>	
			Accrual	Nonaccrual	Total ⁽¹⁾	
			(in billions)			
Residential			¥13,116.6	¥66.2	¥13,182.8	
Card			¥ 419.1	¥60.2	¥ 479.3	
	Credit Quality Based on the Number of Delinquencies		Credit Quality Based on Internal Credit Ratings			
	Accrual	Nonaccrual	Pass	Special Mention	Classified	Total ⁽¹⁾⁽³⁾
	(in billions)					
MUFG Americas Holdings	¥3,260.9	¥19.0	¥4,807.7	¥216.9	¥191.3	¥8,495.8

	<u>Performing</u>	<u>Under- Performing</u>	<u>Non- Performing</u>	<u>Total⁽¹⁾</u>
		(in billions)		
Krungsri	¥5,939.4	¥503.9	¥161.3	¥6,604.6
		<u>Accrual</u>	<u>Nonaccrual</u>	<u>Total⁽¹⁾</u>
		(in billions)		
Other		¥960.1	¥26.6	¥986.7

Notes:

- (1) Total loans in the above table do not include loans held for sale, and represent balances without adjustments in relation to unearned income, unamortized premiums and deferred loan fees.
- (2) Excludes the loans held by MUFG Americas Holdings, Krungsri and Other.
- (3) Total loans of MUFG Americas Holdings do not include FDIC covered loans and small business loans which are not individually rated totaling ¥0.4 billion and nil as of March 31, 2020 and 2021, respectively. We will be reimbursed for a substantial portion of any future losses on FDIC covered loans under the terms of the FDIC loss share agreements.

We classify loans into risk categories based on relevant information about the ability of borrowers to service their debt, including, but not limited to, historical and current financial information, historical and current payment experience, credit documentation, public and non-public information about borrowers and current economic trends as deemed appropriate to each segment.

The primary credit quality indicator for loans within all classes of the Commercial segment is the internal credit rating assigned to each borrower based on our internal borrower ratings of 1 through 15 with the rating of 1 assigned to a borrower with the highest quality of credit. When assigning a credit rating to a borrower, we evaluate the borrower's expected debt-service capability based on various information, including financial and operating information of the borrower as well as information on the industry in which the borrower operates, and the borrower's business profile, management and compliance system. In evaluating a borrower's debt-service capability, we also conduct an assessment of the level of earnings and an analysis of the borrower's net worth. Based on the internal borrower rating, loans within the Commercial segment are categorized as Normal (internal borrower ratings of 1 through 9), Close Watch (internal borrower ratings of 10 through 12), and Likely to become Bankrupt or Legally/Virtually Bankrupt (internal borrower ratings of 13 through 15).

Loans to borrowers categorized as Normal represent those that are not deemed to have collectability issues. Loans to borrowers categorized as Close Watch represent those that require close monitoring as the borrower has begun to exhibit elements of potential concern with respect to its business performance and financial condition, the borrower has begun to exhibit elements of serious concern with respect to its business performance and financial condition, including business problems requiring long-term solutions, or the borrower's loans are TDRs or loans contractually past due 90 days or more for special reasons. Loans to borrowers categorized as Likely to become Bankrupt or Legally/Virtually Bankrupt represent those that have a higher probability of default than those categorized as Close Watch due to serious debt repayment problems with poor progress in achieving restructuring plans, the borrower being considered virtually bankrupt with no prospects for an improvement in business operations, or the borrower being legally bankrupt with no prospects for continued business operations because of non-payment, suspension of business, voluntary liquidation or filing for legal liquidation.

For more information on our credit and borrower ratings, see "Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk—Credit Risk Management."

The accrual status is a primary credit quality indicator for loans within the Residential segment and the Card segment as well as consumer loans within the MUFG Americas Holdings segment. The accrual status of these loans is determined based on the number of delinquent payments.

Commercial loans within the MUFG Americas Holdings segment are categorized as either pass or criticized based on the internal credit rating assigned to each borrower. Criticized credits are those that are internally risk graded as Special Mention, Substandard or Doubtful. Special Mention credits are potentially weak, as the

borrower has begun to exhibit deteriorating trends, which, if not corrected, may jeopardize repayment of the loan and result in a further downgrade. Classified credits are those that are internally risk graded as Substandard or Doubtful. Substandard credits have well-defined weaknesses, which, if not corrected, could jeopardize the full satisfaction of the debt. A credit classified as Doubtful has critical weaknesses that make full collection improbable on the basis of currently existing facts and conditions.

Loans within the Krungsri segment are categorized based on their delinquency status. Effective April 1, 2020, the categories of credit quality indicators for the Krungsri segment were modified, with the new categories of Performing, Under-Performing, and Non-Performing replacing the previous categories of Normal, Special Mention, and Substandard, which was further divided into Substandard, Doubtful and Doubtful of Loss. Loans categorized as Under-Performing generally represent those that have significant increases in credit risk since origination, including, among other things, loans contractually past due 30 days or more. Loans categorized as Non-Performing generally represent those that are contractually past due 90 days or more. The above table showing the loans within the Krungsri segment by credit indicator category as of March 31, 2020 has been restated based on the new categories.

For the Commercial, Residential and Card segments, credit quality indicators are based on information as of March 31. For the MUFG Americas Holdings, Krungsri and Other segments, credit quality indicators are generally based on information as of December 31.

Allowance for credit losses

<u>Fiscal year ended March 31, 2020:</u>	<u>Commercial</u>	<u>Residential</u>	<u>Card</u>	<u>MUFG Americas Holdings (in billions)</u>	<u>Krungsri</u>	<u>Other</u>	<u>Total</u>
Allowance for credit losses:							
Balance at beginning of fiscal year	¥389.6	¥38.6	¥32.6	¥52.6	¥144.8	¥ —	¥658.2
Provision for (reversal of) credit losses	153.8	(1.0)	26.5	30.9	70.0	41.5	321.7
Charge-offs	85.3	3.3	25.1	27.9	77.9	23.6	243.1
Recoveries collected	26.4	0.4	1.2	4.1	23.2	8.5	63.8
Net charge-offs	58.9	2.9	23.9	23.8	54.7	15.1	179.3
Other ⁽¹⁾	(2.2)	—	—	(0.7)	9.5	2.3	8.9
Balance at end of fiscal year	<u>¥482.3</u>	<u>¥34.7</u>	<u>¥35.2</u>	<u>¥59.0</u>	<u>¥169.6</u>	<u>¥28.7</u>	<u>¥809.5</u>
<u>Fiscal year ended March 31, 2021:</u>	<u>Commercial</u>	<u>Residential</u>	<u>Card</u>	<u>MUFG Americas Holdings (in billions)</u>	<u>Krungsri</u>	<u>Other</u>	<u>Total</u>
Allowance for credit losses:							
Balance at beginning of fiscal year	¥482.3	¥34.7	¥35.2	¥ 59.0	¥169.6	¥28.7	¥ 809.5
Effect of adopting new guidance on measurement of credit losses on financial instruments ⁽²⁾	83.8	49.5	14.2	25.0	118.4	32.8	323.7
Provision for credit losses	235.6	1.4	17.9	90.1	90.1	49.1	484.2
Charge-offs	77.9	2.7	24.6	40.4	93.2	51.7	290.5
Recoveries collected	9.3	0.0	1.5	4.4	23.4	6.5	45.1
Net charge-offs	68.6	2.7	23.1	36.0	69.8	45.2	245.4
Other ⁽¹⁾	1.5	—	—	(6.3)	(14.9)	(3.9)	(23.6)
Balance at end of fiscal year	<u>¥734.6</u>	<u>¥82.9</u>	<u>¥44.2</u>	<u>¥131.8</u>	<u>¥293.4</u>	<u>¥61.5</u>	<u>¥1,348.4</u>

Notes:

- (1) Other is principally comprised of gains or losses from foreign exchange translation.
- (2) See Note 1 (Accounting Changes) to our consolidated financial statements for more information.

In the above table, the effect of adopting the new guidance on measurement of credit losses on financial instruments represents the effect of application of the new guidance to our loan portfolio as of April 1, 2020, and the provision for credit losses for the fiscal year ended March 31, 2021 represents the amount of provision for, or reversal of, credit losses recorded under the new guidance for the same fiscal year. The provision for (reversal of) credit losses for the fiscal year ended March 31, 2020 represents the amount of provision for (reversal of) credit losses recorded under the prior guidance for the same fiscal year.

We recorded ¥484.2 billion of provision for credit losses for the fiscal year ended March 31, 2021, compared to ¥321.7 billion of provision for credit losses for the previous fiscal year. Our total allowance for credit losses as of March 31, 2021 was ¥1,348.4 billion, an increase of ¥538.9 billion from ¥809.5 billion as of March 31, 2020. The total allowance for credit losses represented 1.17% of the total loan balance as of March 31, 2021, compared to 0.68% as of March 31, 2020.

Between March 31, 2020 and March 31, 2021, the balance of allowance for credit losses increased in all of the segments due to the estimated impact of the COVID-19 pandemic on our loan portfolio. The increase was also due to our adoption of the new guidance on measurement of credit losses on financial instruments on April 1, 2020. New guidance requires us to estimate allowance for credit losses based on an expected credit loss model and record more allowance for credit losses as of the beginning of the fiscal year ended March 31, 2021. Provision for credit losses for the fiscal year ended March 31, 2021 increased by ¥162.5 billion compared to the previous fiscal year, mainly reflecting the increases in provision for credit losses in the Commercial segment, the MUFG Americas Holdings segment and the Krungsri segment. Significant trends in our portfolio segments are discussed below.

Commercial segment—We recorded ¥235.6 billion of provision for credit losses for the fiscal year ended March 31, 2021, compared to ¥153.8 billion of provision for credit losses for the previous fiscal year. The increase in provision for credit losses was substantially driven by the impact of the COVID-19 pandemic and the expected deterioration in the economic environment, particularly in the industry sectors that are susceptible to the impact of the pandemic such as the retail services, aircraft finance, and oil and gas sectors. With a decline in car demand, we also recorded provision for credit losses for large auto-related companies in Japan. In addition, the effect of adopting new guidance on measurement of credit losses on financial instruments was ¥83.8 billion. The ratio of loans classified as Close Watch to total loans increased to 3.02% as of March 31, 2021 from 2.12% as of March 31, 2020. The ratio of loans classified as Likely to become Bankrupt or Legally/Virtually Bankrupt to total loans in the segment increased to 0.58% as of March 31, 2021 from 0.42% as of March 31, 2020. The ratio of total allowance for credit losses to the total loan balance in this segment increased to 0.85% as of March 31, 2021 from 0.56% as of March 31, 2020.

MUFG Americas Holdings segment—We recorded ¥90.1 billion of provision for credit losses for the fiscal year ended March 31, 2021, compared to ¥30.9 billion of provision for credit losses for the previous fiscal year. The provision for credit losses for the fiscal year ended March 31, 2021 was substantially driven by the impact of the COVID-19 pandemic and the expected deterioration in the economic environment. In particular, the COVID-19 pandemic adversely affected the residential real estate sector. In addition, we recorded provision for credit losses for other industry sectors adversely affected by the COVID-19 pandemic including the commercial real estate sector. The effect of adopting new guidance on measurement of credit losses on financial instruments was ¥25.0 billion. The ratio of loans classified as Special Mention or below and Nonaccrual to total loans in the segment increased to 5.03% as of March 31, 2021 from 1.93% as of March 31, 2020. The ratio of total allowance for credit losses to the total loan balance in this segment increased to 1.55% as of March 31, 2021 from 0.61% as of March 31, 2020.

Krungsri segment—We recorded ¥90.1 billion of provision for credit losses for the fiscal year ended March 31, 2021, compared to ¥70.0 billion of provision for credit losses for the same period of the previous fiscal year. The larger provision for credit losses mainly reflected the negative impact of the COVID-19 pandemic on the credit quality of borrowers of mortgage and automobile loans. The effect of adopting new guidance on measurement of credit losses on financial instruments was ¥118.4 billion. As Krungsri revised its internal borrower rating method as of April 1, 2020, the provision for credit losses for the fiscal year ended March 31, 2021 also reflected the impact of such revision. The ratio of loans classified as Under-Performing or below to total loans in the segment increased to 10.07% as of March 31, 2021 from 9.69% as of March 31, 2020. The ratio of total allowance for credit losses to the total loan balance in this segment increased to 4.44% as of March 31, 2021 from 2.45% as of March 31, 2020.

We adopted the new guidance on measurement of credit losses on financial instruments on April 1, 2020. The new guidance replaces the incurred losses impairment methodology applied under the previous standard with a current expected credit loss model where adjustments are made to our allowance for credit losses based on management's current estimate of expected credit losses on loans by considering a broader range of reasonable and supportable information, including macroeconomic variables such as GDP growth and unemployment rates, to estimate credit losses. Our adoption of this new guidance resulted in an increase of ¥408.1 billion in the total beginning balance of allowance for credit losses and the allowance for off-balance sheet credit instruments as of April 1, 2020. Provision for credit losses for the fiscal year ended March 31, 2021 mainly reflected management's consideration of, among other information, the expected impact of the COVID-19 pandemic on our loan portfolio as well as the impact of extensions of measurement periods used in our loss-forecasting models under the new guidance. For more information on the new guidance, see Notes 1 and 4 to our consolidated financial statements. See also “—Business Environment—Recent Developments and Prospects.”

When there is an improvement in asset quality, reversal of credit losses is recorded in our consolidated statements of income to maintain the allowance for credit losses at a level management deems appropriate. Although we reversed allowance for credit losses for certain loan portfolio segments in recent periods, we have historically provided for credit losses, and in future periods we may need to recognize a provision for credit losses. See “Item 3.D. Key Information—Risk Factors—Credit Risk—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.”

Allowance policy

On April 1, 2020, we adopted Accounting Standards Update 2016-13, Measurement of Credit Losses on Financial Instruments. The new guidance replaces the incurred loss impairment methodology in current U.S. GAAP with the current expected credit loss model that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The adoption of the guidance resulted in an increase in the beginning balance of the allowance for credit losses and the allowance for off-balance sheet credit instruments of ¥408.1 billion and a decrease in retained earnings of ¥285.8 billion. For more information on this guidance, see Note 1 to our consolidated financial statements.

We maintain an allowance for credit losses to absorb probable losses inherent in the loan portfolio. We have divided our allowance for credit losses into six portfolio segments—Commercial, Residential, Card, MUFG Americas Holdings, Krungsri and Other. Our allowance policy for the major portfolio segments—Commercial, Residential, Card, MUFG Americas Holdings and Krungsri—is summarized below.

For all portfolio segments, key elements relating to the policies and discipline used in determining the allowance for credit losses are our credit classification and related borrower categorization process, which are closely linked to the risk grading standards set by the Japanese regulatory authorities for asset evaluation and assessment, and are 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 more information on our credit and borrower ratings, see “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk—Credit Risk Management.”

For the Commercial, MUFG Americas Holdings and Krungsri segments, our allowance for credit losses primarily consists of allocated allowances. The allocated allowances consist of (1) an allowance for loans individually evaluated for impairment, (2) an allowance for large groups of smaller-balance homogeneous loans, and (3) a formula allowance. The allocated allowance within the Commercial segment also includes an allowance for country risk exposure. The allowance for credit losses within the MUFG Americas Holdings segment also includes an unallocated allowance which captures losses that are attributable to economic events in various industry or geographic sectors whose impact on our loan portfolios in these segments have occurred but have yet to be recognized in the allocated allowance. For the Residential and Card segments, the loans are smaller-balance homogeneous loans that are pooled by the risk ratings based on the number of delinquencies.

For more information on our methodologies used to estimate the allowance for each portfolio segment, see “Summary of Significant Accounting Policies” in Note 1 to our consolidated financial statements and “—Critical Accounting Estimates—Allowance for Credit Losses” above.

Allowance for off-balance sheet credit instruments

We maintain 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 included in other liabilities. We have adopted for such instruments the same methodology as that which is used in determining the allowance for credit losses on loans.

The allowance for credit losses on off-balance sheet credit instruments was ¥83.6 billion as of March 31, 2021, an increase of ¥26.6 billion from ¥57.0 billion as of March 31, 2020.

Nonaccrual loans

We consider a loan to be a nonaccrual loan when substantial doubt exists as to the full and timely payment of interest on, or repayment of, the principal of the loan, which is a borrower condition that generally corresponds to borrowers in categories 13 and below in our internal rating system (which corresponds to “Likely to become Bankrupt,” “Virtually Bankrupt” and “Bankrupt or de facto Bankrupt” status under Japanese banking regulations). Loans are also placed in nonaccrual status when principal or interest is contractually past due one month or more with respect to loans within all classes of the Commercial segment, three months or more with respect to loans within the Card, MUFG Americas Holdings, Krungsri and Other segments, and six months or more with respect to loans within the Residential segment.

For more information on our credit and borrower ratings, see “Item 11. Quantitative and Qualitative Disclosures about Credit, Market and Other Risk—Credit Risk Management.”

	As of March 31,		
	2020	2021	% Change
	(in billions, except percentages)		
Commercial	¥440.0	¥ 824.0	87.3%
Domestic	313.0	565.6	80.7
Foreign ⁽¹⁾	127.0	258.4	103.5
Residential	64.0	68.0	6.2
Card	61.2	60.2	(1.6)
MUFG Americas Holdings	35.8	73.7	105.7
Krungsri	149.7	161.3	7.8
Other	27.8	26.6	(4.3)
Total⁽²⁾	<u>¥778.5</u>	<u>¥1,213.8</u>	55.9%

Notes:

- (1) Excludes the loans held by MUFG Americas Holdings, Krungsri and Other.
(2) The above table does not include loans held for sale of ¥0.3 billion and ¥8.6 billion as of March 31, 2020 and 2021, respectively, and loans acquired with deteriorated credit quality of ¥25.4 billion as of March 31, 2020.

Total nonaccrual loans increased ¥435.3 billion between March 31, 2020 and March 31, 2021, mainly due to increases in the Commercial segment and the MUFG Americas Holdings segment. These increases mainly reflected the deterioration in the economic environment due to the impact of the COVID-19 pandemic. In the Commercial segment, nonaccrual loans increased in industry sectors adversely affected by the COVID-19 pandemic such as the retail services, aircraft finance, and oil and gas sectors. In addition, this increase reflected borrower credit deterioration of in the domestic automobile parts manufacturing sector. In addition, the COVID-19 pandemic adversely impacted the MUFG Americas Holdings segment's portfolio of loans to borrowers in the real estate sector primarily due to weaker demand for residential real estate.

Investment Portfolio

Our investment securities primarily consist of Japanese government bonds and marketable equity securities. Japanese government bonds are mostly classified as available-for-sale debt securities. Our investment in Japanese government bonds is a part of our asset and liability management policy with respect to investing the amount of Japanese yen-denominated funds exceeding our net loans. The percentage of our holding of available-for-sale Japanese government bonds to the total investment securities was 61.6% as of March 31, 2021, compared to 53.6% as of March 31, 2020 primarily due to an increase in our holding of short-term Japanese government bonds provided as collateral for the Bank of Japan's funds-supplying operations. Primarily for the same reason, investment securities increased 30.8% as of March 31, 2021, compared to March 31, 2020. We also hold Japanese government bonds that are classified as held-to-maturity debt securities, which accounted for 1.9% of the total investment securities as of March 31, 2021.

Historically, we have held equity securities of some of our customers primarily for strategic purposes, in particular to maintain long-term relationships with these customers. We continue to focus on reducing our investment in equity securities for such purposes in order to reduce the price fluctuation risk in our equity portfolio from a risk management perspective and to respond to applicable regulatory requirements as well as increasing market expectations for us to reduce our equity portfolio. As of March 31, 2020 and 2021, the aggregate book 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 1 capital. In May 2021, we announced that we would aim to reduce the balance of equity securities held for strategic purposes valued under Japanese GAAP by approximately ¥300.0 billion within three years. During the fiscal year ended March 31, 2021, we sold down ¥267.0 billion of equity securities held in our strategic equity investment portfolio valued under Japanese GAAP. As of March 31, 2021, the balance of such securities valued under Japanese GAAP represented 11.6% of our Tier 1 capital. However, various factors, including market conditions and changes in our Tier 1 capital ratio, may affect the amount of equity securities we should sell and our ability to achieve the target as planned.

Debt Securities

	As of March 31,						% Change		
	2020			2021					
	Amortized cost	Fair value	Net unrealized gains (losses)	Amortized cost	Fair value	Net unrealized gains (losses)	Amortized cost	Fair value	Net unrealized gains (losses)
	(in billions, except percentages)								
Available-for-sale debt securities:									
Japanese government and Japanese government agency bonds	¥23,308.5	¥23,462.9	¥154.4	¥35,166.2	¥35,273.2	¥107.0	50.9%	50.3%	(30.7)%
Japanese prefectural and municipal bonds	2,938.7	2,952.8	14.1	3,719.2	3,731.5	12.3	26.6	26.4	(12.6)
Foreign government and official institution bonds	2,936.1	3,037.5	101.4	2,854.0	2,927.0	73.0	(2.8)	(3.6)	(28.1)
Corporate bonds	1,261.6	1,272.8	11.2	1,123.3	1,134.3	11.0	(11.0)	(10.9)	(2.1)
Mortgage-backed securities	1,840.0	1,841.6	1.6	1,895.0	1,931.6	36.6	3.0	4.9	N/M
Asset-backed securities	1,461.1	1,469.5	8.4	1,373.5	1,384.5	11.0	(6.0)	(5.8)	31.5
Commercial paper	—	—	—	564.1	564.1	0.0	N/M	N/M	N/M
Other debt securities	161.8	163.1	1.3	168.5	171.6	3.1	4.1	5.2	147.2
Total available-for-sale debt securities	<u>¥33,907.8</u>	<u>¥34,200.2</u>	<u>¥292.4</u>	<u>¥46,863.8</u>	<u>¥47,117.8</u>	<u>¥254.0</u>	38.2%	37.8%	(13.2)%
Held-to-maturity debt securities ⁽¹⁾	<u>¥ 4,165.8</u>	<u>¥ 4,177.9</u>	<u>¥ 12.1</u>	<u>¥ 3,903.8</u>	<u>¥ 3,939.1</u>	<u>¥ 35.3</u>	(6.3)%	(5.7)%	192.1%

Note:

(1) See Note 3 to our consolidated financial statements for more details.

Net unrealized gains on available-for-sale debt securities decreased 13.2% primarily due to a decrease in net unrealized gains on Japanese government and Japanese government agency bonds. We increased our holding of short-term Japanese government bonds as we provided such bonds as collateral for the Bank of Japan's funds-supplying operations. Because the fair value of short-term Japanese government bonds fluctuates less than the fair value of long-term Japanese government bonds, and because interest rates on long-term Japanese government bonds were slightly higher at the end of March 2021 compared to the end of March 2020, net unrealized gains on Japanese government bonds decreased. Net unrealized gains on mortgage-backed securities in MUFG Americas Holdings increased largely since U.S. interest rates declined at the end of December 2020 compared to the end of December 2019. Net unrealized gains on foreign government and official institution bonds decreased mainly due to the gradual increase in long-term U.S. interest rates towards the end of March 2021.

The amortized cost of available-for-sale debt securities increased 38.2% mainly due to a 50.9% increase in Japanese government and Japanese government agency bonds. This increase was partially offset by decreases in our holding of corporate bonds and asset-backed securities.

Equity Securities

	As of March 31,		% Change
	2020	2021	
	(in billions, except percentages)		
Marketable equity securities	¥4,768.3	¥5,759.5	20.8%
Nonmarketable equity securities:			
Unlisted preferred securities ⁽¹⁾	350.0	159.3	(54.5)
Other ⁽²⁾	226.9	258.5	13.9
Investment securities held by investment companies and brokers and dealers ⁽³⁾	40.0	45.6	14.0
Total	<u>¥5,385.2</u>	<u>¥6,222.9</u>	15.6%

Notes:

- (1) These securities are mainly issued by public companies, including preferred stocks issued by Morgan Stanley, and other unlisted preferred securities issued by several public companies. Those securities are primarily carried at cost.
- (2) These securities are equity securities issued by unlisted companies other than unlisted preferred securities. Those securities are primarily carried at cost.
- (3) These investment securities are held by certain subsidiaries subject to specialized industry accounting principles for investment companies and brokers and dealers, and are measured at fair value.

Equity securities increased 15.6% mainly because marketable equity securities increased as the stock prices in Japan and the United States increased towards March 31, 2021. Marketable equity securities largely consist of exchange-traded funds listed on the Tokyo Stock Exchange. The decrease in unlisted preferred securities was primarily attributable to the reclassification of certain securities at MUFG Bank.

Cash and Due from Banks, and Interest-earning Deposits in Other Banks

Cash and due from banks increased ¥16,694.5 billion to ¥49,977.5 billion as of March 31, 2021 from ¥33,283.0 billion as of March 31, 2020. This increase was primarily because of an increase in deposits with the Bank of Japan.

Interest-earning deposits in other banks increased ¥8,080.0 billion to ¥53,346.7 billion as of March 31, 2021 from ¥45,266.7 billion as of March 31, 2020. This increase was mainly because of an increase in deposits with the Bank of Japan.

Receivables under Resale Agreements

Receivables under resale agreements decreased ¥10,216.2 billion to ¥13,779.8 billion as of March 31, 2021 from ¥23,996.0 billion as of March 31, 2020. This decrease was mainly because of a decrease in short-term funding transactions following the rapid and significant increase in funding needs in the market shortly after the outbreak of the COVID-19 pandemic in the fourth quarter of the previous fiscal year.

Receivables under Securities Borrowing Transactions

Receivables under securities borrowing transactions decreased ¥74.1 billion to ¥3,369.9 billion as of March 31, 2021 from ¥3,444.0 billion as of March 31, 2020. This decrease was mainly due to a decrease in collateral deposited for funding in domestic banking and securities subsidiaries.

Trading Account Assets

Trading account assets decreased ¥3,059.7 billion to ¥44,444.4 billion as of March 31, 2021 from ¥47,504.1 billion as of March 31, 2020. Trading account assets consist of trading account securities and trading

derivative assets. Trading account securities decreased ¥83.5 billion to ¥32,463.0 billion as of March 31, 2021 from ¥32,546.5 billion as of March 31, 2020. Trading derivative assets decreased ¥2,976.2 billion to ¥11,981.4 billion as of March 31, 2021 from ¥14,957.6 billion as of March 31, 2020 mainly due to long-term interest rate fluctuations in Japan.

Total Liabilities

As of March 31, 2021, total liabilities were ¥337,580.1 billion, an increase of ¥21,571.3 billion from ¥316,008.8 billion as of March 31, 2020. This was primarily due to an increase of ¥25,252.4 billion in total deposits and an increase of ¥7,230.9 billion in long-term debt, partially offset by a decrease of ¥7,282.0 billion in payables under repurchase agreements.

Deposits

Deposits are our primary source of funds. The balance of deposits increased ¥25,252.4 billion to ¥229,206.9 billion as of March 31, 2021 from ¥203,954.5 billion as of March 31, 2020. The increase was mainly attributable to an increase in domestic deposits.

The total average balance of interest-bearing deposits increased ¥13,244.1 billion to ¥182,755.3 billion for the fiscal year ended March 31, 2021 from ¥169,511.2 billion for the fiscal year ended March 31, 2020, mainly due to an increase in domestic deposits.

Payables under Repurchase Agreements

Payables under repurchase agreements decreased ¥7,282.0 billion to ¥24,567.9 billion as of March 31, 2021 from ¥31,849.9 billion as of March 31, 2020. This decrease was mainly because of a decrease in short-term funding transactions following the rapid and significant increase in funding needs in the market shortly after the outbreak of the COVID-19 pandemic in the fourth quarter of the previous fiscal year.

Other Short-Term Borrowings

Other short-term borrowings decreased ¥1,867.8 billion to ¥14,187.7 billion as of March 31, 2021 from ¥16,055.5 billion as of March 31, 2020. This decrease was mainly due to our repayment of borrowings from the Bank of Japan, which were accumulated to meet the rapidly and significantly increasing funding needs in the market shortly after the outbreak of the COVID-19 pandemic in the fourth quarter of the previous fiscal year.

Long-term Debt

Long-term debt increased ¥7,230.9 billion to ¥35,157.7 billion as of March 31, 2021 from ¥27,926.8 billion as of March 31, 2020. This increase was mainly because we increased long-term borrowings from the Bank of Japan in response to the COVID-19 pandemic. The average balance of long-term debt for the fiscal year ended March 31, 2021 was ¥31,837.7 billion, an increase of ¥3,803.7 billion from ¥28,034.0 billion for the previous fiscal year.

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. The average deposit balance increased to ¥217,941.0 billion for the fiscal year ended March 31, 2021 from ¥199,791.8 billion for the fiscal year ended March 31, 2020. These deposits provide us with a sizable source of stable and low-cost funds. Our average deposits, combined with our average total equity of ¥15,681.5 billion, funded 65.6% of our average total assets of ¥355,992.6 billion during the fiscal year ended March 31, 2021. Our deposits exceeded our loans before allowance for credit losses by ¥113,488.0

billion as of March 31, 2021 compared to ¥85,767.8 billion as of March 31, 2020. As part of our asset and liability management policy, a significant portion of the amount of Japanese yen-denominated funds exceeding our loans has been deposited with the Bank of Japan or invested in Japanese government bonds in recent periods.

The remaining funding was primarily provided by short-term borrowings and long-term senior and subordinated debt. Short-term borrowings consist of call money, 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, including various fixed and floating interest rate senior and subordinated bonds with and without maturities. The average balance of short-term borrowings for the fiscal year ended March 31, 2021 was ¥45,671.8 billion. The average balance of long-term debt for the fiscal year ended March 31, 2021 was ¥31,837.7 billion. Liquidity may also be provided by the sale of financial assets, including available-for-sale debt securities, marketable equity securities, trading account securities and loans. Additional liquidity may be provided by the maturity of loans.

Any downgrade of the credit ratings assigned to us or our major subsidiaries could increase the cost, or decrease the availability, of our funding, particularly in U.S. dollars and other foreign currencies. See “Item 3.D. Key Information—Risk Factors—Funding Liquidity Risk—A downgrade of our credit ratings could adversely affect our ability to access and maintain liquidity.”

We manage our group-wide liquidity on a consolidated basis based on the tests and analyses conducted at the subsidiary level. Our major banking subsidiaries, MUFG Bank and Mitsubishi UFJ Trust and Banking, set liquidity and funding limits designed to maintain their respective requirements for funding from market sources below pre-determined levels for certain periods (e.g., one-day, two-week and one-month). They also monitor the balance of buffer assets they respectively hold, including Japanese government bonds and U.S. Treasury bonds, which can be used for cash funding even in periods of stress. In addition, they regularly perform liquidity stress testing designed to evaluate the impact of systemic market stress conditions and institution-specific stress events, including credit rating downgrades, on their liquidity positions.

We collect and evaluate the results of the stress tests individually performed by our major subsidiaries to ensure our ability to meet our liquidity requirements on a consolidated basis in stress scenarios.

We manage our funding sources by setting limits on, or targets for, our holdings of buffer assets, primarily Japanese government bonds. We also regard deposits with the Bank of Japan as buffer assets. In addition, our commercial banking subsidiaries manage their funding sources through liquidity-supplying products such as commitment lines and through a liquidity gap, or the excess of cash inflows over cash outflows.

Liquidity Requirements for Banking Institutions in Japan

We are required to calculate and disclose our LCR calculated in accordance with the methodology prescribed in the FSA guidance that has been adopted to implement the relevant Basel III standard. Starting in the calendar year 2019, we are required to maintain a minimum LCR of 100%. See “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—Japan—Liquidity Coverage Ratio” and “—B. Liquidity and Capital Resources—Capital Adequacy—Liquidity Coverage Ratios of MUFG and Major Banking Subsidiaries in Japan.”

Total Equity

	As of March 31,		
	2020	2021	% Change
	(in billions, except percentages)		
Capital stock	¥ 2,090.3	¥ 2,090.3	0.0%
Capital surplus	5,533.5	5,533.8	0.0
Retained earnings	8,319.1	8,829.5	6.1
Retained earnings appropriated for legal reserve	239.6	239.6	0.0
Unappropriated retained earnings	8,079.5	8,589.9	6.3
Accumulated other comprehensive losses, net of taxes	(420.4)	(289.5)	31.1
Treasury stock, at cost	(506.0)	(503.2)	0.6
Total Mitsubishi UFJ Financial Group shareholders' equity	¥15,016.5	¥15,660.9	4.3%
Noncontrolling interests	728.0	583.6	(19.8)
Total equity	¥15,744.5	¥16,244.5	3.2%
Ratio of total equity to total assets	4.75%	4.59%	

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 result in mandatory actions being taken by regulators that 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. Key Information—Risk Factors—Risks Related to Our Ability to Meet Regulatory Capital Requirements—We may not be able to maintain our capital ratios and other regulatory ratios above minimum required levels, which could result in various regulatory actions, including the suspension of some or all of our operations.”

We continually monitor our risk-adjusted capital ratios, leverage ratio and TLAC ratios closely, and manage our operations in consideration of the capital requirements. Factors that affect some or all of these ratios include 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, and marketable securities, and fluctuations in the value of the Japanese yen against the U.S. dollar and other foreign currencies, as well as general price levels of Japanese equity securities.

Capital Requirements for Banking Institutions in Japan

Under Japanese regulatory capital requirements, our consolidated capital components, including Common Equity Tier 1, Tier 1, and Tier 2 capital and risk-weighted assets, are calculated based on our consolidated financial statements prepared under Japanese GAAP. Each of the consolidated and stand-alone capital components and risk-weighted assets of our banking subsidiaries in Japan is also calculated based on consolidated and non-consolidated financial statements prepared under Japanese GAAP.

As of March 31, 2021, we were required to maintain a capital conservation buffer of 2.5%, a G-SIB surcharge of 1.5% and a countercyclical buffer of 0.00% in addition to the 4.5% minimum Common Equity Tier 1 capital ratio. See “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—Japan—Capital adequacy.”

We have been granted approval by the FSA to exclude the majority of our investment in Morgan Stanley from being subject to double gearing adjustments. The approval was granted for a 10-year period, but the approval amount will be phased out by 20% each year starting from March 31, 2019. As of March 31, 2021, a

full application of double gearing adjustments with respect to our investment in Morgan Stanley would have reduced our Common Equity Tier 1 capital ratio by approximately 0.4 percentage points.

Leverage Requirements for Banking Institutions in Japan

Our consolidated leverage ratio is calculated in accordance with the methodology prescribed in the FSA guidance that has been adopted to implement the relevant Basel III standard. The leverage ratio is designed for monitoring and preventing the build-up of excessive leverage in the banking sector and is expressed as the ratio of Tier 1 capital to total balance sheet assets adjusted in accordance with the FSA guidance. As of March 31, 2021, we were required to maintain a minimum leverage ratio of 3.00%. A G-SIB leverage ratio buffer equal to 50% of the applicable G-SIB capital surcharge is expected to be applied to us in 2023. See “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—Japan—Leverage Ratio.”

TLAC Requirements for Banking Institutions in Japan

Our external TLAC ratios are calculated in accordance with the methodology prescribed in the FSA guidance that has been adopted to implement the TLAC Principle published by the FSB in November 2015. External TLAC ratios are expressed as the ratio of external TLAC amount to risk-weighted assets or leverage exposure in accordance with the FSA guidance. We are required to maintain external TLAC ratios of 16% on a risk-weighted assets basis and 6% on a leverage exposure basis from March 31, 2019 and 18% on a risk-weighted assets basis and 6.75% on a leverage exposure basis from March 31, 2022. See “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—Japan—Total loss-absorbing capacity.” For information on the issuances of TLAC-qualified securities, see also “Recent Developments—Issuances of Senior Debt Securities for TLAC Purposes.”

Capital Ratios, Leverage Ratio and External TLAC Ratios of MUFG

The figures underlying the amounts and ratios in the table below 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 amounts and ratios below are rounded down.

	<u>As of March 31, 2020</u>	<u>Minimum ratios required⁽¹⁾</u>	<u>As of March 31, 2021</u>	<u>Minimum ratios required⁽¹⁾</u>
	(in billions, except percentages)			
Capital components:				
Common Equity Tier 1	¥ 13,708.3		¥ 14,113.7	
Additional Tier 1	1,914.9		1,869.0	
Tier 1 capital	15,623.3		15,982.7	
Tier 2 capital	2,656.2		2,686.7	
Total capital	¥ 18,279.5		¥ 18,669.5	
Risk-weighted assets	¥115,135.6		¥114,419.3	
Capital ratios:				
Common Equity Tier 1 capital	11.90%	8.51%	12.33%	8.50%
Tier 1 capital	13.56	10.01	13.96	10.00
Total capital	15.87	12.01	16.31	12.00
Leverage ratio ⁽²⁾	4.42	3.00	5.45	3.00
External TLAC ratios				
Risk-weighted assets basis ⁽³⁾	18.62	16.00	18.94	16.00
Leverage exposure basis	7.38	6.00	8.96	6.00

Notes:

(1) The minimum capital ratios required as of March 31, 2020 include a capital conservation buffer of 2.5%, a G-SIB surcharge of 1.5% and a countercyclical buffer of 0.01%. The minimum capital ratios required as of March 31, 2021 include a capital conservation buffer of 2.5%, a G-SIB surcharge of 1.5% and a countercyclical buffer of 0.00%.

- (2) Deposits with the Bank of Japan are excluded from the leverage exposure as of March 31, 2021, based on notification issued by the FSA.
- (3) The TLAC ratio on a risk-weighted assets basis and the required minimum ratios as of March 31, 2020 do not include the regulatory capital buffers consisting of a capital conservation buffer of 2.5%, a G-SIB surcharge of 1.5% and a countercyclical buffer of 0.01%. The TLAC ratio on a risk-weighted assets basis and the required minimum ratios as of March 31, 2021 do not include the regulatory capital buffers consisting of a capital conservation buffer of 2.5%, a G-SIB surcharge of 1.5% and a countercyclical buffer of 0.00%.

Management believes that, as of March 31, 2021, we were in compliance with all capital adequacy requirements to which we were subject.

Our Common Equity Tier 1 capital ratio as of March 31, 2021 was higher compared to the ratio as of March 31, 2020 due to an increase in Common Equity Tier 1 capital and a decrease in risk-weighted assets. The increase in Common Equity Tier 1 capital was mainly due to increases in retained earnings and unrealized gains on available-for-sale securities. The decrease in risk-weighted assets mainly reflected smaller floor adjustments, which were adjustments made in accordance with prescribed formulae for the differences in exposures calculated under Basel I and Basel III, more than offsetting the impact of higher credit and market risk-weighted assets caused by the higher stock value.

Capital Ratios and Leverage Ratios of Major Banking Subsidiaries in Japan

The figures underlying the ratios in the table below are calculated in accordance with Japanese banking regulations based on information derived from each bank's consolidated and non-consolidated financial statements prepared in accordance with Japanese GAAP, as required by the FSA. The ratios below are rounded down

	<u>As of March 31, 2020</u>	<u>Minimum capital ratios required</u>	<u>As of March 31, 2021</u>	<u>Minimum capital ratios required</u>
Consolidated:				
MUFG Bank				
Common Equity Tier 1 capital ratio	10.70%	4.50%	11.17%	4.50%
Tier 1 capital ratio	12.29	6.00	12.76	6.00
Total capital ratio	14.43	8.00	15.04	8.00
Leverage ratio ⁽¹⁾	4.21	3.00	5.22	3.00
Mitsubishi UFJ Trust and Banking				
Common Equity Tier 1 capital ratio	19.46	4.50	17.99	4.50
Tier 1 capital ratio	21.90	6.00	20.02	6.00
Total capital ratio	25.46	8.00	22.47	8.00
Leverage ratio ⁽¹⁾	4.51	3.00	7.53	3.00
Stand-alone:				
MUFG Bank				
Common Equity Tier 1 capital ratio	10.67	4.50	10.66	4.50
Tier 1 capital ratio	12.52	6.00	12.42	6.00
Total capital ratio	14.76	8.00	14.60	8.00
Leverage ratio ⁽¹⁾	4.02	3.00	5.14	3.00
Mitsubishi UFJ Trust and Banking				
Common Equity Tier 1 capital ratio	20.11	4.50	17.92	4.50
Tier 1 capital ratio	22.27	6.00	19.73	6.00
Total capital ratio	25.42	8.00	21.91	8.00
Leverage ratio ⁽¹⁾	5.87	3.00	8.95	3.00

Note:

(1) Deposits with the Bank of Japan are excluded from the leverage exposure as of March 31, 2021, based on notification issued by the FSA.

Management believes that, as of March 31, 2021, our banking subsidiaries were in compliance with all capital adequacy requirements to which they were subject.

Liquidity Coverage Ratios of MUFG and Major Banking Subsidiaries in Japan

The LCRs in the table below are calculated in accordance with Basel III as adopted by the FSA for the periods indicated. The figures underlying the ratios are calculated in accordance with Japanese banking regulations. The percentages below are rounded down.

	Three months ended				
	March 31, 2020 ^{(1),(6)}	June 30, 2020 ^{(2),(6)}	September 30, 2020 ^{(3),(6)}	December 31, 2020 ^{(4),(6)}	March 31, 2021 ^{(5),(6)}
MUFG (consolidated)	154.6%	151.0%	160.8%	166.4%	168.4%
MUFG Bank (consolidated)	165.9	160.0	172.2	177.6	181.2
MUFG Bank (stand-alone)	179.2	170.8	184.5	189.7	193.3
Mitsubishi UFJ Trust and Banking (consolidated)	114.1	113.7	118.9	122.7	121.3
Mitsubishi UFJ Trust and Banking (stand-alone) . . .	130.0	127.6	137.2	144.1	140.9

Notes:

- (1) Each of the ratios is calculated as the average balance of High-Quality Liquid Assets on the business days between January 6, 2020 and March 31 2020 divided by the average amount of net cash outflows for the same fifty-eight business days.
- (2) Each of the ratios is calculated as the average balance of High-Quality Liquid Assets on the business days between April 1, 2020 and June 30, 2020 divided by the average amount of net cash outflows for the same sixty-one business days.
- (3) Each of the ratios is calculated as the average balance of High-Quality Liquid Assets on the business days between July 1, 2020 and September 30, 2020 divided by the average amount of net cash outflows for the same sixty-one business days.
- (4) Each of the ratios is calculated as the average balance of High-Quality Liquid Assets on the business days between October 1, 2020 and December 30, 2020 divided by the average amount of net cash outflows for the same 63 business days.
- (5) Each of the ratios is calculated as the average balance of High-Quality Liquid Assets on the business days between January 4, 2021 and March 31, 2021 divided by the average amount of net cash outflows for the same 60 business days.
- (6) The LCR is to be calculated as an average based on daily values in accordance with the Japanese banking regulations.

See “—B. Liquidity and Capital Resources—Sources of Funding and Liquidity.”

Capital Requirements for Banking Institutions in the United States

In the United States, MUFG Americas Holdings and MUFG Union Bank are subject to various regulatory capital requirements administered by the U.S. Federal banking agencies. Failure to meet the applicable minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a material effect on MUFG Americas Holdings’ consolidated financial statements.

For a more detailed discussion of the applicable capital requirements, see “Item 4.B. Information on the Company—Business Overview—Supervision and Regulation—United States.” See also Note 21 to our consolidated financial statements.

In addition, as foreign banking organizations that have U.S. branches and agencies and also as entities that are controlled by MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking are subject to the FRB’s requirements.

Capital Ratios of Banking Subsidiaries in the United States

The table below presents the risk-adjusted capital ratios of MUFG Americas Holdings and MUFG Union Bank, both subsidiaries of MUFG Bank, calculated in accordance with applicable U.S. banking regulations as of December 31, 2019 and 2020:

	As of December 31, 2019	Minimum capital ratios required as of December 31, 2019⁽¹⁾	As of December 31, 2020	Minimum capital ratios required as of December 31, 2020⁽²⁾	Ratio OCC requires to be “well capitalized” as of December 2020
MUFG Americas Holdings:					
Common Equity Tier I Capital (to risk- weighted assets)	14.10%	7.00%	15.28%	8.90%	—
Tier I capital (to risk- weighted assets)	14.10	8.50	15.28	10.40	—
Total capital (to risk- weighted assets)	14.73	10.50	16.29	12.40	—
Tier I capital (to quarterly average assets) ⁽³⁾	8.88	4.00	9.56	4.00	—
MUFG Union Bank:					
Common Equity Tier I Capital (to risk- weighted assets)	14.47%	7.00%	15.62%	7.00%	6.50%
Tier I capital (to risk- weighted assets)	14.47	8.50	15.62	8.50	8.00
Total capital (to risk- weighted assets)	15.11	10.50	16.68	10.50	10.00
Tier I capital (to quarterly average assets) ⁽³⁾	10.65	4.00	11.12	4.00	5.00

Notes:

- (1) As of December 31, 2019, the minimum capital requirement for MUFG Americas Holdings and MUFG Union Bank includes a capital conservation buffer of 2.50%.
- (2) As of December 31, 2020, the minimum capital requirement for MUFG Americas Holdings includes its standardized capital conservation buffer of 4.40%, and the requirement for MUFG Union Bank includes a capital conservation buffer of 2.50%.
- (3) Excludes certain deductions.

Management believes that, as of December 31, 2020, MUFG Americas Holdings and MUFG Union Bank were in compliance with all capital adequacy requirements to which they were subject.

As of December 31, 2019 and 2020, the OCC categorized MUFG Union Bank as “well-capitalized.” To be categorized as “well-capitalized,” MUFG Union Bank must maintain minimum ratios of Common Equity Tier I capital to risk-weighted assets, Tier 1 capital to risk-weighted assets, Total capital to risk-weighted assets and of Tier I capital to quarterly average assets (leverage ratio) as set forth in the table.

For further information, see Note 21 to our consolidated financial statements.

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 Act 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 operational 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 additional regulatory reporting, a capital ratio of less than 120% may result in an order to change the method of business, 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. Overseas securities subsidiaries are subject to the relevant regulatory capital requirements of the countries or jurisdictions in which they operate.

Capital Ratio of Mitsubishi UFJ Morgan Stanley Securities

As of March 31, 2021, Mitsubishi UFJ Morgan Stanley Securities' capital accounts less certain fixed assets of ¥475.3 billion on a stand-alone basis represented 275.4% of the total amounts equivalent to market, counterparty credit and operational risks. Capital ratio information of Mitsubishi UFJ Morgan Stanley Securities on a consolidated basis as of March 31, 2021 is no longer disclosed following its merger with Mitsubishi UFJ Morgan Stanley PB Securities, which was the only consolidated subsidiary of Mitsubishi UFJ Morgan Stanley Securities, in August 2020. As of March 31, 2020, Mitsubishi UFJ Morgan Stanley Securities' capital accounts less certain fixed assets of ¥440.5 billion on a stand-alone basis represented 313.0% of the total amounts equivalent to market, counterparty credit and operational risks. As of the same date, Mitsubishi UFJ Morgan Stanley Securities' capital accounts less certain fixed assets of ¥465.3 billion on a consolidated basis represented 316.2% of the total amounts equivalent to market, counterparty credit and operational risks. These figures are calculated in accordance with Japanese GAAP, pursuant to the Financial Instruments and Exchange Act of Japan.

For further information, see Note 21 to our consolidated financial statements.

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 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 income.

	Fiscal years ended March 31,	
	2020	2021
	(in millions)	
Net fair value of contracts outstanding at beginning of fiscal year	¥ 990	¥ 653
Changes attributable to contracts realized or otherwise settled during the fiscal year	(706)	20
Fair value of new contracts entered into during the fiscal year	719	359
Changes in fair values attributable to changes in valuation techniques and assumptions	—	1
Other changes in fair value, principally revaluation at end of fiscal year	(350)	(353)
Net fair value of contracts outstanding at end of fiscal year	<u>¥ 653</u>	<u>¥ 680</u>

Maturities of Non-exchange Traded Contracts

	As of March 31, 2021	
	Net fair value of contracts—unrealized gains	
	Prices provided by other external sources	Prices based on models and other valuation methods
	(in millions)	
Maturity less than 1 year	¥—	¥ 15
Maturity less than 3 years	—	728
Maturity less than 5 years	—	—
Maturity 5 years or more	—	(63)
Total fair value	<u>¥—</u>	<u>¥680</u>

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

Not applicable.

D. Trend Information

See the discussions in “—Business Environment,” “—Recent Developments,” “—A. Operating Results” and “—B. Liquidity and Capital Resources.”

E. Off-Balance Sheet Arrangements

	As of March 31, 2021			
	Amount of commitment by expiration period			
	1 year or less	1-5 years	Over 5 years	Total
	(in billions)			
Guarantees:				
Standby letters of credit and financial guarantees	¥ 3,174	¥ 698	¥ 183	¥ 4,055
Performance guarantees	2,315	755	123	3,193
Derivative instruments	15,534	15,104	7,861	38,499
Liabilities of trust accounts	5,667	718	4,271	10,656
Other	6	34	—	40
Total guarantees	<u>26,696</u>	<u>17,309</u>	<u>12,438</u>	<u>56,443</u>
Other off-balance sheet instruments:				
Commitments to extend credit	56,298	25,801	2,515	84,614
Commercial letters of credit	790	44	1	835
Commitments to make investments	25	110	146	281
Total other off-balance sheet instruments	<u>¥57,113</u>	<u>¥25,955</u>	<u>¥ 2,662</u>	<u>¥85,730</u>

See Note 24 to our consolidated financial statements for a description of the nature of our guarantees and other off-balance sheet instruments.

The contractual amounts of these guarantees and other off-balance sheet instruments represent the amounts at risk 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. Since 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. As of March 31, 2021, approximately 59% of these commitments have an expiration date within

one year, 30% have an expiration date from one year to five years, and 11% have an expiration date after five years. Risks relating to off-balance sheet instruments 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.

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 VIEs. For further information, see Note 25 to our consolidated financial statements.

F. Tabular Disclosure of Contractual Obligations

	As of March 31, 2021				
	Payments due by period				
	Less than 1 year	1-3 years	3-5 years	Over 5 years	Total
	(in billions)				
Contractual obligations:					
Time deposit obligations	¥56,683	¥ 7,464	¥ 1,420	¥ 826	¥ 66,393
Estimated interest expense on time deposit obligations ⁽¹⁾	95	12	2	1	110
Long-term debt obligations	3,864	4,942	18,670	7,673	35,149
Financing lease obligations	8	10	2	2	22
Operating lease obligations	106	143	92	163	504
Purchase obligations	90	117	123	45	375
Total ⁽²⁾⁽³⁾	¥60,846	¥12,688	¥20,309	¥8,710	¥102,553

Notes:

- (1) Contractual obligations related to estimated interest expense on time deposit obligations are calculated by applying the March 31, 2021 weighted-average interest rate on outstanding time deposits.
- (2) The total amount of expected future pension payments is not included in the above table or the total amount of commitments outstanding as of March 31, 2021. We expect to contribute approximately ¥23.3 billion for pension and other benefits for our employees for the fiscal year ending March 31, 2022. For further information, see Note 13 to our consolidated financial statements.
- (3) 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 as we cannot estimate reasonably the timing of cash settlement of the liabilities for unrecognized tax benefits. The total amount of the liabilities for unrecognized tax benefits is ¥13.8 billion as of March 31, 2021. Among the liabilities for unrecognized tax benefits, it is reasonably possible that the unrecognized tax benefits will not increase or decrease during the next twelve months. For further information, see Note 8 to our consolidated financial statements.

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

Members of the Board of Directors

The following table sets forth the members of our board of directors as of June 29, 2021, together with their respective dates of birth, positions and experience:

Name (Date of Birth)	Position in MUFG		Business Experience
Mariko Fujii (March 9, 1955)	Member of the Board of Directors (Outside Director)	April 1977	Joined Ministry of Finance of Japan
		July 1997	Director, International Affairs and Research Division, Customs and Tariff Bureau, Ministry of Finance
		April 1999	Associate Professor, Research Center for Advanced Science and Technology, The University of Tokyo
		March 2001	Professor, Research Center for Advanced Economic Engineering, The University of Tokyo
		April 2004	Professor, Research Center for Advanced Science and Technology, National University Corporation, The University of Tokyo
		June 2014	Outside Director of Electric Power Development Co., Ltd.
		October 2015	Resigned from Professor of The University of Tokyo Resigned from an Outside Director of Electric Power Development Co., Ltd.
		June 2016	Ambassador Extraordinary and Plenipotentiary of Japan to the Republic of Latvia Emeritus Professor of The University of Tokyo (incumbent)
		January 2019	Retired from Ambassador Extraordinary and Plenipotentiary of Japan to the Republic of Latvia
		June 2019	Outside Director of NTT DATA CORPORATION (incumbent) Member of the Board of Directors (Outside Director) of MUFG (incumbent)
Keiko Honda (September 27, 1961)	Member of the Board of Directors (Outside Director)	April 1984	Joined Bain & Company Japan, Incorporated
		May 1986	Joined Shearson Lehman Brothers Securities Co., Ltd.
		July 1989	Joined McKinsey & Company, Inc. Japan
		July 1999	Partner of McKinsey & Company, Inc. Japan
		July 2007	Director (Senior Partner) of McKinsey & Company, Inc. Japan
July 2013	Executive Vice President & CEO of Multilateral Investment Guarantee Agency (World Bank Group)		

Name (Date of Birth)	Position in MUFG	Business Experience
		October 2019 Retired from Multilateral Investment Guarantee Agency (World Bank Group)
		January 2020 Joined Columbia University School of International and Public Affairs as Adjunct Professor and Adjunct Senior Research Scholar (incumbent)
		March 2020 Outside Director of AGC Inc. (incumbent)
		June 2020 Member of the Board of Directors (Outside Director) of MUFG (incumbent)
Kaoru Kato (May 20, 1951)	Member of the Board of Directors (Outside Director)	April 1977 Joined Nippon Telegraph and Telephone Public Corporation (NTT)
		July 1999 General Manager of Plant Department of NTT Kansai Mobile Communications Network, Inc.
		April 2000 General Manager of Plant Department of NTT DoCoMo Kansai, Inc.
		June 2002 General Manager of Corporate Strategy and Planning Department, Member of the Board of Directors of NTT DoCoMo Kansai, Inc.
		July 2005 Representative Director and Senior Corporate Executive Officer of Sumitomo Mitsui Card Co., Ltd.
		July 2007 Executive Vice President, General Manager of Corporate Strategy and Planning Department, Member of the Board of Directors of NTT DoCoMo Kansai, Inc.
		June 2008 Executive Vice President, General Manager of Corporate Strategy and Planning Department, Member of the Board of Directors of NTT DOCOMO, INC.
		June 2012 President and Chief Executive Officer, Member of the Board of Directors of NTT DOCOMO, INC.
		June 2016 Corporate Advisor, Member of the Board of Directors of NTT DOCOMO, INC.
		June 2018 Corporate Advisor of NTT DOCOMO, INC. (incumbent)
		June 2019 Member of the Board of Directors (Outside Director) of MUFG (incumbent)
		March 2021 Non-executive Director of Kirin Holdings Company, Limited (incumbent)
		Satoko Kuwabara (November 1, 1964)
Joined Mori Sogo (currently Mori Hamada & Matsumoto)		
January 1998 Partner of Mori Hamada & Matsumoto		
June 2016 Outside Director of BANDAI NAMCO Holdings Inc. (incumbent)		
		March 2020 Outside Auditor of Unicafe Inc. (incumbent)

Name (Date of Birth)	Position in MUFG	Business Experience
		April 2020 Partner of Gaien Partners (incumbent)
		June 2020 Outside Audit and Supervisory Board Member of Nippon Yusen Kabushiki Kaisha (incumbent)
		June 2021 Member of the Board of Director (Outside Director) of MUFG (incumbent)
Toby S. Myerson (July 20, 1949)	Member of the Board of Directors (Outside Director)	September 1977 Registered as an attorney at law, admitted in States of New York and California in the United States
		October 1981 Joined Paul, Weiss, Rifkind, Wharton & Garrison LLP
		June 1983 Partner of Paul, Weiss, Rifkind, Wharton & Garrison LLP
		April 1989 Managing Director of Wasserstein Perella & Co. Inc.
		November 1990 Partner of Paul, Weiss, Rifkind, Wharton & Garrison LLP
		June 2014 Outside Director of BK(US) (incumbent)
		December 2016 Retired from Paul, Weiss, Rifkind, Wharton & Garrison LLP
		January 2017 Chairman & CEO of Longsight Strategic Advisors LLC (incumbent)
		February 2017 Outside Director of MUAH (incumbent)
		June 2017 Member of the Board of Directors (Outside Director) of MUFG (incumbent)
Hirofumi Nomoto (September 27, 1947)	Member of the Board of Directors (Outside Director)	April 1971 Joined TOKYU CORPORATION
		April 2003 Executive General Manager of Media Business Headquarters of TOKYU CORPORATION
		April 2004 President & Representative Director of its communications Inc.
		June 2007 Director of TOKYU CORPORATION Executive Officer of Real Estate Development Business Unit of TOKYU CORPORATION
		January 2008 Managing Director of TOKYU CORPORATION
		June 2008 Senior Managing Director of TOKYU CORPORATION
		April 2010 Executive Officer & Senior Executive General Manager of Urban Life Produce Business Unit of TOKYU CORPORATION
		June 2010 Senior Managing Director & Representative Director of TOKYU CORPORATION
		April 2011 President & Representative Director of TOKYU CORPORATION
		April 2018 Chairman & Representative Director of TOKYU CORPORATION (incumbent)
		June 2019 President & CEO of THREE HUNDRED CLUB CO., LTD. (incumbent) Member of the Board of Directors (Outside Director) of MUFG (incumbent)

Name (Date of Birth)	Position in MUFG	Business Experience	
Yasushi Shingai (January 11, 1956)	Member of the Board of Directors (Outside Director)	April 1980	Joined Japan Tobacco and Salt Public Corporation (current Japan Tobacco Inc.)
		July 2001	Vice President of Financial Planning Division of Japan Tobacco Inc.
		June 2004	Senior Vice President, Head of Finance Group of Japan Tobacco Inc.
		July 2004	Senior Vice President, Chief Financial Officer of Japan Tobacco Inc.
		June 2005	Member of the Board, Senior Vice President, and Chief Financial Officer of Japan Tobacco Inc.
		June 2006	Member of the Board of Japan Tobacco Inc., Executive Vice President and Deputy CEO of JT International S.A.
		June 2011	Representative Director and Executive Vice President of Japan Tobacco Inc.
		June 2014	External Board Director of Recruit Holdings Co., Ltd.
		January 2018	Member of the Board of Japan Tobacco Inc.
		March 2018	Outside Director of Asahi Group Holdings, Ltd. (incumbent)
		June 2018	Member of the Board of Directors (Outside Director) of MUFG (incumbent)
June 2019	Outside Director of Dai-ichi Life Holdings, Inc. (incumbent)		
Koichi Tsuji (April 10, 1957)	Member of the Board of Directors (Outside Director)	October 1984	Joined Peat Marwick Mitchell & Company
		September 1988	Registered as Certified Public Accountant in Japan
		February 1989	Resident Representative, Zurich, Switzerland
		July 2004	Senior Partner of Ernst & Young ShinNihon LLC
		February 2016	Chairman and CEO of Ernst & Young ShinNihon LLC
		July 2019	Chairman & CEO of EY Japan Godo Kaisha Member of the Board of Directors, EY Japan Co., Ltd.
June 2021	Member of the Board of Directors (Outside Director) of MUFG (incumbent)		
Tarisa Watanagase (November 30, 1949)	Member of the Board of Directors (Outside Director)	June 1975	Joined the Bank of Thailand
		January 1988	Economist, International Monetary Fund (On the Secondment)
		October 2002	Deputy Governor of the Bank of Thailand
		November 2006	Governor of the Bank of Thailand
		September 2010	Retired from the Bank of Thailand
		March 2013	Outside Director of the Siam Cement Public Company Limited (incumbent)
		June 2017	Member of the Board of Directors (Outside Director) of MUFG (incumbent)

Name (Date of Birth)	Position in MUFG	Business Experience	
Ritsuo Ogura (January 21, 1964)	Member of the Board of Directors	April 1986	Joined The Sanwa Bank, Limited
		June 2012	Executive Officer of BK
			Executive Officer of MUFG
		May 2016	Managing Executive Officer of BK
		May 2017	Managing Executive Officer of MUFG
		April 2019	Managing Corporate Executive of MUFG
		April 2020	Managing Executive Officer of MUFG
Kenichi Miyanaga (February 25, 1960)	Member of the Board of Directors	June 2020	Member of the Board of Directors of MUFG (incumbent)
		April 1982	Joined The Toyo Trust and Banking Company, Limited
		June 2009	Executive Officer of TB
		June 2013	Director and Managing Executive Officer of TB
		June 2016	Senior Managing Executive Officer of TB
		June 2017	Director, Deputy President, and Executive Officer of TB
Kanetsugu Mike (November 4, 1956)	Member of the Board of Directors Chairman (Corporate Executive)	June 2021	Managing Executive Officer of MUFG Member of the Board of Directors of MUFG (incumbent)
		April 1979	Joined The Mitsubishi Bank, Limited
		June 2005	Executive Officer of Bank of Tokyo-Mitsubishi, Ltd.
			Executive Officer of Mitsubishi Tokyo Financial Group, Inc.
		May 2009	Managing Executive Officer of BK
		May 2011	Managing Executive Officer of MUFG
		June 2011	Member of the Board of Directors, Managing Executive Officer of BK
		May 2013	Senior Managing Executive Officer of BK
		October 2015	Executive Chairman of MUAH Executive Chairman of BK(US)
		May 2016	Deputy President and Executive Officer of BK Senior Managing Corporate Executive of MUFG
		June 2016	Member of the Board of Directors, Deputy President of BK
		June 2017	President & CEO of BK Member of the Board of Directors, Deputy Chairman of MUFG
		April 2019	Member of the Board of Directors, President & Group CEO of MUFG
		April 2020	Member of the Board of Directors, Deputy Chairman of MUFG
		April 2021	Member of the Board of Directors, Chairman of MUFG (incumbent)

Name (Date of Birth)	Position in MUFG		Business Experience
Saburo Araki (August 6, 1957)	Member of the Board of Directors	April 1981	Joined The Mitsubishi Bank, Limited
		June 2007	Executive Officer of BK
	Deputy Chairman (Representative Corporate Executive)	May 2009	Executive Officer of MUFG
		May 2011	Managing Executive Officer of BK
		June 2012	Managing Executive Officer of MUFG
			Member of the Board of Directors, Managing Executive Officer of BK
		June 2014	Member of the Board of Directors of MUFG
		May 2015	Managing Executive Officer of MUFG
		June 2015	Member of the Board of Directors, Senior Managing Executive Officer of BK
		May 2016	Senior Managing Corporate Executive of MUFG
	April 2018	Member of the Board of Directors, Deputy President of BK	
Iwao Nagashima (March 15, 1963)	Member of the Board of Directors	April 1985	President & CEO of SCHD (incumbent)
		June 2011	President & CEO of MUMSS (incumbent)
	Deputy Chairman (Representative Corporate Executive)	June 2013	Deputy Chairman of MUFG
		June 2015	Member of the Board of Directors, Deputy Chairman of MUFG (incumbent)
		June 2016	Joined The Mitsubishi Trust and Banking Corporation
		April 2019	Executive Officer of TB
			Managing Executive Officer of TB
			Executive Officer of MUFG
			Director and Managing Executive Officer of TB
			Managing Executive Officer of TB
		Director and Senior Managing Executive Officer of TB	
		Director, Deputy President, and Executive Officer of TB	
		Senior Managing Corporate Executive of MUFG	
		President & CEO of MU Trust Apple Planning Company, Ltd.	
		President & CEO of TB (incumbent)	
		Deputy Chairman of MUFG	
		Member of the Board of Directors, Deputy Chairman of MUFG (incumbent)	
Junichi Hanzawa (January 19, 1965)	Member of the Board of Directors	April 1988	Joined The Mitsubishi Bank, Limited
		June 2014	Executive Officer of BK
	Deputy Chairman (Representative Corporate Executive)	May 2018	Executive Officer of MUFG
		April 2019	Managing Executive Officer of BK
		June 2019	Managing Corporate Executive of MUFG
		April 2021	Member of the Board of Directors, Managing Executive Officer of BK
		President & CEO of BK (incumbent)	
		Deputy Chairman of MUFG	

Name (Date of Birth)	Position in MUFG	Business Experience	
		June 2021	Member of the Board of Directors, Deputy Chairman of MUFG (incumbent)
Hironori Kamezawa (November 18, 1961)	Member of the Board of Directors President & Group CEO (Representative Corporate Executive)	April 1986	Joined The Mitsubishi Bank, Limited
		June 2010	Executive Officer of BK
		May 2014	Executive Officer of MUFG
		July 2014	Managing Executive Officer of BK
		May 2017	Managing Executive Officer of MUFG
		June 2017	Deputy CEO of Americas at BK(US)
			Managing Corporate Executive of MUFG
			Member of the Board of Directors, Managing Executive Officer of BK
		May 2018	Member of the Board of Directors, Senior Managing Executive Officer of BK
			Senior Managing Corporate Executive of MUFG
		December 2018	CEO and Representative of the Board of Directors of Global Open Network, Inc.
April 2019	Deputy President of MUFG		
	Member of the Board of Directors, Deputy President of BK		
	CEO and Representative of the Board of Directors of Global Open Network Japan, Inc.		
June 2019	Member of the Board of Directors, Deputy President of MUFG		
August 2019	Chairman of Global Open Network Japan, Inc.		
April 2020	Member of the Board of Directors of BK (incumbent)		
	Member of the Board of Directors, President & Group CEO of MUFG (incumbent)		
May 2021	Director of Morgan Stanley (incumbent)		

Note: The following abbreviations are used in the table above:

“BK” refers to MUFG Bank, Ltd. or its former name The Bank of Tokyo-Mitsubishi UFJ, Ltd.

“TB” refers to Mitsubishi UFJ Trust and Banking Corporation.

“SCHD” refers to Mitsubishi UFJ Securities Holdings Co., Ltd.

“BK(US)” refers to MUFG Union Bank, N.A.

“MUAH” refers to MUFG Americas Holdings Corporation.

Corporate Executives

The following table sets forth our corporate executives as of June 29, 2021, together with their respective dates of birth, positions and experience:

Name (Date of Birth)	Position in MUFG	Business Experience	
Kanetsugu Mike (November 4, 1956)	See “Members of the Board of Directors” under this Item 6.A.	See “Members of the Board of Directors” under this Item 6.A.	
Saburo Araki (August 6, 1957)	See “Members of the Board of Directors” under this Item 6.A.	See “Members of the Board of Directors” under this Item 6.A.	
Iwao Nagashima (March 15, 1963)	See “Members of the Board of Directors” under this Item 6.A.	See “Members of the Board of Directors” under this Item 6.A.	
Junichi Hanzawa (January 19, 1965)	See “Members of the Board of Directors” under this Item 6.A.	See “Members of the Board of Directors” under this Item 6.A.	
Hironori Kamezawa (November 18, 1961)	See “Members of the Board of Directors” under this Item 6.A.	See “Members of the Board of Directors” under this Item 6.A.	
Masato Miyachi (June 14, 1960)	Senior Managing Corporate Executive (Group Head, Global Corporate & Investment Banking Business Group)	April 1984 June 2010 May 2014 October 2014 May 2017 May 2018 June 2018 July 2018 April 2019	Joined The Bank of Tokyo, Ltd. Executive Officer of BK Managing Executive Officer of BK Managing Executive Officer of MUFG Chairman of MUAH Chairman of BK(US) Senior Managing Executive Officer of BK Member of the Board of Directors, Senior Managing Executive Officer of BK Senior Managing Corporate Executive of MUFG (incumbent) Member of the Board of Directors, Deputy President of BK (incumbent)
Takayoshi Futae (January 16, 1961)	Senior Managing Corporate Executive (Group Head, Global Commercial Banking Business Group Group Chief Operational Officer-International, or Group COO-I in charge of Overseas Business Transformation)	April 1983 June 2010 May 2014 May 2016 May 2017 April 2019 June 2019 April 2021	Joined The Sanwa Bank, Limited Executive Officer of BK Managing Executive Officer of BK Managing Executive Officer of MUFG Senior Managing Executive Officer of BK Senior Managing Corporate Executive of MUFG Senior Managing Executive Officer of SCHD (incumbent) Member of the Board of Directors, Senior Managing Executive Officer of BK Member of the Board of Directors, Deputy President of BK (incumbent)

Name (Date of Birth)	Position in MUFG		Business Experience
Masahiro Kuwahara (November 11, 1962)	Senior Managing Corporate Executive (Group Chief Risk Officer, or CRO)	April 1986	Joined The Mitsubishi Bank, Limited
		June 2012	Executive Officer of BK
		May 2016	Executive Officer of MUFG
		May 2019	Managing Executive Officer of BK
		June 2019	Managing Executive Officer of MUFG
		April 2020	Managing Corporate Executive of MUFG
Yoshitaka Shiba (July 25, 1961)	Senior Managing Corporate Executive (Group Chief Audit Officer, or CAO) Managing Director, Head of Internal Audit Division	April 1986	Member of the Board of Directors, Managing Executive Officer of BK
		June 2012	Member of the Board of Directors, Senior Managing Executive Officer of BK (incumbent)
		July 2015	Senior Managing Corporate Executive of MUFG (incumbent)
		May 2016	Member of the Board of Directors of SCHD (incumbent)
Tetsuya Yonehana (February 10, 1964)	Senior Managing Corporate Executive (Group Chief Financial Officer, or CFO)	April 1986	Joined The Tokai Bank, Ltd.
		June 2012	Executive Officer of BK
		June 2015	Executive Officer of MUFG
		June 2016	Managing Executive Officer of BK
		April 2020	Senior Managing Corporate Executive of MUFG (incumbent)
		April 2020	Senior Managing Corporate Executive of MUFG (incumbent)
Naomi Hayashi (March 16, 1965)	Senior Managing Corporate Executive (Group Head, Japanese Corporate & Investment Banking Business Group in charge of Research & Advisory Planning Division)	April 1986	Joined The Mitsubishi Trust and Banking Corporation
		June 2012	Executive Officer of TB
		June 2015	Executive Officer of MUFG
		June 2016	Managing Executive Officer of TB
		April 2019	Director and Managing Executive Officer of TB
		April 2020	Managing Executive Officer of MUFG
		June 2020	Director and Senior Managing Executive Officer of TB
		April 2021	Senior Managing Executive Officer of BK Senior Managing Corporate Executive of MUFG (incumbent)
Masahiro Kuwahara (November 11, 1962)	Senior Managing Corporate Executive (Group Chief Risk Officer, or CRO)	April 1986	Member of the Board of Directors, Senior Managing Executive Officer of BK (incumbent)
		June 2012	Senior Managing Corporate Executive of MUFG (incumbent)
		May 2016	Member of the Board of Directors of SCHD (incumbent)
		May 2019	Member of the Board of Directors, Senior Managing Executive Officer of BK
		June 2019	Member of the Board of Directors, Senior Managing Executive Officer of BK (incumbent)
		April 2020	Senior Managing Corporate Executive of MUFG (incumbent)
Yoshitaka Shiba (July 25, 1961)	Senior Managing Corporate Executive (Group Chief Audit Officer, or CAO) Managing Director, Head of Internal Audit Division	April 1986	Joined The Mitsubishi Bank, Limited
		June 2012	Executive Officer of BK
		July 2015	Executive Officer of MUFG
		May 2016	Managing Executive Officer of BK
		April 2020	Senior Managing Corporate Executive of MUFG (incumbent)
		April 2021	Senior Managing Corporate Executive of MUFG (incumbent)
Tetsuya Yonehana (February 10, 1964)	Senior Managing Corporate Executive (Group Chief Financial Officer, or CFO)	April 1986	Joined The Mitsubishi Trust and Banking Corporation
		June 2012	Executive Officer of TB
		June 2015	Executive Officer of MUFG
		June 2016	Managing Executive Officer of TB
		April 2019	Director and Managing Executive Officer of TB
		April 2020	Managing Executive Officer of MUFG
Naomi Hayashi (March 16, 1965)	Senior Managing Corporate Executive (Group Head, Japanese Corporate & Investment Banking Business Group in charge of Research & Advisory Planning Division)	April 1986	Director and Senior Managing Executive Officer of TB
		June 2012	Senior Managing Executive Officer of BK Senior Managing Corporate Executive of MUFG (incumbent)
		June 2015	Member of the Board of Directors, Senior Managing Executive Officer of BK (incumbent)
		June 2016	Member of the Board of Directors, Senior Managing Executive Officer of BK (incumbent)
		April 2019	Member of the Board of Directors, Senior Managing Executive Officer of BK
		April 2020	Member of the Board of Directors, Senior Managing Executive Officer of BK (incumbent)
		June 2020	Senior Managing Corporate Executive of MUFG (incumbent)
		April 2021	Senior Managing Corporate Executive of MUFG (incumbent)

Name (Date of Birth)	Position in MUFG		Business Experience
Atsushi Miyata (March 29, 1964)	Senior Managing Corporate Executive (Group Head, Retail & Commercial Banking Business Group, Head of Wealth Management Unit)	April 1987	Joined The Sanwa Bank, Limited
		June 2013	Executive Officer of BK
		May 2015	Executive Officer of MUFG
		May 2017	Managing Executive Officer of BK
		July 2018	Managing Executive Officer of MUFG
		April 2021	Senior Managing Executive Officer of BK
		June 2021	Senior Managing Corporate Executive of MUFG (incumbent)
			Member of the Board of Directors, Senior Managing Executive Officer of BK (incumbent)
Takayuki Yasuda (June 19, 1963)	Senior Managing Corporate Executive (Group Head, Asset Management & Investor Services Business Group)	April 1987	Joined The Mitsubishi Trust and Banking Corporation
		June 2013	Executive Officer of TB
		February 2015	Executive Officer of MUFG
		June 2017	Managing Executive Officer of TB
		April 2021	Director and Senior Managing Executive Officer of TB (incumbent)
			Senior Managing Corporate Executive of MUFG (incumbent)
Yoshifuji Shigeru (June 29, 1962)	Senior Managing Corporate Executive (Group Head, Global Markets Business Group)	April 1987	Joined The Mitsubishi Bank, Limited
		June 2012	Executive Officer of BK
		May 2016	Executive Officer of MUFG
		April 2019	Managing Corporate Executive of MUFG
			Managing Executive Officer of BK
		June 2019	Managing Executive Officer of MUFG
		April 2020	Member of the Board of Directors, Managing Executive Officer of BK
April 2021	Member of the Board of Directors, Senior Managing Executive Officer of BK (incumbent)		
			Senior Managing Corporate Executive of MUFG (incumbent)
Hiroki Kameda (May 17, 1965)	Managing Corporate Executive (Group Chief Information Officer, or CIO)	April 1988	Joined The Mitsubishi Bank, Limited
		June 2014	Executive Officer of BK
		June 2018	Executive Officer of MUFG
			President & CEO of Mitsubishi UFJ Information Technology, Ltd. (incumbent)
		April 2019	Managing Executive Officer of BK
		June 2019	Managing Corporate Executive of MUFG (incumbent)
			Member of the Board of Directors, Managing Executive Officer of BK (incumbent)
		June 2021	President & CEO of MU Business Engineering, Ltd. (incumbent)

Name (Date of Birth)	Position in MUFG		Business Experience
Hiroshi Mori (February 21,1965)	Managing Corporate Executive (Group Chief Legal Officer, or CLO)	April 1989	Joined Development Bank of Japan (currently Development Bank of Japan, Inc.)
		April 1993	Seconded to Finance Bureau of Ministry of Home Affairs
		June 2003	Seconded to Tesac Corporation, a Company under reorganization Trustee representative, Manager of Corporate Planning Department
		October 2006	Registered as attorney at law Joined Nishimura & Asahi
		November 2010	Outside Director, USEN Corporation
		January 2012	Partner at Nishimura & Asahi
		June 2013	Substitute Auditor of KAGOME CO., LTD.
		March 2016	Outside Director, Audit & Supervisory Committee Member of KAGOME CO., LTD.
		June 2016	Outside Director, Audit & Supervisory Committee Member of SCHD
June 2019	Member of the Board of Directors, Managing Executive Officer of BK(incumbent) Managing Corporate Executive of MUFG (incumbent)		
Tomohiro Kimura (June 7, 1967)	Managing Corporate Executive (Group Chief Human Resource Officer, or Group CHRO Group Deputy Chief Digital Transformation Officer, or Group Deputy CDTO Group Deputy Chief Information Officer or Group Deputy CIO)	April 1990	Joined The Mitsubishi Trust and Banking Corporation
		June 2017	Executive Officer of TB Executive Officer of MUFG
		April 2020	Director and Managing Executive Officer of TB (incumbent) Managing Corporate Executive of MUFG (incumbent)
			President & CEO of MU Trust Apple Planning Company, Ltd. (incumbent) President & CEO of M.U.Trust Sougou Kanri Co., Ltd.
		April 2021	President & CEO of Mitsubishi UFJ Trust Systems Co., Ltd.(incumbent)
Masakazu Osawa (June 20, 1968)	Managing Corporate Executive (Group Head, Digital Service Business Group Group Chief Digital Transformation Officer, or Group CDTO)	April 1991	Joined The Mitsubishi Bank, Limited
		June 2017	Executive Officer of BK Executive Officer of MUFG
		April 2020	Managing Executive Officer of BK Managing Corporate Executive of MUFG (incumbent)
			CEO and Representative of the Board of Directors of Global Open Network, Inc. (incumbent) Chairman and Representative of the Board of Directors of Global Open Network Japan, Inc. (incumbent)

Name (Date of Birth)	Position in MUFG		Business Experience
		June 2020	Member of the Board of Directors, Managing Executive Officer of BK (incumbent)
Yutaka Miyashita (October 11, 1967)	Managing Corporate Executive (Group Chief Strategy Officer or Group CSO (Corporate Planning Division excluding Finances & Resources Management and Global Business) in charge of Corporate Administration Division)	April 1990	Joined The Sanwa Bank, Limited
		June 2016	Executive Officer of BK Executive Officer of MUFG
		April 2020	Managing Executive Officer of BK Managing Executive Officer of MUFG
		June 2020	Member of the Board of Directors, Managing Executive Officer of BK (incumbent)
		April 2021	Managing Corporate Executive of MUFG (incumbent)
Keitaro Tsukiyama (December 7, 1967)	Managing Corporate Executive (Group Chief Compliance Officer, or Group CCO)	April 1991	Joined The Mitsubishi Bank, Limited
		June 2018	Executive Officer of BK Executive Officer of MUFG
		April 2021	Managing Executive Officer of BK Managing Corporate Executive of MUFG (incumbent)
		June 2021	Member of the Board of Directors, Managing Executive Officer of BK (incumbent)

Note: The following abbreviations are used in the table above:

“BK” refers to MUFG Bank, Ltd. or its former name The Bank of Tokyo-Mitsubishi UFJ, Ltd.

“TB” refers to Mitsubishi UFJ Trust and Banking Corporation.

“SCHD” refers to Mitsubishi UFJ Securities Holdings Co., Ltd.

“BK(US)” refers to MUFG Union Bank, N.A.

“MUAH” refers to MUFG Americas Holdings Corporation.

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

No family relationship exists among any of our directors or corporate executives.

B. Compensation

The aggregate amount of compensation paid, including benefits in kind granted and any contingent and deferred compensation, by MUFG and its subsidiaries during the fiscal year ended March 31, 2021 to our directors (excluding outside directors), to corporate executives and to outside directors, was ¥178 million, ¥2,439 million and ¥233 million, respectively.

The compensation paid by MUFG and its subsidiaries during the fiscal year ended March 31, 2021 to our directors and corporate executives consisted of annual base salaries, performance-based stock compensation, cash bonuses and other benefits. MUFG’s compensation committee determines the compensation paid to our directors and corporate executives.

The following table sets forth details of the aggregate compensation paid by MUFG and its subsidiaries during the fiscal year ended March 31, 2021 to our directors (excluding outside directors) and corporate executives:

Number of Directors and Corporate Executives ⁽¹⁾	Aggregate Compensation	Non-Adjustable Compensation		Adjustable Compensation			Other
		Annual Base Salary	Performance-based Stock Compensation	Cash Bonuses	Performance-based Stock Compensation	Retirement Allowances ⁽²⁾	
24	¥2,617	¥1,352	¥426	¥540	¥172	¥127	¥0

Notes:

- (1) Includes the current directors and corporate executives as well as those who retired during the fiscal year ended March 31, 2021 but excludes the outside directors.
- (2) Represents the aggregate amount of retirement allowances paid in cash during the fiscal year ended March 31, 2021, 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. A reserve in the total amount of such retirement allowances was set aside as of September 30, 2007. For more information, see "—Retirement Allowances" below.

The following table sets forth the details of individual compensation paid, including benefits in kind granted by MUFG and its subsidiaries in an amount equal to or exceeding ¥100 million during the fiscal year ended March 31, 2021:

Directors	Aggregate Compensation	Paid by	Non-Adjustable Compensation		Adjustable Compensation		Retirement Allowances ⁽²⁾
			Annual Base Salary	Performance-based Stock Compensation	Cash Bonuses	Performance-based Stock Compensation	
			(in millions)				
Nobuyuki Hirano	¥237	MUFG	¥48	¥11	¥27	¥22	—
		BK	—	—	—	2	127
Kanetsugu Mike	¥169	MUFG	¥41	¥11	¥17	¥8	—
		BK	41	18	23	10	—
Saburo Araki	¥146	MUFG	¥25	¥5	¥16	¥8	—
		SCHD	13	2	27	4	—
		MUMSS	13	2	27	4	—
Iwao Nagashima	¥183	MUFG	¥35	¥7	¥31	¥10	—
		TB	35	22	33	10	—
Hironori Kamezawa	¥224	MUFG	¥65	¥43	¥69	¥24	—
		BK	18	5	—	—	—
Kenji Yabuta	¥125	MUFG	¥45	¥9	¥17	¥3	—
		BK	26	14	9	2	—
Naoki Hori	¥123	MUFG	¥41	¥9	¥17	¥3	—
		BK	23	12	10	2	—
		ACOM	6	—	—	—	—
Masato Miyachi	¥127	MUFG	¥47	¥8	¥17	¥5	—
		BK	27	10	10	3	—
Sunao Yokokawa	¥114	MUFG	¥38	¥7	¥14	¥3	—
		TB	21	19	10	2	—
Masahiro Kuwahara	¥111	MUFG	¥33	¥7	¥9	¥2	—
		BK	19	24	6	1	—
		TB	10	—	—	—	—
Yoshitaka Shiba	¥113	MUFG	¥61	¥28	¥16	¥6	—
		BK	—	—	—	2	—

Notes: (1) The following abbreviations are used in the table above:

"BK" refers to MUFG Bank, Ltd. (or its former name The Bank of Tokyo-Mitsubishi UFJ, Ltd.)

"TB" refers to Mitsubishi UFJ Trust and Banking Corporation.

"SCHD" refers to Mitsubishi UFJ Securities Holdings Co., Ltd.

"MUMSS" refers to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

"ACOM" refers to ACOM Co., Ltd.

- (2) Represents the amount of retirement allowances paid in cash during the fiscal year ended March 31, 2021, 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. A reserve in the total amount of such retirement allowances was set aside as of September 30, 2007. For more information, see “—Retirement Allowances” below.

Annual Base Salary

Annual base salaries were paid to our directors (including outside directors) and corporate executives in the form of monthly cash installment payments. The aggregate annual base salary paid to our directors (excluding outside directors) and corporate executives for the fiscal year ended March 31, 2021 was ¥1,352 million. The aggregate annual base salary paid to our outside directors for the same period was ¥233 million.

Performance-based Stock Compensation Plans

Under our performance-based stock compensation plans, qualified directors (excluding outside directors and directors serving as audit committee members), corporate executives and others of MUFG and its major domestic subsidiaries are assigned, on a monthly basis, (1) points based on their job responsibilities, or non-adjustable points, and (2) additional points based on their job responsibilities which are adjusted at the end of each fiscal year and at the end of each plan period to reflect the extent to which a financial performance target determined by the compensation committee is attained, or adjustable points. Each plan period corresponds to the period covered by the three-year medium-term business plan of MUFG. Each accumulated point represents a right to receive one share of MUFG common stock from a trust established in Japan to administer the plan grants as determined by the compensation committee.

The right to receive shares of MUFG common stock in exchange for non-adjustable points becomes vested and nonforfeitable, and the shares are delivered, upon the grantee's departure from his or her job responsibilities based on which the right was granted. The right to receive shares of MUFG common stock in exchange for adjustable points becomes vested and nonforfeitable, and the shares are delivered, at the end of each plan period. The vesting in either case is subject to conditions imposed by the compensation committee, including non-engagement in misconduct. A portion of the shares subject to a grantee's vested right may be delivered in cash.

The grantees are entitled to “dividend equivalent credits” on their granted but unvested rights under the plan when MUFG pays dividends to its shareholders. The credit is equal to the dividends that the grantees would have received on the shares had the shares been issued to the grantees in exchange for their granted but unvested rights under the plan, less expenses relating to the administration of the plan. Accumulated dividend equivalents are paid to grantees at the time of the delivery of the shares.

The shares to be delivered to grantees are purchased on the open market by the trustee of the trust pursuant to a trust agreement among MUFG, the trustee and the independent caretaker of the trust. Each plan is funded in cash up to a maximum aggregate amount determined by our compensation committee.

The initial performance-based stock compensation plan commenced on July 1, 2016. The grants under the plan were tied to MUFG's previous medium-term business plan for the three-year period ended March 31, 2018. The trust for the plan was funded with ¥9.8 billion in cash, and 18,785,400 shares of MUFG common stock were purchased by the trustee of the plan trust in May 2016. The plan was adopted after our compensation committee decided in May 2016 to cease to provide any additional stock acquisition rights under our previous stock-based compensation structure and to introduce the performance-based stock compensation plan.

The second performance-based stock compensation plan commenced on December 1, 2016. The trust for the plan was funded with 8.8 billion in cash, and an aggregate of 13,004,300 shares of MUFG common stock were purchased by the trustee of the plan trust in November 2016 and May 2017. The plan was adopted to

replace the outstanding stock acquisition rights under our previous stock-based compensation structure. Upon the adoption of the plan, the stock acquisition rights that had been allotted to grantees but remained unexercised under the then-outstanding stock-based compensation plans were exchanged for points under the performance-based stock compensation plan, and the rights to receive shares of MUFG common stock represented by these points were vested. The outstanding stock acquisition rights of grantees who were on overseas assignments at the time of the adoption of the plan were exchanged for points under the performance-based stock compensation plan upon their return to Japan.

On May 15, 2018, the compensation committee approved additional grants under the initial performance-based stock compensation plan, which was amended in connection with the launch of MUFG's previous medium-term business plan for the three-year period ending March 31, 2021. The trust period of the plan trust was extended until August 31, 2021, and the maximum amount of funds to be contributed to the plan trust was reset at ¥26.3 billion. The formula for determining adjustable points under the plan was also revised. In May 2018, the plan trust was funded with ¥9.6 billion in cash, and 13,049,600 shares of MUFG common stock were purchased by the trustee of the plan trust.

On May 17, 2021, the compensation committee approved new grants under the initial performance-based stock compensation plan, which was amended in connection with the launch of MUFG's current medium-term business plan for the three-year period ending March 31, 2024. The trust period of the plan trust was extended until August 31, 2024, and the maximum amount of funds to be contributed to the plan trust was reset at ¥26.6 billion. The formula for determining adjustable points under the plan was also revised. In May 2021, the plan trust was funded with ¥8.3 billion in cash, and 13,381,500 shares of MUFG common stock were purchased by the trustee of the plan trust.

For more information on the Performance-based Stock Compensation Plans, see "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers."

Cash Bonuses

We from time to time pay cash bonuses to our directors and corporate executives to further motivate them to contribute to the improvement of our stock prices and profits if such bonuses are deemed appropriate based on a balanced scorecard approach taking into account the results of operations of the MUFG Group and each director's or corporate executive's individual performance of his or her duties as a director or corporate executive in light of both quantitative and qualitative criteria, including our medium-term strategy for improving our corporate value. None of the outside directors is eligible to receive a cash bonus. The compensation committee determines the cash bonus for each director and corporate executive based on our financial results and his or her job performance for the preceding fiscal year as well as his or her seniority and experience. The aggregate cash bonus paid to our directors and corporate executives for the fiscal year ended March 31, 2021 was ¥540 million.

Retirement Allowances

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. Historically, 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, retirement allowances are paid in cash to the directors and corporate auditors who were elected prior to that date at the time of their retirement. A reserve in the total amount of such retirement allowances was set aside as of September 30, 2007. The aggregate amount of retirement allowances paid in cash by MUFG and its subsidiaries pursuant to the one-time shareholder approval during the fiscal year ended March 31, 2021 to our directors (excluding outside directors), to corporate auditors (excluding outside corporate auditors) and to outside directors and corporate auditors, who have retired from their respective positions held at MUFG or, if such directors and corporate auditors concurrently held positions at MUFG's subsidiaries, who have retired from such positions, was ¥127 million, nil and nil, respectively.

MUFG Americas Holdings Corporation Stock Bonus Plan

Under the MUFG Americas Holdings Corporation Stock Bonus Plan, qualified key employees of MUFG Americas Holdings are granted Restricted Share Units, or RSUs, representing a right to receive American Depositary Receipts, or ADRs, evidencing ADSs, each exchangeable for one share of MUFG common stock, from an independent trust established to administer the plan grants, upon the satisfaction of vesting conditions, to be determined pursuant to the plan as well as a Restricted Share Unit Agreement between MUFG Americas Holdings and the grantees.

Unless otherwise provided in the relevant Restricted Share Unit Agreement, RSUs become vested and nonforfeitable as follows: one-third (33 1/3%) of a grantee's RSUs vests on May 20 of each of the three years following the date of the grant such that all of the RSUs become fully vested after three years from the grant date so long as the grantee satisfies the specified continuous service requirements and any other conditions under the applicable plan documents, subject to certain clawback and notice period provisions.

Under the plan, the grantees are entitled to "dividend equivalent credits" on their granted but unvested RSUs when MUFG pays dividends to its shareholders. The credit is equal to the dividends that the grantees would have received on the shares had the shares been issued to the grantees in exchange for their granted but unvested RSUs. Accumulated dividend equivalents are paid to grantees in whole shares on an annual basis. Any fractional share will be paid to the participants in cash.

Grants made under the plan are not entitled to any dividend rights, voting rights, or other stockholder rights unless and until RSUs are vested and ADSs are delivered to grantees.

The ADSs to be delivered to grantees will be purchased on the open market by the trustee of the independent trust pursuant to a trust agreement between MUFG Americas Holdings and the trustee. As of June 30, 2021, 108,220,888 RSUs have been granted under the plan, of which 43,554,160 RSUs were outstanding as of June 30, 2021.

For more information on the plan, see "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers."

Share Ownership

As of July 1, 2021, our directors and corporate executives held the following numbers of shares of our common stock:

<u>Directors</u>	<u>Number of Shares Registered</u>
Mariko Fujii	—
Keiko Honda	—
Kaoru Kato	—
Satoko Kuwabara	—
Toby S. Myerson	368*
Hirofumi Nomoto	25,000
Yasushi Shingai	—
Koichi Tsuji	—
Tarisa Watanagase	—
Ritsuo Ogura	95,534
Kenichi Miyanaga	55,478

<u>Corporate Executives</u>	<u>Number of Shares Registered</u>
Kanetsugu Mike	118,862
Saburo Araki	278,180
Iwao Nagashima	129,081
Junichi Hanzawa	58,900
Hironori Kamezawa	69,639
Masato Miyachi	17,959
Takayoshi Futae	19,684
Masahiro Kuwahara	28,000
Yoshitaka Shiba	129,403
Tetsuya Yonehana	89,922
Naomi Hayashi	14,210
Atsushi Miyata	45,297
Takayuki Yasuda	30,500
Shigeru Yoshifuji	128,500
Hiroki Kameda	56,583
Hiroshi Mori	8,285
Tomohiro Kimura	19,500
Masakazu Osawa	15,200
Yutaka Miyashita	26,400
Keitaro Tsukiyama	26,769

* Held in the form of ADRs.

None of the shares of our common stock held by our directors and corporate executives have voting rights that are different from shares of our common stock held by any other shareholder.

For information on the performance-based stock compensation for our directors and corporate executives, see “—Performance-based Stock Compensation Plans.”

C. Board Practices

Our articles of incorporation provide for a board of directors with statutorily mandated nominating and governance committee, audit committee and compensation committee, each consisting of members of the board

of directors. We have also elected, though not statutorily mandated under the Companies Act of Japan, to establish a risk committee consisting of directors and external experts. In May 2016, we established a U.S. risk committee pursuant to the U.S. Enhanced Prudential Standards for foreign banking organizations. Our corporate executives are responsible for executing and managing our business operations based on a delegation of authority by the board of directors, and our directors set our key management policies and oversee the execution of duties by these corporate executives.

In June 2015, our shareholders approved an amendment to our articles of incorporation to adopt our current governance framework with a board of directors and board committees. We previously had a governance framework with a board of directors and a board of corporate auditors. The Companies Act permits three types of governance system for large companies such as MUFG: (1) a company with a nominating committee, an audit committee and a compensation committee, (2) a company with a board of corporate auditors, and (3) a company with an audit and supervisory committee. Our previous governance framework was based on the second system, and our newly adopted governance system is based on the first system.

With respect to companies adopting the first system, including MUFG, each of the nominating, audit and compensation committees must consist of members of the board of directors, and the majority of each committee must be outside directors as defined by the Companies Act. In addition, the board of directors must appoint corporate executives (*shikkoyaku*) to execute and manage the business operations of the company under the authority delegated by the board of directors. Based on this system, our current governance framework is designed to facilitate more flexible and swifter decision-making and increase transparency in our management processes.

An “outside director” is defined by the Companies Act as a person who meets all of the following conditions:

- the person is not currently, and has not been in the ten years prior to his or her assumption of office as outside director, an executive director, who is a director concurrently performing an executive role (*gyomu shikko torishimariyaku*), a corporate executive, a manager (*shihainin*), or any other type of employee of the company or any of its subsidiaries;
- if the person has been a non-executive director, a corporate auditor, or an accounting adviser (*kaikai sanyo*) of the company or any of its subsidiaries within the ten years prior to his or her assumption of office as outside director, the person was not an executive director, a corporate executive, a manager or any other type of employee of the company or any of its subsidiary in the ten years prior to his or her assumption of office as such;
- the person is not a director, a corporate executive officer, a manager or any other type of employee of the company’s parent company, or a person who controls the company;
- the person is not an executive director, a corporate executive officer, a manager or any other type of employee of another subsidiary of the company’s parent company; and
- the person is not the spouse or a family member within the second degree of kinship of a director, a corporate executive, a manager, or any other type of important employee of the company or a person who controls the company.

Board of Directors

Our board of directors consists of directors who are elected at a general meeting of shareholders. Under our articles of incorporation, the number of directors may not exceed 20. We currently have 16 directors, nine of whom are outside directors and two of whom are internal non-executive directors.

The regular term of office of a director is one year from the date of election, and directors may serve their terms until the close of the annual general meeting of shareholders held for the following year after their election. Directors may serve any number of consecutive terms.

Under the Companies Act, the board of directors has the authority to determine our basic management policy, make decisions on the execution and management of our business operations, and oversee the execution by the corporate executives of their duties. The board of directors may delegate, to the extent permitted by the Companies Act, the authority to make decisions on the execution and management of our business operations. Our board of directors has delegated most of this authority to the corporate executives.

The board of directors elects the Chairman and the Deputy Chairman from among its members and appoints key management members based on recommendations submitted to it by the nominating committee.

Under the Companies Act, 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 Companies Act nor our articles of incorporation contain special provisions as to the borrowing power exercisable by a director, the retirement age of our directors, or a requirement of our directors to hold any shares of our capital stock.

Under the Companies Act and our articles of incorporation, we may exempt, by resolution of the board of directors, our directors from liabilities to MUFU arising in connection with their failure to execute their duties in good faith and 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 non-executive director which limits the maximum amount of their liability to MUFU arising in connection with a failure to execute their duties in good faith and 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 Companies Act and Articles 113 and 114 of the Companies Act Enforcement Regulations.

None of our directors is party to a service contract with MUFU or any of its subsidiaries that provides for benefits upon end of their director term.

Nominating Committee

Our nominating committee, which we call the nominating and governance committee, determines the contents of proposals regarding the election and removal of director candidates to be submitted to general meetings of shareholders. The committee also considers and makes recommendations to the board of directors regarding the appointment and removal of the Chairman and the Deputy Chairman of the board of directors and the President & Group CEO of MUFU as well as the chairman and the deputy chairman of the board of directors, the president and others of each of our major subsidiaries. In addition, the committee discusses and makes recommendations to the board of directors on matters pertaining to our governance policy and framework.

Under the Companies Act, the nominating committee must consist of at least three directors, and the majority of its members must be outside directors. Our nominating and governance committee currently consists of five directors. The chairman of the committee is Hirofumi Nomoto, an outside director. The other members of this committee are Mariko Fujii, Kaoru Kato and Satoko Kuwabara, who are outside directors, and Hironori Kamezawa, Director, President & Group CEO. Between April 2020 and March 2021, the nominating and governance committee met 12 times.

Audit Committee

The audit committee determines the contents of proposals pertaining to the election, termination and non-appointment of our independent auditor to be submitted to general meetings of shareholders. The committee

also monitors and audits the execution by the directors and the corporate executives of their duties and prepares audit reports to the board of directors. In order to effectively perform its duties, the committee reviews, inspects and investigates, as necessary, the management of the operations of MUFG and its subsidiaries, including financial reporting and internal controls. In addition, the committee has the power to consent to decisions on the compensation to be paid to our independent auditor.

Under the Companies Act, the audit committee must consist of at least three non-executive directors, and the majority of its members must be outside directors. Our committee currently has six members. The chairman of the committee is Koichi Tsuji, an outside director. The other members of the committee are Keiko Honda, Kaoru Kato and Yasushi Shingai, who are outside directors, and Ritsuo Ogura and Kenichi Miyanaga, who are non-executive directors. Between April 2020 and March 2021, the audit committee met 16 times.

Compensation Committee

The compensation committee establishes our policy regarding the determination of the compensation of MUFG's directors, corporate executives, executive officers (*shikko yakuin*) and others and also determines the details of individual compensation based on the policy. The committee discusses and makes recommendations to the board of directors regarding the establishment, revision and abolition of compensation systems for the chairman, the deputy chairman, the president and others of each of our major subsidiaries.

Under the Companies Act, the compensation committee must consist of at least three directors, and the majority of its members must be outside directors. Our compensation committee currently consist of five directors. The chairman of the committee is Satoko Kuwabara, an outside director. The other members of this committee are Mariko Fujii, Kaoru Kato and Hirofumi Nomoto, who are outside directors, and Hironori Kamezawa, Director, President & Group CEO. Between April 2020 and March 2021, the compensation committee met 6 times.

Risk Committee

In addition to the foregoing three committees, which are mandated by the Companies Act, we have a risk committee, which was initially established under our previous governance framework and which we continue to have under our current governance framework on a voluntary basis. The risk committee deliberates and makes recommendations to the board of directors on matters regarding group-wide risk management as well as top risk matters.

MUFG Corporate Governance Policies provide that the committee shall consist of directors and external experts. External experts are professionals with no prior employment relationship with any of the MUFG group companies. The committee currently has eight members. The chairperson of the committee is Mariko Fujii, an outside director. The other members of this committee are Toby S. Myerson, Yasushi Shingai and Tarisa Watanagase, who are outside directors, Yutaka Miyashita, Managing Corporate Executive and Group CSO, and Shinichi Koide, Atsushi Miyanoya and Kazuhiko Ohashi, who are external experts. Between April 2020 and March 2021, the risk committee met five times.

U.S. Risk Committee

The U.S. risk committee oversees the risk management function for our combined U.S. operations. Its oversight role includes, but is not limited to, all roles and responsibilities required under the FRB's final rules for Enhanced Prudential Standards for foreign banking organizations. The committee monitors liquidity and all other types of risk exposures, reviews the risk management policies and procedures, and oversees compliance with such policies and procedures for our combined U.S. operations. The committee is a subcommittee of the board of directors of MUFG, and reports and makes recommendations to MUFG's board of directors and MUFG's risk committee.

The members of the U.S. risk committee are appointed by MUFG's board of directors after consideration of member candidates reviewed and recommended by MUFG's risk committee and nominating and governance committee. The committee shall consist of five to eight members including members of the MUFG Americas Holdings Risk Committee, delegates from MUFG, the Chairman of the MUFG Americas Holdings Board and MUFG Americas Holdings' CEO, with the chairperson of the committee being an outside director of MUFG Americas Holdings.

Corporate Executives

Our corporate executives are responsible for executing and managing our business operations within the scope of the authority delegated to them by the board of directors.

Under the Companies Act, at least one corporate executive must be appointed by a resolution of the board of directors. We currently have 20 corporate executives. Under our articles of incorporation, the board of directors shall appoint a president and a deputy president, who, as representative corporate executives, may represent us severally. The term of office of each corporate executive expires at the conclusion of the first meeting of the board of directors convened after the ordinary general meeting of shareholders for the last fiscal year that ends within one year following the corporate executive's assumption of office.

Under the Companies Act, a resolution of the board of directors is required if any corporate executive wishes to engage in any business that is in competition with us or any transaction with us.

Under the Companies Act and our articles of incorporation, we may exempt, by resolution of the board of directors, our corporate executives from liabilities to MUFG arising in connection with their failure to execute their duties in good faith and without gross negligence within the limits stipulated by applicable laws and regulations. We, however, currently have no such arrangements with any of our corporate executives.

D. Employees

As of March 31, 2021, we had approximately 132,700 employees, a decrease of approximately 500 employees compared with the number of employees as of March 31, 2020. In addition, as of March 31, 2021, we had approximately 30,800 part-time and temporary employees. The following tables show the percentages of our employees across our different business units and in different locations as of March 31, 2021:

Business unit

MUFG Bank:

Retail & Commercial Banking Business Unit	16%
Japanese Corporate & Investment Banking Business Unit	3
Global Corporate & Investment Banking Business Unit	2
Global Commercial Banking Business Unit	41
Global Markets Business Unit	1
Corporate Center/Corporate Staff	17

Mitsubishi UFJ Trust and Banking:

Trust-Banking	3
Trust Assets	4
Real Estate	1
Global Markets	0
Administration and subsidiaries	2

Mitsubishi UFJ Securities Holdings:

Retail & Commercial Banking Business Unit	3
Japanese Corporate & Investment Banking Business Unit	0
Global Corporate & Investment Banking Business Unit	0
Global Markets Business Unit	1
Corporate Center/Corporate Staff	1

Mitsubishi UFJ NICOS:

Business Marketing Division	1
Credit Risk Management & Risk Assets Administration Division	1
Operations Division	1
Systems & Systems Integration Division	0
Corporate Division	0
Others	0

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

Location

MUFG Bank:

Japan	25%
United States	10
Europe	2
Asia/Oceania excluding Japan	43
Other areas	0

Mitsubishi UFJ Trust and Banking:

Japan	8
United States	1
Europe	1
Asia/Oceania excluding Japan	0

Mitsubishi UFJ Securities Holdings:

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

Mitsubishi UFJ NICOS:

Japan	3
United States	0
Europe	0
Asia/Oceania excluding Japan	0

Others	2
	<hr/>
	100%

Most of our employees are members of an 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, 2021, we had 929,965 registered shareholders of our common stock. The ten largest holders of our common stock appearing on the register of shareholders as of March 31, 2021, and the number and the percentage of such shares held by each of them, were as follows:

<u>Name</u>	<u>Number of shares held</u>	<u>Percentage of total shares in issue⁽³⁾</u>
The Master Trust Bank of Japan, Ltd. (Trust account) ⁽¹⁾	1,065,551,700	7.84%
Custody Bank of Japan, Ltd. (Trust account) ⁽¹⁾	706,354,200	5.20%
SSBTC CLIENT OMNIBUS ACCOUNT	324,487,406	2.38%
Custody Bank of Japan, Ltd. (Trust account 5) ⁽¹⁾	206,901,600	1.52%
The Bank of New York Mellon as Depository Bank for DR Holders ⁽²⁾	191,299,292	1.40%
State Street Bank West Client-Treaty 505234	187,167,291	1.37%
Custody Bank of Japan, Ltd. (Trust account 6) ⁽¹⁾	183,391,100	1.35%
The Master Trust Bank of Japan, Ltd. (Meiji Yasuda Life Insurance Company retirement benefit trust account)	175,000,000	1.28%
Custody Bank of Japan, Ltd. (Trust account 7) ⁽¹⁾	169,184,900	1.24%
Custody Bank of Japan, Ltd. (Trust account 1) ⁽¹⁾	164,611,100	1.21%
Total	<u>3,373,948,589</u>	<u>24.84%</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 ADSs.
- (3) Numbers are truncated after two decimal points.
- (4) According to a beneficial ownership report on Schedule 13G filed with the SEC by BlackRock Inc. on January 29, 2021, BlackRock and its consolidated subsidiaries beneficially owned an aggregate of 5.3% of the outstanding shares of our common stock as of December 31, 2020. Other than as described in the table above, we have not independently confirmed this beneficial ownership information. According to a beneficial ownership report on Schedule 13G filed with the SEC by Sumitomo Mitsui Trust Holdings, Inc. on February 5, 2021, Sumitomo Mitsui Trust Holdings and its consolidated subsidiaries beneficially owned an aggregate of 5.6% of the outstanding shares of our common stock as of December 31, 2020. Other than as described in the table above, we have not independently confirmed this beneficial ownership information.

As of March 31, 2021, 1,564,272 shares, representing approximately 0.01% of our outstanding common stock, were held by our directors and corporate executives.

As of March 31, 2021, 1,659,689,893 shares, representing 12.21% of our outstanding common stock, were owned by 375 U.S. shareholders of record who are resident in the United States, one of whom is the ADR depository's nominee holding 191,299,292 shares, or 1.40%, of our total issued shares of common stock.

Our major shareholders do not have different voting rights.

B. Related Party Transactions

As of March 31, 2021, we held approximately 20.2% of the voting rights in Morgan Stanley and Series C Preferred Stock with a face value of approximately \$521.4 million and 10% dividend. We also have two representatives appointed to Morgan Stanley's board of directors. We adopted the equity method of accounting for our investment in Morgan Stanley beginning with the fiscal year ended March 31, 2012. In April 2018, we entered into a sales plan with Morgan Stanley and Morgan Stanley & Co. LLC, pursuant to which we will sell portions of the shares of Morgan Stanley common stock that we hold to Morgan Stanley through Morgan Stanley & Co. LLC

acting as agent for Morgan Stanley to the extent necessary to ensure that our beneficial ownership will remain below 24.9%. In December 2020, this sales plan was suspended upon notice by Morgan Stanley to us in accordance with the terms of the plan.

We and Morgan Stanley have two securities joint venture companies, namely, Mitsubishi UFJ Morgan Stanley Securities and Morgan Stanley MUFG Securities, in Japan. We hold a 60% economic interest in Mitsubishi UFJ Morgan Stanley Securities and Morgan Stanley MUFG Securities, and Morgan Stanley holds a 40% economic interest in Mitsubishi UFJ Morgan Stanley Securities and Morgan Stanley MUFG Securities. We hold a 60% voting interest and Morgan Stanley holds a 40% voting interest in Mitsubishi UFJ Morgan Stanley Securities, and we hold a 49% voting interest and Morgan Stanley holds a 51% voting interest in Morgan Stanley MUFG Securities.

We and Morgan Stanley continue to pursue a variety of business opportunities in Japan and abroad in accordance with the global strategic alliance. For a detailed discussion of our global alliance with Morgan Stanley, see “Item 4.B. Information on the Company—Business Overview—Global Strategic Alliance with Morgan Stanley.”

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, 2021, 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 collectability or present other unfavorable features.

None of our directors or corporate executives, nor any 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 executives other than in the normal course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, involving no more than the normal risk of collectability and presenting no other unfavorable features. In addition, no loans have been made to our directors or corporate executives other than as permitted under Section 13(k) of the U.S. Securities Exchange Act and Rule 13k-1 promulgated thereunder.

No family relationship exists among any of our directors or corporate executives. No arrangement or understanding exists between any of our directors or corporate executives and any other person pursuant to which any director or corporate executive was elected to their position at MUFG.

As part of our compensation structure, we have granted performance-based stock compensation rights to our directors and corporate executives. 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.

Pursuant to Rule 3-09 of Regulation S-X, the financial statements and supplementary data of Morgan Stanley, our equity method investee, as of December 31, 2019 and 2020 and for the fiscal years ended December 31, 2018, 2019 and 2020, are incorporated in this Annual Report as Exhibit 99(c) by reference to Morgan Stanley's annual report on Form 10-K filed on February 26, 2021.

Legal Proceedings

From time to time, we are involved in various litigation matters and other legal proceedings, including regulatory actions. Although the final resolution of any such matters and proceedings 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 and other legal proceedings, when ultimately determined, will not materially affect our results of operations or financial position. For more information, see "Item 3.D. Key Information—Risk Factors—Operational Risk—We may become subject to regulatory actions or other legal proceedings relating to our transactions or other aspects of our operations, which could result in significant financial losses, restrictions on our operations and damage to our reputation." and Note 26 to our consolidated financial statements.

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. Year-end dividends in the amount of ¥12.5 per share of our common stock (in addition to interim dividends of ¥12.5 per share of our common stock) for the fiscal year ended March 31, 2021 were approved by shareholders at the ordinary general meeting of shareholders held on June 29, 2021.

See Exhibit 2(c) to this Annual Report 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 U.S. dollars and transfer the resulting U.S. dollars to the United States, to convert all cash dividends that it receives in respect of deposited shares into U.S. 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" and Exhibit 2(c) to this Annual Report.

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

The principal market for our common stock is the Tokyo Stock Exchange in Japan. Our common stock is also listed on the Nagoya Stock Exchange in Japan. The listing code assigned to our common stock in Japan is 8306.

In the United States, ADSs, each representing one share of common stock, are quoted on the New York Stock Exchange under the symbol, "MUFG."

B. Plan of Distribution

Not applicable.

C. Markets

The information required by this item is set forth in “—A. Offer and Listing Details.”

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 Banking Law;
- any businesses incidental to the foregoing businesses mentioned in the preceding item; and
- any other businesses in which bank holding companies are permitted to engage under the Banking Law in addition to the foregoing businesses mentioned in the preceding two items.

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

As of March 31, 2021, a total of 13,581,995,120 shares of common stock (including 737,282,154 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.

For a description of our common stock, see Exhibit 2(c) to this Annual Report.

Preferred Stock

We currently have no shares of preferred stock issued.

For a description of preferred stock we are authorized to issue under our Articles of Incorporation, see Exhibit 2(c) to this Annual Report.

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, 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 foreign investors.

“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:

- natural persons who are non-resident of Japan;
- corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan;
- corporations of which 50% or more of the shares are 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;
- (A) partnerships 50% or more of whose contributions are made by (1) natural persons who are non-residents of Japan, (2) corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan, (3) 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, (4) corporations, a majority of the officers (or a majority of the officers having the power to represent the corporation) of which are non-resident individuals, or (5) other partnerships a majority of whose operating partners fall under any of (1) through (4), or (B) partnerships a majority of whose operating partners are (i) any of (1) through (5) above, (ii) other partnerships 50% or more of whose contributions are made by non-residents of Japan or partnerships that are any of (1) through (5) above, or (iii) certain limited liability partnerships under the Limited Liability Partnership Act; 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 of Japan by way of a stock split is not subject to any notification or reporting requirements.

Acquisition of Shares

In general, a non-resident of Japan 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 ten percent or more of our issued shares as a result of such acquisition, the foreign investor must file a report of such acquisition with the Minister of Finance and any other competent Minister within 45 days from such acquisition. Further, if a foreign investor acquires the right to instruct voting on shares through acquisition of ADSs or otherwise and holds, together with parties who have a special relationship with that foreign investor, the right to instruct voting on shares representing ten percent or more of the voting rights in us, the foreign investor is subject to a reporting requirement. In certain limited circumstances, however, a prior notification of such acquisition must be filed with the Minister of Finance and any other competent Minister, who may modify or prohibit the proposed acquisition.

Deposit and Withdrawal under American Depositary Facility

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

Reporting of Substantial Shareholdings

The Financial Instruments and Exchange Act 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 five 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.

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 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, or the Tax Convention, a U.S. 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 rate of withholding tax, the rate of Japanese withholding tax applicable to dividends paid by us to non-resident holders is (i) 15.315% for dividends to be paid on or before December 31, 2037 and (ii) 15% for dividends to be paid thereafter, except for dividends paid to any individual non-resident holder who holds 3% or more of our issued shares for which the applicable rate is (a) 20.42% for dividends to be paid on or before December 31, 2037 and (b) 20% for dividends to be paid thereafter, pursuant to Japanese tax law.

The Tax Convention establishes the maximum rate of Japanese withholding tax which may be imposed on dividends paid to a U.S. resident not having a permanent establishment in Japan. Under the Tax Convention, the maximum withholding rate for U.S. holders (as defined below) is generally set at 10% of the gross amount distributed. However, the maximum rate is 5% of the gross amount distributed if the recipient is a corporation and owns directly or indirectly, on the date on which entitlement to the dividends is determined, at least 10% of the voting shares of the paying corporation. Furthermore, the amount distributed shall not be taxed if the recipient is (i) a pension fund which is a U.S. 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 company with a 50% or more interest in the paying company and satisfies certain other requirements. U.S. holders (as defined below) are urged to consult their own tax advisors with respect to their eligibility for benefits under the 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 as stated above shall be applicable.

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, or an Application Form for the Income Tax Convention, in advance through a paying handling agent 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. In this regard, a certain simplified special filing procedure is available for non-resident holders to claim treaty benefits of exemption from or reduction of Japanese withholding tax with respect to dividends to be paid on or after January 1, 2014, by submitting a Special Application Form for Income Tax Convention regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends of Listed Stocks (together with any other required forms and documents). With respect to ADSs, this reduced rate or exemption will be applicable to non-resident holders of ADSs if the depository or its agent submits two Application Forms (one before payment of dividends and the other within eight months after the record date concerning such payment of dividends), together with certain other documents. To claim this reduced rate or exemption, non-resident holders of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership, as applicable, and to provide other information or documents as may be required by the depository. Non-resident holders who are entitled, under any applicable tax treaty, to a reduced rate of Japanese withholding tax below the rate otherwise applicable under Japanese tax law, or exemption therefrom, as the case may be, but fail to submit the required application in advance may nevertheless be entitled to claim a refund from the relevant Japanese tax authority of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident holders are entitled to a reduced treaty rate under the applicable tax treaty) or the full

amount of tax withheld (if such non-resident holders are entitled to an exemption under the applicable tax treaty), as the case may be, by complying with a certain subsequent filing procedure. We do not assume any responsibility to ensure withholding at the reduced rate, or an exemption therefrom, for non-resident holders who would be so eligible under an applicable tax treaty but where the required procedures as stated above are not followed.

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.

U.S. Taxation

The following sets forth the material U.S. federal income tax consequences of the ownership of shares and ADSs by a U.S. holder, as defined below. This summary is based on U.S. federal income tax laws, including the U.S. 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 U.S. federal income tax consequences to a particular U.S. holder. It does not address all U.S. federal income tax considerations that may be relevant to all categories of potential purchasers, certain of which (such as banks or other financial institutions, insurance companies, dealers in securities, tax-exempt entities, non-U.S. persons, persons holding a share or an ADS as part of a “straddle,” “hedge,” conversion or integrated transaction, holders whose “functional currency” is not the U.S. dollar, holders liable for alternative minimum tax, holders required to report income no later than when such income is reported on an “applicable financial statement,” and holders of 10% or more of our shares by vote or value) are subject to special tax treatment. This summary does not address any foreign, state, local or other tax consequences of investments in our shares or ADSs.

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

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

- a citizen or resident of the United States as determined for U.S. federal income tax purposes;
- a corporation or other entity taxable as a corporation created or organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust
 - the administration of which is subject to (1) the supervision of a court within the United States and (2) the control of one or more U.S. persons as described in Section 7701(a)(30) of the Code; or
 - that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

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

We urge U.S. holders to consult their own tax advisors concerning the U.S. 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 the assumption that each obligation under the deposit agreement and any related agreement will be performed in accordance with its respective terms. Subject to the discussion in the next paragraph, for U.S. 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 U.S. federal income tax.

The U.S. 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 U.S. holders, each as described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of ADSs and us 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 U.S. federal income tax rules apply if a U.S. holder holds shares or ADSs of a company that is treated as a “passive foreign investment company” (a “PFIC”) for any taxable year during which the U.S. holder held shares or ADSs, as discussed in more detail below. U.S. holders should consult their own tax advisors as to the potential application of the PFIC rules to their ownership and disposition of shares or ADSs.

Taxation of Dividends

Subject to the application of the PFIC rules discussed below, U.S. holders will include the gross amount of any distribution received with respect to shares or ADSs (before reduction for Japanese withholding taxes), to the extent paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), as ordinary income in their gross income. As discussed below, for certain U.S. 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 U.S. holder will not be eligible for the “dividends-received deduction” allowed to U.S. corporations in respect of dividends received from other U.S. corporations. To the extent that an amount received by a U.S. holder exceeds such holder’s allocable share of our current earnings and profits, such excess will be applied first to reduce such holder’s tax basis in its shares or ADSs, thereby increasing the amount of gain or decreasing the amount of loss recognized on a subsequent disposition of the shares or ADSs. Then, to the extent such distribution exceeds such U.S. holder’s tax basis, such excess will be treated as capital gain. However, we do not maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles, and U.S. holders should therefore assume that any distribution by us with respect to shares or ADSs will constitute ordinary dividend income. The amount of the dividend will be the U.S. dollar value of the Japanese yen payments received. This value will be determined at the spot Japanese yen/U.S. dollar rate on the date the dividend is received by the depositary in the case of U.S. holders of ADSs, or by the shareholder in the case of U.S. holders of shares, regardless of whether the dividend payment is in fact converted into U.S. dollars at that time. If the Japanese yen received as a dividend are not converted into U.S. dollars on the date of receipt, a U.S. holder will have basis in such Japanese yen equal to their U.S. dollar value on the date of receipt, and any foreign currency gains or losses resulting from the conversion of the Japanese yen will generally be treated as U.S. source ordinary income or loss. If the Japanese yen received as a dividend are converted into U.S. dollars on the date of receipt, a U.S. holder will generally not be required to recognize foreign currency gain or loss in respect of the dividend income.

If a U.S. holder is eligible for benefits under the Tax Convention, the holder may be able to claim a reduced rate of Japanese withholding tax. All U.S. holders should consult their tax advisors about their eligibility for

reduction of Japanese withholding tax. A U.S. holder may claim a deduction or a foreign tax credit, subject to other applicable limitations, only for tax withheld at the appropriate rate. A U.S. holder would 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 U.S. holders, “financial services income.” The rules governing U.S. foreign tax credits are very complex and U.S. holders should consult their tax advisors regarding the availability of foreign tax credits under their particular circumstances.

Subject to applicable exceptions with respect to short-term and hedged positions, qualified dividends received by non-corporate U.S. holders 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 U.S. Treasury Department determines to be satisfactory for these purposes and that includes an exchange of information provision. The Tax Convention meets these requirements. Subject to the PFIC discussion below, we believe that we are a qualified foreign corporation and that dividends received by U.S. investors with respect to our shares or ADSs will be qualified dividends. Dividends received by U.S. investors from a foreign corporation that was a PFIC in either the taxable year of the distribution or the preceding taxable year are not qualified dividends.

Passive Foreign Investment Company Considerations

Special adverse U.S. federal income tax rules apply if a U.S. holder holds shares or ADSs of a company that is treated as a PFIC, for any taxable year during which the U.S. 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 (the “income test”), 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 (the “asset test”). 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.

Multiple sets of proposed Treasury regulations and an earlier IRS notice would convert what would otherwise be passive income into non-passive income when such income is banking income earned by an active bank. The various proposed Treasury regulations and IRS notice have different (and in some respects inconsistent) requirements for qualifying as an active bank, and for determining the banking income that may be excluded from passive income under this special rule for active banks. Moreover, the proposed Treasury regulations (some of which have been outstanding since 1994, and others of which were recently issued in 2021) will not be effective unless finalized. There can be no assurance that the proposed Treasury regulations will be finalized in their current form. Because final regulations have not been issued, the definition of banking income for purposes of the active bank exception is unclear under both the proposed Treasury regulations and the notice. Based upon certain management estimates and assumptions, we do not believe that we were a PFIC for the year ended March 31, 2021. The determination of whether we are a PFIC must be made annually and involves a fact-intensive analysis based upon, among other things, the composition of our income and assets and the value of our assets from time to time. It is possible that we may become a PFIC in the fiscal year ending March 31, 2022 or any future taxable year due to changes in our income or asset composition or changes to applicable Treasury and IRS guidance (including as a result of the final regulations). In addition, a decrease in the price of our shares may also result in our becoming a PFIC. If we were classified as a PFIC in any year during which a U.S. holder owns shares or ADSs and the U.S. holder does not make a “mark-to-market” election, as discussed below, we generally would continue to be treated as a PFIC as to such U.S. holder in all succeeding years, regardless of whether we continue to meet the income or asset test discussed above. U.S. Holders are urged to consult their own tax advisors with respect to the tax consequences to them if we were to become a PFIC for any taxable year in which they own our shares or ADSs.

If we were classified as a PFIC for any taxable year during which a U.S. holder holds our shares or ADSs, the U.S. 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 U.S. holder makes the mark-to-market election described below. An excess distribution generally would be any distribution to a U.S. 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 U.S. holder with respect to shares or ADSs during the three preceding taxable years or, if shorter, during the U.S. 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 U.S. 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 U.S. holder generally would include as ordinary income each year during which the election is in effect and during which we are a PFIC the excess, if any, of the fair market value of our 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 U.S. holder also would be allowed to take an ordinary loss in respect of the excess, if any, of the holder’s adjusted basis in our 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 U.S. holder’s tax basis in our 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 IRS consented to the revocation of the election. In the event that we are classified as a PFIC, U.S. 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 U.S. holder if such holder alternatively elected to treat us as a “qualified electing fund” or “QEF.” An election to treat us as a QEF will not be available, however, if we do not provide the information necessary to make such an election. We will not provide U.S. 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 our shares, dividends received with respect to our shares will not constitute “qualified dividend income” if we are 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 U.S. holder owns shares or ADSs during any year in which we are a PFIC, the U.S. 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, each U.S. holder is required to file a separate IRS Form 8621 if such U.S. holder owns shares or ADSs during any year in which we are a PFIC whether or not such U.S. holder received distributions on the shares or ADSs, realized a gain on the shares or ADSs or made a “reportable election” during such year. U.S. holders are urged to consult their own tax advisors concerning the U.S. federal income tax consequences of holding shares or ADSs 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 U.S. holder will recognize a gain or loss in an amount equal to the difference between the U.S. dollar

value of the amount realized and the U.S. holder's tax basis, determined in U.S. 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 U.S. holder's holding period for such shares or ADSs exceeds one year. Long-term capital gains of non-corporate U.S. holders (including individuals) are generally eligible for reduced rates of taxation. A U.S. holder's adjusted tax basis in its shares or ADSs will generally be the cost to the holder of such shares or ADSs. Any such gains or losses realized by a U.S. holder upon disposal of the shares or ADSs will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. 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 U.S. holder, or proceeds from a U.S. 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 U.S. 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 U.S. IRS Form W-9 or other appropriate form which certifies that the U.S. 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 U.S. holder's U.S. federal income tax liability or refundable to the extent that it exceeds such liability if the U.S. holder provides the required information to the IRS. If a U.S. holder is required to and does not provide a correct taxpayer identification number, the U.S. holder may be subject to penalties imposed by the IRS. 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, certain U.S. holders who are individuals that hold certain foreign financial assets (which may include our shares or ADSs) are required 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 requirement on their ownership and disposition of our shares and ADSs.

Additional Tax on Investment Income

U.S. holders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to an additional 3.8% tax on unearned income, including, among other things, dividends on, and capital gains from the sale or other taxable disposition of, shares or ADSs, subject to certain limitations and exceptions.

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 pursuant to the rules and regulations of the SEC that apply to foreign private issuers. The SEC maintains a web site (<http://www.sec.gov>) that contains periodic reports and other information regarding registrants, including us, electronically filed with the SEC. Except otherwise specified in this Annual Report, no information is incorporated by reference in this Annual Report (including, without limitation, information on our website at <https://www.mufg.jp/>).

I. Subsidiary Information

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

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

In the current market and regulatory environment, financial groups such as us are expected to ensure increasingly more sophisticated and comprehensive risk management. Risk management plays an increasingly important role in our operations as a financial group operating globally through various subsidiaries.

We identify various risks arising from businesses based on group-wide uniform criteria and implement integrated risk management to ensure a stronger financial condition and to maximize shareholder value. Based on this approach, 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. However, our risk management measures may not be fully effective in identifying all risks or mitigating the impact of any materialized risk on us.

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.

Type of Risk	Definition
Credit Risk	The risk of financial loss in credit assets (including off-balance sheet instruments) caused by deterioration in the credit conditions of counterparties. This category includes country risk.
Market Risk	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.
Funding 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.
<ul style="list-style-type: none"> • Operations Risk 	The risk of incurring losses arising from negligence of correct operational processing, incidents or misconduct involving officers or staff, as well as risks similar to this risk.
<ul style="list-style-type: none"> • Information Risk 	The risk of loss caused by loss, alteration, falsification or leakage of personal or other confidential information, as well as risks similar to these risks.
<ul style="list-style-type: none"> • IT Risk 	The risk of loss arising from destruction, suspension, malfunction or misuse of IT, or unauthorized alteration and leakage of electronic data caused by insufficient IT systems planning, development or operations or by vulnerabilities of or external threats to IT system security, including cybersecurity, as well as risks similar to these risks.
<ul style="list-style-type: none"> • Tangible Asset Risk 	The risk of loss due to damage to tangible assets or deterioration in the operational environment caused by disasters or inadequate asset maintenance, as well as risks similar to this risk. Tangible assets include movable and immovable property, including owned or leased land and buildings, facilities incidental to buildings, and fixtures and fittings.
<ul style="list-style-type: none"> • Personnel Risk 	The risk of loss due to an outflow or loss of human resources or deterioration in employee morale, as well as risks similar to this risk.
<ul style="list-style-type: none"> • Incompliance with Laws and Regulations Risk 	The risk of loss due to failure to comply with laws and regulations, as well as risks similar to these risks.
<ul style="list-style-type: none"> • Legal Risk 	The risk of a loss due to failure to identify or address legal issues relating to contracts and other business operations or insufficient handling of lawsuits, as well as risks similar to these risks.
Reputation Risk	The risk of harm to our corporate value arising from perceptions of our customers, shareholders, investors or other stakeholders and in the market or society that we deviate from their expectations or confidence.
Model Risk	The risk of loss due to decision-making based on information provided by an inaccurate model or the misuse of a model.

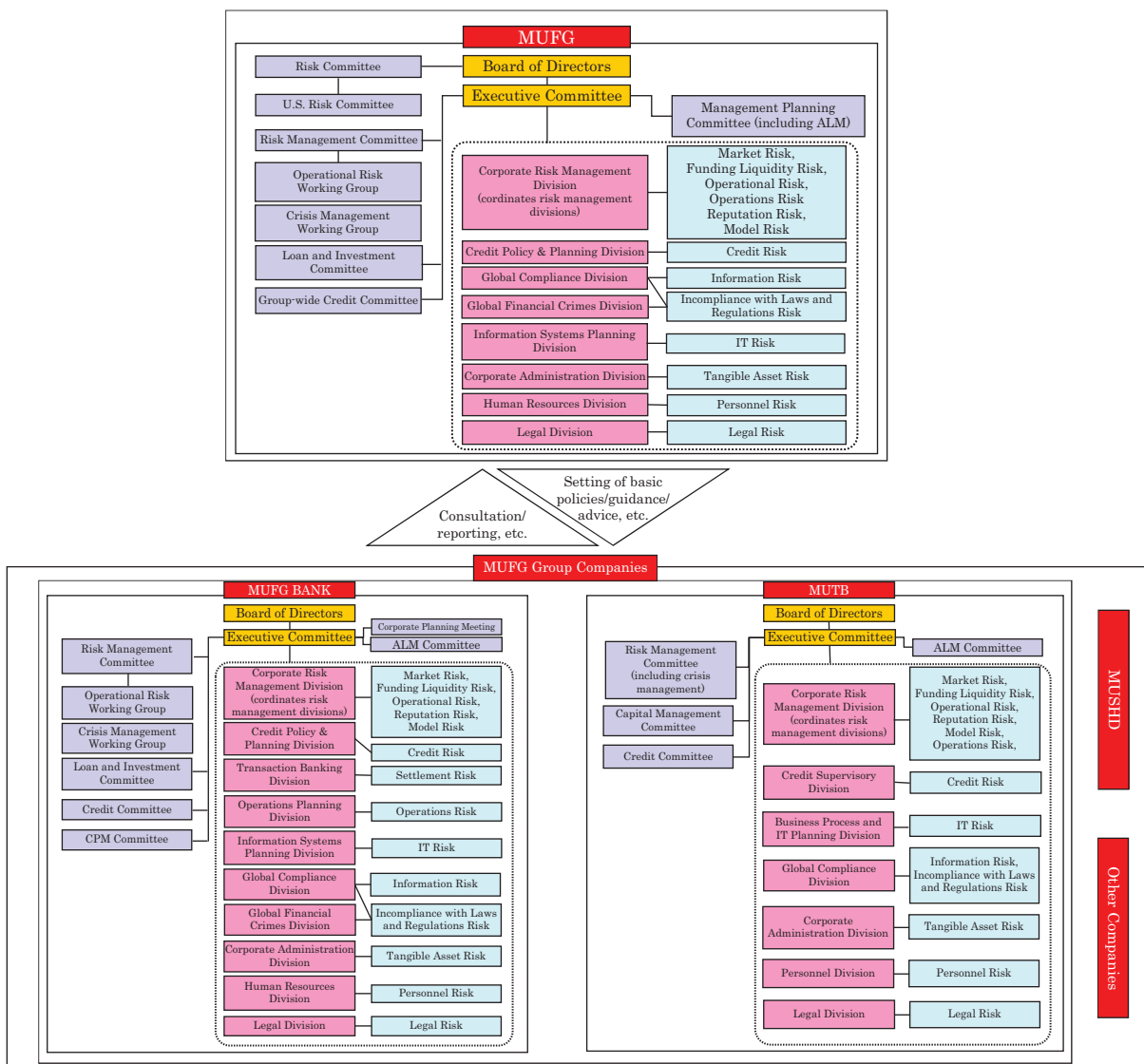
Risk Management System

We have adopted an integrated risk management system to promote close cooperation among the holding company and group companies. The holding company and our banking and securities subsidiaries each appoint a chief risk officer and establish an independent risk management division. The board of directors of the holding company determines risk management policies for various types of risks based on the discussions at, and reports and recommendations from, committees established specially for risk management purposes. The holding

company has established committees to oversee management in managing risks relevant to the Group. Following the fundamental risk management policies determined by the board of directors, each group company establishes its own systems and procedures for identifying, analyzing and managing various types of risks from both quantitative and qualitative perspectives. 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.

The following diagram summarizes our integrated risk management framework:

Risk Management System



Crisis Management Framework

In order to have a clear critical response rationale and associated decision-making criteria, we have developed systems designed to ensure that our operations are not interrupted or can be restored to normal quickly in the event of a crisis such as a natural disaster, a pandemic of an infectious disease 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. In addition, in order to effectively deal with the COVID-19 pandemic, the Group Crisis Event Control Headquarter established by the holding company deliberates, formulates and implements basic policies and countermeasures designed to ensure that our business operations are properly maintained and we remain well positioned to respond to the needs of our customers.

We conduct a comprehensive review of our existing business continuity plan to more effectively respond to such extreme scenarios, and contemplate and implement measures to augment our current business continuity management framework, including enhancing our off-site back-up data storage and other information technology systems.

Implementation of Basel Standards

In determining capital ratios under the FSA guidelines implementing Basel III, we and our major banking subsidiaries used the Advanced Internal Ratings-Based approach, or the AIRB approach, to calculate capital requirements for credit risk as of March 31, 2021. The Standardized Approach is used for some subsidiaries that are considered to be immaterial to the overall MUFG capital requirements, and MUFG Americas Holdings has adopted a phased rollout of the Internal Ratings-Based Approach. We reflect market risk in our risk-weighted assets by applying the Internal Models Approach to calculate general market risk and the Standardized Measurement Method to calculate specific risk. Under the Internal Models Approach, we principally use a historical simulation model to calculate value-at-risk, or VaR, 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 implementing Basel III, we reflect operational risk in our risk-weighted assets by using the Standardized Approach and the Advanced Measurement Approach.

Based on the Basel III framework, the Japanese capital ratio framework has been revised to implement the more stringent requirements, which are being implemented in phases beginning on March 31, 2013. Likewise, local banking regulators outside of Japan, such as those in the United States, have begun, or are expected, to revise the capital and liquidity requirements imposed on our subsidiaries and operations in those countries to implement the more stringent requirements of Basel III as adopted in those countries. We intend to carefully monitor further developments with an aim to enhance our corporate value and maximize shareholder value by integrating the various strengths within the Group. For more information on the Basel regulatory framework and requirements, see "Item 4.B. Information on the Company—Business Overview—Supervision and Regulation."

Credit Risk Management

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

MUFG and its major banking subsidiaries 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 the management of credit portfolios. We continually seek to upgrade our 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.

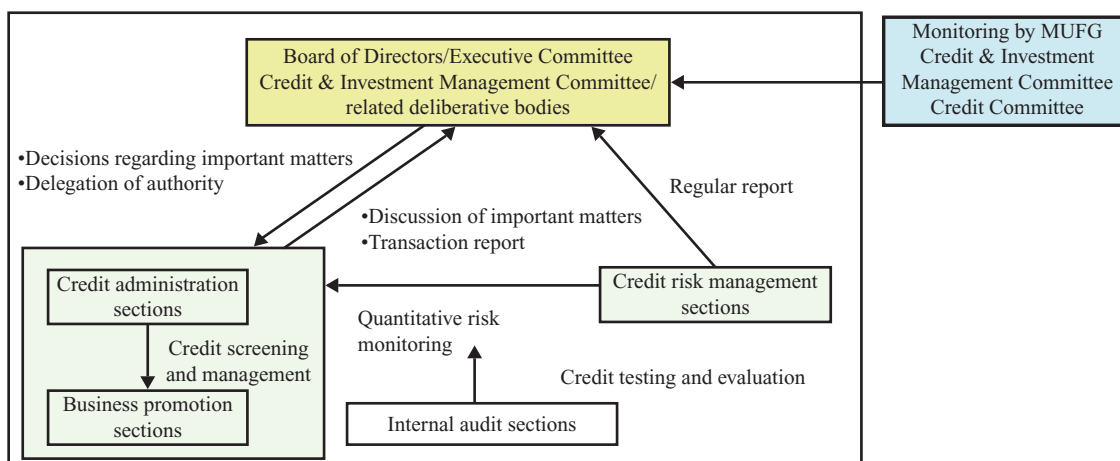
Credit Risk Management System

The credit portfolios of our banking and securities 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 of our subsidiaries in the banking, securities, consumer finance, and leasing businesses, manages its respective credit risk on a consolidated basis based on the attributes of the risk, 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 the 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 use 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

MUFG Borrower Rating	MUFG Borrower Rating Definition	
1	The capacity to meet financial commitments is extremely certain, and the borrower has the highest level of creditworthiness.	
2	The capacity to meet financial commitments is highly certain, but there are some elements that may result in lower creditworthiness in the future.	
3	The capacity to meet financial commitments is sufficiently certain, but there is the possibility that creditworthiness may fall in the long run.	
4	There are no problems concerning the capacity to meet financial commitments, but there is the possibility that creditworthiness may fall in the long run.	
5	There are no problems concerning the capacity to meet financial commitments, and creditworthiness is in the middle range.	
6	There are no problems concerning the capacity to meet financial commitments presently, but there are elements that require attention if the situation changes.	
7	There are no problems concerning the capacity to meet financial commitments presently, but long-term stability is poor.	
8	There are no problems concerning the capacity to meet financial commitments presently, but long-term stability is poor, and creditworthiness is relatively low.	
9	The capacity to meet financial commitments is somewhat poor, and creditworthiness is the lowest among “Normal” customers.	
10 through 12	Borrowers who must be closely monitored because of the following business performance and financial conditions: (1) Borrowers who have problematic business performance, such as virtually delinquent principal repayment or interest payment; (2) Borrowers whose business performance is unsteady, or who have unfavorable financial conditions; (3) Borrowers who have problems with loan conditions and for whom interest rates have been reduced or shelved.	
	10	Although business problems are not serious or their improvement is seen to be remarkable, there are elements of potential concern with respect to the borrower’s management, and close monitoring is required.
	11	Business problems are serious, or require long-term solutions. Serious elements concerning business administration of the borrower have emerged, and subsequent debt repayment needs to be monitored closely.
	12	Borrowers who fall under the criteria of Rating 10 or 11 and have a loan concession granted. Borrowers who have “Loans contractually past due 90 days or more.” (As a rule, delinquent borrowers are categorized as “Likely to Become Bankrupt,” but the definition here applies to borrowers delinquent for 90 days or more because of inheritance and other special reasons.)
13	Borrowers who pose a serious risk with respect to debt repayment and with whom loss is likely to occur in the course of transactions. While still not bankrupt, these borrowers are in financial difficulty, with poor progress in achieving restructuring plans, and are likely to become bankrupt in the future.	
14	While not legally bankrupt, borrowers who are considered to be virtually bankrupt because they are in serious financial difficulty and have no prospects for an improvement in their business operations.	
15	Borrowers who are legally bankrupt (i.e., who have no prospects for continued business operations because of non-payment, suspension of business, voluntary liquidation, or filing for legal liquidation).	

Japanese banks were historically required to use the following categories of borrowers under the then applicable FSA inspection manual, which was abolished in December 2019, and are currently expected to use them as a basis for their borrower categorization with appropriate adjustments under the FSA’s discussion paper:

- Normal borrowers (generally corresponding to borrowers in categories 1 through 9 in our ratings), which are borrowers that are performing well, with no significant financial concerns,
- Borrowers requiring close watch (generally corresponding to borrowers in categories 10 through 12 in our ratings), which include loans that have been amended to allow for delays or forgiveness of interest

payments, borrowers experiencing difficulty in complying with loan terms and conditions and borrowers that are recording losses or performing badly,

- Borrowers likely to become bankrupt (generally corresponding to borrowers in category 13 in our ratings), which relate to borrowers who pose a serious risk with respect to debt repayment and with whom loss is likely to occur in the course of transactions. While still not bankrupt, these borrowers are in financial difficulty, with poor progress in achieving restructuring plans, and are likely to become bankrupt in the future,
- Virtually bankrupt borrowers (generally corresponding to borrowers in category 14 in our ratings), which are not legally bankrupt, but borrowers who are considered to be virtually bankrupt because they are in serious financial difficulty and have no prospects for an improvement in their business operations, and
- Bankrupt borrowers or de facto bankrupt borrowers (generally corresponding to borrowers in category 15 in our ratings), which are borrowers who are legally bankrupt (i.e., who have no prospects for continued business operations because of non-payment, suspension of business, voluntary liquidation, or filing for legal liquidation proceedings).

The primary data utilized in our assessment of borrowers include the borrower's financial statements and notes thereto as well as other public disclosure made by the borrower. In addition, when appropriate and possible, we obtain non-public financial and operating information from borrowers, such as the borrower's business plan, borrower's self-evaluation of its operating assets and other borrower information about its business and products.

Based on the borrower and industry information, we assign borrower ratings mainly by applying financial scoring models—either developed internally or by third-party vendors, depending on the borrower's attributes, whether the borrower is domestic or foreign, whether the borrower is a large corporation or a small and medium-sized corporation, and whether the borrower is a corporate entity or another type of legal entity (such as a school, hospital or fund).

For example, for domestic small and medium-sized corporations, which constitute the largest borrower attribute in our current loan portfolio in terms of number of borrowers, we have adopted an internally developed financial scoring model, exclusively designed and developed for such attribute. We have selected various financial ratios that we believe to be useful and meaningful to quantitatively measure and assess the borrowers' financial standing and repayment capability. Such financial ratios represent, among other things, borrowers' growth, profitability, stability, cash flow, company size and capital efficiency. The model is periodically tested against historical results. The following is an illustration of some of the financial ratios we utilize as part of our financial scoring model:

- To measure growth: Sales growth, and growth in total assets,
- To measure profitability: Current profit to sales, and profit before tax to sales, and
- To measure stability: Equity ratio and current ratio.

The financial score obtained through the models is reviewed and, when necessary, adjusted downward to reflect our qualitative assessment of the borrower's financial strength and other factors that could affect the borrower's ability to service the debt. For example, we take into account: capability of turning around the business (in case of borrowers with losses) or recovering positive net worth (in case of borrowers with negative net worth), industry risk, management risk, legal risk, as well as our assessment of the probability of receiving support from parent companies (if the borrower is a subsidiary of a large listed company).

When adjusting the results of primary financial scoring assigned to borrowers with losses, we consider the severity of losses and the possibility of improving operating results. We analyze and assess whether the loss is temporary, the trend in operating results is improving, or the loss is expected to continue for an extended period.

When adjusting the results of primary financial scoring assigned to borrowers with losses or borrowers with negative net worth, we also analyze whether the borrower can return to a positive net worth, and the time period needed to achieve such recovery (one to two years, three to five years, or five years or more).

In addition, adjustments based on industry risk are based on future prospects, applicable laws and regulations, and other factors surrounding the industry. Adjustments for management risk reflect our assessment of management's track record, the composition of the management team including the board of directors, any management succession plan as well as the risk management and compliance framework of the borrower. Adjustments for legal risk are made when the borrower is facing a lawsuit and when there is a possibility of a significant claim payment related to product liability, intellectual property, environmental problems, building standard law, and other legal issues.

When assessing the probability of receiving support from parent companies, various factors are examined, such as the parent company's credit standings, whether key management personnel are sent by the parent, whether the borrower is consolidated by the parent, and the proportion of the borrower in consolidated sales and profits of the parent.

In addition, we consider outside ratings, and our internal borrower ratings may be adjusted when deemed appropriate.

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

Structured finance rating and asset securitization rating are 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 us 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 the probability of default, loss given default, and exposure at default 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 managed to limit concentrations of risk in specific categories in accordance with our Large Credit Guidelines.

To manage country risk, we have established specific credit ceilings by country. These ceilings are reviewed when there is a material change in a country's credit standing, in addition to being subject to a regular periodic 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.

Risk Management of Strategic Equity Portfolio

We hold shares of various corporate clients for strategic purposes, in particular to maintain long-term relationships with these clients. These investments have the potential to increase business revenue and appreciate in value. At the same time, we are exposed to the risk of price fluctuation in the Japanese stock market. For that reason, in recent years, it has been a high priority for us to reduce our equity portfolio to limit the risks associated with holding a large equity portfolio, but also to respond to applicable regulatory requirements as well as increasing market expectations and demands for us to reduce our equity portfolio. We are required to comply with a regulatory framework that prohibits Japanese banks from holding an amount of shares in excess of their adjusted Tier 1 capital. See "Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Financial Condition—Investment Portfolio."

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 (excluding foreign stock exchange-listed stocks) as of March 31, 2021 was subject to a variation of approximately ¥3.0 billion when TOPIX index moves one point in either direction.

We seek to manage and reduce strategic equity portfolio risk based on quantitative analysis such as the sensitivity analysis described above. 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

Management of market risk at MUFG aims to control our risk exposure to fluctuations in market variables across the Group while ensuring that earnings are commensurate with levels of risk.

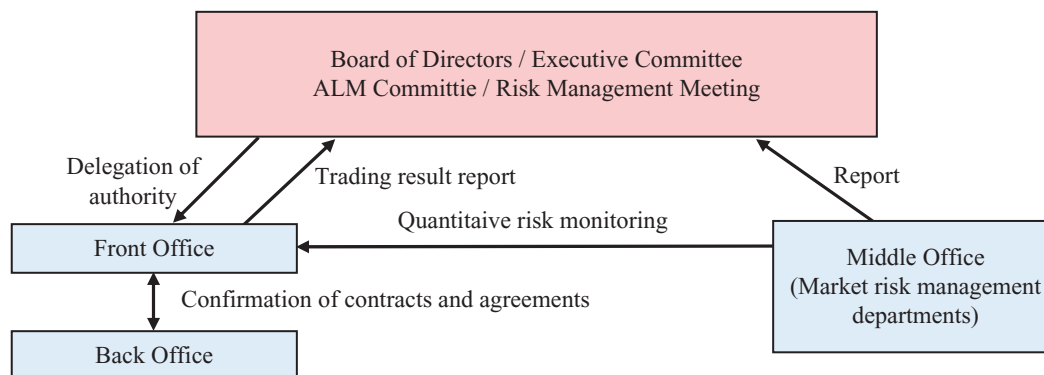
Market Risk Management System

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 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:

Market Risk 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 Officers on a daily basis. At the holding company, the Chief Risk 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 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-

earning assets and interest-bearing 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 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 financial instruments 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 market risk measurement model. The principal model used for these activities is a historical simulation, or HS, model (Trading activities: holding period, one business day; confidence interval, 95%; and observation period, 250 business days. Non-trading activities: holding period, 10 business days; confidence interval, 99%; and observation period, 701 business days). To adapt our risk measurement more appropriately to the nature of our trading business, parameters used in our VaR measurement model for trading activities have been updated as of April 1, 2020. 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. The holding company and the major banking subsidiaries also use the HS model as part of the calculation of their Basel III 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 99.9%.

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 ten years 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

Trading activities

The aggregate VaR for our total trading activities as of March 31, 2021 was ¥ 1.39 billion, comprising interest rate risk exposure of ¥1.33 billion, foreign exchange risk exposure of ¥0.60 billion, and equity-related risk exposure of ¥0.44 billion. Our average daily VaR for the fiscal year ended March 31, 2021 was ¥1.64 billion.

Due to the nature of trading operations which involves frequent changes in trading positions, market risk may vary substantially during and between measurement periods, depending on our trading positions.

The following tables set forth the VaR related to our trading activities using the updated parameters by risk category for the fiscal year ended March 31, 2021:

<u>April 1, 2020—March 31, 2021</u>	<u>Average</u>	<u>Maximum⁽¹⁾</u>	<u>Minimum⁽¹⁾</u>	<u>March 31, 2021</u>
		(in billions)		
MUFG	¥ 1.64	¥2.71	¥0.92	¥ 1.39
Interest rate	1.34	2.67	0.80	1.33
Yen	0.94	1.96	0.54	0.89
U.S. Dollars	0.77	2.05	0.47	2.05
Foreign exchange	0.71	1.02	0.32	0.60
Equities	0.63	2.14	0.12	0.44
Commodities	0.00	0.00	0.00	0.00
Less diversification effect	(1.04)	—	—	(0.98)

Assumptions for VaR calculations:

Historical simulation method
Holding period: 1 business day
Confidence interval: 95%
Observation period: 250 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 using the updated parameters in the fiscal year ended March 31, 2021 was as follows:

<u>Quarter</u>	<u>Daily average VaR</u>
	(in billions)
April—June 2020	¥1.61
July—September 2020	1.70
October—December 2020	1.65
January—March 2021	1.59

The quantitative market risk figures from trading activities tend to fluctuate widely due to the market sensitive nature of the trading business. During the fiscal year ended March 31, 2021, the revenue from our trading activities has been relatively stable, keeping positive numbers in 249 days out of 260 trading days in the period. During the same period, there were 121 days with positive revenue exceeding ¥1 billion and one day with negative revenue exceeding minus ¥1 billion.

The following tables set forth the VaR related to our trading activities using the previous parameters by risk category to enable comparison between the periods indicated:

<u>April 1, 2019—March 31, 2020</u>	<u>Average</u>	<u>Maximum⁽¹⁾</u>	<u>Minimum⁽¹⁾</u>	<u>March 31, 2020</u>
		(in billions)		
MUFG	¥19.11	¥35.78	¥15.64	¥24.81
Interest rate	18.56	35.03	14.21	24.31
Yen	6.07	11.67	4.10	9.35
U.S. Dollars	7.23	11.06	4.78	7.20
Foreign exchange	4.58	7.23	2.28	5.34
Equities	1.73	7.21	0.60	2.15
Commodities	0.00	0.07	0.00	0.00
Less diversification effect	(5.76)	—	—	(6.99)
<u>April 1, 2020—March 31, 2021</u>	<u>Average</u>	<u>Maximum⁽¹⁾</u>	<u>Minimum⁽¹⁾</u>	<u>March 31, 2021</u>
		(in billions)		
MUFG	¥26.18	¥33.86	¥21.97	¥26.55
Interest rate	24.91	33.01	20.26	26.25
Yen	9.20	15.64	5.85	8.40
U.S. Dollars	9.97	13.59	7.57	12.74
Foreign exchange	4.68	6.86	3.58	5.36
Equities	2.79	11.49	0.82	2.71
Commodities	0.00	0.06	0.00	0.00
Less diversification effect	(6.20)	—	—	(7.77)

Assumptions for VaR calculations:

Historical simulation method
Holding period: 10 business day
Confidence interval: 99%
Observation period: 701 business day

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.

Non-trading Activities

The aggregate VaR for our total non-trading activities as of March 31, 2021, excluding market risks related to our strategic equity portfolio, was ¥614.0 billion. Market risk related to interest rates equaled ¥468.1 billion and equities-related risk equaled ¥311.3 billion. Compared with the VaR as of March 31, 2020, we experienced a decrease in market risk during the fiscal year ended March 31, 2021, primarily due to a decrease in interest rate sensitivity, while equity related risk increased under volatile market conditions.

Based on a simple sum of figures across market risk categories, interest rate risks accounted for approximately 60% of our total non-trading activity market risks as of March 31, 2021. Looking at a breakdown of interest rate related risk by currency, as of March 31, 2021, the yen accounted for approximately 35% while the U.S. dollar accounted for approximately 60%, and the euro approximately 5%.

For a description of our strategic equity investment risk management, see “—Risk Management of Strategic Equity Portfolio.”

The following tables set forth the VaR related to our non-trading activities by risk category for the periods indicated:

<u>April 1, 2019—March 31, 2020</u>	<u>Average</u>	<u>Maximum⁽¹⁾</u>	<u>Minimum⁽¹⁾</u>	<u>March 31, 2020</u>
			(in billions)	
Interest rate	¥ 328.9	¥711.5	¥252.9	¥ 613.4
Yen	157.0	216.1	128.0	207.5
U.S. Dollars	187.5	502.8	109.6	412.3
Foreign exchange	4.5	6.4	3.5	6.4
Equities ⁽²⁾	174.8	214.2	112.0	156.9
Less diversification effect	(157.1)	—	—	(104.0)
Total	351.1	765.2	284.9	672.7

<u>April 1, 2020—March 31, 2021</u>	<u>Average</u>	<u>Maximum⁽¹⁾</u>	<u>Minimum⁽¹⁾</u>	<u>March 31, 2021</u>
			(in billions)	
Interest rate	¥ 442.3	¥577.0	¥364.6	¥ 468.1
Yen	183.4	212.4	158.8	201.4
U.S. Dollars	300.2	392.5	233.9	346.2
Foreign exchange	3.1	4.2	2.6	3.0
Equities ⁽²⁾	250.9	365.2	138.2	311.3
Less diversification effect	(148.6)	—	—	(168.4)
Total	547.7	646.1	474.0	614.0

Assumptions for VaR calculations:

Historical simulation method
Holding period: 10 business days
Confidence interval: 99%
Observation period: 701 business days

Notes:

- (1) The maximum and minimum VaR overall for each category and in total 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.
- (2) The equities-related risk figures do not include market risk exposure from our strategic equity portfolio.

The average daily interest rate VaR by quarter in the fiscal year ended March 31, 2021 was as follows.

<u>Quarter</u>	<u>Daily average VaR</u>
	(in billions)
April—June 2020	¥471.44
July—September 2020	418.62
October—December 2020	423.76
January—March 2021	456.55

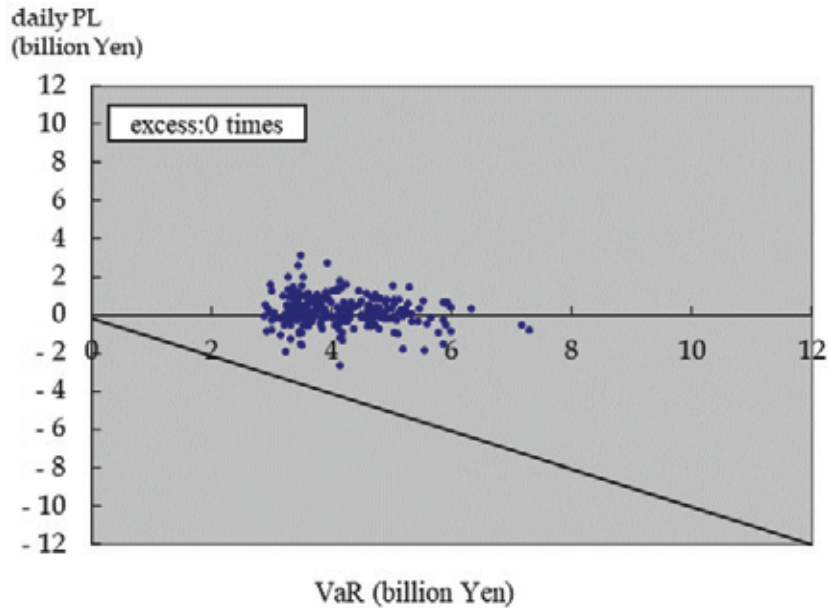
Comparing the proportion of each currency's interest rate VaR to the total interest rate VaR as of March 31, 2021 against that as of March 31, 2020, there was a 6 percentage point increase in the Japanese yen from 29% to 35%, a 2 percentage point increase in the U.S. dollar from 58% to 60%, and a 8 percentage point decrease in the euro from 13% to 5%.

Backtesting

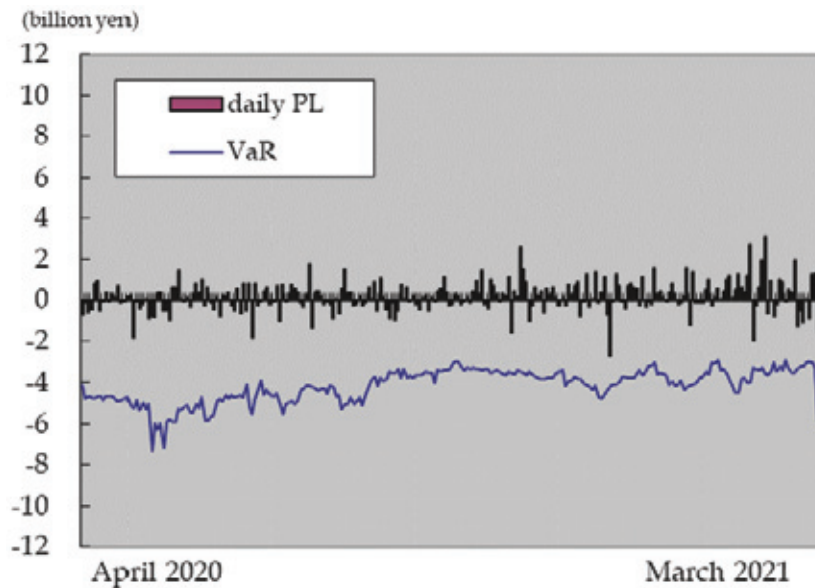
We conduct backtesting in which a VaR is compared with hypothetical profits and losses on a daily basis to verify the accuracy of our VaR measurement model. We also conduct additional backtesting using other methods, including testing VaR against actual realized and unrealized losses and testing VaR by various changing parameters such as confidence intervals and observation periods used in the model.

Hypothetical losses never exceeded the VaR amount in the fiscal year ended March 31, 2021. This means that our VaR model provided reasonably accurate measurements of market risk during the fiscal year.

The following graph shows daily VaR of trading activities and the distribution of corresponding hypothetical profits and losses for the fiscal year ended March 31, 2021:



The following graph shows VaR of trading activities and hypothetical profits and losses on a daily basis for the fiscal year ended March 31, 2021:



Stress Testing

Actual losses may exceed the value at risk obtained by the application of an HS VaR model in the event, for example, that the market fluctuates to a degree not accounted for in the observation period, or that the

correlations among various risk factors, including interest rates and foreign currency exchange rates, deviate from those assumed in the model. In order to complement these weaknesses of the HS-VaR model and measure potential losses that the model is not designed to capture, we conduct stress testing as appropriate, on our HS-VaR model for our non-trading activities by applying various stress scenarios, including those which take into account estimates regarding future market volatility, in order to better identify risks and manage our portfolio in a more stable and appropriate manner. In addition, MUFG and its major subsidiaries measure stressed VaR for their trading activities and non-trading activities relating to foreign exchange and commodities on an aggregate basis based on a one-year observation period with the highest VaR at least in the immediately preceding ten years.

Funding Liquidity Risk Management

Our major subsidiaries seek to maintain appropriate liquidity in both Japanese yen and foreign currencies by managing their funding sources and mechanisms, such as deposits, short-term borrowings and long-term debt, liquidity gap, liquidity-supplying products such as commitment lines, and buffer assets, primarily government bonds.

We have established a group-wide system for managing liquidity risk by categorizing the risk in the following three stages: normal, concern and crisis. 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, including formulating contingency plans, 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.

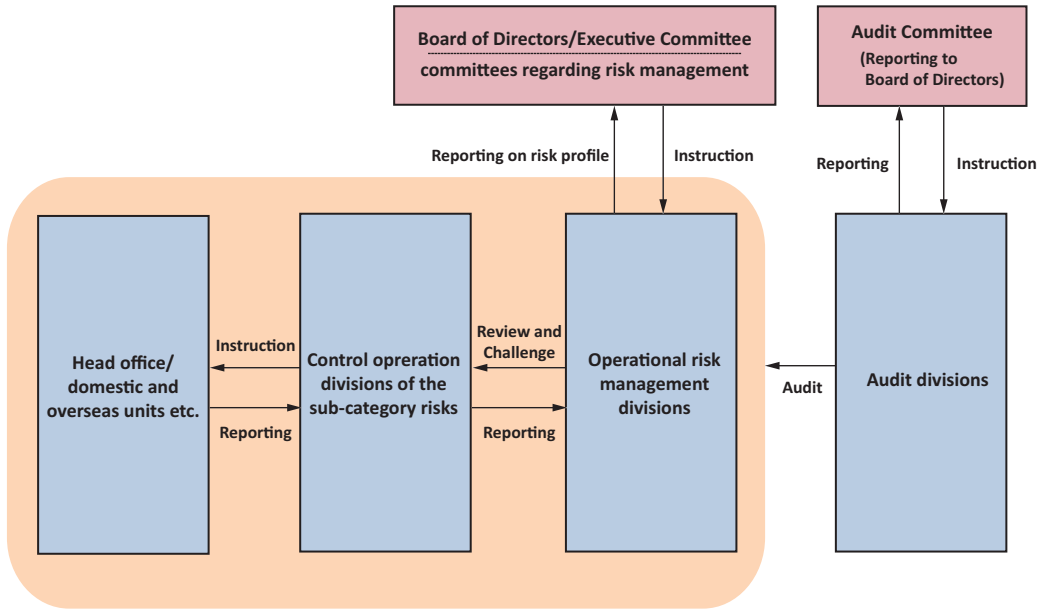
In addition, we have established a group-wide system for ensuring compliance with the minimum regulatory liquidity coverage ratio requirements by categorizing the risk in the following three stages: sufficient, concern and insufficient. The holding company and the major subsidiaries exchange information and data on LCR even at the sufficient stage. At higher alert stages, we hold group-wide LCR liaison meetings to discuss issues relating to LCR and, based on the discussion as well as the information and data that have been shared, take countermeasures to improve LCR as necessary.

For more information, see “Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Financial Condition—Sources of Funding and Liquidity.”

Operational Risk Management

The holding company has established, based on its Executive Committee’s determination, 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. Under the policy, the board of directors and the Executive Committee formulate fundamental principles of operational risk management and establish and maintain an appropriate risk management system. The Chief Risk 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 has been 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:

Operational Risk Management System of Our Major Banking Subsidiaries

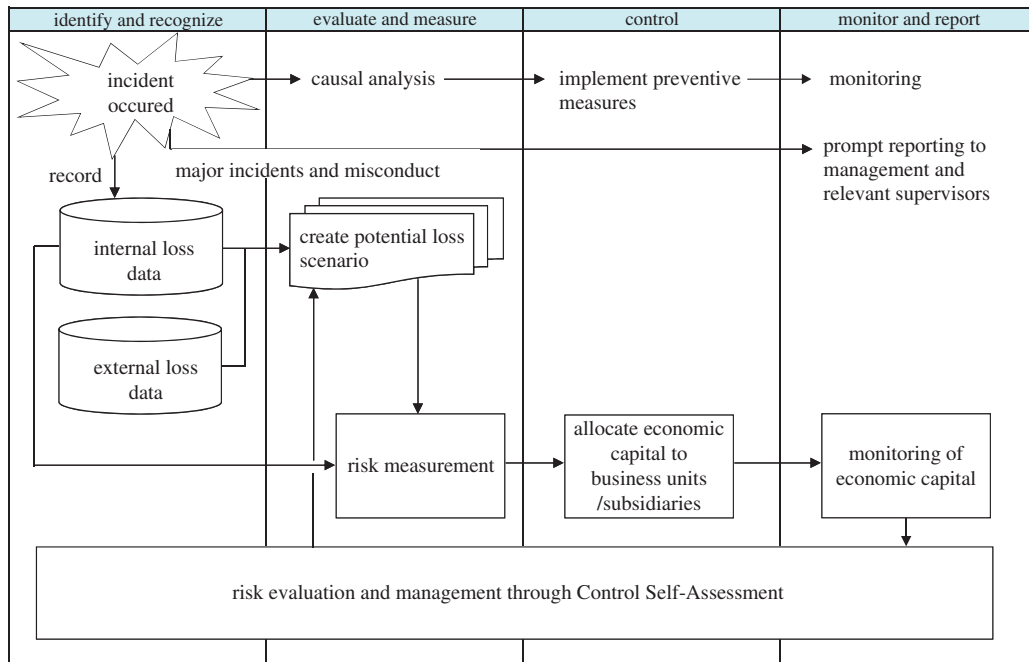


As set forth in the following diagram, we have established a risk management framework for loss data collection, control self-assessment, and measurement of operational risk in order to appropriately identify, recognize, evaluate, measure, control, monitor and report operational risk.

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:

Operational Risk Management Framework



Operations Risk Management

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 major subsidiaries continue to work on improving 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 Risk Management

Complying with laws and regulations requiring proper handling of customer information, we implement information security management measures, including the establishment of an information risk management framework, enhancement of our internal operational procedures, and training courses mandatory for all officers and staff.

We have also formulated our Personal Information Protection Policy as the basis for our ongoing programs designed to protect the confidentiality of personal information.

With the aim of preventing any recurrence and minimizing risk or loss, we also work to promote sharing on a group-wide basis of experience, knowledge and expertise related to information risk incidents.

IT Risk Management

IT risk refers to the risk of loss arising from destruction, suspension, malfunction or misuse of IT, or unauthorized alteration and leakage of electronic data caused by insufficient IT systems planning, development or operations or by vulnerabilities of or external threats to IT system security, including cybersecurity, as well as risks similar to these risks.

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 electronic data including personal information.

System development projects are managed and overseen by a team dedicated to perform such management and oversight functions, and the development status 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 and minimizing risk or loss, we also work to promote sharing on a group-wide basis of experience, knowledge and expertise related to system failures.

In addition, the risk of increasingly sophisticated cyber-attacks is a significant focus of the Board of Directors, and the Board regularly receives reports on our cybersecurity program. We continue to work to strengthen measures designed to address and mitigate the risk, including the establishment of MUFU-CERT, our Computer Security Incident Response Team, implementation of multi-layered defense and detection measures, enhancement of monitoring systems through our Security Operation Centers, and cooperation with global organizations with relevant expertise. MUFU-CERT is charged with the responsibility of taking, coordinating and managing prompt action in response to cyber security incidents to mitigate their impact.

We aim to flexibly adapt our IT risk management measures to changes in the business environment, including the rapidly growing need for remote work solutions. We also continue to develop our risk management capabilities for emerging technologies, such as artificial intelligence (AI), robotic process automation (RPA) and blockchain, considering, among other things, the maturity and usage of such technologies.

Tangible Asset Risk Management

Tangible assets include movable physical properties and immovable properties, owned or leased, such as land, buildings, equipment attached to buildings, fixtures and furniture. We recognize the potentially significant impact tangible asset risk-related events can have on the management and execution of the Group's businesses, which in turn can result in economic losses to, or diminished market confidence in, the Group. Accordingly, we continue to improve our risk control framework designed to appropriately manage such risk.

Personnel Risk Management

We recognize the potentially significant impact personnel risk-related events can have on the management and execution of the Group's businesses, which in turn can result in economic losses to, or diminished market confidence in, the Group. Accordingly, we continue to work on improving our risk control framework designed to appropriately manage such risk.

Incompliance with Laws and Regulations Risk Management

We recognize the potentially significant impact compliance risk-related events can have on the management and execution of the Group's businesses, which in turn can result in economic, reputation and other losses to, or diminished market confidence in, the Group. Accordingly, we continue to work on improving our compliance risk control framework designed to appropriately manage such risk.

Specifically, we have established our MUFG Group Code of Conduct as the basic guideline for the Group's directors and employees. In addition, a compliance management division has been established at each of the holding company and the major subsidiaries. See "—Compliance" below.

Legal Risk Management

The legal division at each of the holding company and the major subsidiaries centrally and uniformly evaluates legal issues prior to entering into contracts or commencing new business operations, deals with legal disputes and manages other legal matters. With the aim of effectively managing our legal risk arising from our globally expanding business operations, we have established a global and group-wide legal risk management framework and promote sharing of experience, knowledge and practices relating to legal risk issues on a global and group-wide basis.

Regulatory Capital Requirements for Operational Risk

(1) Adoption of the Advanced Measurement Approach (AMA)

We have employed the AMA since March 31, 2012, in place of the Standardized Approach that we had been using previously, for calculation of the operational risk equivalent amount in connection with measuring capital adequacy ratios based on the Basel Standards. On the other hand, we use the Basic Indicator Approach, or BIA, for entities that are deemed to be less important in the calculation of the operational risk equivalent amount and for entities that are still preparing to implement the AMA.

(2) Outline of AMA

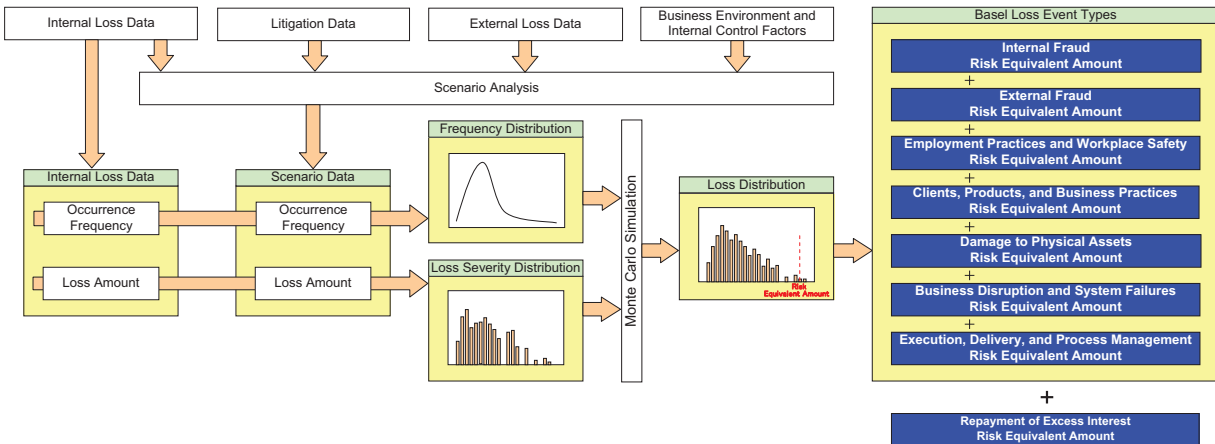
We have established a measurement model designed to account for four data elements—internal loss data, external loss data, scenario analysis, and business environment and internal control factors, or BEICFs—and calculate the operational risk equivalent amount by estimating the maximum loss using a 99.9th percentile one-tailed confidence interval and a one-year holding period.

In calculating the operational risk equivalent amount, we exclude expected losses relating to the amount of allowance for repayment of excess interest associated with the consumer finance business of a subsidiary. We do not exclude any other expected losses and do not reflect the risk mitigating impact of insurance. In addition, we take into account credit risk-related events that are not reflected in the measurement of the credit risk equivalent amount.

(3) Outline of Measurement Model

Our operational risk equivalent amount measured under the AMA is a simple sum of the amounts calculated separately for (1) MUFG Bank on a consolidated basis, (2) Mitsubishi UFJ Trust and Banking on a consolidated basis, and (3) the holding company and other principal consolidated subsidiaries, in accordance with applicable FSA rules. For each of MUFG Bank and Mitsubishi UFJ Trust and Banking on a consolidated basis, the operational risk equivalent amount is a simple sum of the amounts calculated based on the seven loss event types defined by the Basel Standards. For other Group companies, the operational risk equivalent amount is a simple sum of the amounts calculated based on eight loss event types consisting of the seven loss event types defined by the Basel Standards and an additional loss event type representing losses relating to repayment of excess interest associated with the consumer finance business of a subsidiary. We do not reflect the correlation effects among the loss event types in the calculation of our operational risk equivalent amount.

Outline of Measurement Model



The risk equivalent amount for each loss event type represents the amount of maximum loss estimated with a 99.9th percentile one-tailed confidence interval and a one-year holding period based on the distribution of losses arising from all relevant risk events for a one-year period (Loss Distribution). A Loss Distribution combines a Frequency Distribution (through which the frequency of occurrence of risk events is expressed) and a Loss Severity Distribution (through which the amounts of losses resulting from risk events are expressed) through Monte Carlo simulations. The data used for this purpose include internal loss data and scenario data. Scenario data are generated through a scenario analysis. External data and BEICFs are taken into account in the scenario analysis and reflected in scenario data. The Frequency Distribution is derived from the occurrence frequency information in internal loss data and scenario data expressed through a Poisson Distribution. The Loss Severity Distribution is derived from the amount information in internal loss data and scenario data expressed in a non-parametric manner (where no underlying distribution is assumed).

With respect to the risk of losses relating to repayment of excess interest associated with the consumer finance business of a subsidiary, the risk equivalent amount represents the amount of maximum loss estimated with a 99.9th percentile one-tailed confidence interval and a one-year holding period based on a normal distribution assumed by applying data on losses that arose in a given period, excluding any related expected losses.

We confirm the appropriateness of the measurement models by periodic verification and back testing.

(4) Outline of Scenario Analysis

As an initial step of our scenario analysis, we identify potential severe loss events that we have not experienced but may potentially experience in the future. In this identification process, we seek to ensure exhaustive coverage of potential severe loss events by comprehensively examining our experience relating to loss events and legal proceedings, external loss data, the control self-assessment results and other relevant information.

In the next step, we prepare scenario data for each identified severe loss event by quantifying the values depending on its occurrence frequency and loss severity, taking into account relevant transaction amounts and restructuring costs as well as BEICFs. In preparing scenario data, we apply an analysis method we deem appropriate for the type and nature of the operational risk involved.

In order to obtain an operational risk equivalent amount that is commensurate with, and appropriate for, our risk profile, we assess the need for an additional scenario or modification to our existing scenarios semi-annually.

We then reflect, as necessary, new risks arising as a result of changes in the business environment and the results of the implementation of measures to enhance our internal controls in response to newly identified risks in our scenario data.

Reputation Risk Management

Reputation risk refers to the risk of harm to our corporate value arising from perceptions of our customers, shareholders, investors or other stakeholders and in the market or society that we deviate from their expectations or confidence. We recognize that such risk, if materialized, can have a material negative impact on our business and continue to work on enhancing our framework designed to appropriately manage the risk based on MUFG Way, MUFG Group Code of Conduct, and other rules and codes of the Group.

Specifically, in order to manage our reputation risk effectively on a group-wide basis, we have established a risk management system designed to ensure mutual consultation and reporting if a reputation risk-related event occurs or is anticipated and, through this system, share relevant information within the Group.

Through the risk control framework and risk management system, we seek to prevent reputation risk-related events and minimize damage to the corporate value of the Group by promptly obtaining an accurate understanding of relevant facts relating to risk events and disclosing information concerning such events and the measures we take in response to such events in an appropriate and timely manner.

Model Risk Management

We recognize the potentially significant impact model risk-related events can have on the management and execution of the Group's businesses, which in turn can result in economic losses to, or diminished market confidence in, the Group. Models are used for increasingly wider and more important purposes, including valuing exposures, instruments and positions, measuring risks, and determining capital adequacy. Accordingly, we continue to work on improving our risk control framework.

Compliance

Basic Policy

In April 2021, MUFG renamed its Corporate Vision as "MUFG Way" and newly defined its social purpose—the purpose of its existence, along with its shared values and medium- to long-term goal. MUFG Way serves as the group's basic policy in conducting its business activities and provides guidelines for all group activities. Furthermore, we have established MUFG Group Code of Conduct as the guidelines for how the Group's directors and employees act to realize the Corporate Vision, in which we have expressed our commitment to complying with laws and regulations, to acting with honesty and integrity, and to behaving in a manner that supports and strengthens the trust and confidence of society.

In addition, as we expand the geographic scope of our business globally, we are committed to keeping abreast of developments in laws and regulations of the jurisdictions in which we operate including anti-money laundering and anti-bribery, as well as paying attention to trends in financial crimes.

See "Item 3.D. Key Information—Risk Factors—Operational Risk—Legal and regulatory changes could have a negative impact on our business, financial condition and results of operations." and "Item 3.D. Key Information—Risk Factors—Operational Risk—We may become subject to regulatory actions or other legal proceedings relating to our transactions or other aspects of our operations, which could result in significant financial losses, restrictions on our operations and damage to our reputation." See also "Item 4.B. Information on the Company—Business Overview—Supervision and Regulation."

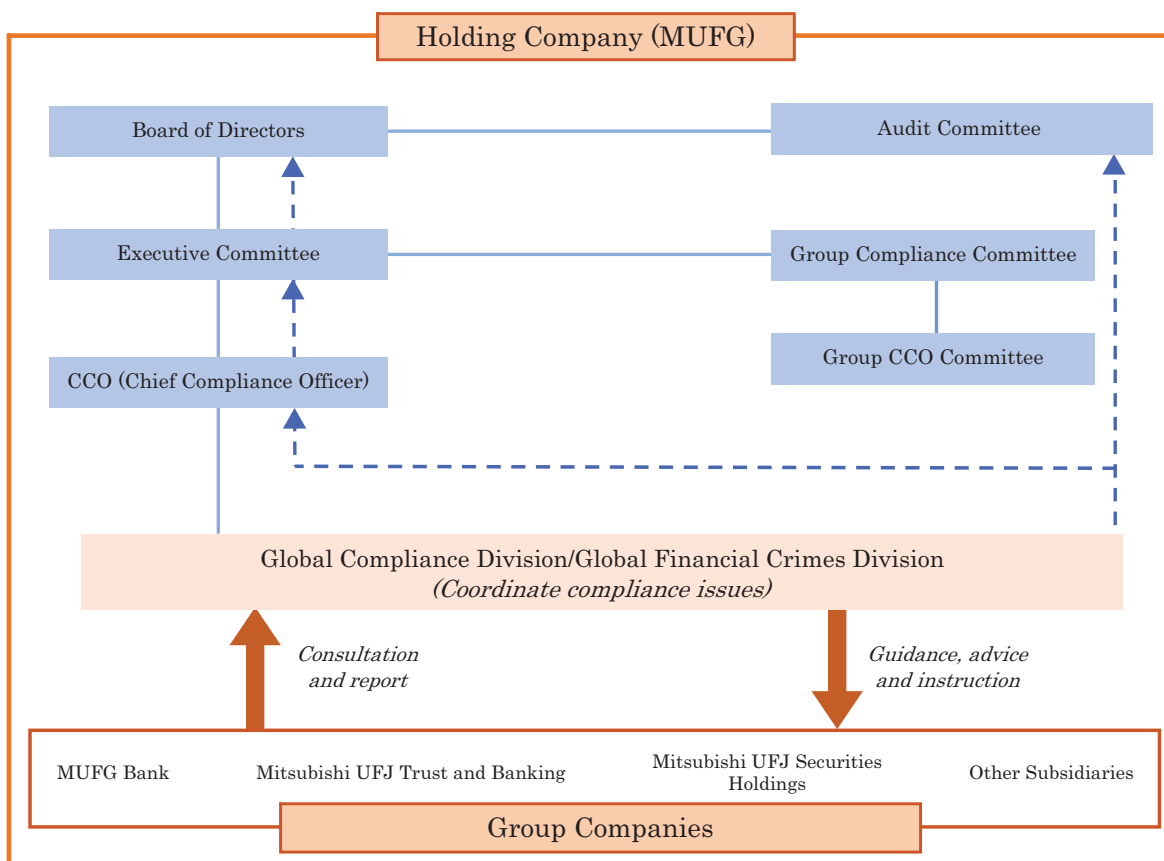
Compliance Framework

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 has established a Group Compliance Committee and each major subsidiary has established a Compliance Committee for deliberating key issues related to compliance. Additionally, the holding company has a Group Chief Compliance Officer, or CCO, Committee, which consists of the CCO of the holding company acting as committee chairman and the CCOs of the major subsidiaries. The Group CCO Committee deliberates important matters related to compliance and compliance-related issues for which the Group should share a common understanding.

The following diagram summarizes our compliance framework:

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 the holding company, the contents of the reported cases as well as the result of surveys is reported to the audit committee on a regular basis or whenever necessary.

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 audit committee oversees the reporting process to ensure the appropriateness and effectiveness of the reporting process and monitors the reports received through the hotline. The reporting process works as follows, and may be carried out via letter or e-mail:

Hokusei Law Office, P.C.

Address: Sanshikaikan Bldg. 8th Floor 1-9-4 Yurakucho, Chiyoda-ku, Tokyo
e-mail: MUFG-accounting-audit-hotline@hokusei-law.com

When reporting information please pay attention to the following:

- Matters subject to reporting are limited to instances regarding the Group companies.
- Please 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

Role of Internal Audit

Internal Audit aims to evaluate and assist in the improvement of the effectiveness of governance, risk management and control processes with high proficiency and independence, thereby contributing to the enhancement of the corporate value of the MUFG Group and to the achievement of MUFG Way. Internal Audit covers all aspects of the Group's business activities and discusses and evaluates the management and operational frameworks and the implementation of business operations from legal compliance, rationality and efficiency perspectives, beyond checking compliance with defined procedures.

In addition, Internal Audit provides instructions and recommendations for operational improvement to audited divisions and reports to senior management on such instructions and recommendations, thereby contributing to safeguarding and development of the Group's assets.

Three Lines of Defense Framework

Risk management is conducted at multiple levels within a business organization, including front-office divisions in charge of managing specific categories of risk, a compliance division, and an internal audit division.

As for financial institutions, including the MUFG Group, based on the experience of past financial crises, the traditional risk management structure that was heavily dependent on front-office divisions has been under close scrutiny. As a result, there is an increasing expectation for financial institutions to achieve more effective risk management through, for example, appropriate allocation of risk management roles and responsibilities among various divisions.

Cognizant of the importance of these developments, we have adopted the concept of “Three Lines of Defense” where the roles and responsibilities of each division in risk management are defined, classifying divisions within a financial institution into “the 1st Line of Defense”, “the 2nd Line of Defense” and “the 3rd Line of Defense”.

Line	Divisions	Roles
The 1st Line of Defense	Business divisions and client-facing divisions	<ul style="list-style-type: none"> Undertake risks within the extent of risk exposure assigned Responsible and accountable for identifying, evaluating and controlling business risks
The 2nd Line of Defense	Risk management division, compliance division, etc.	<ul style="list-style-type: none"> Ensure that risks are appropriately identified and managed by the 1st Line of Defense
The 3rd Line of Defense	Internal audit division	<ul style="list-style-type: none"> Independently evaluate the effectiveness of the governance, risk management, and control processes implemented by the 1st and 2nd Lines of Defense

Internal Audit plays an essential role in the Group’s risk management through ongoing communications with the 1st and 2nd Lines of Defense, while maintaining independence.

Group Internal Audit Framework

The MUFG Group has internal audit functions at the holding company level as well as at the subsidiary level, which are designed to ensure proficiency and independence through effective collaboration.

The internal audit division of the holding company receives reports from the internal audit divisions of subsidiaries on the status and results of their internal audits and provides them with instructions and evaluations as needed.

Reports to the Audit Committee

The holding company has an audit committee within its board of directors as required by the Companies Act of Japan, and each of the major subsidiaries has established an audit and supervisory committee. Within each of the holding company and the major subsidiaries, the internal audit division reports to the committee on important matters, including governing principles for internal audit plans and the status and results of internal audits.

MUFG Internal Audit Activity Charter

In April 2019, we adopted “MUFG Internal Audit Activity Charter”, which defines our basic policies for Internal Audit, including its mission, purposes, responsibilities, and roles.

This charter is designed to encourage Internal Audit staff to conduct internal audits in accordance with the global standards set by the Institute of Internal Auditors, an international organization established for, among other purposes, formulating practical internal audit standards.

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

For a description of ADSs, each representing one share of our common stock, see Exhibit 2(c) to this Annual Report.

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 ADRs, or the Depositary, either directly or indirectly, the following fees or charges. The Depositary collects its fees for delivery and surrender of ADRs directly from investors depositing shares or surrendering ADRs 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.

ADS holders must pay:	For:
\$5.00 (or less) per 100 ADSs (or portion thereof)	Each issuance of an ADR, including as a result of a distribution of shares or rights or other property
	Each cancellation of an ADR, including if the agreement terminates
\$0.02 (or less) per ADS	Any cash distribution, to the extent permitted by any securities exchange on which the ADSs may be listed for trading
A fee equivalent to the fee that would be payable if securities distributed to the ADS holder had been shares and the shares had been deposited for issuance of ADRs	Distribution of securities distributed to holders of deposited securities which are distributed by the Depositary to registered ADS holders
Registration or transfer fees	Transfer and registration of shares on the share register from your name to the name of The Bank of New York Mellon or its agent and vice versa when you deposit or withdraw shares
Expenses of The Bank of New York Mellon	Conversion of foreign currency to U.S. dollars, as well as cable, telex and facsimile transmission expenses
Taxes and other governmental charges The Bank of New York Mellon or MUFG Bank, as custodian, have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary

Fees Waived or Paid by the Depositary

The Depositary has agreed to waive the standard out-of-pocket administrative, maintenance and other expenses for providing services to the registered holders of our ADSs, which include the expenses relating to the delivery of annual reports, dividend fund remittances, stationery, postage and photocopying. For the fiscal year ended March 31, 2021, the Depositary waived \$131,101.14 of standard out-of-pocket expenses.

The Depositary has also agreed to reimburse us for expenses related to the administration and maintenance of the ADS program, including investor relations expenses, the annual New York Stock Exchange listing fees and other program-related expenses. There is a limit on the amount of expenses for which the Depositary will reimburse us based and conditioned on the number of outstanding ADSs and the amount of dividend fees collected by the Depositary. For the fiscal year ended March 31, 2021, the Depositary reimbursed us \$1.0 million for such expenses.

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 U.S. Securities Exchange Act of 1934, as of the end of the period covered by this Annual Report.

Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2021.

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 U.S. Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed by, or under the supervision of, MUFG's principal executive and principal financial officers, and effected by MUFG's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. 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, 2021 based on the criteria established in "Internal Control—Integrated Framework (2013)" 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, 2021.

The effectiveness of our internal control over financial reporting as of March 31, 2021 has been audited by Deloitte Touche Tohmatsu LLC, an independent registered public accounting firm, as stated in its report, presented on page 172.

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 the Shareholders of
Mitsubishi UFJ Financial Group, Inc.
(Kabushiki Kaisha Mitsubishi UFJ Financial Group):

Opinion on Internal Control over Financial Reporting

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, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the MUFG Group maintained, in all material respects, effective internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements as of and for the year ended March 31, 2021, of the MUFG Group and our report dated July 9, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the MUFG Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’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 company; (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 company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting 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.

/s/Deloitte Touche Tohmatsu LLC

Tokyo, Japan
July 9, 2021

Item 16A. Audit Committee Financial Expert.

Our board of directors has determined that Mr. Koichi Tsuji, an outside director, is an “audit committee financial expert” as defined in Item 16A of Form 20-F and is, and has remained since his assumption of office as a member of our audit committee, “independent” as defined in the listing standards of the NYSE. Mr. Tsuji has spent most of his professional career as a certified public accountant in Japan, auditing Japanese corporations, including those registered with the U.S. Securities and Exchange Commission. Mr. Tsuji is also the chair of our audit committee.

Item 16B. Code of Ethics.

We have adopted a code of ethics, which consists of internal rules named MUFG Group Code of Conduct, compliance rules, compliance manual and rules of employment. Each of these rules applies to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. The MUFG Group Code of Conduct was most recently amended on April 1, 2021 primarily to add details relating to adherence to laws and rules and prevention of financial crimes and also to streamline explanations. A copy of the MUFG Group Code of Conduct and the sections of our 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.

No waivers of the MUFG Group Code of Conduct or the relevant sections of our compliance rules, compliance manual and rules of employment were granted to our principal executive officer, principal financial officer, principal accounting officer, directors or corporate auditors during the fiscal year ended March 31, 2021.

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 registered public accounting firm and its affiliates, for the fiscal years ended March 31, 2020 and 2021 are presented in the following table:

	<u>2020</u>	<u>2021</u>
	(in millions)	
Audit fees	¥8,564	¥8,873
Audit-related fees	249	255
Tax fees	117	85
All other fees	420	54
Total	<u>¥9,350</u>	<u>¥9,267</u>

The description of our fees billed for each category described above is as follows:

Audit fees—Audit fees are primarily for an 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 U.S. Sarbanes-Oxley Act of 2002.

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 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 fees for system advisory services.

Pre-Approval Policies and Procedures for Services by Deloitte Touche Tohmatsu LLC

Our audit committee performs the pre-approval function required by applicable SEC rules and regulations. Our audit committee 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 audit committee prior to engagement, although if necessary a full-time member of our audit committee may consider any case-by-case application for pre-approval on behalf of the audit committee prior to the next scheduled audit committee meeting. Such decisions made individually by a full-time member of our audit committee are reported to the audit committee as appropriate at the next scheduled audit committee 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 paid to Deloitte Touche Tohmatsu LLC for each of the fiscal years ended March 31, 2020 and 2021.

Item 16D. Exemptions from the Listing Standards for Audit Committees.

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Issuer Purchases of Common Stock

	Total Number of Shares Purchased ⁽¹⁾	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, 2020	1,799	¥413.13	—	—
May 1 to May 31, 2020	1,372	418.83	—	—
June 1 to June 30, 2020	1,616	449.13	—	—
July 1 to July 31, 2020	2,929	421.27	—	—
August 1 to August 31, 2020	1,674	421.65	—	—
September 1 to September 30, 2020	2,066	440.97	—	—
October 1 to October 31, 2020	2,710	423.82	—	—
November 1 to November 30, 2020	2,377	442.53	—	—
December 1 to December 31, 2020	3,572	452.66	—	—
January 1 to January 31, 2021	2,619	480.64	—	—
February 1 to February 28, 2021	2,550	517.49	—	—
March 1 to March 31, 2021	3,315	596.38	—	—
Total	28,599	¥463.90	—	—

Notes:

- (1) The shares purchased were shares constituting less than one unit (100 shares) purchased from registered holders of the shares and shares purchased pursuant to applicable Japanese law from shareholders who have not responded to communications sent to their registered addresses for five consecutive years or more and by whom dividend payments have not been received for five consecutive years, each at the current market price.

We did not make any purchases of shares of our common stock other than as shown in the above table for the fiscal year ended March 31, 2021.

In May 2021, 13,381,500 shares were purchased by the trustee of the trust for the initial performance-based stock compensation plan. In connection with the MUFG Americas Holdings Corporation Stock Bonus Plan, 10,692,469 ADSs were purchased by the trustee of the independent trust between April 1, 2019 and March 31, 2020. For descriptions of our stock compensation and bonus plans, see “Item 6.B. Directors, Senior Management and Employees—Compensation.”

Item 16F. Change in Registrant’s Certifying Accountant.

None.

Item 16G. Corporate Governance.

The NYSE allows NYSE-listed companies that are foreign private issuers, such as MUFG, with certain exceptions, to follow home-country practices in lieu of the corporate governance practices followed by U.S. companies pursuant to the NYSE’s Listed Company Manual. The following is a summary of the significant differences between MUFG’s corporate governance practices and those followed by U.S. listed companies under the NYSE’s Listed Company Manual.

1. A NYSE-listed U.S. company must have a majority of directors that meet the independence requirements under Section 303A of the NYSE’s Listed Company Manual.

As of the date of this Annual Report, we have nine outside directors as members of our board of directors, which consists of a total of sixteen members. Under our governance system, we are required to have outside directors on each of our nominating, audit and compensation committees, constituting a majority of its members. For a description of an outside director, see “Item 6.C. Directors and Senior Management—Board Practices.”

The Tokyo Stock Exchange rules require listed companies, including us, to identify at least one individual who the company believes is unlikely to have a conflict of interest with general shareholders and have such individual serve as an independent director or outside corporate auditor. The Companies Act requires any listed company to have an outside director.

Further, a listed company with fewer than two outside directors who are considered independent based on such internal standards as the company establishes pursuant to the Tokyo Stock Exchange requirements must publicly disclose the reason for not having at least two such directors on its board of directors. In addition, if a listed company determines that at least one-third of the members of its board of directors should be independent outside directors, the listed company must disclose its policy relating to the determination. We have adopted and made public our corporate governance policy providing, among other things, that, in general, half of the members of our board of directors will be independent outside directors. The Tokyo Stock Exchange is expected to restructure its stock market into three new market segments in April 2022, namely, Prime Market, Standard Market and Growth Market. A stricter standard is expected to be applied to those companies to be listed on the Prime Market, requiring at least one-third (or majority if necessary) of the members of their respective boards of directors to be independent outside directors.

2. A NYSE-listed U.S. company must have an audit committee composed entirely of independent directors.

Under the Companies Act, we are required to have an audit committee consisting of at least three non-executive directors, and the majority of its members must be outside directors. Currently, our audit

committee consists of four outside directors and two non-executive directors. Our audit committee satisfies the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934, including the independence requirements thereunder.”

3. A NYSE-listed U.S. company must have a compensation committee composed entirely of independent directors.

Under the Companies Act, we are required to have a compensation committee consisting of at least three directors, and the majority of its members must be outside directors. Currently, our compensation committee consists of five directors, four of whom are outside directors. Further, starting in April 2022, a stricter standard is expected to be applied to those companies to be listed on the Prime Market of the Tokyo Stock Exchange, requiring the majority of compensation committee members to be in principle independent outside directors.

4. A NYSE-listed U.S. company must have a nominating or corporate governance committee composed entirely of independent directors.

Under the Companies Act, we are required to have a nominating committee consisting of at least three directors, and the majority of its members must be outside directors. Currently, our nominating committee, which we call the nominating and governance committee, consists of five directors, four of whom are outside directors. Further, starting in April 2022, a stricter standard is expected to be applied to those companies to be listed on the Prime Market of the Tokyo Stock Exchange, requiring the majority of nominating committee members to be in principle independent outside directors.

5. A NYSE-listed U.S. company must obtain shareholder approval with respect to any equity compensation plan.

Under the Companies Act, an equity compensation plan for directors and corporate executives is deemed to be compensation for the services performed by the company’s directors and corporate executives. Our compensation committee establishes the policy with respect to the determination of the individual compensation of our directors and corporate executives, including equity compensation in the form of performance-based stock compensation plan, and determines individual compensation in accordance with the policy. Under the Companies Act, a public company with board audit, compensation and nominating committees seeking to introduce a performance-based stock compensation plan must obtain the approval of its compensation committee, not its shareholders.

6. A NYSE-listed U.S. company must adopt and disclose Corporate Governance Guidelines and a Code of Business Conduct and Ethics, and it must also disclose any exemptions granted to directors or executives.

Our corporate governance policies, which are called the “MUFU Corporate Governance Policies,” are based on applicable home-country rules, particularly the Tokyo Stock Exchange rules, which require listed companies, such as us, to adopt a corporate governance code setting forth fundamental principles designed to establish an effective corporate governance system or explain in their corporate governance reports the reasons for not adopting such a code. We disclose these policies on our website. The Tokyo Stock Exchange rules regarding corporate governance are expected to become stricter for companies to be listed on the Prime Market starting in April 2022, including without limitation those discussed in 1, 3 and 4 above.

We have adopted a code of conduct, compliance rules, compliance manual and rules of employment, which meet the definition of “code of ethics” in “Item 16B. Code of Ethics.”

7. A NYSE-listed U.S. company must hold regularly scheduled executive sessions where participants are limited to non-management directors.

Under the Companies Act, 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 our internal corporate governance rules.

Item 16H. Mine Safety Disclosure.

Not Applicable.

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.

Our consolidated financial statements are included in this Annual Report, as required by this item, starting on page F-1.

Pursuant to Rule 3-09 of Regulation S-X, the financial statements and supplementary data of Morgan Stanley, our equity method investee, as of December 31, 2019 and 2020 and for the fiscal years ended December 31, 2018, 2019 and 2020, are incorporated in this Annual Report as Exhibit 99(c) by reference to Morgan Stanley's annual report on Form 10-K filed on February 26, 2021.

Item 19. Exhibits.

<u>Exhibit</u>	<u>Description</u>
1(a)	Articles of Incorporation of Mitsubishi UFJ Financial Group, Inc., as amended on July 6, 2018 (English translation)*
1(b)	Board of Directors Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 25, 2015 (English translation)*
1(c)	Corporation Meetings Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on April 1, 2021 (English translation)
1(d)	Share Handling Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 25, 2015 (English Translation)**
1(e)	Charter of the Audit Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)*
1(f)	Charter of the Compensation Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)*
1(g)	Charter of the Nominating and Governance Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)*
1(h)	Charter of the Risk Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (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*
2(c)	Description of Securities
8	Subsidiaries of the Company—see “Item 4.C. Information on the Company—Organizational Structure.”
11	MUFG Group Code of Conduct, Compliance Rules, Compliance Manual, and Rules of Employment of Mitsubishi UFJ Financial Group, Inc. applicable to its principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions (English translation of relevant sections)

Exhibit	Description
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(a)	Consent of independent registered public accounting firm (Deloitte Touche Tohmatsu LLC)
15(b)	Consent of independent registered public accounting firm (Deloitte & Touche LLP)
99(a)	Capitalization and Indebtedness of Mitsubishi UFJ Financial Group, Inc. as of March 31, 2021***
99(b)	Unaudited Reverse Reconciliation of Selected Financial Information of Mitsubishi UFJ Financial Group, Inc. as of and for the fiscal year ended March 31, 2021****
99(c)	Financial Statements and Supplementary Data of Morgan Stanley*****
101.INS	Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page for the Company's Annual Report on Form 20-F for the year ended March 31, 2021, has been formatted in Inline XBRL

Notes:

- * Incorporated by reference to our annual report on Form 20-F (File No. 000-54189) filed on July 12, 2018.
- ** Incorporated by reference to our registration statement on Form S-8 (File No. 333-230590) filed on March 29, 2019.
- *** Deemed to be incorporated by reference into the registration statement on Form F-3 (No. 333-242048) of Mitsubishi UFJ Financial Group, Inc. and to be a part thereof.
- **** Deemed to be incorporated as Annex A to the registration statement on Form F-3 (No. 333-242048) of Mitsubishi UFJ Financial Group, Inc. and to be a part thereof.
- ***** Incorporated by reference to Morgan Stanley's annual report on Form 10-K (File No. 001-11758) filed on February 26, 2021.

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 principally conducted by the international banking-related divisions headquartered in Japan. Our management believes that the results appropriately represent our domestic and foreign activities.

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, 2019, 2020 and 2021. 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.

	Fiscal years ended March 31,								
	2019			2020			2021		
	Average balance	Interest income	Average rate	Average balance	Interest income	Average rate	Average balance	Interest income	Average rate
	(in millions, except percentages)								
Assets:									
Interest-earning assets:									
Interest-earning deposits in other banks:									
Domestic	¥ 32,727,743	¥ 31,287	0.10%	¥ 30,349,122	¥ 31,578	0.10%	¥ 38,009,750	¥ 33,413	0.09%
Foreign	9,025,391	152,040	1.68	8,268,196	135,689	1.64	9,905,602	23,142	0.23
Total	41,753,134	183,327	0.44	38,617,318	167,267	0.43	47,915,352	56,555	0.12
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions:									
Domestic	6,429,788	5,920	0.09	8,170,312	4,624	0.06	8,772,553	(3,232)	(0.04)
Foreign	7,594,119	149,788	1.97	10,339,632	252,973	2.45	9,894,459	86,459	0.87
Total	14,023,907	155,708	1.11	18,509,944	257,597	1.39	18,667,012	83,227	0.45
Trading account assets:									
Domestic	5,204,308	31,284	0.60	7,305,805	29,108	0.40	9,641,674	38,554	0.40
Foreign	19,467,632	468,440	2.41	22,242,975	460,734	2.07	22,805,949	334,646	1.47
Total	24,671,940	499,724	2.03	29,548,780	489,842	1.66	32,447,623	373,200	1.15
Investment securities ⁽¹⁾ :									
Domestic	35,073,801	202,755	0.58	34,535,660	200,330	0.58	43,679,522	141,557	0.32
Foreign	7,782,349	195,448	2.51	8,623,509	214,175	2.48	8,568,989	156,703	1.83
Total	42,856,150	398,203	0.93	43,159,169	414,505	0.96	52,248,511	298,260	0.57
Loans ⁽²⁾ :									
Domestic	65,843,445	777,306	1.18	64,897,973	732,783	1.13	68,785,326	618,678	0.90
Foreign	52,258,780	1,799,111	3.44	51,550,492	1,865,149	3.62	48,852,657	1,322,076	2.71
Total	118,102,225	2,576,417	2.18	116,448,465	2,597,932	2.23	117,637,983	1,940,754	1.65
Total interest-earning assets:									
Domestic	145,279,085	1,048,552	0.72	145,258,872	998,423	0.69	168,888,825	828,970	0.49
Foreign	96,128,271	2,764,827	2.88	101,024,804	2,928,720	2.90	100,027,656	1,923,026	1.92
Total	241,407,356	3,813,379	1.58	246,283,676	3,927,143	1.59	268,916,481	2,751,996	1.02
Non-interest-earning assets:									
Cash and due from banks	33,631,665			32,929,678			42,417,354		
Other non-interest-earning assets	46,952,826			46,962,448			45,669,470		
Allowance for credit losses	(699,000)			(675,353)			(1,010,734)		
Total non-interest-earning assets	79,885,491			79,216,773			87,076,090		
Total assets	<u>¥321,292,847</u>			<u>¥325,500,449</u>			<u>¥355,992,571</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, which accounts for an insignificant amount of an adjustment to the yields.

	Fiscal years ended March 31,								
	2019			2020			2021		
	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate
	(in millions, except percentages)								
Liabilities and equity:									
Interest-bearing liabilities:									
Deposits:									
Domestic	¥124,661,909	¥ 67,948	0.05%	¥124,294,925	¥ 77,143	0.06%	¥135,662,556	¥ 35,308	0.03%
Foreign	41,945,626	649,418	1.55	45,216,271	758,938	1.68	47,092,772	294,084	0.62
Total	<u>166,607,535</u>	<u>717,366</u>	0.43	<u>169,511,196</u>	<u>836,081</u>	0.49	<u>182,755,328</u>	<u>329,392</u>	0.18
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:									
Domestic	17,201,589	188,009	1.09	17,245,242	137,759	0.80	18,084,898	39,725	0.22
Foreign	9,204,904	149,536	1.62	10,502,391	222,893	2.12	11,000,681	52,888	0.48
Total	<u>26,406,493</u>	<u>337,545</u>	1.28	<u>27,747,633</u>	<u>360,652</u>	1.30	<u>29,085,579</u>	<u>92,613</u>	0.32
Due to trust account, other short-term borrowings and trading account liabilities:									
Domestic	5,777,333	13,576	0.23	6,025,686	20,557	0.34	16,025,141	26,464	0.17
Foreign	7,184,301	141,697	1.97	7,542,997	144,350	1.91	6,209,147	45,939	0.74
Total	<u>12,961,634</u>	<u>155,273</u>	1.20	<u>13,568,683</u>	<u>164,907</u>	1.22	<u>22,234,288</u>	<u>72,403</u>	0.33
Long-term debt:									
Domestic	25,558,707	234,603	0.92	25,313,006	237,995	0.94	29,205,636	181,679	0.62
Foreign	3,108,828	73,194	2.35	2,721,002	84,709	3.11	2,632,097	71,815	2.73
Total	<u>28,667,535</u>	<u>307,797</u>	1.07	<u>28,034,008</u>	<u>322,704</u>	1.15	<u>31,837,733</u>	<u>253,494</u>	0.80
Total interest-bearing liabilities:									
Domestic	173,199,538	504,136	0.29	172,878,859	473,454	0.27	198,978,231	283,176	0.14
Foreign	61,443,659	1,013,845	1.65	65,982,661	1,210,890	1.84	66,934,697	464,726	0.69
Total	<u>234,643,197</u>	<u>1,517,981</u>	0.65	<u>238,861,520</u>	<u>1,684,344</u>	0.71	<u>265,912,928</u>	<u>747,902</u>	0.28
Non-interest-bearing liabilities	70,572,971			71,221,044			74,398,116		
Total equity	<u>16,076,679</u>			<u>15,417,885</u>			<u>15,681,527</u>		
Total liabilities and equity	<u>¥321,292,847</u>			<u>¥325,500,449</u>			<u>¥355,992,571</u>		
Net interest income and interest rate spread		<u>¥2,295,398</u>	<u>0.93%</u>		<u>¥2,242,799</u>	<u>0.88%</u>		<u>¥2,004,094</u>	<u>0.74%</u>
Net interest income as a percentage of total interest-earning assets			<u>0.95%</u>			<u>0.91%</u>			<u>0.75%</u>

The percentage of total average assets attributable to foreign activities was 36.8%, 38.1% and 33.6%, respectively, for the fiscal years ended March 31, 2019, 2020 and 2021.

The percentage of total average liabilities attributable to foreign activities was 37.0%, 38.2% and 33.8%, respectively, for the fiscal years ended March 31, 2019, 2020 and 2021.

Analysis of Net Interest Income

The following table shows changes in our net interest income by changes in volume and by changes in interest rate for the fiscal year ended March 31, 2020 compared to the fiscal year ended March 31, 2019, and the fiscal year ended March 31, 2021 compared to the fiscal year ended March 31, 2020.

	Fiscal year ended March 31, 2019 versus fiscal year ended March 31, 2020			Fiscal year ended March 31, 2020 versus fiscal year ended March 31, 2021		
	Increase (decrease) due to changes in		Net change	Increase (decrease) due to changes in		Net change
	Volume ⁽¹⁾	Rate ⁽¹⁾		Volume ⁽¹⁾	Rate ⁽¹⁾	
(in millions)						
Interest income:						
Interest-earning deposits in other banks:						
Domestic	¥ (2,365)	¥ 2,656	¥ 291	¥ 7,205	¥ (5,370)	¥ 1,835
Foreign	(12,504)	(3,847)	(16,351)	22,548	(135,095)	(112,547)
Total	(14,869)	(1,191)	(16,060)	29,753	(140,465)	(110,712)
Call loans, funds sold, and receivables under resale agreements and securities borrowing transactions:						
Domestic	1,348	(2,644)	(1,296)	317	(8,173)	(7,856)
Foreign	61,973	41,212	103,185	(10,452)	(156,062)	(166,514)
Total	63,321	38,568	101,889	(10,135)	(164,235)	(174,370)
Trading account assets:						
Domestic	10,311	(12,487)	(2,176)	9,340	106	9,446
Foreign	62,079	(69,785)	(7,706)	11,389	(137,477)	(126,088)
Total	72,390	(82,272)	(9,882)	20,729	(137,371)	(116,642)
Investment securities ⁽²⁾ :						
Domestic	(3,120)	695	(2,425)	44,264	(103,037)	(58,773)
Foreign	20,913	(2,186)	18,727	(1,346)	(56,126)	(57,472)
Total	17,793	(1,491)	16,302	42,918	(159,163)	(116,245)
Loans:						
Domestic	(11,041)	(33,482)	(44,523)	41,862	(155,967)	(114,105)
Foreign	(24,645)	90,683	66,038	(93,380)	(449,693)	(543,073)
Total	(35,686)	57,201	21,515	(51,518)	(605,660)	(657,178)
Total interest income:						
Domestic	(4,867)	(45,262)	(50,129)	102,988	(272,441)	(169,453)
Foreign	107,816	56,077	163,893	(71,241)	(934,453)	(1,005,694)
Total	¥102,949	¥ 10,815	¥113,764	¥ 31,747	¥(1,206,894)	¥(1,175,147)

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, 2019 versus fiscal year ended March 31, 2020			Fiscal year ended March 31, 2020 versus fiscal year ended March 31, 2021		
	Increase (decrease) due to changes in		Net change	Increase (decrease) due to changes in		Net change
	Volume ⁽¹⁾	Rate ⁽¹⁾		Volume ⁽¹⁾	Rate ⁽¹⁾	
	(in millions)					
Interest expense:						
Deposits:						
Domestic	¥ (201)	¥ 9,396	¥ 9,195	¥ 6,498	¥ (48,333)	¥ (41,835)
Foreign	52,686	56,834	109,520	30,270	(495,124)	(464,854)
Total	52,485	66,230	118,715	36,768	(543,457)	(506,689)
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:						
Domestic	476	(50,726)	(50,250)	6,401	(104,435)	(98,034)
Foreign	23,113	50,244	73,357	10,102	(180,107)	(170,005)
Total	23,589	(482)	23,107	16,503	(284,542)	(268,039)
Due to trust account, other short-term borrowings and trading account liabilities:						
Domestic	607	6,374	6,981	20,687	(14,780)	5,907
Foreign	6,943	(4,290)	2,653	(22,022)	(76,389)	(98,411)
Total	7,550	2,084	9,634	(1,335)	(91,169)	(92,504)
Long-term debt:						
Domestic	(2,271)	5,663	3,392	32,729	(89,045)	(56,316)
Foreign	(9,952)	21,467	11,515	(2,696)	(10,198)	(12,894)
Total	(12,223)	27,130	14,907	30,033	¥ (99,243)	¥ (69,210)
Total interest expense:						
Domestic	(1,389)	(29,293)	(30,682)	66,315	¥ (256,593)	(190,278)
Foreign	72,790	124,255	197,045	15,654	(761,818)	(746,164)
Total	¥ 71,401	¥ 94,962	¥ 166,363	¥ 81,969	¥ (1,018,411)	¥ (936,442)
Net interest income:						
Domestic	¥ (3,478)	¥ (15,969)	¥ (19,447)	¥ 36,673	¥ (15,848)	¥ 20,825
Foreign	35,026	(68,178)	(33,152)	(86,895)	(172,635)	(259,530)
Total	¥ 31,548	¥ (84,147)	¥ (52,599)	¥ (50,222)	¥ (188,483)	¥ (238,705)

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 Available-for-sale debt securities, Held-to-maturity debt securities, and Marketable equity securities at March 31, 2019, 2020 and 2021:

	At March 31,								
	2019			2020			2021		
	Amortized cost	Fair value	Net unrealized gains (losses)	Amortized cost	Fair value	Net unrealized gains (losses)	Amortized cost	Fair value	Net unrealized gains (losses)
	(in millions)								
Available-for-sale debt securities:									
Domestic:									
Japanese national government and Japanese government agency bonds	¥ 23,748,558	¥ 24,077,696	¥ 329,138	¥ 23,308,538	¥ 23,462,879	¥ 154,341	¥ 35,166,245	¥ 35,273,211	¥ 106,966
Corporate bonds	988,137	999,707	11,570	1,090,442	1,099,328	8,886	982,214	991,039	8,825
Other securities	3,377,266	3,402,696	25,430	4,064,659	4,080,746	16,087	5,233,649	5,246,547	12,898
Total domestic	28,113,961	28,480,099	366,138	28,463,639	28,642,953	179,314	41,382,108	41,510,797	128,689
Foreign:									
U.S. Treasury and other U.S. government agencies bonds	1,722,943	1,710,328	(12,615)	1,994,173	2,086,763	92,590	1,805,518	1,873,019	67,501
Other government and official institution bonds	925,931	931,091	5,160	941,937	950,725	8,788	1,048,519	1,053,944	5,425
Mortgage-backed securities	1,138,101	1,115,714	(22,387)	1,063,983	1,064,787	804	1,096,412	1,133,253	36,841
Other securities	1,273,551	1,281,271	7,720	1,444,035	1,454,975	10,940	1,531,288	1,546,800	15,512
Total foreign	5,060,526	5,038,404	(22,122)	5,444,128	5,557,250	113,122	5,481,737	5,607,016	125,279
Total	¥ 33,174,487	¥ 33,518,503	¥ 344,016	¥ 33,907,767	¥ 34,200,203	¥ 292,436	¥ 46,863,845	¥ 47,117,813	¥ 253,968
Held-to-maturity debt securities:									
Domestic:									
Japanese national government and Japanese government agency bonds	¥ 1,100,701	¥ 1,142,320	¥ 41,619	¥ 1,100,574	¥ 1,130,430	¥ 29,856	¥ 1,100,447	¥ 1,123,480	¥ 23,033
Total domestic	1,100,701	1,142,320	41,619	1,100,574	1,130,430	29,856	1,100,447	1,123,480	23,033
Foreign:									
U.S. Treasury and other U.S. government agencies bonds	138,731	138,712	(19)	148,927	148,318	(609)	233,883	233,350	(533)
Other government and official institution bonds	—	—	—	2,628	2,791	163	—	—	—
Mortgage-backed securities	1,071,257	1,051,135	(20,122)	883,281	893,423	10,142	522,774	546,210	23,436
Asset-backed securities	2,131,212	2,120,780	(10,432)	2,030,371	2,002,932	(27,439)	2,046,659	2,036,103	(10,556)
Total foreign	3,341,200	3,310,627	(30,573)	3,065,207	3,047,464	(17,743)	2,803,316	2,815,663	12,347
Total	¥ 4,441,901	¥ 4,452,947	¥ 11,046	¥ 4,165,781	¥ 4,177,894	¥ 12,113	¥ 3,903,763	¥ 3,939,143	¥ 35,380
Marketable equity securities:									
Domestic:									
Marketable equity securities	—	¥ 6,331,815	—	—	¥ 4,740,188	—	—	¥ 5,716,702	—
Total domestic	—	6,331,815	—	—	4,740,188	—	—	5,716,702	—
Foreign:									
Marketable equity securities	—	26,728	—	—	28,130	—	—	42,790	—
Total foreign	—	26,728	—	—	28,130	—	—	42,790	—
Total	—	¥ 6,358,543	—	—	¥ 4,768,318	—	—	¥ 5,759,492	—

Nonmarketable equity securities presented in Equity securities in the accompanying consolidated financial statements were primarily carried at cost of ¥591,237 million, ¥576,977 million and ¥417,859 million, at March 31, 2019, 2020 and 2021, respectively. The corresponding fair values at those dates were not readily determinable. Investment securities held by certain subsidiaries subject to specialized industry accounting principles for investment companies and brokers and dealers presented in Equity securities were carried at fair value of ¥27,820 million, ¥39,963 million and ¥45,569 million, at March 31, 2019, 2020 and 2021, respectively.

The following table presents the book values, maturities and weighted average yields of Available-for-sale debt securities and Held-to-maturity debt securities at March 31, 2021. 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)										
Available-for-sale debt securities:										
Domestic:										
Japanese national government and Japanese government agency bonds	¥ 22,972,078	0.03%	¥ 3,803,768	0.12%	¥ 4,534,262	0.21%	¥ 3,963,103	0.67%	¥ 35,273,211	0.14%
Corporate bonds	217,839	0.13	632,369	0.16	103,568	0.42	37,263	0.50	991,039	0.19
Other securities	668,132	0.03	1,409,546	0.23	2,460,633	0.16	708,236	0.23	5,246,547	0.17
Total domestic	23,858,049	0.03	5,845,683	0.15	7,098,463	0.20	4,708,602	0.60	41,510,797	0.14
Foreign:										
U.S. Treasury and other U.S. government agencies bonds	198,875	1.93	672,375	2.21	985,115	2.19	16,654	1.24	1,873,019	2.16
Other government and official institution bonds	343,761	2.19	686,038	2.09	23,573	3.39	572	3.78	1,053,944	2.15
Mortgage-backed securities	—	—	6,704	2.12	279,943	2.14	846,606	2.19	1,133,253	2.18
Other securities	414,636	1.79	918,883	2.59	162,619	2.35	50,662	1.73	1,546,800	2.32
Total foreign	957,272	1.96	2,284,000	2.33	1,451,250	2.22	914,494	2.15	5,607,016	2.21
Total	¥ 24,815,321	0.11%	¥ 8,129,683	0.76%	¥ 8,549,713	0.53%	¥ 5,623,096	0.85%	¥ 47,117,813	0.38%
Held-to-maturity debt securities:										
Domestic:										
Japanese national government and Japanese government agency bonds	¥ —	—%	¥ 1,100,447	0.51%	¥ —	—%	¥ —	—%	¥ 1,100,447	0.51%
Total domestic	—	—	1,100,447	0.51	—	—	—	—	1,100,447	0.51
Foreign:										
U.S. Treasury and other U.S. government agencies bonds	—	—	—	—	45,644	2.12	188,239	1.62	233,883	1.72
Mortgage-backed securities	—	—	64,067	2.22	67,793	2.31	390,914	2.64	522,774	2.55
Asset-backed securities	14,562	0.45	15,445	0.77	713,396	0.91	1,303,256	1.13	2,046,659	1.04
Total foreign	14,562	0.45	79,512	1.94	826,833	1.09	1,882,409	1.49	2,803,316	1.38
Total	¥ 14,562	0.45%	¥ 1,179,959	0.61%	¥ 826,833	1.09%	¥ 1,882,409	1.49%	¥ 3,903,763	1.13%

Other than U.S. Treasury and other U.S. government agencies bonds and Japanese national government bonds, none of the individual issuers held in our investment securities portfolio exceeded 10% of the consolidated total Mitsubishi UFJ Financial Group shareholders' equity at March 31, 2021.

III. Loan Portfolio

The following table shows our loans outstanding, before deduction of allowance for credit losses, by domicile and industry of the borrower at March 31 for each of the five fiscal years ended March 31, 2021. 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 the use of proceeds:

	At March 31,				
	2017	2018	2019	2020	2021
	(in millions)				
Domestic:					
Manufacturing	¥ 11,796,803	¥ 10,876,625	¥ 11,153,996	¥ 11,448,778	¥ 13,133,360
Construction	819,262	781,262	717,664	733,212	763,958
Real estate	11,622,372	11,763,769	11,706,419	12,054,671	11,997,301
Services	2,549,300	2,689,086	2,653,191	2,585,111	2,908,975
Wholesale and retail	7,970,579	7,989,080	7,643,397	7,504,561	7,766,070
Banks and other financial institutions ⁽¹⁾	5,223,906	4,818,364	5,213,020	5,161,093	6,443,296
Communication and information services	1,634,584	1,551,533	1,510,596	1,572,344	1,407,738
Other industries	8,898,712	8,939,291	8,756,483	8,673,871	8,838,718
Consumer	16,491,010	16,287,332	15,802,024	15,319,721	15,066,986
Total domestic	<u>67,006,528</u>	<u>65,696,342</u>	<u>65,156,790</u>	<u>65,053,362</u>	<u>68,326,402</u>
Foreign:					
Governments and official institutions	1,037,795	920,538	841,695	726,347	655,367
Banks and other financial institutions ⁽¹⁾	13,844,964	12,851,570	11,641,373	11,788,225	10,649,029
Commercial and industrial	30,279,641	30,591,173	31,951,169	32,565,030	29,574,176
Other	6,334,551	7,270,928	7,597,502	8,404,062	6,822,771
Total foreign	<u>51,496,951</u>	<u>51,634,209</u>	<u>52,031,739</u>	<u>53,483,664</u>	<u>47,701,343</u>
Total	118,503,479	117,330,551	117,188,529	118,537,026	116,027,745
Unearned income, unamortized premiums—net and deferred loan fees—net	<u>(288,507)</u>	<u>(294,656)</u>	<u>(304,588)</u>	<u>(350,287)</u>	<u>(308,882)</u>
Total⁽²⁾	<u><u>¥118,214,972</u></u>	<u><u>¥117,035,895</u></u>	<u><u>¥116,883,941</u></u>	<u><u>¥118,186,739</u></u>	<u><u>¥115,718,863</u></u>

Notes:

- (1) Loans to so-called “non-bank finance companies” are generally included in the “Banks and other financial institutions” category. Non-bank finance companies are primarily engaged in consumer lending, factoring and credit card businesses.
- (2) The above table includes loans held for sale of ¥185,940 million, ¥226,923 million, ¥291,794 million, ¥344,790 million and ¥353,095 million at March 31, 2017, 2018, 2019, 2020 and 2021, respectively, which are carried at the lower of cost or 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, 2021:

	Maturity			Total
	One year or less	One to five years	Over five years	
	(in millions)			
Domestic:				
Manufacturing	¥ 6,791,586	¥ 4,081,940	¥ 2,259,834	¥ 13,133,360
Construction	394,730	267,815	101,413	763,958
Real estate	2,572,698	4,458,503	4,966,100	11,997,301
Services	1,290,437	1,127,387	491,151	2,908,975
Wholesale and retail	5,417,809	1,578,268	769,993	7,766,070
Banks and other financial institutions	3,878,557	1,780,739	784,000	6,443,296
Communication and information services	364,682	906,526	136,530	1,407,738
Other industries	4,877,299	2,182,011	1,779,408	8,838,718
Consumer	2,056,352	3,024,685	9,985,949	15,066,986
Total Domestic	<u>27,644,150</u>	<u>19,407,874</u>	<u>21,274,378</u>	<u>68,326,402</u>
Foreign	<u>21,179,115</u>	<u>16,101,709</u>	<u>10,420,519</u>	<u>47,701,343</u>
Total	<u>¥48,823,265</u>	<u>¥35,509,583</u>	<u>¥31,694,897</u>	<u>¥116,027,745</u>

The above loans due after one year which had predetermined interest rates and floating or adjustable interest rates at March 31, 2021 are shown below:

	Domestic	Foreign	Total
	(in millions)		
Predetermined rate	¥19,901,638	¥ 5,309,349	¥25,210,987
Floating or adjustable rate	20,780,614	21,212,879	41,993,493
Total	<u>¥40,682,252</u>	<u>¥26,522,228</u>	<u>¥67,204,480</u>

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, when principal or interest is contractually past due one month or more with respect to loans within all classes of the Commercial segment, three months or more with respect to loans within the Card, MUFG Americas Holdings, and Krungsri segments, and six months or more with respect to loans within the Residential segment.

Regarding our policy for placing loans on nonaccrual status, see “Summary of Significant Accounting Policies — Loans” in Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

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, 2021, based on the domicile and type of industry of the borrowers:

	At March 31,				
	2017	2018	2019	2020	2021
	(in millions)				
Nonaccrual loans:					
Domestic:					
Manufacturing	¥ 185,124	¥ 77,188	¥ 65,921	¥ 93,798	¥ 251,815
Construction	15,248	10,922	9,877	8,558	6,521
Real estate	50,142	37,853	26,513	30,449	86,979
Services	38,977	31,733	27,115	52,182	89,552
Wholesale and retail	131,545	108,639	94,990	94,440	100,889
Banks and other financial institutions	2,432	1,145	898	994	689
Communication and information services	18,711	13,815	11,955	10,539	10,086
Other industries	10,352	37,677	26,110	20,766	9,764
Consumer	161,680	149,491	143,668	136,181	138,331
Total domestic	<u>614,211</u>	<u>468,463</u>	<u>407,047</u>	<u>447,907</u>	<u>694,626</u>
Foreign:					
Governments and official institutions	—	—	—	34	155
Banks and other financial institutions	5,902	1,716	1,160	443	10,562
Commercial and industrial	301,685	215,601	219,669	255,214	393,592
Other	64,834	67,869	78,780	100,628	123,468
Total foreign	<u>372,421</u>	<u>285,186</u>	<u>299,609</u>	<u>356,319</u>	<u>527,777</u>
Total	<u>¥ 986,632</u>	<u>¥ 753,649</u>	<u>¥ 706,656</u>	<u>¥ 804,226</u>	<u>¥1,222,403</u>
Restructured loans:					
Domestic	¥ 682,041	¥ 557,368	¥ 511,151	¥ 492,566	¥ 543,372
Foreign	158,784	137,674	127,931	172,549	167,524
Total	<u>¥ 840,825</u>	<u>¥ 695,042</u>	<u>¥ 639,082</u>	<u>¥ 665,115</u>	<u>¥ 710,896</u>
Accruing loans contractually past due 90 days or more:					
Domestic	¥ 37,650	¥ 17,356	¥ 13,621	¥ 11,148	¥ 15,822
Foreign ⁽¹⁾	3,430	2,408	2,778	2,339	4,717
Total	<u>¥ 41,080</u>	<u>¥ 19,764</u>	<u>¥ 16,399</u>	<u>¥ 13,487</u>	<u>¥ 20,539</u>
Total⁽²⁾	<u><u>¥1,868,537</u></u>	<u><u>¥1,468,455</u></u>	<u><u>¥1,362,137</u></u>	<u><u>¥1,482,828</u></u>	<u><u>¥1,953,838</u></u>

Note:

(1) Foreign accruing loans contractually past due 90 days or more do not include ¥1,514 million, ¥549 million, ¥234 million, ¥74 million and nil of Federal Deposit Insurance Corporation ("FDIC") covered loans held by MUFG Americas Holdings which are subject to the guidance on loans and debt securities acquired with deteriorated credit quality at March 31, 2017, 2018, 2019, 2020 and 2021, respectively.

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, 2021 was approximately ¥34.5 billion, of which ¥15.0 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, 2021 was approximately ¥37.2 billion, of which ¥19.8 billion was included in the results of operations for the fiscal year.

Potential Problem Loans

We do not have potential problem loans where known information about possible credit problems of borrowers causes management to have serious doubts as to the borrowers' ability to comply with the present loan repayment terms that are not disclosed as nonaccrual loans, restructured loans and accruing loans past due 90 days or more.

Foreign Loans Outstanding

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.

We had no cross-border outstandings to borrowers domiciled in a foreign country which in total exceeded 0.75% of our consolidated total assets at March 31, 2019, 2020. The following table sets forth our cross-border outstandings for the country in which total were between 0.75% and 1% of consolidated total assets at March 31, 2021.

	<u>Cross-border outstandings</u>	<u>Percentage of total assets</u>
	<u>(in millions, except percentage)</u>	
Cayman Islands	¥2,830,846	0.80%

Guarantees of outstandings to borrowers domiciled in 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 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 MUFG Bank, Mitsubishi UFJ Trust and Banking 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 the 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. The 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, 2021, 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 industry of the borrower for each of the five fiscal years ended March 31, 2021:

	Fiscal years ended March 31,				
	2017	2018	2019	2020	2021
	(in millions, except percentages)				
Allowance for credit losses at beginning of fiscal year	¥1,111,130	¥1,182,188	¥764,124	¥658,184	¥ 809,540
Effect of adopting new guidance on measurement of credit losses on financial instruments ⁽²⁾	—	—	—	—	323,704
Provision for (reversal of) credit losses	253,688	(240,847)	34,330	321,713	484,210
Charge-offs:					
Domestic:					
Manufacturing	30,549	10,621	10,525	9,923	4,132
Construction	647	789	992	300	208
Real estate	2,318	1,305	619	2,584	4,625
Services	5,225	1,867	4,207	6,533	4,879
Wholesale and retail	17,402	20,979	20,901	12,529	3,873
Banks and other financial institutions	—	650	2,523	12	154
Communication and information services	2,903	1,254	11,309	1,370	375
Other industries	767	29,839	2,758	596	1,392
Consumer	22,877	26,786	24,795	28,791	28,443
Total domestic	82,688	94,090	78,629	62,638	48,081
Total foreign	131,070	138,019	95,412	180,497	242,425
Total	213,758	232,109	174,041	243,135	290,506
Recoveries collected:					
Domestic	21,954	22,261	15,467	24,838	10,189
Foreign	21,995	28,849	28,650	39,020	34,893
Total	43,949	51,110	44,117	63,858	45,082
Net charge-offs	169,809	180,999	129,924	179,277	245,424
Other ⁽¹⁾	(12,821)	3,782	(10,346)	8,920	(23,639)
Allowance for credit losses at end of fiscal year	¥1,182,188	¥ 764,124	¥658,184	¥809,540	¥1,348,391
Allowance for credit losses applicable to foreign activities:					
Balance at beginning of fiscal year	¥ 416,221	¥ 387,250	¥303,719	¥303,867	¥ 402,784
Balance at end of fiscal year	¥ 387,250	¥ 303,719	¥303,867	¥402,784	¥ 675,597
Provision for credit losses	¥ 92,689	¥ 21,889	¥ 77,338	¥231,831	¥ 274,808
Ratio of net charge-offs during the fiscal year to average loans outstanding during the fiscal year	0.14%	0.15%	0.11%	0.15%	0.21%

Notes:

(1) Other principally includes losses (gains) from foreign exchange translation.

(2) For more information, see Note 1 to our consolidated financial statements included elsewhere in this Annual Report.

The following table shows an allocation of our allowance for credit losses at March 31 for each of the five fiscal years ended March 31, 2021:

	At March 31,									
	2017		2018		2019		2020		2021	
	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	¥ 409,018	9.95%	¥179,799	9.27%	¥108,463	9.52%	¥146,281	9.66%	¥ 178,960	11.32%
Construction	12,097	0.69	7,934	0.67	6,856	0.61	5,671	0.62	5,603	0.66
Real estate	33,579	9.81	21,062	10.03	15,664	9.99	15,244	10.17	92,972	10.34
Services	42,023	2.15	29,518	2.29	24,473	2.26	45,202	2.18	86,680	2.51
Wholesale and retail	138,119	6.73	99,985	6.81	93,112	6.52	93,636	6.33	103,770	6.69
Banks and other financial institutions	14,732	4.41	7,636	4.11	6,198	4.45	5,932	4.35	31,597	5.55
Communication and information services	13,902	1.38	17,300	1.32	8,327	1.29	7,327	1.33	9,648	1.21
Other industries	25,156	7.50	13,543	7.62	15,398	7.47	15,055	7.32	34,195	7.62
Consumer	106,312	13.92	80,238	13.88	75,271	13.49	72,408	12.93	129,369	12.99
Foreign:										
Governments and official institutions	25,098	0.88	751	0.78	367	0.72	369	0.61	913	0.56
Banks and other financial institutions	20,717	11.68	10,452	10.95	6,970	9.93	10,117	9.94	28,273	9.18
Commercial and industrial	263,429	25.55	197,653	26.07	196,237	27.27	250,438	27.47	397,239	25.49
Other	78,006	5.35	94,863	6.20	100,293	6.48	141,860	7.09	249,172	5.88
Unallocated	—	—	3,390	—	555	—	—	—	—	—
Total	¥1,182,188	100.00%	¥764,124	100.00%	¥658,184	100.00%	¥809,540	100.00%	¥1,348,391	100.00%
Allowance as a percentage of loans	1.00%		0.65%		0.56%		0.68%		1.17%	
Allowance as a percentage of nonaccrual loans, restructured loans and accruing loans contractually past due 90 days or more	63.27%		52.04%		48.32%		54.59%		69.01%	

While the allowance for credit losses contains amounts allocated to components of specifically identified loans as well as a group on a portfolio of loans, the allowance for credit losses covers the credit losses of 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 risk changes, allocations of the allowance will be adjusted 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, 2019, 2020 and 2021:

	Fiscal years ended March 31,					
	2019		2020		2021	
	Average amount	Average rate	Average amount	Average rate	Average amount	Average rate
	(in millions, except percentages)					
Domestic offices:						
Non-interest-bearing demand deposits	¥ 24,429,358	—%	¥ 25,243,586	—%	¥ 29,531,551	—%
Interest-bearing demand deposits	80,318,814	0.05	81,846,344	0.07	93,175,326	0.01
Deposits at notice	1,658,467	0.01	1,413,584	0.00	1,575,097	0.00
Time deposits	40,670,338	0.07	39,291,672	0.04	39,404,132	0.07
Certificates of deposit	2,014,290	0.01	1,743,325	0.01	1,508,001	0.01
Foreign offices:						
Non-interest-bearing demand deposits	5,356,424	—	5,037,045	—	5,654,123	—
Interest-bearing deposits, principally time deposits and certificates of deposit	41,945,626	1.55	45,216,271	1.68	47,092,772	0.62
Total	<u>¥196,393,317</u>		<u>¥199,791,827</u>		<u>¥217,941,002</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, 2019, 2020 and 2021 were ¥820,311 million, ¥775,125 million and ¥720,283 million, respectively.

At March 31, 2021, the balances and remaining maturities of time deposits and certificates of deposit (“CDs”) issued by domestic offices in amounts of ¥10 million (approximately U.S.\$90 thousand at the Federal Reserve Bank of New York’s noon buying rate on March 31, 2021) or more and total foreign deposits issued in amounts of U.S.\$100,000 or more are shown in the following table:

	Time deposits	Certificates of deposit	Total
	(in millions)		
Domestic offices:			
Three months or less	¥ 6,575,184	¥1,015,528	¥ 7,590,712
Over three months through six months	3,780,634	85,195	3,865,829
Over six months through twelve months	10,492,679	150,926	10,643,605
Over twelve months	3,064,780	55,000	3,119,780
Total	<u>¥23,913,277</u>	<u>¥1,306,649</u>	<u>¥25,219,926</u>
Foreign offices			<u>¥23,673,512</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, 2019, 2020 and 2021:

	Fiscal years ended March 31,		
	2019	2020	2021
	(in millions, except percentages)		
Call money, funds purchased, and payables under repurchase agreements and securities lending transactions:			
Average balance outstanding during the fiscal year	¥26,406,493	¥27,747,633	¥29,085,579
Maximum balance outstanding at any month-end during the fiscal year	31,395,497	36,535,711	33,435,910
Balance at end of fiscal year	28,588,039	36,535,711	27,764,363
Weighted average interest rate during the fiscal year	1.28%	1.30%	0.32%
Weighted average interest rate on balance at end of fiscal year	1.13%	0.72%	0.18%
Due to trust account and other short-term borrowings:			
Average balance outstanding during the fiscal year	¥ 9,875,361	¥ 9,883,337	¥16,586,236
Maximum balance outstanding at any month-end during the fiscal year	10,821,354	19,433,229	21,237,645
Balance at end of fiscal year	9,467,025	19,433,229	18,079,554
Weighted average interest rate during the fiscal year	1.25%	1.34%	0.24%
Weighted average interest rate on balance at end of fiscal year	1.40%	0.55%	0.05%

CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders of
Mitsubishi UFJ Financial Group, Inc.
(Kabushiki Kaisha Mitsubishi UFJ Financial Group)

Opinion on the Financial Statements

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, 2020 and 2021, the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended March 31, 2021, and the related notes (collectively referred to as the “financial statements”) (all expressed in Japanese yen). In our opinion, the financial statements present fairly, in all material respects, the financial position of the MUFG Group as of March 31, 2020 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the MUFG Group’s internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 9, 2021, expressed an unqualified opinion on the MUFG Group’s internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the MUFG Group has changed its method of accounting for credit losses as of April 1, 2020 due to the adoption of Financial Accounting Standards Board Accounting Standards Update 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

Basis for Opinion

These financial statements are the responsibility of the MUFG Group’s management. Our responsibility is to express an opinion on the MUFG Group’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the MUFG Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any

way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses—Commercial, MUFG Americas Holdings and Krungsri Segments—Macroeconomic Variables in Selected Economic Forecast Scenarios and Relative Weightings—Refer to Notes 1 and 4 to the Financial Statements

Critical Audit Matter Description

The MUFG Group has banking subsidiaries that engage in lending as one of their core businesses. It maintains an allowance for credit losses, which is an estimate of the credit losses that are expected over the life, or exposure, of the financial instrument. The allowance for credit losses involves significant judgments on a number of assumptions, including the assessment of risk characteristics, assignment of borrower's internal credit ratings, valuation of collateral, expectations of future economic conditions and the development of qualitative adjustments. The MUFG Group divides its loan portfolio into the following segments—Commercial, Residential, Card, MUFG Americas Holdings, Krungsri, and Other—based on the segments used to determine the allowance for credit losses. At March 31, 2021, the MUFG Group recorded ¥85,925 billion, ¥8,496 billion and ¥6,605 billion of loans in the Commercial segment, the MUFG Americas Holdings segment and the Krungsri segment, respectively, and recorded an allowance for credit losses against these loans of ¥735 billion, ¥132 billion and ¥293 billion, respectively.

The allowance for credit losses are estimated using quantitative models that incorporate economic forecast scenarios through the use of macroeconomic variables. These variables include, but are not limited to, unemployment rates and gross domestic product, which have been correlated with historical credit losses. The scenarios that are chosen, and the weightings given to each scenario, depend on a variety of factors including recent economic conditions and views of internal as well as third-party economists.

The determination of the allowance for credit losses for the Commercial, the MUFG Americas Holdings and the Krungsri segments required management to make significant judgements due to the subjectivity and uncertainty associated with expectations of future economic conditions. Due to the heightened volatility and uncertainty in future economic conditions, including the duration and severity of the economic downturn caused by the COVID-19 pandemic, there was a particularly high degree of uncertainty necessitating subjective judgments to be made by management to develop certain key macroeconomic variables in selected economic forecast scenarios and weightings given to each scenario.

Thus, we identified certain key macroeconomic variables and the relative weightings used to determine the allowance for credit losses for the Commercial, the MUFG Americas Holdings and the Krungsri segments as critical audit matters. Auditing these significant assumptions required a high degree of auditor judgment and an increased extent of effort, including the need to involve our credit specialists, when performing audit procedures to evaluate the reasonableness of these significant assumptions.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to certain key macroeconomic variables and the relative weightings used to determine the allowance for credit losses for the Commercial, the MUFG Americas Holdings and the Krungsri segments included the following, among others:

- We tested the effectiveness of controls, including the review and approval of certain key macroeconomic variables, and the review and approval of relative weightings.
- We tested the effectiveness of controls over the completeness and accuracy of the information used in performing the aforementioned controls.

- With the assistance of our credit specialists, we evaluated the reasonableness of certain key macroeconomic variables, such as unemployment rate and gross domestic product, and the reasonableness of the relative weightings by comparing to macroeconomic forecasts from available external sources.

Allowance for Credit Losses—MUFG Americas Holdings and Krungsri Segments—Qualitative Adjustments—Refer to Notes 1 and 4 to the Financial Statements

Critical Audit Matter Description

The allowance for credit losses includes qualitative adjustments to cover losses that are expected but were not reflected in the modeled allowance.

The determination of the allowance for credit losses for the MUFG Americas Holdings and the Krungsri segments required management to make significant judgements due to the subjectivity and uncertainty associated with the development of qualitative adjustments, including model input adjustments and overlays implemented as a result of COVID-19. There was a particularly high degree of uncertainty necessitating subjective judgments to be made by management to develop certain qualitative adjustments to capture the heightened volatility and uncertainty in the economy and events due to the COVID-19 pandemic.

Thus, we identified certain qualitative adjustments for the MUFG Americas Holdings and the Krungsri segments as a critical audit matter. Auditing these significant assumptions required a high degree of auditor judgment and an increased extent of effort, including the need to involve our credit specialists, when performing audit procedures to evaluate the reasonableness of these significant assumptions.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to certain qualitative adjustments for the MUFG Americas Holdings and the Krungsri segments included the following, among others:

- We tested the effectiveness of controls, including the review and approval of the quantitative models and methodology, and the review and approval of certain qualitative adjustments to modeled results.
- We tested the effectiveness of controls over the completeness and accuracy of the information used in performing the aforementioned controls.
- With the assistance of our credit specialists, we evaluated the appropriateness of the quantitative models and methodology by assessing the conceptual soundness and model performance by inspecting model documentation as well as reperforming model performance testing to determine whether the models operated as intended.
- With the assistance of credit specialists, we evaluated the reasonableness of the use of qualitative adjustments to modeled results and tested significant judgments applied by management by comparing management's results to available relevant external information.

Allowance for Credit Losses—Commercial Segment—Internal Credit Ratings—Refer to Notes 1 and 4 to the Financial Statements

Critical Audit Matter Description

The determination of the allowance for credit losses for the Commercial segment required management to make significant judgments due to the subjectivity and uncertainty associated with the determination of borrowers' internal credit ratings, which were highly dependent on the estimation of a borrower's performance and business sustainability, particularly in cases in which borrowers were experiencing weaknesses in their business performance. When these borrowers' performance and business sustainability were affected by changes

in the external and internal business environment, including the COVID-19 pandemic impacts, there was a particularly high degree of uncertainty necessitating subjective judgments to be made by management to determine the borrowers' internal credit ratings.

Thus, for particular borrowers operating in industries heavily impacted by the COVID-19 pandemic, we identified the internal credit ratings used to determine the allowance for credit losses for the Commercial segment as a critical audit matter. Auditing the borrowers' internal credit ratings required a high degree of auditor judgment and an increased extent of effort, including the need to involve our credit specialists, when performing audit procedures to evaluate the reasonableness of these significant assumptions.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the internal credit ratings for particular borrowers used to determine the allowance for credit losses for the Commercial segment included the following, among others:

- We tested the effectiveness of controls, including the review and approval of the borrowers' internal credit ratings.
- We tested the effectiveness of controls over the completeness and accuracy of the information used in performing the aforementioned controls, including the borrowers' underlying information.
- With the assistance of our credit specialists, we tested significant judgments applied by management to determine the internal credit ratings and the appropriateness of the borrowers' underlying information by comparing them with available relevant external information.

Goodwill—MUFG Americas Holdings Corporation Reporting Units—Refer to Notes 1 and 6 to the Financial Statements

Critical Audit Matter Description

As part of its global strategies, the MUFG Group has executed multiple large-scale acquisitions, investments, and capital alliances, and recorded goodwill from these business combinations. The MUFG Group's consolidated goodwill balance was ¥370,852 million at March 31, 2021, which was allocated to the MUFG Group's reporting units. Goodwill arising from a business combination is not amortized but is tested at least annually for impairment. Goodwill is recorded and assessed for impairment at a designated reporting unit level. The MUFG Group's evaluation of goodwill impairment involves the comparison of the fair value of each reporting unit to its respective carrying value. The MUFG Group determined the fair values of the MUFG Americas Holdings Corporation ("MUAH") reporting units within the Global Commercial Banking Business Group segment and Global Corporate & Investment Banking Business Group segment ("MUAH reporting units") using a combination of the income and the market approaches. The income approach determined the fair values of the reporting units by discounting management's projections of each reporting unit's future cash flows, including a terminal value to estimate the fair value of cash flows beyond the final year of projected results, using a discount rate derived from the Capital Asset Pricing Model. The market approach incorporated comparable public company price-to-tangible book values and price-to-earnings multiples. The MUFG Group determined that the carrying values of the MUAH reporting units exceeded their respective fair values as of the measurement dates, resulting in an impairment loss on goodwill of ¥147,564 million for the fiscal year ended March 31, 2021.

The determination of the fair values of the MUAH reporting units using the income approach required management to make significant judgments related to projected future operating cash flows based on forecasted future income. If the projected future operating cash flows are not appropriate, there is a risk that the valuation of the goodwill is not properly measured.

Thus, we identified auditing projected future operating cash flows used to determine the fair values of certain MUAH reporting units as a critical audit matter, specifically the Commercial Banking and Real Estate

Industries business unit and the Global Corporate & Investment Banking—U.S. business unit, because the procedures involved a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the projected future operating cash flows used to determine the fair values of these business units included the following, among others:

- We tested the effectiveness of controls, including the review and approval of the projected future operating cash flows supporting the forecasted future income in the income approach, including controls over the assumptions used to estimate the projected future operating cash flows.
- We tested the effectiveness of controls over the completeness and accuracy of the key underlying data used in performing the aforementioned controls.
- We evaluated the reasonableness of management’s projected future operating cash flows based on forecasted future income by inquiring of management, performing a retrospective review, and inspecting financial trends and metrics.
- We considered the impact of changes in macroeconomic and company specific factors on management’s forecasts.
- With the assistance of our fair value specialists, we evaluated the reasonableness of management’s assumptions, inputs and projected future operating cash flows used to determine the fair value for these business units.

/s/Deloitte Touche Tohmatsu LLC

Tokyo, Japan
July 9, 2021

We have served as the MUFG Group’s auditor since 1976.

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2020 AND 2021

(in millions)	2020	2021
ASSETS		
Cash and due from banks (Note 9)	¥ 33,283,032	¥ 49,977,480
Interest-earning deposits in other banks (Note 9)	45,266,680	53,346,721
Cash, due from banks and interest-earning deposits in other banks	78,549,712	103,324,201
Call loans and funds sold	1,168,515	1,256,075
Receivables under resale agreements (Note 15)	23,995,961	13,779,763
Receivables under securities borrowing transactions (Note 15)	3,443,959	3,369,903
Trading account assets (including assets pledged that secured parties are permitted to sell or repledge of ¥6,709,467 and ¥5,032,178 in 2020 and 2021) (including ¥20,964,024 and ¥18,231,238 measured at fair value under the fair value option in 2020 and 2021) (Notes 9, 15, 23 and 31)	47,504,058	44,444,379
Investment securities (Notes 3, 9 and 31):		
Available-for-sale debt securities (including assets pledged that secured parties are permitted to sell or repledge of ¥4,490,360 and ¥2,877,061 in 2020 and 2021)	34,200,203	47,117,813
Held-to-maturity debt securities (including assets pledged that secured parties are permitted to sell or repledge of ¥56,411 and ¥105,029 in 2020 and 2021) (fair value of ¥4,177,894 and ¥3,939,143 in 2020 and 2021)	4,165,781	3,903,763
Equity securities (including assets pledged that secured parties are permitted to sell or repledge of ¥616 and ¥1,532 in 2020 and 2021) (including ¥4,850,376 and ¥5,866,846 in 2020 and 2021 measured at fair value)	5,385,258	6,222,920
Total investment securities	43,751,242	57,244,496
Loans, net of unearned income, unamortized premiums and deferred loan fees (including assets pledged that secured parties are permitted to sell or repledge of ¥648,437 and ¥204,488 in 2020 and 2021) (Notes 4 and 9)	118,186,739	115,718,863
Allowance for credit losses (Note 4) ⁽¹⁾	(809,540)	(1,348,391)
Net loans	117,377,199	114,370,472
Premises and equipment—net (Notes 5 and 7)	929,529	874,992
Customers' acceptance liability	167,257	283,194
Intangible assets—net (Notes 2 and 6)	1,239,526	1,184,994
Goodwill (Notes 2 and 6)	517,626	370,852
Other assets (net of allowance for credit losses of ¥14,741 at March 31, 2021) (Notes 7, 8, 9, 13, 14 and 31)	13,108,699	13,321,304
Total assets	¥331,753,283	¥353,824,625
Assets of consolidated VIEs included in total assets above that can be used only to settle obligations of consolidated VIEs (Note 25)		
Cash and due from banks	¥ 846	¥ 2,698
Interest-earning deposits in other banks	30,047	30,422
Trading account assets	695,069	959,001
Investment securities	1,804,459	1,727,292
Loans	16,072,595	15,247,928
All other assets	244,645	161,075
Total assets of consolidated VIEs	¥ 18,847,661	¥ 18,128,416

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS—(Continued)
AS OF MARCH 31, 2020 AND 2021

(in millions, except shares)	2020	2021
LIABILITIES AND EQUITY		
Deposits (Notes 9 and 10):		
Domestic offices:		
Non-interest-bearing	¥ 28,091,421	¥ 32,287,997
Interest-bearing	126,485,629	141,908,498
Overseas offices:		
Non-interest-bearing	5,290,262	6,233,108
Interest-bearing	44,087,216	48,777,333
Total deposits	203,954,528	229,206,936
Call money and funds purchased (Notes 9 and 11)	3,668,922	2,353,830
Payables under repurchase agreements (Notes 9, 15 and 16)	31,849,915	24,567,943
Payables under securities lending transactions (Notes 9, 15 and 16)	1,016,874	842,590
Due to trust account and other short-term borrowings (including ¥377,133 and ¥196,113 measured at fair value under the fair value option in 2020 and 2021) (Notes 9, 12 and 31)	19,433,229	18,079,554
Trading account liabilities (Notes 15, 23 and 31)	14,767,433	12,017,553
Bank acceptances outstanding	167,257	283,194
Long-term debt (including ¥304,067 and ¥402,823 measured at fair value under the fair value option in 2020 and 2021) (Notes 7, 9, 12 and 31)	27,926,763	35,157,651
Other liabilities (Notes 1, 7, 8, 9, 13, 14, 15, 16, 26 and 31)	13,223,846	15,070,820
Total liabilities	316,008,767	337,580,071
Commitments and contingent liabilities (Notes 24 and 26)		
Mitsubishi UFJ Financial Group shareholders' equity:		
Capital stock (Notes 17 and 18)—common stock authorized, 33,000,000,000 shares; common stock issued, 13,581,995,120 shares and 13,581,995,120 shares at March 31, 2020 and 2021, with no stated value	2,090,270	2,090,270
Capital surplus (Note 18)	5,533,520	5,533,761
Retained earnings (Notes 19 and 33):		
Appropriated for legal reserve	239,571	239,571
Unappropriated retained earnings	8,079,530	8,589,900
Accumulated other comprehensive income, net of taxes (Note 20)	(420,417)	(289,481)
Treasury stock, at cost—741,772,308 common shares and 737,282,154 common shares at March 31, 2020 and 2021	(505,987)	(503,072)
Total Mitsubishi UFJ Financial Group shareholders' equity	15,016,487	15,660,949
Noncontrolling interests	728,029	583,605
Total equity	15,744,516	16,244,554
Total liabilities and equity	¥331,753,283	¥353,824,625
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Mitsubishi UFJ Financial Group (Note 25)		
Other short-term borrowings	¥ 30,831	¥ 33,599
Long-term debt	465,352	457,763
All other liabilities	101,969	103,457
Total liabilities of consolidated VIEs	¥ 598,152	¥ 594,819

See the accompanying notes to Consolidated Financial Statements.

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE FISCAL YEARS ENDED MARCH 31, 2019, 2020 AND 2021

(in millions)	2019	2020	2021
Interest income:			
Loans, including fees (Note 4)	¥2,576,417	¥2,597,932	¥1,940,754
Deposits in other banks	183,327	167,267	56,555
Investment securities:			
Interest	237,378	242,123	178,873
Dividends	160,825	172,382	119,387
Trading account assets	499,724	489,842	373,200
Call loans and funds sold	10,354	11,286	4,721
Receivables under resale agreements and securities borrowing transactions	145,354	246,311	78,506
Total	<u>3,813,379</u>	<u>3,927,143</u>	<u>2,751,996</u>
Interest expense:			
Deposits	717,366	836,081	329,392
Call money and funds purchased	3,913	3,270	1,105
Payables under repurchase agreements and securities lending transactions	333,632	357,382	91,508
Due to trust account, other short-term borrowings and trading account liabilities	155,273	164,907	72,403
Long-term debt	307,797	322,704	253,494
Total	<u>1,517,981</u>	<u>1,684,344</u>	<u>747,902</u>
Net interest income	2,295,398	2,242,799	2,004,094
Provision for credit losses (Note 4)	34,330	321,713	484,210
Net interest income after provision for credit losses	<u>2,261,068</u>	<u>1,921,086</u>	<u>1,519,884</u>
Non-interest income:			
Fees and commissions income (Note 27)	1,438,578	1,502,052	1,527,283
Foreign exchange gains (losses)—net (Note 28)	(95,987)	(281,790)	99,337
Trading account profits (losses)—net (Notes 28 and 31)	168,900	765,373	(410,368)
Investment securities gains (losses)—net (Note 3)	(252,307)	(532,248)	1,458,264
Equity in earnings of equity method investees—net (Note 14)	209,732	282,712	355,730
Gains on sales of loans (Note 4)	22,663	9,956	17,926
Gain on remeasurement of previously held equity method investment (Note 2)	—	41,218	—
Other non-interest income	103,665	88,422	109,615
Total	<u>1,595,244</u>	<u>1,875,695</u>	<u>3,157,787</u>
Non-interest expense:			
Salaries and employee benefits (Note 13)	1,175,405	1,242,563	1,253,461
Occupancy expenses—net (Notes 5 and 26)	179,780	182,917	178,107
Fees and commissions expenses	313,745	332,033	318,797
Outsourcing expenses, including data processing	275,052	303,632	298,777
Depreciation of premises and equipment (Note 5)	98,867	113,489	87,305
Amortization of intangible assets (Note 6)	235,083	237,328	250,106
Impairment of intangible assets (Note 6)	118,108	3,732	21,680
Insurance premiums, including deposit insurance	93,756	98,441	90,529
Communications	59,166	59,976	59,798
Taxes and public charges	95,358	100,198	97,783
Impairment of goodwill (Note 6)	—	383,810	147,564
Provision for (reversal of) off-balance sheet credit instruments	38,463	(62,279)	(56,749)
Other non-interest expenses (Notes 5 and 26)	302,687	367,721	322,171
Total	<u>2,985,470</u>	<u>3,363,561</u>	<u>3,069,329</u>

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME—(Continued)
FOR THE FISCAL YEARS ENDED MARCH 31, 2019, 2020 AND 2021

(in millions, except per share amount)	2019	2020	2021
Income before income tax expense	870,842	433,220	1,608,342
Income tax expense (Note 8)	133,237	114,505	444,948
Net income before attribution of noncontrolling interests	737,605	318,715	1,163,394
Net income attributable to noncontrolling interests	18,960	12,760	46,096
Net income attributable to Mitsubishi UFJ Financial Group	<u>¥ 718,645</u>	<u>¥ 305,955</u>	<u>¥1,117,298</u>
Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	<u>¥ 718,645</u>	<u>¥ 305,955</u>	<u>¥1,117,298</u>
Earnings per common share applicable to common shareholders of Mitsubishi UFJ Financial Group (Notes 19 and 22):			
Basic earnings per common share—Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	¥ 55.03	¥ 23.69	¥ 86.88
Diluted earnings per common share—Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	54.74	23.47	86.56
Cash dividend per common share	21.00	23.50	25.00
Weighted average common shares outstanding	13,059	12,913	12,860
Weighted average diluted common shares outstanding	13,059	12,913	12,860

Note:

- (1) New guidance on measurement of credit losses on financial instruments requires the allowance for credit losses to be measured using the current expected credit losses model from April 1, 2020. For additional information, refer to Note 1

See the accompanying notes to Consolidated Financial Statements.

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FISCAL YEARS ENDED MARCH 31, 2019, 2020 AND 2021

(in millions)	2019	2020	2021
Net income before attribution of noncontrolling interests	¥ 737,605	¥ 318,715	¥1,163,394
Other comprehensive income (loss), net of tax (Note 20):			
Net unrealized gains (losses) on investment securities	88,180	23,619	(70,776)
Net debt valuation adjustments	9,729	54,172	(83,364)
Net unrealized gains (losses) on derivatives qualifying for cash flow hedges	(4,890)	10,642	32,175
Defined benefit plans (Note 13)	(88,940)	(131,523)	319,056
Foreign currency translation adjustments	(42,212)	(81,065)	(115,251)
Total	(38,133)	(124,155)	81,840
Comprehensive income	699,472	194,560	1,245,234
Net income attributable to noncontrolling interests	18,960	12,760	46,096
Other comprehensive income (loss) attributable to noncontrolling interests	21,209	11,993	(49,062)
Comprehensive income attributable to Mitsubishi UFJ Financial Group	¥ 659,303	¥ 169,807	¥1,248,200

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, 2019, 2020 AND 2021

(in millions, except per share amount)	2019	2020	2021
Capital stock (Notes 17 and 18):			
Balance at beginning of fiscal year	¥ 2,090,270	¥ 2,090,270	¥ 2,090,270
Balance at end of fiscal year	<u>¥ 2,090,270</u>	<u>¥ 2,090,270</u>	<u>¥ 2,090,270</u>
Capital surplus (Note 18):			
Balance at beginning of fiscal year	¥ 5,740,165	¥ 5,577,186	¥ 5,533,520
Stock-based compensation	(180)	2,596	2,762
Retirement of common stock	(162,720)	(58,626)	—
Other—net	(79)	12,364	(2,521)
Balance at end of fiscal year	<u>¥ 5,577,186</u>	<u>¥ 5,533,520</u>	<u>¥ 5,533,761</u>
Retained earnings appropriated for legal reserve (Note 19):			
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>
Unappropriated retained earnings (Note 19):			
Balance at beginning of fiscal year	¥ 4,945,733	¥ 8,094,026	¥ 8,079,530
Net income attributable to Mitsubishi UFJ Financial Group	718,645	305,955	1,117,298
Cash dividends:			
Common stock—¥21.00 per share in 2019, ¥23.50 per share in 2020, and ¥25.00 per share in 2021	(275,551)	(303,742)	(321,089)
Losses on sales of shares of treasury stock	—	(1)	(1)
Effect of adopting new guidance by a foreign affiliated company . . .	1,173 ⁽¹⁾	(1,825) ⁽²⁾	—
Effect of adopting new guidance on recognition and measurement of financial assets and financial liabilities	2,702,242	—	—
Effect of adopting new guidance on recognition of breakage for certain prepaid stored-value products	1,784	—	—
Effect of adopting new guidance on leases	—	(14,883)	—
Effect of adopting new guidance on measurement of credit losses on financial instruments (Note 1)	—	—	(285,838)
Balance at end of fiscal year	<u>¥ 8,094,026</u>	<u>¥ 8,079,530</u>	<u>¥ 8,589,900</u>

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY—(Continued)
FOR THE FISCAL YEARS ENDED MARCH 31, 2019, 2020 AND 2021

(in millions)	2019	2020	2021
Accumulated other comprehensive income (loss), net of taxes:			
Balance at beginning of fiscal year	¥ 2,477,315	¥ (284,269)	¥ (420,417)
Net change during the fiscal year	(59,342)	(136,148)	130,902
Effect of adopting new guidance on recognition and measurement of financial assets and financial liabilities (Note 1)	(2,702,242)	—	—
Effect of adopting new guidance on measurement of credit losses on financial instruments (Note 1)	—	—	34
Balance at end of fiscal year	<u>¥ (284,269)</u>	<u>¥ (420,417)</u>	<u>¥ (289,481)</u>
Treasury stock, at cost:			
Balance at beginning of fiscal year	¥ (522,872)	¥ (517,236)	¥ (505,987)
Purchases of shares of treasury stock (Note 18)	(161,043)	(50,028)	(20)
Sales of shares of treasury stock	3,775	2,635	2,598
Retirement of common stock	162,720	58,626	—
Net decrease resulting from changes in interests in consolidated subsidiaries, consolidated VIEs, and affiliated companies	184	16	337
Balance at end of fiscal year	<u>¥ (517,236)</u>	<u>¥ (505,987)</u>	<u>¥ (503,072)</u>
Total Mitsubishi UFJ Financial Group shareholders' equity	<u>¥15,199,548</u>	<u>¥15,016,487</u>	<u>¥15,660,949</u>
Noncontrolling interests:			
Balance at beginning of fiscal year	¥ 675,633	¥ 785,200	¥ 728,029
Initial subscriptions of noncontrolling interests	108,235	58,228	9,246
Transactions between the consolidated subsidiaries and the related noncontrolling interest shareholders	(2,830)	(8,627)	(96,335)
Decrease in noncontrolling interests related to deconsolidation of subsidiaries	(20,497)	(119,797)	(22,430)
Decrease in noncontrolling interests related to disposition of subsidiaries	—	(3,488)	(23)
Net income attributable to noncontrolling interests	18,960	12,760	46,096
Dividends paid to noncontrolling interests	(15,853)	(8,487)	(6,523)
Other comprehensive income (loss), net of taxes	21,209	11,993	(49,062)
Effect of adopting new guidance on measurement of credit losses on financial instruments (Note 1)	—	—	(25,330)
Other—net	343	247	(63)
Balance at end of fiscal year	<u>¥ 785,200</u>	<u>¥ 728,029</u>	<u>¥ 583,605</u>
Total equity	<u>¥15,984,748</u>	<u>¥15,744,516</u>	<u>¥16,244,554</u>

Notes:

- (1) The effect resulted from the adoption of new accounting guidance on “Leases”.
- (2) The effect resulted from the adoption of new accounting guidance on “Measurement of Credit Losses on Financial Instruments”.

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, 2019, 2020 AND 2021

(in millions)	2019	2020	2021
Cash flows from operating activities:			
Net income before attribution of noncontrolling interests	¥ 737,605	¥ 318,715	¥ 1,163,394
Adjustments to reconcile net income before attribution of noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization (Notes 5 and 6)	333,950	350,817	337,411
Impairment of goodwill (Note 6)	—	383,810	147,564
Impairment of intangible assets (Note 6)	118,108	3,732	21,680
Provision for credit losses (Note 4)	34,330	321,713	484,210
Employee benefit cost (income) for severance indemnities and pension plans (Note 13)	(19,839)	(6,917)	2,804
Investment securities (gains) losses—net	252,307	532,248	(1,458,264)
Amortization of premiums on investment securities	78,509	65,078	59,614
Changes in financial instruments measured at fair value under fair value option, excluding trading account securities—net (Note 31)	13,880	2,894	5,002
Foreign exchange (gains) losses—net	565,304	544,763	(103,917)
Equity in earnings of equity method investees—net	(209,732)	(282,712)	(355,730)
Provision (benefit) for deferred income tax expense	(47,796)	(60,967)	266,273
Decrease (increase) in trading account assets, excluding foreign exchange contracts	(2,695,035)	(4,902,492)	1,351,570
Increase (decrease) in trading account liabilities, excluding foreign exchange contracts	1,370,846	2,217,808	(1,463,152)
Net increase in collateral for derivative transactions	(79,338)	(217,864)	(421,781)
Net decrease (increase) in margin for listed derivative transactions	(87,075)	(279,844)	20,984
Increase in cash collateral for the use of the Bank of Japan's settlement infrastructure	(60,462)	(54,018)	(33,292)
Other—net	(77,228)	(292,664)	(269,437)
Net cash provided by (used in) operating activities	<u>228,334</u>	<u>(1,355,900)</u>	<u>(245,067)</u>
Cash flows from investing activities:			
Proceeds from sales of Available-for-sale debt securities (including proceeds from debt securities under the fair value option) (Note 3)	31,283,601	60,731,107	62,660,266
Proceeds from maturities of Available-for-sale debt securities (including proceeds from debt securities under the fair value option) (Note 3)	26,448,801	24,335,639	43,245,884
Purchases of Available-for-sale debt securities (including purchases of debt securities under the fair value option) (Note 3)	(62,309,072)	(87,618,074)	(115,383,753)
Proceeds from maturities of Held-to-maturity debt securities	560,646	708,068	605,781
Purchases of Held-to-maturity debt securities	(1,192,989)	(495,346)	(382,159)
Proceeds from sales and redemption of Equity securities (including proceeds from equity securities under the fair value option)	2,722,948	3,871,908	1,903,784
Purchases of Equity securities (including purchases of equity securities under the fair value option)	(2,770,356)	(3,129,666)	(1,561,344)
Purchase of common stock in Bank Danamon, an equity method investee of BK (Note 2)	(132,335)	—	—
Acquisition of Bank Danamon, a subsidiary of BK, net of cash acquired (Note 2)	—	(243,597)	—
Acquisition of FSI (formerly, Colonial First State Global Asset Management), subsidiaries of TB, net of cash acquired (Note 2)	—	(249,615)	—
Acquisition of DVB Bank's Aviation Finance Division, net of cash acquired (Note 2)	—	(555,250)	—
Net decrease (increase) in loans	330,198	(1,631,085)	2,939,996
Net decrease (increase) in call loans, funds sold, and receivables under resale agreements and securities borrowing transactions	627,327	(13,714,288)	9,833,348
Proceeds from sales of premises and equipment	26,191	64,400	41,472
Capital expenditures for premises and equipment	(126,479)	(123,804)	(116,707)
Purchases of intangible assets	(276,880)	(308,081)	(250,061)
Proceeds from sales and dispositions of investments in equity method investees	161,566	171,882	64,011
Proceeds from sales of consolidated VIEs and subsidiaries—net	64,395	168,970	71,643
Other—net	(49,590)	(68,611)	(14,802)
Net cash provided by (used in) investing activities	<u>(4,632,028)</u>	<u>(18,085,443)</u>	<u>3,657,359</u>

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
FOR THE FISCAL YEARS ENDED MARCH 31, 2019, 2020 AND 2021

(in millions)	2019	2020	2021
Cash flows from financing activities:			
Net increase in deposits	3,602,674	5,746,624	23,428,386
Net increase (decrease) in call money, funds purchased, and payables under repurchase agreements and securities lending transactions	(303,042)	8,077,351	(8,523,347)
Net increase (decrease) in due to trust account and other short-term borrowings	(768,649)	9,944,171	(939,069)
Proceeds from issuance of long-term debt	5,020,636	4,999,531	18,707,004
Repayments of long-term debt	(4,236,887)	(4,983,073)	(11,360,120)
Proceeds from sales of treasury stock	2,322	1,235	899
Payments for acquisition of treasury stock (Note 18)	(159,962)	(50,028)	(20)
Dividends paid	(275,581)	(303,728)	(321,024)
Dividends paid by subsidiaries to noncontrolling interests	(15,853)	(8,487)	(6,523)
Other—net	197,673	358,922	(22,566)
Net cash provided by financing activities	<u>3,063,331</u>	<u>23,782,518</u>	<u>20,963,620</u>
Effect of exchange rate changes on cash and cash equivalents	<u>43,975</u>	<u>(362,652)</u>	<u>397,287</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,296,388)</u>	<u>3,978,523</u>	<u>24,773,199</u>
Cash and cash equivalents at beginning of fiscal year	<u>75,873,456</u>	<u>74,577,068</u>	<u>78,555,591</u>
Cash and cash equivalents:			
Cash, due from banks and interest-earning deposits in other banks	74,571,260	78,549,712	103,324,201
Restricted cash included in other assets	5,808	5,879	4,589
Cash and cash equivalents at end of fiscal year	<u>¥ 74,577,068</u>	<u>¥ 78,555,591</u>	<u>¥ 103,328,790</u>
Supplemental disclosure of cash flow information:			
Cash paid during the fiscal year for:			
Interest	¥ 1,488,136	¥ 1,759,239	¥ 879,917
Income taxes, net of refunds	302,019	128,124	124,705
Non-cash investing and financing activities:			
Assets acquired under finance lease arrangements (Note 7)	11,280	12,754	3,487
Assets acquired under operating lease arrangements (Note 7)	—	46,482	50,564
Available-for-sale debt securities transferred to Held-to-maturity debt securities	221,537	—	—
Marketable Equity Securities issued by Bank Danamon transferred to investments in subsidiaries and affiliates (Note 2)	98,934	—	—
Acquisition of Bank Danamon, a subsidiary of BK (Note 2):			
Fair value of assets acquired, excluding cash and cash equivalents	—	1,811,160	—
Fair value of liabilities assumed	—	1,242,115	—
Fair value of noncontrolling interests	—	51,314	—
Acquisition of FSI (formerly, Colonial First State Global Asset Management), subsidiaries of TB (Note 2):			
Fair value of assets acquired, excluding cash and cash equivalents	—	332,914	—
Fair value of liabilities assumed	—	68,519	—
Acquisition of DVB Bank's Aviation Finance Division (Note 2):			
Fair value of assets acquired	—	572,487	—
Fair value of liabilities assumed	—	2,599	—

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 MUFG Bank, Ltd. (formerly, The Bank of Tokyo-Mitsubishi UFJ, Ltd., “MUFG Bank” or “BK”), Mitsubishi UFJ Trust and Banking Corporation (“Mitsubishi UFJ Trust and Banking” or “TB”), Mitsubishi UFJ Securities Holdings Co., Ltd. (“Mitsubishi UFJ Securities Holdings” or “SCHD”), Mitsubishi UFJ NICOS Co., Ltd. (“Mitsubishi UFJ NICOS”), and other subsidiaries. Mitsubishi UFJ Securities Holdings is an intermediate holding company for Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (“Mitsubishi UFJ Morgan Stanley Securities”). 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 it 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 presented 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 (“U.S. 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 years of certain subsidiaries, which end on December 31, and MUFG’s fiscal year, which ends on March 31, have been treated as coterminous. For the fiscal years ended March 31, 2019, 2020 and 2021, 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 years ended on December 31, would have resulted in an increase of ¥19.97 billion, a decrease of ¥164.48 billion, and an increase of ¥157.32 billion to net income attributable to Mitsubishi UFJ Financial Group, respectively. No intervening events occurred during each of the three-month periods ended March 31, 2019, 2020 and 2021 which, if recorded, would have had material effects on consolidated total assets, loans, total liabilities, deposits or total equity as of March 31, 2019, 2020 and 2021.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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, the valuation of deferred tax assets, the valuation of financial instruments, the accounting for goodwill and intangible assets, impairment of investment securities, the allowances for repayment of excess interest 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 accompanying consolidated financial statements include the accounts of MUFG, its subsidiaries and certain variable interest entities (“VIE”s) (together, the “MUFG Group”). In situations in which the MUFG Group has a controlling financial interest in other entities, including certain VIEs, such entities are consolidated and noncontrolling interests, if any, are recorded in Total equity. Intercompany transactions and balances 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 other-than-temporary impairment (“OTTI”) are reported in Equity in earnings of equity method investees-net. The MUFG Group recognizes an impairment loss on investments in equity method investees that is other-than-temporary. The MUFG Group determines whether loss on investments is other-than-temporary, through consideration of various factors, such as inability to recover the carrying amount of the investment, the inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment, the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the investees, and the intent and ability to retain its investment in the investees for a period of time sufficient to allow for any anticipated recovery in the fair value. The MUFG Group also evaluates additional factors, such as the condition and trend of the economic cycle, and trends in the general market.

The MUFG Group consolidates VIEs if it has the power to direct the activities of a VIE which most significantly impact the VIE’s economic performance and has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. To assess whether a VIE should be consolidated or not, the MUFG Group considers all factors, such as the purpose and design of the VIE, contractual arrangements, and the MUFG Group’s involvement in both the establishment of the VIE and day-to-day activities of the VIE. The MUFG Group considers a right to make the most significant decisions affecting a VIE to determine whether it is deemed to have the power to direct the activities of the VIE. Furthermore, the MUFG Group considers its economic interests in the VIE, including investments in debt or equity instruments issued by the VIE, liquidity and credit enhancement, and guarantees to determine whether such interests are potentially significant to the VIE or not.

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 consist of Cash and due from banks, Interest-earning deposits in other banks, and certain restricted cash included in Other assets. Restricted cash included in cash and cash equivalents represents cash or deposits subject to withdrawal or usage restrictions, and mainly consist of reserves on deposits with the Bank of Japan and similar reserves required for foreign offices and subsidiaries engaged in banking businesses in foreign countries. 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 years.

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

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

adjustments, a component of Accumulated other comprehensive income (“Accumulated OCI”). Tax effects of gains and losses on foreign currency translation of the 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 years. 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 transferor has not surrendered control over the securities. Repurchase agreements and resale agreements are generally carried at the amounts at which the securities will be subsequently sold or repurchased, and securities lending and borrowing transactions are generally carried at the amount of cash collateral advanced or received. If they meet the relevant conditions for the 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, 2019, 2020 and 2021, there were no such transactions accounted for as sales or purchases.

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 secured lending transactions, the MUFG Group maintains strict levels of collateralization governed by a 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 accompanying 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 in the accompanying consolidated balance sheets and recorded on a trade date basis. Changes in the fair value of trading positions are recognized in Trading account profits (losses). The MUFG Group has elected the fair value option for certain foreign securities. See Note 31 for a further discussion of fair value option.

Investment Securities—Debt securities for which the MUFG Group has both the ability and positive intent to hold to maturity are classified as Held-to-maturity debt securities and are carried at amortized cost. Debt securities that the MUFG Group may not hold to maturity other than those classified as Trading account securities, are classified as Available-for-sale debt securities, and are carried at their fair values, with unrealized gains and losses reported on a net-of-tax basis within Accumulated OCI, which is a component of equity. Available-for-sale debt securities are considered to be impaired if the fair value is less than the amortized cost basis. An impairment loss is recognized in earnings for a security if the MUFG Group has intent to sell such a debt security or if it is more likely than not the MUFG Group will be required to sell such a debt security before

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recovery of its amortized cost basis. If not, the credit component of an impairment loss is recognized in earnings by recording an allowance for credit losses, limited by the amount of impairment loss. However, the noncredit component of an impairment loss is recognized in Accumulated OCI. In determining whether a credit loss exists, the MUFG Group generally considers factors such as the financial condition of the issuer and the extent of decline in fair value. For Held-to-maturity debt securities, an allowance for expected credit losses over the remaining expected life is required to be provided.

Equity securities include marketable equity investment securities and nonmarketable equity investment securities. Marketable equity investment securities are measured at fair value with unrealized gains or losses reflected in net income. Nonmarketable equity investment securities are primarily measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes. Nonmarketable equity investment securities held by subsidiaries that are investment companies or brokers and dealers, are subject to the specialized industry accounting principles for investment companies and brokers and dealers. Securities of those subsidiaries are carried at their fair values.

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.

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 customers' financial needs. Derivatives are also used to manage counterparty credit risk and market risk exposures to fluctuations in interest and foreign exchange rates, equity and commodity prices.

Derivatives entered into for trading purposes are carried at fair value and are reported as Trading account assets or Trading account liabilities, as appropriate. 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 as hedging instruments and qualify for hedge accounting. The MUFG Group designates a derivative as a hedging instrument at the inception of each such hedge relationship, and it documents, for such individual hedging relationships, the risk management objective and strategy, including the item being hedged, the specific risk being hedged and the method used to assess the hedge 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. All qualifying hedging derivatives are valued at fair value and included in Other assets or Other liabilities, as appropriate. For fair value hedges, the changes in the fair value of a hedging instrument are recognized in the same income statement line as the hedged item. For cash flow hedges, the changes in the fair value of a hedging instrument are recognized in Accumulated OCI. Amounts realized on cash flow hedges related to variable rate

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loans are recognized in Net interest income in the period when the cash flow from the hedged item is realized. 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 earnings.

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 sale in secondary markets are transferred to the held-for-sale classification and carried at the lower of cost or estimated fair value generally on an individual loan basis. Loan origination fees, net of certain direct origination costs, are deferred and recognized over the contractual life of the loan as an adjustment to yield using a method that approximates the interest method.

The MUFG Group classifies its loan portfolio into the following portfolio segments—Commercial, Residential, Card, MUFG Americas Holdings Corporation (“MUFG Americas Holdings” or “MUAH”), Bank of Ayudhya Public Company Limited (“Krungsri”), and Other based on the grouping used by the MUFG Group to determine the allowance for credit losses. The MUFG Group further classifies the Commercial segment into classes based on initial measurement attributes, risk characteristics, and its method of monitoring and assessing credit risk.

Past due status is determined based on the contractual terms of the loan and the actual number of days since the date the last payment was made.

Originated loans are generally placed on nonaccrual status when substantial doubt exists as to the full and timely collection of either principal or interest, specifically when principal or interest is contractually past due one month or more with respect to loans within all classes of the Commercial segment, three months or more with respect to loans within the Card, MUFG Americas Holdings, and Krungsri segments, and six months or more with respect to loans within the Residential segment. 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 modifies certain loans in conjunction with its loss-mitigation activities. Through these modifications, concessions are granted to a borrower who is experiencing financial difficulty, generally in order to minimize economic loss, to avoid foreclosure or repossession of collateral, and to ultimately maximize payments received from the borrower. The concessions granted vary by portfolio segment, by program, and by borrower-specific characteristics, and may include interest rate reductions, term extensions, payment deferrals, and partial principal forgiveness. Loan modifications that represent concessions made to borrowers who are experiencing financial difficulties are identified as troubled debt restructurings (“TDRs”).

Generally, accruing loans that are modified in a TDR remain as accruing loans subsequent to the modification, and nonaccrual loans remain as nonaccrual. However, if a nonaccrual loan has been modified as a TDR, the borrower is not delinquent under the modified terms, and demonstrates that its financial condition has improved, the MUFG Group may reclassify the loan to accrual status. This determination is generally performed at least once a year through a detailed internal credit rating review process. Once a nonaccrual loan is deemed to be a TDR, the MUFG Group will continue to designate the loan as a TDR even if the loan is reclassified to accrual status.

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Loan Securitization—The MUFG Group securitizes and services commercial, industrial, and residential 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. When a securitization is accounted for as a sale, the proceeds from a sale of financial assets consist of the cash and any other assets obtained, including beneficial interests and separately recognized servicing assets, in the transfer less any liabilities incurred, including separately recognized servicing liabilities. All proceeds and reductions of proceeds from a sale shall be initially measured at fair value.

Allowance for Credit Losses (Loans)—The MUFG Group maintains an allowance for credit losses, which is a valuation account that is deducted from the amortized cost basis of the loans to present the net amount expected to be collected on the loans. The amount necessary to adjust the allowance for credit losses for management's current estimate of expected credit losses on loans is reported in net income as a credit loss expense.

Actual credit losses (amounts deemed uncollectible, in whole or in part), net of recoveries, are generally determined based on detailed loan reviews and a credit assessment by management at each balance sheet date and are deducted from the allowance for credit losses as net charge-offs. The MUFG Group generally applies its charge-off policy to all loans in its portfolio regardless of the type of borrower. Management believes that the provision for credit losses is adequate.

Key elements relating to the policies and discipline used in determining the allowance for credit losses are 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 or existing economic conditions. In determining the appropriate level of the allowance, the MUFG Group evaluates the probable loss by collateral value, historical loss experience, probability of insolvency and category of loan based on its type and characteristics.

The methodologies used to estimate the allowance and the charge-off policy for the major portfolio segments are as follows:

Commercial segment

In the Commercial segment, expected credit losses of loans are measured on a collective basis when similar risk characteristics exist. Risk characteristics that are considered for aggregation of loans include internal credit ratings, geographical location, and industry of the borrower. The collectively-assessed allowance is measured over the contractual term of the loans that is adjusted for expected prepayments, using probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") loss forecasting model, which is based on historical information and adjusted to incorporate expectations of future economic conditions considering economic variables such as gross domestic product and unemployment rates. The PD is determined as the marginal PD that denotes the likelihood that a borrower is observed to experience the default during a defined period of time, based on internal credit rating, geographical location, or industry of the borrower. The LGD is determined as the estimated loss on the loan that would be realized upon the default of the borrower, mainly based on the historical experience of collections against loans in default. The PD and LGD are continually reviewed to determine the appropriate level of the allowance for credit loss. Qualitative adjustments are made to cover losses that are expected but not adequately captured in the quantitative forecasting model or economic assumptions, considering factors such as borrowers' ability to make scheduled payments, loans' remaining time to maturity and extent of prepayments, the volume and severity of past due loans, changes in lending policy and

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procedures, the industry in which a borrower operates, and changes in other external factors. The collectively-assessed allowance methodology incorporates an economic forecast over a three-year period. Beyond the three-year economic forecast, the allowance methodology reverts to an average historical loss information on a straight-line basis over a two-year period. When a loan does not share risk characteristics with other loans, expected credit losses for that loan are measured on an individual basis. Individually-assessed allowance is measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate, or the fair value of the collateral if the loan is collateral dependent.

The allowance for loans that have been modified into a TDR or reasonably expected to be modified TDR are measured on an individual basis. For nonaccrual TDRs, the allowance for credit losses is provided for these loans using the discounted cash flow method, or based on the fair value of the collateral. For TDRs accounted for as accruing loans, the allowance for credit losses is determined by discounting the estimated future cash flows using the original effective interest rate of the loans prior to modification.

In relation to loans categorized as Legally/Virtually Bankrupt, the carrying amount of loans less estimated value of the collateral and guaranteed amount is generally considered uncollectible, and is charged off.

Residential segment

In the Residential segment, the loans are comprised of smaller-balance homogeneous loans and expected credit losses of loans are measured on a collective basis. The allowance for credit losses is measured over the contractual term of the loans that is adjusted for expected prepayments, using the state transition probability matrix, which captures delinquency status changes and prepayments by loans' remaining term, and is based on historical information and adjusted to incorporate expectations of future economic conditions considering economic variables, such as unemployment rates. The LGD is also used to capture the estimated loss on the loan that would be realized upon the default of the borrower. The allowance methodology incorporates an economic forecast over a three-year period. Beyond the three-year economic forecast, the allowance methodology reverts to average historical loss information on a straight-line basis over a two-year period.

The allowance for loans that have been modified into a TDR or reasonably expected to be modified TDR are measured on an individual basis. For nonaccrual TDRs, the allowance for credit losses is provided for these loans using the discounted cash flow method, or based on the fair value of the collateral. For TDRs accounted for as accruing loans, the allowance for credit losses is determined by discounting the estimated future cash flows using the original effective interest rate of the loans prior to modification.

In relation to loans that are in past due status over a certain period of time and deemed uncollectible, the carrying amount of loans less estimated value of the collateral and guaranteed amount is generally considered uncollectible and charged off.

Card segment

In the Card segment, the loans are smaller-balance homogeneous loans and expected credit losses of loans are measured on a collective basis. The allowance for credit losses is measured over the contractual term of the loans that is adjusted for expected prepayments, using the state transition probability matrix, which captures delinquency status changes and prepayments by loans' remaining term, and is based on historical information and adjusted to incorporate expectations of future economic conditions considering economic variables, such as unemployment rate. The collectively-assessed allowance methodology incorporates an economic forecast over a three-year period. Beyond the three-year economic forecast, the allowance methodology reverts to average historical loss information.

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The allowance for loans that have been modified into a TDR or reasonably expected to be modified TDR are measured on an individual basis, and the allowance for credit losses is determined using the discounted cash flow method whereby the estimated future cash flows are discounted using the original effective interest rate of the loans prior to modification.

In relation to loans that are in past due status over a certain period of time and deemed uncollectible, the amount of loans is generally fully charged off.

MUFG Americas Holdings segment

In the MUFG Americas Holdings segment, expected credit losses are measured on a collective basis when similar risk characteristics exist. The allowance for credit loss is calculated as the product of PD, LGD, and EAD modeled parameters that are projected on a monthly basis over the assets' remaining contractual lives. The sum of each month's expected loss calculation results in the collectively-assessed allowance estimate. Expected loss models use historical loss information and a variety of economic assumptions that consider economic variables such as gross domestic product and unemployment rates, to estimate PD, LGD, and EAD. These models are tailored to different loan segments, classes and products by changing the economic variables or their weighting in the calculation used to estimate expected losses. The collectively-assessed allowance methodology incorporates an economic forecast over a two-year period. Beyond the two-year economic forecast, the allowance methodology reverts to average historical loss information on a straight-line basis over two-year period. Loans that do not share risk characteristics are evaluated individually to determine the allowance balance. Individually-assessed allowance is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent.

Management implements qualitative adjustments to the collectively-assessed allowance to account for the risks not incorporated in the model between current conditions and those reflected in the historical loss information used to estimate the models. These qualitative factors include changes in credit policies, problem loan trends, identification of new risks not incorporated into the modeling framework, credit concentrations, changes in lending management and other external factors. Qualitative adjustments are also used to adjust the collectively-assessed allowance to account for risks attributed to imprecision in the economic forecast and when risks emerge that impact specific portfolio components (i.e., natural disasters).

The allocated allowance for large groups of smaller-balance homogeneous loans is established for consumer loans as well as for smaller balance commercial loans. These loans are managed on a pool basis, and loss factors are based on expected net charge-off ranges.

The allowance for loans that have been modified into a TDR or reasonably expected to be modified TDR are measured either individually or in pools with similar risk characteristics. The allowance for individually assessed TDR loans can be measured using a discounted cash flow methodology, or by evaluating the fair value of the collateral, if collateral dependent. When the value of a concession cannot be measured using a method other than the discounted cash flow method, the value of a concession is measured by discounting the expected future cash flows at the original interest rate of the loan.

Commercial loans are generally considered uncollectible based on an evaluation of the financial condition of a borrower as well as the value of any collateral and, when considered to be uncollectible, loans are charged off in whole or in part. Consumer loans are generally considered uncollectible based on past due status and the value of any collateral and, when considered to be uncollectible, loans are charged off in whole or in part.

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Krungsri segment

In the Krungsri segment, expected credit losses are measured on a collective basis for portfolios of loans that share similar economic risk characteristics. Expected credit losses are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows under the contract and the cash flows expected to be received arising from the weighting of multiple future economic scenarios that consider economic variables such as gross domestic product and unemployment rates, discounted at the loan's effective interest rate. Qualitative adjustments are made when considered appropriate. Loans that do not share risk characteristics are evaluated individually to determine the allowance balance. Individually-assessed allowance is measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate, or the fair value of the collateral if the loan is collateral dependent.

The allocated allowance for large groups of smaller-balance homogeneous loans is established for smaller balance loans such as housing loans, credit card loans, and personal loans. These loans are managed on a pool basis, and loss factors are based on expected net charge-off ranges.

The allowance for loans that have been modified into a TDR or reasonably expected to be modified TDR are measured on an individual basis. For nonaccrual TDRs, the allowance for credit losses is provided for these loans using the discounted cash flow method, or based on the fair value of the collateral. For TDRs accounted for as accruing loans, the allowance for credit losses is determined by using the discounted cash flow method whereby the estimated future cash flows are discounted using the original effective interest rate of the loans prior to modification.

Loans to customers are charged off when they are determined to be uncollectible considering the financial condition of a borrower.

In all segments, when estimating the allowance for credit losses, significant management assumptions are incorporated in economic variables, qualitative adjustments, or both to capture the heightened volatility and uncertainty in the economy due to the COVID-19 pandemic.

There are de minimis or zero expected credit losses, for example, for lending and financing transactions, such as Interest-earning deposits in other banks, Call loans and funds sold, Receivables under resale agreements and Receivables under securities borrowing transactions because the term is short and the credit quality of the borrowers is normal.

Allowance for Off-Balance Sheet Credit Instruments—The MUFG Group maintains an allowance for credit losses on off-balance sheet credit instruments that are not unconditionally cancellable, 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 credit losses on loans. Potential credit losses related to derivatives are considered in the fair value of the derivatives.

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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, MUFG Bank and Mitsubishi UFJ Trust and Banking 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	2 to 39

Maintenance, repairs and minor improvements are charged to operations as incurred. Major improvements are capitalized. Net gains or losses on dispositions of premises and equipment are included in Other non-interest income or expense, as appropriate.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount to future undiscounted net cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets are grouped with other assets and liabilities at the lowest level with independent and identifiable cash flows. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less estimated cost to sell.

Asset retirement obligations related to restoration of certain leased properties upon lease termination are recorded in Other liabilities with a corresponding increase in leasehold improvements. The amounts represent the present value of expected future cash flows associated with returning such leased properties to their original condition. The difference between the gross and present value of expected future cash flows is accreted over the life of the related leases as a non-interest expense.

Goodwill—The MUFG Group recognizes goodwill, as of the acquisition date, measured as the excess of the purchase price over the fair value of the net assets acquired. 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 a reporting unit exceeds its fair value, but not exceeding the total amount of goodwill allocated to that reporting unit.

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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	3 to 10	Straight-line
Core deposit intangibles	9 to 16	Straight-line
Customer relationships	3 to 27	Straight-line, Declining-balance
Trade names	4 to 40	Straight-line

Intangible assets having indefinite useful lives 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 (“SIPs”). 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 accompanying consolidated balance sheets and mainly recognizes changes in the funded status of defined benefit pension and other postretirement plans in the year in which the changes occur in Accumulated OCI. Based on actuarial computations of current and future employee benefits, the service cost component is charged to Salaries and employee benefits while other components of net pension benefit/cost are charged to Other non-interest expenses. The MUFG Group measures plan assets and benefit obligations as of the date of the consolidated balance sheets.

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 term 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 protection, 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 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 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,

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recent trend of borrowers' claims for reimbursement, and management's future forecasts. The allowance is recorded as a liability in Other liabilities.

Fees and Commissions—The MUFG Group recognizes revenue from contracts with customers in the amount of consideration it expects to receive upon the transfer of control of a good or service. The timing of recognition is dependent on whether the MUFG Group satisfies a performance obligation by transferring control of the product or service to a customer over time or at a point in time.

The following is an explanation of the MUFG Group's key revenue from contracts with customers and the timing of its recognition.

Fees and commissions on deposits consist of fees and commissions charged for transaction-based services such as usage of automated teller machines and withdrawal services, and for periodic account maintenance services. The MUFG Group's performance obligation for transaction-based services is satisfied and the fees and commissions are recognized at the point in time when the MUFG Group's performance under the terms of a contractual arrangement is completed, which is at the settlement of a transaction, while the MUFG Group's performance obligation for maintenance services is satisfied and the fees and commissions are recognized over the course of each month.

Fees and commissions on remittances and transfers consist of fees and commissions charged for settlement transactions such as domestic fund remittances, including electronic banking transactions, and are recognized at the point in time when the MUFG Group's performance under the terms of a contractual arrangement is completed, which is at the settlement of a transaction.

Fees and commissions on foreign trading business consist of fees and commissions charged for fund collection and trade-related financing services related to foreign trading business, and are recognized in the period in which the related service is provided. If they arise from foreign trading business activities under which the customer consumes the related services at a point in time (e.g. foreign exchange fees), such fees are recognized at the same point in time. If they arise from foreign trading business activities under which the customer consumes the related services equally over the period of service (e.g. commercial letters of credit), such fees are recognized over the same period.

Fees and commissions on credit card business consist of fees and commissions such as interchange income, royalty and other service charges from franchisees. Interchange income from the credit card business is recognized as processed transactions are settled through the associated payment networks, while royalty and other service charges related to the credit card business are recognized on a straight-line basis over the period of service.

Fees and commissions on security-related services primarily consist of fees and commissions for sales and transfers of securities including investment funds, underwriting, brokerage and advisory services, arrangement fees on securitizations, and agency services for the calculation and payment of dividends. Fees and commissions on security-related services are recognized in the period in which the related service is provided. If they arise from security-related services under which the customer consumes the related services at a point in time (e.g. sales and transfers of securities are executed at the customer's direction; underwritings of debt and equity securities or securitizations are completed at the trade date; advice is provided to the clients; and dividends are calculated and then paid to investors), such fees are recognized at the same point in time. If they arise from security-related services under which the customer consumes the related services equally over the period of service (e.g. retainer fees on M&A advisory fees), such fees are recognized over the same period. The advisory fees which are paid upon meeting certain performance goals (e.g. success fees on M&A advisory fees) are recognized at the point in time when the performance goals are met.

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Fees and commissions on administration and management services for investment funds primarily consist of fees and commissions earned from administrating and managing investment funds, including assets under management on behalf of clients. Such fees and commissions are recognized equally over the period of service at the amount calculated primarily based on the outstanding amount of each entrusted asset, the percentage of fees, and the extent of the service provided to administer the investment funds.

Trust fees consist primarily of fees earned by fiduciary asset management and administration services for corporate pension plans and investment funds, and 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 the trust accounts with a guarantee of trust principal, trust fees are determined based on the profits earned by individual trust accounts during the trust accounting period, less deductions, including provision for reserves, 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.

Guarantee fees consist of fees related to the guarantee business such as providing guarantees on residential mortgage loans and other loans, and are recognized over the contractual periods of the respective guarantees.

Insurance commissions consist of commissions earned from third-party insurance companies for marketing and selling insurance products and for the maintenance of insurance contracts. The former is recognized at the point in time which the associated service is fulfilled as the insurance contract is established by the insurance company, while the latter is recognized over the insurance period.

Fees and commissions on real estate business primarily consist of fees from real estate agent services, and are recognized in the period in which the related service is provided when assisting customers in the sales or purchase of real estate property.

Other fees and commissions include various fees and commissions earned on services to customers which have performance obligations that the MUFG Group completes in order to recognize revenue. The primary portion includes non-refundable financing related fees such as arrangement fees that are recognized when the service is provided.

Income Taxes—The MUFG Group accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and deferred tax liabilities for the expected future tax consequences of events that have been included in the accompanying consolidated financial statements. Under this method, deferred tax assets and deferred tax liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and deferred tax liabilities is recognized in income in the period that includes the enactment date.

The MUFG Group records net deferred tax assets to the extent these assets will more likely than not be realized. In making such determination, all available positive and negative evidence is considered, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event the MUFG Group were to determine that it would be able to realize deferred tax assets in the future in excess of their net recorded amount, the MUFG Group would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

Uncertain tax positions are recorded on the basis of a two-step process whereby (1) it is determined whether it is more likely than not that the tax position will be sustained on the basis of its technical merits, and (2) for

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those tax positions that meet the more-likely-than-not recognition threshold, the MUFG Group recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority. The MUFG Group recognizes interest and penalties related to unrecognized tax benefits within income tax expense. Accrued interest and penalties are included within Other liabilities.

Free Distributions of Common Shares—As permitted by the Companies Act of Japan (the “Companies Act”), 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 per Common Share—Basic earnings per share (“EPS”) excludes dilutive effects of potential common shares and is computed by dividing earnings applicable 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 accompanying 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—Comprehensive income includes net income before attribution to noncontrolling interests and other comprehensive income (“OCI”). All changes in unrealized gains and losses on investment securities, unrealized gains and losses on derivatives qualifying for cash flow hedges, defined benefit plans and foreign currency translation adjustments constitute OCI and are presented, with related income tax effects, in the accompanying consolidated statements of comprehensive income. OCI also includes changes in the instrument-specific credit risk on financial liabilities (“debt valuation adjustments” or “DVA”) accounted for under the fair value option.

Stock-Based Compensation—MUFG and certain of its subsidiaries have a stock compensation-type stock option plan (“Stock Option Plan”) for directors (excluding outside directors and directors serving as audit committee members), corporate executives, executive officers and senior fellows (collectively, “officers”). Compensation costs under the Stock Option Plan are recognized based on the grant date fair value of the stock option (“Stock Acquisition Rights”) over the period during officers are required to provide service in accordance with the terms of the plan. MUFG and certain of its subsidiaries also have performance-based stock compensation plan (“the Board Incentive Plan”). The awards granted under the Board Incentive Plan are classified as either liability for the part of award which are provided to officers in cash or equity for the part of award which are provided to officers in the common shares of MUFG. Compensation costs are recognized over the requisite service period for the entire awards. For awards classified as liability, compensation costs are measured based on the fair value calculated by the quoted price of common shares of MUFG at the date of fiscal year-end and remeasured at the end of each reporting period. Changes in quoted prices of common shares of MUFG between the date of grant and the settlement of awards are recognized in the period which the changes occur. For awards classified as equity, compensation costs are measured based on the grant date fair value by the quoted price of the common shares of MUFG.

Accounting Changes

Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement—In August 2018, the Financial Accounting Standards Board (“FASB”) issued new guidance which modifies the disclosure

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requirements on fair value measurements. This guidance removes disclosure requirements for the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and valuation processes for Level 3 fair value measurements. In addition, the guidance modifies disclosure requirements for investments in certain entities that calculate net asset value and modifies disclosure requirements related to measurement uncertainty. Lastly, the guidance adds disclosure requirements for changes in unrealized gains and losses for the period that are included in OCI for recurring Level 3 fair value measurements held at the end of the reporting period, and the guidance adds disclosure requirements related to the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of this guidance. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this guidance and delay adoption of the additional disclosures until their effective date. The MUFG Group early adopted removal disclosure requirements as of March 31, 2019, and then adopted other requirements of this guidance on April 1, 2020. The guidance affected disclosures in the notes to the consolidated financial statements and did not affect its financial position and results of operations.

Measurement of Credit Losses on Financial Instruments—In June 2016, the FASB issued new guidance which replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. Under this guidance, the measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount of the financial asset (or a group of financial assets) measured at amortized cost basis. For available-for-sale debt securities, a credit loss is recorded through an allowance for credit losses and the amount of the allowance is limited to the amount by which fair value is below amortized cost. For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense, only subsequent changes in the allowance are recorded as a credit loss expense, and interest income is recognized based on the effective interest rate, excluding the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at acquisition. This guidance also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance, and requires the entity to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination.

In April 2019 and November 2019, the FASB issued additional guidance to improve certain aspects of this guidance. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The MUFG Group adopted the guidance on April 1, 2020. Upon adoption, the MUFG Group resulted in an increase in the beginning balance of the allowance for credit losses and the allowance for off-balance sheet credit instruments of ¥408.1 billion and a decrease in retained earnings of ¥285.8 billion.

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract—In August 2018, the FASB issued new guidance which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This guidance requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance on internal-use software to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. This guidance also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement,

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apply the existing impairment guidance on internal-use software to the capitalized implementation costs as if the costs were long-lived assets, and present the capitalized-implementation-cost-related items in the same line items in the financial statements as those relating to fees associated with the hosting element (service) of the arrangement. This guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The MUFG Group adopted this guidance on April 1, 2020, and there was no material impact on its financial position and results of operations.

Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans—In August 2018, the FASB issued new guidance which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance removes certain disclosure requirements, including amounts in Accumulated OCI expected to be recognized as components of net periodic benefit cost over the next fiscal year and the amount and timing of plan assets expected to be returned to the employer, clarifies disclosure requirements for defined benefit plans with projected or accumulated benefit obligations in excess of plan assets, and adds disclosure requirements for weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates as well as an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. This guidance is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The MUFG Group adopted this guidance on March 31, 2021. The guidance affected disclosures in the notes to the consolidated financial statements and did not affect its financial position and results of operations.

Reference Rate Reform—In March 2020, the FASB issued the guidance which provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The MUFG Group adopted this guidance in March 2020. In January 2021, the FASB issued additional guidance to clarify the scope of expedients and exceptions relating to contract modifications. The MUFG Group adopted this additional guidance upon issuance, and there was no material impact on its financial position, results of operations and cash flows. This guidance will significantly ease the accounting implications of the reference rate reform.

2. BUSINESS DEVELOPMENTS

Acquisition of shares in Bank Danamon in Indonesia

On December 26, 2017, MUFG Bank entered into conditional share purchase agreements with Asia Financial (Indonesia) Pte. Ltd. (“AFI”) and other affiliated entities (the “Sellers”) to acquire their 73.8% equity interests in an Indonesian bank, PT Bank Danamon Indonesia, Tbk. (“Danamon”), subject to applicable regulatory approvals.

Danamon, which was established in 1956, is the fifth most profitable Indonesian commercial bank in terms of net income. Danamon provides banking and financial products and services to consumer, small and medium enterprise (“SME”) and corporate customers, with a network of around 900 offices in Indonesia.

MUFG Bank intends to establish an integrated and comprehensive services platform that serves as a gateway for clients wishing to make inroads into Indonesia’s growing economy as well as local companies seeking to expand into the region. This investment is also expected to strategically allow MUFG Bank to benefit from Danamon’s foothold in the developing local retail and SME segments to deepen its banking franchise in Indonesia.

This strategic investment by MUFG Bank was executed through three steps (the “Proposed Transaction”), and the completion of the Proposed Transaction resulted in MUFG Bank becoming the largest shareholder in Danamon and Danamon becoming a consolidated subsidiary of MUFG Bank.

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In Step 1, MUFG Bank acquired an initial 19.9% equity interest in Danamon from the Sellers on December 29, 2017, based on a price of IDR 8,323 (approximately ¥70⁽¹⁾) per share, for an investment amount of IDR 15,875 billion (approximately ¥133 billion⁽¹⁾). The price was based on a price book-value ratio of 2.0 calculated on the basis of Danamon's net assets as of September 30, 2017 with certain adjustments applied. AFI continues to be the majority shareholder in Danamon after closing of Step 1. MUFG Bank classified Danamon's equity securities as Available-for-sale securities on the acquisition date.

In Step 2, MUFG Bank acquired an additional 20.1% equity interest in Danamon from the Sellers on August 3, 2018, based on a price of IDR 8,921 (approximately ¥69⁽²⁾) per share, for an investment amount of IDR 17,187 billion (approximately ¥132.3 billion⁽²⁾). The price was based on a price book-value ratio of 2.0 calculated on the basis of Danamon's net assets as of June 30, 2018 with certain adjustments applied. As a result, equity interest in Danamon increased to 40%, and MUFG Bank started to apply the equity method of accounting for its investment in Danamon during the six months ended September 30, 2018.

In Step 3, MUFG Bank acquired an additional 54.0% equity interest in Danamon from AFI and other shareholders on April 29, 2019, based on a price of IDR 9,590 (approximately ¥77⁽³⁾) per share, for an investment amount of IDR 50 trillion (approximately ¥397 billion) in cash. As a result, equity interest in Danamon increased to 94.0%, and Danamon became a consolidated subsidiary of MUFG Bank. The MUFG Group recorded goodwill of ¥254,271 million, none of which is deductible for income tax purposes and intangible assets of ¥146,899 million. The MUFG Group also recorded noncontrolling interests of ¥51,314 million at fair value determined by a quoted market price as of the acquisition date. The equity interest in Danamon held by MUFG Bank immediately before the acquisition date was remeasured to the fair value of ¥271,830 million based on the quoted market price, resulting in recognition of profits of ¥41,218 million which is included in Gain on remeasurement of previously held equity method investment in the accompanying consolidated statements of income for the fiscal year ended March 31, 2020. During the fiscal year ended March 31, 2020, the MUFG Group incurred ¥869 million of acquisition-related costs. These expenses are included in Other non-interest expenses in the accompanying consolidated statements of income for the fiscal year ended March 31, 2020. The revenue and net loss of Danamon and its subsidiaries since the acquisition date were ¥119,331 million and ¥4,553 million for the fiscal year ended March 31, 2020. In addition, MUFG Bank acquired an additional 92.1% equity interest in PT Bank Nusantara Parahyangan, Tbk. ("BNP") from ACOM CO., LTD., an equity method investee of MUFG, and other shareholders, based on a price of IDR 4,088 (approximately ¥33⁽³⁾) per share, for an investment amount of IDR 3 trillion (approximately ¥24.1 billion). As a result, equity interest in BNP increased to 99.9%, and BNP became a consolidated subsidiary of MUFG Bank.

On May 1, 2019, MUFG Bank merged BNP into Danamon, acquiring an additional equity interest in Danamon in exchange for its equity interest in BNP, which resulted in MUFG Bank holding 94.1% equity interest in Danamon.

Notes:

- (1) Calculated based on the exchange rate of IDR1 = ¥0.0084
- (2) Calculated based on the exchange rate of IDR1 = ¥0.0077
- (3) Calculated based on the exchange rate of IDR1 = ¥0.0080

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed of Danamon and its subsidiaries as of the acquisition date:

	<u>(in millions)</u>
Loans	¥1,086,638
Intangible assets ⁽¹⁾	146,899
Total assets	1,728,480
Deposits—Total deposits	915,075
Total liabilities	1,242,115

Note:

- (1) Intangible assets with a weighted average amortization period of 13.2 years primarily include ¥79,552 million of relationships with agents with a weighted average amortization period of 13.1 years and ¥44,140 million of core deposit intangibles with a weighted average amortization period of 10.1 years.

Included in the table above are loans with fair values totaling ¥1,068,906 million, which were not subject to the guidance on loans and debt securities acquired with deteriorated credit quality. As of the acquisition date, the gross contractual amounts receivable for these loans totaled ¥1,082,422 million, of which ¥34,363 million is not expected to be collected.

Acquisition of Colonial First State Global Asset Management

On August 2, 2019, Mitsubishi UFJ Trust and Banking acquired 100% of the shares in each of the nine subsidiaries of Colonial First State Group Limited, for ¥312,225 million in cash, from Australian financial group Commonwealth Bank of Australia and its wholly-owned subsidiary, Colonial First State Group Limited, and thereby recorded goodwill of ¥177,065 million, none of which is deductible for income tax purposes and intangible assets of ¥105,973 million with a weighted average amortization period of 18.7 years primarily include ¥100,862 million of customer relationships with a weighted average amortization period of 18.0 years. These nine subsidiaries collectively, including their subsidiaries, had represented the global asset management business of Colonial First State Global Asset Management, and were renamed First Sentier Investors (“FSI”) on September 16, 2019.

The MUFG Group is seeking the opportunities to enhance its competitive edge as well as expanding its client base globally in asset management business. The acquisition of FSI is a milestone to strengthen its capability and that is the reason such goodwill was paid which is allocated to the segment of Asset Management & Investor Services Business Group. The MUFG Group will continue to respond to customer expectations by leveraging the advantages and brands of FSI as well as the MUFG Group’s original asset management arms, aiming to become an asset management service provider with a global presence.

The assets acquired and liabilities assumed were recorded at their estimated fair values on the acquisition date. During the fiscal year ended March 31, 2020, the MUFG Group incurred ¥3,775 million of acquisition-related costs. These expenses are included in Other non-interest expenses in the accompanying consolidated statements of income for the fiscal year ended March 31, 2020. Total assets acquired amounted to ¥197,867 million, including cash and bank deposits of ¥42,019 million and intangible assets of ¥105,973 million, and total liabilities assumed amounted to ¥68,519 million, including accrued bonuses of ¥18,769 million. The revenue and net loss of FSI and its subsidiaries since the acquisition date were ¥38,508 million and ¥734 million for the fiscal year ended March 31, 2020.

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Acquisition of DVB Bank SE's Aviation Finance Division

On March 1, 2019, MUFG Bank and BOT Lease Co., Ltd. (“BOT Lease”), entered into an agreement with DVB Bank SE (“DVB”) to transfer DVB’s aviation finance division, including aviation finance-related business, to MUFG Bank and BOT Lease.

The purpose of the transaction is to improve the MUFG Group’s ability to offer bespoke solutions to its clients by enhancing its global corporate investment banking business platform in terms of higher returns, diversifying its portfolio, broadening its customer base, and securing experienced professionals.

On November 18, 2019, MUFG Bank acquired DVB’s most of aviation finance client lending portfolio, employees, and other part of the operation infrastructure for ¥555 billion in cash. MUFG Bank recorded goodwill of ¥32,591 million. During the fiscal year ended March 31, 2021, the purchase price adjustments were made, which increased goodwill by ¥1,105 million. In November 2020, MUFG Bank decided to discontinue the acquisition of DVB’s aviation investment management and asset management businesses, that was initially planned to be transferred to a newly established subsidiary of BOT Lease, since it was difficult to fully obtain the approval of the relevant national authorities.

The following table summarizes the estimated fair values of the assets acquired and liabilities as of the acquisition date:

	<u>(in millions)</u>
Loans	¥515,933
Total assets	522,797
Total liabilities	138

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3. INVESTMENT SECURITIES

The following tables present the amortized cost, gross unrealized gains and losses, and fair value of Available-for-sale debt securities and Held-to-maturity debt securities at March 31, 2020 and 2021:

<u>At March 31, 2020:</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
		(in millions)		
Available-for-sale debt securities:				
Japanese national government and Japanese government agency bonds	¥23,308,538	¥185,302	¥30,961	¥23,462,879
Japanese prefectural and municipal bonds	2,938,743	16,279	2,202	2,952,820
Foreign government and official institution bonds	2,936,110	107,406	6,028	3,037,488
Corporate bonds	1,261,586	12,445	1,205	1,272,826
Residential mortgage-backed securities	1,460,641	3,083	4,331	1,459,393
Commercial mortgage-backed securities	379,234	6,110	3,089	382,255
Asset-backed securities	1,461,083	9,516	1,123	1,469,476
Other debt securities ⁽¹⁾	161,832	3,190	1,956	163,066
Total	<u>¥33,907,767</u>	<u>¥343,331</u>	<u>¥50,895</u>	<u>¥34,200,203</u>
Held-to-maturity debt securities:				
Japanese national government and Japanese government agency bonds	¥ 1,100,574	¥ 29,856	¥ —	¥ 1,130,430
Foreign government and official institution bonds	151,555	243	689	151,109
Residential mortgage-backed securities	737,242	10,478	3,012 ⁽²⁾	744,708
Commercial mortgage-backed securities	146,039	2,993	317 ⁽²⁾	148,715
Asset-backed securities	2,030,371	277	27,716	2,002,932
Total	<u>¥ 4,165,781</u>	<u>¥ 43,847</u>	<u>¥31,734</u>	<u>¥ 4,177,894</u>

Notes:

- (1) Other debt securities in the table above mainly include ¥86,734 million of private placement debt conduit bonds.
- (2) MUFG Americas Holdings reclassified residential mortgage-backed securities and commercial mortgage-backed securities from Available-for-sale debt securities to Held-to-maturity debt securities. As a result of the reclassification of residential mortgage-backed securities and commercial mortgage-backed securities, the unrealized losses before taxes at the date of reclassification remaining in Accumulated OCI in the accompanying consolidated balance sheets were ¥8,215 million and ¥3,178 million, respectively, at March 31, 2020 and are not included in the table above.

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<u>At March 31, 2021:</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
	(in millions)			
Available-for-sale debt securities:				
Japanese national government and Japanese government agency bonds	¥35,166,245	¥147,844	¥40,878	¥35,273,211
Japanese prefectural and municipal bonds	3,719,205	15,123	2,815	3,731,513
Foreign government and official institution bonds	2,854,037	84,707	11,781	2,926,963
Corporate bonds	1,123,271	11,400	401	1,134,270
Residential mortgage-backed securities	1,459,062	9,119	1,051	1,467,130
Commercial mortgage-backed securities	435,975	29,502	912	464,565
Asset-backed securities	1,373,450	11,685	650	1,384,485
Other debt securities	168,528	3,780	730	171,578
Commercial paper	564,072	31	5	564,098
Total	<u>¥46,863,845</u>	<u>¥313,191</u>	<u>¥59,223</u>	<u>¥47,117,813</u>
Held-to-maturity debt securities:				
Japanese national government and Japanese government agency bonds	¥ 1,100,447	¥ 23,033	¥ —	¥ 1,123,480
Foreign government and official institution bonds	233,883	2,262	2,795	233,350
Residential mortgage-backed securities	411,024	18,590	— ⁽¹⁾	429,614
Commercial mortgage-backed securities	111,750	4,846	— ⁽¹⁾	116,596
Asset-backed securities	2,046,659	1,721	12,277	2,036,103
Total	<u>¥ 3,903,763</u>	<u>¥ 50,452</u>	<u>¥15,072</u>	<u>¥ 3,939,143</u>

Note:

- (1) MUFG Americas Holdings reclassified residential mortgage-backed securities and commercial mortgage-backed securities from Available-for-sale debt securities to Held-to-maturity debt securities. As a result of the reclassification of residential mortgage-backed securities and commercial mortgage-backed securities, the unrealized losses before taxes at the date of reclassification remaining in Accumulated OCI in the accompanying consolidated balance sheets were ¥4,849 million and ¥1,920 million, respectively, at March 31, 2021 and are not included in the table above.

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Contractual Maturities

The amortized cost and fair values of Held-to-maturity debt securities and the fair values of Available-for-sale debt securities at March 31, 2021 by contractual maturity are shown below. Expected maturities may be shorter than contractual maturities because issuers of debt securities may have the right to call or prepay obligations with or without penalties. Debt 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 contractual maturities.

	Held-to-maturity debt securities		Available-for-sale debt securities
	Amortized cost	Fair value	Fair value
		(in millions)	
Due in one year or less	¥ 14,562	¥ 14,572	¥24,815,321
Due from one year to five years	1,179,959	1,205,257	8,129,683
Due from five years to ten years	826,833	827,481	8,549,713
Due after ten years	1,882,409	1,891,833	5,623,096
Total	¥3,903,763	¥3,939,143	¥47,117,813

Realized Gains and Losses

For the fiscal years ended March 31, 2019, 2020 and 2021, gross realized gains on sales of Available-for-sale debt securities were ¥45,244 million, ¥151,015 million and ¥42,123 million, respectively, and gross realized losses on sales of Available-for-sale debt securities were ¥16,541 million, ¥44,662 million and ¥48,606 million, respectively.

Impairment Losses on Investment Securities

For the fiscal years ended March 31, 2019 and 2020, losses resulting from the impairment of investment securities to reflect the decline in value considered to be other-than-temporary were ¥606 million and ¥1,590 million, respectively, which were included in Investment securities gains (losses)—net in the accompanying consolidated statements of income. These losses were recorded from Available-for-sale debt securities which mainly comprised of corporate bonds for the fiscal years ended March 31, 2019 and 2020.

For the fiscal year ended March 31, 2021, as a result of the adoption of new guidance on a measurement of credit losses on financial instruments, an allowance for credit losses on Available-for-sale debt securities is required for impaired securities if a credit loss exists, and an allowance for credit losses on Held-to-maturity debt securities is required for expected credit losses over the remaining expected life.

For the fiscal year ended March 31, 2021, impairment losses on Available-for-sale debt securities, which mainly comprised of corporate bonds, were included in Investment securities gains(losses)—net in the accompanying consolidated statements of income and were not material.

For the fiscal year ended March 31, 2021, the MUFG Group’s Held-to-maturity debt securities were explicitly or implicitly guaranteed by Japanese or U.S. government entities or agencies and had a long history of no credit losses or were rated investment grade. Therefore, no credit losses were expected on these securities, except for certain collateralized loan obligations (“CLOs”) with investment grades, on which immaterial allowance for credit losses were recognized.

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Gross Unrealized Losses and Fair Value

The following tables show the gross unrealized losses and fair value of Available-for-sale debt securities at March 31, 2020 and 2021 and of Held-to-maturity debt securities at March 31, 2020, by length of time that individual securities in each category have been in a continuous loss position. For the fiscal year ended March 31, 2021, the table does not include the securities for which an allowance for credit losses has been recorded:

At March 31, 2020:	Less than 12 months		12 months or more		Total		
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Number of securities
	(in millions, except number of securities)						
Available-for-sale debt securities:							
Japanese national government and Japanese government agency bonds	¥11,781,600	¥30,961	¥ —	¥ —	¥11,781,600	¥30,961	202
Japanese prefectural and municipal bonds	935,540	2,202	—	—	935,540	2,202	340
Foreign government and official institution bonds	564,620	5,481	114,407	547	679,027	6,028	153
Corporate bonds	522,941	1,191	25,228	14	548,169	1,205	154
Residential mortgage-backed securities	114,057	530	388,064	3,801	502,121	4,331	402
Commercial mortgage-backed securities	182,887	3,087	1,304	2	184,191	3,089	39
Asset-backed securities	189,775	503	86,605	620	276,380	1,123	94
Other debt securities	53,070	132	30,657	1,824	83,727	1,956	24
Total	¥14,344,490	¥44,087	¥ 646,265	¥ 6,808	¥14,990,755	¥50,895	1,408
Held-to-maturity debt securities:							
Foreign government and official institution bonds	¥ 55,746	¥ 689	¥ —	¥ —	¥ 55,746	¥ 689	9
Residential mortgage-backed securities	108,478	1,033	360,841	1,979	469,319	3,012	281
Commercial mortgage-backed securities	10,281	32	133,791	285	144,072	317	31
Asset-backed securities	637,201	8,536	1,259,720	19,180	1,896,921	27,716	77
Total	¥ 811,706	¥10,290	¥1,754,352	¥21,444	¥ 2,566,058	¥31,734	398

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At March 31, 2021:	Less than 12 months		12 months or more		Total		
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Number of securities
	(in millions, except number of securities)						
Available-for-sale debt securities:							
Japanese national government and Japanese government agency bonds	¥12,098,437	¥31,055	¥ 429,235	¥ 9,823	¥12,527,672	¥40,878	286
Japanese prefectural and municipal bonds	870,007	1,584	276,172	1,231	1,146,179	2,815	405
Foreign government and official institution bonds	429,204	11,768	50,478	13	479,682	11,781	71
Corporate bonds	96,582	166	229,518	235	326,100	401	120
Residential mortgage-backed securities	378,351	577	139,214	474	517,565	1,051	218
Commercial mortgage-backed securities	36,633	905	2,616	7	39,249	912	21
Asset-backed securities	190,795	394	49,428	256	240,223	650	89
Other debt securities	22,812	91	22,388	639	45,200	730	17
Commercial paper	116,016	5	—	—	116,016	5	8
Total	¥14,238,837	¥46,545	¥1,199,049	¥12,678	¥15,437,886	¥59,223	1,235

Evaluating Available-for-sale debt securities for Impairment losses

The following describes the nature of the MUFG Group's Available-for-sale debt securities and the conclusions reached in determining whether impairment losses exist.

Japanese national government and Japanese government agency bonds, Foreign government and official institution bonds

As of March 31, 2021, unrealized losses associated with these securities were deemed to be attributable to changes in market interest rates rather than a deterioration in the creditworthiness of the underlying obligor. Based on a consideration of factors, including cash flow analysis, the MUFG Group expects to recover the entire amortized cost basis of these securities. Accordingly, no credit loss was identified as of March 31, 2021 and no impairment loss has been recorded.

Corporate bonds

As of March 31, 2021, unrealized losses associated with corporate bonds were 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 terms of the bonds as estimated using the MUFG Group's cash flow projections. The key assumptions include probability of default based on credit ratings of the bond issuers and loss given default.

Residential mortgage-backed securities

As of March 31, 2021, unrealized losses on these securities were primarily driven by securities guaranteed by a U.S. government agency or a government-sponsored agency which are collateralized by residential mortgage loans. Unrealized losses mainly resulted from changes in interest rates and not from changes in credit quality. The MUFG Group determined through analysis that no credit loss was identified on such securities as of

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March 31, 2021 because the strength of the issuers' guarantees through direct obligations or support from the U.S. government is expected to be sufficient to recover the entire amortized cost basis of these securities.

Asset-backed securities

As of March 31, 2021, unrealized losses on these securities were primarily driven by certain CLOs, highly illiquid securities for which fair values are difficult to determine. Unrealized losses arise from widening credit spreads, deterioration of the credit quality of the underlying collateral, uncertainty regarding the valuation of such securities and the market's view of the performance of the fund managers. When the fair value of a security is lower than its amortized cost or when any security is subject to a deterioration in credit rating, the MUFG Group undertakes a cash flow analysis of the underlying collateral to estimate the credit loss and confirms the intent and ability to hold these securities until recovery. Based on the analysis performed, no credit loss was identified as of March 31, 2021 and no impairment loss has been recorded.

Other debt securities

As of March 31, 2021, unrealized losses on other debt securities result from a higher return on capital expected by the secondary market compared with the return on capital required at the time of origination when the bonds were purchased. The MUFG Group estimates loss projections for each security by assessing the underlying collateral of each security. The MUFG Group estimates the portion of loss attributable to credit based on the expected cash flows of the underlying collateral using estimates of current key assumptions, such as probability of default and loss severity. Cash flow analysis of the underlying collateral provides an estimate of credit loss, which is performed when the fair value of a security is lower than its amortized cost and potential impairment is identified. Based on the analysis, no credit loss was identified as of March 31, 2021.

Equity Securities

The following table presents net realized gains (losses) on sales of equity securities, and net unrealized losses on equity securities still held at March 31, 2019, 2020 and 2021:

	Fiscal years ended March 31,		
	2019	2020	2021
	(in millions)		
Net gains (losses) recognized during the period ⁽¹⁾	¥(278,746)	¥ (639,813)	¥ 1,467,763
Less:			
Net gains (losses) recognized during the period on equity securities sold during the period	(3,303)	(37,541)	47,775
Net unrealized gains (losses) recognized during the reporting period still held at the reporting date	¥(275,443)	¥ (602,272)	¥ 1,419,988

Note:

(1) Included in Investment securities gains (losses)—net.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Measurement Alternative of Equity Securities

The following table presents the carrying value of nonmarketable equity securities that are measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes (“measurement alternative”), held at March 31, 2020 and 2021:

	2020	2021
	(in millions)	
Measurement alternative balance	¥ 534,882	¥ 356,074

The related adjustments for these securities for the fiscal years ended March 31, 2019, 2020 and 2021 were as follows:

	Fiscal years ended March 31,		
	2019	2020	2021
	(in millions)		
Measurement alternative impairment losses ⁽¹⁾⁽⁴⁾	¥ (2,292)	¥ (3,099)	¥ (5,188)
Measurement alternative downward changes for observable prices ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾ . .	¥ —	¥ (953)	¥ —
Measurement alternative upward changes for observable prices ⁽¹⁾⁽²⁾⁽³⁾⁽⁶⁾	¥ 53,077	¥ 6,223	¥ 21,710

Notes:

- (1) Included in Investment securities gains (losses)—net.
- (2) Under the measurement alternative, nonmarketable equity securities are carried at cost plus or minus changes resulting from observable prices in orderly transactions for the identical or a similar investment of the same issuer.
- (3) The MUFG Group applied measurement alternative downward or upward changes to certain nonmarketable equity securities, resulting from observable prices in orderly transactions, such as partial repurchase and transactions by other entities.
- (4) The cumulative impairment losses at March 31, 2020 and 2021 were ¥5,007 million and ¥10,102 million, respectively.
- (5) The cumulative downward changes for observable prices at March 31, 2020 and 2021 were ¥953 million and ¥953 million, respectively.
- (6) The cumulative upward changes for observable prices at March 31, 2020 and 2021 were ¥34,466 million and ¥54,806 million, respectively.

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4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans at March 31, 2020 and 2021 by domicile and industry of the borrower are summarized below. Classification of loans by industry is based on the industry segment loan classifications as defined by the Bank of Japan.

	<u>2020</u>	<u>2021</u>
	(in millions)	
Domestic:		
Manufacturing	¥ 11,448,778	¥ 13,133,360
Construction	733,212	763,958
Real estate	12,054,671	11,997,301
Services	2,585,111	2,908,975
Wholesale and retail	7,504,561	7,766,070
Banks and other financial institutions ⁽¹⁾	5,161,093	6,443,296
Communication and information services	1,572,344	1,407,738
Other industries	8,673,871	8,838,718
Consumer	15,319,721	15,066,986
Total domestic	<u>65,053,362</u>	<u>68,326,402</u>
Foreign:		
Governments and official institutions	726,347	655,367
Banks and other financial institutions ⁽¹⁾	11,788,225	10,649,029
Commercial and industrial	32,565,030	29,574,176
Other	8,404,062	6,822,771
Total foreign	<u>53,483,664</u>	<u>47,701,343</u>
Unearned income, unamortized premiums—net and deferred loan fees—net	(350,287)	(308,882)
Total ⁽²⁾	<u>¥118,186,739</u>	<u>¥115,718,863</u>

Notes:

- (1) Loans to so-called “non-bank finance companies” are generally included in the “Banks and other financial institutions” category. Non-bank finance companies are primarily engaged in consumer lending, factoring and credit card businesses.
- (2) The above table includes loans held for sale of ¥344,790 million and ¥353,095 million at March 31, 2020 and 2021, respectively.

The MUFG Group classifies its loan portfolio into the following portfolio segments—Commercial, Residential, Card, MUFG Americas Holdings, Krungsri, and Other based on the grouping used by the MUFG Group to determine the allowance for credit losses. The MUFG Group further classifies the Commercial segment into classes based on initial measurement attributes, risk characteristics, and its method of monitoring and assessing credit risk. See Note 1 for further information. Effective as of April 1, 2020, all of the domestic classes within the Commercial segment were combined into one class.

Nonaccrual Loans

Originated loans are generally placed on nonaccrual status when substantial doubt exists as to the full and timely collection of either principal or interest, when principal or interest is contractually past due one month or more with respect to loans within all classes of the Commercial segment, three months or more with respect to loans within the Card, MUFG Americas Holdings, and Krungsri segments, and six months or more with respect to loans within the Residential segment. See Note 1 for further information.

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The information on nonaccrual loans by class at March 31, 2020 and 2021, and recognized interest income on nonaccrual loans by class for the fiscal year ended March 31, 2021 are shown below:

<u>March 31, 2020:</u>	<u>Nonaccrual Loans⁽¹⁾</u>
	<u>(in millions)</u>
Commercial	
Domestic	¥312,972
Foreign	127,001
Residential	63,998
Card	61,172
MUAH	35,840
Krungsri	149,732
Other	27,754
Total	<u>¥778,469</u>

<u>March 31, 2021:</u>	<u>Recorded Loan Balance</u>		<u>Recognized Interest Income</u>
	<u>Nonaccrual Loans⁽¹⁾</u>	<u>Nonaccrual Loans Not Requiring an Allowance for Credit Losses⁽²⁾</u>	
	<u>(in millions)</u>		
Commercial			
Domestic	¥ 565,671	¥111,141	¥ 4,355
Foreign	258,391	96,833	5,110
Residential	67,968	4,720	923
Card	60,200	—	37
MUAH	73,706	30,242	1,057
Krungsri	161,338	3,042	5,562
Other	26,567	29	4,203
Total	<u>¥1,213,841</u>	<u>¥246,007</u>	<u>¥21,247</u>

Notes:

- (1) Nonaccrual loans in the above table do not include loans held for sale of ¥330 million and ¥8,562 million at March 31, 2020 and 2021, respectively, and do not include loans acquired with deteriorated credit quality of ¥25,427 million at March 31, 2020.
- (2) These loans do not require an allowance for credit losses because the recorded loan balance equals, or does not exceed, the present value of expected future cash flows discounted at the loans' original effective interest rate, or the fair value of the collateral if the loan is a collateral-dependent loan.

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Impaired Loans

The MUFG Group's impaired loans primarily include nonaccrual loans and TDRs. The following table shows information about impaired loans by class at March 31, 2020:

<u>At March 31, 2020:</u>	Recorded Loan Balance			Unpaid Principal Balance	Related Allowance for Credit Losses
	Requiring an Allowance for Credit Losses	Not Requiring an Allowance for Credit Losses ⁽¹⁾	Total		
	(in millions)				
Commercial					
Domestic	¥ 598,737	¥147,890	¥ 746,627	¥ 784,298	¥268,070
Foreign	141,897	56,464	198,361	220,283	96,009
Loans acquired with deteriorated credit quality	12,906	—	12,906	19,947	4,767
Residential ⁽³⁾	88,075	4,822	92,897	107,629	12,770
Card ⁽³⁾	65,240	280	65,520	72,714	19,799
MUAH ⁽³⁾	33,884	33,835	67,719	84,737	5,977
Krungsri ⁽³⁾	68,126	30,833	98,959	106,265	30,198
Other ⁽³⁾	22,749	1,091	23,840	26,091	6,152
Total ⁽²⁾	¥1,031,614	¥275,215	¥1,306,829	¥1,421,964	¥443,742

Notes:

- (1) These loans do not require an allowance for credit losses because the recorded loan balance equals, or does not exceed, the present value of expected future cash flows discounted at the loans' original effective interest rate, loans' observable market price, or the fair value of the collateral if the loan is a collateral-dependent loan.
- (2) In addition to impaired loans presented in the above table, there were impaired loans held for sale of ¥330 million at March 31, 2020.
- (3) Impaired Loans for Residential, Card, MUAH, Krungsri and Other segments in the above table include loans acquired with deteriorated credit quality.

The following table shows information regarding the average recorded loan balance and recognized interest income on impaired loans for the fiscal years ended March 31, 2019 and 2020:

	2019		2020	
	Average Recorded Loan Balance	Recognized Interest Income	Average Recorded Loan Balance	Recognized Interest Income
	(in millions)			
Commercial				
Domestic	¥ 766,847	¥12,383	¥ 726,794	¥ 8,722
Foreign	159,999	3,127	174,831	3,013
Loans acquired with deteriorated credit quality	7,814	182	9,395	74
Residential	107,165	1,620	98,238	1,252
Card	66,187	1,614	65,270	1,241
MUAH	71,162	2,292	82,832	2,801
Krungsri	83,165	4,995	91,577	5,274
Other	—	—	11,854	494
Total	¥1,262,339	¥26,213	¥1,260,791	¥22,871

Interest income on nonaccrual loans for all classes 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 TDRs, was recognized on an accrual basis to the extent that the collectibility of interest income was reasonably certain based on management's assessment.

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Troubled Debt Restructurings

The following table summarizes the MUFG Group's TDRs by class for the fiscal years ended March 31, 2019, 2020 and 2021:

	2019		2020		2021	
	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings						
(in millions)						
Commercial⁽¹⁾⁽³⁾						
Domestic	¥ 36,693	¥ 36,693	¥ 61,735	¥ 61,735	¥ 39,282	¥ 39,282
Foreign	5,692	5,692	39,827	39,827	33,839	33,839
Loans acquired with deteriorated credit quality	50	50	10,786	10,786	—	—
Residential⁽¹⁾⁽³⁾	7,379	7,379	5,137	5,137	18,121	18,121
Card⁽²⁾⁽³⁾	19,685	18,837	22,625	21,561	20,857	19,737
MUAH⁽²⁾⁽³⁾	19,837	19,837	33,782	33,564	22,801	22,763
Krungsri⁽²⁾⁽³⁾	24,392	24,330	31,238	31,209	18,548	18,548
Other⁽²⁾⁽³⁾	—	—	12,781	12,780	24,968	24,956
Total	<u>¥113,728</u>	<u>¥112,818</u>	<u>¥217,911</u>	<u>¥216,599</u>	<u>¥178,416</u>	<u>¥177,246</u>

	2019	2020	2021
	Troubled Debt Restructurings That Subsequently defaulted		
Recorded Investment			
(in millions)			
Commercial⁽¹⁾⁽³⁾			
Domestic	¥11,002	¥ 8,857	¥16,179
Foreign	—	2,337	9,861
Residential⁽¹⁾⁽³⁾	362	31	157
Card⁽²⁾⁽³⁾	3,442	3,320	2,733
MUAH⁽²⁾⁽³⁾	349	4,656	3,437
Krungsri⁽²⁾⁽³⁾	7,926	7,305	6,226
Other⁽²⁾⁽³⁾	—	15	857
Total	<u>¥23,081</u>	<u>¥26,521</u>	<u>¥39,450</u>

Notes:

- (1) TDRs for the Commercial and Residential segments include accruing loans, and do not include nonaccrual loans.
- (2) TDRs for the Card, MUFG Americas Holdings, Krungsri and Other segments include accrual and nonaccrual loans.
- (3) For the fiscal year ended March 31, 2019, extension of the stated maturity date of loans was the primary concession type in the Commercial, Residential and Krungsri segments, reduction in the stated rate was the primary concession type in the Card segment and forbearance was the primary concession type in the MUFG Americas Holdings segment. For the fiscal year ended March 31, 2020, extension of the stated maturity date of loans was the primary concession type in the Commercial, Residential, MUFG Americas Holdings and Krungsri segments and reduction in the stated rate was the primary concession type in the Card and Other segments. For the fiscal year ended March 31, 2021, extension of the stated maturity date of loans was the primary concession type in the Commercial, Residential and Krungsri segments, reduction in the stated rate was the primary concession type in the Card segment and forbearance was the primary concession type in the MUFG Americas Holdings segment.

A modification of terms of a loan under a TDR mainly involves: (i) a reduction in the stated interest rate applicable to the loan, (ii) an extension of the stated maturity date of the loan, (iii) a partial forgiveness of the

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principal of the loan, or (iv) a combination of all of these. The amount of pre-modification outstanding recorded investment and post-modification outstanding recorded investment may differ due to write-offs made as part of the concession. The impact of write-offs associated with TDRs on the MUFG Group's results of operations for the fiscal years ended March 31, 2019, 2020 and 2021 was not material.

TDRs for the Commercial and Residential segments in the above tables include accruing loans, and do not include nonaccrual loans. Once a loan is classified as a nonaccrual loan, a modification would have little likelihood of resulting in the recovery of the loan in view of the severity of the financial difficulty of the borrower. Therefore, even if a nonaccrual loan is modified, the loan continues to be classified as a nonaccrual loan. The vast majority of modifications to nonaccrual loans are temporary extensions of the maturity dates, typically for periods up to 90 days, and continually made as the borrower is unable to repay or refinance the loan at the extended maturity. Accordingly, the impact of such TDRs on the outstanding recorded investment is immaterial, and the vast majority of nonaccrual TDRs have subsequently defaulted.

TDRs that subsequently defaulted in the Commercial and Residential segments in the above tables include those accruing loans that became past due one month or more within the Commercial segment and six months or more within the Residential segment, and those accruing loans reclassified to nonaccrual loans due to financial difficulties even without delinquencies. This is because classification as a nonaccrual loan is regarded as default under the MUFG Group's credit policy. Also, the MUFG Group defines default as payment default for the purpose of the disclosure.

In regards to the Card, MUFG Americas Holdings, Krungsri and Other segments, the TDRs in the above tables represent nonaccrual and accruing loans, and the defaulted loans in the above table represent nonaccruing and accruing loans that became past due one month or more within the Card segment, 60 days or more within the MUFG Americas Holdings segment, and six months or more within the Krungsri segment.

Historical payment defaults are one of the factors considered when projecting future cash flows in determining the allowance for credit losses for each segment.

The MUFG Group provided commitments to extend credit to customers with TDRs. The amounts of such commitments were ¥90,097 million and ¥130,788 million at March 31, 2020 and 2021, respectively. See Note 24 for further discussion of commitments to extend credit.

In the MUFG Americas Holdings segment, TDR accounting was suspended for loan modifications that occurred from March 1, 2020, through June 30, 2020, where COVID-19 related modifications were granted to loans that were current as of December 31, 2019, based on the Coronavirus Aid, Relief, and Economic Security Act, or where COVID-19 related short-term modifications (i.e., six months or less) were granted to loans that were current as of the loan modification date, based on interagency statements issued by the U.S. federal bank regulatory agencies. These loan modifications were primarily payment deferrals, and the related borrowers' past due and nonaccrual status will not be impacted during the deferral period. Interest income will continue to be recognized over the contractual life of the loan.

In the Krungsri segment, TDR accounting was suspended for loan modifications that occurred during the six months ended June 30, 2020, where COVID-19 related short-term modifications (i.e., six months or less) were granted to loans that were current as of the loan modification date, based on interagency statements issued by the U.S. federal bank regulatory agencies. These loan modifications included payment deferrals and reductions in stated rate, and the related borrowers' past due and nonaccrual status will not be impacted during the deferral period. Interest income will continue to be recognized over the contractual life of the loan.

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Credit Quality Indicator

Credit quality indicators of loans by class at March 31, 2020 are shown below:

<u>At March 31, 2020:</u>	<u>Normal</u>	<u>Close Watch</u>	<u>Likely to become Bankrupt or Legally/Virtually Bankrupt</u>	<u>Total⁽¹⁾</u>		
	(in millions)					
Commercial						
Domestic	¥49,695,889	¥1,186,044	¥220,245	¥51,102,178		
Foreign	34,719,041	636,523	128,073	35,483,637		
Loans acquired with deteriorated credit quality	8,255	9,739	18,978	36,972		
Total	<u>¥84,423,185</u>	<u>¥1,832,306</u>	<u>¥367,296</u>	<u>¥86,622,787</u>		
		<u>Accrual</u>	<u>Nonaccrual</u>	<u>Total⁽¹⁾</u>		
		(in millions)				
Residential		¥13,256,744	¥61,746	¥13,318,490		
Card		¥ 504,357	¥61,286	¥ 565,643		
	<u>Credit Quality Based on the Number of Delinquencies</u>		<u>Credit Quality Based on Internal Credit Ratings</u>			
	<u>Accrual</u>	<u>Nonaccrual</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Classified</u>	<u>Total⁽¹⁾⁽²⁾</u>
	(in millions)					
MUAH	¥ 4,590,805	¥ 15,119	¥ 4,877,863	¥ 87,648	¥ 84,033	¥ 9,655,468
			<u>Performing</u>	<u>Under-Performing</u>	<u>Non-Performing</u>	<u>Total⁽¹⁾</u>
			(in millions)			
Krungsri			¥6,241,696	¥508,847	¥161,047	¥6,911,590
				<u>Accrual</u>	<u>Nonaccrual</u>	<u>Total⁽¹⁾</u>
				(in millions)		
Other				¥1,086,517	¥31,376	¥1,117,893

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Credit quality indicators of loans and fiscal year of origination by class at March 31, 2021 are shown below:

At March 31, 2021:	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total ⁽¹⁾
	2020	2019	2018	2017	2016	Prior			
	(in millions)								
Commercial:	¥29,805,641	¥10,256,709	¥9,410,172	¥5,360,221	¥4,736,515	¥6,945,092	¥19,401,336	¥ 9,776	¥85,925,462
Domestic	22,402,694	6,392,946	6,126,746	3,840,964	3,649,145	5,286,408	6,934,308	—	54,633,211
Normal	21,936,776	6,058,126	5,915,318	3,666,734	3,551,332	4,847,597	6,604,586	—	52,580,469
Close Watch	431,223	319,073	195,630	162,176	74,698	317,622	306,236	—	1,806,658
Likely to become									
Bankrupt or Legally/ Virtually Bankrupt	34,695	15,747	15,798	12,054	23,115	121,189	23,486	—	246,084
Foreign	7,402,947	3,863,763	3,283,426	1,519,257	1,087,370	1,658,684	12,467,028	9,776	31,292,251
Normal	7,158,793	3,704,240	3,155,261	1,423,064	1,032,052	1,534,943	12,231,018	9,776	30,249,147
Close Watch	200,305	118,027	91,867	60,422	51,433	69,436	197,405	—	788,895
Likely to become									
Bankrupt or Legally/ Virtually Bankrupt	43,849	41,496	36,298	35,771	3,885	54,305	38,605	—	254,209
Residential	¥ 623,328	¥ 847,314	¥ 822,883	¥ 892,166	¥1,304,110	¥8,660,022	¥ 32,984	¥ 8	¥13,182,815
Accrual	623,035	846,787	822,411	891,407	1,302,427	8,599,621	30,897	—	13,116,585
Nonaccrual	293	527	472	759	1,683	60,401	2,087	8	66,230
Card	¥ 14	¥ 96	¥ 171	¥ 304	¥ 110	¥ 513	¥ 417,804	¥60,284	¥ 479,296
Accrual	1	10	13	19	7	79	404,301	14,666	419,096
Nonaccrual	13	86	158	285	103	434	13,503	45,618	60,200
MUAH⁽²⁾	¥ 1,406,996	¥ 1,366,930	¥ 915,570	¥ 861,742	¥ 770,568	¥1,291,561	¥ 1,882,377	¥ —	¥ 8,495,744
Credit Quality Based on the Number of Delinquencies									
Accrual	472,892	608,580	324,369	552,380	516,051	656,087	130,514	—	3,260,873
Nonaccrual	—	725	518	1,139	1,035	14,801	828	—	19,046
Credit Quality Based on Internal Credit Ratings									
Pass	920,959	707,841	486,354	287,316	236,715	542,634	1,625,799	—	4,807,618
Special Mention	4,865	31,361	49,784	14,904	9,522	30,015	76,487	—	216,938
Classified	8,280	18,423	54,545	6,003	7,245	48,024	48,749	—	191,269
Krungsri	¥ 1,316,031	¥ 1,197,815	¥ 958,241	¥ 506,919	¥ 285,427	¥ 402,752	¥ 1,922,946	¥14,514	¥ 6,604,645
Performing	1,251,246	1,086,710	855,915	434,818	241,811	314,114	1,754,840	—	5,939,454
Under-Performing	52,821	85,408	74,848	57,314	31,886	57,129	144,447	—	503,853
Non-Performing	11,964	25,697	27,478	14,787	11,730	31,509	23,659	14,514	161,338
Other	¥ 338,342	¥ 164,650	¥ 84,115	¥ 37,394	¥ 11,030	¥ 8,538	¥ 342,619	¥ —	¥ 986,688
Accrual	335,830	159,363	79,608	35,366	10,556	8,201	331,197	—	960,121
Nonaccrual	2,512	5,287	4,507	2,028	474	337	11,422	—	26,567

Notes:

- Total loans in the above table do not include loans held for sale, and represent balances without adjustments in relation to unearned income, unamortized premiums and deferred loan fees.
- Total loans of MUFG Americas Holdings do not include FDIC covered loans which are not individually rated totaling ¥365 million and nil as of March 31, 2020 and 2021, respectively. The MUFG Group will be reimbursed for a substantial portion of any future losses on FDIC covered loans under the terms of the FDIC loss share agreements.

The MUFG Group classifies loans into risk categories based on relevant information about the ability of borrowers to service their debt, including, but not limited to, historical and current financial information, historical and current payment experience, credit documentation, public and non-public information about borrowers and current economic trends as deemed appropriate to each segment.

The primary credit quality indicator for loans within all classes of the Commercial segment is the internal credit rating assigned to each borrower based on the MUFG Group's internal borrower ratings of 1 through 15, with the rating of 1 assigned to a borrower with the highest quality of credit. When assigning a credit rating to a

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borrower, the MUFG Group evaluates the borrower's expected debt-service capability based on various information, including financial and operating information of the borrower as well as information on the industry in which the borrower operates, and the borrower's business profile, management and compliance system. In evaluating a borrower's debt-service capability, the MUFG Group also conducts an assessment of the level of earnings and an analysis of the borrower's net worth. Based on the internal borrower rating, loans within the Commercial segment are categorized as Normal (internal borrower ratings of 1 through 9), Close Watch (internal borrower ratings of 10 through 12), and Likely to become Bankrupt or Legally/Virtually Bankrupt (internal borrower ratings of 13 through 15).

Loans to borrowers categorized as Normal represent those that are not deemed to have collectibility issues.

Loans to borrowers categorized as Close Watch represent those that require close monitoring as the borrower has begun to exhibit elements of potential concern with respect to its business performance and financial condition, the borrower has begun to exhibit elements of serious concern with respect to its business performance and financial condition, including business problems requiring long-term solutions, or the borrower's loans are TDRs or loans contractually past due 90 days or more for special reasons.

Loans to borrowers categorized as Likely to become Bankrupt or Legally/Virtually Bankrupt represent those that have a higher probability of default than those categorized as Close Watch due to serious debt repayment problems with poor progress in achieving restructuring plans, the borrower being considered virtually bankrupt with no prospects for an improvement in business operations, or the borrower being legally bankrupt with no prospects for continued business operations because of non-payment, suspension of business, voluntary liquidation or filing for legal liquidation.

The accrual status is a primary credit quality indicator for loans within the Residential segment, the Card segment, the Other segment and consumer loans within the MUFG Americas Holdings segment. The accrual status of these loans is determined based on the number of delinquent payments. See Note 1 for further details of categorization of Accrual and Nonaccrual.

Commercial loans within the MUFG Americas Holdings segment are categorized as either pass or criticized based on the internal credit rating assigned to each borrower. Criticized credits are those that are internally risk graded as Special Mention, Substandard or Doubtful. Special Mention credits are potentially weak, as the borrower has begun to exhibit deteriorating trends, which, if not corrected, may jeopardize repayment of the loan and result in further downgrade. Classified credits are those that are internally risk graded as Substandard or Doubtful. Substandard credits have well-defined weaknesses, which, if not corrected, could jeopardize the full satisfaction of the debt. A credit classified as Doubtful has critical weaknesses that make full collection improbable on the basis of currently existing facts and conditions.

Loans within the Krungsri segment are categorized based on their delinquency status. Effective as of April 1, 2020, the category of the Krungsri segment's credit quality indicator was changed to Performing, Under-Performing, and Non-Performing. Loans categorized as Under-Performing generally represent those that have significant increases in credit risk since origination, including, among other things, loans that are 30 days or more past due, and loans categorized as Non-Performing generally represent those that are 90 days or more past due. The above table showing the loans within the Krungsri segment by credit quality indicator category as of March 31, 2020 has been restated based on the new categories.

For the Commercial, Residential and Card segments, credit quality indicators are based on information as of March 31. For the MUFG Americas Holdings, Krungsri and Other segments, credit quality indicators are generally based on information as of December 31.

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Past Due Analysis

Ages of past due loans by class at March 31, 2020 and 2021 are shown below:

<u>At March 31, 2020:</u>	<u>1-3 months Past Due</u>	<u>Greater Than 3 months</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans⁽¹⁾</u>	<u>90 Days and Accruing</u>
	(in millions)					
Commercial						
Domestic	¥ 9,215	¥ 26,971	¥ 36,186	¥ 51,065,992	¥ 51,102,178	¥ 4,720
Foreign	9,927	23,548	33,475	35,450,162	35,483,637	164
Residential	48,404	15,443	63,847	13,248,278	13,312,125	6,288
Card	14,735	29,997	44,732	518,008	562,740	—
MUAH	31,052	14,435	45,487	9,603,339	9,648,826	2,101
Krungsri	160,253	129,186	289,439	6,616,104	6,905,543	—
Other	16,442	24,348	40,790	1,069,186	1,109,976	—
Total	<u>¥290,028</u>	<u>¥263,928</u>	<u>¥553,956</u>	<u>¥117,571,069</u>	<u>¥118,125,025</u>	<u>¥13,273</u>

<u>At March 31, 2021:</u>	<u>1-3 months Past Due</u>	<u>Greater Than 3 months</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans⁽¹⁾</u>	<u>90 Days and Accruing</u>
	(in millions)					
Commercial						
Domestic	¥ 4,763	¥ 22,996	¥ 27,759	¥ 54,605,452	¥ 54,633,211	¥ 4,673
Foreign	7,302	22,473	29,775	31,262,476	31,292,251	91
Residential	39,577	28,375	67,952	13,114,863	13,182,815	11,150
Card	2,127	26,786	28,913	450,383	479,296	—
MUAH	42,082	29,337	71,419	8,424,325	8,495,744	4,626
Krungsri	131,573	127,533	259,106	6,345,539	6,604,645	—
Other	21,776	24,201	45,977	940,711	986,688	—
Total	<u>¥249,200</u>	<u>¥281,701</u>	<u>¥530,901</u>	<u>¥115,143,749</u>	<u>¥115,674,650</u>	<u>¥20,540</u>

Note:

- (1) At March 31, 2020, total loans in the above table do not include loans held for sale and loans acquired with deteriorated credit quality and represent balances without adjustments in relation to unearned income, unamortized premiums and deferred loan fees. At March 31, 2021, total loans in the above table do not include loans held for sale and represent balances without adjustments in relation to unearned income, unamortized premiums and deferred loan fees.

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Allowance for Credit Losses

Effective as of April 1, 2020, the MUFG Group adopted new guidance on measurement of credit losses on financial instruments. See Note 1 for more information.

Changes in the allowance for credit losses by portfolio segment for the fiscal years ended March 31, 2019, 2020 and 2021 are shown below:

Fiscal year ended March 31, 2019:	Commercial	Residential	Card	MUAH	Krungsri	Total
	(in millions)					
Allowance for credit losses:						
Balance at beginning of fiscal year	¥ 491,098	¥ 42,546	¥ 32,119	¥ 53,765	¥ 144,596	¥ 764,124
Provision for (reversal of) credit losses	(43,850)	(4,480)	23,809	9,277	49,574	34,330
Charge-offs	76,664	274	24,310	13,224	59,569	174,041
Recoveries collected	17,565	834	932	3,733	21,053	44,117
Net charge-offs	59,099	(560)	23,378	9,491	38,516	129,924
Other ⁽¹⁾	1,466	—	—	(970)	(10,842)	(10,346)
Balance at end of fiscal year	<u>¥ 389,615</u>	<u>¥ 38,626</u>	<u>¥ 32,550</u>	<u>¥ 52,581</u>	<u>¥ 144,812</u>	<u>¥ 658,184</u>

Fiscal year ended March 31, 2020:	Commercial	Residential	Card	MUAH	Krungsri	Other	Total
	(in millions)						
Allowance for credit losses:							
Balance at beginning of fiscal year	¥ 389,615	¥ 38,626	¥ 32,550	¥ 52,581	¥ 144,812	¥ —	¥ 658,184
Provision for (reversal of) credit losses	153,782	(1,028)	26,542	30,825	70,023	41,569	321,713
Charge-offs	85,326	3,227	25,149	27,934	77,907	23,592	243,135
Recoveries collected	26,427	375	1,237	4,173	23,170	8,476	63,858
Net charge-offs	58,899	2,852	23,912	23,761	54,737	15,116	179,277
Other ⁽¹⁾	(2,223)	—	—	(650)	9,528	2,265	8,920
Balance at end of fiscal year	<u>¥ 482,275</u>	<u>¥ 34,746</u>	<u>¥ 35,180</u>	<u>¥ 58,995</u>	<u>¥ 169,626</u>	<u>¥ 28,718</u>	<u>¥ 809,540</u>

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Fiscal year ended March 31, 2021:	Commercial	Residential	Card	MUAH	Krungsri	Other	Total
	(in millions)						
Allowance for credit losses:							
Balance at beginning of fiscal year	¥ 482,275	¥ 34,746	¥ 35,180	¥ 58,995	¥ 169,626	¥ 28,718	¥ 809,540
Effect of adopting new guidance on measurement of credit losses on financial instruments ⁽²⁾	83,828	49,494	14,262	25,037	118,333	32,750	323,704
Provision for credit losses	235,584	1,385	17,876	90,064	90,167	49,134	484,210
Charge-offs	77,904	2,745	24,564	40,376	93,192	51,725	290,506
Recoveries collected	9,262	13	1,463	4,362	23,415	6,567	45,082
Net charge-offs	68,642	2,732	23,101	36,014	69,777	45,158	245,424
Other ⁽¹⁾	1,532	—	—	(6,327)	(14,953)	(3,891)	(23,639)
Balance at end of fiscal year	¥ 734,577	¥ 82,893	¥ 44,217	¥ 131,755	¥ 293,396	¥ 61,553	¥ 1,348,391

Notes:

- (1) Other is principally comprised of gains or losses from foreign exchange translation.
(2) See Note 1 for more information.

Allowance for credit losses and recorded investment in loans by portfolio segment at March 31, 2020 are shown below:

At March 31, 2020:	Commercial	Residential	Card	MUAH	Krungsri	Other	Total
	(in millions)						
Allowance for credit losses:							
Individually evaluated for impairment	¥ 364,079	¥ 12,651	¥ 19,799	¥ 5,977	¥ 30,198	¥ 5,073	¥ 437,777
Collectively evaluated for impairment	108,100	21,130	15,369	53,013	139,401	22,566	359,579
Loans acquired with deteriorated credit quality ⁽²⁾	10,096	965	12	5	27	1,079	12,184
Total	¥ 482,275	¥ 34,746	¥ 35,180	¥ 58,995	¥ 169,626	¥ 28,718	¥ 809,540
Loans:							
Individually evaluated for impairment	¥ 944,988	¥ 92,448	¥ 65,292	¥ 67,719	¥ 98,959	¥ 17,512	¥ 1,286,918
Collectively evaluated for impairment	85,640,827	13,219,677	497,448	9,581,107	6,806,584	1,092,464	116,838,107
Loans acquired with deteriorated credit quality ⁽²⁾	36,972	6,365	2,903	7,007	6,047	7,917	67,211
Total ⁽¹⁾	¥86,622,787	¥13,318,490	¥565,643	¥9,655,833	¥6,911,590	¥1,117,893	¥118,192,236

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Notes:

- (1) Total loans in the above table do not include loans held for sale, and represent balances without adjustments in relation to unearned income, unamortized premiums and deferred loan fees.
- (2) Loans acquired with deteriorated credit quality in the above table include impaired loans which are individually evaluated for impairment.

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 a decrease from charge-offs in the allowance for credit losses amounting to ¥19.4 billion and ¥16.8 billion for the fiscal years ended March 31, 2020 and 2021, respectively, and an increase from recoveries in the allowance for credit losses amounting to ¥15.1 billion for the fiscal year ended March 31, 2019 due to loan disposal activity.

The MUFG Group sold ¥1,769 billion, ¥2,136 billion and ¥1,684 billion of loans within the Commercial segment during the fiscal years ended March 31, 2019, 2020 and 2021, respectively.

The MUFG Group sold ¥586 billion of loans within the MUFG Americas Holdings segment during the fiscal year ended March 31, 2021.

The MUFG Group consolidates certain subsidiaries based on financial information for the year ended December 31 as this date and MUFG's fiscal year which ends on March 31 have been treated as coterminous. For the fiscal year ended March 31, 2020, the effect of recording a provision for credit losses and a provision for off-balance sheet credit instruments as an intervening event primarily due to economic environment triggered by COVID-19 for the three-month period ended March 31, 2020 would have been approximately ¥84 billion and would have resulted in a decrease of ¥58 billion to net income attributable to Mitsubishi UFJ Financial Group. For the fiscal year ended March 31, 2021, the effects of recording a provision for credit losses and a provision for off-balance sheet credit instruments for the three-month period ended March 31, 2021 would have been approximately ¥10 billion and would have resulted in a decrease of ¥5 billion to net income attributable to Mitsubishi UFJ Financial Group.

Collateral Dependent Loans

The MUFG Group uses, as a practical expedient, the fair value of the collateral when recording the net carrying amounts of loans and determining the allowance for credit losses of such loans, for which the repayment is expected to be provided substantially through the operation or sale of the collateral, when the borrower is experiencing financial difficulty based on the assessment as of the reporting date.

As of March 31, 2020 and 2021, for the Commercial, MUFG Americas Holdings, Krungsri and Other segments, collateral relating to these loans comprised primarily of real estate, and to a lesser extent, exchange traded equity securities and deposits etc. For the Residential segment, collateral on these loans was mainly real estate.

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5. PREMISES AND EQUIPMENT

Premises and equipment at March 31, 2020 and 2021 consisted of the following:

	<u>2020</u>	<u>2021</u>
	(in millions)	
Land	¥ 380,477	¥ 379,560
Buildings	782,367	765,341
Equipment and furniture	623,676	564,273
Leasehold improvements	310,957	303,164
Construction in progress	35,594	46,513
Total	<u>2,133,071</u>	<u>2,058,851</u>
Less accumulated depreciation	<u>1,203,542</u>	<u>1,183,859</u>
Premises and equipment-net	<u>¥ 929,529</u>	<u>¥ 874,992</u>

For the fiscal years ended March 31, 2019, 2020 and 2021, the MUFG Group recognized ¥31,345 million, ¥16,575 million and ¥11,424 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, ¥411 million, ¥194 million and ¥773million of impairment losses were recognized for real estate held for sale for the fiscal years ended March 31, 2019, 2020 and 2021, 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.

Impairment losses for the fiscal year ended March 31, 2019 included ¥21,096 million of losses on long-lived assets, including land, buildings, and equipment and furniture, which were held by certain consumer finance subsidiary. See Note 6 for the details of these impairments.

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6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The table below presents the movement in the carrying amount of goodwill by business segment during the fiscal years ended March 31, 2020 and 2021:

	Global Corporate & Investment Banking Business Group	Global Commercial Banking Business Group	Asset Management & Investor Services Business Group	Global Markets Business Group	Total
	(in millions)				
Balance at March 31, 2019:					
Goodwill	¥105,339	¥ 490,883	¥ 27,487	¥2,300	¥ 626,009
Accumulated impairment losses ⁽²⁾	—	(177,750)	(14,368)	—	(192,118)
	105,339	313,133	13,119	2,300	433,891
Goodwill acquired during the fiscal year ⁽¹⁾	34,553	260,639	178,308	—	473,500
Impairment loss	(32,868)	(350,942)	—	—	(383,810)
Foreign currency translation adjustments and other	(1,354)	(12,877)	8,276	—	(5,955)
Balance at March 31, 2020:					
Goodwill	138,538	738,645	214,071	2,300	1,093,554
Accumulated impairment losses	(32,868)	(528,692)	(14,368)	—	(575,928)
	¥105,670	¥ 209,953	¥199,703	¥2,300	¥ 517,626
Goodwill acquired during the fiscal year ⁽¹⁾	1,105	—	4,164	—	5,269
Impairment loss	(30,525)	(117,039)	—	—	(147,564)
Foreign currency translation adjustments and other	456	(10,001)	5,066	—	(4,479)
Balance at March 31, 2021:					
Goodwill	140,099	728,644	223,301	2,300	1,094,344
Accumulated impairment losses	(63,393)	(645,731)	(14,368)	—	(723,492)
	<u>¥ 76,706</u>	<u>¥ 82,913</u>	<u>¥208,933</u>	<u>¥2,300</u>	<u>¥ 370,852</u>

Notes:

- (1) See Note 2 for the goodwill acquired in connection with acquisitions.
- (2) Effective April 1, 2018, the MUFG Group reorganized its business groups. Goodwill originally recognized for Retail Banking Business Group, Corporate Banking Business Group, Trust Assets Business Group and Global Business Group other than MUAH and Krungsri was ¥1,900,019 million, which has been fully impaired before April 1, 2017. As these impairment losses recorded in past before the reorganization of the segment and are irrelevant to the annual impairment test under the new segment, the accumulated impaired loss is not allocated to new business segments after the reorganization of business group.

U.S. GAAP requires 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 process that compares the carrying amount of a reporting unit with its fair value. An impairment loss is recognized to the extent that the carrying amount of a reporting unit exceeds its fair value, but not exceeding the total amount of goodwill allocated to that reporting unit.

For the fiscal year ended March 31, 2019, there were no impairment losses recognized. For the fiscal year ended March 31, 2020, the MUFG Group recognized ¥241,356 million of an impairment of goodwill relating to

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Danamon reporting unit within the Global Commercial Banking Business Group Segment, which is included in impairment of goodwill in the accompanying consolidated statements of income. In determining the acquisition price of Bank Danamon, the results of multiple valuation techniques were considered with an expectation to benefit from Danamon's foothold in the developing local retail and SME segments to deepen its banking franchise in Indonesia. After the acquisition of Danamon by MUFG Bank, Danamon's market capitalization decreased. As a result, the fair value of the reporting unit as an exit price was measured on June 30, 2019 for the quantitative goodwill impairment test, and led to impairment of goodwill as the fair value had fallen below the carrying amount of the reporting unit, including goodwill, reflecting a reduction in stock price as well as changes in the inputs to the valuation techniques in comparison to those considered in determining the acquisition price such as discount rate. The measurement of the fair value of the reporting unit was primarily based on a market approach, and was also corroborated by multiple valuation techniques.

For the fiscal year ended March 31, 2020, the MUFG Group recognized ¥62,157 million of impairment of goodwill relating to Krungsri reporting unit within the Global Commercial Banking Business Group segment. The global economic slowdown led to slowing economic growth in Thailand and the decline of Krungsri's stock price. As a result, the fair value of the reporting unit was measured on December 31, 2019 for the quantitative goodwill impairment test, and led to impairment of goodwill as the fair value had fallen below the carrying amount of the reporting unit. The measurement of the fair value of the reporting unit was primarily based on a market approach, and was also corroborated by multiple valuation techniques.

For the fiscal year ended March 31, 2020, the MUFG Group recognized ¥80,297 million in impairment of goodwill relating to MUAH reporting unit within the Global Commercial Banking Business Group segment and Global Corporate & Investment Banking Business Group segment. Due to the decline in interest rates and slower growth than previously forecasted, cash flow projections for reporting units were lowered. The combination of these events led management to believe that the fair values of certain reporting units were below carrying value. As a result, the fair value of the reporting unit was measured on December 31, 2019 for the quantitative goodwill impairment test, and led to impairment of goodwill with the fair value fallen below the carrying amount of the reporting unit. The MUFG Group estimated the fair value of its reporting units using a combination of the income and the market approaches. The income approach estimates the fair value of the reporting units by discounting management's projections of each reporting unit's cash flows, including a terminal value to estimate the fair value of cash flows beyond the final year of projected results, using a discount rate derived from the Capital Asset Pricing Model. The market approach incorporates comparable public company price to tangible book value and price to earnings multiples.

For the fiscal year ended March 31, 2021, the MUFG Group recognized ¥147,564 million in impairment of goodwill relating to MUAH reporting unit within the Global Commercial Banking Business Group segment and Global Corporate & Investment Banking Business Group segment. Due largely to increases in observed market discount rates, the fair values of the reporting units were lowered. This led management to believe that the fair values of certain reporting unit was below carrying value. As a result, the fair value of the reporting unit was measured for the quantitative goodwill impairment test, and led to impairment of goodwill with the fair value fallen below the carrying amount of the reporting unit. The MUFG Group estimated the fair value of its reporting units using a combination of the income and the market approaches. This goodwill impairment includes the impact of an intervening event due to economic environment triggered by COVID-19 for the three-month period ended March 31, 2020.

The MUFG Group consolidates certain subsidiaries, including MUAH, based on financial information for the year ended December 31 as this date and MUFG's fiscal year which ends on March 31 have been treated as coterminous.

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Other Intangible Assets

The table below presents the gross carrying amount, accumulated amortization and net carrying amount, in total and by major class of other intangible assets at March 31, 2020 and 2021:

	2020			2021		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	(in millions)					
Intangible assets subject to amortization:						
Software	¥2,852,273	¥2,096,635	¥ 755,638	¥3,025,769	¥2,249,340	¥ 776,429
Customer relationships . .	567,886	264,636	303,250	555,796	290,641	265,155
Core deposit intangibles	174,802	100,022	74,780	164,979	102,958	62,021
Trade names	94,748	38,055	56,693	92,422	41,629	50,793
Other	17,374	5,769	11,605	16,136	5,640	10,496
Total	<u>¥3,707,083</u>	<u>¥2,505,117</u>	1,201,966	<u>¥3,855,102</u>	<u>¥2,690,208</u>	1,164,894
Intangible assets not subject to amortization:						
Other ⁽¹⁾			37,560			20,100
Total			<u>¥1,239,526</u>			<u>¥1,184,994</u>

Note:

(1) Intangible assets not subject to amortization includes ¥29,641 million and ¥11,355 million of mortgage servicing rights accounted for at fair value at March 31, 2020 and 2021, respectively.

Intangible assets subject to amortization acquired during the fiscal year ended March 31, 2020 amounted to ¥538,925 million, which primarily consisted of ¥291,821 million of software, ¥44,140 million of core deposit intangibles, ¥180,414 million of customer relationships and ¥16,402 million of trade names. The weighted average amortization periods for these assets are 5 years, 10 years, 17 years and 23 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, 2020 amounted to ¥23,804 million.

Intangible assets subject to amortization acquired during the fiscal year ended March 31, 2021 amounted to ¥255,336 million, which primarily consisted of ¥251,452 million of software and ¥3,765 million of customer relationships. The weighted average amortization periods for these assets are 5 years and 21 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, 2021 amounted to ¥1,960 million.

For the fiscal years ended March 31, 2019, 2020 and 2021, the MUFG Group recognized ¥118,108 million, ¥3,732 million and ¥21,680 million, respectively, of impairment losses for intangible assets whose carrying amounts 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, the estimated value based on appraisals, or market prices.

The impairment loss for the fiscal year ended March 31, 2019 included a loss of ¥137,186 million relating to software held by certain consumer finance subsidiary under the Retail & Commercial Banking Business Group

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segment. The consumer finance subsidiary determined to fundamentally review its current system integration plan, comprehensively taking into account the scale, complexity and the degree of difficulty for the system development to respond rapid changes in payments market in an appropriate manner, at the meeting of the Board of Directors on March 25, 2019. The consumer finance subsidiary considered software under development unlikely to have cost reduction effect and remain in use in the future, and reevaluated the profitability of existing software in relation to its system integration plan. As a result, it was determined that carrying amounts of both system software under development and long lived assets group of credit business, including existing system software, land, buildings, and equipment and furniture exceeded their fair values, and ¥87,596 million and ¥28,494 million of impairment losses were recognized on system software under development and existing software, respectively. In computing the amount of impairment losses, the fair value was primarily estimated using an income approach. The income approach is based on the present value of expected cash flows, which represents market participant perspective. In addition to the impairments on software, ¥21,096 million of impairment losses on long-lived assets, including land, buildings, and equipment and furniture, were recognized.

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:	
2022	¥267,181
2023	228,631
2024	193,748
2025	150,403
2026	100,619

7. LEASE TRANSACTIONS

Lease transactions as a lessee

Right-of-use assets of finance leases, which are principally related to data processing equipment and included in Premises and equipment in the accompanying consolidated balance sheets, amounted to ¥18,497 million and ¥15,218 million at March 31, and 2020 and 2021, respectively. Lease liabilities of these finance leases, which are included in Long-term debt in the accompanying consolidated balance sheets, amounted to ¥25,186 million and ¥20,137 million at March 31, 2020 and 2021, respectively.

Right-of-use assets of operating leases, which are principally related to office space and equipment are included in Other assets in the accompanying consolidated balance sheets, amounted to ¥393,435 million and ¥338,547 million at March 31, 2020 and 2021, respectively. Lease liabilities of these operating leases, which are included in Other liabilities in the accompanying consolidated balance sheets, amounted to ¥482,813 million and ¥476,104 million at March 31, 2020 and 2021, respectively.

For the fiscal year ended March 31, 2021, the MUFG Group recognized ¥56,424 million of impairment losses for Right-of-use assets of operating leases, where recovery of the carrying amount is doubtful. The losses are included in Other non-interest expenses.

The discount rates used in determining the present value of leases are the MUFG Group's incremental borrowing rate, developed based upon each lease's term and currency of payment. The lease term includes options to extend or terminate the lease when it is reasonably certain that the MUFG Group will exercise that option. The MUFG Group has elected to exclude leases with original terms of less than one year from the

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operating lease right-of-use assets and lease liabilities. The MUFG Group's lease arrangements that have not yet commenced as of March 31, 2021 are not material. Variable lease costs did not have a material impact on the MUFG Group's results of operations.

The following table presents profit or loss of lease transactions as a lessee for the fiscal years ended March 31, 2020 and 2021:

	2020	2021
	(in millions)	
Finance lease cost:		
Amortization of right-of-use assets	¥ 5,455	¥ 4,971
Interest on lease liabilities	460	240
Operating lease cost	99,939	91,276

The following table presents information of lease transactions as a lessee for the fiscal years ended March 31, 2020 and 2021:

	2020	2021
	(in millions, except years and percentages)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	¥ 482	¥ 331
Operating cash flows from operating leases	106,103	102,982
Financing cash flows from finance leases	7,090	7,709
Right-of-use assets obtained in exchange for new finance lease liabilities	12,754	3,487
Right-of-use assets obtained in exchange for new operating lease liabilities	46,482	50,564
Weighted-average remaining lease term:		
Finance leases	4.4 years	4.1 years
Operating leases	9.5 years	8.3 years
Weighted-average discount rate:		
Finance leases	0.99%	0.87%
Operating leases	1.16%	0.97%

Maturities of lease liabilities as of March 31, 2021 are as follows:

	Finance leases	Operating leases
	(in millions)	
2022	¥ 7,550	¥ 106,423
2023	5,397	81,112
2024	3,735	60,525
2025	1,585	51,303
2026	748	41,089
2027 and thereafter	2,090	163,125
Total undiscounted cash flows	21,105	503,577
Difference between undiscounted and discounted cash flows	(968)	(27,473)
Amount on balance sheet	¥ 20,137	¥ 476,104

Lease transactions as a lessor

As part of its financing activities, the MUFG Group enters into leasing arrangements with customers. The MUFG Group's leasing operations are conducted through leasing subsidiaries and consist principally of various

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types of data processing equipment, office equipment and transportation equipment. Sales type and direct financing lease are presented in loans. In certain case, the MUFG Group requests lessees to deposit in advance an amount nearly equal or equal to the residual value of leased assets.

The following table presents profit or loss of lease transactions as a lessor for the fiscal years ended March 31, 2020 and 2021:

	<u>2020</u>	<u>2021</u>
	(in millions)	
Sales type and direct financing leases:		
Finance income on net investment	¥ 119,010	¥ 122,810
Operating leases:		
Lease income	<u>7,856</u>	<u>3,663</u>
Total	<u>¥ 126,866</u>	<u>¥ 126,473</u>

Finance income on net investment is included in Interest income—Loans, including fees in the consolidated statements of income. Lease income from operating lease transactions is included in Other non-interest income in the consolidated statements of income.

The following table presents the components of sales type and direct financing leases transactions as of March 31, 2020 and 2021.

	<u>2020</u>	<u>2021</u>
	(in millions)	
Lease receivables (undiscounted)	¥2,193,360	¥1,913,852
Adjustments:		
Discounted unguaranteed residual value	15,515	15,435
Initial direct cost on sales type and direct financing leases	29,562	27,869
Deferred selling profit	<u>(364,206)</u>	<u>(313,784)</u>
Net investment in sales type and direct financing leases	<u>¥1,874,231</u>	<u>¥1,643,372</u>

The following table presents maturity of the lease payment receivables of sales type and direct financing lease transactions as of March 31, 2021:

	<u>Lease receivables</u>
	(in millions)
2022	¥ 460,067
2023	417,653
2024	352,767
2025	270,563
2026	188,168
2027 and thereafter	<u>224,634</u>
Total undiscounted cash flows	1,913,852
Difference between undiscounted cash flows and the lease receivables recognized on balance sheet	<u>(270,480)</u>
Amount on balance sheet	<u>¥1,643,372</u>

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8. INCOME TAXES

Income before Income Tax Expense

Income before income tax expense by jurisdiction for the fiscal years ended March 31, 2019, 2020 and 2021 was as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
		(in millions)	
Domestic income	¥228,018	¥ 89,440	¥ 575,101
Foreign income	642,824	343,780	1,033,241
Total	<u>¥870,842</u>	<u>¥ 433,220</u>	<u>¥1,608,342</u>

Income Tax Expense (Benefit)

The detail of current and deferred income tax expense (benefit) for the fiscal years ended March 31, 2019, 2020 and 2021 was as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
		(in millions)	
Current:			
Domestic	¥ 57,303	¥ 28,128	¥ 95,183
Foreign	123,730	147,344	83,492
Total	<u>181,033</u>	<u>175,472</u>	<u>178,675</u>
Deferred:			
Domestic	(32,746)	(18,949)	310,490
Foreign	(15,050)	(42,018)	(44,217)
Total	<u>(47,796)</u>	<u>(60,967)</u>	<u>266,273</u>
Income tax expense	133,237	114,505	444,948
Income tax expense (benefit) reported in Accumulated OCI relating to:			
Investment securities	15,590	(29,747)	1,146
Debt valuation adjustments	4,293	23,908	(36,792)
Derivatives qualifying for cash flow hedges	(1,845)	4,012	12,244
Defined benefit plans	(38,229)	(57,685)	139,883
Foreign currency translation adjustments	15,148	(20,693)	(3,368)
Total	<u>(5,043)</u>	<u>(80,205)</u>	<u>113,113</u>
Total	<u>¥128,194</u>	<u>¥ 34,300</u>	<u>¥ 558,061</u>

The MUFG Group files tax returns on a consolidated basis for corporate income taxes within Japan. A consolidated basis for corporate income taxes results in the reporting of taxable income or loss based upon the combined profits or losses of the parent company and its wholly-owned domestic subsidiaries.

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 30.6%, 30.6%, and 30.6% for the fiscal years ended March 31, 2019, 2020 and 2021, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

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A reconciliation of the effective income tax rates reflected in the accompanying consolidated statements of income to the combined normal effective statutory tax rates for the fiscal years ended March 31, 2019, 2020 and 2021 is as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Combined normal effective statutory tax rate	30.6%	30.6%	30.6%
Nondeductible expenses	0.5	1.2	0.3
Impairment of goodwill	—	26.1	2.4
Foreign tax credit and payments	(3.3)	(9.2)	(0.9)
Lower tax rates applicable to income of subsidiaries	(2.5)	(3.2)	(1.0)
Change in valuation allowance	(1.4)	7.9	(0.9)
Realization of previously unrecognized tax effects of subsidiaries	—	(19.8) ⁽¹⁾	0.0
Nontaxable dividends received	(9.1)	(15.6)	(1.9)
Undistributed earnings of subsidiaries	0.6	3.6	0.0
Tax and interest expense for uncertainty in income taxes	0.6	0.0	(0.1)
Noncontrolling interest income (loss)	0.2	(0.1)	0.1
Effect of changes in tax laws	0.0	—	(0.1)
Expiration of loss carryforward	0.1	1.9	0.1
Other—net	<u>(1.0)</u>	<u>3.0</u>	<u>(0.9)</u>
Effective income tax rate	<u>15.3%</u>	<u>26.4%</u>	<u>27.7%</u>

Note:

- (1) In October 2019, a wholly owned subsidiary of the MUFG Group was sold. The sale resulted in the realization of tax benefits that were not previously recognized as deferred tax assets, resulting in a ¥85,588 million reduction of income tax expense and a 19.8% reduction in the effective tax rate for the fiscal year ended March 31, 2020.

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, 2020 and 2021 were as follows:

	<u>2020</u>	<u>2021</u>
	(in millions)	
Deferred tax assets:		
Allowance for credit losses	¥ 317,770	¥ 462,369
Operating loss carryforwards	94,326	97,844
Loans	2,022	790
Accrued liabilities and other	277,807	300,942
Premises and equipment	150,116	117,322
Derivative financial instruments	96,761	69,039
Defined benefit plans	57,836	—
Obligations under operating leases	133,812	132,443
Valuation allowance	<u>(151,530)</u>	<u>(137,503)</u>
Total deferred tax assets	<u>978,920</u>	<u>1,043,246</u>

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	2020	2021
	(in millions)	
Deferred tax liabilities:		
Investment securities (including trading account assets at fair value under the fair value option)	788,614	1,017,131
Intangible assets	87,063	70,575
Lease transactions	54,349	48,519
Defined benefit plans	—	81,282
Investments in subsidiaries and affiliates	279,583	338,713
Right-of-use assets of operating leases	106,995	100,260
Other	90,653	92,306
Total deferred tax liabilities	1,407,257	1,748,786
Net deferred tax assets (liabilities)	¥ (428,337)	¥ (705,540)

The valuation allowance was provided primarily against deferred tax assets recorded at MUFG and its subsidiaries with operating loss carryforwards. The valuation allowance is determined to reduce the measurement of deferred tax assets not expected to be realized. Management considers all available evidence, both positive and negative, to determine whether the valuation allowance is necessary based on the weight of that evidence. Management determines the amount of the valuation allowance based on future reversals of existing taxable temporary differences and future taxable income exclusive of reversing 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, 2020 and 2021 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, 2020 and 2021, the undistributed earnings of such foreign subsidiaries amounted to approximately ¥67,791 million and ¥105,934 million, respectively. 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 the plan 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.

Furthermore, under the Japanese tax law, 95% of a dividend received from a foreign company in which a domestic company has held generally at least 25% of the outstanding shares for a continuous period of six months or more ending on the date on which the dividend is declared can be excluded from the domestic company's taxable income. Therefore, if undistributed earnings of certain foreign subsidiaries are repatriated through dividends, only 5% of the amount of dividends will be included in taxable income.

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Operating Loss and Tax Credit Carryforwards

At March 31, 2021, the MUFG Group had operating loss carryforwards for corporate tax of ¥213,108 million and tax credit carryforwards of ¥62,184 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:		
2022	¥ 15,457	¥ 650
2023	5,575	8,191
2024	5,209	6,705
2025	84,080	10
2026	59,047	37
2027	1,722	70
2028 and thereafter	17,288	41,756
No definite expiration date	<u>24,730</u>	<u>4,765</u>
Total	<u>¥213,108</u>	<u>¥62,184</u>

Uncertainty in Income Tax

The following is a roll-forward of the MUFG Group's unrecognized tax benefits for the fiscal years ended March 31, 2019, 2020 and 2021:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(in millions)		
Balance at beginning of fiscal year	¥12,917	¥19,160	¥19,249
Gross amount of increases for current year's tax positions	313	399	202
Gross amount of decreases for current year's tax positions	—	—	(1,919)
Gross amount of increases for prior years' tax positions	8,836	212	489
Gross amount of decreases for prior years' tax positions	(1,090)	—	(2,329)
Net amount of changes relating to settlements with tax authorities	—	(81)	—
Decreases due to lapse of applicable statutes of limitations	(1,540)	(297)	(116)
Foreign exchange translation and other	<u>(276)</u>	<u>(144)</u>	<u>(1,747)</u>
Balance at end of fiscal year	<u>¥19,160</u>	<u>¥19,249</u>	<u>¥13,829</u>

The MUFG Group classifies interest and penalties, if applicable, related to income taxes as Income tax expense. Accrued 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 accompanying consolidated financial statements for the fiscal years ended March 31, 2019, 2020 and 2021:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(in millions)		
Balance at beginning of fiscal year	¥ 4,564	¥ 3,056	¥ 2,612
Total interest and penalties in the consolidated statements of income	(1,655)	(398)	(398)
Total cash settlements, foreign exchange translation and other	<u>147</u>	<u>(46)</u>	<u>203</u>
Balance at end of fiscal year	<u>¥ 3,056</u>	<u>¥ 2,612</u>	<u>¥ 2,417</u>

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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	2020 and forward
United States—Federal	2017 and forward
United States—California	2015 and forward
Indonesia	2017 and forward

The MUFG Group is currently under continuous examinations by the tax authorities in various domestic and foreign jurisdictions and many of these examinations are resolved every year. The unrecognized tax benefits will decrease since resolved items will be removed from the balance regardless of whether their resolution results in payment or recognition. It is reasonably possible that the unrecognized tax benefits will not increase or decrease during the next twelve months.

9. PLEDGED ASSETS AND COLLATERAL

Pledged Assets

At March 31, 2021, assets mortgaged, pledged, or otherwise subject to lien were as follows:

	<u>2021</u> <u>(in millions)</u>
Trading account securities	¥ 9,966,574
Investment securities	20,250,998
Loans	12,289,789
Other	23,745
Total	<u>¥42,531,106</u>

The above pledged assets were classified by type of liabilities to which they related as follows:

	<u>2021</u> <u>(in millions)</u>
Deposits	¥ 138,491
Payables under repurchase agreements and securities lending transactions	13,118,547
Other short-term borrowings and long-term debt	29,243,996
Other	30,072
Total	<u>¥42,531,106</u>

At March 31, 2021, certain investment securities, principally Japanese national government and Japanese government agency bonds, loans, and other assets with a combined carrying value of ¥20,818,106 million were pledged for acting as a collection agent of public funds, for settlement of exchange at the Bank of Japan and Japanese Banks' Payment Clearing Network, for derivative transactions and for certain other purposes.

The MUFG Group engages in on-balance sheet securitizations. These securitizations of mortgage and apartment loans, which 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.

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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 and subsidiaries engaged in banking businesses in foreign countries. At March 31, 2020 and 2021 the reserve funds required to be maintained by the MUFG Group, which are included in Cash and due from banks and Interest-earning deposits in other banks, were ¥2,606,464 million and ¥2,881,778 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 CDs.

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 accompanying 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 accompanying consolidated balance sheets. At March 31, 2021, the MUFG Group pledged ¥47,853 billion of assets that may not be sold or repledged by the secured parties.

Certain banking subsidiaries accept collateral for commercial loans and certain banking transactions under a standardized agreement with customers, which provides that these banking subsidiaries may require the customers to provide collateral or guarantees with respect to the loans and other banking transactions. Financial assets pledged as collateral are generally negotiable and transferable instruments, and such negotiability and transferability are 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, 2020 and 2021, the fair value of the collateral accepted by the MUFG Group that is permitted to be sold or repledged was ¥38,858 billion and ¥30,983 billion, respectively, of which ¥32,095 billion and ¥23,478 billion, respectively, was sold or repledged.

At March 31, 2020 and 2021, the cash collateral pledged for derivative transactions, which is included in Other assets, was ¥1,696,108 million and ¥2,005,136 million, respectively, and the cash collateral received for derivative transactions, which is included in Other liabilities, was ¥1,125,305 million and ¥909,641 million, respectively.

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10. DEPOSITS

The balances of time deposits, including CDs, issued in amounts of ¥10 million (approximately U.S.\$ 90 thousand at the Federal Reserve Bank of New York's noon buying rate on March 31, 2021) or more with respect to domestic deposits and issued in amounts of U.S.\$100,000 or more with respect to foreign deposits were ¥23,957,076 million and ¥23,329,855 million, respectively, at March 31, 2020, and ¥25,219,926 million and ¥23,673,512 million, respectively, at March 31, 2021.

The maturity information at March 31, 2021 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	¥32,811,126	¥23,871,425
Due after one year through two years	4,345,312	460,277
Due after two years through three years	2,454,117	204,050
Due after three years through four years	610,596	109,874
Due after four years through five years	668,397	31,178
Due after five years	757,934	68,309
Total	<u>¥41,647,482</u>	<u>¥24,745,113</u>

11. CALL MONEY AND FUNDS PURCHASED

A summary of funds transactions for the fiscal years ended March 31, 2020 and 2021 is as follows:

	<u>2020</u>	<u>2021</u>
	(in millions, except percentages and days)	
Outstanding at end of fiscal year:		
Amount	¥ 3,668,922	¥ 2,353,830
Principal range of maturities	1 day to 30 days	1 day to 30 days
Weighted average interest rate	0.04%	0.04%

12. DUE TO TRUST ACCOUNT, SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Mitsubishi UFJ Trust and Banking 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 Mitsubishi UFJ Trust and Banking 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 at March 31, 2020 and 2021 is as follows:

	<u>2020</u>	<u>2021</u>
	(in millions, except percentages)	
Amount outstanding at end of fiscal year	¥3,377,747	¥3,891,831
Weighted average interest rate on outstanding balance at end of fiscal year	0.00%	0.00%

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At March 31, 2020 and 2021, the MUFG Group had unused lines of credit for financing amounting to ¥7,519,582 million and ¥4,408,245 million, respectively. The amounts principally consist of pooled collateral which are used to cover shortages in the Bank of Japan account and to meet liquidity needs. The MUFG Group may borrow from the Bank of Japan on demand up to the total amount of collateral eligible for credit extension.

Other short-term borrowings at March 31, 2020 and 2021 were comprised of the following:

	<u>2020</u>	<u>2021</u>
	(in millions, except percentages)	
Domestic offices:		
Commercial paper	¥ 1,160,758	¥ 1,207,610
Borrowings from the Bank of Japan	9,800,800	9,238,209
Borrowings from other financial institutions	191,453	141,060
Other	<u>170,044</u>	<u>126,060</u>
Total domestic offices	<u>11,323,055</u>	<u>10,712,939</u>
Foreign offices:		
Commercial paper	3,836,459	3,281,866
Borrowings from other financial institutions	631,502	113,874
Short-term debentures	24,009	7,775
Other	<u>241,168</u>	<u>71,306</u>
Total foreign offices	<u>4,733,138</u>	<u>3,474,821</u>
Total	16,056,193	14,187,760
Less unamortized discount	<u>711</u>	<u>37</u>
Other short-term borrowings—net	<u>¥16,055,482</u>	<u>¥14,187,723</u>
Weighted average interest rate on outstanding balance at end of fiscal year . . .	0.67%	0.06%

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Long-term debt (with original maturities of more than one year) at March 31, 2020 and 2021 was comprised of the following:

	2020	2021
	(in millions)	
MUFG:		
Obligations under finance leases	¥ 6,552	¥ 4,989
Unsubordinated debt ⁽¹⁾ :		
Fixed rate bonds, payable in US dollars, due 2021-2039, principally 0.85%-4.29%	3,864,822	4,224,401
Fixed rate bonds, payable in Euro, due 2023-2033, principally 0.34%-1.75%	408,825	482,856
Fixed rate bonds, payable in other currencies, due 2024-2029, principally 2.08%-4.05% ⁽²⁾	28,382	34,262
Floating rate bonds, payable in US dollars, due 2021-2023, principally 0.87%-1.24%	734,254	669,464
Floating rate bonds, payable in Euro, due 2023, principally 0.01%	41,843	45,430
Floating rate bonds, payable in other currencies, due 2024, principally 1.26% ⁽²⁾	26,436	33,744
Total	5,104,562	5,490,157
Subordinated debt ⁽¹⁾ :		
Fixed rate bonds, payable in Japanese yen, due 2024-2031, principally 0.37%-1.39%	685,663	776,886
Adjustable rate bonds, payable in Japanese yen, due 2026-2031, principally 0.29%-0.58%	1,043,336	1,072,209
Adjustable rate bonds, payable in Japanese yen, no stated maturity, principally 0.82%-2.50%	1,756,087	1,704,816
Adjustable rate borrowings, payable in Japanese yen, due 2028-2029, principally 0.30%-0.46%	47,500	31,500
Adjustable rate borrowings, payable in Japanese yen, no stated maturity, principally 0.85%-1.17%	66,649	87,085
Floating rate bonds, payable in Japanese yen, no stated maturity, principally 3.02%	3,500	—
Floating rate borrowings, payable in Japanese yen, due 2025-2028, principally 0.57%-0.79%	86,000	86,000
Total	3,688,735	3,758,496
Total	8,799,849	9,253,642
MUFG Bank:		
Obligations under finance leases	¥ 5,636	¥ 4,628
Unsubordinated debt ⁽¹⁾ :		
Fixed rate bonds, payable in Japanese yen, due 2021-2027, principally 0.36%-2.34%	141,700	123,300
Fixed rate bonds, payable in US dollars, due 2021-2050, principally 0.00%-4.70%	1,104,504	1,041,115
Fixed rate bonds, payable in Euro, due 2022-2033, principally 0.88%-1.81%	108,252	109,619
Fixed rate bonds, payable in other currencies, due 2047, principally 0.00% ⁽²⁾	17,620	3,100
Fixed rate borrowings, payable in Japanese yen, due 2021-2028, principally 0.00%-0.25%	10,440,217	18,689,074
Fixed rate borrowings, payable in US dollars, due 2030, principally 2.93%	8,367	7,833
Floating rate borrowings, payable in US dollars, due 2021-2031, principally 0.20%-4.11%	897,170	721,941
Floating rate borrowings, payable in Euro, due 2021-2036, principally 0.00%-0.40%	102,123	111,611
Total	12,819,953	20,807,593
Subordinated debt ⁽¹⁾ :		
Fixed rate bonds, payable in Japanese yen, due 2021-2031, principally 1.39%-2.91%	490,590	350,900
Fixed rate borrowings, payable in Japanese yen, due 2022-2035, principally 0.31%-2.24%	73,400	73,400
Adjustable rate borrowings, payable in Japanese yen, due 2028, principally 0.98%	12,000	10,000
Adjustable rate borrowings, payable in Japanese yen, no stated maturity, principally 2.67%-3.52%	13,500	—
Floating rate borrowings, payable in Japanese yen, due 2027, principally 0.12%	15,000	15,000
Total	604,490	449,300
Obligations under loan securitization transaction accounted for as secured borrowings due 2021-2080, principally 0.11%-8.00%	791,139	618,072
Total	14,221,218	21,879,593

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	2020	2021
	(in millions)	
Other subsidiaries:		
Obligations under finance leases	¥ 12,998	¥ 10,520
Unsubordinated debt ⁽¹⁾ :		
Fixed rate borrowings, bonds and notes, payable in Japanese yen, due 2021-2051, principally 0.00%-56.00%	940,691	878,276
Fixed rate borrowings, bonds and notes, payable in US dollars, due 2021-2036, principally 0.00%-57.00%	1,106,465	885,950
Fixed rate borrowings, bonds and notes, payable in Euro, due 2021-2030, principally 0.00%-0.26%	2,965	2,719
Fixed rate borrowings, bonds and notes, payable in Thai baht, due 2021-2027, principally 0.00%-7.15%	387,799	349,666
Fixed rate borrowings, bonds and notes, payable in other currencies, due 2021-2037, principally 0.00%-10.25% ⁽²⁾	360,558	320,663
Floating/Adjustable rate borrowings, bonds and notes, payable in Japanese yen, due 2021- 2051, principally 0.00%-65.00%	1,259,427	1,007,882
Floating rate borrowings, bonds and notes, payable in US dollars, due 2021-2030, principally 0.00%-60.00%	378,217	174,997
Floating rate borrowings, bonds and notes, payable in Euro, due 2021-2023, principally 0.00%-4.00%	835	1,092
Floating/Adjustable rate borrowings, bonds and notes, payable in other currencies, due 2020- 2024, principally 0.00%-7.30% ⁽²⁾	6,804	—
Total	4,443,761	3,621,245
Subordinated debt ⁽¹⁾ :		
Fixed rate borrowings, bonds and notes, payable in Japanese yen, due 2021-2030, principally 1.36%-2.61%	223,095	184,894
Fixed rate borrowings, bonds and notes, payable in US dollars, due 2022-2030, principally 7.50%-9.90%	737	1,212
Fixed rate borrowings, bonds and notes, payable in Thai baht, due 2027-2029, principally 3.40%-3.90%	220,756	209,189
Fixed rate borrowings, bonds and notes, payable in other currencies, due 2021, principally 0.00% ⁽²⁾	7,179	6,915
Floating rate borrowings, bonds and notes, payable in Japanese yen, due 2021, principally 0.73%	2,000	—
Floating rate borrowings, bonds and notes, payable in US dollars, due 2036, principally 1.95%	4,575	3,820
Total	458,342	406,030
Obligations under loan securitization transaction accounted for as secured borrowings due 2021- 2022, principally 1.84%-2.25%	6,453	11
Total	4,921,554	4,037,806
Total	27,942,621	35,171,041
Debt issuance cost	¥ (15,858)	¥ (13,390)
Total	¥27,926,763	¥35,157,651

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 Australian dollar, British pound, Indonesian rupiah, Brazilian real, Russian ruble etc., excluding Japanese yen, US dollars, Euro and Thai baht have been summarized into the “Other currencies” classification.

The MUFG Group uses derivative financial instruments to manage its interest rate and currency exposures for certain debts. 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

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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, 2020 and 2021.

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.

The following is a summary of maturities of long-term debt subsequent to March 31, 2021:

	<u>MUFG</u>	<u>BK</u>	<u>Other subsidiaries</u>	<u>Total</u>
	(in millions)			
Fiscal year ending March 31:				
2022	¥ 792,201	¥ 2,014,430	¥1,065,677	¥ 3,872,308
2023	896,760	644,383	1,025,627	2,566,770
2024	752,246	1,073,761	558,907	2,384,914
2025	979,603	16,530,494	272,391	17,782,488
2026	513,597	181,556	195,186	890,339
2027 and thereafter	<u>5,319,235</u>	<u>1,434,969</u>	<u>920,018</u>	<u>7,674,222</u>
Total	<u>¥9,253,642</u>	<u>¥21,879,593</u>	<u>¥4,037,806</u>	<u>¥35,171,041</u>

New Issuances of Bonds for Basel III

For the fiscal year ended March 31, 2021, the MUFG Group issued to institutional investors in Japan ¥60,000 million aggregate principal amount of unsecured perpetual subordinated Additional Tier 1 notes. These notes are subject to the MUFG Group's discretion to cease interest payments and a write-down of the principal upon the occurrence of certain events, including when the MUFG Group's Common Equity Tier 1 ratio declines below 5.125%, when the MUFG Group is deemed to be at risk of becoming non-viable or when the MUFG Group becomes subject to bankruptcy proceedings.

For the fiscal year ended March 31, 2021, the MUFG Group issued \$4,500 million (approximately ¥498,195 million), €500 million (approximately ¥64,900 million) of bonds with an intent to count towards Total Loss-Absorbing Capacity ("TLAC") to global institutional investors to meet the TLAC requirement under the standards issued by the Financial Stability Board. The MUFG Group is required to maintain external TLAC ratios of 16% on a risk-weighted assets basis and 6% on a leverage exposure basis as of March 31, 2021 and 18% on a risk-weighted assets basis and 6.75% on a leverage exposure basis from March 31, 2022.

13. SEVERANCE INDEMNITIES AND PENSION PLANS

Defined Benefit Pension Plans

The MUFG Group has funded non-contributory defined benefit pension plans, which cover substantially all of its employees and mainly provide for lifetime annuity payments commencing at age 65 ("pension benefits") based on eligible compensation at the time of severance, rank, years of service and other factors.

MUFG Bank and certain domestic subsidiaries, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings, Mitsubishi UFJ NICOS and some subsidiaries of MUFG have non-contributory Corporate Defined Benefit Pension plans which provide benefits to all their domestic employees.

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

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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 SIPs 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.

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, 2019, 2020 and 2021 include the following components:

	Domestic subsidiaries			Foreign offices and subsidiaries					
	2019	2020	2021	2019		2020		2021	
	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	¥ 48,352	¥ 49,194	¥ 46,861	¥ 12,395	¥ 525	¥ 14,406	¥ 366	¥ 13,947	¥ 229
Interest cost on projected									
benefit obligation	13,504	10,969	11,091	14,958	1,046	17,370	1,159	14,295	793
Expected return on plan									
assets	(74,270)	(74,744)	(71,078)	(33,266)	(2,314)	(31,382)	(1,882)	(31,161)	(2,118)
Amortization of net actuarial									
loss	731	5,641	17,019	9,993	707	8,685	1,162	11,560	208
Amortization of prior service									
cost	(1,210)	(1,204)	(1,205)	(3,039)	(2,020)	(2,633)	(1,881)	(2,614)	(448)
Loss (gain) on settlements and									
curtailment	(5,980)	(2,366)	(4,605)	49	—	223	—	30	—
Net periodic benefit cost									
(income)	<u>¥(18,873)</u>	<u>¥(12,510)</u>	<u>¥ (1,917)</u>	<u>¥ 1,090</u>	<u>¥(2,056)</u>	<u>¥ 6,669</u>	<u>¥(1,076)</u>	<u>¥ 6,057</u>	<u>¥(1,336)</u>

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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					
	2019	2020	2021	2019		2020		2021	
	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 . . .	0.76%	0.61%	0.63%	3.19%	3.27%	3.80%	3.87%	2.94%	2.72%
Discount rates in determining benefit obligation	0.61	0.63	0.71	3.87	3.99	3.05	2.96	2.34	2.23
Rates of increase in future compensation level for determining expense . . .	3.21	3.21	3.46	4.65	—	5.01	—	5.12	—
Rates of increase in future compensation level for determining benefit obligation	3.21	3.46	3.46	5.01	—	5.12	—	5.09	—
Expected rates of return on plan assets	2.83	2.89	2.93	6.70	7.50	6.25	7.00	6.19	7.00
Cash balance crediting rate for determining expense	2.46	2.46	2.46	2.74	—	3.03	—	2.39	—
Cash balance crediting rate for determining benefit obligation	2.46	2.46	2.46	3.03	—	2.39	—	1.62	—

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:

	MUAH		Other than MUAH	
	2020 ⁽¹⁾	2021 ⁽¹⁾	2020 ⁽¹⁾	2021 ⁽¹⁾
Initial trend rate	4.14%	4.17%	6.50%	6.50%
Ultimate trend rate	3.77%	3.78%	4.50%	4.50%
Year the rate reaches the ultimate trend rate	2027	2028	2027	2028

Note:

(1) Fiscal years of MUFG Americas Holdings and foreign subsidiaries end on December 31. Therefore, the above tables present the rates and amounts at December 31, 2019 and 2020, respectively.

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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, 2020 and 2021:

	<u>Domestic subsidiaries</u>		<u>Foreign offices and subsidiaries</u>			
	<u>2020</u>	<u>2021</u>	<u>2020</u>		<u>2021</u>	
	<u>Non-contributory pension benefits and SIP</u>	<u>Non-contributory pension benefits and SIP</u>	<u>Pension benefits</u>	<u>Other benefits</u>	<u>Pension benefits</u>	<u>Other benefits</u>
	(in millions)					
Change in benefit obligation:						
Benefit obligation at beginning of fiscal year	¥1,841,884	¥1,807,905	¥469,080	¥31,510	¥547,013	¥32,383
Service cost	49,194	46,861	14,406	366	13,947	229
Interest cost	10,969	11,091	17,370	1,159	14,295	793
Plan participants' contributions	—	—	28	455	30	440
Acquisitions/ Divestitures	(94)	(2,845)	13,000	—	(260)	—
Amendments	—	(22)	3,721	—	(1,187)	—
Actuarial loss (gain)	(3,053)	(21,558)	58,831 ⁽¹⁾	1,648	51,724 ⁽¹⁾	1,506
Benefits paid	(66,771)	(65,730)	(21,120)	(2,326)	(20,816)	(2,488)
Lump-sum payment	(24,224)	(22,219)	(2,284)	—	(2,825)	—
Translation adjustments and other	—	—	(6,019)	(429)	(20,968)	(1,509)
Benefit obligation at end of fiscal year	<u>1,807,905</u>	<u>1,753,483</u>	<u>547,013</u>	<u>32,383</u>	<u>580,953</u>	<u>31,354</u>
Change in plan assets:						
Fair value of plan assets at beginning of fiscal year	2,594,788	2,432,847	493,495	28,258	559,508	31,919
Actual return on plan assets	(123,802)	472,185	92,087	5,695	82,615	5,165
Employer contributions	28,653	21,151	2,887	186	3,896	181
Acquisitions/ Divestitures	(21)	(2,440)	791	—	—	—
Plan participants' contributions	—	—	28	455	30	440
Benefits paid	(66,771)	(65,730)	(21,120)	(2,326)	(20,816)	(2,488)
Translation adjustments and other	—	—	(8,660)	(349)	(20,829)	(1,868)
Fair value of plan assets at end of fiscal year	<u>2,432,847</u>	<u>2,858,013</u>	<u>559,508</u>	<u>31,919</u>	<u>604,404</u>	<u>33,349</u>
Amounts recognized in the consolidated balance sheets:						
Prepaid benefit cost	¥ 643,520	¥1,122,507	¥ 81,301	¥ 4,378	¥ 94,445	¥ 6,754
Accrued benefit cost	(18,577)	(17,977)	(68,806)	(4,842)	(70,994)	(4,759)
Net amount recognized	<u>¥ 624,943</u>	<u>¥1,104,530</u>	<u>¥ 12,495</u>	<u>¥ (464)</u>	<u>¥ 23,451</u>	<u>¥ 1,995</u>

Note:

- (1) Significant gains and losses related to changes in the benefit obligation for the fiscal years ended March 31, 2020 and 2021 primarily result from changes in the discount rate.

The aggregated accumulated benefit obligations of these plans at March 31, 2020 and 2021 were as follows:

	<u>Domestic subsidiaries</u>		<u>Foreign offices and subsidiaries</u>	
	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>
	(in millions)			
Aggregated accumulated benefit obligations	¥1,773,042	¥1,719,798	¥523,078	¥554,375

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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, 2020 and 2021 were as follows:

	Domestic subsidiaries		Foreign offices and subsidiaries	
	2020	2021	2020	2021
	(in millions)			
Projected benefit obligations	¥ 26,442	¥ 24,527	¥ 89,829	¥ 92,527
Accumulated benefit obligations	26,442	24,527	67,609	68,720
Fair value of plan assets	7,980	6,738	21,014	21,532

MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings, 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, 2019, 2020 and 2021 were ¥9,325 million, ¥13,883 million and ¥16,716 million, respectively.

The following table presents the amounts recognized in Accumulated OCI of the MUFG Group at March 31, 2020 and 2021:

	Domestic subsidiaries		Foreign offices and subsidiaries			
	2020	2021	2020		2021	
	Pension benefits and SIP	Pension benefits and SIP	Pension benefits	Other benefits	Pension benefits	Other benefits
	(in millions)					
Net actuarial loss	¥ 437,254	¥ 1,557	¥114,167	¥ 5,164	¥ 96,807	¥ 3,255
Prior service cost	(4,255)	(3,072)	(7,875)	(2,304)	(6,167)	(1,869)
Gross amount recognized in Accumulated OCI . . .	432,999	(1,515)	106,292	2,860	90,640	1,386
Taxes	(174,915)	(41,639)	(27,974)	(874)	(23,900)	(489)
Net amount recognized in Accumulated OCI	¥ 258,084	¥ (43,154)	¥ 78,318	¥ 1,986	¥ 66,740	¥ 897

The following table presents OCI for the fiscal years ended March 31, 2020 and 2021:

	Domestic subsidiaries		Foreign offices and subsidiaries			
	2020	2021	2020		2021	
	Pension benefits and SIP	Pension benefits and SIP	Pension benefits	Other benefits	Pension benefits	Other benefits
	(in millions)					
Net actuarial loss (gain) arising during the year . . .	¥ 195,492	¥(423,283)	¥ (1,732)	¥(2,166)	¥ 319	¥(1,541)
Prior service cost arising during the year	—	(22)	3,722	—	(1,187)	—
Losses (gains) due to amortization:						
Net actuarial loss	(5,641)	(17,019)	(8,685)	(1,162)	(11,560)	(208)
Prior service cost	1,204	1,205	2,633	1,881	2,614	448
Curtailment and settlement	2,366	4,605	(223)	—	(30)	—
Foreign currency translation adjustments	—	—	(1,125)	(58)	(5,808)	(173)
Total changes in Accumulated OCI	¥ 193,421	¥(434,514)	¥ (5,410)	¥(1,505)	¥(15,652)	¥(1,474)

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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 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, 2021 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	36.3%	0.3%	—%
Japanese debt securities	28.6	—	—
Non-Japanese equity securities	15.7	44.9	63.0
Non-Japanese debt securities	13.9	43.0	27.0
Real estate	1.4	10.0	10.0
Short-term assets	4.1	1.8	—
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 follows:

- 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

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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.

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:			
2022	¥ 82,295	¥ 23,248	¥1,976
2023	80,857	24,078	2,012
2024	81,015	25,322	2,032
2025	80,709	26,245	2,004
2026	79,277	28,020	1,950
Thereafter (2027-2031)	387,189	173,667	8,272

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 fair value hierarchy described in Note 31.

Government bonds and other debt securities

When quoted prices are available in an active market, the MUFG Group adopts the quoted prices to measure the fair value of securities and such securities are classified in Level 1 of the fair value hierarchy. Level 1 securities include Japanese government bonds, most non-Japanese government bonds and certain corporate bonds. When quoted prices are available but not traded actively, such securities are classified in Level 2 of the fair value 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 fair value hierarchy. Level 2 securities include certain non-Japanese government bonds, official institution 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 fair value hierarchy. Such Level 3 securities mainly consist of non-Japanese corporate bonds.

Marketable equity securities

When quoted prices are available in an active market, the MUFG Group adopts the quoted prices to measure the fair value of marketable equity securities and such securities are classified in Level 1 of the fair value hierarchy. When quoted prices are available but not traded actively, such securities are classified in Level 2 of the fair value hierarchy.

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 redeemable at their net asset values. The fair values of Japanese pooled funds are measured at their net asset values per share (or its equivalent) as a practical expedient.

Other investment funds

Other investment funds include mutual funds, private investments funds, common collective funds, private equity funds and real estate funds. The listed investment funds or mutual funds are valued at quoted prices and classified in Level 1 or Level 2 of the fair value hierarchy. When there is no available market quotation, the fair values are generally determined at net asset values per share (or its equivalent) as a practical expedient. Other investment funds classified in Level 3 of the fair value hierarchy consist of certain real estate funds whose fair values are not measured at their net asset values but 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 of the fair value 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 fair value hierarchy depending on observability of the inputs to measure their fair values.

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the fair value of each major category of plan assets as of March 31, 2020 and 2021:

Pension benefits and SIP Investments:

At March 31, 2020	Domestic subsidiaries				Foreign offices and subsidiaries			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets category	(in millions)							
Japanese government bonds	¥ 147,926	¥ —	¥ —	¥ 147,926	¥ —	¥ —	¥ —	¥ —
Non-Japanese government bonds	—	—	—	—	42,135	5,185	—	47,320
Other debt securities	7,014	12,113	325	19,452	—	105,096	—	105,096
Japanese marketable equity securities . . .	690,741	—	—	690,741	—	—	—	—
Non-Japanese marketable equity securities	47,655	235	—	47,890	26,981	616	—	27,597
Other investment funds	—	—	—	—	81,803	150,121	—	231,924 ⁽²⁾
Japanese general account of life insurance companies ⁽¹⁾	—	217,898	—	217,898	—	—	—	—
Other investments	6,547	32,150	—	38,697	480	1,937	250	2,667
Total	¥ 899,883	¥262,396	¥325	¥1,162,604	¥151,399	¥262,955	¥250	¥414,604

At March 31, 2021	Domestic subsidiaries				Foreign offices and subsidiaries			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets category	(in millions)							
Japanese government bonds	¥ 145,236	¥ —	¥ —	¥ 145,236	¥ —	¥ —	¥ —	¥ —
Non-Japanese government bonds	—	—	—	—	44,105	4,645	—	48,750
Other debt securities	10,136	14,065	230	24,431	—	117,696	—	117,696
Japanese marketable equity securities . . .	862,096	—	—	862,096	—	—	—	—
Non-Japanese marketable equity securities	81,525	588	—	82,113	34,584	671	—	35,255
Other investment funds	—	—	—	—	76,520	164,810	—	241,330 ⁽²⁾
Japanese general account of life insurance companies ⁽¹⁾	—	217,827	—	217,827	—	—	—	—
Other investments	8,390	5,092	—	13,482	812	13,502	333	14,647
Total	¥1,107,383	¥237,572	¥230	¥1,345,185	¥156,021	¥301,324	¥333	¥457,678

Notes:

- (1) “Japanese general accounts of life insurance companies” is a contract with life insurance companies that guarantees a return of approximately 1.24% from April 1, 2019 to March 31, 2020 and 1.25% from April 1, 2020 to March 31, 2021.
- (2) Other investment funds of the foreign offices and subsidiaries include mutual funds and common collective funds of ¥81,768 million and ¥119,307 million, respectively, which were held by MUFG Americas Holdings at December 31, 2019 and ¥80,717 million and ¥128,005 million, respectively, at December 31, 2020.

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents fair values of certain investments valued at net asset value per share (or its equivalent) as a practical expedient that were excluded from the above table as of March 31, 2020 and 2021:

<u>Assets category</u>	<u>Domestic subsidiaries</u>		<u>Foreign offices and subsidiaries</u>	
	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>
	(in millions)			
Japanese pooled funds:				
Japanese marketable equity securities	¥ 125,218	¥ 118,509	¥ —	¥ —
Japanese debt securities	212,727	324,700	—	—
Non-Japanese marketable equity securities	146,796	90,598	—	—
Non-Japanese debt securities	169,978	215,015	—	—
Other	100,798	153,483	—	—
Total pooled funds	<u>755,517</u>	<u>902,305</u>	<u>—</u>	<u>—</u>
Other investment funds	<u>514,726⁽¹⁾</u>	<u>610,523⁽¹⁾</u>	<u>144,904⁽²⁾</u>	<u>146,726⁽²⁾</u>
Total	<u>¥1,270,243</u>	<u>¥1,512,828</u>	<u>¥144,904</u>	<u>¥146,726</u>

Notes:

- (1) Other investment funds of the domestic subsidiaries include mutual funds and real estate funds of ¥486,496 million and ¥13,891 million, respectively, at March 31, 2020 and ¥580,617 million and ¥14,763 million, respectively, at March 31, 2021.
- (2) Other investment funds of the foreign offices and subsidiaries include mutual funds, real estate funds and common collective funds of ¥56,125 million, ¥54,474 million and ¥34,098 million, respectively, at March 31, 2020 and ¥58,086 million, ¥51,318 million and ¥37,161 million, respectively, at March 31, 2021.

Other debt securities and Japanese debt securities in the above Pension benefits and SIP tables include ¥942 million (0.03% of plan assets) of debt securities issued by the MUFG Group at March 31, 2020 and ¥600 million (0.02% of plan assets) at March 31, 2021, respectively. Japanese marketable equity securities in the above Pension benefits and SIP tables include ¥5,843 million (0.20% of plan assets) of common stock issued by the MUFG Group at March 31, 2020 and ¥6,116 million (0.18% of plan assets) at March 31, 2021, respectively.

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

14. OTHER ASSETS AND LIABILITIES

Major components of other assets and liabilities at March 31, 2020 and 2021 were as follows:

	<u>2020</u>	<u>2021</u>
	(in millions)	
Other assets:		
Accounts receivable:		
Receivables from brokers, dealers and customers for securities transactions	¥ 1,191,690	¥ 400,776
Other ⁽¹⁾	1,212,511	1,162,424
Investments in equity method investees	2,421,154	2,560,339
Prepaid benefit cost (Note 13)	729,199	1,223,706
Cash collateral pledged for derivative transactions (Note 9)	1,696,108	2,005,136
Cash collateral for the use of Bank of Japan's settlement infrastructure	965,546	998,838
Accrued interest	308,448	259,336
Deferred tax assets (Note 8)	113,031	122,031
Right-of-use assets of operating leases (Note 7)	393,435	338,547
Other	<u>4,077,577</u>	<u>4,250,171</u>
Total	<u>¥13,108,699</u>	<u>¥13,321,304</u>
Other liabilities:		
Accounts payable:		
Payables to brokers, dealers and customers for securities transactions	¥ 1,078,653	¥ 1,202,371
Other	1,251,260	1,281,436
Obligations to return securities received as collateral (Notes 15, 16 and 31)	4,806,171	6,581,759
Accrued interest	187,096	110,856
Deferred tax liabilities (Note 8)	541,368	827,571
Allowance for off-balance sheet credit instruments	56,995	83,615
Accrued benefit cost (Note 13)	92,225	93,730
Guarantees and indemnifications	39,601	38,123
Cash collateral received for derivative transactions (Note 9)	1,125,305	909,641
Obligations under operating leases (Note 7)	482,813	476,104
Accrued and other liabilities	<u>3,562,359</u>	<u>3,465,614</u>
Total	<u>¥13,223,846</u>	<u>¥15,070,820</u>

Note:

- (1) Accounts receivable—Other is primarily comprised of receivables relating to the card business. The provision or reversal of the allowance for credit losses relating to the receivables is included in Non-interest expense on the condensed consolidated statements of income. The receivables relating to the card business include ¥4,980 million of past due receivables (1-3 months past due receivables of ¥2,252 million and greater than 3 months past due receivables of ¥2,728 million) as of March 31, 2021, and the credit quality for these receivables is primarily evaluated based on the extent of past due. The outstanding balance of the accounts receivable is presented on a net basis after allowance for credit losses. Upon adoption of the new guidance on measurement of credit losses on financial instruments as of April 1, 2020, the amount of the allowance for credit losses increased by ¥10,248 million. The change of allowance for credit losses on these receivables during the period ended March 31, 2021 is primarily due to provision of the allowance for the receivables.

Investments in equity method investees include marketable equity securities carried at ¥1,809,161 million and ¥1,964,118 million at March 31, 2020 and 2021, respectively. Corresponding aggregated market values were ¥1,987,008 million and ¥3,943,990 million, respectively. Marketable equity securities include Morgan Stanley's common stock carried at ¥1,411,131 million and ¥1,618,579 million at March 31, 2020 and 2021, respectively.

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of March 31, 2021, the MUFG Group held approximately 20.18% of its common stock. Investments in equity method investees also include investments in Morgan Stanley MUFG Securities, Co., Ltd. at ¥185,255 million and ¥174,190 million at March 31, 2020 and 2021, 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 ¥51,645 million, ¥21,672 million and ¥53,758 million for the fiscal years ended March 31, 2019, 2020 and 2021 respectively. The impairment losses are included in Equity in earnings of equity method investees—net in the accompanying consolidated statements of income.

Summarized Financial Information of the MUFG Group’s Equity Method Investees

Summarized financial information of Morgan Stanley, the largest portion of the MUFG Group’s equity method investees, as of March 31, 2020 and 2021, and for each of the three years ended March 31, 2021 is as follows:

	<u>2020</u>	<u>2021</u>
	(in billions)	
Trading assets	¥ 29,484	¥ 34,670
Securities purchased under agreements to resell	11,405	12,701
Securities borrowed	7,868	11,309
Total assets	103,149	128,288
Deposits	25,601	35,775
Customer and other payables	21,556	25,477
Borrowings	21,206	23,894
Total liabilities	93,656	116,377
Noncontrolling interests	149	147

	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(in billions)		
Net revenues	¥4,363	¥4,457	¥5,841
Total non-interest expenses	3,168	3,259	3,932
Income from continuing operations before income taxes	1,195	1,140	1,881
Net income applicable to Morgan Stanley	944	903	1,433

Summarized financial information of the MUFG Group’s equity method investees, other than Morgan Stanley as of March 31, 2020 and 2021, and for each of the three years ended March 31, 2021 is as follows:

	<u>2020</u>	<u>2021</u>
	(in billions)	
Net loans	¥ 15,190	¥ 15,417
Total assets	29,255	28,459
Deposits	8,898	9,651
Total liabilities	24,025	24,176
Noncontrolling interests	1,005	85

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	2019	2020	2021
	(in billions)		
Total interest income	¥1,036	¥1,093	¥1,058
Total interest expense	430	419	375
Net interest income	606	674	683
Provision for credit losses	157	171	215
Income before income tax expense	205	366	476
Net income	135	285	400

15. OFFSETTING OF DERIVATIVES, REPURCHASE AGREEMENTS, AND SECURITIES LENDING TRANSACTIONS

The following tables present, as of March 31, 2020 and 2021, the gross and net amounts of the derivatives, resale and repurchase agreements, and securities borrowing and lending transactions, including the related gross amounts subject to an enforceable master netting arrangement or similar agreement not offset in the consolidated balance sheets. The MUFG Group primarily enters into International Swaps and Derivatives Association master netting agreements, master repurchase agreements and master securities lending agreements or similar agreements for derivative contracts, resale and repurchase agreements, and securities borrowing and lending transactions. In the event of default on or termination of any one contract, these agreements provide the contracting parties with the right to net a counterparty's rights and obligations and to liquidate and setoff collateral against any net amount owed by the counterparty. Generally, as the MUFG Group has elected to present such amounts on a gross basis, the amounts subject to these agreements are included in "Gross amounts not offset in the consolidated balance sheet" column in the tabular disclosure below. For certain transactions where a legal opinion with respect to the enforceability of netting has not been sought or obtained, the related amounts are not subject to enforceable master netting agreements and not included in "Gross amounts not offset in the consolidated balance sheet" column in the tabular disclosure below.

	Gross amounts of recognized assets/liabilities	Gross amounts offset in the consolidated balance sheet	Net amounts presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet		Net amounts
<u>At March 31, 2020</u>				Financial instruments	Cash collateral received/pledged	
	(in billions)					
Financial assets:						
Derivative assets	¥14,958	¥ —	¥14,958	¥(11,282)	¥ (874)	¥2,802
Receivables under resale agreements	25,884	(1,888)	23,996	(23,195)	(21)	780
Receivables under securities borrowing transactions . . .	3,444	—	3,444	(3,336)	—	108
Total	¥44,286	¥(1,888)	¥42,398	¥(37,813)	¥ (895)	¥3,690
Financial liabilities:						
Derivative liabilities	¥14,034	¥ —	¥14,034	¥(11,296)	¥(1,140)	¥1,598
Payables under repurchase agreements	33,733	(1,883)	31,850	(31,569)	(34)	247
Payables under securities lending transactions	1,017	—	1,017	(986)	—	31
Obligations to return securities received as collateral	4,806	—	4,806	(1,966)	—	2,840
Total	¥53,590	¥(1,883)	¥51,707	¥(45,817)	¥(1,174)	¥4,716

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At March 31, 2021	Gross amounts of recognized assets/liabilities	Gross amounts offset in the consolidated balance sheet	Net amounts presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet		Net amounts
				Financial instruments	Cash collateral received/pledged	
(in billions)						
Financial assets:						
Derivative assets	¥11,997	¥ —	¥11,997	¥ (8,628)	¥ (605)	¥2,764
Receivables under resale agreements	16,053	(2,273)	13,780	(12,687)	(37)	1,056
Receivables under securities borrowing transactions . . .	<u>3,370</u>	<u>—</u>	<u>3,370</u>	<u>(3,289)</u>	<u>—</u>	<u>81</u>
Total	<u>¥31,420</u>	<u>¥(2,273)</u>	<u>¥29,147</u>	<u>¥(24,604)</u>	<u>¥ (642)</u>	<u>¥3,901</u>
Financial liabilities:						
Derivative liabilities	¥11,714	¥ —	¥11,714	¥ (8,545)	¥(1,624)	¥1,545
Payables under repurchase agreements	26,800	(2,232)	24,568	(23,835)	(60)	673
Payables under securities lending transactions	843	—	843	(814)	(2)	27
Obligations to return securities received as collateral	<u>6,582</u>	<u>—</u>	<u>6,582</u>	<u>(1,931)</u>	<u>—</u>	<u>4,651</u>
Total	<u>¥45,939</u>	<u>¥(2,232)</u>	<u>¥43,707</u>	<u>¥(35,125)</u>	<u>¥(1,686)</u>	<u>¥6,896</u>

16. REPURCHASE AGREEMENTS, AND SECURITIES LENDING TRANSACTIONS ACCOUNTED FOR AS SECURED BORROWINGS

The following tables present gross obligations for payables under repurchase agreements, payables under securities lending transactions and obligations to return securities received as collateral by remaining contractual maturity and class of collateral pledged at March 31, 2020 and 2021. Potential risks associated with these arrangements primarily relate to market and liquidity risks. To manage risks associated with market exposure, the MUFG Group generally revalues the collateral underlying its repurchase agreements and securities lending transactions on a daily basis and monitors the value of the underlying securities, consisting of primarily high-quality securities such as Japanese national government and Japanese government agency bonds, and foreign government and official institution bonds. In the event the market value of such securities falls below the related agreements at contract amounts plus accrued interest, the MUFG Group may be required to deposit additional collateral when appropriate. To address liquidity risks, the MUFG Group conducts stress tests to ensure the adequate level of liquidity is maintained in the event of a decline in the fair value of any collateral pledged.

	March 31, 2020				
	Remaining Contractual Maturity				
	Overnight and open	30 days or less	31-90 days	Over 90 days	Total
	(in billions)				
Payables under repurchase agreements	¥ 9,685	¥16,608	¥4,496	¥2,944	¥33,733
Payables under securities lending transactions	934	64	19	—	1,017
Obligations to return securities received as collateral	<u>3,856</u>	<u>599</u>	<u>276</u>	<u>75</u>	<u>4,806</u>
Total	<u>¥14,475</u>	<u>¥17,271</u>	<u>¥4,791</u>	<u>¥3,019</u>	<u>¥39,556</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	March 31, 2021				
	Remaining Contractual Maturity				Total
	Overnight and open	30 days or less	31-90 days	Over 90 days	
	(in billions)				
Payables under repurchase agreements	¥ 6,006	¥16,888	¥1,973	¥1,933	¥26,800
Payables under securities lending transactions	789	26	28	—	843
Obligations to return securities received as collateral	5,607	278	528	169	6,582
Total	<u>¥12,402</u>	<u>¥17,192</u>	<u>¥2,529</u>	<u>¥2,102</u>	<u>¥34,225</u>

Secured borrowing by the class of collateral pledged at March 31, 2020 and 2021 was as follows:

	March 31, 2020			
	Payables under repurchase agreements	Payables under securities lending transactions	Obligations to return securities received as collateral	Total
	(in billions)			
Japanese national government and Japanese government agency bonds	¥10,687	¥ 38	¥2,241	¥12,966
Foreign government and official institution bonds	17,326	57	873	18,256
Corporate bonds	784	—	183	967
Residential mortgage-backed securities	4,248	—	10	4,258
Other debt securities	157	—	2	159
Marketable equity securities	506	914	1,497	2,917
Other	25	8	—	33
Total	<u>¥33,733</u>	<u>¥1,017</u>	<u>¥4,806</u>	<u>¥39,556</u>

	March 31, 2021			
	Payables under repurchase agreements	Payables under securities lending transactions	Obligations to return securities received as collateral	Total
	(in billions)			
Japanese national government and Japanese government agency bonds	¥ 7,754	¥ 104	¥4,022	¥11,880
Foreign government and official institution bonds	13,914	17	738	14,669
Corporate bonds	702	1	214	917
Residential mortgage-backed securities	3,729	—	—	3,729
Other debt securities	218	—	5	223
Marketable equity securities	462	721	1,603	2,786
Other	21	—	—	21
Total	<u>¥26,800</u>	<u>¥ 843</u>	<u>¥6,582</u>	<u>¥34,225</u>

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

17. PREFERRED STOCK

Pursuant to the Articles of Incorporation, MUFG had been authorized to issue 400,000,000 shares of Class 5 Preferred Stock, 200,000,000 shares of Class 6 Preferred Stock, and 200,000,000 shares of Class 7 Preferred Stock without par value as of March 31, 2021.

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 all classes of preferred stock have the right to receive a liquidation distribution at ¥2,500 and do not have the right to participate in any further liquidation distributions.

As of March 31, 2019, 2020 and 2021, there was no preferred stock outstanding and the entire amount of Capital stock on the consolidated balance sheets consisted of only common stock.

18. COMMON STOCK AND CAPITAL SURPLUS

The changes in the number of issued shares of common stock during the fiscal years ended March 31, 2019, 2020 and 2021 were as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
		(shares)	
Balance at beginning of fiscal year	13,900,028,020	13,667,770,520	13,581,995,120
Retirement of shares of common stock	(232,257,500)	(85,775,400)	—
Balance at end of fiscal year	<u>13,667,770,520</u>	<u>13,581,995,120</u>	<u>13,581,995,120</u>

Under the Companies Act, 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 Companies Act permits Japanese companies, upon approval by the Board of Directors, to issue shares in the form of a “stock split,” as defined in the Companies Act. Also, prior to April 1, 1991, Japanese companies were permitted to issue free share distributions. MUFG Bank and Mitsubishi UFJ Trust and Banking 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 U.S. accounting practices to the cumulative free distributions made by MUFG Bank and Mitsubishi UFJ Trust and Banking at March 31, 2021, would have increased capital accounts by ¥1,910,106 million with a corresponding decrease in unappropriated retained earnings.

The Companies Act 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 Companies Act limits the increase of paid-in capital in case disposition of treasury stock and issuance of common stock are performed at the same time.

As for Capital surplus, the fee retained by MUFG’s subsidiary as underwriting compensation, net of stock issuance expense, was included in the total Capital surplus balance.

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Treasury Stock

The Companies Act 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 Companies Act 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.

From May 16, 2018 to June 4, 2018, MUFG repurchased 72,420,700 shares of MUFG's common stock by market purchases based on the discretionary dealing contract regarding repurchase of own shares for approximately ¥50 billion, in aggregate, in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on May 15, 2018. The repurchase plan as authorized by the Board of Directors of MUFG allowed for the repurchase of an aggregate amount of up to 100,000,000 shares, which represents the equivalent of 0.76% of the total number of common shares outstanding, or of an aggregate repurchase amount of up to ¥50 billion. On July 20, 2018, MUFG cancelled all of the acquired shares in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on May 15, 2018.

From November 14, 2018 to December 10, 2018, MUFG repurchased 159,836,800 shares of MUFG's common stock by market purchases based on the discretionary dealing contract regarding repurchase of own shares for approximately ¥100 billion, in aggregate, in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on November 13, 2018. The repurchase plan as authorized by the Board of Directors of MUFG allowed for the repurchase of an aggregate amount of up to 200,000,000 shares, which represents the equivalent of 1.52% of the total number of common shares outstanding, or of an aggregate repurchase amount of up to ¥100 billion. On January 22, 2019, MUFG cancelled all of the acquired shares in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on November 13, 2018.

From November 14, 2019 to December 23, 2019, MUFG repurchased 85,775,400 shares of MUFG's common stock by market purchases based on the discretionary dealing contract regarding repurchase of own shares for approximately ¥50 billion, in aggregate, in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on November 13, 2019. The repurchase plan as authorized by the Board of Directors of MUFG allowed for the repurchase of an aggregate amount of up to 100,000,000 shares, which represents the equivalent of 0.77% of the total number of common shares outstanding, or of an aggregate repurchase amount of up to ¥50 billion. On January 20, 2020, MUFG cancelled all of the acquired shares in satisfaction of the resolution adopted at the meeting of the Board of Directors of MUFG held on November 13, 2019. The purpose of the repurchase is to enhance the return of earnings to shareholders, to improve capital efficiency, and to implement flexible capital policies.

19. RETAINED EARNINGS, LEGAL RESERVE AND DIVIDENDS

In addition to the Companies Act, Japanese banks, including MUFG Bank and Mitsubishi UFJ Trust and Banking, 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 Companies Act

The Companies Act 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

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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 Companies Act.

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 year shall be appropriated and set aside as a legal reserve until the aggregate amount of legal reserve set aside as appropriation of retained earnings and the legal capital surplus equals 100% of stated capital as defined in the Companies Act.

Transfer of Legal Reserve

Under the Companies Act

Under the Companies Act, 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 Companies Act.

Under the Companies Act, Japanese companies, including MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking, 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 Companies Act and Banking Law at the company's discretion.

Under the Banking Law

Under the Banking Law, Japanese banks, including MUFG Bank and Mitsubishi UFJ Trust and Banking, were permitted, pursuant to a resolution by the shareholders at a general meeting, to set aside a legal reserve 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 Companies Act.

Unappropriated Retained Earnings and Dividends

In addition to the provision that requires an appropriation for legal reserve as described above, the Companies Act and the Banking Law impose certain limitations on the amount available for dividends.

Under the Companies Act, 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 Companies Act. Under the Banking Law, MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking have to meet the minimum capital adequacy requirements and distributions of retained earnings of MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking, which are otherwise distributable to shareholders, are restricted in order to maintain the minimum capital requirements.

MUFG, formerly known as Mitsubishi Tokyo Financial Group, 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 Commercial Code of Japan ("the Code"), which was replaced by the Companies Act, and Japanese GAAP.

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On October 1, 2005, MUFG started with common stock and preferred stock of ¥1,383,052 million, a 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, 2021, was ¥4,356,678 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 Companies Act 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.

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20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in Accumulated OCI, net of tax and net of noncontrolling interests, for the fiscal years ended March 31, 2019, 2020 and 2021:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(in millions)		
Accumulated other comprehensive income (loss), net of taxes:			
Net unrealized gains (losses) on investment securities:			
Balance at beginning of fiscal year	¥ 2,270,346	¥(369,369)	¥(344,785)
Net change during the fiscal year	60,616	24,584	(38,253)
Effect of adopting new guidance on recognition and measurement of financial assets and financial liabilities	(2,700,331)	—	—
Effect of adopting new guidance on measurement of credit losses on financial instruments	—	—	34
Balance at end of fiscal year	<u>¥ (369,369)</u>	<u>¥(344,785)</u>	<u>¥(383,004)</u>
Net debt valuation adjustments:			
Balance at beginning of fiscal year	¥ (16,488)	¥ (8,670)	¥ 45,502
Net change during the fiscal year	9,729	54,172	(83,364)
Effect of adopting new guidance on recognition and measurement of financial assets and financial liabilities	(1,911)	—	—
Balance at end of fiscal year	<u>¥ (8,670)</u>	<u>¥ 45,502</u>	<u>¥ (37,862)</u>
Net unrealized gains (losses) on derivatives qualifying for cash flow hedges:			
Balance at beginning of fiscal year	¥ (19,250)	¥ (24,140)	¥ (13,343)
Net change during the fiscal year	(4,890)	10,797	32,372
Balance at end of fiscal year	<u>¥ (24,140)</u>	<u>¥ (13,343)</u>	<u>¥ 19,029</u>
Defined benefit plans:			
Balance at beginning of fiscal year	¥ (119,593)	¥(208,273)	¥(337,918)
Net change during the fiscal year	(88,680)	(129,645)	317,536
Balance at end of fiscal year	<u>¥ (208,273)</u>	<u>¥(337,918)</u>	<u>¥ (20,382)</u>
Foreign currency translation adjustments:			
Balance at beginning of fiscal year	¥ 362,300	¥ 326,183	¥ 230,127
Net change during the fiscal year	(36,117)	(96,056)	(97,389)
Balance at end of fiscal year	<u>¥ 326,183</u>	<u>¥ 230,127</u>	<u>¥ 132,738</u>
Balance at end of fiscal year	<u>¥ (284,269)</u>	<u>¥(420,417)</u>	<u>¥(289,481)</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the before tax and net of tax changes in each component of Accumulated OCI for the fiscal years ended March 31, 2019, 2020 and 2021:

	2019			2020			2021		
	Before tax	Tax (expense) or benefit	Net of tax	Before tax	Tax (expense) or benefit	Net of tax	Before tax	Tax (expense) or benefit	Net of tax
Net unrealized gains (losses) on investment securities:									
Net unrealized gains (losses) on investment securities	¥ 132,723	¥ (24,690)	¥ 108,033	¥ 100,974	¥ (2,260)	¥ 98,714	¥ (69,247)	¥ (599)	¥ (69,846)
Reclassification adjustment for losses (gains) included in net income before attribution of noncontrolling interests	(28,953)	9,100	(19,853)	(107,102)	32,007	(75,095)	(383)	(547)	(930)
Net change	103,770	(15,590)	88,180	(6,128)	29,747	23,619	(69,630)	(1,146)	(70,776)
Net unrealized gains (losses) on investment securities attributable to noncontrolling interests			27,564			(965)			(32,523)
Net unrealized gains (losses) on investment securities attributable to Mitsubishi UFJ Financial Group			60,616			24,584			(38,253)
Net debt valuation adjustments:									
Net debt valuation adjustments	13,006	(3,982)	9,024	77,765	(23,812)	53,953	(126,007)	38,584	(87,423)
Reclassification adjustment for losses included in net income before attribution of noncontrolling interests	1,016	(311)	705	315	(96)	219	5,851	(1,792)	4,059
Net change	14,022	(4,293)	9,729	78,080	(23,908)	54,172	(120,156)	36,792	(83,364)
Net debt valuation adjustments attributable to noncontrolling interests			—			—			—
Net debt valuation adjustments attributable to Mitsubishi UFJ Financial Group			9,729			54,172			(83,364)
Net unrealized gains (losses) on derivatives qualifying for cash flow hedges:									
Net unrealized gains (losses) on derivatives qualifying for cash flow hedges	(10,397)	2,825	(7,572)	1,375	(560)	815	44,255	(12,359)	31,896
Reclassification adjustment for losses (gains) included in net income before attribution of noncontrolling interests	3,662	(980)	2,682	13,279	(3,452)	9,827	164	115	279
Net change	(6,735)	1,845	(4,890)	14,654	(4,012)	10,642	44,419	(12,244)	32,175

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	2019			2020			2021		
	Before tax	Tax (expense) or benefit	Net of tax	Before tax	Tax (expense) or benefit	Net of tax	Before tax	Tax (expense) or benefit	Net of tax
					(in millions)				
Net unrealized losses on derivatives qualifying for cash flow hedges attributable to noncontrolling interests			—			(155)			(197)
Net unrealized gains (losses) on derivatives qualifying for cash flow hedges attributable to Mitsubishi UFJ Financial Group			(4,890)			10,797			32,372
Defined benefit plans:									
Defined benefit plans	(126,001)	37,655	(88,346)	(195,851)	59,426	(136,425)	436,435	(133,404)	303,031
Reclassification adjustment for losses (gains) included in net income before attribution of noncontrolling interests	(1,168)	574	(594)	6,643	(1,741)	4,902	22,504	(6,479)	16,025
Net change	(127,169)	38,229	(88,940)	(189,208)	57,685	(131,523)	458,939	(139,883)	319,056
Defined benefit plans attributable to noncontrolling interests			(260)			(1,878)			1,520
Defined benefit plans attributable to Mitsubishi UFJ Financial Group			(88,680)			(129,645)			317,536
Foreign currency translation adjustments:									
Foreign currency translation adjustments	(18,062)	(17,932)	(35,994)	(99,520)	19,588	(79,932)	(61,085)	(14,370)	(75,455)
Reclassification adjustment for losses (gains) included in net income before attribution of noncontrolling interests	(9,002)	2,784	(6,218)	(2,238)	1,105	(1,133)	(57,534)	17,738	(39,796)
Net change	(27,064)	(15,148)	(42,212)	(101,758)	20,693	(81,065)	(118,619)	3,368	(115,251)
Foreign currency translation adjustments attributable to noncontrolling interests			(6,095)			14,991			(17,862)
Foreign currency translation adjustments attributable to Mitsubishi UFJ Financial Group			(36,117)			(96,056)			(97,389)
Other comprehensive income (loss) attributable to Mitsubishi UFJ Financial Group			¥ (59,342)			¥(136,148)			¥ 130,902

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
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The following table presents the effect of the reclassification of significant items out of Accumulated OCI on the respective line items of the accompanying consolidated statements of income for the fiscal years ended March 31, 2019, 2020 and 2021:

<u>Details of Accumulated OCI components</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Line items in the consolidated statements of income</u>
	<u>Amount reclassified out of Accumulated OCI</u>			
	(in millions)			
Net unrealized losses (gains) on investment securities				
Net losses (gains) on sales and redemptions of				
Available-for-sale debt securities	¥(29,182)	¥(108,193)	¥ 6,410	Investment securities gains (losses)—net
Impairment losses on investment securities . . .	596	1,590	6	Investment securities gains (losses)—net
Other	(367)	(499)	(6,799)	
	(28,953)	(107,102)	(383)	Total before tax
	9,100	32,007	(547)	Income tax expense
	<u>¥(19,853)</u>	<u>¥ (75,095)</u>	<u>¥ (930)</u>	Net of tax
Net debt valuation adjustments				Equity in earnings of equity method investees—net or Other non-interest income
	¥ 1,016	¥ 315	¥ 5,851	
	1,016	315	5,851	Total before tax
	(311)	(96)	(1,792)	Income tax expense
	<u>¥ 705</u>	<u>¥ 219</u>	<u>¥ 4,059</u>	Net of tax
Net unrealized losses (gains) on derivatives qualifying for cash flow hedges				
Interest rate contracts	¥ 3,739	¥ 9,878	¥ (3,579)	Interest income on Loans, including fees
Foreign exchange contracts	—	3,399	3,743	Interest expense on Long-term debt or Foreign exchange losses—net
Other	(77)	2	—	
	3,662	13,279	164	Total before tax
	(980)	(3,452)	115	Income tax expense
	<u>¥ 2,682</u>	<u>¥ 9,827</u>	<u>¥ 279</u>	Net of tax
Defined benefit plans				
Net actuarial loss ⁽¹⁾	¥ 11,431	¥ 15,488	¥ 28,787	Other non-interest expenses
Prior service cost ⁽¹⁾	(6,269)	(5,718)	(4,267)	Other non-interest expenses
Gain on settlements and curtailment, and other ⁽¹⁾	(6,330)	(3,127)	(2,016)	Other non-interest income or expenses
	(1,168)	6,643	22,504	Total before tax
	574	(1,741)	(6,479)	Income tax expense
	<u>¥ (594)</u>	<u>¥ 4,902</u>	<u>¥ 16,025</u>	Net of tax
Foreign currency translation adjustments				Other non-interest income
	¥ (9,004)	¥ (5,003)	¥(57,561)	Other non-interest expenses
	2	2,765	27	
	(9,002)	(2,238)	(57,534)	Total before tax
	2,784	1,105	17,738	Income tax expense
	<u>¥ (6,218)</u>	<u>¥ (1,133)</u>	<u>¥(39,796)</u>	Net of tax
Total reclassifications for the period				Total before tax
	¥(34,445)	¥ (89,103)	¥(29,398)	Income tax expense
	11,167	27,823	9,035	
	<u>¥(23,278)</u>	<u>¥ (61,280)</u>	<u>¥(20,363)</u>	Net of tax

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Note:

(1) These Accumulated OCI components are components of net periodic benefit cost. See Note 13 for more information.

21. REGULATORY CAPITAL REQUIREMENTS

Japan

MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings 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, MUFG Bank, and Mitsubishi UFJ Trust and Banking 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 their 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 their foreign offices.

The Basel Committee on Banking Supervision ("BCBS") of the Bank for International Settlements ("BIS") sets capital adequacy standards for all internationally active banks to ensure minimum levels of capital.

The Group of Central Bank Governors and Heads of Supervision reached an agreement on the new global regulatory framework, which has been referred to as "Basel III," in July and September 2010. In December 2010, the Basel Committee agreed on the details of the Basel III rules. Effective as of March 31, 2013, Basel III was adopted by the FSA with transitional measures for Japanese banking institutions with international operations conducted by their foreign offices. MUFG calculated capital ratios as of March 31, 2020 and 2021 in accordance with Basel III.

Capital Ratios

Basel III 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.

As for the denominator of the capital ratio, the Basel framework provides the following risk-based approaches and a range of options for determining risk-weighted assets.

"Credit Risk"

The Basel 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. Banks choose one of three approaches: "Standardized Approach," "Foundation Internal Ratings-Based Approach" or "Advanced Internal Ratings-Based Approach ("AIRB")."

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“Market Risk”

In the “Amendment to the Capital Accord to incorporate market risks” of the year 1996, a choice between two methodologies “the Standardized Measurement Method” and “Internal Models Approach” is permitted. “Combination of Internal Models Approach and the Standardized Measurement Method” is also allowed under certain conditions. This is unchanged in Basel III.

“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. The Basel framework 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 Advanced Internal Ratings-Based Approach for credit risk
- the Internal Models Approach for market risk
- the Standardized Approach and AMA for operational risk

With approval from the FSA, MUFG and most of its major subsidiaries adopt AIRB to calculate capital requirements for credit risk, adopt the AMA to calculate capital requirements for operational risk, as for market risk, adopt the Internal Models Approach mainly to calculate general market risk and adopt the Standardized Measurement Method to calculate specific risk.

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.

Under Basel III, as adopted by the FSA, MUFG’s risk-weighted assets increased, largely reflecting the new capital charge of the credit valuation adjustment (CVA), the credit risk related to asset value correlation multiplier for large financial institutions, and the 250% risk-weighted threshold items not deducted from Common Equity Tier 1 capital, as well as the conversion of certain Basel II capital deductions to risk-weighted assets, such as securitizations.

On the other hand, as for the numerator of the capital ratio, there are three primary regulatory capital ratios used to assess capital adequacy, Common Equity Tier 1, Tier 1 and Total capital ratios, which are determined by dividing applicable capital components by risk-weighted assets. Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital. Common Equity Tier 1 capital is primarily consisting of common stock, capital surplus, retained earnings, and Accumulated OCI. Regulatory adjustments including certain intangible fixed assets, such as goodwill, and defined-benefit pension fund assets, are made to Common Equity Tier 1. Additional Tier 1 capital generally consists of Basel III compliant preferred securities, and during the transition period, other capital that meets Tier 1 requirements under Basel II standards.

Tier 2 capital generally consists of Basel III compliant subordinated debts, capital that meets Tier 2 requirements under Basel II standards during the transition period, certain allowances for credit losses, and noncontrolling interests in subsidiaries’ Tier 2 instruments. Total capital is defined as the sum of Tier 1 and Tier 2 capital.

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Effective March 31, 2016, the FSA’s capital conservation buffer, countercyclical buffer and the Global Systematically Important Bank (“G-SIB”), as designated by the FSB, surcharge requirements became applicable to Japanese banking institutions with international operations conducted through foreign offices. The requirements had been phased in and fully implemented as of March 31, 2020. In addition to the 4.50% minimum Common Equity Tier 1 capital ratio, MUFG is required to maintain a capital conservation buffer of 2.5% and a G-SIB surcharge of 1.5% as of March 31, 2020 and 2021, and a countercyclical buffer of 0.01% and 0.00% as of March 31, 2020 and 2021, respectively.

Leverage Ratios

The leverage ratio is designed for monitoring and preventing the build-up of excessive leverage in the banking sector and is expressed as the ratio of Tier 1 capital to both on and off-balance sheet assets adjusted in accordance with the FSA guidance. In December 2017, the Group of Central Bank Governors and Heads of Supervision announced final Basel III reforms. The announced reforms include revisions to the measurement of the leverage ratio and a 3% minimum leverage ratio requirement, plus a G-SIB leverage ratio buffer equal to 50% of the applicable G-SIB capital surcharge. The announcement sets forth implementation dates of January 1, 2018 for the minimum leverage ratio requirement and January 1, 2022 for the G-SIB leverage ratio buffer requirement. Effective as of March 31, 2019, the minimum leverage ratio requirement was adopted by the FSA.

The risk-adjusted capital amounts and ratios, and leverage ratios, of MUFG, MUFG Bank and Mitsubishi UFJ Trust and Banking 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, 2020:				
Total capital (to risk-weighted assets):				
MUFG ⁽¹⁾	¥18,279,566	15.87%	¥13,827,788	12.01%
BK	14,285,601	14.43	7,917,895	8.00
TB	1,889,973	25.46	593,652	8.00
Tier 1 capital (to risk-weighted assets):				
MUFG ⁽¹⁾	15,623,321	13.56	11,525,076	10.01
BK	12,170,005	12.29	5,938,421	6.00
TB	1,625,712	21.90	445,239	6.00
Common Equity Tier 1 capital (to risk-weighted assets):				
MUFG ⁽¹⁾	13,708,333	11.90	9,798,042	8.51
BK	10,597,133	10.70	4,453,816	4.50
TB	1,444,348	19.46	333,929	4.50
Leverage ratio:				
MUFG	15,623,321	4.42	10,593,527	3.00
BK	12,170,005	4.21	8,656,169	3.00
TB	1,625,712	4.51	1,079,863	3.00

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	<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)			
At March 31, 2021:				
Total capital (to risk-weighted assets):				
MUFG ⁽¹⁾	¥18,669,510	16.31%	¥13,730,324	12.00%
BK	14,630,443	15.04	7,779,147	8.00
TB	2,099,662	22.47	747,524	8.00
Tier 1 capital (to risk-weighted assets):				
MUFG ⁽¹⁾	15,982,746	13.96	11,441,937	10.00
BK	12,411,352	12.76	5,834,360	6.00
TB	1,870,988	20.02	560,643	6.00
Common Equity Tier 1 capital (to risk-weighted assets):				
MUFG ⁽¹⁾	14,113,722	12.33	9,725,646	8.50
BK	10,865,302	11.17	4,375,770	4.50
TB	1,681,140	17.99	420,482	4.50
Leverage ratio:				
MUFG	15,982,746	5.45	8,781,753	3.00
BK	12,411,352	5.22	7,123,396	3.00
TB	1,870,988	7.53	744,744	3.00
Stand-alone:				
At March 31, 2020:				
Total capital (to risk-weighted assets):				
BK	¥12,092,262	14.76%	¥ 6,550,969	8.00%
TB	2,131,514	25.42	670,714	8.00
Tier 1 capital (to risk-weighted assets):				
BK	10,254,608	12.52	4,913,227	6.00
TB	1,867,723	22.27	503,035	6.00
Common Equity Tier 1 capital (to risk-weighted assets):				
BK	8,738,975	10.67	3,684,920	4.50
TB	1,686,723	20.11	377,276	4.50
Leverage ratio:				
BK	10,254,608	4.02	7,644,928	3.00
TB	1,867,723	5.87	953,353	3.00
At March 31, 2021:				
Total capital (to risk-weighted assets):				
BK	¥12,359,493	14.60%	¥ 6,770,631	8.00%
TB	2,294,694	21.91	837,567	8.00
Tier 1 capital (to risk-weighted assets):				
BK	10,512,405	12.42	5,077,974	6.00
TB	2,066,480	19.73	628,176	6.00
Common Equity Tier 1 capital (to risk-weighted assets):				
BK	9,025,272	10.66	3,808,480	4.50
TB	1,876,980	17.92	471,132	4.50
Leverage ratio:				
BK	10,512,405	5.14	6,127,521	3.00
TB	2,066,480	8.95	691,914	3.00

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note:

- (1) Effective March 31, 2016, the FSA's capital conservation buffer, countercyclical buffer and G-SIB surcharge requirements became applicable to Japanese banking institutions with international operations conducted through foreign offices. As a result, in addition to the 4.50% minimum Common Equity Tier 1 capital ratio, MUFG is required to maintain a capital conservation buffer of 2.5% and a G-SIB surcharge of 1.5% as of March 31, 2020 and 2021, and the countercyclical buffer of 0.01% and 0.00% as of March 31, 2020 and 2021, respectively.

Mitsubishi UFJ Morgan Stanley Securities 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 Act 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 operational 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.

At March 31, 2020, Mitsubishi UFJ Morgan Stanley Securities's capital accounts less certain fixed assets of ¥440,520 million on a stand-alone basis and ¥465,343 million on a consolidated basis, were 313.0% and 316.2% of the total amounts equivalent to market, counterparty credit and operational risks, respectively. At March 31, 2021, its capital accounts less certain fixed assets of ¥475,343 million on a stand-alone basis, are 275.4% of the total amounts equivalent to market, counterparty credit and operational risks.

Management believes, as of March 31, 2021, that MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Morgan Stanley Securities 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, MUFG Americas Holdings and its banking subsidiary MUFG Union Bank, N.A. ("MUFG Union Bank" or "BK(US)"), MUFG Bank's largest subsidiaries operating outside Japan, are subject to various regulatory capital requirements administered by the U. S. Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a material effect on MUFG Americas Holdings's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, MUFG Americas Holdings and MUFG Union Bank must meet specific capital guidelines that involve quantitative measures of MUFG Americas Holdings's and MUFG Union Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. MUFG Americas Holdings's capital amounts and MUFG Union Bank's prompt corrective action classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies such as MUFG Americas Holdings. MUFG Union Bank is subject to laws and regulations that limit the amount of dividends MUFG Union Bank can pay to MUFG Americas Holdings.

Quantitative measures established by regulation to help ensure capital adequacy require MUFG Americas Holdings and MUFG Union Bank to maintain minimum amounts and ratios (set forth in the tables below) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to quarterly average assets (as defined).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In July 2013, the Board of Governors of the Federal Reserve System and the other U.S. Federal banking agencies adopted final rules making significant changes to the U.S. regulatory capital framework for U.S. banking organizations (U.S. Basel III). The final rules are intended to conform this framework to the BCBS' current international regulatory capital accord (Basel III). These rules replace the U.S. Federal banking agencies' general risk-based capital rules (commonly known as "Basel I"), advanced approaches rules (commonly known as "Basel II") that are applicable to certain large banking organizations (including MUFG Union Bank), and leverage rules, and are subject to certain transition provisions. Among other requirements, the U.S. Basel III rules revise the definition of capital, increase minimum capital ratios, and introduce a minimum Common Equity Tier 1 capital ratio of 4.5% and a capital conservation buffer of 2.5% (for a total minimum Common Equity Tier 1 capital ratio of 7.0%) and a potential countercyclical buffer of up to 2.5%, which would be imposed by regulators at their discretion if it is determined that a period of excessive credit growth is contributing to an increase in financial institution systemic risk; mandate a Tier 1 leverage ratio of 4% and introduce, for large and internationally active bank holding companies, a Tier 1 Supplementary Leverage Ratio that is currently set at 3% and which incorporates off-balance sheet exposures; revise Basel I rules for calculating risk-weighted assets under a standardized approach; modify the existing Basel II advanced approaches rules for calculating risk-weighted assets under U.S. Basel III; and eliminate, for advanced approaches institutions, over a four-year phase-in period beginning on January 1, 2014, the Accumulated OCI or loss exclusion that had applied under Basel I and Basel II rules.

As required under U.S. Basel III rules, the 2.5% capital conservation buffer is being implemented on a phased-in basis in equal increments of 0.625% per year over a four-year period that commenced on January 1, 2016. MUFG Americas Holdings and MUFG Union Bank satisfy the minimum capital requirements including the capital conservation buffer on a fully phased-in basis as those requirements were effective as of December 31, 2020.

The figures on the table below are calculated according to U.S. Basel III as of December 31, 2019 and 2020. MUFG Americas Holdings's actual capital amounts and ratios are presented as follows:

	Actual		Minimum capital ratios required ⁽¹⁾	
	Amount	Ratio	Amount	Ratio
	(in millions, except percentages)			
MUAH:				
At December 31, 2019:				
Total capital (to risk-weighted assets)	\$15,769	14.73%	\$11,237	10.500%
Tier 1 capital (to risk-weighted assets)	15,086	14.10	9,097	8.500
Tier 1 capital (to quarterly average assets) ⁽²⁾	15,086	8.88	6,792	4.000
Common Equity Tier 1 capital (to risk-weighted assets)	15,086	14.10	7,492	7.000
At December 31, 2020:				
Total capital (to risk-weighted assets)	\$16,871	16.29%	\$12,843	12.400%
Tier 1 capital (to risk-weighted assets)	15,823	15.28	10,772	10.400
Tier 1 capital (to quarterly average assets) ⁽²⁾	15,823	9.56	6,623	4.000
Common Equity Tier 1 capital (to risk-weighted assets)	15,823	15.28	9,218	8.900

Notes:

- (1) The minimum capital requirement includes a capital conservation buffer of 2.5% at December 31, 2019 and 4.4% at December 31, 2020.
(2) Excludes certain deductions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The figures on the table below are calculated according to U.S. Basel III as of December 31, 2019 and 2020. MUFG Union Bank’s actual capital amounts and ratios are presented as follows:

	<u>Actual</u>		<u>Minimum capital ratios required⁽¹⁾</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)						
BK(US):						
At December 31, 2019:						
Total capital (to risk-weighted assets)	\$14,746	15.11%	\$10,244	10.500%	\$9,756	10.00%
Tier 1 capital (to risk-weighted assets)	14,115	14.47	8,293	8.500	7,805	8.00
Tier 1 capital (to quarterly average assets) ⁽²⁾ ..	14,115	10.65	5,304	4.000	6,629	5.00
Common Equity Tier 1 capital (to risk-weighted assets)	14,115	14.47	6,829	7.000	6,342	6.50
At December 31, 2020:						
Total capital (to risk-weighted assets)	\$15,629	16.68%	\$ 9,836	10.500%	\$9,368	10.00%
Tier 1 capital (to risk-weighted assets)	14,634	15.62	7,963	8.500	7,494	8.00
Tier 1 capital (to quarterly average assets) ⁽²⁾ ..	14,634	11.12	5,262	4.000	6,577	5.00
Common Equity Tier 1 capital (to risk-weighted assets)	14,634	15.62	6,557	7.000	6,089	6.50

Notes:

(1) Beginning January 1, 2019, the minimum capital requirement includes a capital conservation buffer of 2.5%.

(2) Excludes certain deductions.

Management believes, as of December 31, 2020, that MUFG Americas Holdings and MUFG Union Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2019 and 2020, the notification from the OCC categorized MUFG Union Bank as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” MUFG Union Bank must maintain a minimum total risk-based capital ratio of 10% as of December 31, 2019 and 2020, a Tier 1 risk-based capital ratio of 8% as of December 31, 2019 and 2020, a Tier 1 capital to quarterly average assets of 5% as of December 31, 2019 and 2020, and Common Equity Tier 1 risk-based capital ratio of 6.5% as of December 31, 2019 and 2020, as set forth in the table. There are no conditions or events since that notification that management believes have changed MUFG Union Bank’s category.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

22. EARNINGS PER COMMON SHARE APPLICABLE TO COMMON SHAREHOLDERS OF MUFG

Reconciliations of net income and weighted average number of common shares outstanding used for the computation of basic EPS to the adjusted amounts for the computation of diluted EPS for the fiscal years ended March 31, 2019, 2020 and 2021 are as follows:

	2019	2020	2021
	(in millions)		
Income (Numerator):			
Net income attributable to Mitsubishi UFJ Financial Group	¥ 718,645	¥ 305,955	¥ 1,117,298
Effect of dilutive instruments:			
Stock acquisition rights and restricted stock units—Morgan Stanley	(3,745)	(2,861)	(4,159)
Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group and assumed conversions	¥ 714,900	¥ 303,094	¥ 1,113,139
	2019	2020	2021
	(thousands of shares)		
Shares (Denominator):			
Weighted average common shares outstanding	13,058,698	12,912,790	12,859,737
Effect of dilutive instruments:			
Stock acquisition rights and the common shares of MUFG under the Board Incentive Plan ⁽¹⁾	484	166	—
Weighted average common shares for diluted computation	13,059,182	12,912,956	12,859,737
	2019	2020	2021
	(in yen)		
Earnings per common share applicable to common shareholders of Mitsubishi UFJ Financial Group:			
Basic earnings per common share:			
Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group	¥ 55.03	¥ 23.69	¥ 86.88
Diluted earnings per common share:			
Earnings applicable to common shareholders of Mitsubishi UFJ Financial Group ⁽¹⁾	¥ 54.74	¥ 23.47	¥ 86.56

Note:

(1) For the fiscal years ended March 31, 2019, 2020 and 2021, the performance-based plan under the Board Incentive Plan 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.

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 derivative financial instruments, including swaps, forwards, options and

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other types of derivatives, dealing primarily with market risk associated with interest rates, foreign currencies, 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, the MUFG Group may require collateral or guarantees 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 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 the MUFG Group'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 in interest income and interest expense on hedged variable rate assets and liabilities as a result of interest rate fluctuations are expected to be substantially offset by 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 risk 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 mainly by MUFG Americas Holdings whose fiscal period ends on December 31.

Cash Flow Hedges

From time to time, MUFG Americas Holdings uses interest rate derivatives to hedge the risk of changes in cash flows attributable to changes in the designated interest rate on the London Interbank Offered Rate ("LIBOR") indexed loans, and to a lesser extent, to hedge interest rate risk on rollover debt.

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MUFG Americas Holdings used interest rate derivatives with an aggregate notional amount of ¥983.3 billion at December 31, 2020 to hedge the risk of changes in cash flows attributable to changes in the designated interest rates from variable rate loans. MUFG Americas Holdings used interest rate derivatives with an aggregate notional amount of ¥0.9 billion at December 31, 2020 to hedge the risk of changes in cash flows attributable to changes in the designated interest rate on LIBOR indexed short-term borrowings. At December 31, 2020, the weighted average remaining life of the active cash flow hedges was 2.7 years.

For cash flow hedges, changes in the fair value of the hedging instruments are reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged cash flows are recognized in net interest income. At December 31, 2020, MUFG Americas Holdings expects to reclassify approximately ¥11.3 billion of income from Accumulated OCI as an increase to net interest income during the twelve months ending December 31, 2021. This amount could differ from amounts actually realized due to changes in interest rates, hedge terminations and the addition of other hedges subsequent to December 31, 2020.

Notional Amounts of Derivative Contracts

The following table summarizes the notional amounts of derivative contracts at March 31, 2020 and 2021:

	<u>Notional amounts⁽¹⁾</u>	
	<u>2020</u>	<u>2021</u>
	(in trillions)	
Interest rate contracts	¥1,553.5	¥1,308.4
Foreign exchange contracts	230.2	222.0
Equity contracts	8.1	8.0
Commodity contracts	0.1	0.1
Credit derivatives	8.7	9.8
Other	3.1	3.5
Total	<u>¥1,803.7</u>	<u>¥1,551.8</u>

Note:

(1) Includes both written and purchased positions.

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Impact of Derivatives on the Consolidated Balance Sheets

The following table summarizes fair value information on derivative instruments that are recorded on the MUFG Group's consolidated balance sheets at March 31, 2020 and 2021:

	Fair value of derivative instruments					
	2020 ⁽¹⁾⁽⁵⁾			2021 ⁽¹⁾⁽⁵⁾		
	Not designated as hedges ⁽²⁾	Designated as hedges ⁽³⁾	Total derivatives ⁽⁴⁾	Not designated as hedges ⁽²⁾	Designated as hedges ⁽³⁾	Total derivatives ⁽⁴⁾
	(in billions)					
Derivative assets:						
Interest rate contracts	¥10,847	¥ —	¥10,847	¥ 7,718	¥ —	¥ 7,718
Foreign exchange contracts	3,734	—	3,734	3,910	—	3,910
Equity contracts	236	—	236	231	—	231
Commodity contracts	26	—	26	27	—	27
Credit derivatives	114	—	114	94	—	94
Other ⁽⁶⁾	1	—	1	17	—	17
Total derivative assets	<u>¥14,958</u>	<u>¥ —</u>	<u>¥14,958</u>	<u>¥11,997</u>	<u>¥ —</u>	<u>¥11,997</u>
Derivative liabilities:						
Interest rate contracts	¥10,205	¥ —	¥10,205	¥ 7,361	¥ —	¥ 7,361
Foreign exchange contracts	3,604	4	3,608	4,022	5	4,027
Equity contracts	277	—	277	237	—	237
Commodity contracts	26	—	26	27	—	27
Credit derivatives	95	—	95	109	—	109
Other ⁽⁶⁾	(177)	—	(177)	(47)	—	(47)
Total derivative liabilities	<u>¥14,030</u>	<u>¥ 4</u>	<u>¥14,034</u>	<u>¥11,709</u>	<u>¥ 5</u>	<u>¥11,714</u>

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 receivable 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 purposes, and are presented in Trading account assets and liabilities except for (6).
- (3) The MUFG Group adopts hedging strategies and applies hedge accounting to certain derivative transactions entered into by certain subsidiaries. The derivative instruments which are designated as hedging instruments are presented in Other assets or Other liabilities on the accompanying consolidated balance sheets.
- (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) Other mainly includes bifurcated embedded derivatives carried at fair value, which are presented in Loans, Deposits and Long-term debt.

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Impact of Derivatives on the Consolidated Statements of Income

The following table provides more detailed information regarding the derivative-related impact on the accompanying consolidated statements of income for the fiscal years ended March 31, 2019, 2020 and 2021:

Gains and losses for trading and risk management derivatives (not designated as hedging instruments)

	Trading and risk management derivatives gains and losses (Not designated as hedging instruments)								
	2019			2020			2021		
	Foreign exchange gains (losses) —net	Trading account profits (losses) —net	Total	Foreign exchange gains (losses) —net	Trading account profits (losses) —net	Total	Foreign exchange gains (losses) —net	Trading account profits (losses) —net	Total
	(in billions)								
Interest rate contracts	¥ —	¥ 6	¥ 6	¥ —	¥(173)	¥(173)	¥ —	¥ 70	¥ 70
Foreign exchange contracts	(347)	—	(347)	(429)	—	(429)	(91)	—	(91)
Equity contracts	—	80	80	—	30	30	—	(269)	(269)
Credit derivatives	—	(40)	(40)	—	15	15	—	(53)	(53)
Other ⁽¹⁾	(7)	(70)	(77)	(5)	(31)	(36)	11	(178)	(167)
Total	<u>¥(354)</u>	<u>¥(24)</u>	<u>¥(378)</u>	<u>¥(434)</u>	<u>¥(159)</u>	<u>¥(593)</u>	<u>¥(80)</u>	<u>¥(430)</u>	<u>¥(510)</u>

Note:

(1) Other mainly includes bifurcated embedded derivatives carried at fair value, which are presented in Loans, Deposits and Long-term debt.

Credit Derivatives

The MUFG Group enters into credit derivatives to manage its credit risk exposure, to facilitate client transactions, and for proprietary trading purposes, under which they provide the counterparty protection against the risk of default on a set of debt obligations issued by a specified reference entity or entities. Types of such credit derivatives primarily include single name credit default swaps, index and basket credit default swaps. 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 credit derivatives 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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The table below summarizes certain information regarding protection sold through credit derivatives as of March 31, 2020 and 2021:

	Protection sold				Fair value (Asset)/ Liability ⁽¹⁾
	Maximum potential/Notional amount by expiration period				
	1 year or less	1-5 years	Over 5 years	Total	
At March 31, 2020:	(in millions)				
Single name credit default swaps:					
Investment grade ⁽²⁾	¥303,870	¥2,125,006	¥494,040	¥2,922,916	¥(63,855)
Non-investment grade	93,671	279,892	49,681	423,244	3,358
Not rated	2,453	6,826	—	9,279	(18)
Total	<u>399,994</u>	<u>2,411,724</u>	<u>543,721</u>	<u>3,355,439</u>	<u>(60,515)</u>
Index and basket credit default swaps:					
Investment grade ⁽²⁾	20,000	210,602	14,950	245,552	(1,823)
Non-investment grade	—	106,630	—	106,630	(1,360)
Not rated	28,296	190,398	5,316	224,010	(5,205)
Total	<u>48,296</u>	<u>507,630</u>	<u>20,266</u>	<u>576,192</u>	<u>(8,388)</u>
Total credit default swaps sold	<u>448,290</u>	<u>2,919,354</u>	<u>563,987</u>	<u>3,931,631</u>	<u>(68,903)</u>
Other credit derivatives sold:					
Investment grade	—	—	—	—	—
Total credit derivatives	<u>¥448,290</u>	<u>¥2,919,354</u>	<u>¥563,987</u>	<u>¥3,931,631</u>	<u>¥(68,903)</u>
	Protection sold				
	Maximum potential/Notional amount by expiration period				
	1 year or less	1-5 years	Over 5 years	Total	Fair value (Asset)/ Liability ⁽¹⁾
At March 31, 2021:	(in millions)				
Single name credit default swaps:					
Investment grade ⁽²⁾	¥294,312	¥2,235,390	¥715,896	¥3,245,598	¥(67,707)
Non-investment grade	84,780	311,702	59,145	455,627	5,284
Not rated	—	1,683	—	1,683	(83)
Total	<u>379,092</u>	<u>2,548,775</u>	<u>775,041</u>	<u>3,702,908</u>	<u>(62,506)</u>
Index and basket credit default swaps:					
Investment grade ⁽²⁾	43,000	470,063	29,133	542,196	(4,753)
Non-investment grade	35,427	65,319	—	100,746	(1,165)
Not rated	59,534	29,971	852	90,357	(919)
Total	<u>137,961</u>	<u>565,353</u>	<u>29,985</u>	<u>733,299</u>	<u>(6,837)</u>
Total credit default swaps sold	<u>517,053</u>	<u>3,114,128</u>	<u>805,026</u>	<u>4,436,207</u>	<u>(69,343)</u>
Other credit derivatives sold ⁽³⁾ :					
Investment grade ⁽²⁾	—	16,606	—	16,606	57
Total credit derivatives	<u>¥517,053</u>	<u>¥3,130,734</u>	<u>¥805,026</u>	<u>¥4,452,813</u>	<u>¥(69,286)</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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) Other credit derivatives primarily consist of guarantees for exposures held by the counterparty under interest rate swaps and other types of derivative contracts.

Single name credit default swaps—Single name 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 premium to the MUFG Group and is protected for the period of the credit default swap. As the seller of protection, 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 those provided by Moody's and Standard & Poor's ("S&P"), of the underlying reference entity of the credit default swaps are disclosed.

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 the underlying names, the MUFG Group, as the seller of protection, 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, the rating scale based upon internal ratings, which generally correspond to ratings defined by primarily Moody's and S&P, of the underlying reference entities comprising the basket or index were calculated and disclosed.

The MUFG Group may economically hedge its exposure to credit derivatives by entering into offsetting derivative contracts. The carrying value and notional amounts of credit protection sold in which the MUFG Group held purchased protection with identical underlying referenced entities were approximately ¥65 billion and ¥3,544 billion, respectively, at March 31, 2020, and approximately ¥66 billion and ¥4,097 billion, respectively, at March 31, 2021.

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 derivative instruments held by the MUFG Group 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 payments on early termination 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 were in a liability position at March 31, 2020 and 2021 was approximately ¥0.6 trillion and ¥0.7 trillion, respectively, for which the MUFG Group has posted collateral of approximately ¥152 billion and ¥227 billion, respectively, in the normal course of business. The amount of additional collateral and early termination amount which could be requested if the MUFG Group's debt falls below investment grade was ¥58 billion and ¥80 billion, respectively, as of March 31, 2020 and ¥63 billion and ¥92 billion, respectively, as of March 31, 2021.

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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 protection, liquidity facilities, other off-balance sheet credit-related support and similar instruments, in order to meet the customers' financial and business needs. The tables below present the contractual or notional amounts of such guarantees at March 31, 2020 and 2021. The contractual or notional amounts of these instruments represent the maximum potential amounts of future payments without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

For certain types of derivatives, such as written interest rate options and written currency options, the maximum potential future payments are unlimited. Accordingly, it is impracticable to estimate the maximum potential amount of future payments. As such, the notional amounts of the related contracts, other than the maximum potential payments, are included in the table.

The MUFG Group mitigates its credit risk exposure resulting from guarantees by utilizing various techniques, including collateralization in the form of cash, securities, and real estate 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 customer fails to fulfill its obligations. The following table includes guarantees of ¥455.8 billion and ¥499.0 billion at March 31, 2020 and 2021, respectively, which are syndicated 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 risk management techniques of the MUFG Group.

	Maximum potential/ Contractual or Notional amount	Amount by expiration period		
		1 year or less	1-5 years	Over 5 years
At March 31, 2020:				
(in billions)				
Standby letters of credit and financial guarantees	¥ 4,098	¥ 3,109	¥ 763	¥ 226
Performance guarantees	3,058	2,160	738	160
Derivative instruments ⁽¹⁾	58,836	36,021	14,543	8,272
Liabilities of trust accounts	13,142	6,752	451	5,939
Other	88	8	73	7
Total	<u>¥79,222</u>	<u>¥48,050</u>	<u>¥16,568</u>	<u>¥14,604</u>

	Maximum potential/ Contractual or Notional amount	Amount by expiration period		
		1 year or less	1-5 years	Over 5 years
At March 31, 2021:				
(in billions)				
Standby letters of credit and financial guarantees	¥ 4,055	¥ 3,174	¥ 698	¥ 183
Performance guarantees	3,193	2,315	755	123
Derivative instruments ⁽¹⁾	38,499	15,534	15,104	7,861
Liabilities of trust accounts	10,656	5,667	718	4,271
Other	40	6	34	—
Total	<u>¥56,443</u>	<u>¥26,696</u>	<u>¥17,309</u>	<u>¥12,438</u>

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Note:

(1) Credit derivatives sold by the MUFG Group are excluded from this presentation.

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 event 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.

Performance guarantees are 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 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, 2020 and 2021 are excluded from this presentation, as they are disclosed in Note 23.

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 certain agreements with trust creditors that have provisions limiting the MUFG Group's exposure as a trustee to the trust account assets. A trust may incur external liabilities to obtain certain services during the terms of the trust arrangement. While in principle, any liabilities of a trust are payable by the trust account and its beneficiaries. A trustee's responsibility may be interpreted to encompass temporary payments for the trust account liabilities when the trust account does not maintain sufficient liquidity available for such liabilities unless the agreement with trust creditors limits the trustee's exposure to the trust account assets. Liabilities of trust accounts principally includes 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; the MUFG Group claims its recourse for its temporary payments against the trust account assets and the beneficiaries.

Carrying Amount

At March 31, 2020 and 2021, the carrying amounts of the liabilities related to guarantees and similar instruments set forth above were ¥1,130,522 million and ¥857,862 million, respectively, which are included in Other liabilities and Trading account liabilities. The guarantees and similar instruments comprising the largest components of the total were options sold in the amount of ¥1,090,921 million and ¥819,739 million as of March 31, 2020 and 2021, respectively. Credit derivatives sold by the MUFG Group at March 31, 2020 and 2021 are excluded from this presentation, as they are disclosed in Note 23. In addition, Other liabilities include an allowance for off-balance sheet instruments of ¥30,911 million and ¥27,688 million at March 31, 2020 and 2021, respectively, related to these transactions.

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Performance Risk

The MUFG Group monitors performance risk of its guarantees using the same credit rating system utilized for estimating probabilities of default with its loan portfolio. The MUFG Group's credit rating system is consistent with both the method of evaluating credit risk under Basel III 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 in the following tables.

Presented in the tables below is the maximum potential amount of future payments classified based upon internal credit ratings as of March 31, 2020 and 2021. 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 do not represent the anticipated losses, if any, on these guarantees.

	Maximum potential/ Contractual or Notional amount	Amount by borrower grade			
		Normal	Close Watch ⁽¹⁾	Likely to become Bankrupt or Legally/ Virtually Bankrupt ⁽²⁾	Not rated
(in billions)					
At March 31, 2020:					
Standby letters of credit and financial guarantees	¥4,098	¥3,984	¥ 93	¥17	¥ 4
Performance guarantees	3,058	2,904	96	36	22
Total	<u>¥7,156</u>	<u>¥6,888</u>	<u>¥189</u>	<u>¥53</u>	<u>¥26</u>

	Maximum potential/ Contractual or Notional amount	Amount by borrower grade			
		Normal	Close Watch ⁽¹⁾	Likely to become Bankrupt or Legally/ Virtually Bankrupt ⁽²⁾	Not rated
(in billions)					
At March 31, 2021:					
Standby letters of credit and financial guarantees	¥4,055	¥3,929	¥108	¥15	¥ 3
Performance guarantees	3,193	3,092	70	3	28
Total	<u>¥7,248</u>	<u>¥7,021</u>	<u>¥178</u>	<u>¥18</u>	<u>¥31</u>

Notes:

- (1) Borrowers classified as Close Watch represent those that require close monitoring as the borrower has begun to exhibit elements of potential concern with respect to its business performance and financial condition, the borrower has begun to exhibit elements of serious concern with respect to its business performance and financial condition, including business problems requiring long-term solutions, or the borrower's loans are TDRs or loans contractually past due 90 days or more for special reasons.
- (2) Borrowers classified as Likely to become Bankrupt or Legally/Virtually Bankrupt represent those that have a higher probability of default than those categorized as Close Watch due to serious debt repayment problems with poor progress in achieving restructuring plans, the borrower being considered virtually bankrupt with no prospects for an improvement in business operations, or the borrower being legally bankrupt with no prospects for continued business operations because of non-payment, suspension of business, voluntary liquidation or filing for legal liquidation.

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

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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.

Liabilities of trust accounts represent the trustee's potential responsibility for temporary payments to creditors of liabilities of trust accounts using 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.

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 its customers. Once the MUFG Group issues these off-balance sheet 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, 2021, approximately 67% of these commitments will expire within one year, 30% from one year to five years and 3% after five years. The table below presents the contractual amounts with regard to such instruments at March 31, 2020 and 2021:

	<u>2020</u>	<u>2021</u>
	(in billions)	
Commitments to extend credit	¥76,398	¥84,614
Commercial letters of credit	757	835
Commitments to make investments	247	281
Other	5	—

Commitments to extend credit, which generally have fixed expiration dates or other termination clauses, are 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.

Commercial letters of credit, generally used for trade transactions, are typically secured by the underlying goods. The MUFG Group continually monitors the type and amount of collateral and other securities, 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 business, the MUFG Group has financial interests and other contractual obligations in various entities which may be deemed to be VIEs such as asset-backed conduits, various investment funds, special purpose entities created for structured financing, repackaged instruments, entities created for the securitization of the MUFG Group's assets and trust arrangements.

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The following tables present the assets and liabilities of consolidated VIEs recorded on the accompanying consolidated balance sheets at March 31, 2020 and 2021:

Consolidated VIEs	Consolidated assets						
	Total	Cash and due from banks	Interest-earning deposits in other banks	Trading account assets	Investment securities	Loans	All other assets
At March 31, 2020:	(in millions)						
Asset-backed conduits	¥ 6,263,082	¥ 102,781	¥ 31,625	¥ 12,989	¥1,195,283	¥ 4,913,939	¥ 6,465
Investment funds	493,757	—	16,482	314,074	34,121	—	129,080
Special purpose entities created for structured financing	204,047	—	2,658	—	—	119,348	82,041
Repackaged instruments	249,529	1,330	—	42,052	118,776	86,859	512
Securitization of the MUFG Group's assets	10,956,261	—	—	—	—	10,933,580	22,681
Trust arrangements	7,527,539	—	654	336,546	745,846	6,441,864	2,629
Other	31,295	350	2,055	—	—	6,885	22,005
Total consolidated assets before elimination	25,725,510	104,461	53,474	705,661	2,094,026	22,502,475	265,413
The amounts eliminated in consolidation	(6,877,849)	(103,615)	(23,427)	(10,592)	(289,567)	(6,429,880)	(20,768)
Total consolidated assets	<u>¥18,847,661</u>	<u>¥ 846</u>	<u>¥ 30,047</u>	<u>¥695,069</u>	<u>¥1,804,459</u>	<u>¥16,072,595</u>	<u>¥244,645</u>
	Consolidated liabilities						
	Total	Deposits	Other short-term borrowings	Long-term debt	All other liabilities		
	(in millions)						
Asset-backed conduits	¥ 6,253,318	¥ —	¥ 4,327,685	¥ 1,478,921	¥ 446,712		
Investment funds	15,817	—	—	5,546	10,271		
Special purpose entities created for structured financing	114,357	—	—	112,474	1,883		
Repackaged instruments	251,056	—	65,965	163,833	21,258		
Securitization of the MUFG Group's assets	10,924,830	—	16,008	10,077,839	830,983		
Trust arrangements	7,522,190	6,743,261	—	—	778,929		
Other	27,302	—	5,989	1,321	19,992		
Total consolidated liabilities before elimination	25,108,870	6,743,261	4,415,647	11,839,934	2,110,028		
The amounts eliminated in consolidation	(15,045,398)	(703)	(2,526,893)	(11,374,581)	(1,143,221)		
The amount of liabilities with recourse to the general credit of the MUFG Group	<u>(9,465,320)</u>	<u>(6,742,558)</u>	<u>(1,857,923)</u>	<u>(1)</u>	<u>(864,838)</u>		
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the MUFG Group	<u>¥ 598,152</u>	<u>¥ —</u>	<u>¥ 30,831</u>	<u>¥ 465,352</u>	<u>¥ 101,969</u>		

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<u>Consolidated VIEs</u>	<u>Consolidated assets</u>						
	<u>Total</u>	<u>Cash and due from banks</u>	<u>Interest-earning deposits in other banks</u>	<u>Trading account assets</u>	<u>Investment securities</u>	<u>Loans</u>	<u>All other assets</u>
<u>At March 31, 2021:</u>	(in millions)						
Asset-backed conduits	¥ 5,986,887	¥ 109,439	¥ 40,061	¥ 5,433	¥1,015,434	¥ 4,800,221	¥ 16,299
Investment funds	374,324	—	15,171	240,327	41,512	—	77,314
Special purpose entities created for structured financing	175,630	—	2,058	4,645	—	113,943	54,984
Repackaged instruments . .	281,331	3,179	—	73,914	118,199	85,782	257
Securitization of the MUFG Group's assets	10,358,628	—	996	—	—	10,339,273	18,359
Trust arrangements	9,029,390	—	—	623,466	1,071,708	7,334,215	1
Other	43,320	323	3,826	17,108	—	4,660	17,403
Total consolidated assets before elimination	26,249,510	112,941	62,112	964,893	2,246,853	22,678,094	184,617
The amounts eliminated in consolidation	(8,121,094)	(110,243)	(31,690)	(5,892)	(519,561)	(7,430,166)	(23,542)
Total consolidated assets	<u>¥18,128,416</u>	<u>¥ 2,698</u>	<u>¥ 30,422</u>	<u>¥959,001</u>	<u>¥1,727,292</u>	<u>¥15,247,928</u>	<u>¥161,075</u>
	<u>Consolidated liabilities</u>						
	<u>Total</u>	<u>Deposits</u>	<u>Other short-term borrowings</u>	<u>Long-term debt</u>	<u>All other liabilities</u>		
	(in millions)						
Asset-backed conduits	¥ 5,989,188	¥ —	¥ 4,058,248	¥ 1,461,043	¥ 469,897		
Investment funds	15,039	—	—	5,831	9,208		
Special purpose entities created for structured financing	97,226	—	—	84,973	12,253		
Repackaged instruments	284,795	—	21,343	195,987	67,465		
Securitization of the MUFG Group's assets	10,367,099	—	31,000	9,839,204	496,895		
Trust arrangements	9,029,272	7,826,959	—	—	1,202,313		
Other	39,141	—	3,433	18,315	17,393		
Total consolidated liabilities before elimination	25,821,760	7,826,959	4,114,024	11,605,353	2,275,424		
The amounts eliminated in consolidation	(14,679,458)	—	(2,422,978)	(11,144,547)	(1,111,933)		
The amount of liabilities with recourse to the general credit of the MUFG Group	<u>(10,547,483)</u>	<u>(7,826,959)</u>	<u>(1,657,447)</u>	<u>(3,043)</u>	<u>(1,060,034)</u>		
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the MUFG Group . . .	<u>¥ 594,819</u>	<u>¥ —</u>	<u>¥ 33,599</u>	<u>¥ 457,763</u>	<u>¥ 103,457</u>		

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In general, the creditors or beneficial interest holders of consolidated VIEs have recourse not only to the assets of those VIEs of which they are creditors or beneficial interest holders, but also to other assets of the MUFG Group, since the MUFG Group is also contractually required to provide credit enhancement or program-wide liquidity to these VIEs.

The following tables present the total assets of non-consolidated VIEs, the maximum exposure to loss resulting from the MUFG Group's involvement with non-consolidated VIEs and the assets and liabilities which relate to the MUFG's variable interests in non-consolidated VIEs at March 31, 2020 and 2021:

<u>Non-consolidated VIEs</u>			<u>On-balance sheet assets</u>					<u>On-balance sheet liabilities</u>	
<u>At March 31, 2020:</u>	<u>Total assets</u>	<u>Maximum exposure</u>	<u>Total</u>	<u>Trading account assets</u>	<u>Investment securities</u>	<u>Loans</u>	<u>All other assets</u>	<u>Total</u>	<u>All other liabilities</u>
				(in millions)					
Asset-backed conduits	¥ 27,700,099	¥ 5,836,895	¥ 4,797,551	¥ 190	¥1,737,979	¥3,059,382	¥ —	¥ —	¥ —
Investment funds	55,644,434	1,918,403	1,712,037	437,858	525,022	724,253	24,904	356,679	356,679
Special purpose entities created for structured financing	37,026,192	3,601,834	2,764,156	392,588	35,774	2,317,128	18,666	6,058	6,058
Repackaged instruments	8,215,327	3,030,263	2,931,617	394,478	2,123,058	361,184	52,897	—	—
Other	54,962,702	2,940,349	2,314,142	191,646	—	1,995,985	126,511	41,693	41,693
Total	<u>¥183,548,754</u>	<u>¥17,327,744</u>	<u>¥14,519,503</u>	<u>¥1,416,760</u>	<u>¥4,421,833</u>	<u>¥8,457,932</u>	<u>¥222,978</u>	<u>¥404,430</u>	<u>¥404,430</u>

<u>Non-consolidated VIEs</u>			<u>On-balance sheet assets</u>					<u>On-balance sheet liabilities</u>	
<u>At March 31, 2021:</u>	<u>Total assets</u>	<u>Maximum exposure</u>	<u>Total</u>	<u>Trading account assets</u>	<u>Investment securities</u>	<u>Loans</u>	<u>All other assets</u>	<u>Total</u>	<u>All other liabilities</u>
				(in millions)					
Asset-backed conduits	¥ 25,491,847	¥ 5,606,965	¥ 4,211,342	¥ 277	¥1,598,992	¥2,612,073	¥ —	¥ —	¥ —
Investment funds	102,840,486	2,646,071	2,288,210	538,190	501,434	1,213,179	35,407	114,911	114,911
Special purpose entities created for structured financing	38,771,947	4,409,839	3,254,145	476,784	25,234	2,745,441	6,686	10,447	10,447
Repackaged instruments	8,604,182	3,088,564	3,008,695	611,245	2,142,482	204,332	50,636	29,478	29,478
Other	65,455,861	3,039,135	2,176,775	198,144	—	1,915,912	62,719	24,732	24,732
Total	<u>¥241,164,323</u>	<u>¥18,790,574</u>	<u>¥14,939,167</u>	<u>¥1,824,640</u>	<u>¥4,268,142</u>	<u>¥8,690,937</u>	<u>¥155,448</u>	<u>¥179,568</u>	<u>¥179,568</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 liabilities held, net of any recourse liabilities. Therefore, the maximum exposure to loss represents the maximum loss the MUFG Group could possibly incur at each balance

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sheet date and does not reflect the likelihood of such a loss being incurred. The difference between the amount of on-balance sheet assets and the maximum exposure to loss primarily comprises the remaining undrawn commitments.

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, primarily trade accounts receivable, from the MUFG Group’s customers 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 financial 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 enhancement 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 enhancement. The MUFG Group considers itself to be the primary beneficiary of the multi-seller conduits because, as an agent and sponsor, the MUFG Group has the power to direct activities of the conduits that most significantly impact the conduits’ economic performance and also has the obligation to absorb losses of the conduits that could potentially be significant to the conduits through the program-wide liquidity and credit enhancement. Consequently, the MUFG Group consolidates the conduits.

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 conduits is only to provide financing along with other third-party financial institutions and it does not have the power to direct the activities of the conduits. Consequently, the MUFG Group does not consolidate the conduits.

Asset-Backed Conduits (MUFG-sponsored Asset-Backed Loan (“ABL”) Programs and Other Programs)

The MUFG Group administers several conduits under asset-backed financing programs where the MUFG Group provides financing to fund the conduits’ purchases of financial assets, comprising primarily trade accounts receivable, 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. The MUFG Group considers itself to be the primary beneficiary of the conduits because, as an agent and sponsor for the conduits, the MUFG Group has the power to direct activities of the conduits, such as selection of the assets to be purchased and condition for purchases, and debt collection from the original obligors, that most significantly impact the conduits’ economic performance, and also has the obligation to absorb losses of the conduits that could potentially be significant to the conduits through financing it provides. Consequently, the MUFG Group consolidates the conduits.

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

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receive beneficial certificates of trusts in exchange. The originators then transfer the beneficiary certificates to the MUFG Group in exchange for cash. The originators of the financial assets entrusted continue to be involved in the assets as servicers. Because the originators are deemed to have the power to direct activities of the entities that most significantly impact the entities' economic performance through their role as a servicer, the MUFG Group is not considered as the primary beneficiary of these entities. Consequently, the MUFG Group does not consolidate these entities.

The MUFG Group also participates as a provider of financing to 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 in the entities is only to provide financing along with other third parties and it does not have the power to direct the activities of the entities. Consequently, the MUFG Group does not consolidate the entities used in these programs.

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 entities and attempt to enhance corporate value by various means including corporate restructuring and reorganization. Their exit strategies include, among others, sales to others and initial public offerings.

Typically, these entities take the form of a limited partnership which is entirely funded by general and limited partner interests. These partnerships are considered as VIEs unless the limited partners hold substantive kick-out rights or participating rights.

The MUFG Group mostly serves as a limited partner in corporate recovery funds that are considered as VIEs, and does not have the power to direct the activities of these funds that most significantly impact the economic performance of these funds. Therefore, the MUFG Group does not consider itself to be the primary beneficiary of these funds and does not consolidate them.

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 a limited partnership and usually are entirely funded by general and limited partner interests. These partnerships are considered as VIEs unless the limited partners hold substantive kick-out rights or participating rights.

The MUFG Group participates in these partnerships as a general partner or limited partner. The MUFG Group consolidates these funds, which are considered as VIEs, if the MUFG Group has the power to direct the activities of these funds that most significantly impact the economic performance of these funds, and also has the obligation to absorb losses of these funds that could potentially be significant to these funds or the right to receive benefits from these funds that could potentially be significant to these funds.

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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 these funds if the MUFG Group has the power to direct the activities of these funds that most significantly impact the economic performance of these funds, and also has the obligation to absorb losses of these funds that could potentially be significant to these funds or the right to receive benefits from these funds that could potentially be significant to these funds.

Buy-out Financing Vehicles

The MUFG Group provides financing to buy-out vehicles. The buy-out vehicles are established by equity investments from, among others, private equity funds or the management of target companies for the purpose of purchasing the equity shares of target companies. Along with other financial institutions, the MUFG Group provides financing to the buy-out vehicles in the form of loans. While the buy-out vehicles' equity is normally substantive in its amount and the rights and obligations associated with it, in some cases, the vehicles have equity that is insufficient to absorb expected variability primarily because the amount provided by equity investors is nominal in nature. These vehicles engage in non-investment activities, and are considered as VIEs. In most cases, the MUFG Group's participation in these vehicles is only to provide financing to the vehicles, and the power to direct the activities that most significantly impact the economic performance of the vehicles is held by the management of target companies. As a result, the MUFG Group is not considered as the primary beneficiary of these vehicles and does not consolidate them.

Other Investment Funds

The MUFG Group's investments in VIEs through MUFG Americas Holdings primarily consist of equity investments in low-income housing credit ("LIHC") structures, designed to generate a return primarily through the realization of federal tax credits. MUFG Americas Holdings considers itself as the primary beneficiary of certain types of LIHC investments.

LIHC Unguaranteed Syndicated Investment Funds

MUFG Americas Holdings creates the investment funds, serves as the managing investor member, and sells limited investor member interests to third parties. MUFG Americas Holdings receives benefits through income from the structuring of these funds, servicing fees for managing the funds and, as an investor member, tax benefits and tax credits to reduce the MUFG Americas Holdings tax liability. MUFG Americas Holdings considers itself to be the primary beneficiary and consolidates them upon adoption of the current guidance because, as a sponsor and managing member of the funds, it has the power to direct activities that most significantly impact the funds' economic performance and also has the obligation to absorb losses of the funds that could potentially be significant to the funds.

LIHC Guaranteed Syndicated Investment Funds

MUFG Americas Holdings also forms limited liability companies, which in turn invest in LIHC operating partnerships, to create LIHC guaranteed syndicated investment funds. Interests in these funds are sold to third parties who pay a premium for a guaranteed return. MUFG Americas Holdings earns structuring fees from the

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sale of these funds and asset management fees. MUFG Americas Holdings serves as the funds' sponsor and non-member asset manager, and also guarantees a minimum rate of return throughout the investment term, therefore, it directs the activities that most significantly impact the funds' economic performance and also has an obligation to absorb losses pertaining to its minimum rate of return guarantee to investors. Therefore, the MUFG Group is considered as the primary beneficiary of these funds and consolidates them.

Special Purpose Entities Created for Structured Financing

This category primarily comprises the following:

Leasing Transaction Vehicles

These entities are established to raise funds to purchase or build equipment and machinery including, among others, commercial vessels, passenger and cargo aircraft, and production equipment 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. When entities take the form of a limited partnership, these entities are considered as VIEs unless limited partners hold substantive kick-out rights or participating rights. The entities considered as VIEs are typically 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. Generally, because the MUFG Group's participation in these entities is only to provide financing, it does not have the power to direct the activities of the entities that most significantly impact the economic performance of the entities. Therefore, the MUFG Group does not consider itself to be the primary beneficiary of these entities and does not consolidate them, except for limited circumstances where the MUFG Group is directly involved with the structuring of the transaction and has the power to direct the activities of the entities that most significantly impact the economic performance of the entities.

Project Financing Vehicles

These entities are established to raise funds in connection with, among others, production of natural resources, construction and development of urban infrastructure (including power plants and grids, highways and 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 these entities is only to provide financing, it does not have the power to direct the activities that most significantly impact the economic performance of these entities. Therefore, the MUFG Group is not considered as the primary beneficiary of these entities and does not consolidate them.

Sale-and-Leaseback Vehicles

The MUFG Group is involved with vehicles that acquire assets, primarily real estate, from the MUFG Group's customers 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, and are considered as VIEs unless the limited partners hold substantive kick-out rights or participating rights. The subordinated financing of these vehicles considered as VIEs is usually provided by the sellers of the assets, with the MUFG Group

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providing senior financing for the vehicles. Because the MUFG Group's participation in these vehicles is only to provide senior financing, it does not have the power to direct the activities that most significantly impact the economic performance of these vehicles. Therefore, the MUFG Group is not considered as the primary beneficiary and does not consolidate them.

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. When entities take the form of a limited partnership, these entities are considered as VIEs unless the limited partners hold substantive kick-out rights or participating rights. The entities considered as VIEs are typically funded by senior and subordinated financing where the original owners of the real estate 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. Because the MUFG Group's participation in these vehicles is only to provide a portion of senior financing, it does not have the power to direct the activities that most significantly impact the economic performance of these entities. Therefore, the MUFG Group is not considered as the primary beneficiary and does not consolidate these entities.

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"). These entities are considered as VIEs because the holders of the equity investment at risk do not have the power to direct the activities that most significantly impact their economic performance. These entities are generally arranged and managed by parties that are not related to the MUFG Group. The MUFG Group's involvement with the entities arranged and managed by third parties is for investment purposes. In these 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 does not have the power to direct activities of the entities that most significantly impact the entities' economic performance, and thus is not considered as the primary beneficiary of these entities and does not consolidate these entities.

In certain instances, special purpose entities have been established and are managed by the MUFG Group. The MUFG Group's involvement includes establishing and arranging the transaction and underwriting securities issued by the entities to general investors. For these entities, the MUFG Group has the power to direct activities that most significantly impact the economic performance and it has the obligation to absorb losses or receive benefits that could potentially be significant to the entities. As such, the MUFG Group considers itself as the primary beneficiary of these entities and consolidates them.

Investments in Securitized Financial Instruments

The MUFG Group holds investments in special purpose entities that issue securitized financial products. The assets held by the entities include credit card receivables and residential mortgage loans. 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

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other investors and the MUFG Group does not have the power to direct activities of the entities that most significantly impact the entities' economic performance. Therefore, the MUFG Group is not considered as the primary beneficiary of these entities and does not consolidate them.

Securitization of the MUFG Group's Assets

This category primarily comprises the following:

Securitization for issuing interests or financing

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 a special purpose company or a trust, are established by the MUFG Group and, in most cases, issue senior and subordinate interests or financing. After securitization, the MUFG Group typically continues to service securitized assets as a servicer. The MUFG Group may also retain subordinate interests or financing or other interests. The MUFG Group is considered as the primary beneficiary and consolidates the entities used for securitization since it has the obligation to absorb losses through subordinate interests, and also has the power for determining and implementing policies as servicer that give it the ability to manage the entities' assets that become delinquent or are in default in order to improve the economic performance of the entities.

Eligible beneficiary interests in housing loan trusts

The MUFG Group establishes trusts, which acquire the MUFG Group's housing loans and in turn issue beneficiary interests to the MUFG Group, to pledge these beneficiary interests as collateral for borrowings from the Bank of Japan, as a result of the decision by the Bank of Japan on June 30, 2016 to accept these beneficial interests as collateral in the same way as it does for Japanese national government bonds. The MUFG Group is considered as the primary beneficiary and consolidates the trusts since it has the obligation to absorb losses through beneficiary interests, and also has the power for determining and implementing policies as servicer that give it the ability to manage housing loans owned by the trusts that become delinquent or are in default in order to improve the economic performance of the trusts.

Trust Arrangements

The MUFG Group offers, primarily through Mitsubishi UFJ Trust and Banking, 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 power to direct the activities that most significantly impact its economic performance in the arrangements. The MUFG Group, however, is not considered as the primary beneficiary, mainly, except for the case mentioned below, because it merely receives fees for compensation for its services on terms that are customary for these activities and the fees are insignificant relative to the total amount of the trusts' economic performance and variability. Therefore, the MUFG Group does not consolidate these entities.

With respect to the jointly operated designated money in trusts, Mitsubishi UFJ Trust and Banking pools money from investors and determines how best to invest it. In addition, certain investors, such as money reserve funds and investment funds, place excess funds in the jointly operated designated money trusts. Mitsubishi UFJ Trust and Banking typically invests in high-quality financial assets, including government bonds, corporate

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bonds and corporate loans including loans to Mitsubishi UFJ Trust and Banking and receives fees as compensation for services. In this role as a sponsor of these trusts' Mitsubishi UFJ Trust and Banking provides guarantees under which it is required to compensate a loss on the stated principal of the trust beneficial interests. Mitsubishi UFJ Trust and Banking is considered as the primary beneficiary of these trusts' because it is exposed to a potentially significant amount of losses and also has the power to direct activities of these trusts' that most significantly impact their economic performance. Upon consolidation of the trusts, the certificates issued to the investors are accounted for as deposit liabilities as the products are structured and marketed to customers similar to Mitsubishi UFJ Trust and Banking's term deposit products.

Mitsubishi UFJ Trust and Banking considers the likelihood of incurring losses on the stated principal guarantee to be highly remote. In the trusts' operational history that extends over decades, the stated principal guarantee has never been called upon. The variability in fair value of the net assets of the trusts has been primarily affected by the fluctuations in interest rates, and the majority of such variability has been absorbed by investors or trust beneficiaries.

Other

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 entities 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 because the MUFG Group's participation in these entities is only to provide financing, and the customers effectively hold the power to direct activities of these entities that most significantly impact the economic performance of the entities. Consequently, the MUFG Group does not consolidate these entities.

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 the MUFG Group 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. Because the MUFG Group does not have variable interests in these vehicles, the MUFG Group does not consolidate these entities.

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 investment at risk. In all cases, the MUFG Group is not considered as the primary beneficiary because the power to direct activities that most significantly impact the economic performance of the troubled borrowers resides with the management of the troubled borrowers, and the MUFG Group, as a lender, does not have power over or assume any role in management. Therefore, the MUFG Group does not consolidate these troubled borrowers.

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26. CONTINGENT LIABILITIES

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, recent trend of borrowers' claims for reimbursement, and management future forecasts. Management believes that the provision for repayment of excess interest is adequate and the allowance is at the appropriate amount to absorb probable losses, so that the impact of future claims for reimbursement of excess interest will not have a material adverse effect on the MUFG Group's financial position and results of operations. The allowance for repayment of excess interest established by MUFG's consumer finance subsidiaries, which was included in Other liabilities, was ¥29,438 million and ¥24,943 million as of March 31, 2020 and 2021, respectively. Provision (reversal) related to the allowance is included in Other non-interest expenses in the accompanying consolidated statements of income. For the fiscal years ended March 31, 2019, 2020 and 2021, there was a negative impact of ¥15,632 million, ¥7,800 million and nil, respectively, on Equity in earnings of equity method investees—net in the accompanying consolidated statements of income.

Litigation

In the ordinary course of business, the MUFG Group is subject to various litigation and regulatory matters. In accordance with applicable accounting guidance, the MUFG Group establishes an accrued liability for loss contingencies arising from litigation and regulatory matters when they are determined to be probable in their occurrence and the probable loss amount can be reasonably estimated. Based upon current knowledge and consultation with counsel, management believes the eventual outcome of such litigation and regulatory matters, where losses are probable and the probable loss amounts can be reasonably estimated, would not have a material adverse effect on the MUFG Group's financial position, results of operations or cash flows. Additionally, management believes the amount of loss that is reasonably possible, but not probable, from various litigation and regulatory matters is not material to the MUFG Group's financial position, results of operations or cash flows.

27. FEES AND COMMISSIONS INCOME

Disaggregation of Contract Revenue

Details of fees and commissions income for the fiscal years ended March 31, 2019, 2020 and 2021 were as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(in millions)		
Fees and commissions on deposits	¥ 52,624	¥ 53,684	¥ 50,131
Fees and commissions on remittances and transfers	168,756	169,407	165,288
Fees and commissions on foreign trading business	73,176	66,025	79,353
Fees and commissions on credit card business	225,877	238,112	199,625
Fees and commissions on security-related services	233,448	221,494	244,017
Fees and commissions on administration and management services for investment funds	147,597	184,559	235,497
Trust fees	115,002	119,919	125,658
Guarantee fees ⁽¹⁾	44,962	46,322	43,889
Insurance commissions	46,918	44,415	42,117
Fees and commissions on real estate business	45,160	49,764	48,110
Other fees and commissions ⁽²⁾	285,058	308,351	293,598
Total	<u>¥1,438,578</u>	<u>¥1,502,052</u>	<u>¥1,527,283</u>

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Notes:

- (1) Guarantee fees are not within the scope of the guidance on revenue from contracts with customers.
- (2) Other fees and commissions include non-refundable financing related fees that are not within the scope of the guidance on revenue from contracts with customers.

The following is an explanation of the relationship with revenue information disclosed for each reportable segment.

These revenues from contracts with customers are related to various reportable segments disclosed in Note 29. The business segment information is derived from the internal management reporting system used by management to measure the performance of the MUFG Group's business segments. In addition, the business segment information is primarily based on the financial information prepared in accordance with Japanese GAAP as adjusted in accordance with internal management accounting rules and practices. Further, the format and information as disclosed in Note 29 are not consistent with the accompanying consolidated financial statements prepared on the basis of U.S. GAAP. For example, management does not use information on segments' gross revenue to allocate resources and assess performance.

The majority of fees and commissions on deposits are from the business activities relevant to Retail & Commercial Banking Business Group ("R&C"), with Global Commercial Banking Business Group ("GCB") providing a smaller impact.

The business activities relevant to fees and commissions on remittances and transfers are attributable to R&C, Japanese Corporate Investment Banking Business Group ("JCIB"), Global Corporate Investment Banking Business Group ("GCIB"), and GCB with no significant concentration in any particular segments.

The business activities relevant to fees and commissions on foreign trading business are attributable to R&C, JCIB, GCIB, and GCB with no significant concentration in any particular segments.

The business activities relevant to fees and commissions on credit card business are substantially attributable to R&C.

The majority of fees and commissions on security-related services are from the business activities relevant to R&C, with JCIB and GCIB providing a smaller impact.

The business activities relevant to fees and commissions on administration and management services for investment funds are substantially attributable to Asset Management & Investor Service Business Group ("AM/IS").

The business activities relevant to trust fees are attributable to R&C, JCIB, and AM/IS with no significant concentration in any particular segments.

The majority of insurance commissions are from the business activities relevant to R&C, with GCB providing a smaller impact.

The business activities relevant to fees and commissions on real estate business are attributable to R&C and JCIB with no significant concentration in any particular segments.

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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 account securities and trading derivative assets and liabilities for this purpose. In addition, the trading account 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 the fair value option.

Net trading gains (losses) for the fiscal years ended March 31, 2019, 2020 and 2021 were comprised of the following:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
		(in millions)	
Interest rate and other derivative contracts	¥ (24,031)	¥(159,045)	¥(429,586)
Trading account securities, excluding derivatives	192,931	924,418	19,218
Trading account profits (losses)—net	168,900	765,373	(410,368)
Foreign exchange derivative contracts ⁽¹⁾	(354,401)	(434,052)	(79,559)
Net trading gains (losses)	<u>¥(185,501)</u>	<u>¥ 331,321</u>	<u>¥(489,927)</u>

Note:

(1) Losses on foreign exchange derivative contracts are included in Foreign exchange gains (losses)—net in the accompanying consolidated statements of income. Foreign exchange gains (losses)—net in the accompanying consolidated statements of income are also comprised of foreign exchange gains (losses) other than derivative contracts and foreign exchange gains (losses) related to the fair value option.

For further information on the methodologies and assumptions used to estimate fair value, see Note 31, which also shows fair values of trading account securities by major category. Note 23 discloses further information regarding the derivative-related impact on Trading account profits (losses)—net by major category.

29. BUSINESS SEGMENTS

The reportable segments of the MUFG Group are subject to the periodical review by the Executive Committee, which represents the MUFG Group's chief operating decision maker, to determine the allocation of management resources and assess performance. The MUFG Group has established its business units according to the characteristics of customers and the nature of the underlying business. Each business unit engages in business activities based on comprehensive strategies developed for and aimed at respective targeted customers and businesses. The business segment information is primarily based on the financial information prepared in accordance with accounting principles generally accepted in Japan as adjusted in accordance with internal management accounting rules and practices. Accordingly, the format and information are not consistent with the accompanying consolidated financial statements prepared on the basis of U.S. GAAP. A reconciliation is provided for the total amounts of segments' operating profit with income before income tax expense under U.S. 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 statements.

The MUFG Group integrated the operations of its consolidated subsidiaries into six business segments.—Retail & Commercial Banking, Japanese Corporate & Investment Banking, Global Corporate & Investment Banking, Global Commercial Banking, Asset Management & Investor Services, and Global Markets.

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The following is a brief explanation of the MUFG Group's business segments:

Retail & Commercial Banking Business Group—Covers the domestic retail and commercial banking businesses of MUFG Bank, Mitsubishi UFJ Trust and Banking, Mitsubishi UFJ Securities Holdings, Mitsubishi UFJ NICOS and other group companies of MUFG. This business group offers retail and small and medium-sized enterprise customers in Japan an extensive array of commercial banking, trust banking and securities products and services.

Japanese Corporate & Investment Banking Business Group—Covers the large Japanese corporate businesses of MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings, including the transaction banking, investment banking, trust banking and securities businesses. This business group offers large Japanese corporations advanced financial solutions designed to respond to their diversified and globalized needs and to contribute to their business and financial strategies through the global network of the MUFG group companies.

Global Corporate & Investment Banking Business Group—Covers the global corporate, investment and transaction banking businesses of MUFG Bank and Mitsubishi UFJ Securities Holdings. Through a global network of offices and branches, this business group provides non-Japanese large corporate and financial institution customers with a comprehensive set of solutions that meet their increasingly diverse and sophisticated financing needs.

Global Commercial Banking Business Group—Covers the retail and commercial banking businesses of MUFG Union Bank and Krungsri. Starting in the previous fiscal year ended March 31, 2020, this business group also covers Bank Danamon. This business group offers a comprehensive array of financial products and services such as loans, deposits, fund transfers, investments and asset management services for local retail, small and medium-sized enterprise, and corporate customers across the Asia-Pacific region.

Asset Management & Investor Services Business Group—Covers the asset management and asset administration businesses of Mitsubishi UFJ Trust and Banking and MUFG Bank. Starting in the previous fiscal year ended March 31, 2020, this business group also covers First Sentier Investors. By integrating the trust banking expertise of Mitsubishi UFJ Trust and Banking and the global strengths of MUFG Bank, the business group offers a full range of asset management and administration services for corporations and pension funds, including pension fund management and administration, advice on pension structures, and payments to beneficiaries, and also offer investment trusts for retail customers.

Global Markets Business Group—Covers the customer business and the treasury operations of MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Securities Holdings. The customer business includes sales and trading in fixed income instruments, currencies, equities and other investment products as well as origination and distribution of financial products. The treasury operations include asset and liability management as well as global investments for the MUFG Group.

Other—Consists mainly of the corporate centers of MUFG, MUFG Bank, Mitsubishi UFJ Trust and Banking and Mitsubishi UFJ Morgan Stanley Securities. The elimination of duplicated amounts of net revenues among business segments is also reflected in Other.

Management does not use information on segments' total assets to allocate resources and assess performance. Accordingly, business segment information on total assets is not presented.

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The MUFG Group made modifications to its internal management accounting rules and practices to clarify the responsibility for profits of each business segment, effective April 1, 2020. Major rule changes are (i) allocation of adjustments related to the derivative counterparty risk previously included in Other to the Global Markets Business Group, which holds the derivative assets, and (ii) reorganization of functions between the Retail & Commercial Banking Business Group, the Japanese Corporate & Investment Banking Business Group, the Global Corporate & Investment Banking Business Group and Other due to refinement of the business segment definition. These modifications had the following impact for the fiscal years ended March 31, 2019 and 2020:

- increasing the operating profits of Other, the Global Corporate & Investment Banking Business Group and the Japanese Corporate & Investment Banking Business Group by ¥33.8 billion, 20.2 billion and 14.2 billion, respectively for the fiscal year ended March 31, 2019.
- reducing the operating profits of the Global Markets Business Group, the Retail & Commercial Banking Business Group and the Global Commercial Banking Business Group by ¥46.3 billion, ¥19.1 billion and ¥2.8 billion, respectively for the fiscal year ended March 31, 2019,
- increasing the operating profits of Other, the Japanese Corporate & Investment Banking Business Group and the Global Corporate & Investment Banking Business Group by ¥25.5 billion, ¥13.0 billion and ¥12.4 billion, respectively for the fiscal year ended March 31, 2020,
- reducing the operating profits of the Global Markets Business Group, the Retail & Commercial Banking Business Group and the Global Commercial Banking Business Group by ¥40.2 billion, ¥9.0 billion and ¥1.7 billion, respectively for the fiscal year ended March 31, 2020,

Prior period business segment information has been restated to enable comparison between the relevant amounts for the fiscal years ended March 31, 2019, 2020 and 2021.

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	Customer Business								
	Retail & Commercial Banking Business Group	Japanese Corporate & Investment Banking Business Group	Global Corporate & Investment Banking Business Group	Global Commercial Banking Business Group	Asset Management & Investor Services Business Group	Total	Global Markets Business Group	Other	Total
	(in billions)								
Fiscal year ended March 31, 2019:									
Net revenue:	¥1,502.5	¥569.6	¥417.4	¥682.0	¥203.0	¥3,374.5	¥436.0	¥ (11.4)	¥3,799.1
BK and TB ⁽¹⁾ :	718.9	436.9	279.2	(1.3)	93.2	1,526.9	259.8	74.3	1,861.0
Net interest									
income	458.2	175.8	120.6	(1.3)	—	753.3	201.1	190.8	1,145.2
Net fees	229.8	202.9	158.0	—	93.2	683.9	(16.6)	(46.4)	620.9
Other	30.9	58.2	0.6	—	—	89.7	75.3	(70.1)	94.9
Other than BK and TB . . .	783.6	132.7	138.2	683.3	109.8	1,847.6	176.2	(85.7)	1,938.1
Operating expenses	1,220.9	319.5	254.9	477.8	124.6	2,397.7	226.0	103.1	2,726.8
Operating profit (loss)	¥ 281.6	¥250.1	¥162.5	¥204.2	¥ 78.4	¥ 976.8	¥210.0	¥(114.5)	¥1,072.3
Fiscal year ended March 31, 2020:									
Net revenue:	¥1,485.5	¥572.7	¥402.2	¥795.4	¥243.0	¥3,498.8	¥536.0	¥ 19.8	¥4,054.6
BK and TB ⁽¹⁾ :	706.6	439.1	287.1	(0.4)	94.6	1,527.0	319.3	31.9	1,878.2
Net interest									
income	444.4	185.7	121.4	0.4	2.5	754.4	129.5	46.4	930.3
Net fees	231.8	203.2	148.1	—	92.2	675.3	(14.8)	(55.1)	605.4
Other	30.4	50.2	17.6	(0.8)	(0.1)	97.3	204.6	40.6	342.5
Other than BK and TB . . .	778.9	133.6	115.1	795.8	148.4	1,971.8	216.7	(12.1)	2,176.4
Operating expenses	1,195.9	324.4	260.8	564.3	171.7	2,517.1	233.2	129.3	2,879.6
Operating profit (loss)	¥ 289.6	¥248.3	¥141.4	¥231.1	¥ 71.3	¥ 981.7	¥302.8	¥(109.5)	¥1,175.0
Fiscal year ended March 31, 2021:									
Net revenue:	¥1,389.4	¥559.9	¥426.3	¥783.2	¥293.5	¥3,452.3	¥634.8	¥ (4.8)	¥4,082.3
BK and TB ⁽¹⁾ :	645.1	448.8	269.3	0.8	99.4	1,463.4	389.0	30.4	1,882.8
Net interest									
income	405.2	183.8	133.2	1.5	5.5	729.2	213.1	34.1	976.4
Net fees	216.4	216.8	150.2	—	94.0	677.4	(4.3)	(66.8)	606.3
Other	23.5	48.2	(14.1)	(0.7)	(0.1)	56.8	180.2	63.1	300.1
Other than BK and TB . . .	744.3	111.1	157.0	782.4	194.1	1,988.9	245.8	(35.2)	2,199.5
Operating expenses	1,130.4	319.3	269.8	509.0	210.1	2,438.6	234.0	161.1	2,833.7
Operating profit (loss)	¥ 259.0	¥240.6	¥156.5	¥274.2	¥ 83.4	¥1,013.7	¥400.8	¥(165.9)	¥1,248.6

Note:

(1) “BK and TB” is a sum of MUFG Bank on a stand-alone basis and Mitsubishi UFJ Trust and Banking on a stand-alone basis.

Reconciliation

As set forth above, the measurement basis and the income and expense items of the internal management reporting system are different from the accompanying consolidated statements of income. Therefore, it is impracticable to present reconciliations of all of the business segments’ information, other than operating profit, to corresponding items in the accompanying consolidated statements of income.

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A reconciliation of operating profit under the internal management reporting system for the fiscal years ended March 31, 2019, 2020 and 2021 above to income before income tax expense shown in the accompanying consolidated statements of income is as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>
	(in billions)		
Operating profit:	¥1,072	¥1,175	¥1,249
Provision for credit losses	(34)	(322)	(484)
Trading account profits (losses)—net	182	920	(678)
Equity investment securities gains (losses)—net	(305)	(618)	1,480
Debt investment securities losses—net	(3)	(403)	(129)
Foreign exchange gains (losses)—net	47	(145)	9
Equity in earnings of equity method investees—net	210	283	356
Impairment of goodwill	—	(384)	(148)
Impairment of intangible assets	(118)	(4)	(22)
Reversal of (provision for) off-balance sheet credit instruments	(38)	62	57
Other—net	<u>(142)</u>	<u>(131)</u>	<u>(82)</u>
Income before income tax expense	<u>¥ 871</u>	<u>¥ 433</u>	<u>¥1,608</u>

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 MUFG Bank's and Mitsubishi UFJ Trust and Banking'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, 2019, 2020 and 2021, and estimated total revenue, total expense, income (loss) 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 ⁽¹⁾	
	(in millions)					
Fiscal year ended March 31, 2019:						
Total revenue ⁽²⁾	¥ 1,886,469	¥ 1,637,569	¥ 222,267	¥ 1,157,946	¥ 504,372	¥ 5,408,623
Total expense ⁽³⁾	2,204,147	1,012,978	173,934	892,729	253,993	4,537,781
Income (loss) before income tax expense (benefit)	(317,678)	624,591	48,333	265,217	250,379	870,842
Net income (loss) attributable to Mitsubishi UFJ Financial Group	(345,148)	573,698	50,877	214,582	224,636	718,645
Total assets at end of fiscal year	194,070,495	49,987,389	21,535,278	27,992,986	11,642,751	305,228,899
Fiscal year ended March 31, 2020:						
Total revenue ⁽²⁾	¥ 1,596,794	¥ 2,223,984	¥ 89,412	¥ 1,326,426	¥ 566,222	¥ 5,802,838
Total expense ⁽³⁾	2,565,895	1,051,164	218,623	1,174,200	359,736	5,369,618
Income (loss) before income tax expense (benefit)	(969,101)	1,172,820	(129,211)	152,226	206,486	433,220
Net income (loss) attributable to Mitsubishi UFJ Financial Group	(1,001,477)	1,113,913	(140,372)	142,568	191,323	305,955
Total assets at end of fiscal year	207,532,337	60,587,867	19,099,410	30,845,864	13,687,805	331,753,283
Fiscal year ended March 31, 2021:						
Total revenue ⁽²⁾	¥ 3,348,733	¥ 741,137	¥ 356,112	¥ 1,134,233	¥ 329,568	¥ 5,909,783
Total expense ⁽³⁾	2,316,323	713,441	263,753	889,494	118,430	4,301,441
Income before income tax expense	1,032,410	27,696	92,359	244,739	211,138	1,608,342
Net income (loss) attributable to Mitsubishi UFJ Financial Group	627,138	(231,116)	74,230	366,880	280,166	1,117,298
Total assets at end of fiscal year	240,603,939	49,478,851	21,126,639	31,368,443	11,246,753	353,824,625

Notes:

- (1) Other areas primarily include Canada, Latin America, the Caribbean and the Middle East.
- (2) Total revenue is comprised of Interest income and Non-interest income.
- (3) Total expense is comprised of Interest expense, Provision for (reversal of) credit losses and Non-interest expense.

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The following is an analysis of certain asset and liability accounts related to foreign activities at March 31, 2020 and 2021:

	<u>2020</u>	<u>2021</u>
	(in millions)	
Cash and due from banks	¥ 971,870	¥ 1,090,501
Interest-earning deposits in other banks	<u>12,662,558</u>	<u>12,377,887</u>
Total	<u>¥13,634,428</u>	<u>¥13,468,388</u>
Trading account assets	<u>¥31,374,451</u>	<u>¥28,525,243</u>
Investment securities	<u>¥ 9,040,512</u>	<u>¥ 8,694,138</u>
Loans—net of unearned income, unamortized premiums and deferred loan fees . . .	<u>¥53,079,542</u>	<u>¥47,333,878</u>
Deposits	<u>¥49,291,478</u>	<u>¥55,145,437</u>
Funds borrowed:		
Call money, funds purchased	¥ 276,040	¥ 323,066
Payables under repurchase agreements	13,476,026	10,974,238
Payables under securities lending transactions	176,998	130,380
Other short-term borrowings	4,733,138	3,474,821
Long-term debt	<u>2,733,242</u>	<u>2,421,267</u>
Total	<u>¥21,395,444</u>	<u>¥17,323,772</u>
Trading account liabilities	<u>¥ 6,575,570</u>	<u>¥ 5,575,956</u>

31. FAIR VALUE

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 guidance on fair value measurements also specifies 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 inputs, 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 specified by the guidance:

- Level 1—Unadjusted quoted prices for identical instruments in active markets.
- Level 2—Observable inputs other than Level 1 prices for substantially the full term of the instruments, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; other inputs that are observable; or market-corroborated inputs.
- 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 fair value 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 guidance. When available, quoted prices are used to determine fair value. If quoted prices are not available, fair value is based upon valuation techniques that use observable or unobservable inputs. The fair values of liabilities are determined by discounting future cash flows at a rate which incorporates the MUFG

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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 are not limited to, amounts that reflect counterparty credit quality, funding cost, liquidity risk and model risk.

The following section describes the valuation techniques used 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 fair value hierarchy, a brief explanation of the valuation techniques, the significant inputs to those valuation techniques, and any additional significant assumptions.

Trading Account Assets and Liabilities—Trading Account Securities

When quoted prices are available in an active market, the MUFG Group uses quoted prices to measure the fair values of securities and such securities are classified in Level 1 of the fair value hierarchy. Examples of Level 1 securities include certain Japanese and foreign government bonds, and marketable equity securities.

When quoted prices are available but the securities are not traded in active markets, such securities are classified in Level 2 of the fair value hierarchy. These securities include certain Japanese government agency bonds, Japanese prefectural and municipal bonds, foreign government and official institution bonds, corporate bonds, residential mortgage-backed securities and equity securities.

As for quoted prices provided by third-party vendors, independent price verification is performed by the MUFG group to determine the quality and reliability of the data for fair value measurement purposes. As part of its independent price verification procedures, the MUFG group obtains a sufficient understanding of the vendors' pricing sources and valuation processes. Further, the MUFG group performs internal price verification procedures to ensure that the quoted prices provided from the third-party vendors are reasonable. Such verification procedures include comparison of pricing sources and analysis of variances beyond certain thresholds.

When quoted prices are not available, the MUFG Group estimates fair values by using an internal model, quoted prices of securities with similar characteristics or non-binding prices obtained from independent third parties. Such securities include certain commercial paper, corporate bonds, asset-backed securities and residential mortgage-backed securities. For commercial paper, the MUFG Group estimates fair value using discounted cash flows. The cash flows are estimated in accordance with the terms of contracts and discounted using a discount rate based on the yield curve estimated from market interest rates appropriate to the securities. Commercial paper is generally classified in Level 2 of the fair value hierarchy. For corporate bonds, the MUFG Group estimates fair value using discounted cash flows. The cash flows are estimated in accordance with the terms of contracts and discounted using discount rates applicable to the maturity of the bonds, which are adjusted to reflect credit risk of issuers. Credit risk of issuers is reflected in the future cash flows being discounted by the interest rate applicable to the maturity of the bonds. Corporate bonds are classified in either Level 2 or Level 3 of the fair value hierarchy, depending primarily on the significance of the adjustments to the unobservable input of credit worthiness. For residential mortgage-backed securities, the MUFG Group estimates fair value using non-binding prices obtained from independent third parties. Residential mortgage-backed securities are classified as level 2 unless otherwise significant unobservable input is used for the valuation.

When there is less liquidity for securities or significant inputs used in the fair value measurements are unobservable, such securities are classified in Level 3 of the fair value hierarchy. Examples of such Level 3 securities include CLOs backed by general corporate loans, which are classified in asset-backed securities. The fair value of CLOs is measured by weighing the estimated fair value amounts from the internal model and the non-binding quotes from the independent broker-dealers. The weight of the quotes from independent broker-dealers is determined based on the result of inquiries with the broker-dealers to understand their basis of fair

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value calculation with consideration given to transaction volume. Key inputs to the internal model include projected cash flows 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), prepayment rates and discount rates reflecting liquidity premiums based on historical market data.

Trading Account Assets and Liabilities—Derivatives

Exchange-traded derivatives valued using quoted prices are classified in Level 1 of the fair value hierarchy. Examples of Level 1 derivatives include stock futures index and interest rate futures. However, the majority of the derivative contracts entered into by the MUFG Group are traded over-the-counter and valued using valuation techniques as there are no quoted prices for such derivatives. The valuation techniques and inputs vary depending on the types and contractual terms of the derivatives. The principal valuation techniques used to value derivatives include discounted cash flows, the Black-Scholes model and the 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 generally readily observable in an active market. Derivatives valued using such valuation techniques and inputs are generally classified in Level 2 of the fair value hierarchy. Examples of such Level 2 derivatives include plain-vanilla interest rate swaps, foreign currency forward contracts and currency option contracts.

Derivatives that are valued using valuation techniques with significant unobservable inputs are classified in Level 3 of the fair value hierarchy. Examples of Level 3 derivatives include long-term interest rate or currency swaps and certain credit derivatives, where significant inputs such as volatility and 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 valuation techniques as the trading account securities described above. Investment securities also include investments in nonmarketable equity securities which are subject to specialized industry accounting principles. The valuation of such nonmarketable equity securities involves significant management judgment due to the absence of quoted prices, lack of liquidity and the long term nature of these investments. Further, there may be restriction on transfers of nonmarketable equity securities. The MUFG Group values such securities initially at transaction price and subsequently adjusts such valuations, considering evidence such as current sales transactions of similar securities, initial public offerings, recent equity issuances and change in financial condition of the investee company. Nonmarketable equity securities are included in Level 3 of the fair value hierarchy.

Other Assets

Other assets measured at fair value mainly consist of securities received as collateral that may be sold or repledged under securities lending transactions, money in trust for segregating cash deposited by customers on security transactions and derivatives designated as hedging instruments. The securities received as collateral under lending transactions mainly consist of certain Japanese and foreign government bonds which are valued using the valuation techniques previously described in the section entitled “*Trading Accounts Assets and Liabilities—Trading Account 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 valuation techniques described in the “*Trading Account Assets and Liabilities—Trading Account Securities*” above and is included in Level 1 or Level 2 of the fair value hierarchy depending on the component assets.

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The fair values of derivatives designated as hedging instruments are measured using the valuation techniques described in the “*Trading Account Assets and Liabilities—Derivatives*” above.

Obligations to Return Securities Received as Collateral

Obligations to return securities received as collateral under securities lending transactions included in Other liabilities are measured at the fair values of the 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 valuation techniques described in the “*Trading Account Assets and Liabilities—Trading Account Securities*” above.

Other Short-term Borrowings and Long-term Debt

Certain short-term borrowings and long-term debt are measured at fair value due to the election of the fair value option. The fair value of these instruments are measured principally based on the discounted cash flows. Where the inputs into the valuation techniques are mainly based on observable inputs, these instruments are classified in Level 2 of the fair value hierarchy. Where significant inputs are unobservable, they are classified in Level 3 of the fair value hierarchy.

Market Valuation Adjustments

Counterparty credit risk adjustments are made to certain financial assets such as over-the-counter derivatives to factor in counterparty credit exposure. As not all counterparties have the same credit risk, it is necessary in calculating credit risk adjustments, to take into account probability of a default event occurring for each counterparty, which is primarily derived from observed or estimated spreads on credit default swaps. In addition, the counterparty credit risk adjustment takes into account the effect of credit risk mitigation such as pledged collateral and the legal right of offset with the counterparty.

Funding valuation adjustment (“FVA”) represents the adjustment to reflect the impact of uncollateralized funding. The FVA is calculated using the MUFG’s market funding spread and the funding exposure of any uncollateralized component of the over-the-counter derivative instrument. The MUFG Group’s FVA framework incorporates key inputs, such as the expected future funding requirements arising from the MUFG Group’s positions with each counterparty and collateral arrangements, and the estimated market funding cost in the principal market, which considers the MUFG Group’s credit risk.

Liquidity adjustments are applied mainly to the instruments classified in Level 3 of the fair value hierarchy when recent observable prices of such instruments are not available or such instruments are traded in inactive or less active markets. 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 valuation techniques. Examples of such adjustments include adjustments to the model price of certain derivatives where parameters such as correlation are unobservable. Unobservable parameter valuation adjustments are applied to mitigate the uncertainty inherent in the resulting valuation estimate.

Investments in Certain Entities That Calculate Net Asset Value per Share

The MUFG Group has interests in investment funds mainly private equity funds, and real estate funds that are measured at fair value on a recurring or nonrecurring basis.

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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, the timing of which is uncertain.

Real estate funds invest globally and 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, the timing of which is uncertain.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the financial instruments carried at fair value by level within the fair value hierarchy as of March 31, 2020 and 2021:

<u>At March 31, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
	(in millions)			
Assets				
Trading account assets:				
Trading securities ⁽¹⁾	¥14,891,635	¥17,061,985	¥ 525,946	¥32,479,566
Debt securities				
Japanese national government and Japanese government agency bonds	3,805,039	350,128	—	4,155,167
Japanese prefectural and municipal bonds	—	93,479	—	93,479
Foreign government and official institution bonds	9,356,427	417,766	1,052	9,775,245
Corporate bonds	11	2,537,559	144	2,537,714
Residential mortgage-backed securities	—	9,037,539	—	9,037,539
Asset-backed securities	—	590,556	416,259	1,006,815
Other debt securities	—	7,787	6,651	14,438
Commercial paper	—	2,959,580	—	2,959,580
Equity securities ⁽²⁾	1,730,158	1,067,591	101,840	2,899,589
Trading derivative assets	216,834	14,680,632	60,108	14,957,574
Interest rate contracts	74,488	10,758,790	13,329	10,846,607
Foreign exchange contracts	1,550	3,723,087	9,046	3,733,683
Equity contracts	140,796	87,285	7,491	235,572
Commodity contracts	—	10	27,492	27,502
Credit derivatives	—	111,460	2,750	114,210
Investment securities:				
Available-for-sale debt securities	22,126,881	11,798,392	274,930	34,200,203
Japanese national government and Japanese government agency bonds	19,897,187	3,565,692	—	23,462,879
Japanese prefectural and municipal bonds	—	2,952,820	—	2,952,820
Foreign government and official institution bonds	2,229,694	792,027	15,767	3,037,488
Corporate bonds	—	1,262,718	10,108	1,272,826
Residential mortgage-backed securities	—	1,459,378	15	1,459,393
Commercial mortgage-backed securities	—	380,278	1,977	382,255
Asset-backed securities	—	1,328,601	140,875	1,469,476
Other debt securities	—	56,878	106,188	163,066
Equity securities	4,471,499	296,819	39,963	4,808,281
Marketable equity securities	4,471,499	296,819	—	4,768,318
Nonmarketable equity securities ⁽³⁾	—	—	39,963	39,963
Other ⁽⁴⁾	1,054,186	45,913	36,701	1,136,800
Total	<u>¥42,761,035</u>	<u>¥43,883,741</u>	<u>¥ 937,648</u>	<u>¥87,582,424</u>

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<u>At March 31, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
	(in millions)			
Liabilities				
Trading account liabilities:				
Trading securities sold, not yet purchased	¥ 555,664	¥ 3,718	¥ —	¥ 559,382
Trading derivative liabilities	300,215	13,851,205	56,631	14,208,051
Interest rate contracts	153,098	10,038,198	14,079	10,205,375
Foreign exchange contracts	3,360	3,596,589	4,041	3,603,990
Equity contracts	143,757	121,229	11,713	276,699
Commodity contracts	—	14	26,775	26,789
Credit derivatives	—	95,175	23	95,198
Obligation to return securities received as collateral ⁽⁵⁾	4,663,068	143,103	—	4,806,171
Other ⁽⁶⁾	—	514,003	6,606	520,609
Total	<u>¥ 5,518,947</u>	<u>¥14,512,029</u>	<u>¥ 63,237</u>	<u>¥20,094,213</u>
<u>At March 31, 2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
	(in millions)			
Assets				
Trading account assets:				
Trading securities ⁽¹⁾	¥18,439,146	¥13,165,127	¥ 756,413	¥32,360,686
Debt securities				
Japanese national government and Japanese government agency bonds	6,800,379	401,454	—	7,201,833
Japanese prefectural and municipal bonds	—	193,936	—	193,936
Foreign government and official institution bonds	9,508,030	450,443	1,280	9,959,753
Corporate bonds	5,123	2,706,611	77	2,711,811
Residential mortgage-backed securities	27	6,166,313	1,000	6,167,340
Asset-backed securities	—	1,045,706	336,811	1,382,517
Other debt securities	—	—	277,635	277,635
Commercial paper	—	1,001,233	—	1,001,233
Equity securities ⁽²⁾	2,125,587	1,199,431	139,610	3,464,628
Trading derivative assets	136,515	11,774,865	70,058	11,981,438
Interest rate contracts	23,906	7,673,031	21,018	7,717,955
Foreign exchange contracts	929	3,896,713	12,520	3,910,162
Equity contracts	111,680	113,586	6,309	231,575
Commodity contracts	—	1	26,896	26,897
Credit derivatives	—	91,534	2,354	93,888
Other ⁽⁷⁾	—	—	961	961
Investment securities:				
Available-for-sale debt securities	34,010,613	12,817,584	289,616	47,117,813
Japanese national government and Japanese government agency bonds	32,073,409	3,199,802	—	35,273,211
Japanese prefectural and municipal bonds	—	3,731,513	—	3,731,513
Foreign government and official institution bonds	1,937,204	973,041	16,718	2,926,963
Corporate bonds	—	1,134,108	162	1,134,270
Residential mortgage-backed securities	—	1,467,115	15	1,467,130
Commercial mortgage-backed securities	—	462,966	1,599	464,565
Asset-backed securities	—	1,247,565	136,920	1,384,485
Other debt securities	—	37,376	134,202	171,578
Commercial paper	—	564,098	—	564,098
Equity securities	5,530,077	229,415	45,569	5,805,061
Marketable equity securities	5,530,077	229,415	—	5,759,492
Nonmarketable equity securities ⁽³⁾	—	—	45,569	45,569
Other ⁽⁴⁾	1,202,230	42,687	18,784	1,263,701
Total	<u>¥59,318,581</u>	<u>¥38,029,678</u>	<u>¥ 1,180,440</u>	<u>¥98,528,699</u>

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<u>At March 31, 2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
	(in millions)			
Liabilities				
Trading account liabilities:				
Trading securities sold, not yet purchased	¥ 260,149	¥ 989	¥ —	¥ 261,138
Trading derivative liabilities	150,750	11,560,634	45,031	11,756,415
Interest rate contracts	10,696	7,343,594	6,839	7,361,129
Foreign exchange contracts	977	4,015,927	5,237	4,022,141
Equity contracts	139,077	92,655	5,686	237,418
Commodity contracts	—	1	26,959	26,960
Credit derivatives	—	108,457	83	108,540
Other ⁽⁷⁾	—	—	227	227
Obligation to return securities received as collateral ⁽⁵⁾	6,484,452	97,307	—	6,581,759
Other ⁽⁶⁾	—	558,553	(2,212)	556,341
Total	¥ 6,895,351	¥12,217,483	¥ 42,819	¥19,155,653

Notes:

- (1) Includes securities measured under the fair value option.
- (2) Excludes certain investments valued at net asset value of private equity funds whose fair values were ¥66,918 million and ¥102,255 million at March 31, 2020 and 2021, respectively. The amounts of unfunded commitments related to these private equity funds were ¥102,743 million and ¥97,413 million at March 31, 2020 and 2021, respectively.
- (3) Excludes certain investments valued at net asset value of real estate funds and private equity and other funds whose fair values at March 31, 2020 were ¥23,233 million and ¥18,862 million, respectively, and those at March 31, 2021 were ¥ 27,395 million and ¥34,390 million, respectively. The amounts of unfunded commitments related to these real estate funds and private equity and other funds at March 31, 2020 were ¥1,494 million and nil, respectively, and those at March 31, 2021 were ¥1,006 million and ¥4,758 million, respectively.
- (4) Mainly comprises securities received as collateral that may be sold or repledged under securities lending transactions and money in trust for segregating cash deposited by customers on security transactions.
- (5) Included in Other liabilities.
- (6) Includes other short-term borrowings, long-term debt, bifurcated embedded derivatives carried at fair value and derivative liabilities designated as hedging instruments.
- (7) For the period ended March 31, 2021, certain derivatives such as earthquake derivatives previously included in Commodity contracts are separately disclosed in Other of Trading derivative assets and liabilities.

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Changes in Level 3 Recurring Fair Value Measurements

The following tables present 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, 2020 and 2021. The determination to classify a financial instrument within Level 3 is based upon the significance of the unobservable inputs to overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 input, observable inputs (inputs that are actively quoted and can be validated to external sources). Accordingly, the gains and losses in the tables below include changes in fair value due in part to observable inputs used in the valuation techniques.

	Total gains (losses) for the period							Transfers into Level 3	Transfers out of Level 3	March 31, 2020	Change in unrealized gains (losses) included in earnings for assets and liabilities still held at March 31, 2020
	March 31, 2019	Included in earnings	Included in other comprehensive income	Purchases	Issues	Sales	Settlements				
(in millions)											
Assets											
Trading account assets:											
Trading securities ⁽¹⁾	¥ 785,326	¥ (22,419) ⁽²⁾	¥ —	¥ 227,656	¥ —	¥ (214,183)	¥ (225,980)	¥ 52,140	¥ (76,594)	¥ 525,946	¥ (18,915) ⁽²⁾
Debt securities											
Foreign government and official institution											
bonds	792	589	—	93,957	—	(92,748)	(18)	—	(1,520)	1,052	(12)
Corporate bonds	31,384	(279)	—	631	—	(3,937)	(4,721)	24,882 ⁽⁵⁾	(47,816) ⁽⁵⁾	144	(13)
Residential mortgage-backed securities											
Asset-backed securities	35,181	(695)	—	—	—	(23,837)	(10,649)	—	—	—	—
Other debt securities	627,678	(23,494)	—	113,239	—	(93,655)	(207,509)	—	—	416,259	(18,815)
Equity securities	35,148	(1,239)	—	—	—	—	—	—	(27,258) ⁽⁸⁾	6,651	(387)
Interest rate contracts—net	55,143	2,699	—	19,829	—	(6)	(3,083)	27,258 ⁽⁸⁾	—	101,840	312
Trading derivatives—net	36,170	4,503 ⁽²⁾	178	714	(1,449)	—	(33,463)	40,857	(44,033)	3,477	(16,742) ⁽²⁾
Interest rate contracts—net	(4,189)	21,290	(24)	—	—	—	(12,025)	2,254	(8,056)	(750)	8,046
Foreign exchange contracts—											
net	18,191	(21,429)	89	3	—	—	4,858	35,444 ⁽⁵⁾	(32,151) ⁽⁵⁾	5,005	(21,483)
Equity contracts—net	2,862	5,188	110	96	(777)	—	(11,305)	(41)	(355)	(4,222)	(2,846)
Commodity contracts—net	949	(174)	(1)	615	(672)	—	—	—	—	717	(167)
Credit derivatives—net	18,357	(372)	4	—	—	—	(14,991)	3,200	(3,471)	2,727	(292)
Investment securities:											
Available-for-sale debt securities											
Foreign government and official institution bonds	283,434	(2,402) ⁽³⁾	804	281,041	—	(24)	(300,023)	15,201	(3,101)	274,930	(934) ⁽³⁾
Corporate bonds	19,246	—	1,625	828	—	—	(5,932)	—	—	15,767	—
Residential mortgage-backed securities	4,196	(458)	342	663	—	(1)	(6,734)	15,201 ⁽⁵⁾	(3,101) ⁽⁵⁾	10,108	(934)
Commercial mortgage-backed securities	15	—	—	—	—	—	—	—	—	15	—
Asset-backed securities	2,038	—	125	—	—	(23)	(163)	—	—	1,977	—
Other debt securities	131,455	(1,944)	(1,085)	274,110	—	—	(261,661)	—	—	140,875	—
Equity securities	126,484	—	(203)	5,440	—	—	(25,533)	—	—	106,188	—
Nonmarketable equity securities	27,820	2,585 ⁽³⁾	—	12,718	—	(2,527)	(35)	—	(598)	39,963	863 ⁽³⁾
Other	27,820	2,585	—	12,718	—	(2,527)	(35)	—	(598)	39,963	863
Total	32,378	(10,105) ⁽⁷⁾	(375)	44,324	—	(29,334)	(187)	—	—	36,701	(10,136) ⁽⁷⁾
Total	¥1,165,128	¥ (27,838)	¥ 607	¥ 566,453	¥ (1,449)	¥ (246,068)	¥ (559,688)	¥ 108,198	¥ (124,326)	¥ 881,017	¥ (45,864)
Liabilities											
Other	¥ 65,648	¥ (5,388) ⁽⁴⁾	¥ (414)	¥ —	¥ 2,258	¥ —	¥ (21,133)	¥ 333 ⁽⁶⁾	¥ (46,302) ⁽⁶⁾	¥ 6,606	¥ 9,648 ⁽⁴⁾
Total	¥ 65,648	¥ (5,388)	¥ (414)	¥ —	¥ 2,258	¥ —	¥ (21,133)	¥ 333	¥ (46,302)	¥ 6,606	¥ 9,648

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	March 31, 2020	Total gains (losses) for the period		Purchases	Issues	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	March 31, 2021	Change in unrealized gains (losses) for assets and liabilities still held at March 31, 2021
		Included in earnings	Included in other comprehensive income								
(in millions)											
Assets											
Trading account assets:											
Trading securities ⁽¹⁾	¥ 525,946	¥ 21,730 ⁽²⁾	¥ —	¥ 352,917	¥ —	¥(189,980)	¥(117,399)	¥190,391	¥ (27,192)	¥ 756,413	¥ 23,477 ⁽²⁾
Debt securities											
Foreign government and official institution bonds											
Corporate bonds	1,052	625	—	49,637	—	(49,927)	(59)	—	(48)	1,280	159
Residential mortgage-backed securities	144	31	—	82	—	(180)	—	—	—	77	(5)
Asset-backed securities	—	—	—	51,533	—	(50,533)	—	—	—	1,000	—
Other debt securities	416,259	12,808	—	106,308	—	(83,700)	(114,864)	—	—	336,811	16,309
Equity securities	6,651	11,096	—	69,499	—	—	—	190,389 ⁽⁸⁾	—	277,635	11,096
Trading derivatives—net	101,840	(2,830)	—	75,858	—	(5,640)	(2,476)	2	(27,144) ⁽⁸⁾	139,610	(4,082)
Interest rate contracts—net	3,477	45,361 ⁽²⁾	(104)	597	(653)	—	(20,689)	(2,159)	(803)	25,027	31,184 ⁽²⁾
Foreign exchange contracts—net	(750)	14,401	(32)	—	—	—	1,405	(99)	(746)	14,179	11,807
Equity contracts—net	5,005	3,743	(128)	—	—	—	140	(1,480)	3	7,283	3,812
Commodity contracts—net	(4,222)	27,299	55	3	—	—	(21,944)	(580)	12	623	15,660
Credit derivatives—net	(65)	1	1	—	—	—	—	—	—	(63)	1
Other—net ⁽⁹⁾	2,727	(166)	—	—	—	—	(290)	—	—	2,271	(182)
Investment securities:	782	83	—	594	(653)	—	—	—	(72)	734	86
Available-for-sale debt securities											
Foreign government and official institution bonds	274,930	6,710 ⁽³⁾	(14,559)	308,672	—	(11)	(276,234)	70	(9,962)	289,616	(2,779) ⁽³⁾
Corporate bonds	15,767	—	(888)	3,518	—	—	(1,679)	—	—	16,718	473
Residential mortgage-backed securities	10,108	(8)	(1)	—	—	—	(45)	70	(9,962) ⁽⁵⁾	162	(10)
Commercial mortgage-backed securities	15	—	—	—	—	—	—	—	—	15	—
Asset-backed securities	1,977	—	(346)	—	—	(11)	(21)	—	—	1,599	(163)
Other debt securities	140,875	6,718	(7,958)	267,767	—	—	(270,482)	—	—	136,920	(4,047)
Equity securities	106,188	—	(5,366)	37,387	—	—	(4,007)	—	—	134,202	968
Nonmarketable equity securities	39,963	(3,231) ⁽³⁾	—	10,481	—	(1,725)	—	285	(204)	45,569	(4,150) ⁽³⁾
Other	39,963	(3,231)	—	10,481	—	(1,725)	—	285	(204)	45,569	(4,150)
Total	36,701	(18,626) ⁽⁷⁾	(1,349)	2,346	—	(18)	(270)	—	—	18,784	(18,620) ⁽⁷⁾
Total	¥ 881,017	¥ 51,944	¥ (16,012)	¥ 675,013	¥ (653)	¥(191,734)	¥(414,592)	¥188,587	¥ (38,161)	¥1,135,409	¥ 29,112
Liabilities											
Other	¥ 6,606	¥ (32,946) ⁽⁴⁾	¥ 937	¥ —	¥ 5,336	¥ —	¥ (27,823)	¥ (7,686) ⁽⁶⁾	¥ (10,654) ⁽⁶⁾	¥ (2,212)	¥ (17,043) ⁽⁴⁾
Total	¥ 6,606	¥ (32,946)	¥ 937	¥ —	¥ 5,336	¥ —	¥ (27,823)	¥ (7,686)	¥ (10,654)	¥ (2,212)	¥ (17,043)

Notes:

- (1) Includes Trading securities measured under the fair value option.
- (2) Included in Trading account profits (losses)—net and Foreign exchange gains (losses)—net.
- (3) Included in Investment securities gains (losses)—net and Other comprehensive income—net.
- (4) Included in Trading account profits (losses)—net.
- (5) Transfers into (out of) Level 3 for Foreign exchange contracts—net were mainly caused by the valuation using certain unobservable input. For the fiscal year ended March 31, 2020, transfers into (out of) Level 3 for Corporate bonds were mainly caused by the decrease (increase) in liquidity or the availability of the quoted prices provided by third-party vendors. For the fiscal year ended March 31, 2021, transfers out of Level 3 for Corporate bonds were due to changes in the impact of unobservable credit worthiness inputs to the entire fair value measurement of the private placement bonds issued by Japanese non-public companies. Unobservable credit worthiness inputs include probability of default based on credit ratings of the bond issuers and loss given default.
- (6) Transfers into (out of) Level 3 for long-term debt in Other were mainly caused by the decrease (increase) in the observability of the key inputs to the valuation models and a corresponding increase (decrease) in the significance of the unobservable inputs.
- (7) Included in Fees and commissions income and Other non-interest income.
- (8) Transfers relate to the reclassification of certain securities.
- (9) For the fiscal year ended March 31, 2021, certain derivatives such as earthquake derivatives previously included in Commodity contracts—net are separately disclosed in Other—net of Trading derivatives—net.

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Quantitative Information about Level 3 Fair Value Measurements

The following tables present information on the valuation techniques, significant unobservable inputs and their ranges for each major category of assets and liabilities measured at fair value on a recurring basis and classified in Level 3:

<u>At March 31, 2020</u>	<u>Fair value⁽¹⁾</u> <u>(in millions)</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range</u>	<u>Weighted average⁽²⁾</u>
Assets					
Trading securities and Investment securities:					
Foreign government and official institution bonds	¥ 15,767	Return on equity method	Probability of default Recovery rate Market-required return on capital	0.2%~1.3% 55.0%~90.0% 8.0%~10.0%	0.4% 69.9% 9.9%
Residential mortgage- backed securities, Commercial mortgage- backed securities and Asset-backed securities	92,025 389,170	Discounted cash flow Internal model ⁽⁴⁾	Probability of default Recovery rate Asset correlations Discount factor Prepayment rate Probability of default Recovery rate	1.2%~5.3% 60.0%~76.0% 1.0% 1.1%~1.4% 21.0% 0.0%~99.0% 57.8%	5.0% 68.2% 1.0% 1.4% 21.0% — ⁽³⁾ 57.8%
Other debt securities	6,651 86,734	Discounted cash flow Return on equity method	Liquidity premium Probability of default Recovery rate Market-required return on capital	2.4% 0.0%~25.0% 60.0%~90.0% 8.0%~10.0%	2.4% 0.3% 79.8% 9.4%
Equity securities	27,144	Discounted cash flow	Liquidity premium	1.0%	1.0%
At March 31, 2020					
	<u>Fair value⁽¹⁾</u> <u>(in millions)</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range</u>	
Trading derivatives—net:					
Interest rate contracts—net	(728)	Option model	Correlation between interest rates Correlation between interest rate and foreign exchange rate Volatility	32.9%~62.5% 16.7%~60.0% 0.0%~100.0%	
Foreign exchange contracts—net	5,005	Option model	Correlation between interest rates Correlation between interest rate and foreign exchange rate Correlation between foreign exchange rates Volatility	30.0%~70.0% 15.8%~60.0% 60.0% 7.5%~17.0%	
Equity contracts—net	(10,038)	Option model	Correlation between foreign exchange rate and equity Correlation between equities Volatility	(58.4)%~56.9% 19.5%~81.0% 24.2%~32.0%	
	6,166	Discounted cash flow	Term of litigation	0.1 year~1.1 years	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

<u>At March 31, 2021</u>	<u>Fair value⁽¹⁾</u> <u>(in millions)</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range</u>	<u>Weighted average⁽²⁾</u>
Assets					
Trading securities and Investment securities:					
Foreign government and official institution bonds	¥ 16,718	Return on equity method	Probability of default Recovery rate Market-required return on capital	0.2%~1.8% 35.0%~90.0% 8.0%~10.0%	0.5% 66.9% 10.0%
Residential mortgage- backed securities, Commercial mortgage- backed securities and Asset-backed securities	89,607 279,547	Discounted cash flow Internal model ⁽⁴⁾	Probability of default Recovery rate Asset correlations Discount factor Prepayment rate Probability of default Recovery rate	4.3%~4.9% 78.0%~96.6% 3.0% 1.3%~1.6% 18.3% 0.0%~83.7% 57.4%	4.7% 90.6% 3.0% 1.3% 18.3% — ⁽³⁾ 57.4%
Other debt securities	313,895 79,541	Discounted cash flow Return on equity method	Liquidity premium Probability of default Recovery rate Market-required return on capital	1.0%~3.2% 0.0%~8.0% 60.0%~90.0% 8.0%~10.0%	2.9% 0.4% 78.8% 10.0%
<u>At March 31, 2021</u>	<u>Fair value⁽¹⁾</u> <u>(in millions)</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range</u>	<u>Median⁽²⁾</u>
Trading derivatives—net:					
Interest rate contracts—net	12,841	Option model	Correlation between interest rates Correlation between interest rate and foreign exchange rate Volatility	30.0%~61.9% 15.1%~60.0% 0.0%~100.0%	44.8% 41.6% 65.0%
Foreign exchange contracts—net	7,283	Option model	Correlation between interest rates Correlation between interest rate and foreign exchange rate Correlation between foreign exchange rates Volatility	10.0%~70.0% 0.0%~60.0% 50.0%~70.6% 9.5%~22.1%	51.0% 38.9% 66.4% 13.7%
Equity contracts—net	(4,597) 5,557	Option model Discounted cash flow	Correlation between foreign exchange rate and equity Correlation between equities Volatility Term of litigation	(58.4)%~55.0% 15.0%~95.0% 27.5%~40.0% 0.0 year~1.2 years	26.2% 54.0% 31.8% 0.6 year

Notes:

- (1) The fair value as of March 31, 2020 and 2021 excludes the fair value of investments valued using vendor prices.
- (2) Weighted average is calculated by weighing each input by the relative fair value of the respective financial instruments for investment securities. Median is used for derivative instruments.
- (3) See “Probability of default” in “Changes in and range of unobservable inputs”.
- (4) For further detail of Internal model, refer to the last paragraph of “Trading Account Assets and Liabilities—Trading Account Securities”.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Changes in and range of unobservable inputs

Probability of default—Probability of default is an estimate of the likelihood that the default event will occur and the MUFG Group will be unable to collect the contractual amounts. A significant increase (decrease) in the default rate would have resulted in a significant decrease (increase) in a fair value through a decrease (increase) in the estimated cash flows. Probability of default used in internal model of Residential mortgage-backed securities, Commercial mortgage-backed securities and Asset-backed securities represents that of underlying assets, whereas probability of default used in other valuation techniques represents the counterparty default risks, determined through the MUFG Group's credit rating system.

The wide range of probability of default used in the internal model of Residential mortgage-backed securities, Commercial mortgage-backed securities and Asset-backed securities is mainly caused by Asset-backed securities. Asset-backed securities have a large number of underlying loans, mainly corporate loans, in several industries. The MUFG Group primarily makes investments in the senior tranches of such securities, with no investments in the equity portion. Thus, the MUFG Group's investments have higher priority of payments than mezzanine and equity and even if some of underlying loans become default, the MUFG Group may still be able to receive the full contractual payments.

Discount factor and Liquidity premium—Discount factor and liquidity premium are adjustments to discount rates to reflect uncertainty of cash flows and liquidity of the instruments. When recent prices of similar instruments are unobservable in inactive or less active markets, discount rates are adjusted based on the facts and circumstances of the markets including the availability of quotes and the time since the latest available quotes. A significant increase (decrease) in discount rate would have resulted in a significant decrease (increase) in a fair value.

Recovery rate and Prepayment rate—Recovery rate is the proportion of the total outstanding balance of a bond or loan that is expected to be collected in a liquidation scenario. For many debt securities (such as asset-backed securities), there is no directly observable market input for recovery, but indications of recovery levels are available from third-party pricing services. The assumed recovery of a security may differ from its actual recovery that will be observable in the future. Prepayment rate represents the proportion of principal that is expected to be paid prematurely in each period on a security or pool of securities. Prepayment rates change the future cash flows for the investor and thereby change the fair value of the security. Recovery rate and prepayment rate would affect estimation of future cash flows to a certain extent and changes in these inputs could have resulted in a significant increase or decrease in fair value.

Volatility—Volatility is a measure of the speed and severity of market price changes and is a key factor in pricing. Typically, instruments can become more expensive if volatility increases. A significant increase (decrease) in volatility would cause a significant increase (decrease) in the value of an option resulting in the significant increase (decrease) in fair value.

The level of volatility generally depends on the tenor of the underlying instrument and the strike price or level defined in the contract. Volatilities for certain combinations of tenor and strike price are not observable. The volatility inputs used to estimate fair value of interest rate contracts are distributed throughout the range.

Correlation—Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variables). A variety of correlation-related assumptions are required for a wide range of instruments including foreign government and official institution bonds, asset-backed securities, corporate bonds, derivatives and certain other instruments. In most cases, correlations used are not observable in the market and must be estimated using historical information. Changes in

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correlation inputs can have a major impact, favorable or unfavorable, on the value of an instrument, depending on its nature. In addition, the wide range of correlation inputs are primarily due to the complex and unique nature of these instruments. There are many different types of correlation inputs, including cross-asset correlation (such as correlation between interest rate and equity), and same-asset correlation (such as correlation between interest rates). Correlation levels are highly dependent on market conditions and could have a relatively wide range of levels within or across asset classes.

For interest rate contracts and foreign exchange contracts, the diversity in the portfolio held by the MUFG Group is reflected in wide ranges of correlation, as the fair values of transactions with a variety of currencies and tenors are determined using several foreign exchange and interest rate curves. For equity derivative contracts, the wide range of correlation between interest rate and equity is primarily due to the large number of correlation pairs with different maturities of contracts. For credit derivative contracts, the wide range of correlation between underlying assets is primarily due to factors such as reference assets with different maturities, capital structure subordinations, and credit quality.

Term of litigation—Term of litigation is the estimated period until the resolution of a certain litigation matter that relates to an issuer’s restricted shares (“Covered Litigation”) that the MUFG Group purchased, which is referenced in certain swap transactions.

These swaps are valued using a discounted cash flow methodology and are dependent upon the final resolution of the Covered Litigation. The settlement timing of the Covered Litigation is not observable in the market, therefore the estimated term is classified as a level 3 input.

The restricted shares which the MUFG Group purchased will be convertible to listed shares of the issuer at the end of the Covered Litigation. The restricted shares will be diluted dependent upon the settlement amount of the Covered Litigation and the dilution of the restricted shares is accomplished through an adjustment to the conversion rate of the restricted shares. In order to hedge the reduction of the conversion rate, the MUFG Group entered into certain swaps with the seller which references the conversion rate. The value generated by these trades is subject to the ultimate term of the issuer’s litigation, subject to a minimum term referenced within the trade contracts.

Market-required return on capital—Market-required return on capital is the return on capital expected by the secondary market. A significant increase (decrease) in the market-required return on capital would have resulted in a significant decrease (increase) in a fair value of a financial asset.

Loan Price—Loan price refers to independent valuations which are supported by a number of third-party quotes. A significant increase (decrease) in the loan price would have resulted in a significant increase (decrease) in a fair value of a financial asset.

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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, write-downs of individual assets or the measurement alternative for nonmarketable equity securities. 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, 2020 and 2021:

	2020				2021			
	Level 1	Level 2	Level 3	Total carrying value	Level 1	Level 2	Level 3	Total carrying value
	(in millions)							
Assets								
Investment securities ⁽¹⁾⁽²⁾	¥ —	¥15,473	¥ 2,703	¥ 18,176	¥ —	¥32,421	¥ 8,357	¥ 40,778
Loans	2,548	9,199	260,282	272,029	2,667	5,125	255,676	263,468
Loans held for sale	—	—	73,573	73,573	—	—	52,159	52,159
Collateral dependent loans	2,548	9,199	186,709	198,456	2,667	5,125	203,517	211,309
Premises and equipment	—	—	37,109	37,109	—	—	15,243	15,243
Intangible assets	—	—	453	453	—	—	2,421	2,421
Goodwill	—	—	283,032	283,032	—	—	132,976	132,976
Other assets	73,015	—	18,609	91,624	111,626	33,840	24,512	169,978
Investments in equity method investees ⁽¹⁾	73,015	—	5,911	78,926	111,626	33,840	8,384	153,850
Other	—	—	12,698	12,698	—	—	16,128	16,128
Total	<u>¥75,563</u>	<u>¥24,672</u>	<u>¥602,188</u>	<u>¥702,423</u>	<u>¥114,293</u>	<u>¥71,386</u>	<u>¥439,185</u>	<u>¥624,864</u>

Notes:

- (1) Excludes certain investments valued at net asset value of ¥12,935 million and ¥24,319 million at March 31, 2020 and 2021, respectively. The unfunded commitments related to these investments are ¥17,216 million and ¥19,101 million at March 31, 2020 and 2021, respectively. These investments are in private equity funds.
- (2) Includes certain nonmarketable equity securities that are measured at fair value on a nonrecurring basis, including impairment and observable price change for nonmarketable equity securities measured under the measurement alternative.

The following table presents losses (gains) recorded as a result of changes in the fair value of assets measured at fair value on a nonrecurring basis for the fiscal years ended March 31, 2020 and 2021:

	2020	2021
	(in millions)	
Investment securities	¥ (2,171)	¥ (16,522)
Loans	47,359	116,849
Loans held for sale	4,688	959
Collateral dependent loans	42,671	115,890
Premises and equipment	16,517	11,548
Intangible assets	3,732	19,200
Goodwill	383,810	147,564
Other assets	46,237	111,374
Investments in equity method investees	21,672	53,758
Other	24,565	57,616
Total	<u>¥495,484</u>	<u>¥390,013</u>

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Investment securities for the year ended March 31, 2020 and 2021 primarily include nonmarketable equity securities measured under the measurement alternative. See Note 3 for the details of the measurement alternative.

Loans include loans held for sale and collateral dependent loans. Loans held for sale are recorded at the lower of cost or estimated fair value. The fair value of the loans held for sale is based on secondary market prices, recent transactions or discounted cash flows. These loans are principally classified in Level 3 of the fair value hierarchy, and when quoted prices are available but not traded actively, such loans held for sale are classified in Level 2 of the fair value hierarchy. Collateral dependent loans are measured at fair value of the underlying collateral. Collateral is comprised mainly of real estate and exchange-traded equity securities. The MUFG Group maintains an established process for internally determining the fair value of real estate, using the following valuation techniques and assumptions. Collateral dependent loans that are measured based on underlying real estate collateral are classified in Level 3 of the fair value hierarchy.

- *Replacement cost approach.* The replacement cost approach is primarily used for buildings and the land they are built on. This approach calculates the fair value of the collateral using the replacement cost of the property as of the valuation date. Replacement cost tables and useful life tables used for this approach are developed by subsidiaries of MUFG.
- *Sales comparison approach.* The sales comparison approach is mainly used for land. The fair value of the collateral located in Japan is based on Japanese government official land prices and standard land prices, considering the results of comparison analysis between the official roadside value which is used for tax purposes and the related government official land and standard land prices.
- *Income approach.* The income approach is, as a general rule, applied to all rental properties based on the highest and best use concept. This approach calculates the fair value of the collateral using expected future cash flows. In this approach, the expected annual net operating income is discounted using the related capitalization yield. The significant assumptions within the income approach are the expected annual net operating income and capitalization yield. The expected annual net operating income is estimated based on rental income of the property. The capitalization yield is determined based on the location and use of the property by subsidiaries of MUFG. The capitalization yield may be adjusted to reflect the trends in locations, occupancy rates and rent level and other factors.

Premises and equipment consist of those assets which were written down to fair value. The fair values are determined based on prices obtained from an appraiser or discounted cash flows. These impaired premises and equipment are classified as Level 3 of the fair value hierarchy.

Intangible assets consist of those assets which were written down to fair value. The fair values are determined based on discounted cash flows. These impaired intangible assets are classified as Level 3 of the fair value hierarchy.

Other assets mainly consist of investments in equity method investees which were written down to fair value due to impairment. When investments in equity method investees are marketable equity securities, the fair values are determined based on quoted prices. Impaired investments in equity method investees which are marketable equity securities are classified in either Level 1 or Level 2 of the fair value hierarchy. When investments in equity method investees are nonmarketable equity securities, the fair values are determined using the same methodologies as those for impaired nonmarketable equity securities described above. Impaired investments in equity method investees which are nonmarketable equity securities are classified in Level 3 of the fair value hierarchy.

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fair Value Option

The MUFG Group elected the fair value option for foreign currency-denominated debt securities and equity securities held by MUFG Bank and Mitsubishi UFJ Trust and Banking. The election was made to mitigate accounting mismatches related to fluctuations of foreign exchange rates by allowing the gains and losses on translation of these securities to be included in current earnings. The gains and losses on translation of debt securities without the fair value option, are included in OCI, while the gains and losses on translation of foreign currency-denominated financial liabilities are included in current earnings.

The MUFG Group also elected the fair value option for certain financial instruments held by Mitsubishi UFJ Securities Holdings'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 Other assets. These financial liabilities are mainly included in Other short-term borrowings and Long-term debt. Unrealized gains and losses on such financial instruments are recognized in the accompanying consolidated statements of income.

The following table presents the gains or losses recorded for the fiscal years ended March 31, 2019, 2020 and 2021 related to the eligible instruments for which the MUFG Group elected the fair value option:

	2019			2020			2021		
	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	Trading account profits (losses)	Foreign exchange gains (losses)	Total changes in fair value
	(in millions)								
Financial assets:									
Trading account securities ⁽¹⁾	¥208,952	¥186,578	¥395,530	¥837,832	¥(596,017)	¥241,815	¥(370,238)	¥723,505	¥353,267
Total	<u>¥208,952</u>	<u>¥186,578</u>	<u>¥395,530</u>	<u>¥837,832</u>	<u>¥(596,017)</u>	<u>¥241,815</u>	<u>¥(370,238)</u>	<u>¥723,505</u>	<u>¥353,267</u>
Financial liabilities:									
Other short-term borrowings ⁽²⁾	¥ (5,559)	¥ —	¥ (5,559)	¥ 5,194	¥ —	¥ 5,194	¥ (6,484)	¥ —	¥ (6,484)
Long-term debt ⁽²⁾	(8,322)	—	(8,322)	(8,087)	—	(8,087)	1,523	—	1,523
Total	<u>¥(13,881)</u>	<u>¥ —</u>	<u>¥(13,881)</u>	<u>¥ (2,893)</u>	<u>¥ —</u>	<u>¥ (2,893)</u>	<u>¥ (4,961)</u>	<u>¥ —</u>	<u>¥ (4,961)</u>

Notes:

- (1) Excludes Danamon's equity securities. See Note 2 for reference.
- (2) Change in value attributable to the instrument-specific credit risk related to those financial liabilities are not material.

The following table presents the differences between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of March 31, 2020 and 2021 for long-term debt instruments for which the fair value option has been elected:

	2020			2021		
	Remaining aggregate contractual amounts outstanding	Fair value	Fair value over (under) remaining aggregate contractual amounts outstanding	Remaining aggregate contractual amounts outstanding	Fair value	Fair value over (under) remaining aggregate contractual amounts outstanding
	(in millions)					
Financial liabilities:						
Long-term debt	¥319,149	¥304,067	¥(15,082)	¥420,227	¥402,823	¥(17,404)
Total	<u>¥319,149</u>	<u>¥304,067</u>	<u>¥(15,082)</u>	<u>¥420,227</u>	<u>¥402,823</u>	<u>¥(17,404)</u>

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Interest income and expense related to the assets and liabilities for which the fair value option is elected are measured based on the contractual rates and dividend income related to these assets are recognized when the shareholder right to receive the dividend is established. These interest income and expense and dividend income are reported in the accompanying consolidated statements of income as either interest income or expense, depending on the nature of the related asset or liability.

Estimated Fair Value of Financial Instruments

The following is a summary of carrying amounts and estimated fair values by level within the fair value hierarchy of financial instruments which are not carried at fair value on a recurring basis in the accompanying consolidated balance sheets as of March 31, 2020 and 2021:

<u>At March 31, 2020</u>	<u>Carrying amount</u>	<u>Estimated fair value</u>			
		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		(in billions)			
Financial assets:					
Cash and due from banks	¥ 33,283	¥ 33,283	¥33,283	¥ —	¥ —
Interest-earning deposits in other banks	45,267	45,267	—	45,267	—
Call loans and funds sold	1,169	1,169	—	1,169	—
Receivables under resale agreements	23,996	23,996	—	23,996	—
Receivables under securities borrowing transactions	3,444	3,444	—	3,444	—
Investment securities	4,166	4,178	1,134	1,042	2,002
Loans, net of allowance for credit losses ⁽¹⁾	117,373	118,497	3	259	118,235
Other financial assets ⁽²⁾	8,494	8,494	—	8,494	—
Financial liabilities:					
Deposits					
Non-interest-bearing	¥ 33,382	¥ 33,382	¥ —	¥ 33,382	¥ —
Interest-bearing	170,574	170,631	—	170,631	—
Total deposits	203,956	204,013	—	204,013	—
Call money and funds purchased	3,669	3,669	—	3,669	—
Payables under repurchase agreements	31,850	31,850	—	31,850	—
Payables under securities lending transactions	1,017	1,017	—	1,017	—
Due to trust account and other short-term borrowings	19,057	19,057	—	19,057	—
Long-term debt	27,772	27,941	—	27,941	—
Other financial liabilities	7,139	7,139	—	7,139	—

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

<u>At March 31, 2021</u>	<u>Carrying amount</u>	<u>Estimated fair value</u>			
		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
(in billions)					
Financial assets:					
Cash and due from banks	¥ 49,977	¥ 49,977	¥49,977	¥ —	¥ —
Interest-earning deposits in other banks	53,347	53,347	—	53,347	—
Call loans and funds sold	1,256	1,256	—	1,256	—
Receivables under resale agreements	13,780	13,780	—	13,780	—
Receivables under securities borrowing transactions . . .	3,370	3,370	—	3,370	—
Investment securities	3,904	3,939	1,123	780	2,036
Loans, net of allowance for credit losses ⁽¹⁾	114,350	115,709	3	298	115,408
Other financial assets ⁽²⁾	8,108	8,108	—	8,108	—
Financial liabilities:					
Deposits					
Non-interest-bearing	¥ 38,521	¥ 38,521	¥ —	¥ 38,521	¥ —
Interest-bearing	190,695	190,712	—	190,712	—
Total deposits	229,216	229,233	—	229,233	—
Call money and funds purchased	2,354	2,354	—	2,354	—
Payables under repurchase agreements	24,568	24,568	—	24,568	—
Payables under securities lending transactions	843	843	—	843	—
Due to trust account and other short-term borrowings . .	17,883	17,883	—	17,883	—
Long-term debt	34,773	35,042	—	35,042	—
Other financial liabilities	7,027	7,027	—	7,027	—

Notes:

- (1) Includes loans held for sale and collateral dependent loans measured at fair value on a nonrecurring basis. Refer to “Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis” for the details of the level classification.
- (2) Excludes investments in equity method investees of ¥2,421 billion and ¥2,560 billion at March 31, 2020 and 2021, respectively.

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, 2020 and 2021 was not material.

32. PARENT COMPANY ONLY FINANCIAL INFORMATION

Distributions of retained earnings of MUFG Bank and Mitsubishi UFJ Trust and Banking are restricted in order to meet the minimum capital adequacy requirements under the Banking Law. Additionally, retained earnings of these banking subsidiaries are restricted, except for approximately ¥5,247 billion and ¥5,155 billion, in accordance with the statutory reserve requirements under the Companies Act at March 31, 2020 and 2021, respectively. See Notes 19 and 21 for further information.

The Banking Law and related regulations restrict the ability of these banking subsidiaries to extend loans or credit to the parent company. Such loans or credits to the parent company are generally limited to 15% of the banking subsidiary’s consolidated total capital, as determined by the capital adequacy guidelines.

At March 31, 2020 and 2021, approximately ¥5,696 billion and ¥6,007 billion, respectively, of net assets of consolidated subsidiaries may be restricted as to payment of cash dividends and loans to the parent company.

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the parent company only financial information of MUFG:

Condensed Balance Sheets

	As of March 31,	
	2020	2021
	(in millions)	
Assets:		
Cash and interest-earning deposits with banking subsidiaries	¥ 185,668	¥ 229,380
Investments in subsidiaries and affiliated companies	16,116,568	16,658,522
Banking subsidiaries	12,361,190	12,793,367
Non-banking subsidiaries and affiliated companies	3,755,378	3,865,155
Loans to subsidiaries	8,746,231	9,208,439
Banking subsidiaries	8,222,278	8,690,696
Non-banking subsidiaries	523,953	517,743
Other assets	241,441	197,231
Total assets	¥25,289,908	¥ 26,293,572
Liabilities and Shareholders' equity:		
Short-term borrowings from banking subsidiaries	¥ 1,255,991	¥ 1,206,694
Long-term debt from non-banking subsidiaries and affiliated companies	30,686	15,897
Long-term debt	8,758,646	9,226,046
Other liabilities	228,098	183,986
Total liabilities	10,273,421	10,632,623
Total shareholders' equity	15,016,487	15,660,949
Total liabilities and shareholders' equity	¥25,289,908	¥ 26,293,572

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Condensed Statements of Income

	Fiscal years ended March 31,		
	2019	2020	2021
	(in millions)		
Income:			
Dividends from subsidiaries and affiliated companies	¥ 306,879	¥ 376,376	¥ 404,064
Banking subsidiaries	207,161	277,472	317,453
Non-banking subsidiaries and affiliated companies	99,718	98,904	86,611
Management fees from subsidiaries	28,305	33,543	35,095
Interest income from subsidiaries	127,117	174,500	174,816
Foreign exchange gains (losses)—net	(20,598)	4,834	1,089
Trading account losses—net	(8,078)	(37,272)	(18,285)
Gains on sales of investment in subsidiaries and affiliated companies—net	252,253	67,406	95
Other income	3,199	14,968	12,552
Total income	<u>689,077</u>	<u>634,355</u>	<u>609,426</u>
Expense:			
Operating expenses	28,168	30,431	37,567
Interest expense to subsidiaries and affiliated companies	34,594	26,244	11,415
Interest expense	108,756	155,774	159,057
Other expense	1,657	15,024	8,164
Total expense	<u>173,175</u>	<u>227,473</u>	<u>216,203</u>
Equity in undistributed net income (loss) of subsidiaries and affiliated companies—net	194,390	(108,069)	727,257
Income before income tax expense (benefit)	710,292	298,813	1,120,480
Income tax expense (benefit)	(8,353)	(7,142)	3,182
Net income	<u>¥ 718,645</u>	<u>¥ 305,955</u>	<u>¥ 1,117,298</u>

MITSUBISHI UFJ FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Condensed Statements of Cash Flows

	Fiscal years ended March 31,		
	2019	2020	2021
	(in millions)		
Operating activities:			
Net income	¥ 718,645	¥ 305,955	¥ 1,117,298
Adjustments and other	(351,775)	(1,704)	(568,317)
Net cash provided by operating activities	<u>366,870</u>	<u>304,251</u>	<u>548,981</u>
Investing activities:			
Proceeds from redemption of other investment securities	—	240,000	—
Proceeds from sales of investment in subsidiaries and affiliated companies	455,605	135,581	35,081
Purchase of equity investment in subsidiaries and an affiliated company	(18,346)	—	—
Net increase in loans to subsidiaries	(2,112,711)	(1,547,178)	(462,208)
Other—net	(9,009)	(12,572)	(11,531)
Net cash used in investing activities	<u>(1,684,461)</u>	<u>(1,184,169)</u>	<u>(438,658)</u>
Financing activities:			
Net decrease in short-term borrowings from subsidiaries	(194,300)	(164,272)	(49,058)
Proceeds from issuance of long-term debt	2,043,677	1,844,488	831,121
Repayment of long-term debt	(314)	(214,994)	(514,436)
Repayment of long-term debt to affiliated companies	(500)	(241,000)	(10,500)
Proceeds from sales of treasury stock	3	2	1
Payments for acquisition of treasury stock	(150,277)	(50,022)	(13)
Dividends paid	(276,279)	(304,538)	(321,772)
Other—net	(15,490)	(7,791)	(1,954)
Net cash provided by (used in) financing activities	<u>1,406,520</u>	<u>861,873</u>	<u>(66,611)</u>
Net increase (decrease) in cash and cash equivalents	88,929	(18,045)	43,712
Cash and cash equivalents at beginning of fiscal year	114,784	203,713	185,668
Cash and cash equivalents at end of fiscal year	<u>¥ 203,713</u>	<u>¥ 185,668</u>	<u>¥ 229,380</u>

33. SUBSEQUENT EVENTS

Approval of Dividends

On June 29, 2021, the shareholders approved the payment of cash dividends of ¥12.5 per share of Common stock, totaling ¥160,918 million, that were payable on June 30, 2021, to the shareholders of record on March 31, 2021.

* * * * *

EXHIBIT INDEX

Exhibit	Description
1(a)	Articles of Incorporation of Mitsubishi UFJ Financial Group, Inc., as amended on July 6, 2018 (English translation)*
1(b)	Board of Directors Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 25, 2015 (English translation)*
1(c)	Corporation Meetings Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on April 1, 2021 (English translation)
1(d)	Share Handling Regulations of Mitsubishi UFJ Financial Group, Inc., as amended on June 25, 2015 (English Translation)**
1(e)	Charter of the Audit Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)*
1(f)	Charter of the Compensation Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)*
1(g)	Charter of the Nominating and Governance Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (English translation)*
1(h)	Charter of the Risk Committee of Mitsubishi UFJ Financial Group, Inc., as amended on July 1, 2018 (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*
2(c)	Description of Securities
8	Subsidiaries of the Company—see “Item 4.C. Information on the Company—Organizational Structure.”
11	MUFG Group Code of Conduct, Compliance Rules, Compliance Manual, and Rules of Employment of Mitsubishi UFJ Financial Group, Inc. applicable to its principal executive officer, principal financial officer, principal accounting officer and 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(a)	Consent of independent registered public accounting firm (Deloitte Touche Tohmatsu LLC)
15(b)	Consent of independent registered public accounting firm (Deloitte & Touche LLP)
99(a)	Capitalization and Indebtedness of Mitsubishi UFJ Financial Group, Inc. as of March 31, 2021***
99(b)	Unaudited Reverse Reconciliation of Selected Financial Information of Mitsubishi UFJ Financial Group, Inc. as of and for the fiscal year ended March 31, 2021****
99(c)	Financial Statements and Supplementary Data of Morgan Stanley*****
101.INS	Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document

Exhibit	Description
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page for the Company's Annual Report on Form 20-F for the year ended March 31, 2021, has been formatted in Inline XBRL

Notes:

- * Incorporated by reference to our annual report on Form 20-F (File No. 000-54189) filed on July 12, 2018.
- ** Incorporated by reference to our registration statement on Form S-8 (File No. 333-230590) filed on March 29, 2019.
- *** Deemed to be incorporated by reference into the registration statement on Form F-3 (No. 333-242048) of Mitsubishi UFJ Financial Group, Inc. and to be a part thereof.
- **** Deemed to be incorporated as Annex A to the registration statement on Form F-3 (No. 333-242048) of Mitsubishi UFJ Financial Group, Inc. and to be a part thereof.
- ***** Incorporated by reference to Morgan Stanley's annual report on Form 10-K (File No. 001-11758) filed on February 26, 2021.

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/ HIRONORI KAMEZAWA
Name: **Hironori Kamezawa**
Title: **President & Group Chief Executive Officer**

Date: July 9, 2021

[Translation]

CORPORATION MEETINGS REGULATIONS

Chapter I. General Provisions

Article 1. General Provisions

1. These Rules shall govern the structure and operation of both the Executive Committee (as provided for in Article 11 of the Office Organization Rules) and Committees (as provided for in Article 12 of the Office Organization Rules).
2. Corporate Policy Meetings shall be held to help in the discussion and decision making of the Executive Committee. These Rules shall govern the structure and operation of Corporate Policy Meetings.

Article 2. Amendment and Abolition

The amendment and abolition of these Rules shall be determined by resolution of the Executive Committee.

Article 3. Jurisdiction

The Corporate Planning Division has jurisdiction over these Rules.

Chapter II. Executive Committee

Article 4. Members and Attendees

1. The Executive Committee shall consist of all Representative Corporate Executives, as well as Corporate Executives and Executive Officers nominated by the President & CEO of the Company ("Committee Members").
2. The President & CEO may, if they deem necessary, require Group C-Suite to attend meetings of the Executive Committee as members.
3. The President & CEO may, if they deem it necessary, require any of the Members of the Board of Directors other than the Committee Members, the Executive Officers and the Members of the Board of Directors of relevant subsidiaries of the Company, etc., to attend meetings of the Executive Committee.
4. Members of the Audit Committee may attend meetings of the Executive Committee.

Article 5. Chairman

1. The President & CEO shall convene meetings of the Executive Committee and shall preside over the meetings.
2. If the President & CEO is unable to act as such, one of the other Corporate Executives shall act in their place, in accordance with the order of priority previously determined by the Executive Committee.

Article 6. Meeting Dates

Meetings of the Executive Committee shall be held, in principle, once every two (2) weeks; however, they may be held at any time if the need arises.

Article 7. Matters to be Discussed and Determined

1. The Executive Committee shall, in principle, discuss and determine the following general important matters concerning management of the Company pursuant to the basic policies determined by the Board of Directors:
 - 1) Matters entrusted by the Board of Directors;
 - 2) Matters concerning execution of policies concerning general management and control of the Company;

- 3) Matters concerning company financial results;
 - 4) Matters concerning company shares, etc.;
 - 5) Matters concerning nominations, compensation, etc.;
 - 6) Matters concerning important matters concerning the subsidiaries of the Company, etc.;
 - 7) Matters concerning important matters concerning the administration and management of the subsidiaries of the Company, etc.;
 - 8) Matters concerning the establishment of, amendment to and abolition of rules, etc.;
 - 9) Matters concerning regulatory compliance and risk management;
 - 10) Matters required to be submitted to the Executive Committee by provisions stipulated in various rules and regulations; and
 - 11) Any other matters requiring executive action.
2. The matters to be discussed and determined set forth in the preceding paragraph shall be submitted by any of the Committee Members in control of such matters, or Group C-Suite and Heads of the Business Groups pursuant to Article 4 Paragraph 2, or any of the Members of the Board of Directors other than the Committee Members or the Executive Officers pursuant to Article 4 Paragraph 3.

Article 8. Method of Discussion and Determination

1. The proceedings of a meeting of the Executive Committee shall be determined by the President & CEO with the unanimous consent of all the Committee Members present who shall constitute in number a majority of the Committee Members.
2. If unanimous consent is not given by the Committee Members present at a meeting, the President & CEO shall determine the relevant items of business with consideration to the opinions of all Members present, upon consultation with the Chairman, or in the event a Deputy Chairman is appointed, with the Chairman and the Deputy Chairman.

Article 9. Discussion and Determination in Writing

1. Notwithstanding the provisions of Article 7, in special circumstances, the circulation of a written resolution drafted by the person making such proposal may be substituted for the holding of a meeting of the Executive Committee.
2. In the case of the preceding paragraph, the person making such proposal must report to the next Executive Committee meeting on the matters discussed and determined.

Article 10. Emergency Procedures

1. In case of emergency, such as a natural disaster, etc., if there is no time for discussion at the Executive Committee or for circulation of a written resolution, irrespective of the provisions set forth in Article 7, the President & CEO may take any and all expedient steps as may be necessary as matters of urgency.
2. In the case of the preceding paragraph, the President & CEO shall immediately report on such steps to the Executive Committee.

Article 11. Reporting and Exchange of Information

Each of the Committee Members or Group C-Suite and Heads of the Business Groups pursuant to Article 4 Paragraph 2, or any of the Members of the Board of Directors other than the Committee Members or the Executive Officers pursuant to Article 4 Paragraph 3 shall, at meetings of the Executive Committee, report on the state of execution of their duties and shall also exchange general information with one another.

Article 12. Meeting Minutes

The Corporate Administration Division shall record a summary of the proceedings of meetings of the Executive Committee and the results thereof in the minutes, and the President & CEO shall sign their name or affix their seal to such minutes, which shall then be kept at the Company Head Office for ten (10) years.

Article 13. Communication

The matters resolved by the Executive Committee shall be rapidly communicated to the relevant Executive Officers and Heads of Divisions, etc.

Chapter III. Committees

Article 14. Purpose and Matters to be Deliberated

1. A committee shall arrange, examine and deliberate on the following matters upon a mandate given by the President & CEO in order to contribute to the discussions and decision-making of the Executive Committee.
 1. Matters concerning management policies of the entire group;
 2. Matters concerning management plans of the entire group;
 3. Matters concerning risk management of the entire group;
 4. Matters concerning the setting up of management and execution policies among the subsidiaries of the Company; and
 5. Any other specified matters necessary for deliberation by the Executive Committee.

Article 15. Establishment and Membership

1. The Executive Committee shall establish a committee, which shall consist of several members appointed by the chairman thereof.
2. The chairman of the committee may appoint Members of the Board of Directors with Executive Power, etc. of the subsidiaries of the Company to be members, as described in the preceding paragraph.

Article 16. Chairman

1. Each committee shall have a chairman.
2. The chairman of the committee shall preside over the committee.
3. The committee may have a vice-chairman if necessary.
4. The President & CEO shall appoint a chairman and a vice-chairman of the committee from among its members.
5. If the chairman of the committee is prevented from acting as such, the vice-chairman or any other member appointed by the President & CEO shall act on the chairman's behalf.

Article 17. Secretariat

1. Each committee shall have a secretariat.
2. The secretariat shall be under the direction of the chairman of the committee and shall be responsible for committee administrative matters.

Article 18. Convocation

The chairman of the committee shall convene meetings of the committee.

Article 19. Deliberation

1. Each time a committee meeting is held, the chairman may decide attendees in accordance with matters to be deliberated in the committee. Committee members must make efforts to attend meetings of their committees where they shall carefully and actively discuss matters from the viewpoint of the Group as a whole, so that the deliberations of the committee can be completed in a timely manner.
2. If a member is to be absent from a meeting, they may submit their written opinions to the head of the secretariat in advance.
3. If necessary, the committee may require persons concerned to attend a meeting of the committee so that the committee may hear their opinions.
4. If necessary, the committee may require a division or subsidiary of the Company, etc. to submit materials or to make other cooperative efforts.

Article 20. Submissions and Reports

1. The chairman of the committee or a member of the committee nominated by the chairman shall, from time to time, submit or report on important matters deliberated at the committee to the Executive Committee.
2. In reports set forth in the preceding paragraph the minority opinions of the committee must be included.
3. If a long period of time is required for the deliberations in Article 20 Paragraph 1 the chairman of the committee or a member of the committee nominated by the chairman must provide interim reports to the Executive Committee about the state of the deliberations.

Article 21. Working Groups

A committee may establish working groups to ensure smooth deliberation.

Chapter IV. Corporate Policy Meetings

Article 22. Purpose and Matters to be Deliberated

The purpose of Corporate Policy Meetings is to exchange views from a wide range of perspectives and discuss the basic direction of important matters with regard to the management and administration of the Company Group on a consolidated basis, to contribute to decision-making at the Executive Committee.

Article 23. Composition

Corporate Policy Meetings shall consist of relevant Executive Committee Members, relevant Members of the Board of Directors, Corporate Executives, Executive Officers and Heads of Divisions, and Members of the Board of Directors, etc. of relevant subsidiaries of the Company.

Article 24. Meeting Dates

Corporate Policy Meetings shall be held whenever required.

Article 25. Secretariat

The secretariat of Corporate Policy Meetings shall share jurisdiction with the Corporate Planning Division over matters to be deliberated.

Article 26. Submissions and Reports

In principle, matters to be deliberated at Corporate Policy Meetings shall be submitted or reported to the Executive Committee.

Chapter V. Business Group Management Meetings

Article 27. Purpose and Matters to be Deliberated

Business Group Management Meetings shall be established in each Business Group under Article 6 of the Office Organization Rules to deliberate and exchange views from a wide range of perspectives regarding the management of the Business Group, and to contribute to the management of the Business Group.

Article 28. Composition

Business Group Management Meetings shall consist of the Head of the Business Group, relevant Executive Committee Members, relevant Members of the Board of Directors, Corporate Executives, Executive Officers and Heads of Divisions, and Members of the Board of Directors, etc. of relevant subsidiaries of the Company.

Article 29. Holding of meetings

Business Group Management Meetings shall be held in each Business Group, in principle two (2) times a year.

Article 30. Secretariat

The Corporate Planning Division and the division in charge of planning in each Business Group shall jointly be responsible for being the secretariat of Business Group Management Meetings.

Chapter VI. Unit Management Meetings

Article 31. Purpose and Matters to be Deliberated

Unit Management Meetings shall be held by each Unit organized pursuant to the provisions under Articles 7, 8, 9, 10, 11 and 12 of the Rules of Organization for the purposes of exchanging opinions and deliberating on the Unit's operations from a broad perspective, thereby aiming to contribute to the management of the Unit.

Article 32. Composition

The members of each Unit Management Meeting shall be composed of the Head of the Business Group that is responsible for the Unit, the Head of the Unit, the relevant Members of the Executive Committee, relevant Members of the Board of Directors, and relevant Corporate Executives, Executive Officers and Heads of Divisions, as well as Members of the Board of Directors, etc. of relevant subsidiaries.

Article 33. Holding of meetings

Unit Management Meetings shall be held by each Unit, in principle, two (2) times a year.

Article 34. Secretariat

The Corporate Planning Division, the division in charge of planning in each Business Group and the division in charge of planning in each Unit shall jointly be responsible for acting as the secretariat for the Unit Management Meetings of the Unit.

Chapter VII. Human Resource Management Meetings

Article 35. Purpose and Matters to be Deliberated

Human Resource Management Meetings shall be held for the purposes of exchanging opinions and deliberating on the human resources operations from a broad perspective, thereby aiming to contribute to the management of human resources.

Article 36. Composition

The members of Human Resource Management Meetings shall be composed of the relevant Members of the Executive Committee, relevant Members of the Board of Directors, and relevant Corporate Executives, Executive Officers and Heads of Divisions, as well as Members of the Board of Directors, etc. of relevant subsidiaries.

Article 37. Holding of meetings

Human Resource Management Meetings shall be held, in principle, one (1) time a year.

Article 38. Secretariat

The secretariat of Human Resource Management Meetings shall share jurisdiction with the Corporate Planning Division over matters to be deliberated.

Chapter VIII. Information Systems Management Meetings

Article 39. Purpose and Matters to be deliberated

Information Systems Management Meetings shall be held to deliberate and exchange views from a wide range of perspectives regarding the information system operations in MUFG Group, and to contribute to the management of them.

Article 40. Composition

Information Systems Management Meetings shall consist of relevant Executive Committee Members, relevant Members of the Board of Directors, Corporate Executives, Executive Officers and Heads of Divisions, and Members of the Board of Directors, etc. of relevant subsidiaries.

Article 41. Holding of meetings

Information Systems Management Meetings shall be held in principle one (1) time a year.

Article 42. Secretariat

The secretariat of Information Systems Management Meetings shall share jurisdiction with the Corporate Planning Division over matters to be deliberated.

Chapter IX. Facility Management Meetings

Article 43. Purpose and Matters to be Deliberated.

Facility Management Meetings shall be held to deliberate and exchange views from a wide range of perspectives regarding facility operations in MUFG Group, and to contribute to the management of facilities.

Article 44. Composition

Facility Management Meetings shall consist of relevant Executive Committee Members, relevant Members of the Board of Directors, Corporate Executives, Executive Officers and Heads of Divisions, and Members of the Board of Directors, etc. of relevant subsidiaries.

Article 45. Holding of meetings.

Facility Management Meetings shall be held in principle one (1) time a year.

Article 46. Secretariat

The secretariat of Facility Management Meetings shall share jurisdiction with the Corporate Planning Division over matters to be deliberated.

Supplementary Provisions

1. These Rules shall become effective as from October 1, 2005.

Amendment History

July 31, 2006	Amendment to Article 4 Paragraph 2
December 24, 2010	Changes to layout by chapters.
April 1, 2013	Amendment to Article 4
May 14, 2014	Amendment to Article 3, Article 4
March 31, 2015	Amendment to Article 22, Article 24, Article 25 Addition of Chapter V. (Article 27, Article 28, Article 29)
April 1, 2015	Rules in effect
June 23, 2015	Addition to Article 3, number of other Articles moved down. Amendment to Article 2, Article 4, Article 5, Article 7, Article 8, Article 10, Article 11, Article 12, Article 14, Article 15, Article 16, Article 23, Article 28
June 25, 2015	Rules in effect
July 3, 2015	Amendment to Article 4, Article 7, Article 11, Article 27, Article 28, Article 29, Article 30 Rules in effect
July 1, 2018	Addition of Chapter VI. (Article 31, Article 32, Article 33, Article 34) Rules in effect
March 1, 2019	Addition of Chapter VII. (Article 35, Article 36, Article 37, Article 38) Addition of Chapter VIII. (Article 39, Article 40, Article 41, Article 42) Rules in effect
October 7, 2019	Addition of Chapter IX. (Article 43, Article 44, Article 45, Article 46) Rules in effect
April 1, 2021	Amendment to Chapter II. (Article 4 Paragraph 2), Chapter III (Article 15 Paragraph 1, Article 19 Paragraphs 1 and 2) Rules in effect

DESCRIPTION OF SECURITIES

Common Stock

We summarize below the material provisions of our Articles of Incorporation, our share handling regulations and 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, each attached as an exhibit to our annual report on Form 20-F.

General

A joint stock company is a legal entity incorporated under the Companies Act. The investment and rights of the shareholders of a joint stock company are represented by shares of stock in the company and shareholders' liability is limited to the amount of the subscription for the shares. Our authorized common share capital is comprised of 33,000,000,000 shares of common stock with no par value.

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 Companies Act 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.

Under the Act on Book-Entry Transfer of Company Bonds, Shares, etc., the shares of all Japanese companies listed on any Japanese stock exchange, including our shares, are traded without share certificates through entry in the books maintained under a 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 Companies Act, 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 Companies Act, 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 “Common Stock—Voting Rights” below.

Under the Companies Act, we may make distributions 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 distributions 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 second 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 Companies Act, we may reduce our additional paid-in capital or legal reserve (without limitation as to the amount of such reduction) 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.

Unit Share (tan-gen kabu) System

We have adopted a unit share system, where 100 shares of either common or preferred stock shall each constitute a unit.

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 Companies Act 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. We may limit the number of matters that can be proposed by an eligible shareholder to 10. 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 and/or our subsidiaries own 25% or more of the total voting rights; and
- shares issued after the record date as a result of conversion of convertible stock, exercise of stock acquisition rights, and fractional shareholders becoming a shareholder of a whole unit share.

On the other hand, holders of certain class of preferred 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" below.

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 Companies Act 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.

The Companies Act 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 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.

Subscription Rights

Holders of our shares have no preemptive rights under our Articles of Incorporation. Under the Companies Act, 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 Companies Act, 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

Mitsubishi UFJ Trust and Banking is the transfer agent for our common stock. The office of Mitsubishi UFJ Trust and Banking for this purpose is located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan. Mitsubishi UFJ Trust and Banking maintains our register of shareholders.

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), the determination of shareholders entitled to vote at ordinary general meetings of our shareholders, and the determination of class shareholders entitled to vote at meetings of our class shareholders if any matter to be resolved at an ordinary general meeting of our shareholders requires a resolution by our class shareholders in addition to a resolution by 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.

American Depositary Shares

The Bank of New York Mellon will issue ADRs. Each ADR will represent ownership interests in ADSs. Each ADS represents one share of our common stock. Each ADS is held by MUFG Bank, 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 240 Greenwich Street, New York, New York 10286 and its principal executive office is located at 240 Greenwich 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 herein. 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, each attached as an exhibit to our annual report on Form 20-F.

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 U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. 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. The Bank of New York Mellon will distribute only whole U.S. 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.

U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after the exercise of the rights. For example, you may not be able to trade the ADSs freely in the United States. In this case, The Bank of New York 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 U.S. Securities Act with respect to a distribution to you. We will have no obligation to register under the Securities Act those rights or the securities to which they relate.

Other distributions. The Bank of New York 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 under 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.

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.

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 depositary 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 our control from performing our 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.

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 Companies Act 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

We are authorized under our Articles of Incorporation to issue four classes of preferred stock totaling 800,000,000 shares of preferred stock, including 400,000,000 shares of each of the second to fourth series of class 5 preferred stock (provided the aggregate number of shares authorized to be issued with respect to the three 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), and 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).

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.

We may acquire shares of second 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. The provisions for acquisition of shares of second 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.

Additionally, in order to enable the relevant preferred stock to meet the criteria for Additional Tier 1 capital under Basel III requirements as adopted by the Financial Services Agency of Japan, the terms of the second to fourth series of class 5 as well as all the series of class 6 and class 7 preferred stock have mandatory acquisition provisions. When newly issuing these preferred stock, the board of directors will determine events that will require us to acquire the relevant preferred stock pursuant to the capital adequacy requirements applicable to us. Upon the occurrence of such events, we will acquire all the relevant preferred stock on an acquisition date, which is a date determined by the board of directors either at the time of the issuance or after the occurrence of such event. We shall acquire the relevant preferred stock in exchange for common stock or for no consideration as determined by the board of directors at the time of the issuance, considering certain factors including the market conditions. The formula to be used in exchanging the preferred stock for common stock will also be determined by the board of directors at the time of the issuance.

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:

- 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; and
- 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.

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 second to fourth series of class 5 preferred stock;
- ¥2,500 per share of first to fourth series of class 6 preferred stock; and
- ¥2,500 per share of first to fourth series of class 7 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.

MUFG Group
Code of
Conduct 2021



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Code of Conduct



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(Note : Explanations in each chapter are described in **1** ~ **4** or ●)



Message from the Group CEO

Be the company with enduring trust

Allow me to pose this question to all of you, my MUFG all staff: What do you consider the most important asset for financial institutions?

My answer? "Trust" – of our customers and society. Our company is able to do business because of the indispensable trust of our customers and society – the trust that our predecessors earned and bestowed on us over our long history.

As a result of the Covid-19 pandemic, I strongly feel the importance of re-recognizing the social mission we have as a financial institution while responding to accelerating changes in the world and creating a new form of trust. With the determination to contribute to society, customers, employees, and the wider world as a force that empowers us toward a brighter future, we have changed our purpose to "empowering a brighter future". We have also formulated the MUFG Way, which aims to help share these values and define our medium to long-term goals. The MUFG Way is the MUFG group's basic stance in carrying out our management activities and is also the guiding principle for all of our wider activities.

This is the reason for our Code of Conduct. It lays stepping stones to define the path of responsible decision-making through uncertain times. It also informs our day-to-day behavior and helps guide us to do the right thing at all times. In other words, our trust is founded on the "right actions" you and I take every day.

There are times when we struggle to make a decision. In such cases, we should refer to the Code of Conduct as our guide. One good way to gauge if we are doing the right thing is to ask ourselves: Can we explain our choices with honor to our family and friends?

If you notice anything that might contravene our standards of conduct – even slightly – report it immediately to your supervisor or use Compliance Helpline. Do not hesitate. Reporting these matters is the right thing to do and is everyone's sacred responsibility.

MUFG Group entities are fully committed to cultivating an atmosphere of speaking freely without fear. Your courage is appreciated by the firm, which is responsible for responding appropriately. No repercussions will ever be taken against a staff who makes a sincere, honest report in order to protect what's right.

Put simply, the Code of Conduct is not just for reading. It is for action – literally. Being the company with the enduring trust of our customers and society depends on each of us – all of us – doing the right thing in our day-to-day work. Always.

April 2021

Hironori Kamezawa

Member of the Board of Directors, President & Group CEO

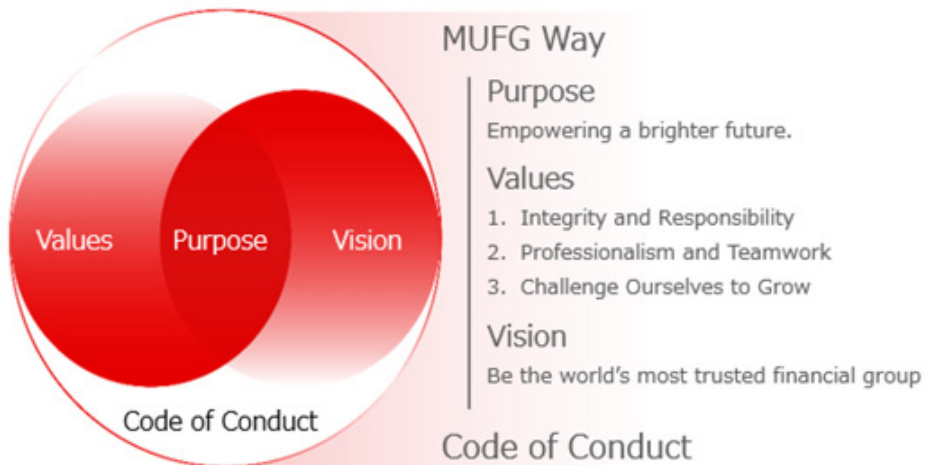
1 MUFG Way and Code of Conduct

The corporate vision of the MUFG Group has been revised to MUFG Way in order to make each employee aware of the purposition of the Group.

The diagram below illustrates the relationship between our Corporate Vision and our Code of Conduct.

The MUFG Way sets forth the most basic stance of the MUFG Group in the execution of its business activities, and is the guiding principle for all its activities.

Code of Conduct shows how Group members should make their decisions and act on a daily basis, and is an important part of supporting the MUFG Way.



“Culture”

Culture refers to the patterns of thinking and behavior shared by all staff. This includes both explicit written documents, such as our Corporate Vision and Code of Conduct, and norms that are shared implicitly among all staff.

2 Code of Conduct (Main text)



Chapter 1.

Customer Focus

Our customers are at the center of everything we do, and should always be the focus of our thoughts. Our aim should be to win the trust and confidence of our customers at all times. MUFG exists today because of the trust and confidence that customers have placed in us over many years. Our role is to increase and strengthen this bedrock of trust and confidence. Our activities are not driven by the prospect of short-term gains. Instead, we look to build ongoing relationships with our customers to support their long-term growth.

1-1 Honesty and Integrity

Our customers are at the center of everything we do. We carry out fair and transparent corporate activities with honesty and integrity. We treat customer assets with care and respect and strive always to ensure that our actions do not unjustly damage our customers' interests.

1-2 Ensuring Quality

To build lasting relationships of trust and confidence with our customers, we listen carefully to what our customers are telling us and maintain thoroughgoing quality control of all our products and services, from planning and development to provision and subsequent revisions, with a view to further enhancing quality.

1-3 Exceeding Customer Expectations

We aim to meet the diverse needs of our customers worldwide, and to provide services exceeding their expectations through the highest standards of professionalism, by leveraging our global network and the consolidated strengths of the entire Group.



Chapter 2.

Responsibility as a Corporate Citizen

As we develop our business globally, we comply with all the domestic and international laws and rules that may apply. We do all we can to maintain stability and confidence in the global financial system, and we contribute to the sound and healthy growth of society. Aware of the responsibility and accountability each of us has as a member of MUFG, we carry out fair and transparent corporate activities with honesty and integrity, in a manner that supports and strengthens the trust and confidence MUFG has earned from society over many years.

2-1 Adherence to Laws and Rules

In addition to adhering strictly to all domestic and international laws, regulations and rules, we strive to do the right thing based on our strict code of ethics.

Violations of laws or rules damage the vital social infrastructure of the financial system and lead to a loss of trust in MUFG. We strictly abide by all laws and rules relating to our business.

2-2 Prevention of Financial Crime

We have zero tolerance for supporting or facilitating financial crime or any attempt to circumvent the rules and procedures aimed at preventing financial crime. We take all reasonable steps possible to prevent our products and services from being used by individuals or entities involved in illegal or improper activities such as money laundering and terrorist financing.

2-3 Contributing to Society

We respect the history, cultures, and customs of different countries and regions around the world, and work to contribute to the development of diverse communities and the protection of the environment throughout our corporate activities and the social volunteer efforts of our staff.



Chapter 3.

Behaviors in the Workplace

We strive to respond and adapt promptly to the diversifying and evolving needs of our customers and the rapidly changing environment in which we work. The working environment at MUFG fosters mutual respect, enables individuals to make the most of their abilities as professionals, and maximizes the power of teamwork across regions and different areas of business, encouraging all staff members to embrace new challenges. We work always to protect and maintain the tangible and intangible assets and property that MUFG has accumulated.

3-1 Challenge Ourselves to Grow

We strive to enhance our knowledge, expertise, and potential and maximize the power of teamwork. We believe that the changing business environment represents opportunity and are always ready to embrace new challenges in new fields.

3-2 Collaborative and Professional Working Environment

We respect the human rights and diversity of all MUFG staff. We do not engage in or tolerate any form of discrimination or harassment or any other behavior that infringes these beliefs.

3-3 Protecting MUFG's Assets and Property

We protect the tangible and intangible assets and property of MUFG and individual Group entities and do not tolerate any behavior that might damage these assets.

3-4 Reporting Problem Situations and Seeking

If you become aware of conduct that contravenes the law, company regulations, or the provisions of this Code of Conduct, or any other problem situations, you must promptly report the matter and seek advice from a supervisor, human resources, compliance officer or issue a report via Compliance Helpline arrangements made available by MUFG.

3 About the Code of Conduct

(1) The Code of Conduct is designed to provide guidance at all times, or when we find it difficult to know if we are making the right choice. (In some cases, the Code of Conduct may be supplemented by additional entity or location specific guidelines, which provide further guidance.)

(2) In situations where you feel uncertain, you should consider the following:

<input checked="" type="checkbox"/>	Is the conduct in line with the Code of Conduct and internal and external laws, rules, and regulations?
<input checked="" type="checkbox"/>	Am I deceiving myself to rationalize my behavior?
<input checked="" type="checkbox"/>	Is there any possibility that others might regard the conduct as inappropriate?
<input checked="" type="checkbox"/>	Would I do the same thing to my family or those that are close to me?

(3) All staff must undergo training on the Code of Conduct once a year, as a general rule. In addition, each member of staff must make an attestation, in a form determined by the relevant Group entity, that he or she will abide by the MUFG Code of Conduct.



Phrases to Watch Out For

Be careful if you catch yourself or others using language such as:

- "Just this once..."
- "Everyone else is doing it"
- "Don't argue"
- "It's urgent so we need to make an exception"

⇒ Do not fall into the trap of failing to think critically. Take the time to think carefully and do the right thing.

4 Failure to Abide by the Code of Conduct

- (1) All staff must abide by the Code of Conduct, as well as applicable laws, regulations, rules, protocols, procedures, and other guidelines determined by Group MUFG entities. If we have policies that are more restrictive than the Code of Conduct, we must follow those policies. Any conduct that fails to meet these standards may result in disciplinary measures, up to and including termination of employment, in accordance with the employment regulations and other rules established separately by individual MUFG companies. Staff may be held personally responsible for conduct that damages the reputation and trust of an MUFG company or damages the company's interests.
- (2) Staff may also be held responsible and accountable for the action or inaction of others if they fail to take action despite knowing about inappropriate behavior or conduct on the part of others that is likely to have a serious negative impact on the trust or interests of any Group entity, or if they ignore any such conduct despite being in a position of responsibility requiring them to know about it. All staff must cooperate in any audit, examination, or investigation conducted related to potential violations of the Code, Company policy, procedures, or guidelines.
- (3) In addition, staff conduct may be reported to the relevant authorities, which could result in a fine, loss of the qualification to work in the financial industry, and/or even imprisonment.



What happens if I cannot exceed customer expectations or achieve growth and new challenges?

The Code of Conduct contains a mixture of different guidelines. Behaviors like "Acting with honesty and integrity" and "Prevention of financial crime" must be followed at all times. Others, including "Exceeding customer expectations" and "growth and challenges" are more like targets that you should aim toward.



Check

Conduct Risk

In addition to violation of existing rules (such as regulations), behavior 1) that is contrary to conventional wisdom or socially common idea, 2) contravenes business customs or market practices, or 3) does not consider from the customers' perspective could be detrimental to the interests of stakeholders, such as customers and shareholders, and as a result, could have a negative impact on our corporate value, profit, and reputation. This risk is called "conduct risk."

5 Roles and Responsibilities of Managers

Managers have several additional roles and responsibilities. (“Manager” here refers primarily to all managers with responsibility for leading team members, head of department and head of divisions.)

- ① Lead by example and be proactive about acting ethically in accordance with the MUFG Corporate Vision and the Code of Conduct.
- ② Work to ensure that staff under your supervision understand the content of the MUFG Corporate Vision and the Code of Conduct in a manner appropriate to the respective organization.
- ③ Foster an environment where all staff feel comfortable raising concerns when they are struggling to reach a work-related decision or facing a problem.
- ④ Strictly avoid any conduct that could be construed as an abuse of your position.
- ⑤ Take appropriate, timely action when a problem has arisen, either addressing the issue directly or escalating appropriately.



Check

The Importance of Listening

As a supervisor, how do you respond when one of your team comes to you with a problem? Do you give them your attention, or simply ask what they want without even looking up from your desk?

When someone comes to you for advice, it is important to take the time to listen carefully and with an open mind to what they have to say.

Particularly in the case of a problem that might touch on the Code of Conduct, it is vital to take appropriate measures promptly before the problem gets out of hand. Remember: The better you are as a listener, the more effective you will be as a manager.

Chapter 3

Chapter 2

Chapter 1

Code of Conduct

Introduction



Chapter 1.

Customer Focus

Our customers are at the center of everything we do, and should always be the focus of our thoughts. Our aim should be to win the trust and confidence of our customers at all times.

MUFG exists today because of the trust and confidence that customers have placed in us over many years.

Our role is to increase and strengthen this bedrock of trust and confidence. Our activities are not driven by the prospect of short-term gains. Instead, we look to build ongoing relationships with our customers to support their long-term growth.



1-1 Honesty and Integrity

Our customers are at the center of everything we do. We carry out fair and transparent corporate activities with honesty and integrity. We treat customer assets with care and respect and strive always to ensure that our actions do not unjustly damage our customers' interests.

1 Acting with Honesty and Integrity

- We place our customers at the center of everything we do. Our thoughts are always of how best to help our customers, and we work fairly and honestly to support our customers' long-term sustained growth.

2 Safeguarding Customer Assets (Including Information)

- Our customers entrust us with important assets such as cash and securities as well as information. The loss, leakage, or misuse of our customers' information can not only cause serious damage to customer interests but can also seriously undermine the trust and confidence in MUFG.
- We treat our customers' financial assets with the utmost care and ensure that they are properly safeguarded at all times.
- We also protect the confidentiality, security and privacy of customer information.

3 Protecting Customer Interests Properly

- To protect the interests of our clients, we act to treat our customers in a fair, ethical, and non-discriminatory manner with honesty and integrity and conduct our sales-related transactions with responsibility and a high level of ethics.
- When conducting business with customers, we are sensitive to the possibility of conflicts of interest that may exist between customers or between a customer and a Group entity. We act appropriately at all times, in line with the guidelines on managing conflicts of interest.



Check

About Performance Objectives

Have you ever felt a conflict of interest between achieving your targets and maintaining the customer's trust? As a company, we have a responsibility and accountability to achieve our objectives. But these must be achieved by doing the right thing and earning trust and a good reputation from our customers. If you ever feel any conflict between your objective and the customer's trust, always prioritize the customer's trust. Remind yourself that achieving objectives is only meaningful if it is achieved by following the correct procedures.

1-2 Ensuring Quality

To build lasting relationships of trust and confidence with our customers, we listen carefully to what our customers are telling us and maintain thoroughgoing quality control of all our products and services, from planning and development to provision and subsequent revisions, with a view to further enhancing quality.

1 Best Possible Products and Services for Customers

- In order to earn trust from customers and build lasting positive business relationships with them, it is important to maintain thorough quality control at all stages in the development and delivery of our products and services.
- Quality control means developing and providing the best possible products and services for customers and ensuring accuracy and safety in all our business dealings.
- To this end, it is important to always keep in mind the following principles:
 - ① Clearly define the customer and their needs when planning and developing products.
 - ② Ensure that the risks associated with our products and services are understandable and acceptable to the customer.
 - ③ Ensure that products and services proposed and provided to customers match their purposes, needs, knowledge, experience, financial capabilities, and other relevant conditions.
 - ④ Give clear and accurate explanations that enable customers to understand the nature and risks of our products and services.
 - ⑤ Be fair-minded, courteous, and sincere in all dealings with our customers.

2 Unending Work to Improve Quality

- We regularly confirm that our products and services are meeting the needs of our customers, and we work constantly to review and improve the quality of all our products and services.



Ensuring Quality

Financial products and services are not visible or physical. However, quality control is important, just like with any product, from the viewpoint of suitability for customer needs, ease of understanding, and ease of use. Specifically, effective management is based on the life cycle from product planning and development to sales and after-sales follow-up. If problems arise, they will appear in the voice of the customer or in the observation of someone else in the company. Be sensitive enough to notice them.

1-3 Exceeding Customer Expectations

We aim to meet the diverse needs of our customers worldwide, and to provide services exceeding their expectations through the highest standards of professionalism, by leveraging our global network and the consolidated strengths of the entire Group.

1 Improving Expertise

- To provide our customers with the best possible products and services, every one of us works to improve our professional knowledge and expertise.

2 Leveraging the Consolidated Strengths of MUFG

- For our customers, MUFG is a single company. We will continue to provide services that exceed customer expectations by bringing our strengths and capabilities together and acting as an integrated group.

3 Using Our Global Network

- We use MUFG's global network to provide outstanding products and services that are truly world-class.



What is the Risk-ownership of the 1st line of defense?

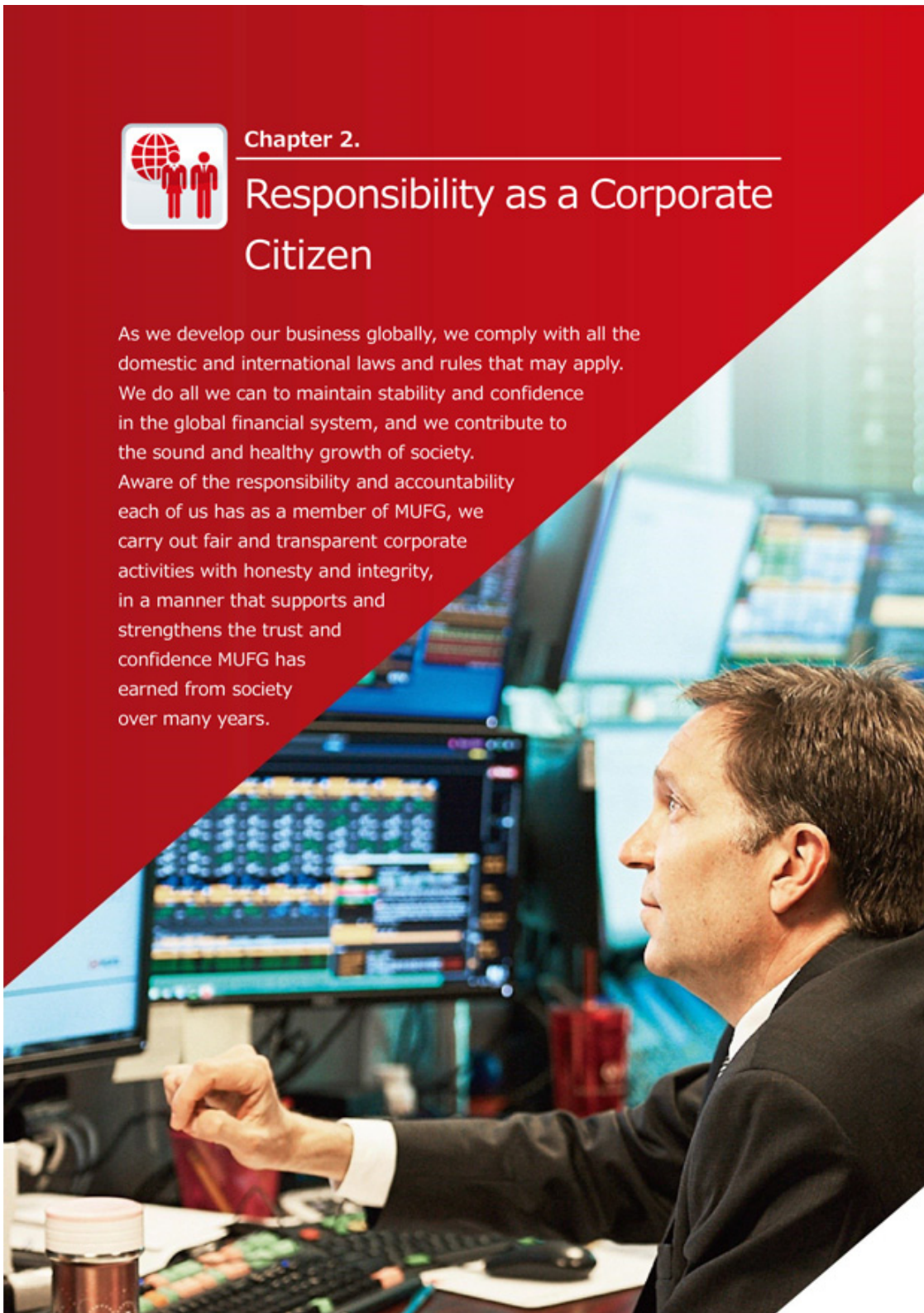
The first line of defense refers to the Business Unit of business execution, such as sales and marketing. There are risks associated with sales and marketing activities, but some people within the first line of defense may have a false sense that risk management should be entrusted to the Risk Management Office, which is the second line of defense, and that they should concentrate on earning. The primary responsibility for managing risk associated with sales and marketing activities rests with the first line of defense, which is responsible for the consequences of risk events. Risk-ownership means being prepared for the consequences of sales-related risks. Staff in the first line should be aware of risk ownership, identify risks in their day-to-day operations, and strive to control them as needed.



Chapter 2.

Responsibility as a Corporate Citizen

As we develop our business globally, we comply with all the domestic and international laws and rules that may apply. We do all we can to maintain stability and confidence in the global financial system, and we contribute to the sound and healthy growth of society. Aware of the responsibility and accountability each of us has as a member of MUFG, we carry out fair and transparent corporate activities with honesty and integrity, in a manner that supports and strengthens the trust and confidence MUFG has earned from society over many years.



2-1 Adherence to Laws and Rules

In addition to adhering strictly to all domestic and international laws, regulations and rules, we strive to do the right thing based on our strict code of ethics.

Violations of laws or rules damage the vital social infrastructure of the financial system and lead to a loss of trust in MUFG. We strictly abide by all laws and rules relating to our business, including the following areas:

1 Prohibition of Insider Trading

- Insider trading is illegal in many countries and is strictly regulated, regardless of the amount of money involved.
- We manage material information rigorously and have no involvement in activities that use material nonpublic information to gain illegal profits.

2 Ban on Unfair Trading Practices

- As a participant in a fair, transparent, and free competitive market, we have no involvement with unfair trading practices (including cartels, abuse of dominant position, and market manipulation).
- We abide strictly with all the laws and rules (including all local tax and compliance requirements) in place to protect fair trading, including firewall regulations and the arm's length rule in case of intercompany transactions between MUFG entities.

3 Prohibition of inappropriate Gifts and Hospitality

- Complying with the Global Standard for Offer and Acceptance of Gifts and Business Hospitality, we exercise good judgment and fair dealing to ensure that the giving or receiving of gifts and hospitality with third parties (e.g., clients, vendors, public officials) is:
 - For a legitimate business purpose (not to improperly influence business judgment)
 - Reasonable based on the facts and circumstances (not lavish or too frequent)

4 Accurate Recording and Appropriate Disclosure

- Records of our business activities, including financial information, are accurately recorded and properly maintained and managed.
- To ensure that MUFG is properly understood and evaluated in the wider society, it is incumbent on us to ensure that company information is disclosed in a timely and appropriate manner, including financial reports. Concealment or nondisclosure of information damages our trust and reputation. We are not involved in any inaccurate or inappropriate disclosure of information, or in any attempt to conceal information.

We have zero tolerance for supporting or facilitating financial crime or any attempt to circumvent the rules and procedures aimed at preventing financial crime. We take all reasonable steps possible to prevent our products and services from being used by individuals or entities involved in illegal or improper activities such as money laundering and terrorist financing.

1 Preventing Financial Crimes and Misuse of Financial Services

- We remain alert to the possibility that the financial services provided by MUFG on a global basis may be misused to facilitate financial crimes as per below, and do everything in our power to prevent illicit activities involving our products and services such as;
 - Attempted or Actual Money laundering / Terrorist financing
 - Violations of economic sanctions
 - Participation in or promotion of bribery and corruption
 - Facilitation of tax evasion
 - Fraud, which is defined generally as any action through which an individual or entity internationally attempts to secure an unfair or unlawful gain.

2 Anti-Bribery and Corruption("ABC")

- We adhere to the highest standards of ethical conduct. In particular, we prohibit:
 - Offering or giving anything of value¹ to anyone, directly or indirectly, if it is intended or it appears as intended to improperly obtain or retain business advantages
 - Soliciting or accepting anything of value from anyone, directly or indirectly, if it influences or could appear to influence decisions on behalf of MUFG
 - Falsifying or concealing any books, records accounts or other information in connection with MUFG's business.
- We comply with ABC Policy requirements that apply to certain activities (e.g., gifts and hospitality, hiring, engagement of intermediaries, donations), especially when they involve public officials.

3 No Relationships with Criminal Elements

- All relationships with any known criminal elements are strictly forbidden. We work closely with the police, legal counsel, and other relevant external organizations to protect the safety of all our staff.

¹ Anything of value for the purpose of this section will have the definition in the Global ABC Policy.

2-3 Contributing to Society

We respect the history, cultures, and customs of different countries and regions around the world, and work to contribute to the development of diverse communities and the protection of the environment throughout our corporate activities and the social volunteer efforts of our staff.

1 Giving Back to Communities

- As a good corporate citizen, MUFG is proactively engaged with local communities and contributes to their development.
- As members of regional communities and the global community, we volunteer actively to take part in activities that make a meaningful contribution to society.

2 Commitment to the Environment

- We work to minimize the environmental impact of our corporate activities, as well as strive to develop and supply products and services that contribute to environmental conservation and protection, thus contributing to making a sustainable society a reality.



Sustainable Growth

Have you ever heard of “ESG” or “SDGs”?

ESG stands for “Environment, Social and Governance,” three essential elements for the long-term growth of a company. SDGs (“Sustainable Development Goals”) are the blueprint for cooperative interactions between national governments and private companies to tackle social issues, such as clean energy and economic growth, to achieve a better global future. Our customers and investors now have a strong tendency to view companies from such perspectives.

With the development of the information age, including the introduction of social networking services, our society has become a place where good and bad conduct can be quickly and easily revealed to the public. Increasingly, a company that engages in proper conduct as a corporate citizen can win more trust from customers and receive positive evaluations from investors. However, the reverse is also true. With consideration of the public nature of financial services and our position in the industry, we must assume that social expectations toward MUFG are very high, and it is therefore essential that each member of staff and executive management engages in proper conduct with an understanding of those expectations.



Chapter 3.

Behaviors in the Workplace

We strive to respond and adapt promptly to the diversifying and evolving needs of our customers and the rapidly changing environment in which we work. The working environment at MUFG fosters mutual respect, enables individuals to make the most of their abilities as professionals, and maximizes the power of teamwork across regions and different areas of business, encouraging all staff members to embrace new challenges.

We work always to protect and maintain the tangible and intangible assets and property that MUFG has accumulated.



3-1 Challenge Ourselves to Grow

We strive to enhance our knowledge, expertise, and potential and maximize the power of teamwork. We believe that the changing business environment represents opportunity and are always ready to embrace new challenges in new fields.

1 Personal Growth

- As the needs and businesses of our customers continue to evolve, it is essential that we too continue to grow professionally so as to provide the best possible products and services for customers.
- We endeavor to improve our individual skills, abilities, and potential, through our work and by taking advantage of training and educational opportunities both inside and outside of MUFG. We proactively support the efforts of all MUFG staff toward personal growth.

2 Teamwork

- We share information, skills, and expertise within MUFG and continue to be committed to maximizing the power of teamwork in pursuit of our business.

3 Openness to New Challenges

- Monitoring developments in society and changes in the business environment, we embrace new challenges in the belief that change represents opportunity. We positively support and evaluate staff who actively take on challenges.



There is no growth without challenges, and no success without growth.

Learning and experience are important aspects of how we grow as people. But sometimes challenges are necessary, too. Particularly when major changes are happening, accepting a challenge without fear of failure can lead to major growth. This applies not only to individuals but to entire organizations.

We respect the human rights and diversity of all MUFG staff. We do not engage in or tolerate any form of discrimination or harassment or any other behavior that infringes these beliefs.

1 Respect for Human Rights and Diversity

- As a global group, our workforce is highly diverse in terms of ethnicity, color, national origin, birthplace, beliefs, religion, gender, sexual orientation, gender identity, age, physical or mental disability, as well as in other dimensions.
- Diversity is one of MUFG's strengths and we respect a diversity of values. A diverse group of staff results in broader ideas and a more rewarding work experience.
- We do not tolerate discrimination, harassment or infringement of the rights of any individual, on any basis as may be set forth in applicable law and we provide equal employment opportunity accordingly.

2 Open Communication

- We strive to create an open and vibrant workplace in which staff deal with one another with sincerity and honesty, regardless of position, helping and respecting one another.

3 Prohibition of Harassment

- Harassment undermines the dignity of the recipient and seriously damages the smooth running of the organization. We do not commit or tolerate sexual harassment, "power" harassment (as may be described in the laws of some countries), or other threatening or hostile behavior, including harassment from external sources.
- We do not tolerate any harassment or bullying within the company.



Respect each other

Harassment, such as sexual harassment and power harassment, are acts that seriously harms people and will not be tolerated by MUFG, regardless of whether it is regulated by law or not.

In order for all executives and staff to respect one another, it is important to think about diversity and inclusiveness.

3-3 Protecting MUFG's Assets and Property

We protect the tangible and intangible assets and property of MUFG and individual Group entities and do not tolerate any behavior that might damage these assets.

- We all use corporate assets for legitimate company business and safeguard them against cyber-related risk, unauthorized access, theft, loss, waste, or abuse. Subject to company policies and applicable law, MUFG may inspect and monitor all use of MUFG technology, facilities, and other assets.
- We protect the confidentiality, security and privacy of information of our staff and third parties and collect, use and disclose such information in an authorized and secure manner.



Lessons Learned

Reports on corporate scandals appear in the media almost on a daily basis. You must never think that these scandals are something that doesn't concern us. What has happened at other companies could happen here too. Scandals have affected MUFG companies as well. We must analyze the reasons for these failures, discuss ways of ensuring they do not happen again, and then implement these measures thoroughly. Being humble enough to learn from our own mistakes and those of others is a key part of what it takes to build a good, strong company.



Speak Up

If you have concerns or questions about conduct that you think might contravene the law, company-policies or rules, or this Code of Conduct, be sure to report the matter promptly to the appropriate person or seek advice from a supervisor or person in charge of compliance issues, or use the Compliance helpline system established within each MUFG company. Never worry that you might be making a fuss about something minor. Trust your sense that something is wrong. There will not be any repercussions for reporting a matter through the Compliance helpline system or otherwise. Management or the designated human resources or similar function will be responsible for carrying out full and proper investigation into the matter you have brought to our attention.

If you become aware of conduct that contravenes the law, company regulations, or the provisions of this Code of Conduct, or any other problem situations, you must promptly report the matter and seek advice from a supervisor, human resources, compliance officer or issue a report via Compliance Helpline arrangements made available by MUFG.

- If you suspect there is any problem within the company, you must promptly report the matter to an appropriate person, for example a supervisor or senior manager, or you must use the various compliance helpline arrangements in place across the Group or other means available locally.
- Whether the compliance helpline reporting channels are utilized or not, the person who receives the report or information about any problem will treat it in the strictest confidence and MUFG is committed to ensuring that reporting staff do not suffer retaliation or other negative consequences.
- Reports of suspected violations made in good faith, including those made to law enforcement or a governmental agency, will not subject the staff to any adverse action based on such reporting.

The MUFG Group Compliance Helpline

Nishimura & Asahi (Attention: MUFG Group Compliance Helpline)

(Address) Otemon Tower, 1-1-2 Otemachi, Chiyoda-ku, Tokyo 100-8124, Japan

(Web Address) <http://www.jurists.co.jp/en/>

※Please note that the MUFG Group Compliance Helpline may not be available in some countries or regions due, for example, to data protection laws. See your local Compliance Helpline Policy for details of the escalation routes available to you.

MUFG Audit Committee

(Address) 2-7-1, Marunouchi, Chiyoda-ku, Tokyo 100-8388, Japan

※MUFG Audit Committee contacts you through an external law office.

Contact information for each region

Asia Please use the MUFG Group Compliance Helpline as referenced below, or your local helpline as set out in the local policy.

Americas www.MUFGAmericasIntegrityLine.com

EMEA For MUFG Bank branches, subsidiaries, and representative offices, see the EMEA homepage on FIDES and follow the Compliance helpline link:

<https://intranet.sps.emeares.local/emea/Pages/default.aspx>

For MUS(EMEA), MUS(EU) and their branches, see the EMEA homepage on connect and follow the Compliance helpline link:

<http://home.intranet.mfil.local/Pages/default.aspx>

※For MUTB and its subsidiaries, please report in accordance with your company's Compliance helpline system.

Mitsubishi UFJ Financial Group, Inc.
Global Compliance Division, Corporate Planning Division
April.2021 establishment

Excerpts from MUFG's Compliance Rules

(English Translation)

(Objective)

Article 1.

These rules prescribe basic matters relating to compliance with laws and regulations.

(Revision and abolition)

Article 2.

These rules may be revised or abolished by decision of the Executive Committee; provided, however, that any material revision or abolishment of rules relating to the duties and responsibilities of the Board of Directors or Member of the Board of Directors shall be made pursuant to a resolution of the Board of Directors.

(Definitions)

Article 4.

- (1) In these rules, “laws and regulations” mean laws and government ordinances to be strictly observed by MUFG personnel when carrying out business operations, as well as MUFG’s Articles of Incorporation, Code of Ethics, and other rules and regulations established according to the laws and government ordinances above.
- (2) In these rules, “compliance” means understanding the purpose and contents of laws and regulations properly, and behaving in an appropriate manner so as not to violate applicable laws and regulations.
- (3) In these rules, “affiliates” is a general term for MUFG’s consolidated subsidiaries and affiliated companies accounted for by the equity-method.
- (4) In these rules, “MUFG Group” means MUFG and its affiliates.

(Fundamental Policy)

Article 5.

The MUFG Ethical Framework and Code of Conduct are the foundations of compliance at MUFG.

(Responsibilities of Members of the Board of Directors, Corporate Executives (Shikko Yaku), Executive officers (Shikko Yakuin) and Board of Directors)

Article 6.

- (1) In accordance with the “Ethical Framework and Code of Conduct”, MUFG Members of the Board of Directors, corporate executives (*shikko yaku*) and executive officers (*shikko yakuin*) must carry out their responsibilities with the recognition that compliance is one of the most important objectives of management.
- (2) The board of directors must establish systems necessary for compliance and seek to achieve and maintain compliance.

(Responsibility of MUFG Managing Directors)

Article 7.

Managing Directors must implement compliance within their division.

(Responsibility of MUFG Employees)

Article 8.

- (1) MUFG employees must ensure compliance while performing their duties, and act in accordance with the “Ethical Framework and Code of Conduct”.
- (2) MUFG employees must strive to acquire adequate knowledge of the laws and regulations which are necessary to their business operations.

(Directors in charge of the Global Compliance Division and the Global Financial Crimes Division)

Article 10.

- (1) The Directors in charge of the Global Compliance Division and the Global Financial Crimes Division must report matters concerning compliance to the Board of Directors or Executive Committee as necessary.
- (2) When there is a risk of an unavoidable conflict of interest with a different division that the director in charge of the Global Compliance Division is also in charge of, to insure the independence of the Global Compliance Division, the managing director of the Global Compliance Division shall report to the President and CEO. The President and CEO will report to the Board of Directors or Executive Committee as necessary. Appropriate action shall also be taken to avoid conflicts of interest in cases other than those mentioned above.

(Office in Charge of Compliance)

Article 11.

- (1) The Global Compliance Division is in charge of overseeing the overall compliance framework.

* * *

- (4) When the Global Compliance Division receives reports of problems or possible problems relating to compliance, or when it discovers such problems itself, it must take necessary actions.

Article 11. ii

The Global Financial Crimes Division is in charge of overseeing the Group’s measures and management systems concerning global financial crimes, including money laundering prevention, economic sanctions measures, and bribery and corruption prevention.

(Compliance Officers Responsible)

Article 12.

The head of each business group is the compliance officer responsible for that business group. The compliance officer responsible oversees their business group and is responsible for any compliance related planning and supervision within their jurisdiction.

(Group Chief Compliance Officer)

Article 13.

- (1) A Group Chief Compliance Officer (CCO) (primarily the responsibility of the Global Compliance Division and the Global Financial Crimes Division) will be appointed based on Article 19 Paragraph 2 of the Organizational Regulations. When there is no appointed Group CCO, the director overseeing the Global Compliance Division will act as CCO.

- (2) The Group CCO (or in cases where there is no Group CCO, the CCO) shall oversee the coordination of division compliance officers (defined in Article 14), the chief compliance officer of each company in the MUFG Group, and any persons filling both those roles, as well as provide necessary guidance, advice and instruction based on the management agreement.
- (3) The Group CCO (or in cases where there is no Group CCO, the CCO) can request reports on compliance matters from the specified compliance officers responsible (defined in Article 12).

* * *

(Division Compliance Officers)

Article 14.

- (1) A chief manager in each division will serve as division compliance officer. Each managing director may appoint a person equivalent to a chief manager as division compliance officer. In such cases, the managing director should report to the Global Compliance Division in the Corporate Center, the compliance officer responsible for each business group (defined in Article 12), or the Global Compliance Division.
- (2) The division compliance officer is responsible for the strengthening of compliance in each division and for planning and supervising compliance related issues regarding business matters under their jurisdiction. Furthermore, the compliance officer will carry out duties including the management and compliance checking of documents, gathering information concerning the establishment and revision of laws relating to the duties of each division, working to improve general compliance conditions, and will play a central role in implementing compliance measures in each division.

(Responsibilities of Managing Directors)

Article 15.

When the managing director receives reports of problems or possible problems relating to compliance from the division compliance officer, or when they discover such problems themselves, they must consult with the managing director of the Global Compliance Division as well as provide orders and instructions to the division compliance officer. Furthermore, in each business group, they must report to the compliance officer responsible.

(Compliance Reporting System)

Article 16.

- (1) When a MUFG employee discovers problems or possible problems relating to compliance, they must report directly to their senior managers and the division compliance officer as stipulated in Article 14.
- (2) A person receiving such report must treat the report with appropriate care in working towards a resolution. Furthermore, the information relating to any reporting person must be treated with appropriate caution.
- (3) When the compliance officers receive reports of or otherwise detect violations of laws and regulations, or possible violations, they must report directly to the Global Compliance Division or the Global Financial Crimes Division and the managing director of their division. In cases where the managing director is involved in inappropriate conduct or behavior (including cases where such involvement is suspected or where a determination as to such involvement is difficult to make), such reports must be made to the Global Compliance Division or the Global Financial Crimes Division.
- (4) When a MUFG employee does not wish to report to their senior managers and the division compliance officer due to said officer being complicit in a violation of laws and regulations or the possibility thereof, or when no response or remediation is made despite an employee having made a report, the employee can report directly to the Global Compliance Division. In each business group, reports can be made to necessary parties other than those mentioned above, based on the instructions of the compliance officer responsible (defined in Article 12).

- (5) When a report of a problem or possible problem relating to compliance are made, it shall be prohibited to take any action to seek or identify the person who made the report or take any adverse employment action against such person for making the report.

Excerpts from MUFG's Compliance Manual

(English Translation)

I. Legal issues regarding Management

(3) Board Director and Corporate Executive

(4) Transactions involving a conflict of interest

When a Board Member or a Corporate Executive engages in a transaction involving a conflict of interest, the Board Member or the Corporate Executive must receive the approval of the Board of Directors.

III. Specific issues

5. Conflicts of interest

When a conflict of interest arises in connection with an operation involving any of the MUFG Group companies, Directors or employees, on one hand, and a customer or other third-party, the Director or employee, the MUFG Group company to which such Director or employee belongs, or any other MUFG Group company, on the other, the MUFG Group company, Director or employee must perform the operation in a proper manner.

Excerpts from MUFG's Rules of Employment

(English Translation)

(Disciplinary Action)

Article 40.

The company will take disciplinary action when employees take the following prohibited actions:

- (17) If an employee violated the rules of employment or any other applicable internal rules.

CERTIFICATION

I, Hironori Kamezawa, 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.

July 9, 2021

/s/ Hironori Kamezawa

Name: Hironori Kamezawa

Title: President & Group Chief Executive Officer

CERTIFICATION

I, Tetsuya Yonehana, 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.

July 9, 2021

/s/ Tetsuya Yonehana

Name: Tetsuya Yonehana

Title: Group 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, 2021 as filed with the US Securities and Exchange Commission on the date hereof (the “Report”), I, Hironori Kamezawa, President & Group 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.

Dated: July 9, 2021

/s/ Hironori Kamezawa

Name: Hironori Kamezawa

Title: President & Group Chief Executive 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, 2021 as filed with the US Securities and Exchange Commission on the date hereof (the “Report”), I, Tetsuya Yonehana, Group 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.

Dated: July 9, 2021

/s/ Tetsuya Yonehana

Name: Tetsuya Yonehana

Title: Group Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-230590 on Form S-8 and Registration Statement No. 333-242048 on Form F-3 of our reports dated July 9, 2021, relating to the financial statements of Mitsubishi UFJ Financial Group, Inc. (“MUFG”) and the effectiveness of the MUFG’s internal control over financial reporting appearing in the Annual Report on Form 20-F of MUFG for the year ended March 31, 2021.

/s/Deloitte Touche Tohmatsu LLC

Tokyo, Japan
July 9, 2021

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-230590 on Form S-8 and Registration Statement No. 333-242048 on Form F-3 of Mitsubishi UFJ Financial Group, Inc. of our reports dated February 26, 2021, relating to the consolidated financial statements of Morgan Stanley, and the effectiveness of Morgan Stanley's internal control over financial reporting, appearing in the Annual Report on Form 10-K of Morgan Stanley for the year ended December 31, 2020.

/s/ Deloitte & Touche LLP

New York, New York
July 9, 2021

CAPITALIZATION AND INDEBTEDNESS

The following table presents our capitalization and indebtedness at March 31, 2021:

	<u>At March 31,</u> <u>2021</u>
	<u>(in millions)</u>
Total short-term borrowings ⁽¹⁾	¥45,843,917
Long-term debt:	
Obligations under finance leases	20,137
Unsubordinated debt	29,918,995
Subordinated debt	4,613,826
Obligations under loan securitization transactions	618,083
Debt issuance costs	(13,390)
Total long-term debt	<u>35,157,651</u>
Shareholders' equity:	
Capital stock, with no stated value (common stock authorized: 33,000,000,000 shares; common stock issued: 13,581,995,120 shares)	2,090,270
Capital surplus	5,533,761
Retained earnings:	
Appropriated for legal reserve	239,571
Unappropriated retained earnings	8,589,900
Accumulated other comprehensive income, net of taxes	(289,481)
Treasury stock, at cost: 737,282,154 common shares	(503,072)
Total shareholders' equity	<u>15,660,949</u>
Noncontrolling interests	<u>583,605</u>
Total equity	<u>16,244,554</u>
Total capitalization and indebtedness	<u>¥51,402,205</u>

Note:

- (1) Total 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.

**UNAUDITED REVERSE RECONCILIATION OF
SELECTED FINANCIAL INFORMATION**

Our consolidated financial statements are prepared in accordance with U.S. GAAP as described in the notes thereto. The basis of our consolidated financial statements prepared under U.S. GAAP is significantly different from Japanese GAAP in certain respects. Under Japanese banking regulations and Tokyo Stock Exchange rules, we are required to report our annual and quarterly results prepared in accordance with Japanese GAAP. We present below a reverse reconciliation of total equity under U.S. GAAP to net assets under Japanese GAAP as of March 31, 2021 and net income before attribution of noncontrolling interests for the fiscal year ended March 31, 2021.

	As of March 31, 2021 (in millions)
Total equity in accordance with U.S. GAAP	¥ 16,244,554
Differences arising from different accounting for:	
1. Investment securities	(11,495)
2. Loans	13,706
3. Allowance for credit losses	395,656
4. Fixed assets	338,975
5. Pension liability	(13,383)
6. Derivative financial instruments and hedging activities	187,549
7. Compensated absences	50,623
8. Long-term debt	(6,369)
9. Consolidation	291,740
10. Goodwill	327,550
11. Intangible assets	(10,466)
12. Investments in equity method investees	606,633
Other	(542,008)
Deferred income tax effects, when applicable	(157,008)
Net assets in accordance with Japanese GAAP	¥ 17,716,257
	For the fiscal year ended March 31, 2021 (in millions)
Net income before attribution of noncontrolling interests in accordance with U.S. GAAP	¥ 1,163,394
Differences arising from different accounting for:	
1. Investment securities	(728,535)
2. Loans	29,814
3. Allowance for credit losses	(45,989)
4. Fixed assets	(12,071)
5. Pension liability	(3,216)
6. Derivative financial instruments and hedging activities	158,575
7. Compensated absences	2,720
8. Long-term debt	(373)
9. Consolidation	(41,992)
10. Goodwill	130,731
11. Intangible assets	(2,027)
12. Investments in equity method investees	(120,601)
Other	66,648
Deferred income tax effects, when applicable	259,889
Net income before attribution of noncontrolling interests in accordance with Japanese GAAP	¥ 856,967

Explanation of Differences between U.S. GAAP and Japanese GAAP

Major factors which explain the differences shown in the above table are as follows:

1. Investment securities

The cost basis of certain securities is different under U.S. GAAP and Japanese GAAP due primarily to the following:

- On October 1, 2005, Mitsubishi Tokyo Financial Group, Inc. (“MTFG”) merged with UFJ Holdings, Inc. (“UFJ Holdings”), with MTFG being the surviving entity, and was renamed “Mitsubishi UFJ Financial Group, Inc.” Under U.S. GAAP, in accordance with the guidance on accounting for business combinations, the assets and liabilities of companies acquired in purchase transactions are recorded at fair value at the date of acquisition. Therefore, the new cost basis of investment securities, including available-for-sale and other investment securities, of UFJ Holdings was established and they were recognized at fair value as of October 1, 2005. Under Japanese GAAP, which was effective as of October 1, 2005, the new cost basis was not established for such investment securities and they were carried over at their historical cost basis.
- Under U.S. GAAP, available-for-sale debt securities are considered to be impaired if the fair value is less than the amortized cost basis. An impairment loss is recognized in earnings for a security if the MUFG Group has intent to sell such a debt security or if it is more likely than not the MUFG Group will be required to sell such a debt security before recovery of its amortized cost basis. If not, the credit component of an impairment loss is recognized in earnings by recording an allowance for credit losses, limited by the amount of impairment loss. However, the noncredit component of an impairment loss is recognized in accumulated OCI. For Held-to-maturity debt securities, an allowance for expected credit losses over the remaining expected life is required to be provided. In addition, marketable equity securities are measured at fair value with unrealized gains or losses reflected in net income. Under Japanese GAAP, significant declines in the fair value of securities below cost are recorded in earnings for both debt security and marketable equity security. In determining a significant decline, the extent of the decline in fair value below cost and credit standing of the issuers are considered.
- Under U.S. GAAP, measurement alternative is elected for nonmarketable equity securities, and these securities are primarily measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Under Japanese GAAP, these securities are measured at cost minus impairment, but changes resulting from observable price changes are not recognized.
- Under U.S. GAAP, changes in the fair value of foreign securities held by MUFG Bank and Mitsubishi UFJ Trust and Banking are recognized in earnings since the fair value option was elected for these foreign securities in accordance with the guidance on accounting for fair value options for financial assets and financial liabilities. Under Japanese GAAP, only the changes attributable to movements in foreign currency exchange rates are recognized in earnings and the other changes in the fair value are recognized in other comprehensive income.

2. Loans

Under U.S. GAAP, loan origination fees, net of certain direct origination costs, are deferred and recognized as income over the contractual life of the loans, while under Japanese GAAP, they are primarily recognized in earnings at the time of origination.

3. Allowance for credit losses

Under U.S. GAAP, the credit loss allowance is measured on a collective basis over the contractual term of the loans, when similar risk characteristics exist, based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of

the loan or a group of loans. For loans that do not share similar risk characteristics, the credit loss allowance is measured on an individual basis, primarily based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. Under Japanese GAAP, the allowance for loans, which is measured on a collective basis, is provided based mainly on historical loss experience for the immediately following one-year period or the average remaining term to maturity of loans. In addition, the allowance for certain types of loans, which is measured on an individual basis, is provided based on historical loss experience. These differences between U.S. GAAP and Japanese GAAP generally result in a larger amount of allowance for credit losses under U.S. GAAP.

4. Fixed assets

The differences between Japanese GAAP and U.S. GAAP principally consist of (1) Premises and equipment, and (2) Land revaluation.

(1) Premises and equipment

Under U.S. GAAP, a nonmonetary asset acquired in exchange for another nonmonetary asset is generally recorded at the fair value of the asset surrendered or that of the asset received, and a gain or loss is recognized on the exchange. Under Japanese GAAP, the asset received is recorded at the cost of the asset surrendered in relevant types of exchange transactions, resulting in no gain or loss.

(2) Land revaluation

U.S. GAAP does not allow revaluation of operating assets and requires land to be recorded at cost. Under Japanese GAAP, land used for business operations of domestic subsidiaries was revalued as of March 31, 1998 for Bank of Tokyo-Mitsubishi, as of March 31, 2002 for The Mitsubishi Trust and Banking Corporation and as of December 31, 2001 for other domestic subsidiaries of MTFG with the corresponding impact recorded directly in equity as well as related deferred tax assets/liabilities, pursuant to the Law concerning Revaluation of Land. Accordingly, land held on the revaluation dates are recorded at different values.

5. Pension liability

Under both U.S. GAAP and Japanese GAAP, the funded status of defined benefit plans is recognized as assets or liabilities in a consolidated balance sheet, and actuarial gains or losses and prior service costs or benefits that have not yet been recognized through earnings as net periodic benefit cost are recognized in other comprehensive income, net of tax, until they are amortized as a component of net periodic benefit cost. Actuarial gains or losses are amortized based on corridor approach under U.S. GAAP, while they are amortized over a specified number of years under Japanese GAAP.

6. Derivative financial instruments and hedging activities

MUFG utilizes derivatives to manage its exposures to fluctuations in market factors such as interest rates and foreign exchange rates arising from mismatches in the risk profiles of assets and liabilities. Under U.S. GAAP, most derivatives used by MUFG are accounted for as trading assets or liabilities because they do not qualify for hedge accounting under the criteria prescribed in the guidance on accounting for derivative instruments and hedging activities. Japanese GAAP permits hedge accounting for certain derivative hedging activities, including portfolio hedges, using less restrictive hedging criteria.

In addition, bifurcation requirements are different between U.S. GAAP and Japanese GAAP. Under U.S. GAAP, if the economic characteristics and risks of the embedded derivatives are deemed "clearly and closely related" to the economic characteristics and risks of the host contracts, the embedded derivatives are not bifurcated from their host contracts. Under Japanese GAAP, the embedded derivatives may be bifurcated from their host contracts if the risk of the embedded derivatives and host contracts are managed separately.

7. Compensated absences

Under U.S. GAAP, in accordance with the guidance on accounting for compensated absences, an employer is required to accrue a liability for employees' rights to receive compensation for future absences such as unused

vacations and holidays when certain conditions are met (for example, unexpired vacation benefits that employees have earned but have not yet taken). Under Japanese GAAP, employers are not required to recognize liabilities and accordingly, no liabilities are recognized for such short-term employee benefits.

8. Long-term debt

Under U.S. GAAP, in accordance with the guidance on accounting for business combinations, the new cost basis of long-term debt of UFJ Holdings was established and it was recognized at fair value as of October 1, 2005. Under Japanese GAAP, which was effective as of October 1, 2005, the new cost basis was not established and the long-term debt was recorded at its historical cost basis.

9. Consolidation

The scope of consolidation is different under U.S. GAAP and Japanese GAAP primarily because, under U.S. GAAP, the primary beneficiary must consolidate variable interest entities based on variable interests, which resulted in additional consolidation of certain variable interest entities. Japanese GAAP does not have a concept of variable interest entities.

On the other hand, certain variable interest entities including funding vehicles, which are consolidated under Japanese GAAP due to the majority ownership of the voting rights, are not consolidated under U.S. GAAP because MUFG and its consolidated subsidiaries are not their primary beneficiaries.

The breakdown of the impact of the difference on total equity is as follows.

	Consolidation under U.S. GAAP	Deconsolidation under U.S. GAAP (in millions)	Total
Investment securities	¥ 1,782,599	¥ 91,384	¥ 1,873,983
Loans	(2,414,887)	872,129	(1,542,758)
Trading account assets	(1,390,954)	336	(1,390,618)
Short-term borrowings	1,690,415	(18,000)	1,672,415
Long-term debt	306,652	(394,463)	(87,811)
Others	(19,232)	(214,239)	(233,471)
Total	<u>¥ (45,407)</u>	<u>¥ 337,147</u>	<u>¥ 291,740</u>

The breakdown of the impact of the difference on net income before attribution of noncontrolling interests is as follows.

	Consolidation under U.S. GAAP	Deconsolidation under U.S. GAAP (in millions)	Total
Investment securities	¥ (121,857)	¥ 2,428	¥ (119,429)
Loans	(15,207)	166,811	151,604
Trading account assets	(17,188)	727	(16,461)
Short-term borrowings	9,502	(47)	9,455
Long-term debt	2,763	(4,419)	(1,656)
Others	17,352	(82,857)	(65,505)
Total	<u>¥ (124,635)</u>	<u>¥ 82,643</u>	<u>¥ (41,992)</u>

10. Goodwill

Under U.S. GAAP, in accordance with the guidance on accounting for business combinations, identifiable assets acquired, liabilities assumed, and any noncontrolling interest in an acquired company are recorded at fair value at the date of acquisition. Goodwill is the excess of the fair value of noncontrolling interest and consideration transferred, over the fair value of identifiable assets acquired and liabilities assumed. Goodwill is not amortized, but is subject to an annual impairment test at the reporting unit level, and also reviewed more frequently if events or changes in circumstance indicate that the goodwill might be impaired. Under Japanese GAAP, goodwill is the difference between the purchase price consideration and the acquirer's share of fair value of the net assets acquired. Goodwill is amortized by straight-line method over the estimated period not exceeding 20 years, and an impairment test is required only if indication of impairment is identified.

In addition, the acquisition of UFJ Holdings has been accounted for by a method similar to pooling-of-interests, and consequently goodwill has not been recognized in accordance with Japanese GAAP, which was effective as of October 1, 2005.

11. Intangible assets

Under U.S. GAAP, in accordance with the guidance on accounting for business combinations, all identifiable intangible assets acquired in purchase transactions are recorded at fair value at the date of acquisition. Intangible assets with definite useful lives are amortized over their estimated useful life and reviewed for impairment whenever events or changes in circumstance indicate that their carrying amount may not be recoverable. Intangible assets with indefinite useful lives are tested for impairment at least annually, and also reviewed more frequently if events or changes in circumstance indicate that the assets might be impaired. Under Japanese GAAP, which was effective as of October 1, 2005, intangible assets have not been recognized in connection with the acquisition of UFJ Holdings.

12. Investments in equity method investees

Under U.S. GAAP, a portion of a difference between the cost of an investment and the amount of underlying equity in net assets of an investee is not amortized. A loss in value of an investment that is other than a temporary decline is recognized as an impairment loss. Under Japanese GAAP, goodwill which is included in investments in equity method investees is amortized by straight-line method. If a decline in the market value below the cost is substantial, based on the extent of decline in market value and the credit standing of the issuers, an impairment loss is recognized within the limit of the amount of unamortized goodwill.