

MITSUBISHI UFJ FINANCIAL GROUP INC

Form 6-K

February 28, 2008

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 6-K**

**Report of Foreign Issuer**

**Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934**

**For the month of February, 2008**

**MITSUBISHI UFJ FINANCIAL GROUP, INC.**

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(Translation of registrant's name into English)

7-1, Marunouchi 2-chome, Chiyoda-ku

Tokyo 100-8330, Japan

(Address of principal executive offices)

[Indicate by check mark whether the registrant files or  
will file annual reports under cover Form 20-F or Form 40-F.]

Form 20-F  Form 40-F

[Indicate by check mark whether the registrant by furnishing the information  
contained in this Form is also thereby furnishing the information to the Commission  
pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.]

Yes  No

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 28, 2008

Mitsubishi UFJ Financial Group, Inc.

By: /S/ Ryutaro Kusama  
Name: Ryutaro Kusama  
Title: Chief Manager, General Affairs  
Corporate Administration Division

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Financial Review</u>	1
<u>Unaudited Consolidated Financial Statements as of and for the Six Months Ended September 30, 2006 and 2007</u>	F-1

**Table of Contents****Introduction**

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

***Key Financial Figures***

The following are some key financial figures prepared in accordance with accounting principles generally accepted in the United States, or US GAAP, relating to our business:

	<b>Six months ended September 30,</b>	
	<b>2006</b>	<b>2007</b>
	<b>(in billions)</b>	
Net interest income	¥ 1,186.1	¥ 1,126.7
Provision for credit losses	189.5	241.9
Non-interest income	909.9	965.6
Non-interest expense	1,349.5	1,321.1
Net income	279.9	269.6
Total assets (at end of period)	183,826.8	188,028.3

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

Net interest income is a function of:

the amount of interest-earning assets,

the level of interest rates,

the so-called spread, or the difference between the rate of interest earned on interest-earning assets and the rate of interest paid on interest-bearing liabilities, and

the proportion of interest-earning assets financed by non-interest-bearing liabilities and equity.

Non-interest income primarily consists of:

fees and commissions, including

trust fees,

fees on funds transfer and service charges for collections,

fees and commissions on international business,

fees and commissions on credit card business,

service charges on deposits,

fees and commissions on securities business,

fees on real estate business,

insurance commissions,

fees and commissions on stock transfer agency services,

guarantee fees,

**Table of Contents**

fees on investment funds business, and

other fees and commissions;

foreign exchange gains (losses) net, which primarily include net gains (losses) on currency derivative instruments entered into for trading purposes and transaction gains (losses) on the translation into Japanese yen of monetary assets and liabilities denominated in foreign currencies;

trading account profits (losses) net, which primarily include net profits (losses) on trading account securities and interest rate derivative instruments entered into for trading purposes;

investment securities gains (losses) net, which primarily include net gains (losses) on sales of marketable securities;

equity in earnings (losses) of equity method investees; and

other non-interest income.

Provision (credit) for credit losses are charged to operations to maintain the allowance for credit losses at a level deemed appropriate by management.

***Core Business Areas***

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

Our business segment information is based on financial information prepared in accordance with Japanese GAAP as adjusted in accordance with internal management accounting rules and practice and is not consistent with our condensed consolidated financial statements prepared in accordance with US GAAP. The following chart illustrates the relative contributions to operating profit for the six months ended September 30, 2007 of the three core business areas and the other business areas based on our business segment information:

## **Table of Contents**

### **Recent Developments**

#### ***Mitsubishi UFJ Securities Became a Wholly-Owned Subsidiary***

On September 30, 2007, MUS became our wholly-owned subsidiary through a share exchange between MUS and us. The purpose of making MUS a wholly-owned subsidiary is, among other factors, to seize the opportunities presented by the deregulation of the Japanese financial markets and further enhance cooperation between our group companies. We believe that we will be able to further strengthen our securities and investment banking businesses and maximize synergies among our banking, trust and securities businesses. The share exchange ratio was 1.02 shares of MUFG common stock to one share of MUS common stock, valuing the transaction at approximately ¥370 billion. The share exchange occurred following the effectiveness of the stock split of MUFG shares as described in "Investment Unit Reduction" below.

#### ***Business and Capital Alliance in Consumer Finance Business***

In September 2007, we entered into a basic agreement with BTMU, Mitsubishi UFJ NICOS and JACCS Co., Ltd. with respect to a business and capital alliance. As part of the basic agreement, Mitsubishi UFJ NICOS is expected to transfer its installment credit sales business, automobile loan business and automobile leasing business to JACCS on April 1, 2008. In addition to transferring installment credit sale contracts, Mitsubishi UFJ NICOS is expected to transfer approximately 340 personnel and five business offices to JACCS. At the same time, we, together with BTMU and Mitsubishi UFJ NICOS, plan to form a business alliance with JACCS with respect to credit card related operations, installment credit sales business, settlement operations and housing loan related operations. In addition, BTMU plans to acquire approximately ¥9.0 billion of newly issued common shares of JACCS on March 17, 2008, subject to regulatory approval. Following the acquisition of the additional JACCS shares, BTMU will own approximately 20% of the voting rights in JACCS, and accordingly, we expect to report the results of JACCS as an equity method investee in our consolidated results.

In November 2007, we acquired ¥120 billion of newly issued Mitsubishi UFJ NICOS shares, thereby increasing our holdings to approximately 75% of Mitsubishi UFJ NICOS' total issued shares. In addition, we plan to make Mitsubishi UFJ NICOS our wholly-owned subsidiary through a share exchange expected to become effective on August 1, 2008. The objective of the investment and share exchange is to strengthen Mitsubishi UFJ NICOS' financial base to enable Mitsubishi UFJ NICOS to implement its restructuring measures, including a new credit card business strategy to respond to the changing business environment for consumer finance companies in Japan discussed below.

As part of its new medium term business plan, Mitsubishi UFJ NICOS has implemented or will implement measures to reform its business structure, including the following measures:

Mitsubishi UFJ NICOS will concentrate its resources on the credit card business and transfer its installment credit sales business to JACCS as discussed above.

Mitsubishi UFJ NICOS will reduce its personnel by 2,890 persons over a three-year period, including the expected voluntary early retirement of 2,483 persons in the fiscal year ending March 31, 2008.

Mitsubishi UFJ NICOS merged six of its regional credit finance subsidiaries into itself in January 2008.



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The transfer of the installment credit sales business to JACCS is expected to take place on April 1, 2008 and approximately ¥12.0 billion of losses are expected to be incurred from the transfer. Mitsubishi UFJ NICOS is also expected to pay approximately ¥32.8 billion for the special severance payments to early retired employees starting December 2007. In addition, some expenses related to unused compensated absences, re-employment support, and other costs are expected to be incurred.

## **Table of Contents**

We are discussing with The Norinchukin Bank to expand the business and capital alliance between The Norinchukin Bank and Mitsubishi UFJ NICOS. As part of these discussions, we will consider the possibility of having Mitsubishi UFJ NICOS become an equity method investee of The Norinchukin Bank after Mitsubishi UFJ NICOS becomes our wholly-owned subsidiary.

### ***Merger of UFJ NICOS and DC Card***

On April 1, 2007, UFJ NICOS Co., Ltd. and DC Card Co., Ltd., our credit card subsidiaries, merged to become Mitsubishi UFJ NICOS. The objective of the merger was to combine UFJ NICOS' large and extensive network, reputation and product development capabilities with DC Card's co-branding relationships with and acceptance of regional cards.

### ***kabu.com Securities Co., Ltd. Became a Consolidated Subsidiary***

To strengthen the retail online securities business and enhance comprehensive Internet-based financial services, BTMU acquired 94,000 common shares of kabu.com Securities Co., Ltd. through a tender offer in April 2007. BTMU purchased the shares at ¥240,000 per share, valuing the transaction at approximately ¥23 billion. As a result, our ownership in kabu.com Securities increased to approximately 40% from approximately 30%.

In addition, on June 24, 2007, directors and an employee dispatched from the MUFG Group were elected as directors at the general meeting of shareholders of kabu.com Securities. Directors dispatched from the MUFG Group currently constitute a majority on the board of directors of kabu.com Securities. As a result, kabu.com Securities, a former equity method investee, became our consolidated subsidiary.

BTMU purchased additional common shares of kabu.com Securities during November and December 2007 through a tender offer. As a result of these purchases, our ownership in kabu.com Securities increased to approximately 51%.

### ***Merger of Leasing Affiliates***

On April 1, 2007, Diamond Lease Company Limited and UFJ Central Leasing Co., Ltd., both of which were our equity method investees, merged to become Mitsubishi UFJ Lease & Finance Company Limited. The objective of the merger was to improve their competitiveness and presence in the domestic leasing market. The new company continues to be our equity method investee.

In February 2008, we acquired additional voting shares of Mitsubishi UFJ Lease & Finance Company Limited. As a result of these acquisitions, our holding of voting rights in respect of Mitsubishi UFJ Lease & Finance Company Limited shares increased to approximately 25.9%.

### ***Starting of Business Integration Negotiations between Bank of Ikeda and Sensyu Bank***

On February 22, 2008, The Sensyu Bank Ltd., a regional bank subsidiary of BTMU headquartered in Osaka, and The Bank of Ikeda Ltd., another regional bank headquartered in Osaka, entered into negotiations regarding the possible integration of their businesses. As of September 30, 2007, BTMU owned 3.43% of the outstanding common shares of Bank of Ikeda. BTMU plans to acquire ¥30.0 billion of new non-convertible preferred shares issued by Bank of Ikeda in March 2008.

*Change in Business Environment for Consumer Finance Companies in Japan*

The Japanese government is implementing regulatory reforms affecting the consumer lending industry. In December 2006, the Diet passed legislation to reduce the maximum permissible interest rate under the Investment Deposit and Interest Rate Law, which is currently 29.2% per annum, to 20% per annum. The reduction in interest rates will be implemented by mid-2010. Under the reforms, all interest rates will be subject to the lower limits (15-20% per annum) imposed by the Interest Rate Restriction Law, which will compel lending institutions to lower the interest rates they charge borrowers.

Currently, consumer finance companies are able to charge interest rates exceeding the limits stipulated by the Interest Rate Restriction Law so long as the payment is made voluntarily by the borrowers and the lender complies with various notice and other requirements. Accordingly, MUFG's consumer finance subsidiaries and equity method investee have offered loans at interest rates above the Interest Rate Restriction Law. They are, however, currently in the process of lowering the interest rates to below the Interest Rate Restriction Law.

## **Table of Contents**

During the past year, the Supreme Court of Japan passed decisions in favor of borrowers requiring reimbursement of previously paid interest exceeding the limits stipulated by the Interest Rate Restriction Law in certain circumstances. Due to such decisions and other regulatory changes, borrowers' claims for reimbursement of excess interest have significantly increased. Our allowance for repayment of excess interest, which was included in Other liabilities, was ¥102.5 billion as of March 31, 2007 and ¥95.9 billion as of September 30, 2007.

### ***Effects of Recent Global Financial Instability Triggered by the Subprime Mortgage Issue in the United States***

The recent global market instability which began from concerns about increased defaults on higher risk mortgages, or the so-called subprime mortgages, negatively affected our investment portfolio, which includes securitization products such as asset-backed securities, for the six months ended September 30, 2007. Further negative price movements and credit market deterioration that have occurred after September 30, 2007 in the stock, securitization and other financial markets, may adversely affect our loan and investment portfolios, particularly our foreign investment portfolio, thereby negatively affecting our results of operations for the fiscal year ending March 31, 2008. Among other things, we may need to record write-downs and losses because of depressed market prices of our investment securities, such as securitization products (caused by downgrades or other factors particular to the securities or due to further instability in market conditions).

We continue to hold assets that may decline in value or that may otherwise lead to further losses, and the amount of assets exposed to such risk may increase in the future depending on market conditions and other factors. As of September 30, 2007, the estimated fair value of our securities available for sale was ¥32.8 trillion for debt securities and ¥8.3 trillion for marketable equity securities. For a detailed discussion of our investment portfolio as of September 30, 2007, see *Financial Condition Investment Portfolio* below.

We reported increased losses since September 30, 2007 under Japanese GAAP with respect to our investment securities, including subprime mortgage-related investments. For a detailed discussion, see our report on Form 6-K furnished to the SEC on January 31, 2008. We do not prepare similar quarterly financial information under US GAAP, and have not quantified the possible losses since September 30, 2007 under US GAAP. However, in light of the continued deterioration of market conditions in recent months, we may report additional write-downs and losses under US GAAP in the period subsequent to September 30, 2007 absent a market recovery.

In addition, these possible negative developments after September 30, 2007 could further adversely affect our results of operations for the fiscal year ending March 31, 2008 if the price of our shares declines from the level as of September 30, 2007. As of October 1, 2007 and February 26, 2008, our share price was ¥1,055 and ¥985, respectively. Our share price is used as a basis to measure the fair value of each of our reporting units for purposes of our periodic testing of goodwill for impairment. If we determine that the recorded value of goodwill is greater than the fair value, we will be required to record impairment charges.

### ***Written Agreement with Regulatory Authorities in the United States***

On December 18, 2006, we and BTMU entered into a written agreement with the Federal Reserve Banks of San Francisco and New York and the New York State Banking Department, and Bank of Tokyo-Mitsubishi UFJ Trust Company, or BTMUT, which is a subsidiary of BTMU, consented to an Order to Cease and Desist issued by the Federal Deposit Insurance Corporation and the New York State Banking Department, to strengthen the compliance framework and operations of BTMU, its New York Branch and BTMUT, respectively, regarding anti-money laundering controls and processes.

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As a result of the written agreement and the consent to the Order to Cease and Desist, we are required to implement corrective measures, submit periodic progress reports to the authorities and take other actions. We expect to incur some expenses relating to such actions, including consulting fees, personnel costs and IT related investments.

## **Table of Contents**

Separately, on September 14, 2007, Union Bank of California, N.A. agreed to a consent order and payment of a civil money penalty of \$10.0 million assessed concurrently by the U.S. Office of the Comptroller of the Currency, or OCC, and the U.S. Financial Crimes Enforcement Network relating to the Bank Secrecy Act / Anti-Money Laundering compliance controls and processes of Union Bank of California. On September 17, 2007, Union Bank of California also entered into a deferred prosecution agreement with the U.S. Department of Justice. Under this agreement, Union Bank of California agreed to a payment of \$21.6 million and the government agreed to defer prosecution of a Bank Secrecy Act Program violation primarily related to the discontinued international banking business of Union Bank of California and dismiss prosecution if Union Bank of California meets the conditions of the deferred prosecution agreement, including complying with the OCC consent order for one year.

### ***Administrative Order from Financial Services Agency to Bank of Tokyo-Mitsubishi UFJ***

On February 15, 2007, BTMU received from the Financial Services Agency an administrative order (business improvement order with partial business suspension order) based on Article 26-1 of the Banking Law of Japan in respect of compliance management at certain of its operations regarding the occurrence of certain inappropriate transactions.

The administrative order requires a temporary suspension of credit extensions to new corporate customers, training of all staff and directors regarding compliance, a temporary suspension of establishing new domestic corporate business locations, strengthening the management and internal control framework, submission and implementation of a business improvement plan, and periodic reporting of our progress on such business improvement plan. In response to the administrative order described above, on March 16, 2007, we submitted and announced a business improvement plan including the formulation and improvement of internal policies, rules and manuals. We currently do not expect that this will have a material adverse impact on our financial condition or results of operations.

On June 11, 2007, BTMU received from the Financial Services Agency administrative orders (business improvement orders) based on Article 26-1 of the Banking Law of Japan in respect of its overseas business and its investment trust sales and related business in Japan. We are required by the administrative orders, among other things, to make improvements in respect of our compliance structure and related internal control functions in our overseas business and certain business practices in our domestic investment trust sales and related business. In response to the administrative orders described above, on July 5, 2007, we submitted and announced a business improvement plan. We currently do not expect that this will have a material adverse impact on our financial condition or results of operations.

### ***Investment Unit Reduction***

On September 30, 2007, our minimum stock investment unit with respect to our common stock was reduced to one-tenth of the prior unit through (a) a stock split by which one share was split into 1,000 shares and (b) the adoption of a unit share system under which one unit of our common stock is comprised of 100 shares. The purpose of the investment unit reduction was to broaden our investor base by making our common stock more accessible to potential individual shareholders, thereby achieving our medium and long-term objective of maximizing corporate value.

Regarding our ADRs which are traded on the New York Stock Exchange, we changed the ratio of the ADRs in relation to the underlying shares of our common stock as follows:

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Ratio before change: 1,000 ADR = 1 common share

Ratio after change: 1,000 ADR = 1,000 common shares (1:1)

As a result, the number of shares and per share information in this report have been retroactively adjusted.

## **Table of Contents**

### ***Grant of Stock-Based Compensation***

BTMU, MUTB and we elected to adopt a stock-based compensation plan for directors, corporate auditors and executive officers and obtained the necessary shareholder approval at their respective ordinary general meetings held in June 2007, while abolishing the practice of paying them retirement allowances. On December 6, 2007, we allotted to our directors, corporate auditors and executive officers and to the directors, corporate auditors and executive officers of BTMU and MUTB stock acquisition rights to acquire 2,798,000 shares of our common stock. The stock acquisition rights have an exercise price of ¥1 per common share, and are exercisable until December 5, 2037. A portion of the stock acquisition rights are vested on the grant date and the remaining portion vests over the recipient's service period.

### ***Repurchase of Our Own Common Shares***

From December 3, 2007 to December 13, 2007, we repurchased 126,513,900 shares of our common stock for approximately ¥150 billion to improve our capital efficiency and to allow the implementation of flexible capital policies in accordance with the business environment.

### ***Issuance of Non-dilutive Preferred Securities***

In order to enhance the flexibility of our capital management, in December 2007, MUFG Capital Finance 6 Limited, a special purpose company established in the Cayman Islands, issued ¥150 billion in non-cumulative and non-dilutive perpetual preferred securities in an offering targeting Japanese institutional investors.

These preferred securities are expected to contribute to our Tier I capital as of March 31, 2008 under the Basel II standards for capital adequacy, which is calculated primarily from our Japanese GAAP financial information. However, for accounting purposes under US GAAP, because the special purpose company is not a consolidated entity, the loans, which are made to us from the proceeds from the preferred securities issued by the special purpose company, are expected to be presented as long-term debt on our consolidated balance sheet as of March 31, 2008.

### ***Redemption of Non-dilutive Preferred Securities***

In January 2008, UFJ Capital Finance 4 Limited, a special purpose company established in the Cayman Islands, redeemed in total ¥106 billion of non-cumulative and non-dilutive perpetual preferred securities. These securities were previously accounted for as part of our Tier I capital.

## **Business Environment**

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



are exposed to changes in various external economic factors, including:

general economic conditions;

interest rates;

currency exchange rates; and

stock and real estate prices.

## **Table of Contents**

With respect to the economic environment between April and September 2007, overseas economies generally remained firm with solid growth from European economies in addition to the continued strong growth of emerging economies such as China, despite the increased uncertainty in the United States economy from its housing market downturn.

Meanwhile, the Japanese economy continued moderate expansion in spite of sluggish personal consumption primarily due to weak wages growth. This was enabled through growth in capital investments led by solid corporate earnings, along with growing exports. Meanwhile, consumer prices continued a slight decline.

Regarding the financial environment between April and September 2007, in the United States, the target for the federal funds rate was lowered by 0.5 percentage points to 4.75% in September 2007 in response to the subprime mortgage problem. As of mid-February 2008, the federal funds rate has been further lowered to 3.0%.

In the EU, the European Central Bank's policy rate was raised in June 2007 by 0.25 percentage points to 4.0%, and as of mid-February 2008, the European Central Bank's policy rate remained at 4.0%.

In Japan, the Bank of Japan has kept the uncollateralized overnight call rate target unchanged at 0.5%, but upward pressure on Japan's short-term interest rates slightly increased against the background of credit uneasiness. In the long-term interest rate market, the yield on ten-year Japanese government bonds temporarily rose in the summer of 2007, but generally showed a downward trend with some fluctuations thereafter. As of mid-February 2008, the uncollateralized overnight call rate target was approximately 0.5% and the yield on ten-year Japanese government bonds was approximately 1.5%.

The following chart shows the interest rate trends in Japan since April 2006:

Source: Bank of Japan

In the foreign exchange markets, the yen strengthened against the US dollar at the end of September 2007 as compared to the beginning of April 2007. The Japanese yen/US dollar foreign exchange rate was approximately ¥118 to \$1 at the beginning of April 2007. After weakening against the US dollar to approximately ¥123 in mid-June, the yen appreciated to approximately ¥115 at the end of September 2007. As of the mid-February 2008, the Japanese yen/US dollar foreign exchange rate was approximately ¥107 to \$1. Against the euro, the yen weakened during the six months ended September 30, 2007 from approximately ¥157 to 1 at the beginning of April 2007 to approximately ¥163 at the end of September 2007. As of the mid-February 2008, the Japanese yen/euro foreign exchange rate was approximately ¥158 to 1.

## **Table of Contents**

The following chart shows the Japanese yen to US dollar spot exchange rate trends since April 2006:

Source: Bank of Japan

The Japanese stock markets generally declined during the six months ended September 30, 2007. The Nikkei Stock Average, which is an average of 225 blue chip stocks listed on the Tokyo Stock Exchange, declined approximately 2.9% from ¥17,287.65 at March 30, 2007 to ¥16,785.69 at September 28, 2007. Similarly, the Tokyo Stock Price Index, or TOPIX, a composite index of all stocks listed on the First Section of the Tokyo Stock Exchange, declined approximately 5.7% from 1,713.61 at March 30, 2007 to 1,616.62 at September 28, 2007. As of mid-February 2008, the Nikkei Stock Average and the TOPIX were trading at approximately ¥13,300 and 1,300, respectively.

Based on a survey of land prices by the government, average residential land prices as of July 1, 2007 in Japan slightly declined by 0.7% compared to July 1, 2006. Meanwhile, average commercial land prices rose by 1.0% during the same period. In the three major metropolitan areas, Tokyo, Osaka and Nagoya, residential land prices on average rose by 4.0%, and commercial land prices rose by 10.4% compared to the previous year. On the other hand, although in many local regions of Japan, which consist of regions other than the major metropolitan areas, land prices decreased, the rates of decrease were generally smaller than those in the previous year.

According to Teikoku Databank, a Japanese research institution, the number of companies who filed for bankruptcy in Japan from January to December 2007 was approximately 11,000, an increase of approximately 17.2% from the previous year, mainly due to an increase in bankruptcies of small sized companies. Classified by industries, there was an increase in bankruptcies in the construction, retail sales, and service sectors.

For a discussion of the impact of the market instability after September 30, 2007, see [Recent Developments Effects of Recent Global Financial Instability Triggered by the Subprime Mortgage Issue in the United States](#).

## **Critical Accounting Estimates**

Our financial statements are prepared in accordance with US GAAP. Many of the accounting policies require management to make difficult, complex or subjective judgments regarding the valuation of assets and

**Table of Contents**

liabilities. The accounting policies are fundamental to understanding our operating and financial review and prospects. Critical accounting estimates include allowance for credit losses, impairment of investment securities, valuation of deferred tax assets, accounting for goodwill and intangible assets, accrued severance indemnities and pension liabilities, and valuation of financial instruments with no available market prices. For a further discussion of our critical accounting estimates, see our Form 20-F for the fiscal year ended March 31, 2007.

**Accounting Changes**

*Accounting for Conditional Asset Retirement Obligations* In March 2005, the Financial Accounting Standards Board, or the FASB, issued FASB Interpretation, or FIN, No. 47, *Accounting for Conditional Asset Retirement Obligations* an interpretation of FASB Statement No. 143. FIN No. 47 clarifies that the term *conditional asset retirement obligation* as used in Statement of Financial Accounting Standards, or SFAS, No. 143, *Accounting for Asset Retirement Obligations* refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. Effective March 31, 2006, we adopted FIN No. 47 for existing asset retirement obligations associated with commitments to return properties subject to operating leases to their original condition upon lease termination. The cumulative effect of the change in accounting principle was to decrease net income by ¥9,662 million and was recorded in the second half of the fiscal year ended March 31, 2006. This adjustment represents the cumulative depreciation and accretion that would have been recognized through the date of adoption of FIN No. 47 had the statement been applied to our existing asset retirement obligations at the time they were initially incurred.

*Share-Based Payment* In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS No. 123R. SFAS No. 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion, or APB, No. 25, *Accounting for Stock Issued to Employees*. In March 2005, the U.S. Securities and Exchange Commission, or SEC, issued Staff Accounting Bulletin, or SAB, No. 107, which provides interpretive guidance on SFAS No. 123R. SFAS No. 123 preferred a fair-value-based method of accounting for share-based payment transactions with employees, but it permitted the option of continuing to apply the intrinsic-value-based measurement method in APB No. 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. SFAS No. 123R eliminates the alternative to use the intrinsic value method of accounting and requires entities to recognize the costs of share-based payment transactions with employees based on the grant-date fair value of those awards over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123R is effective as of the beginning of the fiscal year or interim period beginning after June 15, 2005. We adopted SFAS No. 123R on April 1, 2006 under the modified prospective method, which resulted in a decrease in income from continuing operations before income taxes of ¥1,048 million and a decrease in income from continuing operations, net of taxes, of ¥536 million for the six months ended September 30, 2006, which includes estimated forfeitures for restricted stock and the amortization of compensation costs related to unvested stock options. The corresponding impact to both basic and diluted earnings per share was a reduction of ¥0.05 per share for the six months ended September 30, 2006. The adoption of SFAS No. 123R did not have a material impact on our cash flows. See note 15 to our condensed consolidated financial statements for a further discussion of the adoption of SFAS No. 123R and stock-based compensation plans.

*Effects of Prior Year Misstatements on Current Year Financial Statements* In September 2006, the SEC staff issued SAB No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 provides guidance on quantifying and evaluating the materiality of unrecorded misstatements. It requires the use of both the *iron curtain* and

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**Table of Contents**

rollover approaches in quantifying and evaluating the materiality of a misstatement. Under the iron curtain approach, the error is quantified as the cumulative amount by which the current year balance sheet is misstated. The rollover approach quantifies the error as the amount by which the current year income statement is misstated. If either approach results in a material misstatement, financial statement adjustments are required. SAB No. 108 is effective for financial statements issued for fiscal years ending after November 15, 2006. Early adoption is encouraged in interim periods which are part of a fiscal year ending after November 15, 2006. We adopted SAB No. 108 as of March 31, 2007, which did not have a material impact on our financial position and results of operations.

*Defined Benefit Pension and Other Postretirement Plans* In September 2006, the FASB issued SFAS No. 158. SFAS No. 158 requires entities to recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement plans in its consolidated statement of financial position and recognize changes in the funded status of defined benefit pension and other postretirement plans in the year in which the changes occur in comprehensive income. SFAS No. 158 clarifies that defined benefit assets and obligations should be measured as of the date of the entity's fiscal year-end statement of financial position. SFAS No. 158 also requires additional disclosure information related to certain effects on the net periodic benefit costs and credits, and transition assets or obligations. The requirement to recognize the funded status as of the date of the statement of financial position is effective for fiscal years ended after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the statement of financial position is effective for fiscal years ending after December 15, 2008. We adopted the recognition provisions of SFAS No. 158 as of March 31, 2007. The adoption of the recognition provisions of SFAS No. 158, which had no impact on how we determined our net periodic benefit costs, had the effect of increasing shareholders' equity by ¥178,784 million, net of taxes, which was recorded in accumulated other changes in equity from nonowner sources, as of March 31, 2007. We have not completed the study of what effect the measurement date provisions of SFAS No. 158 will have on our financial position and results of operations.

*Accounting for Certain Hybrid Financial Instruments* In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. SFAS No. 155 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and resolves issues addressed in SFAS No. 133 Implementation Issue D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133. SFAS No. 155 establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. SFAS No. 155 also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We adopted SFAS No. 155 on April 1, 2007, which did not have a material impact on our financial position and results of operations.

*Accounting for Servicing of Financial Assets* In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets. SFAS No. 156 amends SFAS No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract, and requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS No. 156 permits an entity to choose either the amortization method or the fair value measurement method for each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for

## **Table of Contents**

all separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for the fiscal year beginning after September 15, 2006. Earlier adoption is permitted. We adopted SFAS No. 156 on April 1, 2007, which did not have a material impact on our financial position and results of operations.

*Determining the Variability to Be Considered in Applying FIN No. 46R* In April 2006, the FASB staff issued an FASB Staff Position, or FSP, on FIN No. 46R, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)*, or FSP FIN No. 46R-6. This FSP states that the variability to be considered in applying FIN No. 46R shall be based on an analysis of the design of the entity as outlined in the following two steps: (a) analyze the nature of the risks in the entity, (b) determine the purpose for which the entity was created and determine the variability (created by the risks identified in step (a)) the entity is designed to create and pass along to its interest holders. For the purposes of this FSP, interest holders include all potential variable interest holders (including contractual, ownership, or other pecuniary interests in the entity). After determining the variability to be considered, the reporting enterprise can determine which interests are designed to absorb that variability. The FSP should be applied prospectively to all entities (including newly created entities) with which an enterprise first becomes involved, and to all entities previously required to be analyzed under FIN No. 46R when a reconsideration event has occurred beginning the first day of the first reporting period beginning after June 15, 2006. Early application is permitted for periods for which financial statements have not yet been issued. Retrospective application to the date of the initial application of FIN No. 46R is permitted but not required. If retrospective application is elected, it must be completed no later than the end of the first annual reporting period ending after July 15, 2006. We adopted this FSP on April 1, 2007, which did not have a material impact on our financial position and results of operations.

*Uncertainty in Income Taxes* In June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes*. FIN No. 48 requires recognition of a tax benefit to the extent of management's best estimate of the impact of a tax position based on the technical merits of the position, provided it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We adopted FIN No. 48 on April 1, 2007, which reduced the beginning balance of retained earnings by ¥4,091 million. We classify accrued interest and penalties, if applicable, related to income taxes as income tax expenses.

*Leveraged Leases* In July 2006, the FASB issued an FSP on SFAS No. 13, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*, or FSP SFAS No. 13-2. This FSP requires that if, during the lease term, the projected timing of the income tax cash flows generated by a leveraged lease is revised, the rate of return and the allocation of income shall be recalculated from the inception of the lease. At adoption, the cumulative effect of applying the provisions of this FSP shall be reported as an adjustment to the beginning balance of retained earnings as of the beginning of the period in which this FSP is adopted. This FSP shall be applied to fiscal years beginning after December 15, 2006. We adopted this FSP on April 1, 2007, which reduced the beginning balance of retained earnings by ¥5,725 million, net of taxes. The reduction in retained earnings at adoption will be recognized in interest income over the remaining terms of the affected leases as tax benefits are realized.

## **Recently Issued Accounting Pronouncements**

*Fair Value Measurements* In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS No. 157 clarifies the



**Table of Contents**

principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS No. 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under SFAS No. 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. In February 2008, the FASB issued an FSP on SFAS No. 157, *Effective Date of FASB Statement No. 157*, or FSP SFAS No. 157-2. FSP SFAS 157-2 applies to nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis, and defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for those items. In addition, in February 2008, the FASB issued another FSP on SFAS No. 157, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, or FSP SFAS No. 157-1. FSP SFAS No. 157-1 amends SFAS No. 157 to exclude SFAS No. 13, *Accounting for Leases*, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS No. 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS No. 141, or SFAS No. 141R, *Business Combinations*, regardless of whether those assets and liabilities are related to leases. We have not completed the study of what effect SFAS No. 157 and these FSPs will have on our financial position and results of operations.

*Fair Value Option for Financial Assets and Financial Liabilities* In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, including an amendment of FASB Statement No 115. SFAS No. 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities and certain other items at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted subject to certain conditions. We have not completed the study of what effect SFAS No. 159 will have on our financial position and results of operations.

*Investment Company Accounting* In June 2007, the AICPA issued Statement of Position, or SOP, 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*. SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies, or the AICPA Guide. The statement also addresses whether the specialized industry accounting principles of the AICPA Guide should be retained by a parent company in consolidation or by an investor that has the ability to exercise significant influence over the investment company and applies the equity method of accounting to its investment in the entity. SOP 07-1 is effective for fiscal years beginning on or after December 15, 2007, with earlier application encouraged. In addition, in May 2007, the FASB issued an FSP on FIN No. 46R, *Application of FIN No. 46R to Investment Companies*, or FSP FIN No. 46R-7, which amends FIN No. 46R to make permanent the temporary deferral of the application of FIN No. 46R to entities within the scope of the revised audit guide under SOP 07-1. These new standards were expected to be effective for fiscal years beginning on or after December 15, 2007. However, in February 2008, the FASB issued an FSP on SOP 07-1, *Effective Date of AICPA Statement of Position 07-1*, or FSP SOP 07-1-1, to delay indefinitely the effective dates of SOP 07-1 and the effectivity of FSP FIN No. 46R-7 in order to address implementation issues. For entities that have not yet adopted the provisions of SOP 07-1 and FSP FIN No. 46R-7, early adoption will not be permitted during the indefinite deferral.

*Business Combinations* In December 2007, the FASB issued SFAS No. 141R. SFAS No. 141R will significantly change the accounting for business combinations while retaining the fundamental requirements in



**Table of Contents**

SFAS No. 141, that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141R further expands the definitions of a business and the fair value measurement and reporting in a business combination. SFAS No. 141R states that all business combinations (whether full, partial or step acquisitions) will result in all the assets acquired and liabilities assumed and any noncontrolling (minority) interests in the acquiree being recorded at their acquisition-date fair values with limited exceptions. Certain forms of contingent considerations and certain acquired contingencies will be recorded at their acquisition-date fair value. SFAS No. 141R also states acquisition costs will generally be expensed as incurred, restructuring costs will be expensed in periods after the acquisition date, and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141R also includes a substantial number of new disclosure requirements to disclose all information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 with early adoption prohibited. We have not completed the study of what effect SFAS No. 141R will have on our financial position and results of operations.

*Noncontrolling Interests* In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51. SFAS No. 160 requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the parent in the consolidated financial statements within the equity section but separate from the parent's equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; changes in parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for similarly as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. SFAS No. 160 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 with early adoption prohibited. We have not completed the study of what effect SFAS No. 160 will have on our financial position and results of operations.

**Table of Contents****Results of Operations**

The following table sets forth a summary of our results of operations for the six months ended September 30, 2006 and 2007:

	Six months ended September 30,	
	2006	2007
	(in billions)	
Interest income	¥ 1,896.6	¥ 2,159.0
Interest expense	710.5	1,032.3
Net interest income	1,186.1	1,126.7
Provision for credit losses	189.5	241.9
Non-interest income	909.9	965.6
Non-interest expense	1,349.5	1,321.1
Income from continuing operations before income taxes	557.0	529.3
Income taxes	276.5	257.9
Income from continuing operations	280.5	271.4
Loss from discontinued operations net	(0.6)	(1.8)
Net income	¥ 279.9	¥ 269.6

Net income for the six months ended September 30, 2007 was ¥269.6 billion, a decrease of ¥10.3 billion from ¥279.9 billion for the six months ended September 30, 2006. Our diluted earnings per common share (net income available to common shareholders) for the six months ended September 30, 2007 was ¥25.65, an increase of ¥21.70 from ¥3.95 for the six months ended September 30, 2006. This increase was mainly because a smaller amount was deducted from net income available to common shareholders with respect to the beneficial conversion feature of preferred shares. For the six months ended September 30, 2006, approximately ¥230.3 billion was deducted from net income in connection with such conversion feature as a result of the repayment of public funds previously injected by the Japanese government. On the other hand, for the six months ended September 30, 2007, as most of the preferred shares with such conversion feature were redeemed by April 1, 2007, the deduction from net income was approximately ¥3.8 billion, and thus net income available to common shareholders was significantly larger.

**Table of Contents****Net Interest Income**

The following is a summary of the interest rate spread for the six months ended September 30, 2006 and 2007:

	Six months ended September 30,			
	2006			2007
	Average balance	Average rate (Annualized) (in billions, except percentages)	Average balance	Average rate (Annualized)
<b>Interest-earning assets:</b>				
Domestic	¥ 130,795.5	1.66%	¥ 123,617.0	1.74%
Foreign	35,130.1	4.57	46,569.5	4.64
<b>Total</b>	<b>¥ 165,925.6</b>	<b>2.28%</b>	<b>¥ 170,186.5</b>	<b>2.53%</b>
<b>Financed by:</b>				
<b>Interest-bearing funds:</b>				
Domestic	¥ 121,344.9	0.50%	¥123,164.6	0.69%
Foreign	22,085.7	3.67	30,462.2	3.96
<b>Total</b>	<b>143,430.6</b>	<b>0.99</b>	<b>153,626.8</b>	<b>1.34</b>
Non-interest-bearing funds	22,495.0		16,559.7	
<b>Total</b>	<b>¥ 165,925.6</b>	<b>0.85%</b>	<b>¥ 170,186.5</b>	<b>1.21%</b>
<b>Spread on:</b>				
Interest-bearing funds		1.29%		1.19%
Total funds		1.43%		1.32%

Net interest income for the six months ended September 30, 2007 was ¥1,126.7 billion, a decrease of ¥59.4 billion from ¥1,186.1 billion for the six months ended September 30, 2006. This decrease was mainly due to a decrease in the average interest rate spread.

The average interest rate spread decreased 11 basis points from 1.43% for the six months ended September 30, 2006 to 1.32% for the six months ended September 30, 2007. The average rate of both domestic and foreign interest-earning assets and interest-bearing funds increased during the six months ended September 30, 2007. However, the average rate of interest-bearing funds showed a larger increase than that of interest-earning assets. For the six months ended September 30, 2006, the average rate of interest-earning assets increased partly due to increases in the expected cash flows from impaired loans acquired in the merger with UFJ Holdings, Inc., which cash flows are accounted for as adjustments to accretable yields under SOP 03-3. On the other hand, for the six months ended September 30, 2007, the increases in the expected cash flows from such impaired loans were not as large as those in the previous six months ended September 30, 2006.

Another factor for the decrease in net interest income was an increase in Japanese Yen interest rates, which increased our interest expenses on domestic deposits. Although there was an increase in interest income from loans, the increase in interest expenses was larger primarily because the interest rate spread on our domestic corporate loans decreased due to competition with other financial institutions and because our balance of deposits exceeded our loan balance.

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The average balance of interest-earning assets for the six months ended September 30, 2007 was ¥170,186.5 billion, an increase of ¥4,260.9 billion from ¥165,925.6 billion for the six months ended September 30, 2006. The increase was primarily attributable to an increase in call loans, funds sold and repurchase transactions.

**Table of Contents**

The average balance of interest-bearing funds was ¥153,626.8 billion for the six months ended September 30, 2007, an increase of ¥10,196.2 billion compared to ¥143,430.6 billion for the six months ended September 30, 2006. The increase was primarily attributable to an increase in foreign interest-bearing deposits and an increase in call money, funds purchased and repurchase transactions.

**Provision for Credit Losses**

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

The provision for credit losses for the six months ended September 30, 2007 was ¥241.9 billion, an increase of ¥52.4 billion from ¥189.5 billion for the six months ended September 30, 2006. For the six months ended September 30, 2007, the credit ratings of some borrowers were upgraded while those of other borrowers were downgraded. The increase in the provision for credit losses was primarily due to the fact that such credit rating downgrades had a larger impact than the credit rating upgrades, resulting in increases in the allowance for credit losses and charge-offs.

**Non-Interest Income**

The following table is a summary of our non-interest income for the six months ended September 30, 2006 and 2007:

	Six months ended September 30, 2006		2007 (in billions)	
<b>Fees and commissions:</b>				
Trust fees	¥	72.8	¥	79.8
Fees on funds transfer and service charges for collections		75.2		75.8
Fees and commissions on international business		34.9		35.2
Fees and commissions on credit card business		77.9		65.7
Service charges on deposits		19.0		18.4
Fees and commissions on securities business		61.3		77.4
Fees on real estate business		25.1		23.8
Insurance commissions		28.3		25.4
Fees and commissions on stock transfer agency services		36.4		38.5
Guarantee fees		44.2		43.1
Fees on investment funds business		62.4		90.4
Other fees and commissions		122.2		96.4
<b>Total</b>		<b>659.7</b>		<b>669.9</b>
Foreign exchange gains (losses) net		(102.6)		156.9
Trading account profits net		273.3		104.4
Investment securities gains (losses) net		54.6		(6.9)
Equity in losses of equity method investees		(37.6)		(42.1)
Other non-interest income		62.5		83.4
<b>Total non-interest income</b>	¥	<b>909.9</b>	¥	<b>965.6</b>

Non-interest income for the six months ended September 30, 2007 was ¥965.6 billion, an increase of ¥55.7 billion from ¥909.9 billion for the six months ended September 30, 2006. This increase was primarily due to an increase in net foreign exchange gains, which was partially offset by decreases in net trading account profits and net investment securities gains (losses).

Net foreign exchange gains of ¥156.9 billion were recorded for the six months ended September 30, 2007, compared with net foreign exchange losses of ¥102.6 billion for the six months ended September 30, 2006. The net foreign exchange gains were primarily transaction gains on the translation of monetary liabilities

**Table of Contents**

denominated in foreign currencies resulting from the appreciation of the Japanese yen against the US dollar during the six months ended September 30, 2007, while the Japanese yen depreciated against the euro during the same period. During the six months ended September 30, 2006, the Japanese yen depreciated against the US dollar and the euro. All transaction gains or losses on translation of monetary liabilities denominated in foreign currencies are included in current earnings. However, the transaction gains or losses on the translation of securities available for sale, such as bonds denominated in foreign currencies, are not included in current earnings but are reflected in other changes in equity from nonowner sources. As we maintain monetary liabilities denominated in foreign currencies for our asset-liability management, net foreign exchange gains (losses) fluctuate with the appreciation (depreciation) of the yen.

Net trading account profits for the six months ended September 30, 2007 were ¥104.4 billion, a decrease of ¥168.9 billion from ¥273.3 billion for the six months ended September 30, 2006. Net trading account profits for the six months ended September 30, 2006 and 2007 consisted of the following:

	Six months ended September 30,	
	2006	2007
	(in billions)	
Net profits on trading securities	¥ 30.3	¥ 82.6
Net profits on derivative instruments, primarily interest-rate futures, swaps and options	243.0	21.8
<b>Net trading account profits</b>	<b>¥ 273.3</b>	<b>¥ 104.4</b>

The decrease of ¥221.2 billion in net profits on derivative instruments for the six months ended September 30, 2007 as compared with the previous period was attributable primarily to a decrease in net profits on interest rate swaps and interest rate options. In order to manage interest rate risks on domestic deposits, we had net receive-fixed and pay-variable positions in our interest rate swap portfolios. These portfolios did not gain in value compared to the six months ended September 30, 2006, as interest rates in the six months ended September 30, 2007 did not decline as much as the previous interim period.

Net investment securities gains (losses) for the six months ended September 30, 2007 were losses of ¥6.9 billion, compared to gains of ¥54.6 billion for the six months ended September 30, 2006. The losses for the six months ended September 30, 2007 reflected the losses in Other net of ¥13.6 billion. The losses in Other net for the six months ended September 30, 2007 were principally due to impairment losses of ¥76.9 billion, which were partially offset by approximately ¥63.3 billion of net gains on sales and redemption of debt securities and other securities. The impairment losses of ¥76.9 billion consisted of those on securitized financial products held for credit portfolio management purposes, other debt securities, and other non-marketable equity securities. Major components of net investment securities gains (losses) for the six months ended September 30, 2006 and 2007 are summarized below:

	Six months ended September 30,	
	2006	2007
	(in billions)	
Net gains on sales of marketable equity securities	¥ 57.3	¥ 57.7
Impairment losses on marketable equity securities	(45.8)	(51.0)
Other net, principally impairment losses and gains (losses) on sales of debt securities	43.1	(13.6)
<b>Net investment securities gains (losses)</b>	<b>¥ 54.6</b>	<b>¥ (6.9)</b>

Equity in losses of equity method investees for the six months ended September 30, 2007 was ¥42.1 billion, an increase of ¥4.5 billion from a loss of ¥37.6 billion for the six months ended September 30, 2006. These losses were mainly due to the impairment of the equity investments in

our affiliates in the consumer finance industry.



**Table of Contents*****Non-Interest Expense***

The following table shows a summary of our non-interest expense for the six months ended September 30, 2006 and 2007:

	Six months ended September 30,	
	2006	2007
	(in billions)	
Salaries and employee benefits	¥ 425.0	¥ 445.0
Occupancy expenses net	88.5	84.5
Fees and commission expenses	122.2	112.7
Outsourcing expenses, including data processing	107.4	118.5
Depreciation of premises and equipment	52.0	85.8
Amortization of intangible assets	132.7	124.0
Impairment of intangible assets	151.5	0.6
Insurance premiums, including deposit insurance	55.7	56.8
Minority interest in income (loss) of consolidated subsidiaries	(0.8)	14.6
Communications	31.1	30.7
Taxes and public charges	39.4	43.0
Other non-interest expenses	144.8	204.9
<b>Total non-interest expense</b>	<b>¥ 1,349.5</b>	<b>¥ 1,321.1</b>

Non-interest expense for the six months ended September 30, 2007 was ¥1,321.1 billion, a decrease of ¥28.4 billion from ¥1,349.5 billion for the six months ended September 30, 2006. This decrease was primarily due to a decrease in impairments in intangible assets by ¥150.9 billion. We recognized the impairments resulting from adverse changes in the consumer finance business environment related to our subsidiary in the consumer finance business in the six months ended September 30, 2006. We, however, did not have a material amount of such impairments for the six months ended September 30, 2007. Increases in salaries and employee benefits, as well as in other non-interest expenses, partially offset the decrease in impairments of intangible assets.

Salaries and employee benefits amounted to ¥445.0 billion for the six months ended September 30, 2007, an increase of ¥20.0 billion compared to the six months ended September 30, 2006. The increase was partially due to an increase in staff related to the retail business as we strengthened the sales of insurance policies and securities at BTMU, and due to an increase in salaries and employee benefits at UNBC.

Depreciation of premises and equipment for the six months ended September 30, 2007 was ¥85.8 billion, an increase of ¥33.8 billion from ¥52.0 billion for the six months ended September 30, 2006. This increase was mainly due to changes in accounting estimate.

Minority interest in income of consolidated subsidiaries amounted to ¥14.6 billion for the six months ended September 30, 2007, compared to a loss of ¥0.8 billion for the six months ended September 30, 2006. This improvement was mainly due to a decrease in losses at our consumer finance subsidiary for the six months ended September 30, 2007, compared to the six months ended September 30, 2006.

**Table of Contents****Income Tax Expense**

The following table shows a summary of our income tax expense for the six months ended September 30, 2006 and 2007:

	Six months ended September 30,	
	2006	2007
	(in billions, except percentages)	
Income from continuing operations before income taxes	¥ 557.0	¥ 529.3
Income taxes	¥ 276.5	¥ 257.9
Effective income tax rate	49.6%	48.7%
Combined normal effective statutory tax rate	40.6%	40.6%

The combined normal effective statutory tax rate was 40.6% for the six months ended September 30, 2006 and 2007.

For the six months ended September 30, 2007, the effective income tax rate was 48.7%, which was 8.1 percentage points higher than the normal effective statutory tax rate of 40.6%. The higher tax rate was primarily due to the addition of valuation allowance for certain companies, including a subsidiary in the consumer finance business, the tax effect of minority interest and the foreign taxes which are mainly paid by our overseas branches.

For the six months ended September 30, 2006, the effective income tax rate was 49.6%, which was 9.0 percentage points higher than the normal effective statutory tax rate of 40.6%. The difference between the effective income tax rate and the normal effective statutory tax rate was mainly attributable to the increase in the valuation allowance against deferred tax assets, which amounted to ¥56.4 billion of income from continuing operations before income taxes, or 10.1 percentage points in terms of the impact on the effective tax rate.

**Business Segment Analysis**

We measure the performance of each of our business segments primarily in terms of operating profit. Operating profit and other segment information are based on the financial information prepared in accordance with Japanese GAAP as adjusted in accordance with internal management accounting rules and practices and are not consistent with our condensed consolidated financial statements prepared in accordance with US GAAP. For example, operating profit does not reflect items such as a part of provisions (credit) for credit losses, foreign exchange gains (losses) and equity investment securities gains (losses).

We operate our main businesses under an integrated business group system, which integrates the operations of BTMU, MUTB, MUS, Mitsubishi UFJ NICOS and other subsidiaries in the following three areas Retail, Corporate and Trust Assets. This integrated business group system is intended to enhance synergies within the MUFJ Group by promoting more effective and efficient collaboration between our subsidiaries. Under this system, as the holding company, we formulate strategy for the Group on an integrated basis, which is then executed by the subsidiaries. Through this system, we aim to reduce overlapping of functions within the Group, thereby increasing efficiency and realizing the benefits of group resources and scale of operations. Moreover, through greater integration of our shared expertise in banking, trust and securities businesses, we aim to deliver a more diverse but integrated lineup of products and services for our customers.

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

The following is a brief explanation of our business segments:

*Integrated Retail Banking Business Group* Covers all domestic retail businesses, including commercial banking, trust banking and securities businesses. This business group integrates the retail business of BTMU, MUTB, MUS, Mitsubishi UFJ NICOS and other subsidiaries as well as retail product development,

**Table of Contents**

promotion and marketing in a single management structure. At the same time, the business group has developed and implemented MUFG Plaza, a one-stop, comprehensive financial services concept that provides integrated banking, trust and securities services.

*Integrated Corporate Banking Business Group* Covers all domestic and overseas corporate businesses, including commercial banking, investment banking, trust banking and securities businesses as well as UNBC. Through the integration of these business lines, diverse financial products and services are provided to our corporate clients. The business group has clarified strategic domains, sales channels and methods to match the different growth stages and financial needs of our corporate customers. As of September 30, 2007, BTMU owned approximately 65% of UNBC, a publicly traded company listed on the New York Stock Exchange. UNBC is a US commercial bank holding company. Union Bank of California, UNBC's subsidiary, is one of the largest commercial banks in California based on total assets and total deposits. UNBC, through its subsidiaries, provides a wide range of financial services to consumers, small businesses, middle market companies and major corporations, primarily in California, but also nationally and internationally.

*Integrated Trust Assets Business Group* Covers asset management and administration services for products, such as pension trusts and security trusts, by integrating the trust banking expertise of MUTB and the global network of BTMU. This business group combines MUTB's trust assets business, which is comprised of trust assets management services, asset administration and custodial services, Mitsubishi UFJ Global Custody S.A.'s global custody services, and Mitsubishi UFJ Asset Management Co., Ltd.'s asset management services. The business group provides a full range of services to corporate and other pension funds, including stable and secure pension fund management and administration, advice on pension plans, and payment of benefits to scheme members.

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

*Other* Consists mainly of the corporate center of MUFG, BTMU and MUTB.

Effective April 1, 2007, there was a change in the managerial accounting method regarding revenue and expense distribution among MUFG's business segments, and other managerial accounting method changes. The presentation set forth below for the six months ended September 30, 2006 has been reclassified to conform to the new basis of managerial accounting.

**Table of Contents**

The table below sets forth the net revenues, operating expenses and operating profits (losses) of each of the MUFG's business segments for the six months ended September 30, 2006 and 2007.

	Integrated Retail Banking Business Group	Integrated Corporate Banking Business Group Overseas				Total (in billions)	Integrated Trust Assets Business Group	Global Markets	Other	Total
		Domestic	Other than UNBC	UNBC	Overseas total					
Six months ended September 30, 2006:										
Net revenue	¥ 628.9	¥ 627.4	¥ 142.5	¥ 158.2	¥ 300.7	¥ 928.1	¥ 96.8	¥ 165.2	¥ 9.3	¥ 1,828.3
Operating expenses	459.9	262.6	84.6	95.4	180.0	442.6	51.3	27.7	76.7	1,058.2
Operating profit (loss)	¥ 169.0	¥ 364.8	¥ 57.9	¥ 62.8	¥ 120.7	¥ 485.5	¥ 45.5	¥ 137.5	¥ (67.4)	¥ 770.1

	Integrated Retail Banking Business Group	Integrated Corporate Banking Business Group Overseas				Total (in billions)	Integrated Trust Assets Business Group	Global Markets	Other	Total
		Domestic	Other than UNBC	UNBC	Overseas total					
Six months ended September 30, 2007:										
Net revenue	¥ 676.0	¥ 620.7	¥ 156.4	¥ 162.0	¥ 318.4	¥ 939.1	¥ 99.5	¥ 132.7	¥ 1.8	¥ 1,849.1
Operating expenses	483.2	283.5	95.9	102.8	198.7	482.2	50.0	29.0	88.8	1,133.2
Operating profit (loss)	¥ 192.8	¥ 337.2	¥ 60.5	¥ 59.2	¥ 119.7	¥ 456.9	¥ 49.5	¥ 103.7	¥ (87.0)	¥ 715.9

**Integrated Retail Banking Business Group**

Net revenue of the Integrated Retail Banking Business Group increased ¥47.1 billion from ¥628.9 billion for the six months ended September 30, 2006 to ¥676.0 billion for the six months ended September 30, 2007. Net revenue of the Integrated Retail Banking Business Group mainly consists of revenue from commercial banking operations such as deposits and lending operations, and fees related to the sales of investment products to retail customers, as well as fees of subsidiaries within the Integrated Retail Banking Business Group. The increase in net revenue was mainly due to increases in interest spread from our domestic Japanese yen deposits resulting from the rise in domestic interest rates, in fee income from investment trusts, and in revenue due to kabu.com Securities being newly consolidated.

Operating expenses of the Integrated Retail Banking Business Group increased ¥23.3 billion, from ¥459.9 billion for the six months ended September 30, 2006 to ¥483.2 billion for the six months ended September 30, 2007. This increase was primarily due to an increase in depreciation of our IT system investments, as well as kabu.com Securities being newly consolidated.

Operating profit of the Integrated Retail Banking Business Group increased ¥23.8 billion, from ¥169.0 billion for the six months ended September 30, 2006 to ¥192.8 billion for the six months ended September 30, 2007. This increase was mainly due to the increase in net revenue as stated above.

*Integrated Corporate Banking Business Group*

Net revenue of the Integrated Corporate Banking Business Group increased ¥11.0 billion from ¥928.1 billion for the six months ended September 30, 2006 to ¥939.1 billion for the six months ended September 30, 2007. Net revenue of the Integrated Corporate Banking Business Group mainly consists of revenue from lending and other commercial banking, investment banking and trust banking businesses targeting corporate clients, as well as fees of subsidiaries within the Integrated Corporate Banking Business Group. The increase in net revenue was due mainly to increased net revenue from overseas businesses in Europe and Asia (excluding Japan), which was partially offset by decreases in domestic lending revenue and fees from investment banking-related businesses.

## **Table of Contents**

With regard to the domestic businesses, net revenue of ¥620.7 billion was recorded for the six months ended September 30, 2007, a decrease of ¥6.7 billion from the six months ended September 30, 2006. This decrease was mainly due to a decrease in interest revenue from our lending operations to large and medium-sized Japanese companies, resulting from increased competition with other financial institutions, and a decrease in fees from investment banking related businesses.

With regard to the overseas businesses, net revenue of ¥318.4 billion was recorded for the six months ended September 30, 2007, an increase of ¥17.7 billion from the six months ended September 30, 2006. This increase was mainly due to an increase in corporate banking business in Europe and Asia (excluding Japan).

Operating expenses of the Integrated Corporate Banking Business Group increased ¥39.6 billion from ¥442.6 billion for the six months ended September 30, 2006 to ¥482.2 billion for the six months ended September 30, 2007. This increase in expenses was due to an increase in depreciation of our IT system investments, improvements in respect of our compliance structure and related internal control functions in our overseas businesses, as well as an increase in costs such as salaries and system upgrades due to the expansion of our securities business, were factors to this increase.

Operating profit of the Integrated Corporate Banking Business Group decreased ¥28.6 billion from ¥485.5 billion for the six months ended September 30, 2006 to ¥456.9 billion for the six months ended September 30, 2007. This decrease was mainly due to the increase in operating expenses described above.

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

Net revenue of the Integrated Trust Assets Business Group increased ¥2.7 billion from ¥96.8 billion for the six months ended September 30, 2006 to ¥99.5 billion for the six months ended September 30, 2007. Net revenue of the Integrated Trust Assets Business Group mainly consists of fees from asset management and administration services for products such as pension trusts and security trusts. The increase in net revenue was mainly due to an increase in business in investment trusts.

Operating expenses of the Integrated Trust Assets Business Group decreased ¥1.3 billion from ¥51.3 billion for the six months ended September 30, 2006 to ¥50.0 billion for the six months ended September 30, 2007.

Operating profit of the Integrated Trust Assets Business Group increased ¥4.0 billion from ¥45.5 billion for the six months ended September 30, 2006 to ¥49.5 billion for the six months ended September 30, 2007. This increase was mainly due to the increase in net revenue described above.

### ***Global Markets***

Net revenue of Global Markets decreased ¥32.5 billion from ¥165.2 billion for the six months ended September 30, 2006 to ¥132.7 billion for the six months ended September 30, 2007. The decrease in net revenue was mainly caused by the difficult market conditions for the foreign debt securities held for asset-liability management purposes by our banking subsidiaries.

**Financial Condition**

*Total Assets*

Our total assets at September 30, 2007 were ¥188.03 trillion, representing an increase of ¥1.83 trillion from ¥186.20 trillion at March 31, 2007. This increase was primarily due to increases in trading account assets, interest-earning deposits in other banks, and loans. This increase was partially offset by a decrease in investment securities.



**Table of Contents****Loan Portfolio**

The following table sets forth our loans outstanding, before deduction of allowance for credit losses, at March 31, 2007 and September 30, 2007, based on classification by industry segment as defined by the Bank of Japan for regulatory reporting purposes, which is not necessarily based on use of proceeds:

	March 31, 2007 <sup>(3)</sup>	September 30, 2007
	(in billions)	
Domestic <sup>(1)</sup> :		
Manufacturing	¥ 10,988.3	¥ 11,386.2
Construction	1,843.0	1,748.4
Real estate	8,307.4	8,036.0
Services	7,069.1	6,892.2
Wholesale and retail	9,430.0	9,479.4
Banks and other financial institutions	4,484.7	4,224.8
Communication and information services	1,170.0	1,120.1